



Taupo Bay, Northland

# Regional roundup

 Westpac

Institutional  
Bank

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# Summary

This is the first in our new series of quarterly economic roundups focusing on key indicators at the regional level. As we pointed out in the November *Economic Overview*, there are three main factors affecting the immediate outlook for New Zealand's regions:

- exposure to dairy and other agricultural products
- the housing market
- the Canterbury rebuild.

Dairy prices are up on what they were three months ago, but are still pointing to a payout lower than the average over the last seven seasons. This is going to continue to hurt regions with large dairy sectors, and at this point we are not expecting the 2016/17 payout to be much better.

The outlook for regions with significant exposure to dairy – Southland, Taranaki, Manawatu-Wanganui and the West Coast – are weakest. Taranaki and the West Coast also face the challenge of ongoing lower prices for oil and gas, and coal, respectively.

The Waikato, with a quarter of all dairy employment in New Zealand, is surprisingly resilient. This is mostly because its largest urban centre, Hamilton, is subject to other economic influences, including proximity to Auckland.

At the same time, the weather experts tell us we're heading for our worst El Niño since 1997/98. Resultant climatic conditions are likely to bring drought conditions to the east of the country, meaning agricultural output is expected to be especially affected in Canterbury, Hawke's Bay, Gisborne, and Northland. Beef, sheep, pipfruit and dairy farming are among the likely victims of the drier weather.

The weak outlook for the agricultural sector will have an ongoing drag on the sale of farm vehicles, net exports, and employment.

Northland, after many years of sharply negative economic outcomes, is showing signs of life. Unemployment, while still elevated, is down, while house prices and sales are up. El Niño may moderate growth there in the short-term. Gisborne and the Hawke's Bay face tepid growth prospects for the reasons already discussed although the housing market shows some signs of life.

The rise in Auckland's house prices has received a lot of coverage over the last two years. We now expect that prices will begin to slow by the end of 2015. While population growth is still remarkably strong, changes in investment

rules, the slowing national economy, and a market that seems overheated by most measures all point to lower growth next year. Still, Auckland's overall economic outlook is solid, with most indicators going in the right direction.

Meanwhile, there are clear indications that the "Auckland effect" is spilling over into Hamilton and Tauranga. Whether this uptick in house prices is the result of Aucklanders leaving to escape high prices, investors avoiding tighter restrictions on Auckland purchases, or these two cities "catching up" is uncertain. But we do expect price rises in the Waikato and Bay of Plenty to continue. This will create a "wealth effect" in urban areas that will support other economic activity like retail sales.

Growth in house sales and prices, and in the kiwifruit industry in the western Bay of Plenty, is against a backdrop of a lacklustre forestry outlook that means the east and south of the region will continue to face employment challenges.

For several months now, we have forecast that the Canterbury rebuild has peaked and will begin to taper off in late 2016.<sup>1</sup> At the moment, the rebuild is ensuring confidence and spending remain buoyant in the region. But already there are signs that supply and demand for housing are reaching equilibrium, with prices flat. As the rebuild begins to wind down late next year, there will be impacts on employment and confidence.

**David Norman**  
Industry Economist

## Understanding the regional pages

In the following pages, we examine each region's performance in the latest quarter compared with the last quarter, the same quarter a year ago, and the 5 year average for each indicator. This provides the basis for the analysis and discussion on the outlook for the next 1 to 3 years.

We also include a net score for each comparison period. A score greater than zero means more indicators have had a stronger result in the latest quarter than in the time period of comparison. A score below zero means that results in the latest quarter have, on aggregate, been weaker than in the time period of comparison.

Each quarter, we also look at one aspect of the regional economies in detail. In this edition, we consider the industry composition of each region.

<sup>1</sup> See for instance our reports *Forewarned is Forearmed* and *Peak or Plateau: Update on the Canterbury rebuild*.

# Auckland

Auckland has enjoyed one of the strongest performances among regions. Unemployment has remained remarkably flat despite an uptick nationally. Auckland is one of the most confident regions when it comes to views on the regional outlook, despite a weaker result in the September quarter.

Sales of passenger vehicles and houses, both signs of confidence among households, have continued to surge, up strongly across all periods of comparison. Businesses, too, have had a lot to be positive about. Sales of commercial vehicles and electronic card sales continue to rise quarter on quarter.

There has also been an increase in the number of new dwellings being consented, up to 2,332 in the latest quarter. Growth in consents is only up a fraction from the previous quarter in seasonally-adjusted terms, but compared to the same quarter last year, the gain is nearly 20%.

With its manufacturing and services dominated economy, Auckland is somewhat sheltered from many of the woes facing the dairy or hard commodities regions of New Zealand, which partly explains this raft of positive numbers.

## The outlook for the region

The region's immediate future may not be quite as rosy as its immediate past. There are some (very early) signs that the spectacular house price growth the region has seen since 2011 may be beginning to slow. This will take some wind out of the sails of the strong "wealth effect" the region has been enjoying. We would expect to see softer growth in retail sales as house price growth slows.

Auckland	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	13.1	17.7	23.7	19.2
Regional employment confidence	100.7	107.8	114.4	105.5
Unemployment rate (s.a.)	6.3%	6.4%	6.2%	7.3%
Passenger vehicle regos (s.a.)	29,797	29,244	26,901	22,078
Commercial vehicle regos (s.a.)	4,741	4,605	4,300	3,264
Electronic sales, quarterly (s.a.) *	2.8%	1.7%	1.0%	1.4%
New dwellings consented (s.a.)	2,332	2,303	1,955	1,475
House sales (s.a.)	9,428	8,401	6,770	7,035
House prices, annual (s.a.)	22.6%	17.0%	10.3%	11.2%
<b>Net score compared to history</b>		<b>5</b>	<b>3</b>	<b>5</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV  
\*Electronic sales data is for Auckland and Northland

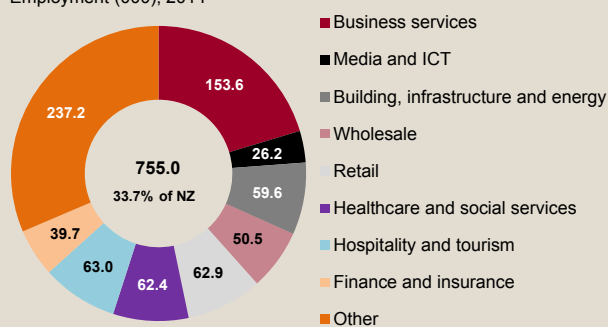
Persistently strong net immigration, much of it accruing to Auckland, may see the unemployment rate move up in our largest city over the next few quarters as the economy slows. This uptick is because recently-arrived overseas migrants are more likely to be of working age than the New Zealand population as a whole. They are therefore more likely to be affected if new work dries up, leading the overall unemployment rate higher.

