

Dairy divides

Westpac McDermott Miller Regional Economic Confidence, March quarter 2016

- Dairy's woes have re-emerged as the major factor affecting regional economic outlooks.
- Meanwhile regions with less exposure to dairy, and with strong tourism and horticulture sectors or strong population growth are far more positive about the outlook.
- The Bay of Plenty is once again the most optimistic region in New Zealand, followed closely by Gisborne and the Hawke's Bay.
- Southland, Taranaki and the Manawatu-Whanganui regions, all major dairy producers, are most pessimistic about the outlook.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Dec-15	Mar-16	Change
Northland	-8.9	-15.8	-6.9
Auckland	21.3	14.8	-6.5
Waikato	4.0	-14.0	-18.0
Bay of Plenty	41.0	34.7	-6.3
Gisborne/Hawke's Bay	14.1	33.4	19.3
Taranaki/Manawatu-Whanganui	9.2	-22.0	-31.1
Wellington	28.0	20.2	-7.8
Nelson/Marlborough/West Coast	26.1	24.7	-1.4
Canterbury	24.7	20.8	-3.9
Otago	36.6	11.9	-24.8
Southland	16.0	-22.0	-38.0

Source: Westpac McDermott Miller

*Regional economic confidence is the balance of households expecting good, as opposed to bad, economic times in their region over the coming year, as a percentage of total number of households. Sample sizes, and margins of error, vary by region. The national average is weighted by the share of each region in the total population. The survey was conducted over 1-11 March, with a total sample size of 1554.

Sentiment has fallen across 10 of the 11 regions since the December survey. Dairying regions have been hit hard at recent dairy auctions. Those held between September and early December were followed by a number of weaker ones. Our payout forecast for the current season is \$4.00, with \$4.60 forecast for next season, still well below the break-even point for many farmers.

As a result, Southland, Taranaki, Manawatu-Whanganui and the Waikato have decidedly negative regional economic outlooks. The West Coast result is obscured by its aggregation with the rest of the top of the South island, which has much better prospects.

This downturn in sentiment was expected, but was perhaps a little larger than expected in regions where dairy is not as prominent, such as Otago, Northland or even the Bay of Plenty. Some of the variation may be explained by wider margins of error, especially for smaller regions, but there is little doubt that people's views of their region's performance are mostly weaker.

The Bay of Plenty region once again has the most positive outlook, followed by Gisborne and the Hawke's Bay, and the top of the South Island. The three largest urban centres maintained a strongly positive regional economic outlook in March although in all three cases, residents were not quite as positive in the March quarter as they were in December.

Regional Roundup

Northland: Regional economic confidence fell to a net 16% of respondents feeling pessimistic about the outlook. This compared to a net 9% feeling pessimistic in December 2015. The result is somewhat surprising. Northland has some exposure to dairy, which is struggling with low global prices and therefore low payout forecasts. But there are a lot of positives in Northland at the moment as well. Forestry is holding up relatively well despite the downturn in China, which takes the bulk of our wood products. The unemployment rate

has fallen sharply in recent times. The horticulture sector is enjoying strong growth, and tourist guest nights are up in the region, which both bode well for jobs. Population growth is solid, driving underlying demand for goods and services from vehicle sales to household goods.

Auckland: Aucklanders have revised down their views of the region's economic prospects. Nevertheless, a net 15% of households believe the region's economic fortunes will improve over the coming year, still a strong result that positions the region as the sixth most positive out of 11. But confidence is down from a net 21% positive in December. There has been a definite slowdown in house sales and price activity in Auckland since the new LVR restrictions and investor requirements were introduced. But a construction boom is underway, the region is consenting more dwellings than at any point in the last four years, and there is a long way to go to meet pent-up demand for housing. Central Auckland is also being transformed as several large-scale commercial and retail projects get built. Tourism is strong and occupancy rates in the city are up sharply. Businesses are investing in more commercial vehicles, suggesting a lot of confidence there as well.

