
Queenstown, Otago

Regional roundup

Westpac

Institutional Bank

19 May 2016

Summary

Some of the key themes we highlighted in our February *Regional Roundup* continue to guide the direction of the New Zealand economy. Most notable are the continued weakness in dairy, strength in construction activity, tourism and other services.

However, an additional factor that is now playing an increasingly important role is low interest rates. As fixed mortgage rates reach successive all-time lows, people become more willing and able to bid up house prices.

The dairy industry faces a third season of sub-$5 payouts in 2016/17. This is having a marked dampening impact on rural regions dominated by dairy such as Southland, the West Coast, Taranaki and the Manawatu-Whanganui. However, the impact varies depending on the productivity of the land involved, and how new to dairying the region is. For instance, the Waikato has some of the best dairy land in the country, and was an early convert, meaning much of its dairy debt is already paid off, and its break-even point is lower. Consequently, the region is better positioned to weather the storm than others further south.

Guest nights continue to surge, up 5.7% in the last year, and 17% in the last five years. This has been good news for the main tourist towns and their respective regions. Parts of the country that have failed to capitalise on the boom in visitors have seen weaker economic outcomes.

Rocketing construction activity in Auckland is well-documented, but this is now spreading to nearby Hamilton and Tauranga, particularly on the residential front. Canterbury, on the other hand, has seen residential rebuild activity peak and ease back. There is significant work to be done on the commercial front in the region, but there are some early signs that demand for central city commercial space may not be as high as originally thought, with vacancy rates in new buildings rising.

At the same time, net migration is lingering at high levels although it is beginning to weaken somewhat. A big driver of this migration picture is less emigration to Australia by New Zealanders. This component of the migration picture tends to be more geographically widespread than immigration by overseas residents. As a result, there is underlying demand across the country for housing, with all regions seeing some population growth. Taken with low interest rates, house prices are rising across much of the country although the growth is clearly more limited in dairy-intensive regions.

We expect house price growth of around 10.5% across New Zealand in 2016, with gains widespread across the regions except Canterbury. Rising house prices are generating a “wealth effect”, whereby property owners tend to spend some of their capital gain. This will buoy activity in many regions of New Zealand. However, we caution that this dynamic cannot be sustained forever, especially as much as the increase in spending is by increasing household debt.

At the same time, the burgeoning tourism sector, as well as services more broadly, will support growth in the main urban centres and some rural areas that have seized the opportunity. Examples include Southland, the Waikato, and the Bay of Plenty. Other regions stand to benefit if they are able to attract increasing numbers of international, or displaced domestic, visitors to their hotels, restaurants and attractions.

