

Cathedral Caves, Catlins, Southland

# Regional roundup

 Westpac

Institutional  
Bank

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# Summary

As we pointed out in the February *Quarterly Economic Overview*, the outlook for New Zealand is being driven by:

- Weak commodity prices, particularly exposure to dairy
- A stronger service sector, particularly tourism
- Construction activity.

The level of exposure each region has to these three risks or opportunities provides a strong insight into its immediate outlook.

At the time of our last *Regional Roundup*, dairy prices had rebounded somewhat and confidence had returned in many dairying regions although we were still forecasting two seasons of weak payouts. Since then, the news has all been bad. Our most recent forecast is a payout of just \$4.00 for the current season, and \$4.60 for next season. That would make it three dismal seasons in a row.

This will hit the dairying regions of Southland, Waikato, Taranaki, the West Coast, and Manawatu-Whanganui hardest. Farmers are already, and will continue to cut costs wherever possible. Less capital investment and less discretionary spending will affect businesses they buy from across these regions.

Other commodities are not exempt from falling global demand, particularly from China. Forestry, strongly over-represented in Northland and the Bay of Plenty, has been fortunate to see prices hold up relatively well, but we expect that to change over the coming months. Lamb prices are also expected to drop slightly, affecting Southland, Gisborne and the Hawke's Bay most.

On the positive side, the El Niño drought that was widely expected by weather forecasters has failed to materialise, meaning production in rural areas will be less affected.

But regions with a stronger services focus, and particularly tourism, are facing a much stronger outlook. Hotels in Auckland, Queenstown, Wellington, Christchurch and Rotorua are enjoying strong growth in occupancy rates and revenue per available room. The future is looking bright for Otago (mostly Queenstown-Wanaka), Bay of Plenty, Wellington, Canterbury (as more accommodation comes on stream), and the top of the South Island.

Other services across media and ICT, business services, and finance and insurance are also enjoying a period of moderate growth.

Meanwhile, construction is booming. Annual consents in Auckland rose 21% in 2015. We have been saying for some time that we're building too few dwellings in our largest city;

we're already more than 26,000 dwellings short. The message is getting through although we're still well off the pace needed to match demand. Non-residential building is also seeing a boost in Auckland.

This construction boom is spreading beyond Auckland. The Bay of Plenty and the Waikato (Hamilton mostly) have both seen consents issued in the December quarter rise by over 50% over the same quarter a year earlier.

Yet in Canterbury, the rebuild has peaked and there are clear signs that the residential component of rebuild work is on the wane. This will mean the unemployment rate in that region is unlikely to stay at the lows it has enjoyed. Nevertheless, there is a significant amount of non-residential work to be done.

**David Norman**  
Industry Economist

## Understanding the regional pages

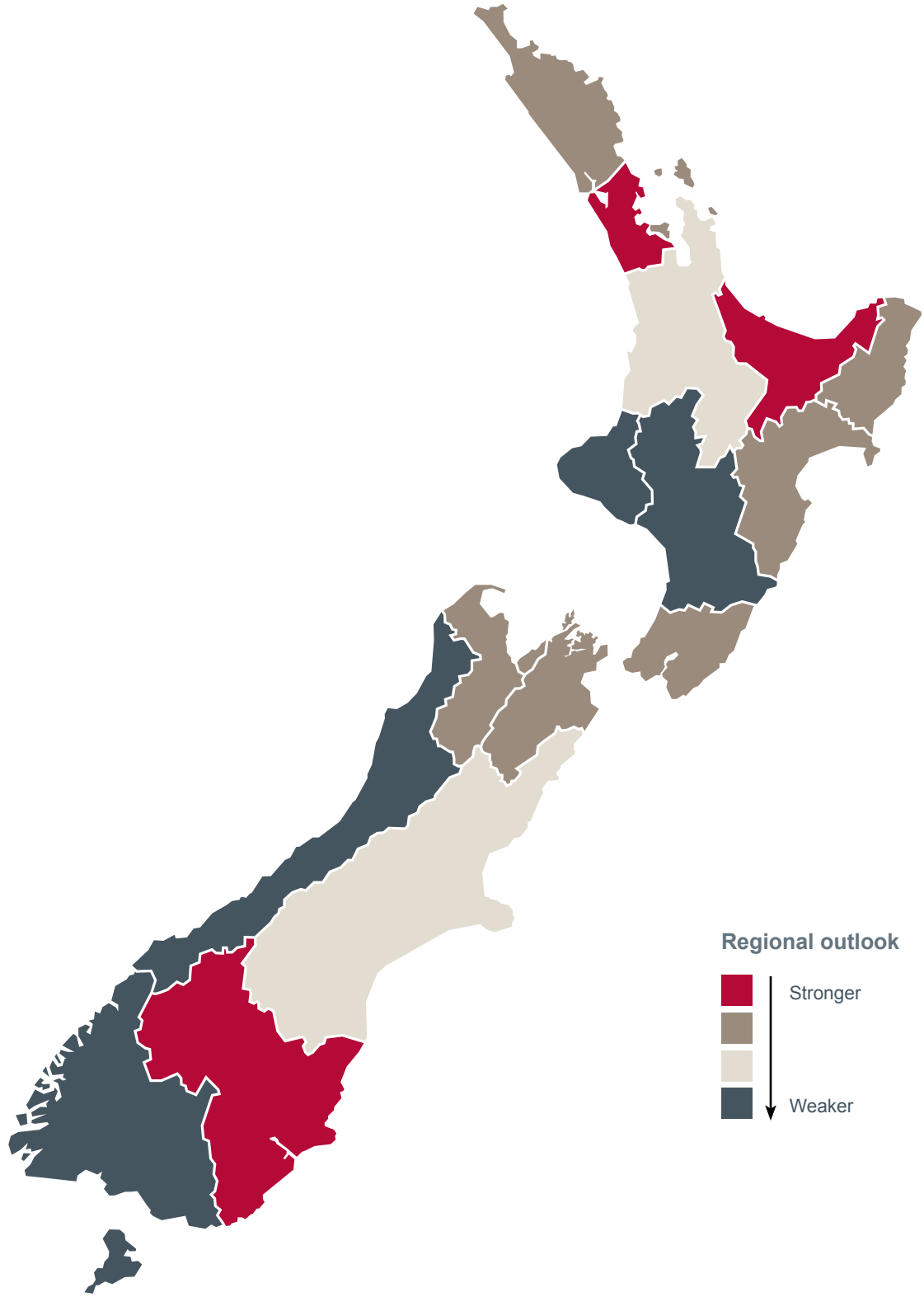
In the following pages, we examine each region's performance in the latest quarter compared with the last quarter, the same quarter a year ago, and the 5 year average for each indicator. This provides the basis for the analysis and discussion on the outlook for the next 1 to 3 years.