Waikato: Regional economic confidence fell to a net 14% of respondents feeling pessimistic about the outlook. This compared to a net 4% feeling optimistic in December 2015. The Waikato is the country's largest dairy region, which is reflected in the current downturn in sentiment. That said, the region is relatively diversified. Hamilton provides a relatively high level of tertiary services, and is a major growth centre. Tourism has also been growing strongly, reaching 3.2 million guest nights per year. A construction boom is in train, with residential consents reaching their highest annual level since 2008. While the impact of a battling dairy sector is significant, the region does have a number of other strings to its bow.

Bay of Plenty: Regional economic confidence slipped slightly, to a net 35% of respondents feeling optimistic about the outlook. Nevertheless, this is the fourth consecutive quarter that the Bay of Plenty has led the country in its view of the regional economic outlook. Tourism is booming with guest nights approaching 3.5 million a year, huge growth in population is driving new dwelling construction activity, and the horticulture sector is enjoying a purple patch. Although the forestry outlook is not so good, the region is far less exposed to dairy, which is in dire straits.

Gisborne/Hawke's Bay: For the sixth quarter in a row, regional economic confidence in Gisborne and the Hawke's Bay rose. The latest quarter saw a net 33% of respondents feeling more positive about where the region is headed, a massive surge over an already-solid 14% in December 2015. The concern about El Niño decimating the region's horticulture and meat and wool fortunes largely failed to become reality, and horticulture in particular has actually been really strong. Meanwhile, the region is far less exposed to dairy than many other parts of the country, and its unemployment rate is down. Growing air travel capacity into the region and higher hotel prices in the main cities mean more tourism growth for Gisborne and the Hawke's Bay is beginning to flow through as well. Results will be mixed across a geographic area as large as this, but the overall story is up.

Taranaki/Manawatu-Whanganui: Regional economic confidence plummeted in Taranaki and Manawatu-Whanganui in the March quarter. A net 22% of respondents were pessimistic about the outlook for the region in March, down from a net 9% positive in December. This result was in line with expectations. The December figure was a marked improvement because dairy prices had begun heading in the right direction. By late December, those gains began to unwind, and it was very likely that confidence would fall. The region is very exposed to dairy, and of course oil and gas plays a central role in the Taranaki as well, which means it is experiencing a double-hit of negativity at the moment.

Wellington: Wellington's regional economic confidence remained buoyant in the March quarter. A net 20% of respondents were optimistic about the outlook for the region. This was down from a net 28% positive in December, but still left the region fifth most positive in the country. The result is in line with the Wellington data: house prices are rising, the population is growing, and there have been signs of more construction activity. Sales of commercial vehicles are up strongly, indicating strong business confidence, and there is little talk about further government job cuts that hung over the city for several years.

Nelson/Marlborough/West Coast: Regional economic confidence for Nelson, Tasman, Marlborough and the West Coast remained strong overall. A net 25% of respondents thought the regional outlook was positive, compared to 26% in December. But the overall figures mask some very different economic outlooks across the region. Nelson, Tasman and Marlborough are benefitting from a horticulture and viticulture sector that is enjoying a strong period, and where the expected El Niño impacts largely failed to materialise. Forestry is holding up well despite the downturn in China, New Zealand's largest market, and seafood exports are up. But on the West Coast, the low dairy payout forecast and low prices for commodities like coal will be taking their toll on views of the wider economy.

Canterbury: Despite a small downward shift, Cantabrians remain strongly optimistic about the region's economic outlook. A net 21% of residents are optimistic about the outlook for the region, down from 25% in December. Although the rebuild has reached a plateau, and residential building activity is easing back, there is still a lot of justified positivity in Canterbury. There is significant commercial and anchor project work to be done. This means there will be strength in the construction sector for some time. Meanwhile, guest nights in the region are back at pre-quake levels, supported by air capacity back into the region that was lacking for some time. And while dairy is a big employer in the region, Canterbury is more diversified than many other South Island regions.

