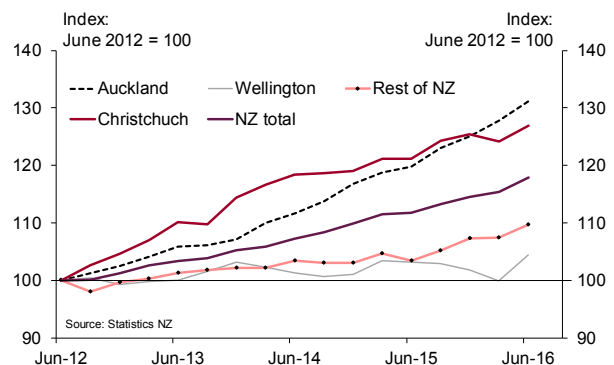


Retail spending by region: From Cape Reinga to Bluff (but only a short stop in Wellington)

29 September 2016

- Retail spending in the New Zealand economy has been growing at a solid pace. However, there are stark differences across the economy.
- Spending in Auckland has risen strongly, supported by population growth, tourist inflows, employment gains, and increases in house prices. It also seems that Aucklanders are just happier than those elsewhere in the country.
- Retail spending in Canterbury has also risen strongly in recent years, with reconstruction activity proving a powerful boost to demand in the region. However, the wind-down of the rebuild will challenge the strength of demand over the coming years.
- Outside of the main centres, retail spending growth has been more moderate, in line with the softness in employment growth and consumer confidence. Softness in commodity export earnings is also likely to be dampening spending in these regions.
- Since 2012 spending growth in Wellington has lagged behind the rest of the country. That's particularly surprising, and may reflect the relatively flat Wellington labour market in recent years.

Figure 1: Retail spending by region



Retail spending in New Zealand has been trucking along. Over the past year sales rose by 4.5% in nominal terms, and they're up 18% since 2012. Plus, with inflation remaining very low in recent years, the vast majority of these gains are due to more goods being sold, rather than just price increases.

However, relative to other indicators of household sector activity such as house prices, recent spending growth has actually been a bit softer than might have been expected. This piqued our curiosity and prompted us to look at what's going on underneath the nationwide figures. What we found were some marked differences across the country.

Spending in Auckland and Canterbury have powered ahead, consistent with the strength in their respective labour markets, population growth, and firm levels of economic

confidence. On top of those factors, spending in Auckland has been supported by strong gains in the housing market, while economic conditions in Canterbury have been boosted by spending associated with reconstruction.

At the same time, spending outside of the main centres has been growing, but at a more modest pace. And in smaller centres in the North Island, spending has been a bit softer than we might have expected given that house price inflation has picked up and tourist numbers have been climbing. In many smaller regions, employment growth has been soft and consumer confidence has been subdued. In addition, many households in rural regions will have found their financial positions squeezed in recent years as a result of softness in commodity prices and strength in the NZ dollar.

Compared to other regions, spending growth in Wellington has been weak. That's particularly surprising given the growth in workers' average earnings in the region and the pick-up in house price inflation. It may reflect the relatively flat Wellington jobs market in recent years.

Auckland – bright lights, big city

At the head of the pack is Auckland, where retail spending levels have risen by a stonking 31% since 2012 (figure 2).

A key factor supporting spending in Auckland has been strong growth in the region's population. The big city's bright lights continue to attract people from other parts of New Zealand. At the same time, Auckland has become home to the lion's share of new arrivals into the country.

On top of growth in the domestic population, spending in Auckland has been boosted by increases in tourist numbers, with international guest nights up 18% since 2012. This has been a particularly important contributor to the increasing presence of high-end international brands in Auckland's central city.

But retail spending in Auckland isn't just rising because of consumer numbers. Spending appetites in the region have also been supported by job growth, with the number of full time equivalent employees up 15% over the past four years.

And of course, Auckland has experienced extremely strong growth in house prices, which have risen 72% in since 2012. New Zealanders tend to hold much of their wealth in housing assets. Consequently, when house prices rise, households tend to feel better off and spend more. The effect is reinforced by increases in the number of home sales, which tend to be associated with increased spending on home furnishings and renovation supplies.

Finally, it seems that Aucklanders are just happier than those in other parts of the country. Since 2012, the Westpac McDermott Miller confidence survey has shown that households in our largest city have tended to be more upbeat about the economic environment than those in other regions (figure 3).

