

All things in moderation

Westpac McDermott Miller Regional Economic Confidence, June quarter 2016

- Regional economic confidence – whether residents believe their local economy will be better off or worse off in 12 months – has moderated in the latest survey.
- Regional economic confidence has lifted in regions with large dairy industries – the Waikato, Taranaki/Manawatu-Whanganui, and Southland in particular.
- Yet confidence has weakened in other regions that have been more buoyant in recent history – Auckland, Gisborne/Hawkes' Bay, and Wellington in particular.
- The Bay of Plenty is the most optimistic region in New Zealand for the fifth consecutive quarter.
- Canterbury's regional economic confidence has flattened out in the 20-25% net optimistic range over the last few quarters as the rebuild has plateaued.
- Consumer confidence, a separate measure of household's views of their own economic conditions, fell in eight out of 11 regions, led downward by a decidedly weaker view of where the national economy would be in five years' time.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Jun-16	Mar-16	Change
Northland	-12.0	-15.8	3.8
Auckland	8.0	14.8	-6.8
Waikato	14.0	-14.0	28.0
Bay of Plenty	40.6	34.7	5.9
Gisborne/Hawke's Bay	4.2	33.4	-29.2
Taranaki/Manawatu-Whanganui	2.6	-22.0	24.6
Wellington	8.0	20.2	-12.2
Nelson/Marlborough/West Coast	19.7	24.7	-5.0
Canterbury	25.8	20.8	5.0
Otago	7.0	11.9	-4.9
Southland	-10.0	-22.0	12.0

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 1-12 June, with a total sample size of 1555.

Changes in sentiment were mixed across New Zealand's 11 regions in the June quarter. Six regions are now more positive about where their local economy is headed, while five are more negative. The general weakness continues in dairying regions, but has not become more pronounced, perhaps because global dairy prices have stabilised in the last three months. Nevertheless, we are forecasting another low payout this year - \$4.60 - while Fonterra's early forecast is even lower, at \$4.25. There is little reason to expect a sharp rebound in dairy region confidence in this environment.

In many ways, Northland was the biggest surprise this quarter. The region does have some exposure to dairy, but is benefitting from strong growth in construction activity, rising house prices, a solid outlook for horticulture, and modest fortunes for forestry, and beef. Yet its regional economic

confidence remained weak, even as other dairying regions recorded sizeable rebounds. As a result, Northland recorded the weakest confidence of the 11 regions despite its modest improvement in confidence.

While the dairying regions of Southland, and Taranaki/Manawatu-Whanganui continued to record below-average regional economic confidence, both achieved much better results than in the March survey. The Waikato, the country's biggest dairy region, had a decidedly positive result as the weakness in dairy was offset by strong growth in construction activity, house prices, and tourism.

The Bay of Plenty made it five in a row at the top of the regional economic confidence rankings with another quarter of very strong results. Canterbury continues to record solid results within a narrow band of 20-25% net optimistic, well off the highs seen a couple of years ago. Auckland residents continued to become a little less optimistic about where the region is headed, possibly on the back of worries about housing affordability and infrastructure challenges.

Gisborne and the Hawke's Bay, which recorded stellar results last quarter, saw regional economic confidence slump in June. This was a surprising result given the number of positive indicators in the region.

Regional discussion

Northland: Regional economic confidence improved slightly in Northland. Still, a net 12.0% of households believe the region's economic fortunes will deteriorate over the coming year, making the region the most pessimistic in the country. A net 15.8% thought the regional economy would weaken over the next 12 months in the March survey. This is a surprisingly weak result for the region. Pessimists have outweighed optimists in the region for the last two years despite a lower unemployment rate, an increase in new building activity, and higher house prices. The region does have some dairy exposure that may be weighing on views of the regional outlook, but horticulture, and beef farmers are enjoying a period of solid returns.