Otago: Regional economic confidence fell sharply in Otago in March. A net 12% of respondents were optimistic about the region's economic outlook, down from a net 36% feeling positive in December. Still, Otago residents are positive overall about the regional economic outlook. Dairy woes are hitting other parts of the South Island, like neighbouring Southland, particularly hard, but Otago is not as exposed. At the same time, there's a lot of good news out of the region. Tourism is

enjoying an unprecedented boom in the Queenstown-Wanaka area. Stronger population growth is leading to solid rises in house prices, which typically makes people feel more positive about the region's outlook. Building work is on the rise, which is creating new jobs in the region.

Southland: Regional economic confidence plunged in Southland in March. A net 22% of respondents were pessimistic about the region's economic outlook, down from a net 16% feeling positive in December. This result is largely unsurprising, however. After a short period of better dairy auction prices bringing some positivity into residents' minds leading into the December survey, those gains have been reversed. Once again, dairy prices are languishing, and the revised payout forecast is weighing on people's minds. Southland workers are almost four times more likely to work in dairy than New Zealanders overall, and the impact goes beyond the farm gate, to a number of industries and businesses that support agriculture.

Consumer confidence: regional breakdown

In this bulletin we also report on the regional breakdown of the Westpac McDermott Miller Consumer Confidence Index. Separately from the Regional Economic Confidence Survey, the Consumer Confidence Index summarises responses to questions about households' own financial situation, their expectations for the New Zealand economy as a whole, and their current willingness to buy a major household item.

Consumer confidence fell in eight of 11 regions, with Canterbury, Auckland and Northland the only three regions where households were more positive about the outlook. In these cases, consumer confidence rose even as regional economic confidence fell, suggesting residents felt more positive about their own fortunes than about those for the region.

Consumer confidence fell the most in Otago, despite a booming tourism and construction sector in that region. It also fell in Gisborne and the Hawke's Bay despite views on the outlook for the regional economy rising sharply there. This implies many there felt less positive about their own outlook than that of their region.

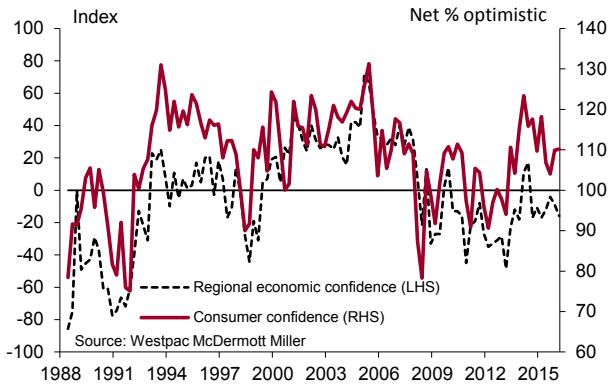
Overall consumer confidence fell slightly to 109.6.

David Norman
Industry Economist

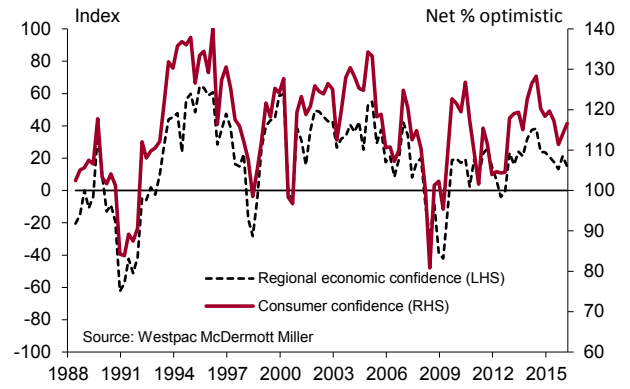
Consumer confidence by region

Region	Consumer confidence index		
	Dec-15	Mar-16	Change
Northland	109.9	110.2	0.3
Auckland	113.9	116.6	2.6
Waikato	108.2	102.0	-6.2
Bay of Plenty	109.6	108.7	-0.9
Gisborne/Hawke's Bay	117.1	110.9	-6.2
Taranaki/Manawatu-Whanganui	104.7	100.4	-4.3
Wellington	111.0	108.4	-2.6
Nelson/Marlborough/West Coast	114.0	101.5	-12.6
Canterbury	105.1	111.9	6.9
Otago	113.4	100.6	-12.8
Southland	103.0	98.6	-4.4
Nationwide	110.7	109.6	-1.0

