



Auckland

Regional roundup

 Westpac

Institutional
Bank

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Summary

New Zealand continues to enjoy a relatively buoyant period of economic growth overall, as highlighted in our last two Quarterly Economic Overview reports.¹ However, fortunes vary depending on the ability of each region to capitalise on current drivers of economic activity.

One key driver of economic activity is population growth, at its highest in 40 years. Areas where population growth is strongest are enjoying the biggest economic benefits – more houses are needed, along with more cars, fridges, clothes and food as new households form. This is especially good news for retailers in Auckland, Hamilton, Tauranga, and Queenstown, but all parts of the country are seeing some population growth.

This strong population growth, coupled with record low interest rates, is helping boost property prices across New Zealand. In fact, whereas the growth was once an Auckland story, it is far more a Tauranga, Hamilton, Queenstown and Northland story. This stimulus also has a flow-on effect as people draw on equity in their homes.

From a job creation and infrastructure perspective, strong population growth is bolstering demand for housing and commercial property, particularly across the upper North Island. We estimate that Auckland is already 30,000 dwellings short, based on changes in the number of people per dwelling in recent years, and the gap continues to widen.

The Auckland Unitary Plan, as proposed by the Independent Hearings Panel, will enable 422,000 new dwellings over the next 30 years. But it may be a case of many a slip betwixt cup and lip insofar as a Plan allowing for growth translates into more building. Challenges include the speed at which land bankers are incentivised to actually deliver land to market, Council's ability to process thousands more consents a year, and the capacity of the construction sector to ramp up production without quality suffering further.

And with Hamilton and Tauranga in particular also seeing sharp population growth, they can expect similar challenges in the years to come.

Meanwhile, tourism is enjoying an unprecedented boom, with annual guest nights up nearly 18% in three years. This is benefitting Otago (predominantly Queenstown and Wanaka), and Southland (mostly Fiordland). But other parts of the country

such as Wellington, Taranaki, Manawatu-Whanganui, and Northland have not been able to capture their share of the boom in visitors staying overnight in paid accommodation, meaning their share of the tourism pie is shrinking by some measures.

While dairy's weak outlook remains (our forecast for the current season is \$5 per kg of milksolids, at which around half of farmers are estimated to be breaking even at best), other parts of the primary sector are doing better. We recently published our Industry Insights – Horticulture report, which highlighted how fruit and honey exports are surging, benefitting Otago, the upper South Island, Bay of Plenty and East Coast.²

Forestry also continues to remain resilient despite weaker industrial activity in China, which is good news for several regions across New Zealand.

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 previous quarter and the five-year average for each indicator. This provides the basis for the analysis and discussion on the outlook for the next couple of years.

We also include a net score for each comparison period. A score greater than zero means more indicators have improved in the latest quarter than in the 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.

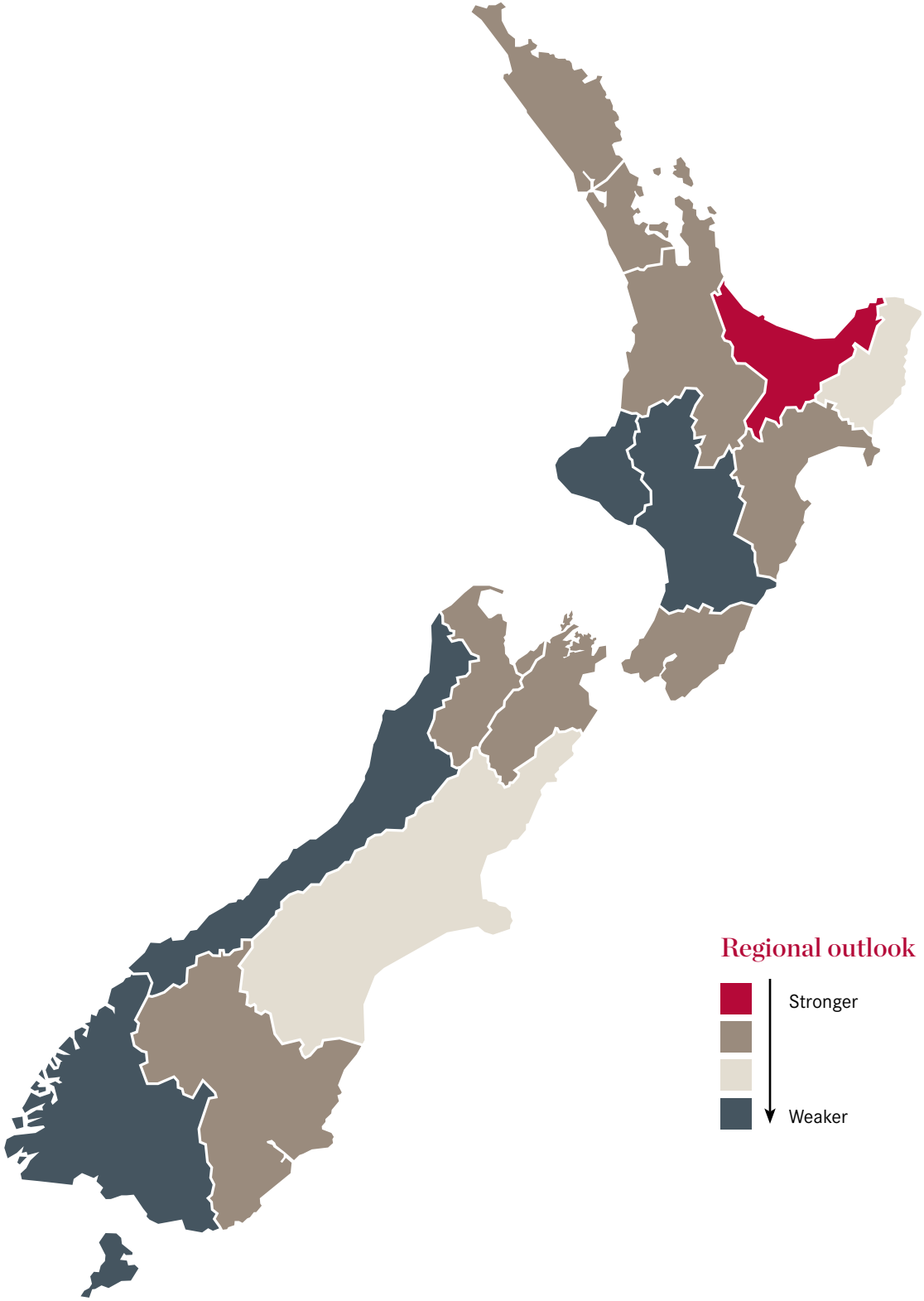
We note that Statistics New Zealand is currently reviewing its estimates of the unemployment rate. We publish the rates in this report, but we are holding off considering them as part of our analysis until their reliability has been evaluated carefully.