David Norman
Industry Economist

Understanding the regional pages

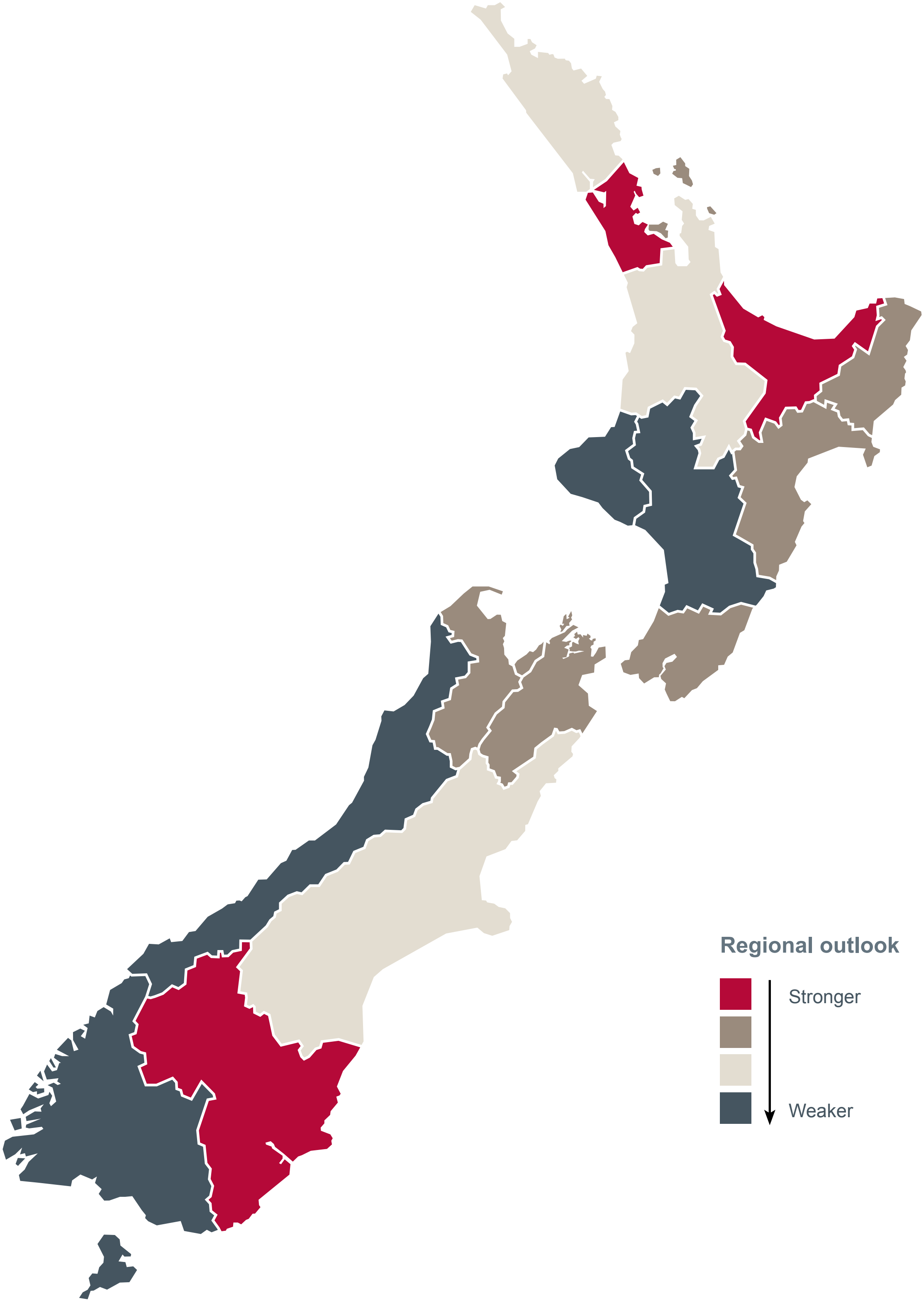
In the following pages, we examine each region’s performance in the latest quarter compared with the previous quarter and the preceding five years for each indicator. This provides the basis for the analysis and discussion on the outlook for the next couple of years.

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.

Each quarter, we also look at one aspect of the regional economies in detail. Over the last few years, New Zealand has seen a boom in tourism. But not all areas have benefitted equally. We consider how each region has grown its tourism sector, as measured by guest night rises over the last five years.

We also look at tourism capacity, measured in terms of accommodation occupancy rates. We look at the range of occupancy rates between low and high season, and whether occupancy rates have risen over the last five years or not, highlighting any constraints on tourism growth, and opportunities to further exploit tourism opportunities.

12-month regional outlook



Auckland

After a heady end to 2015, economic indicators eased in Auckland in early 2016. A net four indicators fell, with six down, two up and one about the same. Yet compared with the last five years, Auckland's trajectory is still strongly upward.

		Compared to	
Auckland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	14.8	21.3	19.6
Regional employment confidence	110.0	105.9	105.9
Unemployment rate (s.a.)	6.0%	5.8%	6.8%
Passenger vehicle regos (s.a.)	28,429	29,024	23,081
Commercial vehicle regos (s.a.)	4,959	4,968	3,524
Guest nights (000, s.a.)	1,816	1,767	1,690
New dwellings consented (s.a.)	2,426	2,481	1,640
House sales (s.a.)	6,808	7,290	7,322
House price change, annual (s.a.)	16.9%	22.5%	12.0%
Net number of indicators rising compared to previous quarter			-4
Net number of indicators rising compared to 5 year average			5

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

Regional economic and employment confidence both remain strongly positive. Regional economic confidence has fallen slightly, but the region is still sixth most positive in the country.