At the same time though, migration stimulates demand for housing, goods and services, and we expect construction activity to continue strongly for some time. Our calculations estimate that we are more than 26,000 dwellings under-stocked in Auckland, leaving a lot of room for construction activity to continue.

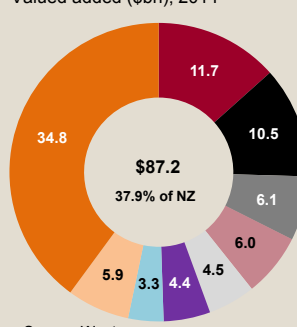
## IN FOCUS: Regional economic composition

Auckland generates nearly 40% of New Zealand's GDP, with around one-third of the workers, implying above-average value added per worker. Media and ICT, which includes telecommunications providers and other ICT services, generated \$10.5 billion in value

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

in Auckland, or \$402,000 per worker. At the other end of the spectrum, as the main gateway to New Zealand, Auckland has 63,000 workers in hospitality and retail, but average production per worker in that industry is just \$53,000. The current construction boom has seen employment grow strongly in that industry.

# Bay of Plenty

The Bay of Plenty is currently the most positive region in New Zealand insofar as its views on its own economic outlook go. In the September quarter, regional economic confidence was largely unchanged from the June quarter. A net 24.8% of people were optimistic.

It's not hard to see why. The kiwifruit industry has recovered well from the Psa outbreak several years ago. The region is not as exposed to dairy and its uncertainties as neighbouring Waikato.

And the recent tightening of lending restrictions in the Auckland market, as well as the increasingly unattainable goal of home ownership in that city, seem to be driving people to Tauranga and Hamilton (in the Waikato). This is pushing house prices up in both regions.

Over the three periods of comparison the Bay of Plenty looks consistently strong. Passenger vehicle sales are up sharply, as are house sales. The latter (note the data includes the Waikato) is now almost double the five-year quarterly average.

Businesses are also feeling positive – commercial registrations are up – and the strong growth in electronic spending should see continued positivity in the retail sector.

The unemployment rate appears to be down sharply in the latest quarter, at 6.6%. We would caution, however, that unemployment rates at the regional level do tend to be somewhat volatile. They can also be skewed by sub-regional differences. We would need to see a second quarter of low unemployment before making the call that this indicator is improving significantly.

Bay of Plenty	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	24.8	26.0	26.0	6.6
Regional employment confidence	96.6	106.3	113.3	100.3
Unemployment rate (s.a.)	6.6%	7.7%	6.7%	7.6%
Passenger vehicle regos (s.a.)	3,164	2,827	2,701	2,204
Commercial vehicle regos (s.a.)	769	667	618	488
Electronic sales, quarterly (s.a.)	3.5%	1.4%	1.2%	1.2%
New dwellings consented (s.a.)	460	426	342	301
House sales (s.a.)*	4,768	3,923	2,634	2,695
House prices, annual (s.a.)	7.8%	5.4%	3.0%	2.1%
<b>Net score compared to history</b>		<b>5</b>	<b>5</b>	<b>7</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV  
\*House sales data includes Bay of Plenty and Waikato

## The outlook for the region

The Bay of Plenty has a strong outlook. While El Niño may bring drought to the East and North of New Zealand, the impact on the Bay of Plenty is expected to be more limited. House price growth is expected to continue in Tauranga in particular, with a boost to retail sales also likely.

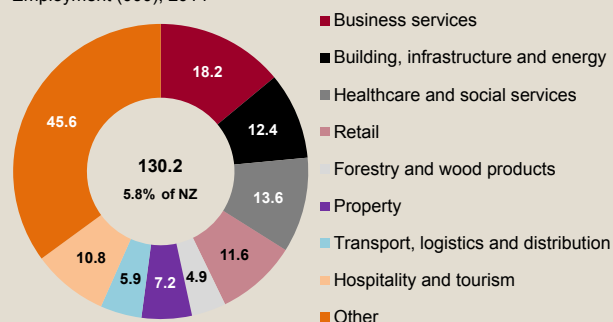
The eastern half of the region, with its strong ties to forestry, is unlikely to see as positive a period of growth. Forestry is still dealing with the downturn in China, our largest log export market.

Kiwifruit and tourism are expected to see continued growth that will benefit the western half of the region in particular.

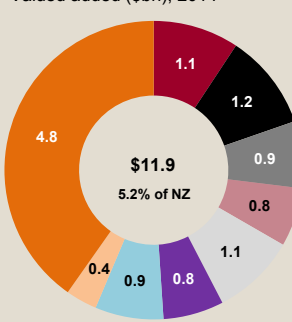
## IN FOCUS: Regional economic composition

The Bay of Plenty has a relatively large business services sector despite its largely rural hinterland. Strong population growth in Tauranga has fuelled construction employment there. Forestry and wood products businesses employ 4,900 FTEs, while

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

transport services that support forestry, kiwifruit and other agricultural industries play an unusually strong role. Although fruit growing is a significant local industry, it employed just 2.7% of workers in the region in 2014. With a fast-growing aged care sector, the region has 13,600 FTEs in healthcare and social services.

# Canterbury

Since the devastating earthquakes of 2010 and 2011, Canterbury has held a unique position in the national economy. Much of the rise in economic activity in the region has been centred on the rebuild, with Christchurch, the second largest city in New Zealand, practically starting from scratch in an urban landscape sense. As a result, the region has seen a wave of economic prosperity.