This quarter, our special topic is housing supply and the growing population. We analyse changes in the number of people per dwelling in each region as a measure of housing shortfall. Our forecast assumes a return to a slow decline in average household size, and estimates the number of building consents that will be needed for people per dwelling to return to longer-term trends.

¹See http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Westpac-QEO-August-2016_Email.pdf and http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Westpac-QEO-May-2016_EMAIL.pdf

² <http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Industry-Insights-Horticulture-July-2016.pdf>.

12-month regional outlook



Auckland

Auckland's remarkable strength over the last couple of years appears to be losing some of its shine although positives still clearly outweigh risks for the region.

Auckland	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	8.0	14.8	18.9
Regional employment confidence	103.0	110.0	105.5
Unemployment rate (s.a.)	4.8%	5.5%	6.1%
Passenger vehicle regos (s.a.)	29,081	28,561	23,690
Commercial vehicle regos (s.a.)	5,456	4,974	3,688
Guest nights (000, s.a.)	1,892	1,822	1,707
New dwellings consented (s.a.)	2,440	2,385	1,721
House sales (s.a.)	8,349	6,866	7,452
House price change, annual (s.a.)	16.1%	16.9%	12.6%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			5

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

Regional economic confidence remains firm, with optimists outweighing pessimists, but the positivity is clearly a lot weaker now than it was last quarter, and is significantly weaker than the five-year average.

Passenger vehicles sales topped 29,000 in the June quarter, suggesting that despite weaker employment confidence, households are still investing in sizeable assets like vehicles.

House sales are resilient even as house price growth has slowed somewhat from the highs seen late last year.

The strong national GDP growth, forecast to be 3.2% in 2016, is benefitting many businesses even as GDP per capita growth remains weak. Unsurprisingly then, businesses are investing in commercial vehicles at nearly 50% more per quarter than the five-year average in Auckland. Tourism in Auckland has shown solid growth in recent years, and the trend toward more people spending the night in paid accommodation continues. Nearly 1.9 million guest nights were spent in the region in the June quarter, up 2.3% on the quarter and 42% compared to the five-year average.

The outlook for the region

Auckland continues to enjoy huge population growth despite national net immigration peaking. With a shortfall of 30,000 dwellings and growing, there is a wall of residential building work left to be done. This will provide some certainty to the construction sector for years to come.

There is currently also a shortage of industrial and office space and retail vacancy rates are also very low. With several office projects underway, the supply-demand balance is expected to reach equilibrium in 2018, at which point the national economy will be slowing and vacancy rates will likely rise.

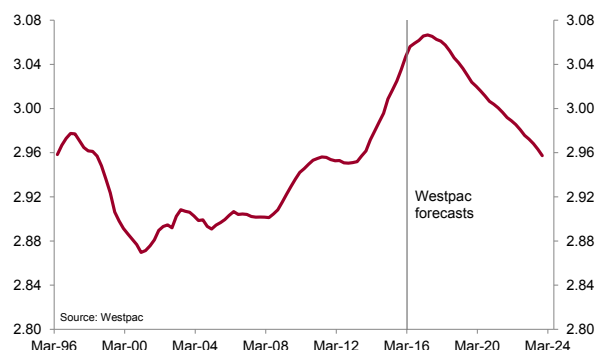
Auckland's solid tourism growth is set to continue. At the same time, accommodation capacity challenges over summer may discourage growth if the tourism experience deteriorates or prices rise too far in response.

IN FOCUS: Housing and population growth

Auckland saw one of the sharpest declines in people per dwelling between 1996 and 2001, but since that time, the ratio has steadily risen. First, the Global Financial Crisis (GFC) meant higher unemployment rates, forcing more people to cram into the stock of dwellings. More recently, limited building relative to strong population growth combined with low interest rates has seen house prices rising rapidly. These conditions have made new household formation more difficult, and the number of people per dwelling has risen to a level not seen in over 20 years.

We have long forecast that dwelling consents will likely reach around 11,000 a year in 2017. Too far beyond that (e.g. 13,000 or more) would lead to an unsustainable level of building, and even more pressure on building quality and the regulatory environment as it currently stands. At 11,000 dwellings a year, the city would be able to eat into its housing shortfall over the next seven to ten years while providing certainty about pipeline for construction businesses. This would see the number of people per dwelling fall to about 2.95 by 2023, still far higher than we would have expected 20 years ago.

People per dwelling



Bay of Plenty

The Bay of Plenty is enjoying a period of exceptional growth and positivity, as we have highlighted in the last five Regional economic Confidence survey reports.

Bay of Plenty	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	40.6	34.7	12.1
Regional employment confidence	104.2	104.9	100.6
Unemployment rate (s.a.)	5.7%	4.7%	6.6%
Passenger vehicle regos (s.a.)	3,298	2,965	2,406
Commercial vehicle regos (s.a.)	897	844	565
Guest nights (000, s.a.)	960	897	815
New dwellings consented (s.a.)	667	620	365
House sales (s.a.)*	4,625	4,188	3,112
House price change, annual (s.a.)	22.1%	19.2%	6.0%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			9

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

The region is the most optimistic with regard to whether its economic fortunes will improve or weaken over the next 12 months, with a net 41% of respondents believing things will improve. And the business confidence in the region is reflected in surging sales of commercial vehicles, up 59% compared to the five-year average.

Residents are also choosing to invest in new passenger

vehicles, with sales in the latest quarter approaching 3,300, up more than a third over the five-year average, and up around 10% quarter-on-quarter. Taken with strong growth in new building consents, house prices, and house sales, this supports the strong confidence measures being recorded.