As the construction boom continues, it is unsurprising that employment confidence is up. The March Household Labour Force Survey, despite a small uptick in Auckland's unemployment rate, showed huge numbers of construction jobs being added.

Meanwhile tourism, the subject of our in-depth analysis this quarter, is rocketing ahead, with more than 1.8 million guest nights recorded in Auckland over the quarter.

House prices fell late last year but have rebounded. Annual house price growth was 16.9%. March and April data suggest that momentum in the city's housing market remains strong.

The outlook for the region

Annual residential building consents were up 20% in the March year despite a dip in the latest quarter. A lot of building work is to be done over the next 12 months. Commercial and non-building construction work is also getting underway, with much of the CBD covered in roadwork cones and temporary fencing.

Net inward migration, which helped grow Auckland's population by 43,000 in 2015, is slowing. Nevertheless, the backlog of housing supply will create thousands of additional jobs.

Renewed house price growth in Auckland is not expected to reach the rates we saw in 2015. But as purchasers realise that interest rates will be low for longer, some ongoing growth is possible, at least until a bigger slowdown in the economy in 2018.

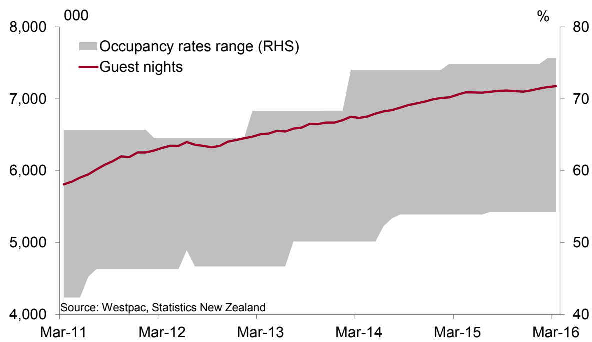
With the tourism boom expected to continue over the next 18 months as well, the unemployment rate may well fall further. This will be dependent on the balance between the number of newly-arrived workers, the labour force participation rate, and employment growth. On balance, we expect regional employment confidence to remain relatively strong.

IN FOCUS: Tourism growth and capacity

Auckland is the primary gateway into New Zealand, and guest nights reflect this. It has also seen stronger growth in guest nights than any region other than Otago since 2011.

The increase of 1.4 million annual guest nights has created capacity constraints. Occupancy rates have surged. In the year ending March 2011, the lowest monthly occupancy rate recorded was 46%, at the time already the highest in the country. But in the March 2016 year, the lowest monthly occupancy rate was 54%.

Guest nights and occupancy rates, 12-month rolling total and ranges



The story in high season was similar. High-point occupancy rates rose steadily from 66% in the March 2011 year to 76% in the March 2016 year. When holiday parks (which are subject to particular seasonality due to weather) were excluded, rates were even higher, at between 71% and 82% in the year to March. Among three-to-five star hotels, occupancy rates approached 100% in summer, implying a significant under-provision of accommodation, with resultant hotel price rises.

Bay of Plenty

In aggregate, economic conditions in the Bay of Plenty were steady in the March 2016 quarter compared to late 2015. The region is performing particularly strongly relative to five-year averages.

		Compared to	
Bay of Plenty	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	34.7	41.0	9.9
Regional employment confidence	104.9	96.6	100.3
Unemployment rate (s.a.)	4.6%	5.6%	7.0%
Passenger vehicle regos (s.a.)	2,947	3,070	2,320
Commercial vehicle regos (s.a.)	850	794	539
Guest nights (000, s.a.)	893	900	806
New dwellings consented (s.a.)	621	619	343
House sales (s.a.)*	4,161	4,412	2,991
House price change, annual (s.a.)	19.0%	13.6%	4.9%
Net number of indicators rising compared to previous quarter			0
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

Regional economic and employment confidence remain strongly positive. Regional economic confidence has fallen slightly, but the region is still the most positive in the country.