In our report *Forewarned is Forearmed*, we estimated that 14,000 new construction jobs were created over three years after the quakes. These jobs massively boosted demand for goods and services in the region, and regional economic confidence surged. Although down from the highs a year ago, economic and employment confidence remains strong.

And Canterbury boasts the lowest unemployment rate in the country by a long way although it does appear that this rate is finally beginning to trend upward again, reaching 3.8% in the latest quarter.

Yet several indicators in the current quarter are down against the same quarter a year ago. Confidence is weakening, and house price growth is flattening as the residential part of the rebuild tapers off.

## The outlook for the region

In July 2015, we forecast that the Canterbury rebuild had plateaued. The data is now supporting that. Residential consents, while up on the quarter, are beginning to taper off on a monthly basis. We expect this fall in residential activity to continue until a business-as-usual level of activity is achieved. But non-residential activity is picking up as the anchor projects and commercial

Canterbury	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	23.0	22.5	41.3	30.6
Regional employment confidence	108.5	106.3	122.8	111.9
Unemployment rate (s.a.)	3.8%	3.3%	3.1%	4.7%
Passenger vehicle regos (s.a.)	9,370	8,936	8,929	6,836
Commercial vehicle regos (s.a.)	1,597	1,581	1,720	1,254
Electronic sales, quarterly (s.a.)	1.1%	1.1%	1.0%	1.0%
New dwellings consented (s.a.)	1,706	1,577	1,658	1,247
House sales (s.a.)	2,784	2,542	2,483	2,342
House prices, annual (s.a.)	3.4%	3.4%	4.8%	5.6%
<b>Net score compared to history</b>		<b>4</b>	<b>-1</b>	<b>3</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV

building step up. This will continue to offset the residential fall-off until late 2016, when we believe overall construction activity will start to decline, and up to 14,000 construction jobs are shed.

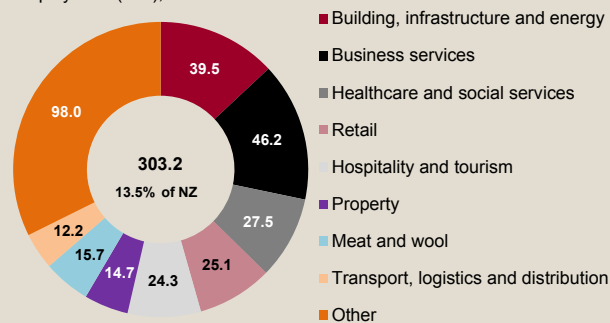
As the new city centre takes shape and travel and living locations return to more historical patterns, demand for housing will flatten and may even fall. House prices will stabilise or decline slightly as demand and supply are better matched.

The expected drought is expected to have a significant impact on Canterbury's 15,700 meat and wool workers. Dairy will also be affected but, unlike meat and wool, is likely to see lower drought-related production offset by better prices. Nevertheless, the next one to two years will see stronger than baseline economic activity in the region.

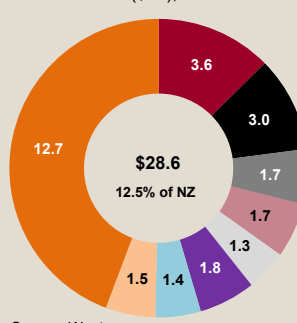
## IN FOCUS: Regional economic composition

With the rebuild peaking, it is unsurprising that construction is a large sector in Canterbury, with nearly 40,000 workers in 2014. The 2015 data, to be released soon, may even be slightly up on this figure. The good news for Canterbury is the strong role for hospitality and tourism,

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

with 9% of employment, suggesting the region has bounced back strongly in attracting visitors after the devastating earthquakes. Meat and wool (mostly sheep and beef) employed 15,700 FTEs in 2014, meaning it was still twice as important as dairy as a local employer.

# Gisborne / Hawke's Bay

Gisborne and the Hawke's Bay have had a strong few months although compared to economic activity a year ago, or averaged over the last five years, current performance is more mixed. Regional economic confidence remains relatively strong, and is in fact higher than in any of the comparison periods. Yet workers are concerned about their job security; employment confidence is well down on previous periods.

The unemployment rate fell slightly in the latest quarter, but is still well above the national rate of around 6%. Yet house sales and passenger vehicle registrations, indicators of consumers' willingness to make big ticket purchases, are both up strongly in the quarter compared to three months or a year ago (note that house sales data is for Hawke's Bay only). The number of new dwellings consented, however, remains lower than the average over the last five years, suggesting spec-builders may be more hesitant about the immediate outlook.

House price inflation remains similarly subdued although the annual change of 2.6% achieved in the latest quarter is up substantially on the weak growth seen in each of the comparison periods. Growth in electronic card sales, another indicator of consumer confidence, has been tepid over the last five years, and has shown continued weakness in the latest quarter.

## The outlook for the region

Economic activity is expected to see some continued moderate growth over the coming months. The rise in house sales may be accompanied by further increases in house prices as LVR restrictions are loosened outside Auckland.

Gisborne/Hawke's Bay	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	13.4	7.5	-2.1	8.4
Regional employment confidence	91.9	101.3	104.7	98.8
Unemployment rate (s.a.)	7.7%	8.3%	6.9%	8.1%
Passenger vehicle regos (s.a.)	1,571	1,525	1,389	1,198
Commercial vehicle regos (s.a.)	491	433	422	338
Electronic sales, quarterly (s.a.)	0.5%	2.3%	0.5%	0.9%
New dwellings consented (s.a.)	109	86	109	129
House sales (s.a.)	781	693	529	574
House prices, annual (s.a.)	2.6%	1.7%	-0.5%	0.7%
<b>Net score compared to history</b>		<b>5</b>	<b>2</b>	<b>3</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV

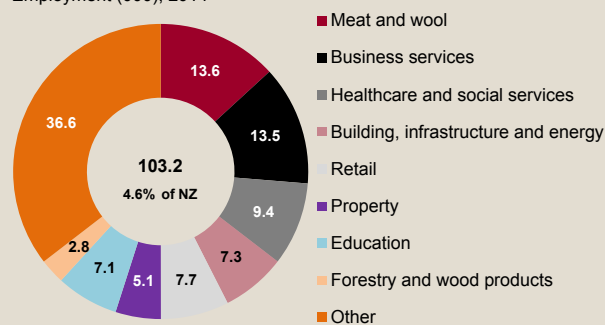
The El Niño-related drought expected to hit New Zealand this summer will not leave Gisborne and the Hawke's Bay unscathed. Meat and wool, an industry traditionally hit hard by drought, is the largest employer in the region. Pipfruit can also be affected by El Niño events; the last event of the magnitude expected this summer occurred in 1997/8, seriously affecting the Hawke's Bay fruit industry.