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

Each quarter, we also look at one aspect of the regional economies in detail. In this edition, we consider the over- or under-representation of major industries in each region relative to the national picture. This is particularly important given the dominance of the three factors affecting the outlook. A score above 1.0 means a region employs a higher proportion of workers in that industry than in New Zealand overall. A score below zero means the industry is under-represented locally.

Industry concentrations help us understand the level of exposure each region has to a shock in a certain industry. For instance, a major downward revision of the dairy payout will have an impact 3.7 times higher in Southland than in New Zealand overall.

# 12-month regional outlook



# Auckland

Auckland's indicators are more mixed than three months ago, when a net five indicators were up on the previous quarter. In the December 2015 quarter, Auckland began showing some signs of a moderating housing market. Growth in the quarter appears to have peaked as investors rushed into the market prior to the two-year bright line test for capital gains, the requirement for offshore investors to register with the IRD, and new loan-to-value ratio restrictions came into effect.

Annual house price growth to December was down a smidgeon while sales were down dramatically (22%). The flow of data suggests that house prices have now flattened and may even be falling, which will no doubt be reflected in our next report.

Other indicators that slowed from the previous quarter included passenger vehicle sales and guest nights, which were both down slightly. Still, over 2015, we know that three- to five-star hotels enjoyed occupancy rates of 84%, and rising revenues per available room.

And on the positive side, confidence in the regional economy and certainty over job security is on the up. Unemployment is down, businesses are investing in more commercial vehicles, and the number of new dwellings consented continues to rise steadily on a quarterly basis.

## The outlook for the region

We expect house price growth in Auckland to remain low to negative over the next year or more although we do not expect a major price correction. One thing that could reverse this is a faster-than-expected return to the market by investors, if they are able to navigate the new rules more easily.

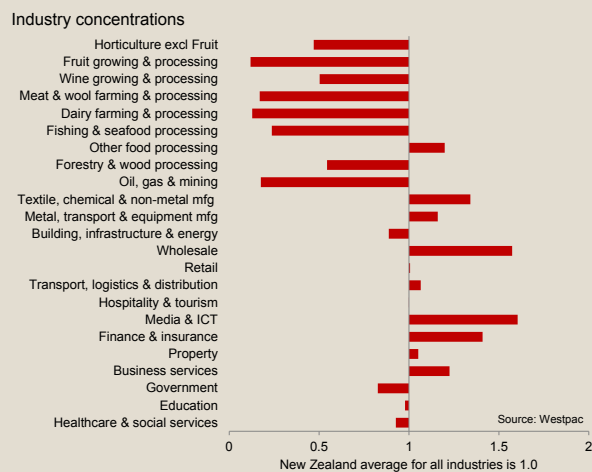
Auckland	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	21.3	13.1	23.7	19.3
Regional employment confidence	105.9	100.7	109.1	105.7
Unemployment rate (s.a.)	5.8%	6.2%	6.2%	6.8%
Passenger vehicle regos (s.a.)	29,010	29,727	28,017	22,600
Commercial vehicle regos (s.a.)	4,984	4,751	4,537	3,395
Guest nights (000, s.a.)	1,765	1,794	1,760	1,674
New dwellings consented (s.a.)	2,496	2,354	1,977	1,565
House sales (s.a.)	7,309	9,357	8,185	7,245
House prices, annual (s.a.)	22.5%	22.6%	9.8%	12.0%
<b>Net score this qtr compared to:</b>		<b>1</b>	<b>2</b>	<b>8</b>

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

While the number of new dwellings consented each quarter is rising in Auckland, it has a long way to go to make a dent in the shortfall of over 26,000 homes we already have. We expect consents to continue to creep up by 150 quarter on quarter. A large number of commercial projects consented in recent months will, along with growing residential activity, see a lot more employment in construction.

As hotel prices rise, we could see some slowdown in guest night growth although short-term indicators suggest continued strength. Our report on the Tourism, Hospitality and Recreation sector, due out soon, will comment further on the pent up demand for more accommodation in Auckland and the pace at which it is being delivered.

## IN FOCUS: Industry concentration



Auckland's urban nature is strongly reflected in its industry concentration. It has little exposure to the primary sector. For instance, its industry concentration for dairy farming and processing is 0.13, meaning the impact of a dairy slowdown on the regional economy is around 1/8th what it is in New Zealand overall.

But workers in Auckland are far more likely to be employed in services like media and ICT (concentration of 1.6), or finance and insurance (1.4) than New Zealanders overall. With a major port and the largest airport, Auckland is massively represented in wholesale (1.6).

This industry mix helps explain why Auckland has been largely immune to the travails of commodities, while benefitting from a relatively good run for the services sector.

# Bay of Plenty

The Bay of Plenty continues to enjoy a period of strong growth, with a net four positive indicators in the latest quarter.

Regional economic confidence continues to lift as the region as a whole appears to have been less affected by the commodity price downturn hitting other regions with large rural hinterlands in New Zealand. For three quarters in a row, the Bay of Plenty has had the highest regional economic confidence in the country. Its unemployment rate is down sharply for the second quarter in a row, indicating genuine trend rather than a sampling error.

House prices in December were nearly 14% higher than a year earlier, with growth having accelerated.

New dwellings are being consented at a rate not seen in some time, mostly in Tauranga, and at almost double the rate seen over the last five years. These big ticket investments also point to strong household confidence in the local economy.

Tourism and its associated industries like retail and recreation are also benefitting from a rise in guest nights, which breached 900,000 for the first time ever in the December quarter.

The only negative was a small decline in new vehicle registrations, as in Auckland, but registrations were still up on the same quarter a year earlier and well above five-year averages.

## The outlook for the region

The strong consents growth and anecdotal evidence of people leaving Auckland for cheaper housing in Tauranga and elsewhere will likely support strong growth in construction activity in Tauranga in particular for some time.