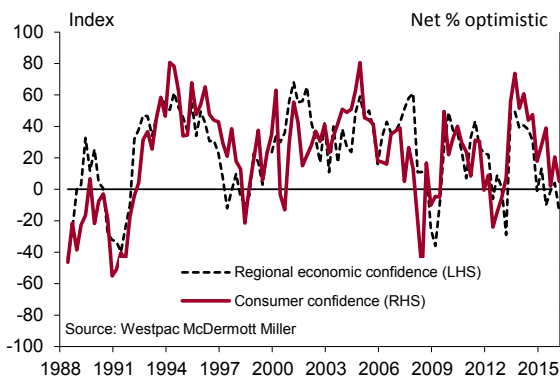
Northland



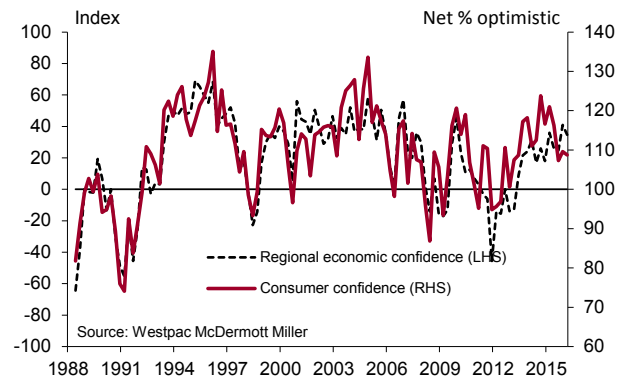
Auckland



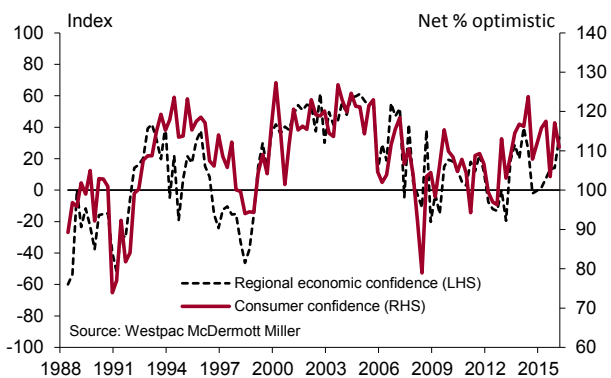
Waikato



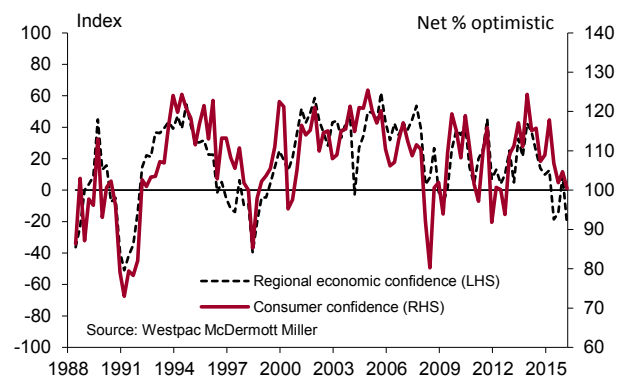
Bay of Plenty



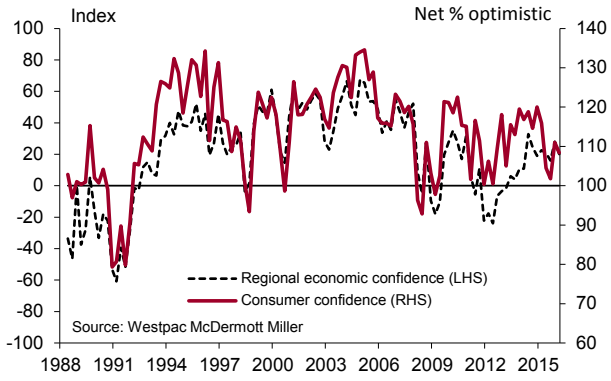
Gisborne/Hawke's Bay



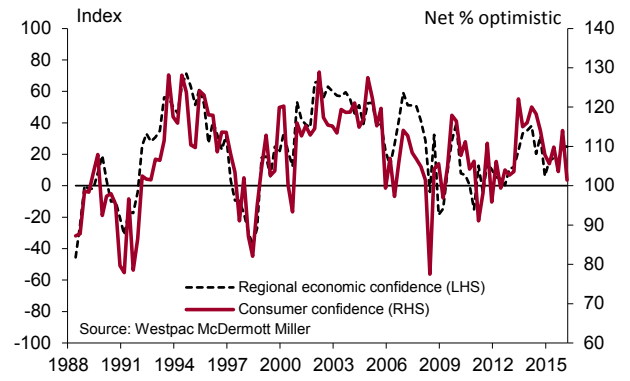