Auckland: Aucklanders' views of their region's economic prospects fell for the second consecutive quarter. Nevertheless, a net 8% 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, and 15% in March. Auckland's economy has fared well in recent times, with employment up sharply and a construction boom underway. However, households may be concerned that unemployment is falling only slowly, and housing affordability is weighing on people's minds.

Waikato: Regional economic confidence in the Waikato has bounced sharply back into positive territory. After a March

result that was the weakest in three years, the June reading showed a net 14% of households feeling optimistic about the region's 12-month economic outlook. This was a welcome change, and was in fact the best reading for the region since September 2014. But this newfound confidence may well be split between the battling rural hinterland and the stronger urban centre. The region still faces the challenge of a weak dairy sector, but tourism is growing strongly, and low interest rates are spurring house price growth in Hamilton.

Bay of Plenty: For the fifth quarter running, Bay of Plenty residents had the most positive regional economic outlook. A net 41% of households believe the region's economic fortunes will improve over the coming year, up from a net 35% in March. This places the region substantially ahead in the confidence stakes over any other region, with Canterbury in second at 26%. Going by a number of economic indicators, it is not surprising that the region has been the most optimistic for five consecutive quarters. House prices are growing, creating a sense of wealth, unemployment rates are low, and horticulture is enjoying a purple patch.

Gisborne/Hawke's Bay: Regional economic confidence fell sharply in Gisborne and the Hawke's Bay, to a net 4.2%. This result is down from a net 33.4% positive in March 2016, and is the region's lowest reading in five quarters. The region placed eighth out of 11 by its regional economic confidence measure. This is a surprisingly weak result for Gisborne and the Hawke's Bay. The horticulture sector is strong. Beef and forestry are holding up well, and low interest rates are stimulating growth in house prices. These other economic indicators don't explain the large fall in confidence in the region. It will be interesting to watch how confidence figures change over the next few quarters.

Taranaki/Manawatu-Whanganui: Regional economic confidence in Taranaki and Manawatu-Whanganui has returned to positive territory. After recording the joint weakest regional economic confidence in March, the region has rebounded to a net 2.6% of households thinking the regional economy will improve in the coming year. This is still only a marginally optimistic result, and the region still faces the twin challenges of a weak dairy sector, and low oil prices subduing new exploration and drilling activity in Taranaki. Some of this newfound confidence may be from the slight boost in oil prices and stability in dairy prices of late. The recent improvement in local housing markets may also be playing a role.

Wellington: Regional economic confidence in Wellington fell sharply in the latest quarter. A net 8.0% of respondents thought the region's economic fortunes would improve over the next 12 months, compared to a net 20.2% last in March. Nevertheless, the region was the fifth most positive about its economic outlook, of the 11 regions surveyed. Low interest rates are stimulating house prices, creating a sense of wealth, and the region is benefitting from the growth in tourism, which looks set to continue.

Nelson/Marlborough/West Coast: Regional economic confidence fell slightly in Nelson, Marlborough and the West Coast. Still, a net 19.7% of households believe the region's economic fortunes will improve over the coming year, making the region the third most upbeat out of 11. A net 24.7% thought the regional economy would improve over the next 12 months in the March survey. The West Coast in particular will still be concerned about the low dairy payouts past and future, but the wider region has a lot of other drivers that are buoying confidence. The horticulture sector is strong, and forestry is holding up well. Low interest rates are stimulating growth in house prices, creating a sense of wealth.

Canterbury: Regional economic confidence has improved from already solid levels. A net 26% of households believe the region's economic fortunes will improve over the coming year, up from a net 21% in March. This places the region second in the confidence stakes, behind only the Bay of Plenty, where a net 41% of respondents were optimistic about their region's outlook. Regional confidence is well down on the extraordinary levels seen as the rebuild was cranking up. But as the rate of rebuild work has plateaued, the proportion of net optimists seems to have similarly flattened out in the mid-20s over the last five quarters.