Forestry faces soft demand from China, our largest export market for logs, which will affect the fortunes of the nearly 3,000 forestry workers in the region. The region also faces the difficult question of when to ramp up harvesting of the large number of trees now reaching maturity. We expect many forest owners will hold off harvesting as long as possible, hoping market prices will rise to increase profitability.

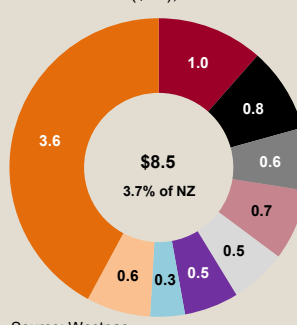
## IN FOCUS: Regional economic composition

The largest employer and value generator in the region is meat and wool, highlighting its largely rural nature. Forestry generated nearly \$600 million in regional value added in 2014, but this was from a small number of workers, highlighting the capital

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

intensive nature of the sector, particularly on the processing side. The business services, healthcare and social services, retail, and property sectors are centred in Napier and urban Hastings, and to a lesser extent urban Gisborne, and act as service centres to the rural areas.

# Nelson / Marlborough / West Coast

The fortunes of the West Coast in particular have taken a turn for the worse in recent times. Dairy, a major employer on the West Coast, is struggling with much lower prices. This shows in on-farm vehicle purchases, which are lower than in any comparison period. Hard commodity prices have also tumbled, making profitability that much harder for the region's mines.

Yet other parts of the region – Nelson, Tasman and Marlborough – have had a better few months, meaning aggregate results look decidedly mixed.

Overall regional economic confidence is resilient – above the five-year average – although markedly down on the same quarter a year ago. This change will almost certainly be the result of dairy and mining-related angst on the West Coast. Workers remain marginally optimistic about employment prospects although unemployment is up sharply over the same time last year, and even quarter-on-quarter.

Passenger vehicle sales, house sales and even new dwelling consents are all heading in the right direction. With population falling on the West Coast for the second year in a row according to Statistics New Zealand estimates, most of the new building activity will have been elsewhere in the region.

## The outlook for the region

Although dairy prices have partially recovered from the depths they reached in August, demand and therefore prices remain muted. This will continue to weigh heavily on the West Coast economy, where one in 12 workers is in dairy. The outlook for hard commodities, and specifically coal, is even worse. This will again affect the West Coast, where one in 14 workers is

Nelson/Marlborough West Coast	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	15.9	17.7	31.6	14.3
Regional employment confidence	100.3	99.4	101.9	101.7
Unemployment rate (s.a.)	6.1%	4.7%	4.0%	4.9%
Passenger vehicle regos (s.a.)	1,429	1,385	1,430	1,063
Tractor regos (s.a.)	32	42	52	44
Electronic sales, quarterly (s.a.)	1.8%	0.4%	1.5%	0.9%
New dwellings consented (s.a.)	236	210	200	214
House sales (s.a.)	785	717	639	668
House prices, annual (s.a.)	3.0%	1.2%	0.2%	1.6%
<b>Net score compared to history</b>		<b>3</b>	<b>0</b>	<b>3</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV

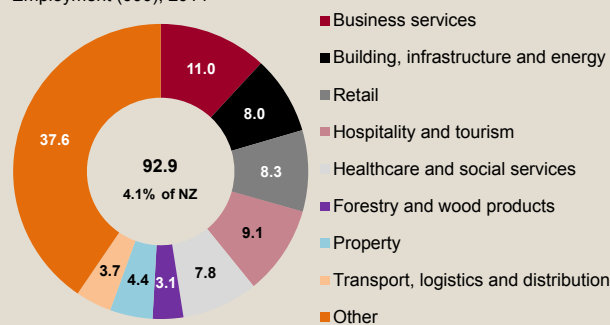
in mining, with many more in support services such as non-building construction and construction trade services. As prices remain low for the foreseeable future, challenges to mining employment on the West Coast will remain.

Nelson, Tasman and Marlborough are dominated by different industries. Viticulture in Marlborough, which employs one in five workers there, may experience lower volumes, but improved quality as drought hits. Tasman's pipfruit industry will likely see fruit development and marketability affected. Forestry, with more than 3,000 workers in the region, and 8% of the value added, is facing a subdued outlook. Like many other regions in New Zealand, it will need to contend with diminished demand from China and a glut of trees reaching harvest age over the next several years.

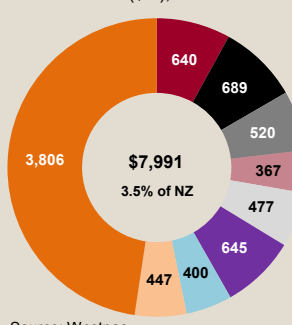
## IN FOCUS: Regional economic composition

Forestry is a high productivity industry with a strong presence in the region. With just 3,100 workers, the industry generated \$645 million in value in 2014. Construction businesses, which on the West Coast in particular play an important role in

Employment (000), 2014



Valued added (\$m), 2014



Source: Westpac

servicing mining as well as residential and commercial building, plays a large part in the economy. Employing 8.6% of local workers, the sector generated more value than any other sector. The growing importance of tourism in the region is reflected in the high number of people employed in that sector.

# Northland

The tide appears to be turning in a region that has for a long time faced significant economic challenges. Not least of these is one of the highest unemployment rates in the country. Unemployment is still much higher than in most of New Zealand, but it is now closer to 8%, well down on the previous quarter, the same quarter a year ago, and the average over the last five years. That said, regional employment confidence remains weak.