Unemployment continues to plummet, reaching just 4.6% in the March quarter, the second lowest reading in the country. This change is driven by strong construction activity, booming tourism and a solid outlook for the region's horticultural sector.

Other indicators of a buoyant outlook, such as sales of commercial vehicles and house prices, are also on the up. In the March quarter, the region recorded the strongest annual house price growth in the country. House price inflation accelerated as interest rates remained low. To some extent, the region is catching up after several years of slow growth in prices.

The outlook for the region

Building consents have surged in recent months. As these consents are translated into construction activity, we expect a lot of new construction jobs to be created.

At the same time, strong population growth will continue to drive growth in other businesses, especially retail. This is reflected in a recent lift in consents for retail buildings. As a consequence, we expect the employment outlook in the region to remain stronger than in most parts of the country, which will be reflected in regional employment confidence.

House price growth is also expected to remain firmer than in most of the country as low interest rates and a positive outlook for a number of industries support buyer confidence.

Regional economic confidence will also hold up well as a mix of construction, tourism and horticulture sector activity stimulate positivity.

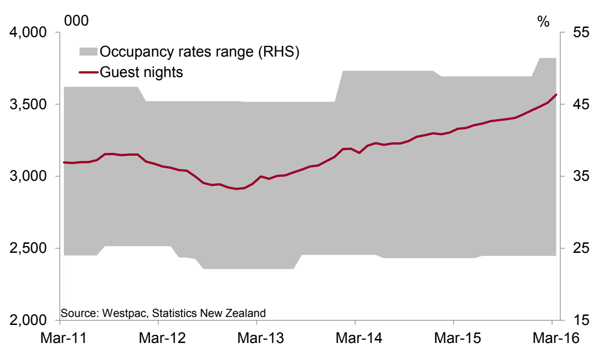
Forestry, a major cog in the economic wheel of the eastern Bay of Plenty, has a less exuberant outlook. As a result, we expect economic results there to be more modest although opportunities exist to benefit from the wider tourism growth the region is enjoying.

IN FOCUS: Tourism growth and capacity

Annual guest nights in the region have risen to nearly 3.6 million. The post-GFC lull took a long time to overcome, but since 2013, the number of nights visitors spend in the region has taken off.

Most growth has been in the high season, however. Occupancy rates in the low season have remained low, at around 25%. When holiday parks are excluded, low season rates are around 35%. In high season, occupancy rates have risen from 45% to 51%, or from 56% to 61% if holiday parks are excluded.

Guest nights and occupancy rates, 12-month rolling total and ranges



Within the Bay of Plenty, growth has been mixed. Rotorua, one of the country's two main tourist towns, has not seen the growth one might have expected, but this is changing. Occupancy rates in Rotorua year-round are approaching 80%, implying that capacity constraints may become a hindrance to growth soon. With some of the sunniest and warmest weather in the country, some other parts of the region could benefit from higher occupancy rates in low season, or from a longer shoulder season.

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Canterbury

As Canterbury begins to look to a post-rebuild future, economic indicators are beginning to look more mixed. That said, the level of economic activity remains elevated.

		Compared to	
Canterbury	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	20.8	24.7	33.7
Regional employment confidence	110.6	103.7	111.6
Unemployment rate (s.a.)	3.2%	3.8%	4.2%
Passenger vehicle regos (s.a.)	8,849	8,808	7,202
Commercial vehicle regos (s.a.)	1,575	1,591	1,348
Guest nights (000, s.a.)	1,307	1,258	1,121
New dwellings consented (s.a.)	1,424	1,513	1,343
House sales (s.a.)	2,793	2,815	2,481
House price change, annual (s.a.)	3.3%	3.1%	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 remains one of the highest in the country, but with spending levelling off, it is unsurprising that confidence is well below the average seen over the last five years.

Canterbury still enjoys the lowest unemployment rate in the country. The drop from the December quarter is somewhat of a surprise, but we caution against inferring too much from one quarter's data.

Commercial vehicle sales have peaked, a sign of the flattening out of rebuild activity, while new dwelling consents and house sales are beginning to fall. As a result of the supply of housing better matching demand, house price growth remains far weaker than elsewhere in the country. As more infrastructure is repaired and accommodation is rebuilt, tourism continues its resurgence, a topic we discuss further below.