Bay of Plenty	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	41.0	24.8	18.0	8.3
Regional employment confidence	96.6	96.6	106.7	100.1
Unemployment rate (s.a.)	5.7%	6.5%	5.2%	7.1%
Passenger vehicle regos (s.a.)	3,071	3,134	2,948	2,269
Commercial vehicle regos (s.a.)	798	772	673	514
Guest nights (000, s.a.)	904	871	847	800
New dwellings consented (s.a.)	622	465	370	321
House sales (s.a.)*	4,432	4,732	3,177	2,880
House prices, annual (s.a.)	13.6%	7.8%	3.5%	3.7%
<b>Net score this qtr compared to:</b>		<b>4</b>	<b>5</b>	<b>7</b>

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

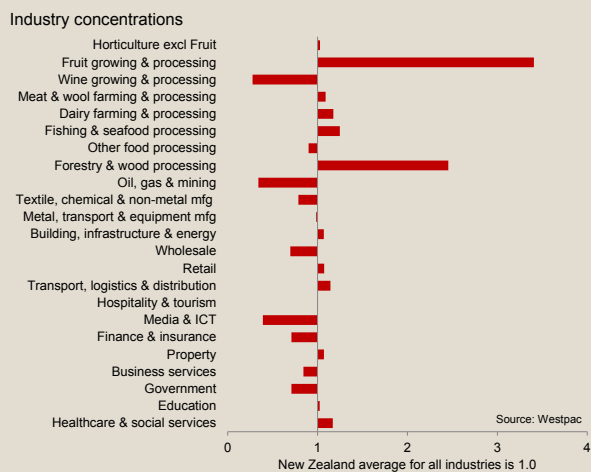
\*House sales data includes Bay of Plenty and Waikato

Fruit growing continues to prosper while forestry products are still enjoying reasonable prices. Our forecast for wood commodity prices is that they will fall in line with other hard commodities. China is still in the doldrums and is our biggest wood product market. Fruit prices may also take a knock if economic woes continue in East Asia.

As the wall of wood – huge volumes of trees reaching harvest age – approaches, we will watch with interest to see how forest owners in the Bay of Plenty deal with this surge in supply to manage prices.

The region is not massively exposed to dairy, meaning it has avoided the weakness associated with that industry.

## IN FOCUS: Industry concentration



Two industries dominate the industry concentration picture – fruit growing and processing, and forestry and wood processing. Workers in the region are 3.4 times more likely to be employed in fruit growing than in New Zealand overall.

This is a good news story, but created massive challenges at the time of the *psa*-virus outbreak in kiwifruit. Similarly, the exposure to forestry is reaping rewards across the region, but there is concern that wood product prices may fall, impacting workers across rural areas.

A number of other primary sector industries are well-represented, while many service industries are under-represented. As Tauranga in particular grows, we would expect to see stronger growth in higher end services, meaning these services concentrations should rise over time.

# Canterbury

In July 2015 we highlighted the plateauing of the Canterbury rebuild. As the residential component of the rebuild winds down, the key indicators for the region are moderating. Residential consents were down 11% in the quarter to December 2015, and as supply caught up with demand, house price growth began to ease.

Other signs that the local economy is adjusting include another small uptick in the unemployment rate. Regional employment confidence fell as Cantabrians come to grips with the changes happening in their region.

Another factor turning down in Canterbury is commercial vehicle sales, despite rises in other major centres. The fall in passenger vehicle sales is part of a wider national trend.

On the positive side, guest nights have continued to recover and are now at levels just a fraction below the peaks of 2009 and 2010 before the earthquakes struck and removed the bulk of the region's hotel capacity.

Overall, negative indicators outweigh positives by three when the December quarter is compared to September. The picture considering the December quarter against the December 2014 quarter is much the same – most indicators have seen a reversal.

## The outlook for the region

We expect the unemployment rate to continue to climb slowly from the lows the region has experienced as it has battled to find enough workers to staff the rebuild.

Nevertheless, much of the commercial and public property redevelopment is yet to be completed, so we do not expect

Canterbury	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	24.7	23.0	46.3	30.8
Regional employment confidence	103.7	108.5	114.4	111.7
Unemployment rate (s.a.)	3.9%	3.8%	3.5%	4.4%
Passenger vehicle regos (s.a.)	8,809	9,266	8,835	6,991
Commercial vehicle regos (s.a.)	1,593	1,617	1,672	1,304
Guest nights (000, s.a.)	1,254	1,231	1,183	1,111
New dwellings consented (s.a.)	1,530	1,711	2,042	1,297
House sales (s.a.)	2,814	2,790	2,656	2,415
House prices, annual (s.a.)	3.1%	3.4%	3.5%	6.0%
<b>Net score this qtr compared to:</b>		<b>-3</b>	<b>-4</b>	<b>3</b>

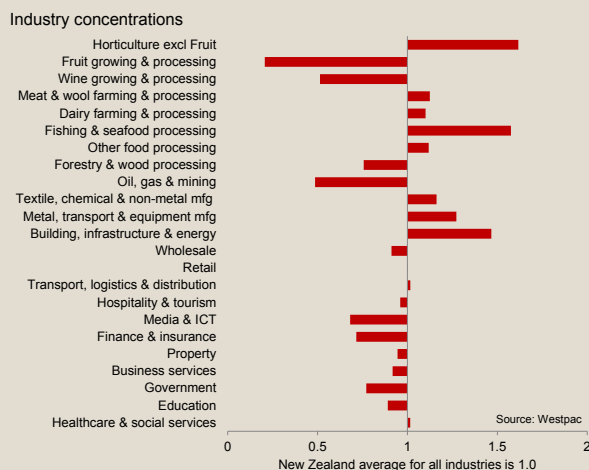
Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

the floor to fall out of the employment picture, but rather a gradual return to levels more similar to the rest of the country.

Guest nights will grow as more hotels return to Christchurch. Estimates suggest there are only 2,200 of the city's 3,900 pre-quake beds in place. This implies higher occupancy rates given guest nights are almost as high as pre-quake, with a little over half the capacity. House prices are expected to remain relatively flat now that much of the residential rebuild is complete, while turnover will return to longer term averages.

Meanwhile, outside of Christchurch, the challenges facing dairy will be felt well into next season, placing a damper on economic activity there. Meat and wool is faring a little better, but prices are also expected to dip in that industry.

## IN FOCUS: Industry concentration



Canterbury has a diverse mix of industries. It has a much higher proportion of workers in horticulture and excluding fruit production (1.6 times) for example, as it is a major centre for vegetable and mushroom growing. This to some extent exposes the region to the risks of El Niño drought, which fortunately seems to have been surprisingly mild this year.