Figure 2: Economic conditions in Auckland (June 2012 to June 2016)

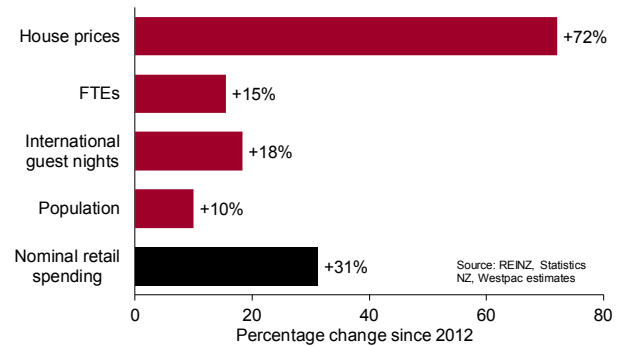
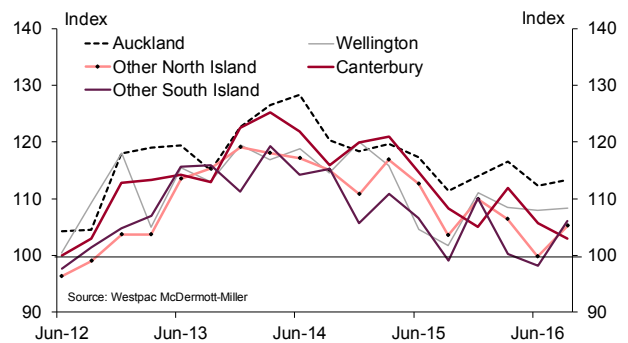


Figure 3: Consumer confidence by region



Christchurch - still strong

Recent years have also seen very strong gains in retail spending in Christchurch, with spending levels up 27% since 2012 (figure 4). A key reason for this has been economic activity associated with recovery following the devastating earthquakes in 2010 and 2011. In the wake of those events, spending rose as households replaced damaged items, with much of that spending funded by insurance payouts.

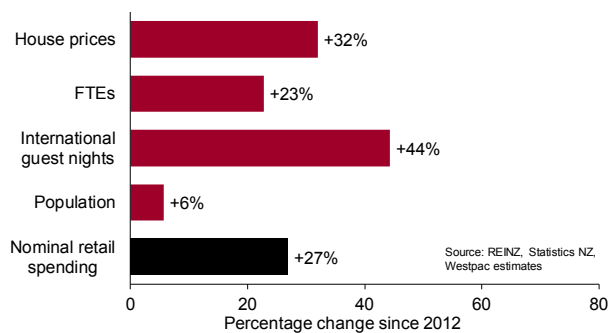
Over time, spending in the region has also been boosted by the increases in incomes and employment associated with reconstruction activity. The rebuild has been our nation's largest building project, with around \$32b of planned work (excluding the impact of cost increases). Since 2012, the number of FTEs in Canterbury has risen 23% and average weekly earnings are up by 13%. There's also been a large inflow of temporary workers into the region, a number of whom were from offshore.

But while the rebuild is continuing, it is now well advanced and construction spending has levelled off. That's important as, although construction spending will remain strong for some time yet, we'll no longer see the month-to-month increases in activity and employment that we did in recent years. And this will have important effects on other parts of the regional economy also. We estimate that construction employment in the region rose by around 14,000 in the aftermath of

the earthquakes, and the coming gradual softening in Canterbury's construction sector will weigh on employment, earnings and spending.

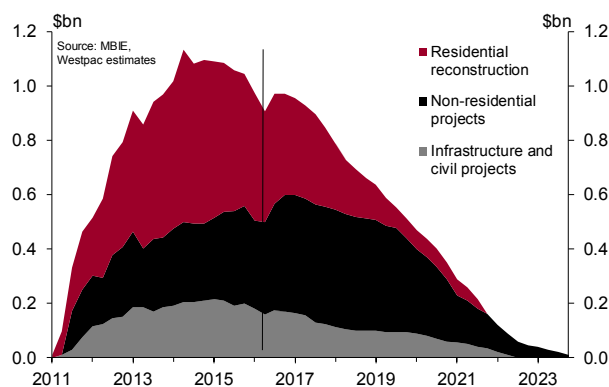
Although the wind-down of the rebuild will dampen growth in the Canterbury economy, the extent of any slowdown in overall regional GDP growth is likely to be more modest than the profile of rebuild activity alone would imply. In fact, although rebuild spending has started a gradual wind-down, the latest building activity survey showed that overall construction activity in Canterbury has held up, with business as usual activity slowly increasing (though this will remain below pre-quake levels for some time). In addition, strengthening activity in other parts of Canterbury's economy is also helping to boost demand in the region. In particular, there are positive indications in the tourism sector with guest nights rising, and both hotel space and air connections into the region increasing.