Otago: Regional economic confidence fell again in Otago. A net 7.0% of households believe the region's economic fortunes will improve over the coming year, down from 11.9% in March and 36.6% in December 2015. This is a weak result for the Otago region. The Queenstown-Lakes district in particular is experiencing stellar growth in tourism, lots of new building work and strong rises in house prices and job creation. Other parts of the region, however, are not seeing the same gains. The farming backbone of the region is experiencing challenging conditions, which may be driving this weaker result, as the Queenstown-Lakes district is a relatively small part of the overall employment picture.

Southland: Regional economic confidence has risen in Southland. Nevertheless, a net 10.0% of households believe the region's economic fortunes will deteriorate over the coming year. This is a better result than the net 22% who were downbeat in March, but is still the second most pessimistic reading across the country's 11 regions. This result is no surprise after two bad seasons for dairy, and with a third one on the cards. This outlook flows through to a subdued view on the region's prospects. However, the slight lift in confidence (reduced pessimism) this quarter likely reflects the slight improvement in the dairy outlook, alongside other factors such as tourism, which are bringing other sources of revenue to the region.

Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Jun-16	Mar-16	Change
Northland	88.2	110.2	-22.0
Auckland	101.4	116.6	-15.2
Waikato	103.6	102.0	1.6
Bay of Plenty	110.0	108.7	1.3
Gisborne/Hawke's Bay	95.5	110.9	-15.4
Taranaki/Manawatu-Whanganui	101.9	100.4	1.5
Wellington	107.9	108.4	-0.5
Nelson/Marlborough/West Coast	101.2	101.5	-0.3
Canterbury	105.7	111.9	-6.3
Otago	97.4	100.6	-3.2
Southland	95.4	98.6	-3.2
Nationwide	106.0	109.6	-3.7

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.

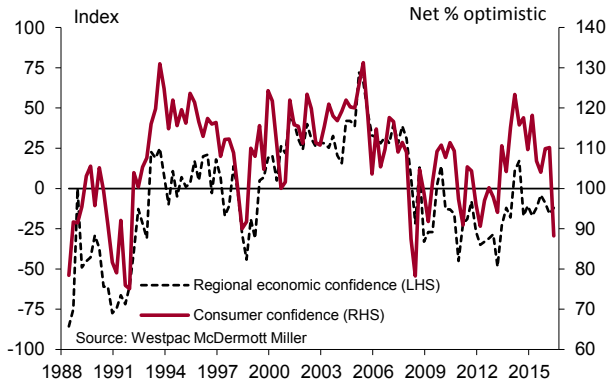
Consumer confidence fell in eight of 11 regions, with the Bay of Plenty, the Waikato, and Taranaki/Manawatu-Whanganui region all recording small rises. But Northland, Auckland and Gisborne/Hawke's Bay all saw consumer confidence slump significantly.

In most cases, the drop in overall consumer confidence seemed to be strongly linked to the question asking respondents whether they thought the national economy would be better or worse in five years' time. During the sample period, Auckland's main newspaper, which is also widely read in Northland, highlighted the issue of rising household debt levels over the longer-term. This presumably contributed to the sharp drop in consumer confidence in those regions in particular. Wellington was the only region in which residents' views on the five-year national economic outlook improved.

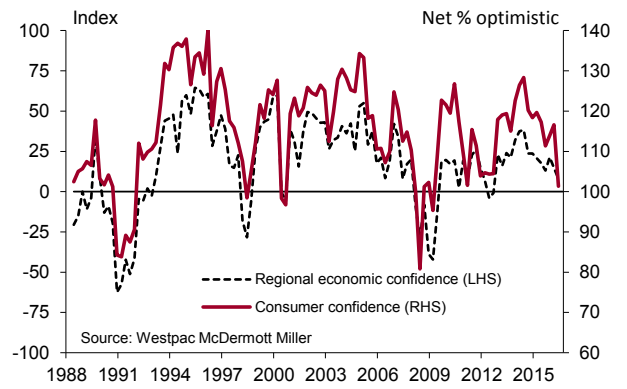
Overall consumer confidence fell for the seventh quarter in nine, to 106.0.