New dwelling consents were up again in the June quarter, and are 83% stronger than the five-year average, driven by Tauranga and the Western bay of Plenty.

The region is also being buoyed by record exports of kiwifruit. This is leading to large gains in the value of horticultural land, with returns ranging between 7% and 12% for green and gold kiwifruit respectively. Forestry continues to surprise, with annual wood product exports remaining near \$5 billion despite China's slowdown, which is also good news for the region.

The outlook for the region

We expect to see continued strength in the bay of Plenty economy over the next year to 18 months. While the current rates of house price growth are unlikely to persist indefinitely, there is some way to go. There is strong underlying demand to house new residents and interest rates are supportive of continued gains.

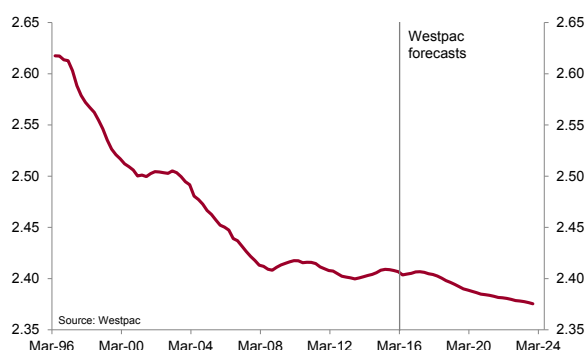
Tourism is likely to see continued growth although the region has not been capturing its share of the boom to the same extent that other parts of the country have. If forestry is able to continue its resurgence, this will support improved economic outcomes in the eastern Bay of Plenty as well, while horticulture is expected to continue to enjoy solid returns.

IN FOCUS: Housing and population growth

Like Auckland and the Waikato, the Bay of Plenty has seen strong population growth in recent years, centred mostly on Tauranga and the western Bay of Plenty District. As a result, the decline in people per dwelling between 1996 and 2007 was arrested, first through the GFC (although to a far lesser extent than Auckland), and latterly through higher property prices.

Strong building activity and continued population growth in the Bay over the next few years will see little change in the ratio of people per dwelling. Dwellings consented in the 12 months to June are up an incredible 55% over the previous year, so the construction sector is clearly gearing up to meet demand, but we expect residents per dwelling to fall gently as population growth remains firm over the next couple of years. To achieve the return to falling household size, around 1,300 consents would need to be approved each year for the next seven years. This is certainly achievable; a far higher number has been consented in the last year, but that was aided by a number of multi-unit developments, whereas in the Bay of Plenty, most development is still of stand-alone dwellings.

People per dwelling



Canterbury

Despite exuberance remaining in Canterbury residents' views of the economic future, the rebuild is slowing and indicators are looking far more mixed than a few months ago.

Canterbury	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	25.8	20.8	36.0
Regional employment confidence	104.6	110.6	111.0
Unemployment rate (s.a.)	3.3%	2.9%	3.8%
Passenger vehicle regos (s.a.)	8,894	8,866	7,399
Commercial vehicle regos (s.a.)	1,479	1,568	1,380
Guest nights (000, s.a.)	1,235	1,304	1,132
New dwellings consented (s.a.)	1,787	1,445	1,404
House sales (s.a.)	3,035	2,798	2,544
House price change, annual (s.a.)	4.0%	3.3%	6.1%
Net number of indicators rising compared to previous quarter			0
Net number of indicators rising compared to 5 year average			3

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

Regional economic confidence bounced again in June on the back of a stabilising (albeit far from strong) dairy sector. With optimists outnumbering pessimists by 26 percentage points, this points to ongoing positivity in Canterbury. But in the context of \$32 billion of rebuild work, signs are emerging that confidence is slowly moderating.

Passenger vehicle sales are largely flat, and the region has

the lowest rate of dwelling price increases as supply is increasingly matched with demand. Still, dwelling consents in the latest quarter were lifted by the consent of a large number of multi-units, and there is considerable commercial building still to be done.

Signs that business confidence is slowing include weaker commercial vehicle sales, down 5.7% in the quarter, and now up just 7.2% over the five-year average.

Guest nights have moderated in the latest quarter, but the good news is that as more accommodation becomes available, visitor numbers are rising.

The outlook for the region

We expect the residential component of the rebuild to fall away further over the coming months, while there is considerable commercial rebuild work still to be done. Nevertheless, the trend of rebuild work now appears to be clearly down, and this will begin to become a drag on the regional economy in the months ahead.

A risk of oversupply of commercial property is emerging, with city-fringe developments possibly losing out as larger corporates move back to the CBD over the next few years.

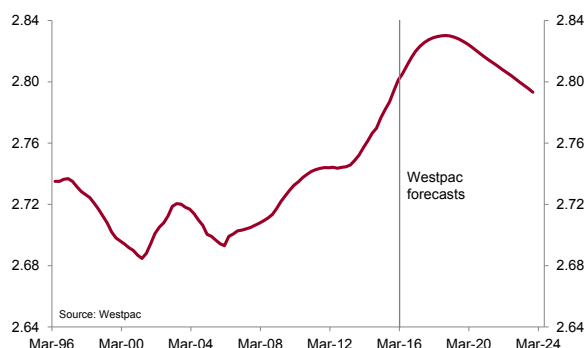
Dairy in the region will continue to face the challenge of a weak payout through the 2016/17 season, before payouts are expected to return above \$5 per kg of milksolids. This will moderate economic confidence, which we expect to fall as unemployment rates start to rise as the rebuild winds down.

IN FOCUS: Housing and population growth

The pattern of falling average numbers of residents per dwelling seen across much of the country was not nearly as marked in Canterbury between 1996 and 2007. In fact, between 2001 and 2003, household sizes increased sharply as the population grew quite sharply (an estimated 10,000 a year). Then, as the GFC struck, the number of people per dwelling rose steadily, to 2.74 per dwelling by the time the first major quake hit in September 2010. The quakes triggered a number of responses. First, an outflow of people whose livelihoods had been removed, or who had nowhere to stay in Christchurch, then an influx of thousands of workers to undertake the rebuild and the return of displaced residents.