The outlook for the region

Canterbury has another 12 to 18 months before the rebuild begins tapering of. We expect the unemployment rate to remain lower than national averages for some time, but we expect the June 2016 quarter data to show a higher unemployment rate after last quarter's unexpected fall.

Residential consents will continue to fall toward "business as usual" levels. How low this will be is still a subject of debate. With a huge stock of new housing, building consents may eventually fall to below pre-quake levels.

Some industry sources in commercial property are concerned that vacancy rates in new commercial buildings are already showing signs that supply and demand are becoming balanced. There is some risk of overbuilding as businesses seek to relocate to the CBD when their leases in city-fringe low-rises come up for renewal.

Against these weaker indicators, tourism is likely to continue to grow, and offers opportunities for further development beyond Christchurch.

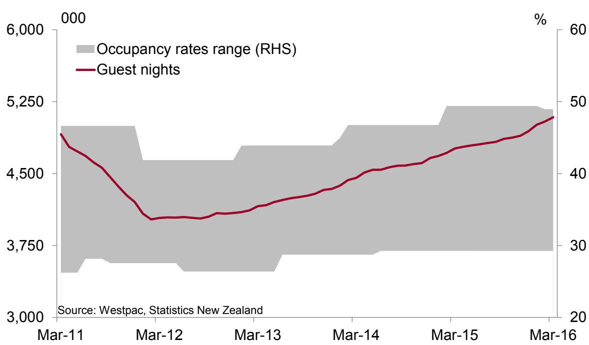
Dairy, an important player in rural Canterbury, is also likely to hold back the region over the next year or more, with our forecast being for another sub-$5 payout in the 2016/17 year.

IN FOCUS: Tourism growth and capacity

Guest nights in Canterbury slumped in the wake of the devastating earthquakes, with around half the urban accommodation stock rendered unusable. In the ensuing months, few hotel businesses operated, and much of the travel to the region was by people who were part of the rebuild.

As capacity has been added, occupancy rates have risen faster, as guest nights have grown faster than capacity. At five million for the year to March, guest nights are almost back to the highs of 2008, and are roughly back to February 2011 levels for the first time.

Guest nights and occupancy rates, 12-month rolling total and ranges



Occupancy rates in the low season were as low as 26% in 2011, but have since risen to just under 30%, while occupancy rates in high season are approaching 50%. Excluding holiday parks, high season occupancy rates are now around 70%. Three to five star accommodation in particular is enjoying high occupancy and room rates. This suggests opportunities to develop more hotel space as part of the rebuild.

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Gisborne / Hawke's Bay

Most indicators in Gisborne and the Hawke's Bay are pointing toward stronger economic outcomes compared to last quarter. Compared with long-term averages, the region's performance is even stronger.

		Compared to	
Gisborne/Hawke's Bay	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	33.4	14.1	9.8
Regional employment confidence	111.4	97.9	99.4
Unemployment rate (s.a.)	7.8%	7.0%	7.7%
Passenger vehicle regos (s.a.)	1,585	1,509	1,247
Commercial vehicle regos (s.a.)	519	540	369
Guest nights (000, s.a.)	331	311	306
New dwellings consented (s.a.)	147	118	123
House sales (s.a.)	751	811	609
House price change, annual (s.a.)	7.6%	5.8%	1.9%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			7

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

In March, regional economic confidence in the region was the second strongest in New Zealand. Residents are also more confident about their own employment outlook than in the previous quarter.

Signs of confidence among households include passenger vehicle sales, which continue to grow despite peaking in many parts of the country, and growth in house prices.

There has also been a spike in residential building activity. Consents rose to nearly 150 in the quarter on a seasonally-adjusted basis.

The region is less reliant on dairy, while it has a strong horticulture sector. The latter has actually benefitted from recent weather conditions, after earlier expectations that El Niño would bring severe drought. Meat and wool, and forestry have had a more mixed few quarters, but clearly views are not sufficiently negative to have substantially impacted regional confidence.