Figure 4: Economic conditions in Canterbury (June 2012 to June 2016)



Note: Retail sales and house prices are shown for Christchurch; other indicators are for Canterbury.

Figure 5: Reconstruction spending



Outside the main centres - escaping the rat race

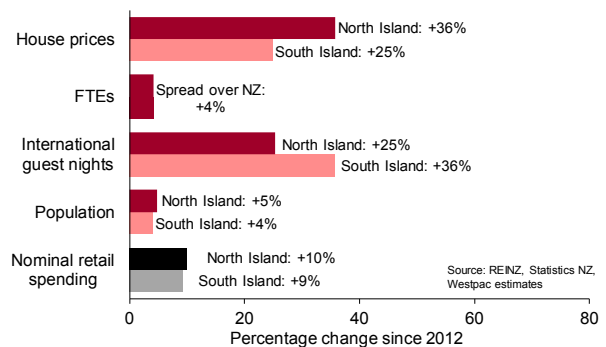
Outside of the main centres, retail spending has been growing, but at a more modest pace. That's in line with the more modest increases in population and employment in these areas, as well as lower levels of consumer confidence.

But at the same time, house price inflation in many smaller regions has also been picking up. In fact, house price inflation in areas such as Northland, Waikato-Bay of Plenty, and the

Manawatu is now outpacing what we've seeing in Auckland. But unlike in Auckland, we haven't seen this translating into strong increases in household spending, particularly in smaller North Island regions. It may be that the effects of house price gains on spending are just taking longer to be seen, as the current very strong regional house price inflation is a relatively recent phenomenon.

It's also likely that spending in many smaller regions is still being weighed down by the softness in global commodity prices and strength in the NZ dollar in recent years, which together have squeezed the financial position of many rural households.

Figure 6: Economic conditions outside of the main centres (June 2012 to June 2016)



Wellington – lagging the pack

Wellington has been an outlier, with retail spending growth in the region lagging well behind the rest of the county in recent years. Because of difficulties measuring regional activity, we looked at spending in Wellington using data from both Statistics NZ (figure 1) and Paymark (figure 8). And while Paymark's data does paint a stronger picture of spending growth in Wellington over the past year, both sets of data highlight that spending in the capital has not kept pace with the rest of the country.

Wellington's modest spending growth relative to other regions is particularly surprising given that workers' average earnings in the region have been growing at a firm pace. Also, as in other parts of the economy, house price inflation has picked up.

One factor that may have weighed on spending in Wellington is the period of restraint in government spending and public sector employment in recent years. In fact, the total number of FTEs in Wellington has essentially been flat since late-2014.

It is not clear whether spending growth in Wellington will continue to lag the rest of the country. Central government spending and employment is not expected to accelerate significantly over the coming years. Nor do we expect to see significant reductions. We may also see spending in the region gradually responding to the recent pickup in house price inflation.

Satish Ranchhod
Senior Economist

Figure 7: Economic conditions in Wellington (June 2012 to June 2016)