Taranaki/Manawatu-Whanganui



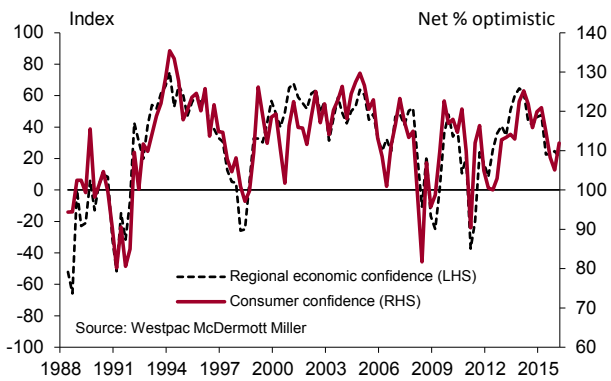
Wellington



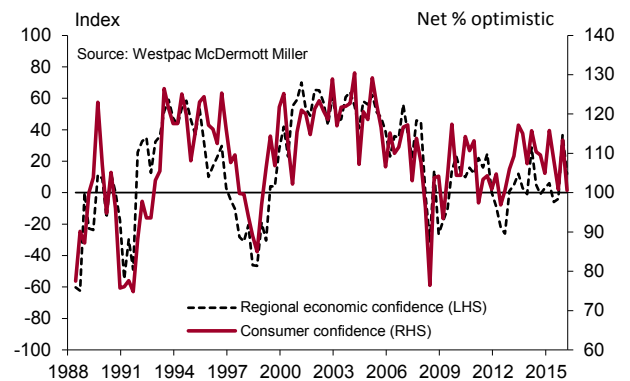
Nelson/Marlborough/West Coast



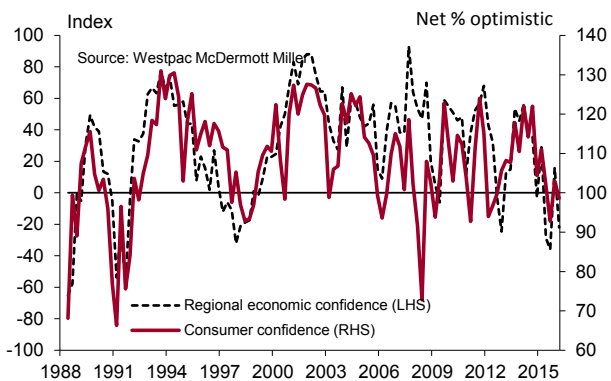
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Otago



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