As a result, the number of people per dwelling surged to its current level of around 2.80. As the rebuild progresses, the number of people per dwelling will gradually decline. The extent and pace of this decline will be affected by the number of rebuild workers that remain, and by whether the region attracts people and businesses as it moves into the next stage of its economic cycle.

People per dwelling



Gisborne / Hawke's Bay

Gisborne and the Hawke's Bay are experiencing moderate economic outcomes at the moment, with key indicators sending mixed signals.

Gisborne/Hawke's Bay	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	4.2	33.4	9.4
Regional employment confidence	92.5	111.4	99.0
Unemployment rate (s.a.)	5.4%	7.4%	7.2%
Passenger vehicle regos (s.a.)	1,716	1,597	1,283
Commercial vehicle regos (s.a.)	533	514	382
Guest nights (000, s.a.)	366	333	309
New dwellings consented (s.a.)	126	143	124
House sales (s.a.)	913	751	631
House price change, annual (s.a.)	10.2%	7.6%	2.8%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			5

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

In our last Regional Roundup, we forecast that the region would be one of the star performers over the months to come. This seems to be borne out by the stellar performance of horticulture, reasonable forestry exports, and solid meat exports.

Yet surprisingly, regional confidence was down sharply in the region in June. Optimists outnumber pessimists by the slimmest of margins on regional economic confidence, while pessimism dominates with regard to the employment outlook.

These results skew what is otherwise a positive mix of indicators. Measures of household confidence – passenger vehicle sales, house sales and house prices are all pointing in the right direction. Vehicle sales were up 7.4% in the quarter, and 34% on the five-year average in June 2016. Annual house price rises are now into double digits, supported by population growth and low interest rates. And the number of sales per quarter is up almost 50% over the five-year average.

The region is relatively small in the New Zealand tourism picture, capturing just 3.8% of guest nights, but is seeing some growth. Still, there is potential to massively increase its take from the tourism boom.

The outlook for the region

Horticulture is booming. Forestry is doing moderately well, as is the meat sector. The East Coast is not as exposed to dairy as many other regions in New Zealand. These factors bode well for the immediate future of the region's primary sector.

The region is also expected to see continued population growth, and further pressure on house prices, supported by low interest rates. We expect house price growth to continue for 12 to 18 months, and possibly even to accelerate in the region, which has been later than others in seeing house price growth.

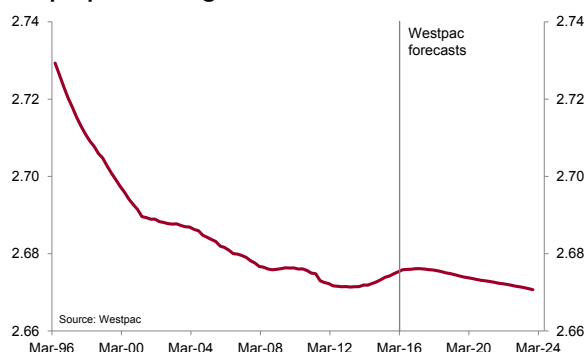
We would be surprised to see confidence measures fall further in the region. It is likely that regional economic confidence will strengthen as property values rise and the benefits of strength in the primary sector (other than dairy) flow through the regional economy.

IN FOCUS: Housing and population growth

Gisborne and the Hawke's Bay saw the typical pattern of falling household size through the late 1990s and into the early 2000s. While the rate of decline slowed, there was no sign of a reversal in the pattern until the GFC hit. Even at that point, however, the upswing due to economic pressures that forced many in other parts of the country, like Auckland, to move in with family or friends, was not seen. Instead, people per dwelling flattened at around 2.68.

The combination of population growth and low interest rates bidding up property prices in the last year or so has seen the first increase in people per dwelling in the region in 20 years. While there has been an increase in the number of dwellings consented in both Gisborne and the Hawke's Bay in the last 12 months, this has not been sufficient to meet the need for housing. We expect dwelling consents to rise further, particularly in the Hawke's Bay over the next couple of years to meet this demand, with an estimated 550 dwellings needing to be consented each year across the region for the next seven years to achieve the profile suggested here.

People per dwelling



Nelson / Marlborough / West Coast

The Top of the South, consisting of Nelson-Tasman, Marlborough and the West Coast, has experienced mixed fortunes in recent times, a function of its industry mix.

Nelson/Marlborough/ West Coast	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	19.7	24.7	18.2
Regional employment confidence	96.7	101.2	101.6
Unemployment rate (s.a.)	5.9%	5.1%	4.6%
Passenger vehicle regos (s.a.)	1,549	1,431	1,163
Tractor regos (s.a.)	43	43	45
Guest nights (000, s.a.)	894	877	787
New dwellings consented (s.a.)	218	209	211
House sales (s.a.)	802	812	711
House price change, annual (s.a.)	9.3%	5.3%	3.2%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			3

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

Despite the weakness in dairy and mining, which both affect the West Coast, the region remains strongly optimistic. A net 20% of respondents to the June survey believe the next 12 months will see the economy improve. This was down on the previous quarter, but is slightly above the five-year average, and is still the third strongest result in the country.

Residents are more pessimistic about the economic future, and are less certain about their future employment.

Yet other indicators of household confidence – passenger vehicle sales, house prices, and new building consents – are up. Quarter-on-quarter, passenger vehicle sales grew 8.3%, and are up 33% over the five-year average. House prices are not booming quite as much as in some other parts of the country, but are approaching double-digit annual growth. And the number of dwelling consents, while not rocketing away, is keeping up with longer-term trends.

Tractor registrations, a measure of on-farm confidence, have flattened in the mid-40s, a level they have been at for much of the last five years. House sales have also stalled, possibly the result of a higher unemployment rate and price rises resulting in a smaller pool of purchasers.

The outlook for the region

We believe the outlook for the region is stronger than the net scores suggest. Horticulture and viticulture are booming. Forestry is experiencing moderate fortunes, and house prices will create a greater sense of wealth in the region.