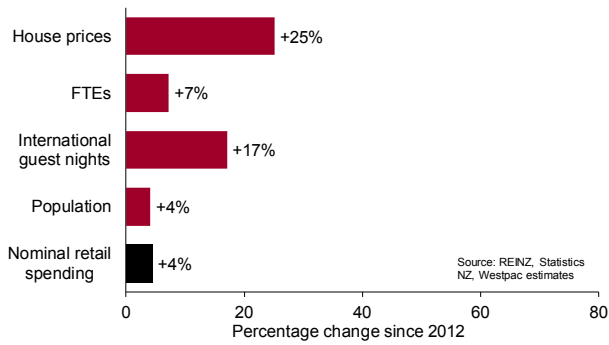
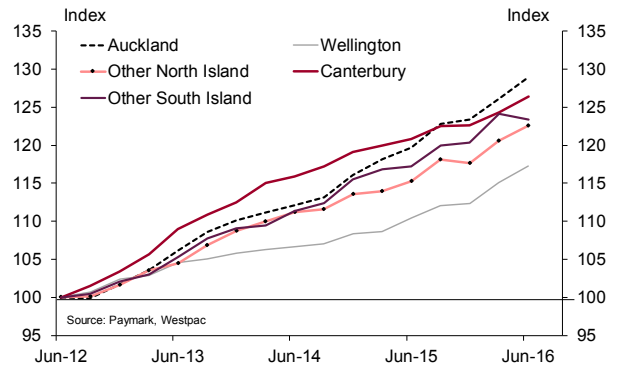
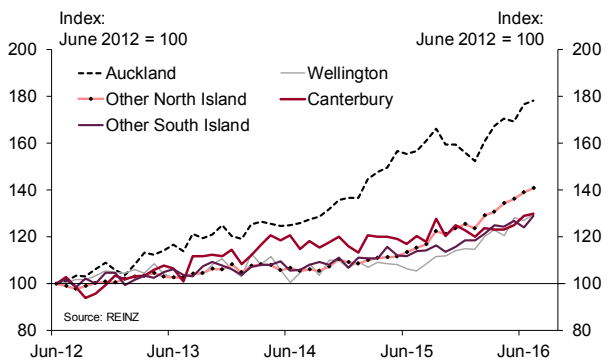


Figure 8: Paymark card spending data by region (seasonally adjusted, quarterly average)

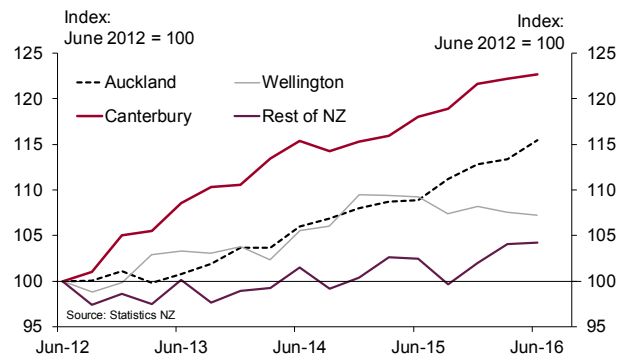


Economic conditions by region

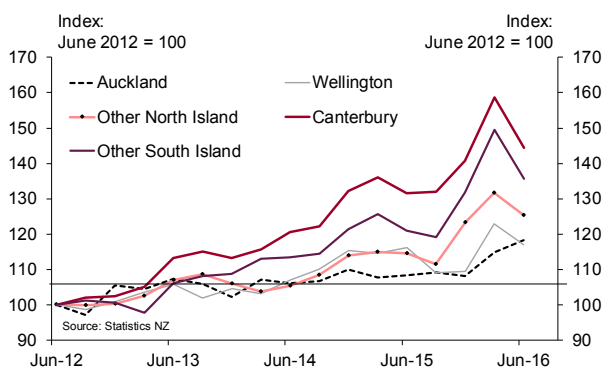
House prices by region



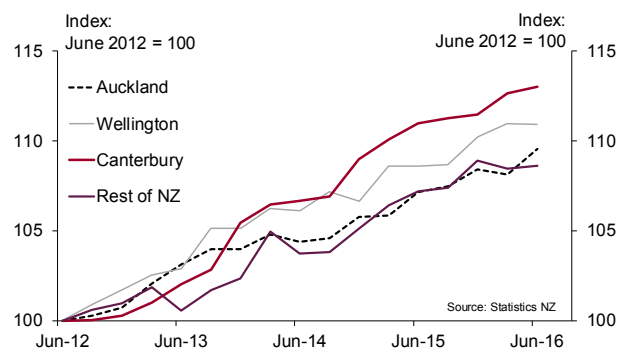
Number of full time equivalent employees



International guest nights



Average weekly earnings



Contact the Westpac economics team

Michael Gordon, Acting Chief Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

David Norman, Industry Economist +64 9 336 5656

Sarah Drought, Economist +64 9 336 5696

Any questions email: economics@westpac.co.nz

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