The outlook for the region

Continued low interest rates are likely to mean continued solid house price growth in Gisborne and the Hawke's Bay. The unemployment rate, which bounced sharply upward in the March quarter, will likely moderate; some of the rise is likely be measurement volatility from quarter to quarter.

Weather permitting, we expect continued strong performance in the horticulture sector, while for meat and wool, the outlook is moderate. Beef prices have come off record highs, but remain strong. Lamb prices are not spectacular, but weaker global supply should sustain prices for some time. Forestry's outlook remains subdued, but thus far the sector has been surprisingly resilient to the downturn in China.

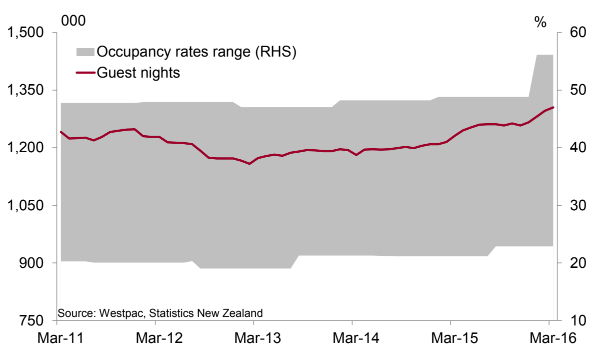
While tourism has not grown as sharply as one might expect, there are opportunities for the region to capitalise on growth in international visitors and displaced demand out of our major tourist centres. On balance, we expect Gisborne and the Hawke's Bay to be one of the stronger regional economies over the next 12 to 18 months.

IN FOCUS: Tourism growth and capacity

Gisborne and the Hawke's Bay have seen the second-lowest rate (5% over five years) of guest night growth in the country after Canterbury (4%), where earthquakes affected both supply of accommodation and demand from tourists.

Occupancy rates have seen similarly tepid growth. Low season rates are largely unchanged, while high season occupancy rates have remained anchored at 50%. In January 2016, occupancy rates spiked to 56%, but time will tell whether this is a sustained spike. Excluding holiday parks, occupancy rates have ranged between 33% and 69% over the last 12 months

Guest nights and occupancy rates, 12-month rolling total and ranges



These figures imply a huge opportunity within the context of strong national growth in tourism for Gisborne and the Hawke's Bay to capture more visitors. With room rates soaring in the country's major tourist centres, the Hawke's Bay in particular has the potential to attract domestic tourists as well as a larger share of the international market given its recently improved air connections.

Nelson / Marlborough / West Coast

The performance of Nelson, Marlborough and West Coast ("top of the South") is mixed, based on the key industries within each of its constituent regions. Overall, the direction of indicators over the last quarter was balanced. Compared to five-year averages, the region's performance is a little above average.

		Compared to	
Nelson/Marlborough/ West Coast	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	24.7	26.1	17.0
Regional employment confidence	101.2	101.5	101.8
Unemployment rate (s.a.)	5.7%	3.7%	4.7%
Passenger vehicle regos (s.a.)	1,424	1,441	1,123
Tractor regos (s.a.)	43	56	45
Guest nights (000, s.a.)	877	855	779
New dwellings consented (s.a.)	210	172	209
House sales (s.a.)	806	797	702
House price change, annual (s.a.)	5.3%	3.8%	2.5%
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

Some of the negativity in the region will be influenced by economic challenges on the West Coast – weak dairy and hard commodity prices. On-farm weakness is reflected in tractor sales, which are well down on the previous quarter. Sales are a smidgeon weaker than the five-year average as well.

Meanwhile, other parts of the region – Nelson, Tasman and Marlborough – have enjoyed better economic times. Horticulture and viticulture have been doing well, as has tourism.

House prices have shown signs of growth outside the West Coast, and new dwelling consents, particularly in Tasman, are growing. House sales are also up modestly over the previous quarter and are 14% above the five-year average.

The unemployment rate was sharply up in March, suggesting that last quarter's decline from 6.3% to 3.7% was, as we suspected, an artefact of survey volatility. The current reading of 5.7% fits far better with the figure of 6.3% six months ago.