David Norman
Industry Economist

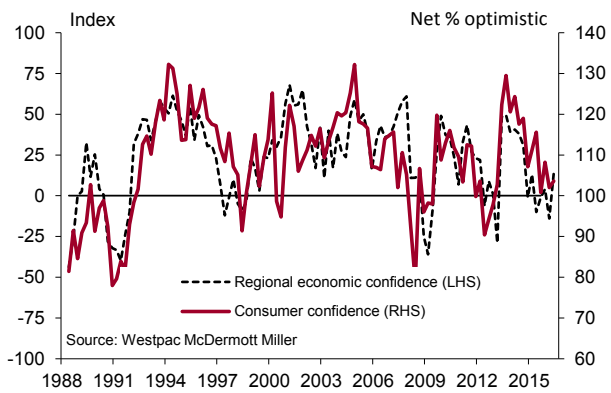
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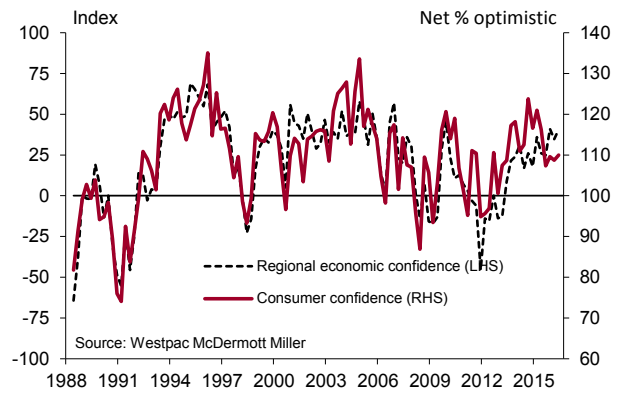
Auckland



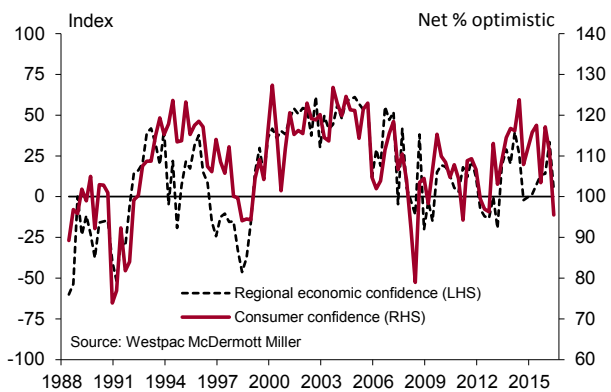
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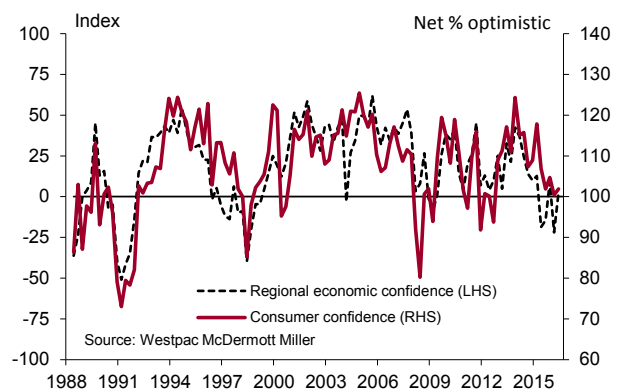
Bay of Plenty