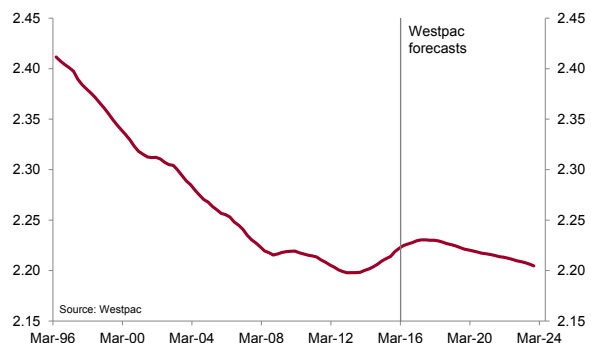
Tourism has seen some gains in the region, but we expect there is more to come, particularly as the region benefits from further air connectivity, and as domestic tourists look to cheaper centres for their getaways as the major tourism centres become more expensive. House prices may well accelerate over the coming months although the overall result will be tempered by what happens on the dairy and hard commodities front. We may well see higher levels of construction as the region benefits from population growth.

IN FOCUS: Housing and population growth

The average number of people per dwelling has fallen steadily in the region over much of the last two decades. Between 1996 and 2008, the average number of people per dwelling fell from 2.41 to 2.22, one of the sharpest declines in the country. This was in part due to an ageing population in the region, and slow population growth particularly on the West Coast.

The decline was arrested by the GFC, when unemployment rates rose and economic pressure slowed the pace of new household formation. Still, rather than the rise in people per dwelling seen in Auckland and Canterbury, the ratio simply flattened. As the economy recovered, the decline resumed, accelerating through to 2013. However, as interest rates increased slightly, and the economy continued to grow, house prices began to rise, and the people per dwelling ratio lifted. Even now, with lower interest rates, the stronger population growth and moderate levels of home building are seeing the ratio rise. We expect more building to occur over the next couple of years and for the ratio to begin to slowly fall again. Around 600 dwellings a year are needed for the next seven years to achieve this profile.

People per dwelling



Northland

We were surprised by the extent of pessimism in Northland last quarter, and expected to see an improvement in residents' outlook. That has been achieved to some extent, but our view is still more optimistic about the region's economic future.

Northland	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	-12.0	-15.8	-16.7
Regional employment confidence	96.1	103.1	97.3
Unemployment rate (s.a.)	11.2%	8.2%	8.2%
Passenger vehicle regos (s.a.)	1,359	1,141	975
Commercial vehicle regos (s.a.)	463	403	325
Guest nights (000, s.a.)	452	461	416
New dwellings consented (s.a.)	357	254	187
House sales (s.a.)	903	724	542
House price change, annual (s.a.)	17.1%	12.8%	4.5%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			5

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

Regional economic confidence improved slightly in June and is now better than the five-year average. However, pessimists still significantly outweigh optimists. Regional employment confidence, however, dipped lower in the quarter, with pessimists outnumbering optimists at a level similar to long-term averages.

Yet there are a number of positives that this sense of doom

does not support. The number of passenger vehicles registered in the June quarter was up 39% over the five-year average, implying strong household confidence. House prices rose 17% over a year earlier, and the number of new dwellings consented is nearly double the five-year average. This will support future jobs growth, and again reflects households making sizeable investments in the region.

Tourism has shown some growth, but has been weaker over the short-term and the long-term than nationwide growth. This means the region is getting a smaller share of the growing pie.

The outlook for the region

We believe that economic indicators other than direct confidence measures point to a period of solid growth in Northland. With a booming construction sector, solid population growth and rising house prices, we expect a sense of greater wealth and prosperity to pervade. House price growth is unlikely to remain near 20% for very long, but we do expect to see some continued gains over the next 12 to 18 months.

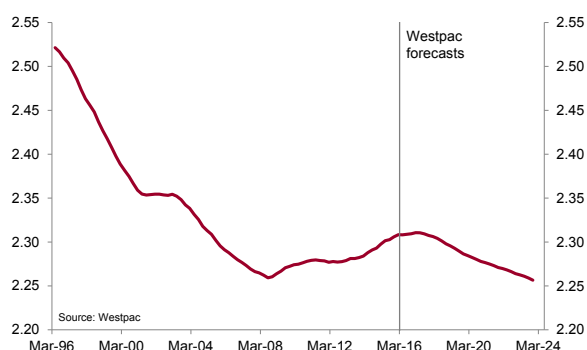
The horticulture sector will continue to show signs of strength, and forestry's surprising resilience will benefit the region. Meat and wool, another important sector in the region, faces a moderate outlook and is not expected to negatively impact the regional economy. With major centres seeing big price increases in accommodation, the opportunity exists for Northland to grab a bigger share of the domestic tourism market in particular although recent reductions in flights to the region may affect access and therefore stunt growth.

IN FOCUS: Housing and population growth

Northland has one of the lowest people per dwelling ratios in New Zealand, and has also seen one of the sharpest declines over the last 20 years. From 2.52 in 1996, the ratio fell to just 2.26 by September 2008. However, Northland was hit quite hard by the GFC slowdown, with forestry among the sectors challenged by the fall in global demand. As a result, the unemployment rate rose, and new household formation and construction fell. Consequently, the number of people per dwelling increased to around 2.28 before flattening and beginning to subside.

However, by this stage, stronger population growth and a recovering economy began to lift house prices in the region, making it more difficult to form a new household. By mid-2016, house prices were 17% higher than a year earlier although there are clear signs that the construction sector is scaling up to meet demand. Building consents issued in the year to June 2016 were 48% higher than in the previous year. A lot more work remains to be done. We estimate that around 900 building consents a year will be required for the next seven years to resume the decline in residents per dwelling.

People per dwelling



Otago

Economic indicators for Otago in the latest quarter weakened by and large, but this was on the back of strong results in recent quarters. Overall, the region is still doing much better than over the last five years.

Otago	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	7.0	11.9	3.7
Regional employment confidence	96.7	104.7	98.8
Unemployment rate (s.a.)	4.4%	4.5%	4.2%
Passenger vehicle regos (s.a.)	1,923	2,037	1,517
Commercial vehicle regos (s.a.)	533	622	444
Guest nights (000, s.a.)	1,525	1,469	1,264
New dwellings consented (s.a.)	369	488	301
House sales (s.a.)	1,478	1,277	1,095
House price change, annual (s.a.)	16.6%	10.8%	6.1%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			5

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

Regional economic confidence and employment confidence both fell away in the June quarter. While optimists continue to outnumber pessimists in outlook for the regional economy, pessimists now dominate on questions of employment confidence. But a number of other factors have also moderated in recent months.