Unsurprisingly as it rebuilds after the devastating earthquakes, it has far more than its share of construction workers. As the rebuild begins to wind down, these jobs will be at risk, as we pointed out in our August 2015 report *Forewarned is Forearmed*. Despite being home to the large city of Christchurch, the region is under-represented in higher-end services such as media and ICT (an industry that played a major role pre-quake) and finance and insurance.

# Gisborne / Hawke's Bay

Gisborne and the Hawke's Bay continue to enjoy improving economic fortunes. Overall, a net seven indicators were up on the previous quarter in December 2015, with only passenger vehicle registrations following the national trend down.

Regional economic confidence ticked higher again in December and regional employment confidence was up quite sharply although it remained low compared to most regions.

The lift in employment confidence was accompanied by a fall in the unemployment rate. This is the second quarterly fall in the unemployment rate in Gisborne and the Hawke's Bay, which provides confidence that there has been a genuine improvement in the labour market. The unemployment rate reading for December was the lowest in the region since September 2010.

Another sign of business confidence is the surge in registrations of commercial vehicles, up more than 10% on the previous quarter. The number of new dwellings consented has rebounded from a year ago, while demand for housing has seen prices rise by 5.8% in the year to December, compared to just 2.6% in the September year, implying an acceleration.

Guest nights are broadly flat over the five year horizon of the analysis, reaching 310,000 in December.

## The outlook for the region

The outlook for the region is mostly positive. The El Niño impact on the region has been a lot weaker than anticipated. This suggests the season will be better than expected for the region's pipfruit, and sheep and beef farmers.

Meat prices are holding up relatively well at present but are

Gisborne/Hawke's Bay	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	14.1	13.4	-0.3	9.0
Regional employment confidence	97.9	91.9	97.9	98.9
Unemployment rate (s.a.)	6.7%	7.6%	8.0%	7.7%
Passenger vehicle regos (s.a.)	1,503	1,551	1,483	1,219
Commercial vehicle regos (s.a.)	540	489	448	356
Guest nights (000, s.a.)	310	308	304	304
New dwellings consented (s.a.)	116	110	99	123
House sales (s.a.)	809	784	596	596
House prices, annual (s.a.)	5.8%	2.6%	-0.6%	1.3%
<b>Net score this qtr compared to:</b>		<b>7</b>	<b>8</b>	<b>5</b>

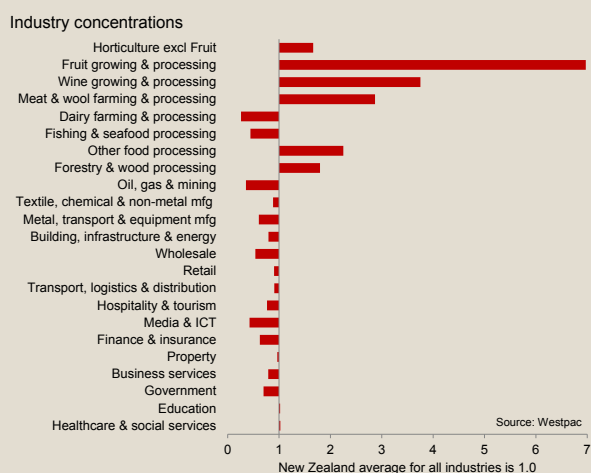
Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

expected to fall a little in the coming months as demand from Asia weakens. Similarly, wood products, a major export for the region, are expected to see prices weaken.

House prices are expected to continue to grow modestly, aided by population growth, lower unemployment rates, low interest rates and looser LVR restrictions. This more positive backdrop should spur stronger demand for new builds as well.

Industry sources we have spoken to in the tourism sector have suggested that as accommodation prices in the largest cities rise strongly, more domestic tourists may head to places like the east coast. With moderate economic growth forecast for New Zealand of 2.6% in 2016 and 2.9% in 2017, we may well see a rise in guest nights in the region.

## IN FOCUS: Industry concentration



The east coast is New Zealand's premier fruit-growing area, and one of the most important wine growing regions. Workers in the region are seven times more likely to be employed in fruit-growing than New Zealand workers overall. This means the region is far more exposed to the implications of weather patterns like El Niño.

The dominance of rural activities is evident from the over-representation of wine growing and processing, meat and wool, and other horticulture, while services are typically under-represented. Business services, finance and insurance, and media and ICT all employ a smaller share of local workers than in New Zealand overall.

Perhaps surprisingly, hospitality and tourism is under-represented in the region, suggesting scope to grow.

# Nelson / Marlborough / West Coast

The bulk of indicators for the top of the south improved in the December quarter. Regional economic confidence surged, with a net 26% of respondents optimistic about the region's future.

We would caution, however, that some of this jump will have been the result of several good dairy auctions leading up to the December survey. Since then, auction prices have fallen repeatedly, and Fonterra has cut its payout forecast sharply.

But outside of dairy, the news has been more positive. Wine and fruit growing, and seafood are massive employers in Nelson, Tasman and Marlborough. These industries have been faring well.

The biggest change in a positive direction was an improved unemployment rate, but we would caution against reading too much into this figure. In smaller regions, the figure can fluctuate widely from quarter to quarter. It was 6.1% in September, but was 4.7% in June and 4.0% in March. It does seem likely though that the region has maintained its position as having one of the lowest unemployment rates in the country.

The weaker farm sector saw tractor sales fall sharply in September. Although they rebounded in December, they were still down on the same quarter a year earlier.

House prices have shown greater signs of life, accelerating to 3.8% annual growth in December although much of this growth was outside the West Coast. House sales were up marginally, and are around 15% higher than the average over the last five years.

## The outlook for the region

We expect regional economic confidence to take a knock in

Nelson/Marlborough West Coast	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	26.1	15.9	6.1	16.4
Regional employment confidence	101.5	100.3	103.5	101.8
Unemployment rate (s.a.)	3.9%	6.1%	5.8%	4.7%
Passenger vehicle regos (s.a.)	1,443	1,426	1,415	1,094
Tractor regos (s.a.)	54	36	60	45
Guest nights (000, s.a.)	854	836	816	774
New dwellings consented (s.a.)	172	234	183	207
House sales (s.a.)	796	789	733	687
House prices, annual (s.a.)	3.8%	3.0%	1.2%	2.0%
<b>Net score this qtr compared to:</b>		<b>7</b>	<b>3</b>	<b>6</b>

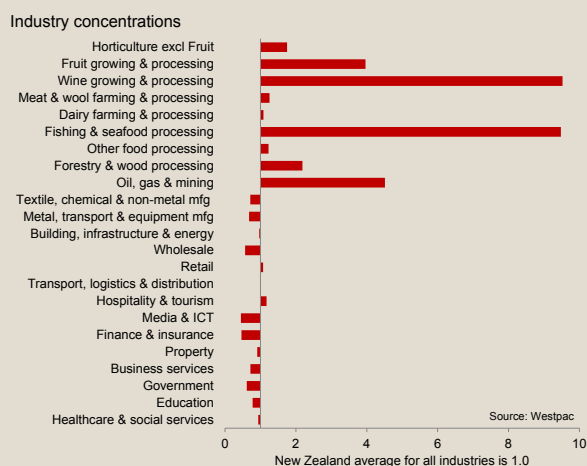
Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

March as the dairy picture weakens. Other parts of the region, specifically those focused on wine growing and fruit growing, are expected to do better. El Niño, for instance, has not impacted as badly as expected. Seafood's strong run has so far continued largely unabated although exports to China, a major market, may suffer if the economic woes worsen there.