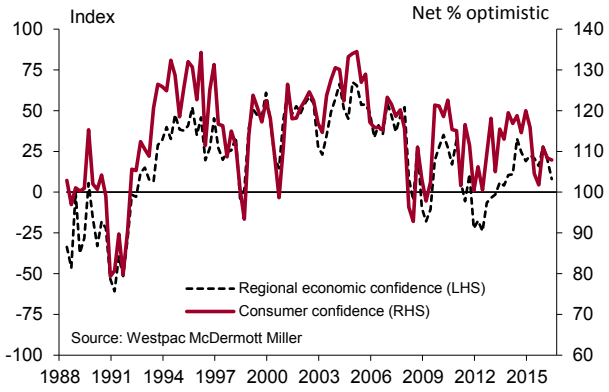
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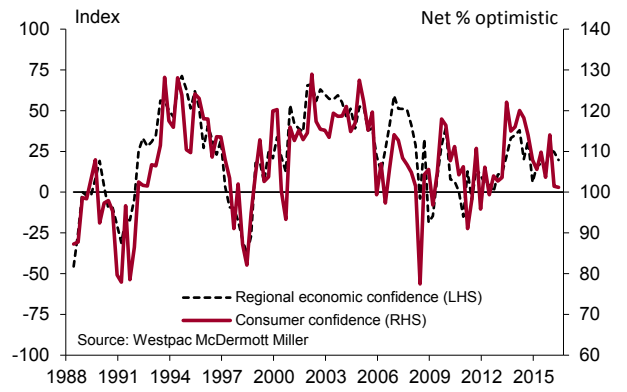
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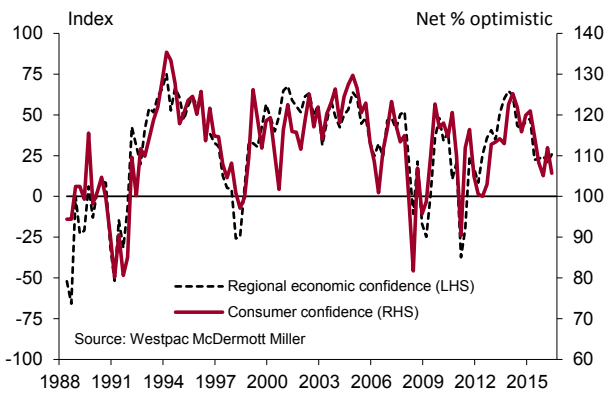
Wellington



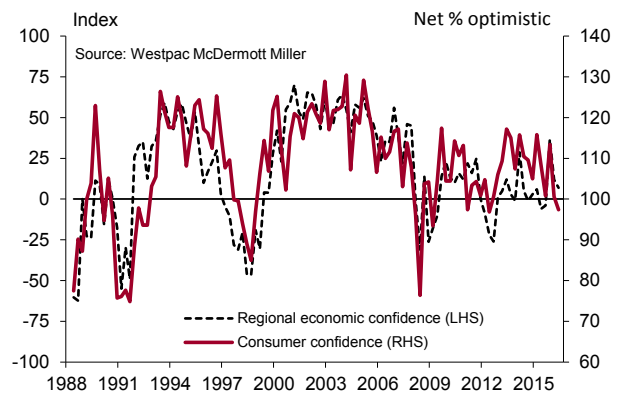
Nelson/Marlborough/West Coast



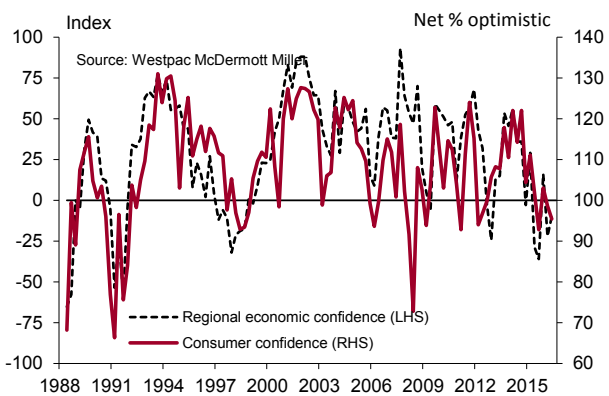
Canterbury



Otago



Southland



Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior 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

Any questions email: economics@westpac.co.nz

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