Sales of passenger and commercial vehicles have fallen,

implying reduced confidence by households and businesses. However, both indicators still remain well above their five-year averages, suggesting that current figures don't imply a serious decline, but simply moderation from recent highs.

At the same time, house sales and prices have surged, supported by strong population growth in the Queenstown-Lakes District and low interest rates. House price rises have been more limited in Dunedin and other parts of the region. Tourism is also growing rapidly in the region, again led by the Queenstown-Lakes District, and reached more than 1.5 million guest nights for the June quarter in seasonally-adjusted terms.

The outlook for the region

We expect to see some strength continue in house prices. The particularly powerful growth in Queenstown-Lakes District in recent months is unlikely to be sustained, but we may see more of a pick-up in Dunedin, for instance. We expect to see a fair bit more construction activity in Queenstown-Lakes District. House sales are also likely to hold up as long as sufficient stock comes to market.

Capacity constraints within the tourism sector are already creating challenges for the region. Further growth is expected, but we are to some extent determiners of our own destiny in how we provide the capacity for ongoing tourism growth without affecting the visitor experience in the region.

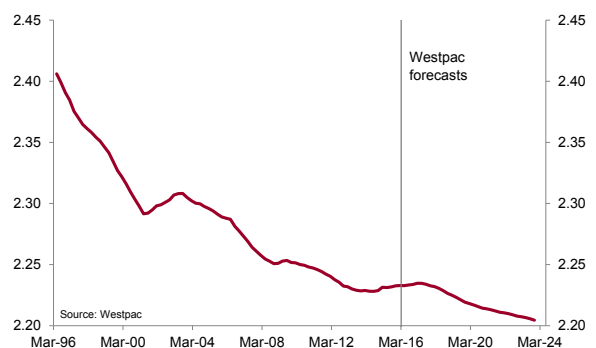
The region is also seeing some strength from horticulture (especially summerfruit), so we expect to see more positive confidence figures in the months to come.

IN FOCUS: Housing and population growth

Otago is characterised by divergent economic and population growth stories. By 1996, the region already had a relatively low average number of people per dwelling, at just 2.41. This ratio fell steadily through to mid-2001, at which time the population in the Queenstown-Lakes District continued to grow even as it declined in Waitaki, Clutha, Dunedin and Central Otago. In the five years to 2001, the region lost nearly 4,000 residents, but Queenstown-Lakes gained around 2,800.

Over the following five years (to 2006), Queenstown-Lakes grew by 7,000 people. The rest of the region also saw population growth, but at lower rates. This shift in where development was occurring was not accompanied by sufficient building activity, with the result that people per dwelling ratios rose. Once equilibrium was reached, the ratio fell again, almost unabated even through the GF. The recent spurt in population growth has seen a small rise in the people per dwelling ratio, but we expect the surge in construction to begin to reverse that trend. Around 1,050 consents a year are likely to be needed for the next seven years to achieve the ratio profile presented here.

People per dwelling



Southland

Southland's key economic indicators have improved in recent months after a particularly weak March quarter. Improving indicators outnumbered deteriorating figures by three quarter-on-quarter.

Southland	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	-10.0	-22.0	18.6
Regional employment confidence	94.3	98.7	102.7
Unemployment rate (s.a.)	5.0%	5.2%	4.3%
Passenger vehicle regos (s.a.)	798	734	606
Tractor regos (s.a.)	66	73	76
Guest nights (000, s.a.)	275	268	216
New dwellings consented (s.a.)	61	46	58
House sales (s.a.)	643	494	444
House price change, annual (s.a.)	5.1%	5.0%	1.6%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			1

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

After an especially weak regional economic confidence reading in March, residents' views of how their economy would do over the next 12 months improved slightly. Although still predominantly pessimistic, views on the economic outlook were better than in March.

Southland is highly exposed to dairy and is impacting confidence. Yet other indicators have turned for the better. These

include passenger vehicle sales, new dwelling consents, house sales and prices. House prices rose 5.1% over the last year, supported by low interest rates and population growth. But the impact of the dairy slowdown is reflected in the fact that this is the second slowest rate of house price growth after Canterbury.

Tractor sales, an indicator of on-farm confidence, remain weak. Just 66 tractors were registered in the quarter, down from the previous quarter and from five-year averages.

Tourism is one area seeing solid growth, albeit off the smallest base of the 11 regions covered in this Roundup. At 275,000 guest nights for the quarter, Southland accounts for just 2.9% of the New Zealand total, but Fiordland in particular is experiencing strong growth. Much of the gains have occurred in the last 12 months, suggesting further potential for growth.

The outlook for the region

With a third weak dairy season underway, a damper will remain on the Southland economy. There are some bright spots, however.

The gains in tourism are particularly encouraging, and potentially offer significant opportunities for further growth. Tourism is not a substitute for dairy; the structural challenges to the latter cannot be underestimated. But they do offer the chance for ongoing growth in the region.

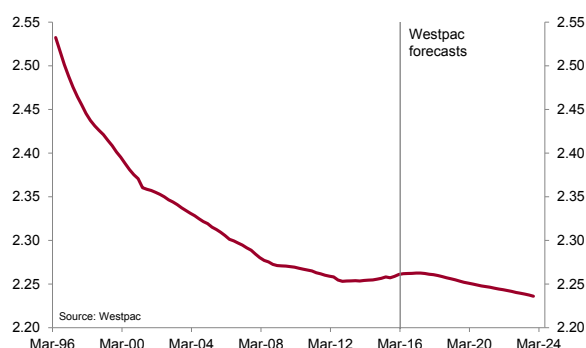
If dairy is able to stabilise in 2016/17 and return to payouts above \$5 in 2017/18 as we forecast, we would expect to see some further strength in employment, and house prices in the region.