Moderate house price growth in Nelson and Marlborough is likely although the West Coast outlook is weaker with its greater reliance on dairy. We also expect moderate increases in residential building activity outside the West Coast.

Guest nights may well rise as higher prices in the major hotel cities redirects domestic tourism to the region.

## IN FOCUS: Industry concentration



The top of the south is New Zealand's main wine growing region. Workers here are 10 times more likely to work in wine growing than New Zealand workers overall. Fruit growing is also over-represented (4.0). This exposes the region to the vagaries of weather patterns, such as El Niño. Fortunately the impact this season has been less severe than expected.

As home to several of New Zealand's major seafood processors, workers in the region are also 10 times more likely to work in this industry than other New Zealand workers. In times of strong growth in demand, as is currently the case, this provides a sizeable boost to the local economy. Should the slowdown in China hit demand for seafood in East Asia, the effect would be amplified in the region given its exposure to seafood exports.



# Northland

The Northland unemployment rate fell for the third quarter in a row in December reaching its lowest level since June 2008. Unsurprisingly then, regional employment confidence improved markedly although the region still remains more pessimistic than most about its employment fortunes.

Despite this improvement, residents' views on the outlook for the region worsened a little in December. Pessimists outweigh optimists by a net 8.9%.

It is hard to put a finger on this reversal. Passenger vehicle sales are up despite the downward trend in New Zealand overall, implying sufficient confidence among Northlanders to invest in big ticket items. Business vehicle sales are down fractionally, but not enough to imply a big loss in confidence.

Visitor numbers continue to grow slowly, bringing tourist dollars to the region. The number of new dwellings consented, at 242 for the quarter, seasonally-adjusted, was up a little, but much higher than the average over the last five years. Perhaps more telling for the outlook for the region, is that prices were up nearly 10% compared to December 2014, and this growth rate accelerated from the September quarter. House sales, by contrast, were down in the quarter, but were still up 50% on December 2014.

## The outlook for the region

The region's strong forestry sector has been benefitting from wood prices that have remained remarkably resilient to China's fall in industrial and building activity; most of our logs go to that country. We expect wood prices to follow other hard commodities down, with some impact on the region's forest owners and processors.

Northland	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	-8.9	-4.0	-10.8	-17.3
Regional employment confidence	98.6	91.6	100.6	96.6
Unemployment rate (s.a.)	6.4%	7.9%	8.5%	8.7%
Passenger vehicle regos (s.a.)	1,353	1,276	1,234	919
Commercial vehicle regos (s.a.)	453	464	438	300
Guest nights (000, s.a.)	448	438	443	411
New dwellings consented (s.a.)	242	239	201	170
House sales (s.a.)	773	810	514	492
House prices, annual (s.a.)	9.9%	6.4%	1.8%	2.3%
<b>Net score this qtr compared to:</b>		<b>3</b>	<b>7</b>	<b>9</b>

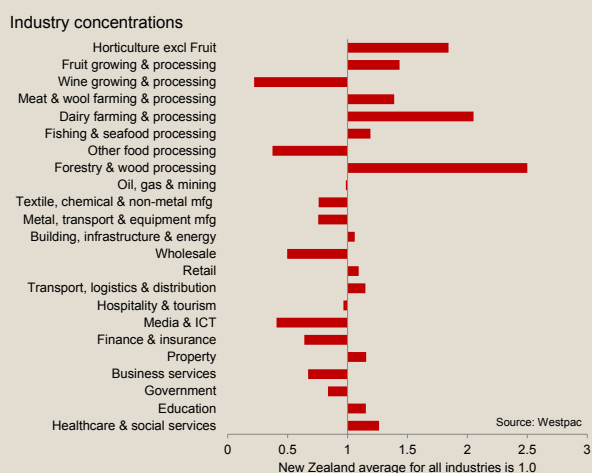
Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

El Niño's surprisingly small impact on the rural economy will be welcomed. Meat and wool, and fruit growing should see better production than we were worried might materialise in our November *Regional Roundup*.

The reduced dairy payout forecast may have some impact on the March 2016 regional economic confidence survey, given the role of dairy in the Northland although this should be muted relative to Southland, Taranaki or the West Coast.

House price growth may have been partly stimulated by Auckland residents buying second homes on the back of that city's large house price (and therefore equity) gains. House price growth will likely be moderate over the coming months.

## IN FOCUS: Industry concentration



The importance of forestry and wood processing to Northland (concentration of 2.50) is even greater than its role in the Bay of Plenty, the country's largest forestry region. This highlights the value of industry concentration analysis – the expected downturn in wood product prices may well hit Northland harder than the Bay of Plenty, for instance.

Dairy, and horticulture other than fruit (e.g. avocados) are two other industries that are significantly over-represented in Northland. Dairy, currently battling low prices, will place a damper on Northland growth, while horticulture's positive outlook will provide a boost.

Northland's rural nature is highlighted by the fact that service industries like finance and insurance are under-represented.

# Otago

Otago's fortunes improved markedly in the December quarter, with a net five indicators pointing up.

The region saw one of the largest turnarounds in regional economic confidence of all the regions in December, from 4% net pessimists, to 36% net optimists. Part of this improvement will have come from an improved dairy outlook at the time of the December survey although as we point out below, dairy is not over-represented in Otago.

Regional employment confidence took a significant step in the right direction in December although this is not reflected in the slight bump in the unemployment rate. While moves in the regional level unemployment rate must be treated with caution, this is the second small uptick in as many quarters.