But Northland has achieved better results across all nine indicators over the last quarter. All indicators other than employment confidence are better than in any comparison period.

Passenger vehicle sales are up nearly 50% compared to the five-year average. House sales are also up strongly as confidence in the Auckland market spills North. House prices continue to pull away, up 6.4% this quarter compared to a year ago, with the rate of growth clearly accelerating.

Businesses are more confident as well. Commercial vehicle registrations were up 17% on the same quarter last year, and 12% quarter-on-quarter. New dwelling consents, many of which will be spec-builds, implying confidence among group home builders, were up 50% on the same quarter a year ago.

## The outlook for the region

The outlook for Northland is more promising than it has been in some time. El Niño poses some risk of bringing drought that could affect dairy, and to some extent, kiwifruit businesses.

However, overall things are improving. Flow-over of house price growth in Auckland is expected to see prices in the region rise substantially. This will create a “wealth effect”,

Northland	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	-4.0	-12.0	-17.0	-19.1
Regional employment confidence	91.6	90.2	102.7	96.3
Unemployment rate (s.a.)	7.9%	8.9%	8.4%	9.3%
Passenger vehicle regos (s.a.)	1,279	1,208	1,114	887
Commercial vehicle regos (s.a.)	462	414	395	284
Electronic sales, quarterly (s.a.) *	2.8%	1.7%	1.0%	1.4%
New dwellings consented (s.a.)	244	198	162	167
House sales (s.a.)	815	701	458	460
House prices, annual (s.a.)	6.4%	4.3%	3.2%	1.0%
<b>Net score compared to history</b>		<b>9</b>	<b>7</b>	<b>7</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV  
\*Electronic sales data is for Auckland and Northland

which is likely to support further growth in retail sales. House turnover is also expected to remain elevated.

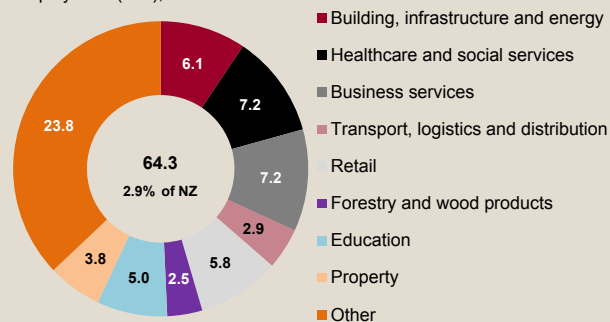
We may well see a surge in building activity as well. This would be in part as Auckland-based residents and investors look to the region with the equity from house price growth in Auckland. This will create further jobs in Northland and will help bring down the unemployment rate.

Forestry, which generates nearly 10% of the regional value added, has a more modest road ahead, as long as demand for New Zealand’s wood products remains tepid. This may weigh on the purchase of commercial vehicles in the region although so far, sales are well up, suggesting ongoing confidence in the outlook.

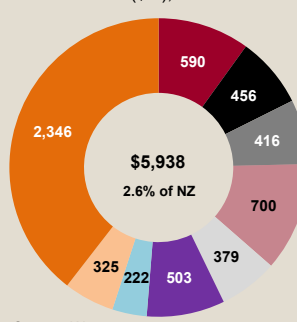
## IN FOCUS: Regional economic composition

The strongly-linked forestry, and transport sectors play an important role in the Northland economy, with 5,400 workers and more than \$1.2 billion in value added (20% of the regional economy) in 2014. Construction accounted for nearly 1 in 10 workers,

Employment (000), 2014



Valued added (\$m), 2014



Source: Westpac

pointing to an uptick in construction activity in the region. Healthcare and social services employed more than 10% of the region’s workers in 2014, highlighting the popularity of the warmer climate as a retirement destination.



# Otago

Otago's economic indicators have been among the weakest in the country over the last year. Positive indicators outweighed negative indicators by just 1 in the latest quarter when compared to the last quarter. A similar result is evident when the latest quarter is compared to the same quarter a year ago.

Yet it is not all bad news. Electronic card sales are looking stronger than they have for some time, and are well up on last quarter. Other business indicators, like commercial vehicle registrations, have also moved up sharply across all comparison periods. New dwellings, while not at stellar levels, have shown some signs of recovery from the lows seen a few years ago. Much of this renewed activity has been in the Queenstown-Lakes District, which saw a lot of housing growth in the years leading up to the Global Financial Crisis.

Sales of existing houses are growing as well, and the prices they are achieving are now moving strongly upwards. We point out that again, these increases are skewed toward Queenstown-Lakes, with lower gains in other parts of the region.

But consumers are being more cautious about other big ticket purchases like passenger vehicles. In the September quarter, purchases were down compared to the previous quarter, and compared to the same quarter in 2014.

## The outlook for the region

It is hard to tell where regional economic confidence will sit in three months, let alone a year. The outlook depends on how strongly dairy prices respond to falls in production, how bad the drought affects meat and wool production, and whether the NZD stays sufficiently weak for the tourism boom to continue.

Otago	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	-4.0	-6.0	-1.0	3.5
Regional employment confidence	95.3	98.4	103.3	98.9
Unemployment rate (s.a.)	4.3%	4.1%	3.8%	4.8%
Passenger vehicle regos (s.a.)	1,752	1,787	1,811	1,382
Commercial vehicle regos (s.a.)	570	446	532	397
Electronic sales, quarterly (s.a.)	3.3%	-0.3%	0.9%	1.3%
New dwellings consented (s.a.)	356	367	333	270
House sales (s.a.)	1,262	1,164	935	1,013
House prices, annual (s.a.)	6.6%	5.3%	3.2%	3.2%
<b>Net score compared to history</b>		<b>1</b>	<b>1</b>	<b>5</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV

There may be some moderate growth in house prices in Dunedin, but we expect significant gains in Queenstown-Lakes. Waitaki and Central Otago will see little upward momentum although sales across the region should rise a little.