IN FOCUS: Housing and population growth

Southland has had one of the smoothest declines in people per dwelling of all regions, and also one of the largest falls. The reasons for this are varied. First, Southland has had a slow-growing population over several years. It also has an ageing population. This means that even in times where building activity was subdued, the number of smaller households – one and two occupant homes without children – was likely to be growing. Second, the region's strong dairy sector probably supported it through a challenging few years after the GFC, as demand for dairy products was one of the few beneficiaries through a period of global weakness.

The only sign of the decline in household size being arrested has come in the last couple of years, as dairy's good run has stumbled, and as much of the country, including Southland, have seen population growth. This suggests a bit more building activity is required in Southland although we would caution that its population profile and already-low ratio of people per dwelling limit the amount of new housing stock required. We estimate that around 240 new dwellings a year are needed to match population growth and see a slow decline in the people per dwelling ratio.

People per dwelling



Taranaki / Manawatu – Whanganui

After several challenging quarters, Taranaki and the Manawatu-Whanganui regions enjoyed a far more positive June quarter.

Taranaki/Manawatu-Whanganui	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	2.6	-22.0	13.0
Regional employment confidence	96.9	93.3	98.4
Unemployment rate (s.a.)	5.3%	6.0%	6.3%
Passenger vehicle regos (s.a.)	3,066	2,847	2,521
Tractor regos (s.a.)	72	86	86
Guest nights (000, s.a.)	472	471	432
New dwellings consented (s.a.)	298	292	243
House sales (s.a.)	1,721	1,497	1,313
House price change, annual (s.a.)	8.0%	5.9%	2.7%
Net number of indicators rising compared to previous quarter			6
Net number of indicators rising compared to 5 year average			3

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

After being strongly negative in March, regional economic confidence rebounded strongly in June. This improvement seems to be on the back of more stability in dairy prices, but was still well down on the positive view of the regional outlook that have generally held over the last five years.

There are a number of positives emerging, however. Passenger vehicle registrations breached 3,000 in the quarter, while new dwelling consents neared 300. Taken with the 8% growth in

house prices in the year, this points to an underlying level of positivity within households that doesn't seem to be captured in confidence surveys.

Tourism guest nights have increased a fraction in recent months, but the region has not cashed in on the tourism boom to the same extent as many other regions.

Meanwhile, on-farm woes are reflected in lower tractor registrations this quarter, well-below the figure for the March quarter and the long-term quarterly average of 86 tractors.

The outlook for the region

Dairy has embarked upon a third weak season in 2016/17. While milksolids fetch little more than \$5 per kg, farmers are likely to continue to struggle. This will have an ongoing impact on-farm and in support businesses.

With oil prices set to remain at \$60 a barrel or below for the next few years, this sector is unlikely to lead an economic recovery. That said, the gains in building work, house prices and vehicle sales point to the potential for stronger consumption-driven growth in the region.

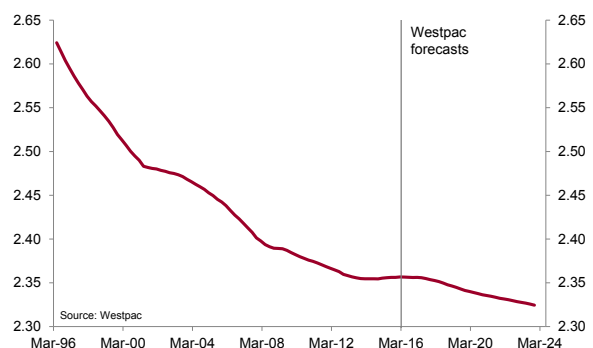
Meat and wool, still a bigger employer in the region than dairy, is enjoying more moderate fortunes, and may provide more of the stability needed in the primary sector. At the same time, tourism has huge scope for growth, not least with the increase in flights to Palmerston North and New Plymouth. We would expect to see significant growth of tourism into the region by domestic and international visitors.

IN FOCUS: Housing and population growth

Like Southland, the Taranaki and Manawatu-Whanganui people per dwelling profile has been far less affected by broader economic events than many other parts of the country. The Manawatu-Whanganui region is characterised by an ageing population, which tends to mean smaller household sizes. Despite the oil and gas boom in Taranaki, the start of which saw a change in the rate of decline in household size from 2000 as more people arrived, overall people per dwelling ratios continued to fall quite sharply.

The GFC and the subsequent decline in oil prices saw a further slowing in the rate at which household size fell, but the concurrent boom in dairy ensured that new households continued to be formed. Meanwhile oil and gas prices recovered through to 2014 before the latest sharp declines. At that point, the twin shocks of lower oil prices and lower dairy prices resulted in the average household size ratio flattening out. We expect that as dairy prices recover above \$5 in 2017/18, we may see the ratio begin its decline again albeit at a slower rate. An estimated 900 dwellings a year for the next seven years will need to be consented to achieve the growth profile indicated here.

People per dwelling



Waikato

Economic indicators across the Waikato were mostly positive in the June quarter compared to the previous quarter. Compared to long-term averages, the region is still performing strongly despite weakness associated with the dairy downturn.

Waikato	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	14.0	-14.0	14.9
Regional employment confidence	103.9	95.5	99.9
Unemployment rate (s.a.)	4.8%	5.3%	5.8%
Passenger vehicle regos (s.a.)	4,590	4,139	3,485
Commercial vehicle regos (s.a.)	1,195	1,289	955
Guest nights (000, s.a.)	829	810	742
New dwellings consented (s.a.)	835	937	606
House sales (s.a.)*	4,625	4,188	3,112
House price change, annual (s.a.)	21.0%	17.0%	6.1%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			7

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

There was a sharp about-face in regional economic confidence in the June quarter, with positivity returning rapidly after a weak result in March. A bounce was expected given that dairy fortunes have improved slightly, but the scale of the change suggests other factors were at play. Indicators of confidence – passenger vehicle sales, house sales and house prices – all

suggest that the higher level of optimism is warranted. Car sales were up 32% over the five-year average. House prices are now 21% higher than a year ago. The growth rate for Hamilton has been even stronger. And house sales are 50% higher than the five-year quarterly average.

Tourist guest nights continued to climb in the June quarter, reaching nearly 830,000. This constituted growth of 2.4% on the quarter although longer-term growth has been more moderate, and slightly below the national average, meaning the region's share of the pie has fallen.