Instead, the re-found positivity is likely driven by stronger than ever tourism. Guest nights reached 1.46 million in the December quarter, up 9% on the same quarter a year ago. Growth is being facilitated by expansion of Queenstown Airport and industry sources suggest that visitor accommodation is bursting at the seams. Occupancy rates at Queenstown's three to five star hotels averaged 79% in 2015.

House prices have seen strong growth, up 8.3% in the year, more new building work is occurring, and more houses are selling.

The positivity is flowing through to more big-ticket purchases by households; passenger vehicle purchases were up 10% on the previous quarter even as they fell across most of the country.

## The outlook for the region

Despite a slowdown in China, tourism into Otago is expected

Otago	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	36.6	-4.0	3.0	4.7
Regional employment confidence	103.4	95.3	98.9	98.7
Unemployment rate (s.a.)	4.6%	4.3%	4.4%	4.6%
Passenger vehicle regos (s.a.)	1,924	1,748	1,701	1,426
Commercial vehicle regos (s.a.)	577	580	540	415
Guest nights (000, s.a.)	1,460	1,340	1,343	1,224
New dwellings consented (s.a.)	380	364	298	276
House sales (s.a.)	1,309	1,259	1,113	1,046
House prices, annual (s.a.)	8.3%	6.6%	3.7%	4.4%
<b>Net score this qtr compared to:</b>		<b>5</b>	<b>7</b>	<b>8</b>

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

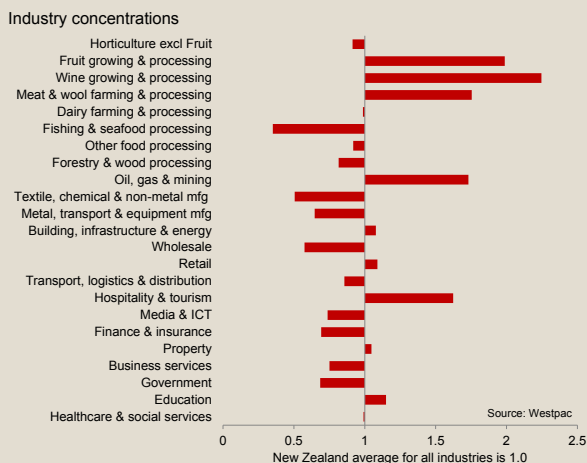
to grow steadily over the next year at least. The addition of night flights into the region this winter should support further growth and increase the capacity of the airport to handle passengers through longer hours of operation.

That said, limited accommodation is likely to limit this growth although yields on hotel rooms should continue to rise.

The deterioration of the dairy outlook since December may see economic confidence fall back a bit, but the failure of a serious El Niño drought to materialise will mean good news for fruit, wine, and sheep and wool production over the coming months.

House price growth is expected to remain relatively strong in Queenstown-Lakes, a fast-growing part of the country.

## IN FOCUS: Industry concentration



Otago's wine growing industry is only the fourth largest in New Zealand by employment, but as a share of local workers the industry matters far more. Workers here are more than twice as likely to work in wine growing than across the rest of New Zealand, which makes the current positive outlook for this sector doubly beneficial to Otago.

Similarly, fruit growing (concentration of 2.0) is enjoying a period of good returns, Meat and wool prices, however, are expected to follow a weaker price track in the months to come. Dairy is not over-represented in the region, which should protect it from some of that sector's current travails.

Workers are 1.6 times more likely to work in hospitality and tourism than across New Zealand, with most of the current strength benefitting the Queenstown-Lakes district.

# Southland

Southland recorded a dramatic turnaround in regional economic confidence in December. Even allowing for margins of error, there was undoubtedly a large reversal in peoples' views of where the region was headed.

This switch was largely the result of improved dairy prices, which unfortunately does not bode well for the March survey. Falling dairy prices since the New Year may see confidence dissipate.

Regional employment confidence also took a step up as conditions improved, which again may be short-lived. As an indicator of on-farm confidence, tractor sales were largely unmoved in the quarter, and are below the average for the last five years. This suggests farmers remained cautious on big-ticket spending in December despite the upturn in dairy prices at the time.

More positively, the unemployment rate plunged in the December Quarter. Although the scale of the improvement in one quarter seems large, it was the second drop in unemployment in as many quarters, suggesting this indicator is heading in the right direction.

Meanwhile, house sales and prices have also risen, with annual house price inflation accelerating to 4% in the December quarter. This is still relatively lukewarm compared to growth rates in most other regions to December.

## The outlook for the region

We are now forecasting a dairy payout of \$4.00 for this season, and \$4.60 for next season. This is sharply down on expectations in December, which will mean less money in the pocket of Southland dairy farmers, less discretionary and investment spending (on tractors, for instance), and more efforts to cut

Southland	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	16.0	-36.0	-3.0	24.8
Regional employment confidence	101.4	96.6	100.7	103.9
Unemployment rate (s.a.)	4.0%	5.2%	3.2%	4.5%
Passenger vehicle regos (s.a.)	749	738	667	572
Tractor regos (s.a.)	72	73	66	75
Guest nights (000, s.a.)	247	246	239	209
New dwellings consented (s.a.)	55	88	52	59
House sales (s.a.)	528	496	440	424
House prices, annual (s.a.)	4.0%	2.0%	0.0%	0.9%
<b>Net score this qtr compared to:</b>		<b>4</b>	<b>7</b>	<b>1</b>

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

on-farm costs, which will flow on to other sectors.

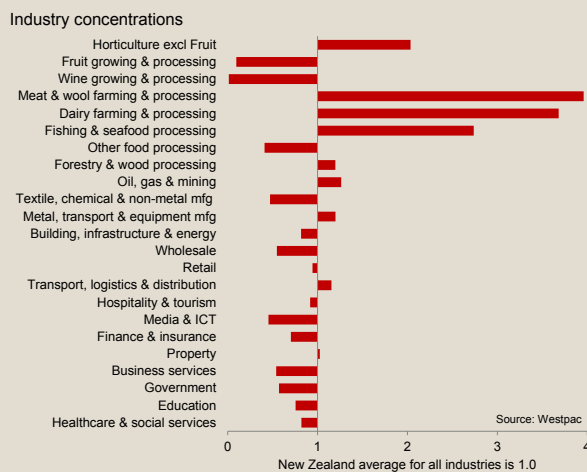
The fall in the unemployment rate may be hard to sustain short of a substantial recovery in the fortunes of the dairy sector.

Gains in house prices are likely to be muted, and new building activity may be similarly weak.