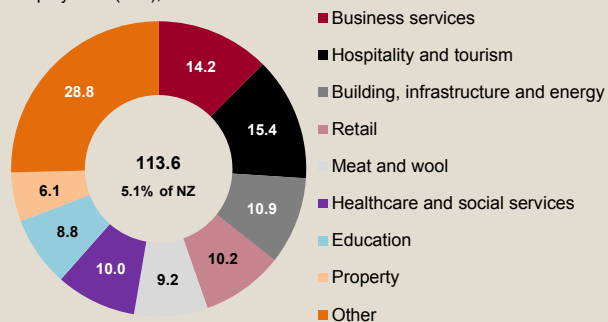
El Niño will likely affect the region's 9,200 meat and wool workers. The smaller number of dairy farmers may see milk price rises offset production cuts if the drought is worse than the market is already pricing in.

Unemployment is expected to tick up slowly in line with a slowdown across the economy, but this will vary across the region. Tourism's recent golden run looks set to continue, with a lower exchange rate making Queenstown an even more attractive destination for overseas visitors.

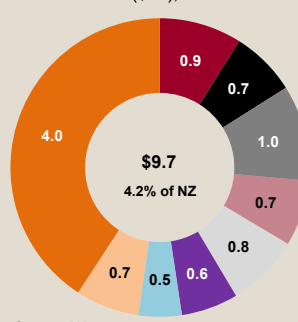
## IN FOCUS: Regional economic composition

Hospitality and tourism is the largest sector by employment in Otago. This employment is largely centred in Queenstown-Lakes. Most value is added by the construction sector (\$1 billion in 2014), with Queenstown-Lakes in particular experiencing strong

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

population growth and associated building. Meat and wool, a major part of the Waitaki, Central Otago and Clutha economies, employed nearly 11,000 workers and generated \$769 million in value in 2014. Dunedin, the largest city in the region, is a centre for business services, the second largest employer.

# Southland

The impact of the collapse in dairy prices is seen no more evidently anywhere in New Zealand than in Southland. Regional economic confidence plunged from a net 36% of respondents being optimistic, to a net 36% pessimistic (a 72ppt swing) in 12 months. Employment confidence is well below historical averages, and sales of on-farm vehicles are down a third compared to the same quarter a year ago.

Compared to averages over the last five years, the economy is only marginally ahead. Unemployment is up sharply, while the confidence measures and on-farm vehicle sales are down.

But it is not all bad news. In the latest quarter, a number of indicators have moved in the right direction. We cannot read much into the slightly lower unemployment figure, but passenger vehicle sales, retail spending, and house sales are clearly up. These all point to more confidence in parts of the economy not linked directly to dairy.

The number of new dwellings being consented has also grown substantially and in the latest quarter was 50% higher than the quarterly average over the last five years. This growth implies confidence by owners commissioning building work or by spec-builders that there will be money to pay for the homes.

## The outlook for the region

The lower dairy prices will continue to weigh heavily on farmers in the region, with one in 12 workers in employed in that industry. The unemployment rate is expected to remain elevated from the very low levels seen just a year ago.

Yet dairy prices are above the lows they sank to in August.

Southland	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	-36.0	-28.7	36.0	24.6
Regional employment confidence	96.6	106.2	115.5	104.0
Unemployment rate (s.a.)	5.4%	5.7%	3.0%	4.7%
Passenger vehicle regos (s.a.)	739	672	673	556
Tractor regos (s.a.)	72	70	111	74
Electronic sales, quarterly (s.a.)	2.9%	2.2%	2.2%	1.0%
New dwellings consented (s.a.)	93	43	61	61
House sales (s.a.)	493	431	383	414
House prices, annual (s.a.)	2.0%	0.3%	1.4%	0.1%
<b>Net score compared to history</b>		<b>5</b>	<b>1</b>	<b>1</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV

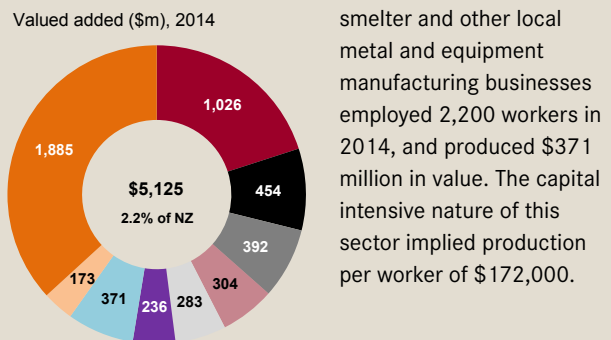
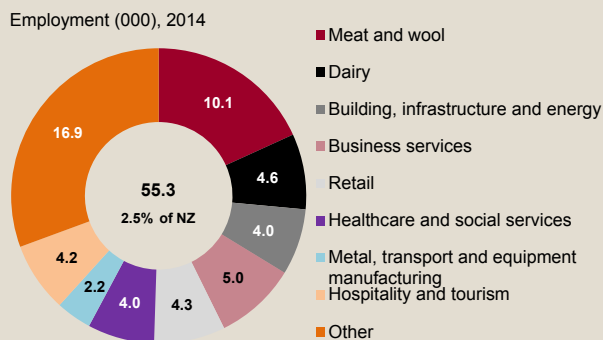
Regional confidence, measured in early September, may well rebound somewhat in the next quarter or two as the region evaluates the impact of somewhat improved payouts.

Southland is not expected to be affected as badly by an El Niño-related drought as Canterbury or even Otago, but it is possible that there will be some impact on meat and wool farmers. While dairy gets a lot of coverage, we must remember that meat and wool in fact employs twice as many workers in the region, and generates one-fifth of all economic value.

Southland has long been a region with slow population growth. This is likely to mean that house prices and sales remain relatively stable rather than accelerating away as we have seen in some other parts of the country in recent months.

## IN FOCUS: Regional economic composition

Meat and wool, and dairy together employ more than a quarter of Southland's workforce, and generated nearly \$1.5 billion in value in 2014. The rural nature of the region is highlighted by the relatively small proportion of workers employed in business services.