The outlook for the region

Some of the strongest population growth in the country and low interest rates are expected to keep dwelling prices rising for the next 12 to 18 months although it is unlikely that growth will be sustained at current levels. Rising house prices will boost wealth in the region, adding further to consumer demand.

Parts of the region have benefitted from tourism growth, but opportunities for more gains exist. We expect to see further growth in tourism over the next several quarters but the region will need to ensure capacity constraints on accommodation and tourism-related infrastructure do not hinder growth.

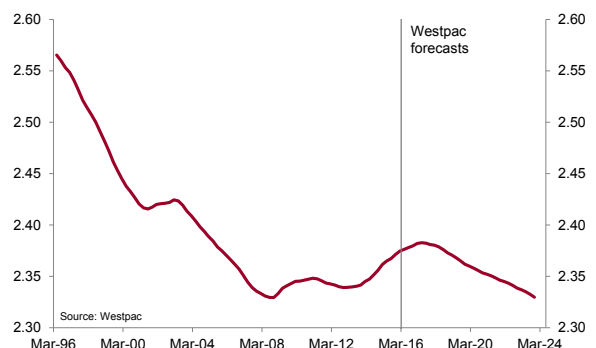
While dairy remains subdued, economic activity in the region will be held back at least to some extent, although apparently not the way it has been in the Lower North Island and Southland. Our initial forecasts are for the dairy payout to reach \$5 this season and grow from there next season, so it will be some time before dairy recovers significantly in the region.

IN FOCUS: Housing and population growth

The GFC had a bigger impact on the number of people per dwelling in the Waikato than in most parts of New Zealand. Higher unemployment led to slower household formation and thus more people per dwelling. By late 2011, this ratio was beginning to fall again, but as higher interest rates began to bite in 2013, and then as property prices took off in 2014 and early 2015, the number of people per dwelling grew strongly.

We expect more growth over the next year as Hamilton house prices in particular grow strongly. They are up 29% in the last year and although this rate of growth is unlikely to endure, we do expect more gains. House building is cranking up in the region, but we estimate a further 12 to 18 months before price rises slow and building activity begins to eat into the shortfall. The average number of building consents required over the next seven years to see the ratio fall is around 2,900, a level the region has already exceeded, but this will need to be sustained even as population growth falls.

People per dwelling



Wellington

Wellington's economic indicators were broadly balanced in the latest quarter although its is doing better than its long-term average across most indicators.

Wellington	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	8.0	20.2	8.0
Regional employment confidence	99.4	99.3	100.3
Unemployment rate (s.a.)	5.6%	5.9%	5.7%
Passenger vehicle regos (s.a.)	5,219	4,929	4,415
Commercial vehicle regos (s.a.)	974	933	742
Guest nights (000, s.a.)	759	781	708
New dwellings consented (s.a.)	577	355	379
House sales (s.a.)	2,605	2,400	2,054
House price change, annual (s.a.)	11.7%	7.3%	3.8%
Net number of indicators rising compared to previous quarter			4
Net number of indicators rising compared to 5 year average			6

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

Regional economic confidence stumbled in the June quarter although the reasons for this change are unclear. Optimists still outnumber pessimists on the view of where the region's economy will be in 12 months.

But several indicators were on the up in June. Passenger vehicle and house sales both grew strongly, surging by 5.9% and 8.6% respectively. These indicators both point to improved

confidence in the region, which makes the regional economic confidence downturn all the harder to interpret.

House prices are also firmly on the up, with growth rates accelerating since the March quarter, now well into double figures. But the most impressive gains in the latest quarter were in dwelling consents, which were up 62%. A large component of this total is multi-unit developments, which are notoriously lumpy, and thus next quarter's figures are unlikely to be this high. However, the obvious implication of this scale of consents is that there will be considerable building work to be completed in the region over the next six to 18 months.

Tourism is one area where the region, while seeing gains in occupancy rates in higher-end hotels, is not cashing in quite as much on the nationwide tourism boom. Guest nights for the latest quarter reached 759,000, but in seasonally-adjusted terms Wellington has seen the smallest percentage gain in guest nights of all 11 regions.

The outlook for the region

Given the relatively high incomes in Wellington, improved job security, and recent population growth, we expect there to be sizeable house price growth over the next 12 to 18 months. This will encourage a substantial wealth effect.

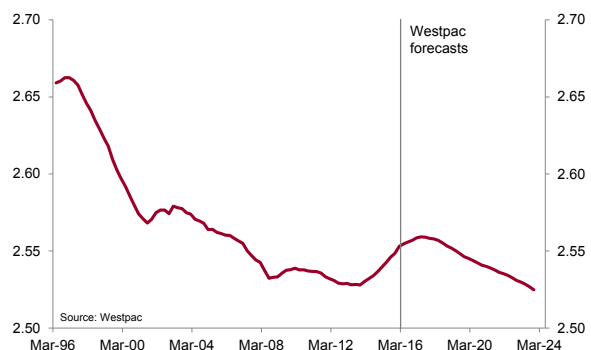
We would be surprised to see regional economic confidence remain at the currently subdued (albeit positive) level. It does not fit with a story of house price rises, stronger passenger and commercial, vehicle sales.

IN FOCUS: Housing and population growth

Wellington has had a more mixed people per dwelling story than many other parts of the country. After seeing similar declines in the ratio to other regions between 1996 and 2001, Wellington had a much stronger period of correction through 2001 and 2002, and then a very different pattern of decline through to 2007. As the GFC hit, the region was affected to a greater degree than many of the more rural regions like Taranaki and Southland, but far less so than the Waikato, Auckland and Canterbury, possibly as a result of its slower population growth rate, and the public sector-oriented economy there.

As the New Zealand economy recovered, so did Wellington's, although concerns over government job cuts may have contributed to household sizes rising from 2013. In recent months, with property prices surging in the region (up 12% on June 2015), there has been further pressure on household size, with prices likely reducing the ability of many to find their own accommodation. We expect this trend to continue for another 12 to 18 months. We anticipate around 1,800 dwellings a year will be needed for the next seven to meet the housing shortfall in Wellington.

People per dwelling



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