As already alluded to, we would also expect to see regional economic confidence and employment confidence take a knock in the March 2016 survey, as respondents consider the impacts of lower dairy prices.

Meanwhile, meat and wool prices are not as weak as dairy. However, they are likely to come under pressure over the next few months.

## IN FOCUS: Industry concentration



Southland is by far the region most exposed to both the meat and wool (concentration of 4.0) and dairy (3.7) industries. It is neither the largest dairy employer nor the largest meat and wool employer; the Waikato takes that crown in both cases. But Southland workers are far more likely to work in these two industries than Waikato workers, because they play a much bigger part in the Southland economy.

This means the dairy downturn will hit Southland 3.7 times more heavily than New Zealand overall. If, as we expect, lamb prices also turn down, the impacts will reverberate across Southland much more strongly than elsewhere in the country.

At the same time, services, where much of the good news is occurring in New Zealand at present, are relatively under-represented, limiting the opportunities for growth in the region.

# Taranaki / Manawatu – Whanganui

The Taranaki and Manawatu-Whanganui region, like many dairy-intensive regions in New Zealand, saw a positive turn-around in residents' views in the December quarter as dairy prices strengthened. Regional economic confidence rebounded into positive territory, and regional employment confidence followed, climbing modestly. The unemployment rate fell modestly for the second quarter in a row.

Yet, as we point out elsewhere in this report, recent dairy auctions have seen a return to lower prices, and we are now forecasting the current season's payout to be around \$4.00, increasing to just \$4.60 next season. This will mean cash losses for the vast bulk of the region's dairy farmers over these two seasons.

Registrations of passenger vehicles and tractors, and sales of houses have all remained flat.

This implies that the state of dairy, as well as the weak oil price that is limiting new exploration work in the region, is keeping both private and business investment in "wait and see" mode.

Turning to tourism, guest nights are also largely unchanged, and have seen slow increases over the last five years.

One indicator that has ticked up recently is new residential building consents. This movement seems at odds with the tepid economic outlook and the limited growth in house prices.

## The outlook for the region

With the dairy outlook having worsened substantially, economic confidence is set to fall in Taranaki and Manawatu-Whanganui. As farmers look to cut costs, we could see lower

Taranaki/Manawatu-Whanganui	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	9.2	-14.5	9.9	16.3
Regional employment confidence	101.8	95.9	99.6	99.0
Unemployment rate (s.a.)	6.2%	6.5%	7.9%	6.7%
Passenger vehicle regos (s.a.)	2,873	2,870	2,848	2,405
Tractor regos (s.a.)	101	101	96	84
Guest nights (000, s.a.)	457	454	444	426
New dwellings consented (s.a.)	291	265	234	235
House sales (s.a.)	1,469	1,468	1,253	1,266
House prices, annual (s.a.)	3.8%	3.0%	1.0%	1.7%
<b>Net score this qtr compared to:</b>		<b>5</b>	<b>7</b>	<b>7</b>

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

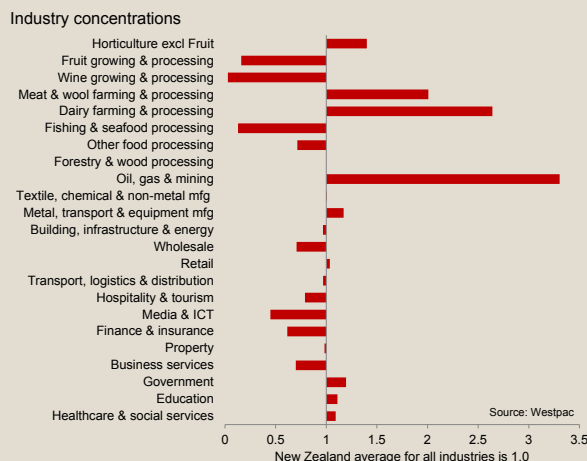
tractor sales, and reduced private investment and discretionary spending.

House price growth is expected to remain weak. As weaker dairy prices play out, we may even see a reversal of the recent modest gains.

Our forecasts are for oil prices to remain below US\$40 a barrel this year, meaning there is unlikely to be much respite for the oil and gas sector, which plays a significant role in Taranaki employment.

As a result, the unemployment rate, traditionally lower in Taranaki (and a little higher in Manawatu-Whanganui) than in much of the North Island, is expected to rise.

## IN FOCUS: Industry concentration



The region is the centre of New Zealand's oil and gas industry. As a result, the region's workers are 3.3 times more likely to work in oil and gas than New Zealand workers overall. This implies a large regional impact from the current weakness in oil prices and therefore activity. The region is also strongly over-represented in dairy (2.6), and in meat and wool (2.0), exposing it to fluctuations in the prices of protein commodities.

At the other end of the spectrum, Taranaki and Manawatu-Whanganui have a lower proportion of service industries than the larger urban centres, including hospitality and tourism, which is one sector enjoying strong growth.

Two regional and 10 local councils mean a larger share of government employment, while Massey University ensures a higher education concentration.

# Waikato

Like other large dairying regions, the Waikato has been relatively subdued in economic terms in recent months. Even with the improvement in the dairy outlook late last year, confidence did not surge as it did in other dairying regions.

Regional economic confidence rose, but employment confidence fell to the lowest reading across the 11 regions.

But there were a number of other positives. The unemployment rate fell again, to 5.1%. It is likely that the September reading was a bit of an anomaly, as the June reading had been 5.3%, but this does imply that at least the trend in unemployment does not seem to be sharply up despite a poor dairy outlook.

Sales of commercial vehicles grew 10% quarter-on-quarter, and were well up compared to the previous December and the five-year average as well. This implies some business confidence within the wider economy, if not in dairy. Guest nights also continued to increase steadily, and were up 6.3% over the previous December.

But the largest changes have been in the housing and construction sector. New dwelling consents surged in December, and were up an astonishing 55% over the previous December quarter. Home prices also ramped up by 14% during the year, and were accelerating relative to September year growth.

Yet demand for houses has clearly grown, perhaps as investors look outside of Auckland for better returns, where there are fewer restrictions on loan-to-value ratios. Sales have actually fallen but the data suggests this decline is largely the result of a fall in listings rather than a lack of demand.