Source: Westpac

The aluminium smelter and other local metal and equipment manufacturing businesses employed 2,200 workers in 2014, and produced \$371 million in value. The capital intensive nature of this sector implied production per worker of \$172,000.

# Taranaki / Manawatu – Whanganui

The Taranaki-Manawatu-Whanganui region has struggled recently with the reduction in dairy and oil prices. These price impacts have reduced regional employment confidence in particular, as less oil and gas exploration and reduced spending by dairy farmers has affected employment. Unemployment is hovering between 6.5% and 7%, a fair deal higher than the national average, and up slightly on the same quarter a year ago.

Dairy, and oil and gas play a major role in direct regional employment, but crucially also affect wider economic activity in the region. What happens in these two industries is fundamental to the regional economic outlook.

Economic conditions are largely similar to the same quarter last year, with an equal number of indicators up and down. But with most regions seeing a significant improvement in fortunes since that time, this is actually quite a weak result. Regional economic and employment confidence have seen a massive reversal, unemployment is up, and farm-related purchases are down. Private vehicles purchased and residential consents approved have also fallen.

All these changes are consistent with less confidence in the region's key sectors compared to last year although turnover of houses and the prices at which they sell have held up well.

There are emerging positive signs though, with a net five indicators in the latest quarter up on the previous quarter. House sales have increased strongly, and electronic card spending continues to grow, almost in defiance of the slowdown in two key industries. House prices continue to move up although at a relatively modest pace.

Taranaki/Manawatu-Whanganui	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	-14.5	-18.6	13.9	16.0
Regional employment confidence	95.9	99.7	104.4	99.0
Unemployment rate (s.a.)	6.5%	7.0%	6.3%	7.0%
Passenger vehicle regos (s.a.)	2,870	2,921	2,883	2,356
Tractor regos (s.a.)	99	77	117	83
Electronic sales, quarterly (s.a.)	4.9%	0.3%	0.5%	1.0%
New dwellings consented (s.a.)	262	226	242	236
House sales (s.a.)	1,480	1,408	1,178	1,232
House prices, annual (s.a.)	3.0%	1.7%	0.4%	0.9%
<b>Net score compared to history</b>		<b>5</b>	<b>0</b>	<b>5</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV.

## The outlook for the region

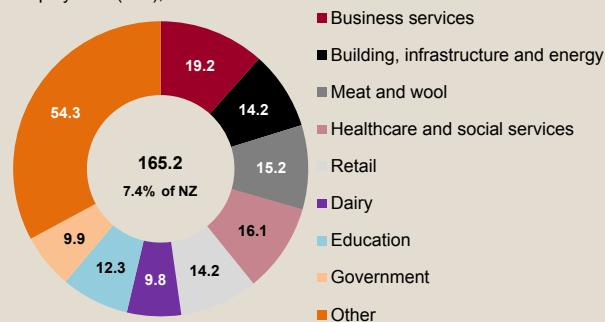
The regional confidence data predates the September rebound in dairy prices. We are now forecasting a dairy payout quite a bit higher. We expect this may show up in better regional economic confidence results in the December quarter although payouts will remain below recent historical averages. The RBNZ is relaxing its mortgage lending restrictions in the region and will also likely support some growth in house sales and prices.

However, oil and gas prices are expected to remain subdued over the next few years, meaning new exploration and extraction-related jobs will be few and far between. This will continue to have a dampening effect on the Taranaki economy.

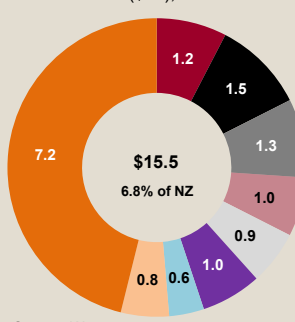
## IN FOCUS: Regional economic composition

Despite the region's largely rural nature, business services played the largest role in employment. These services are centred in the region's largest urban centres - Palmerston North, New Plymouth and Whanganui. Building, infrastructure and energy, while

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

a smaller employer, added \$1.5 billion in value to the regional economy in 2014, due to its capital intensive nature. Although dairy receives a lot of coverage due to its importance in the national export picture, sheep and beef farming and meat processing are larger contributors to regional value added.

# Waikato

There are signs of life in the Waikato economy although on balance the economy is roughly where it was a year ago. Despite being home to one in four of New Zealand's dairy workers, the region has seen enough activity in other sectors to offset on-farm pessimism in recent months. This is partly reflected in regional economic confidence, which has rebounded sharply since a big fall as dairy prices collapsed.

But employment confidence remains subdued as the region's dairy employers evaluate the impact of dairy price volatility on their hiring intentions. The unemployment rate has surged although we caution considering one quarter's results in isolation as there is a larger margin of error in these figures.

Passenger vehicle and house sales are up on all comparison periods. The growth in house sales is particularly marked, while vehicle sales are up just a touch from a year ago. Nevertheless, this does point to a mixed picture for the region.

House prices are up sharply and are accelerating away. The annual growth in the latest quarter was 9.5%, up from 4.3% in the June quarter. The exceptional growth in Auckland is spilling over into the Waikato as investors look elsewhere, and households priced out of the Auckland market look elsewhere to live and purchase homes.

## The outlook for the region

Regional economic confidence data predates the recent improvement in the dairy payout forecast. We expect that regional economic confidence will take another step up, into positive territory in the December quarter, helped by the "wealth effect" that will result from rising house prices in Hamilton.

Waikato	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	-1.0	-10.0	31.0	18.9
Regional employment confidence	96.0	96.9	105.7	101.5
Unemployment rate (s.a.)	6.8%	5.3%	6.2%	6.7%
Passenger vehicle regos (s.a.)	4,264	4,119	4,206	3,227
Commercial vehicle regos (s.a.)	1,104	1,072	1,140	854
Electronic sales, quarterly (s.a.)	1.8%	1.4%	0.5%	1.1%
New dwellings consented (s.a.)	829	649	555	534
House sales (s.a.)*	4,768	3,923	2,634	2,695
House prices, annual (s.a.)	9.5%	4.3%	2.2%	2.6%
<b>Net score compared to history</b>		<b>5</b>	<b>1</b>	<b>4</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV  
\*House sales data includes Bay of Plenty and Waikato

Even as house prices in Auckland slow, we expect them to grow in Hamilton (although perhaps less so in other parts of the region) and the number of sales to also continue its upward trend.

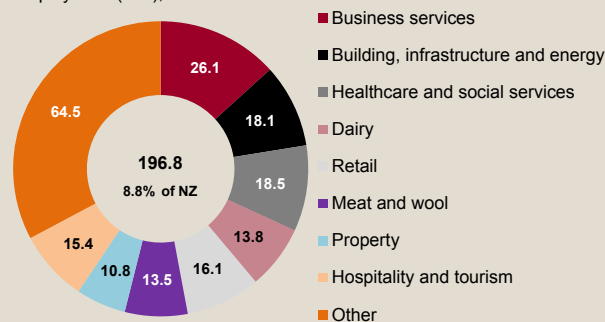
Unemployment, sharply higher in the latest quarter, may also moderate somewhat as farmers digest the impacts of an upward-revised payout and its implications for employment.

Nevertheless, we do not wish to overstate the rebound in dairy. There is still considerable risk that another run of lower auction prices may see more of a slowdown in the rural hinterland. In addition, the expected payout remains well below the average over the last several years.

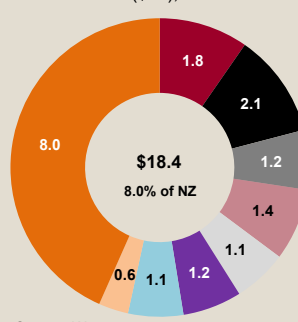
## IN FOCUS: Regional economic composition

Hamilton is the fourth largest city in New Zealand, and the business services centre of the region. Yet outside of the city, large proportions of workers are employed in dairy, and meat and wool, with 27,300 FTEs between them. Building, infrastructure and energy activity is up, and employed more than 18,000 workers in 2014, generating more value than any other industry in the region. Hospitality and tourism employment is benefitting from traditional centres like Taupo, and Thames-Coromandel, as well as newer attractions like Hobbiton.

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

# Wellington

Wellington has endured several years of uncertainty over employment as the government has instituted a programme aimed at reducing the size of central government. The bulk of these cuts appear to be over, and their real effect on the regional economy is questionable; total employment in central government in the region appears to have actually grown around 17% between 2010 and 2015.

Nevertheless, there does appear to have been an impact on regional economic and employment confidence. But over the last year or so, regional economic confidence has been relatively buoyant compared to long-term averages. This suggests Wellingtonians are quite upbeat about the prospects for the region.

Yet many indicators are weak compared to the same quarter last year, or the June quarter. The unemployment rate does appear to have pulled away sharply although the September figure of 6.6% suggests an unemployment rate in line with the average over the last five years.

Retail sales are up, but growth is weak. And there are signs of falling business confidence – commercial vehicle registrations, and spec-built dwellings consented – are both down. House sales have grown modestly, but price growth is marginal, especially when compared to the growth seen in many of the country's other major cities. Passenger vehicle sales, another measure of household confidence, are also up a little, reflecting the net optimistic mood of the region's households.

## The outlook for the region

The outlook for Wellington remains tepid. With indicators decidedly mixed when compared to the last quarter or the

Wellington	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qtrly Average
Regional economic confidence	16.0	20.9	24.5	6.8
Regional employment confidence	98.6	96.5	110.3	101.3
Unemployment rate (s.a.)	6.6%	5.9%	5.6%	6.5%
Passenger vehicle regos (s.a.)	4,990	4,915	4,838	4,200
Commercial vehicle regos (s.a.)	812	861	888	677
Electronic sales, quarterly (s.a.)	1.4%	1.9%	0.3%	0.6%
New dwellings consented (s.a.)	371	379	426	355
House sales (s.a.)	2,307	2,184	1,902	1,915
House prices, annual (s.a.)	1.8%	1.7%	0.8%	1.1%
<b>Net score compared to history</b>		<b>-1</b>	<b>-1</b>	<b>5</b>

Source: Westpac, McDermott Miller, Statistics New Zealand, Paymark, NZTA, QV

same quarter a year ago, there is little to get excited about.

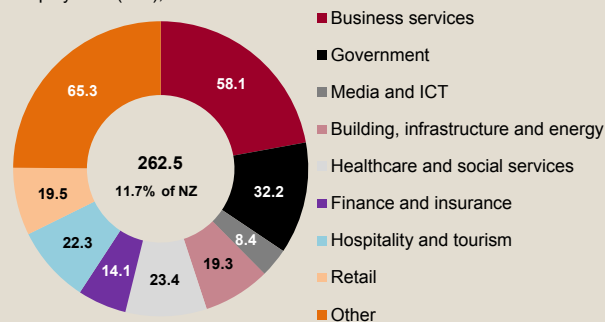
It appears the looming threat of the government's public sector job cuts is over, which should bring some stability back to the region. We may well see regional economic and employment confidence edge up a little in coming months although this will be offset against a weaker national economic outlook.

Recent data suggests that there may be limited house price growth; it is certainly not expected to reach the levels seen in some other major cities in New Zealand including Tauranga and Hamilton. The unemployment rate is expected to hover around its current levels, possibly with a further mild uptick over the coming year.

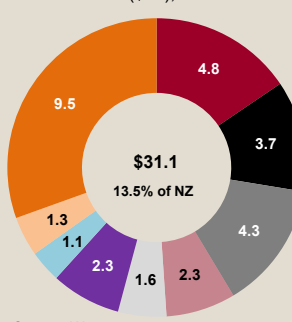
## IN FOCUS: Regional economic composition

Business services and government dominate the employment landscape in Wellington. Between them they employed 90,000 workers, or 34% of the workforce. Many of the business services, such as consulting services, also focus on servicing the

Employment (000), 2014



Valued added (\$bn), 2014



Source: Westpac

government sector, meaning the region is heavily exposed to political trends toward bigger or smaller government. Healthcare and social services, and hospitality and tourism also play a major role. Media and ICT benefit from the location of several film-production and telecommunications businesses in the region.

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