Waikato	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	4.0	-1.0	-1.0	18.8
Regional employment confidence	93.7	96.0	101.8	100.5
Unemployment rate (s.a.)	5.1%	6.7%	6.1%	6.3%
Passenger vehicle regos (s.a.)	4,142	4,256	4,097	3,307
Commercial vehicle regos (s.a.)	1,230	1,113	1,161	889
Guest nights (000, s.a.)	817	811	769	728
New dwellings consented (s.a.)	874	815	565	556
House sales (s.a.)*	4,432	4,732	3,177	2,880
House prices, annual (s.a.)	14.1%	9.5%	1.2%	3.9%
<b>Net score this qtr compared to:</b>		<b>3</b>	<b>7</b>	<b>5</b>

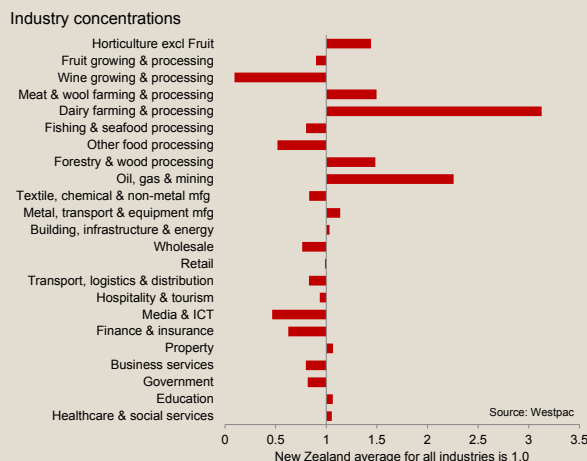
Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV  
\*House sales data includes Bay of Plenty and Waikato

## The outlook for the region

Some of the growth in the Waikato has been attributed to investors looking outside of Auckland. Early evidence is emerging that some of the house price slowdown in Auckland is also likely to impact Hamilton. This may also lead to building consent numbers moderating somewhat.

The continuing weakness in dairy may see poorer economic confidence come the March survey, affecting the sale of on-farm capital equipment, non-residential (on-farm) construction, and discretionary spending. Guest nights are expected to grow through, for instance, attractions associated with the Hobbit trilogy.

## IN FOCUS: Industry concentration



The Waikato is not only New Zealand's largest dairy region in absolute terms; a far larger proportion (concentration of 3.1) of its workers are employed in dairy than in New Zealand overall, making it second only to Southland.

With a number of mines, the region has historically also had a high proportion of workers in that sector. Falling commodity prices are affecting this though, with the Huntly East coal mine announcing it will close in October 2015.

Other primary sector industries like meat and wool, forestry, and horticulture excluding fruit are also over-represented.

Despite the dominance of Hamilton in employment, the region has relatively low proportions of workers in business services, and finance and insurance relative to New Zealand overall.

# Wellington

The Wellington region saw an impressive turnaround in performance in the December quarter with the vast bulk of indicators now better than in September, the previous December, and the average over the last five years.

Regional economic confidence increased markedly in December, to a net 28% optimistic about the region's economic future. Yet despite central government's job rationalisation programme being largely complete, employment confidence remained weak. What makes this latter result more surprising is that the unemployment rate also fell in the December quarter, to just 5.5%. The size of the fall may have been slightly exaggerated as regional estimates are not as robust.

While the number of new passenger vehicles registered was largely unchanged, commercial vehicle registrations leapt 17% from the previous quarter and were 38% higher than the average over the last five years.

Wellington is also enjoying a boom in tourism. Guest nights reached 762,000 in the December quarter, the highest ever quarterly total. Industry sources suggest the region's hotels are seeing high occupancy rates.

And after many years of tepid growth, house price growth is accelerating. Prices were up 4.8% on the previous December, with modest sales growth as well. Residential consents surged in the December quarter although some of this was the approval of a large new retirement village complex.

## The outlook for the region

Conditions in Wellington are looking positive for the next year

Wellington	Latest Qtr	Last Qtr	Same Qtr Last Year	5 Year Qrtly Average
Regional economic confidence	28.0	16.0	19.0	6.6
Regional employment confidence	97.0	98.6	109.6	100.8
Unemployment rate (s.a.)	5.5%	6.5%	5.4%	6.2%
Passenger vehicle regos (s.a.)	4,997	5,006	4,850	4,270
Commercial vehicle regos (s.a.)	966	827	858	698
Guest nights (000, s.a.)	762	740	714	698
New dwellings consented (s.a.)	493	380	355	359
House sales (s.a.)	2,478	2,317	2,124	1,968
House prices, annual (s.a.)	4.8%	1.8%	0.8%	1.9%
<b>Net score this qtr compared to:</b>		<b>6</b>	<b>5</b>	<b>7</b>

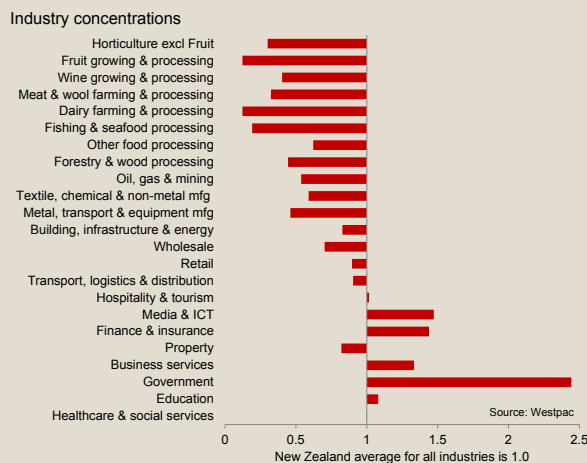
Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

or two. The region is largely unaffected by the weakness in commodity prices, and has a large services base. Tourism growth will continue and will further benefit from the introduction of a wide-body Singapore Airlines service via Canberra.

Demand for housing is clearly stronger, and will likely stay up for some time as population growth, partly as a result of fewer New Zealanders leaving for Australia, drives demand. Residential consents will likely fall slightly from the December 2015 reading simply because that included a lumpy component.

As the region is not exposed to industries that are finding the operating environment particularly challenging, the unemployment rate is unlikely to rise sharply over the coming months, and may indeed fall.

## IN FOCUS: Industry concentration



Workers are 2.5 times more likely to work in government in the capital than they are across New Zealand. This explains the weak employment confidence experienced during the years of rationalisation, and the flow-on impacts across Wellington.

Despite a sizeable farming community in the Wairarapa, the dominance of the urban west means that primary sectors are massively under-represented in the region. At this time of weaker commodity prices, this is an enviable position.

Instead, other strongly represented industries include media and ICT, led by the region's movie industry; finance and insurance; and business services. Hospitality and tourism is only slightly stronger in the region than its size would imply, but there seems to be a lot of scope for growth.

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