The outlook for the region

The unemployment rate will likely hover in the mid-fives for some time. Horticulture's outlook is bright, tourism is growing slowly and we expect overall regional economic confidence to remain solid.

However, the West Coast will be weaker, as a third season of poor dairy prices looms.

The top of the South may even see stronger growth in house prices, as growth is still among the weakest in the country. Again, the picture will be mixed. The West Coast has slow to negative population growth and the employment outlook will limit house price growth. But in Nelson and Marlborough, population growth and better fortunes will promote rising house prices.

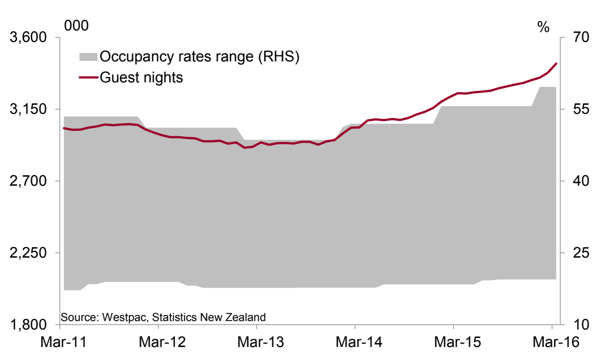
Tourism offers a further opportunity for economic growth, as we explore below. Questions remain over improving access to the West Coast and broadening its tourism offering to attract a larger number of visitors.

IN FOCUS: Tourism growth and capacity

After several years of weak tourism activity, the region has enjoyed two years of growth. More than 3.4 million guest nights were recorded in the year to March 2016, which equates to an extra 1,370 guests per night compared to three years earlier. The five-year growth of 13% is nevertheless well below the national average.

Low season occupancy rates have improved a little over the last five years, but the biggest improvement has been in the high season, where rates reached as high as 60% last summer. When holiday parks are excluded, occupancy rates were a lot higher – up to 73% last summer, the fourth highest in the country. This indicates that some capacity constraints are beginning to be felt.

Guest nights and occupancy rates, 12-month rolling total and ranges



Strong opportunities for growth in tourism in the region exist, particularly with even more flights being added. However, some industry sources have commented that tourism infrastructure including roading, public toilets and the like is limiting growth on the West Coast in particular.

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Northland

After a strong December quarter, Northland's economic indicators moderated in March. Still, the region is outperforming its long-term averages across all indicators.

Northland	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	-15.8	-8.9	-17.0
Regional employment confidence	103.1	98.6	97.3
Unemployment rate (s.a.)	7.9%	6.6%	8.7%
Passenger vehicle regos (s.a.)	1,133	1,344	939
Commercial vehicle regos (s.a.)	401	446	310
Guest nights (000, s.a.)	457	448	414
New dwellings consented (s.a.)	243	238	176
House sales (s.a.)	708	772	513
House price change, annual (s.a.)	12.8%	9.9%	3.3%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			9

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

After several quarters of improving regional economic confidence, results in March slipped. One quarter of much weaker results may be due to measurement challenges, but the region is one of the most negative in the country after years of challenging conditions including a struggling forestry sector and high unemployment.

Unemployment worsened in March, but we cautioned that the December numbers likely overstated the fall in unemployment. The latest figures are more in line with the moderate declines we have seen since the first half of 2015.

Many positive trends continue to strengthen. New residential building activity is accelerating, and house prices have increased dramatically, gaining nearly 13% in the last year, supporting consumer spending.

Tourism is showing signs of life although as we explore below, the region could benefit far more than it currently does. An extra 100 guests a night were recorded in the region in the March quarter compared with December when adjusted for seasonal variations.

The outlook for the region

Overall, the region's next 12 to 18 months are looking relatively solid. We expect low interest rates will support continued house price growth although we may see growth rates decline somewhat from the current highs.

The region is not as exposed to dairy as many parts of the country, but its other main commodity export – forestry – is facing an outlook of modest prices. Export volumes have been flat for two years although prices are holding up surprisingly well despite China's weakness. We expect prices to weaken over the second half of 2016, affecting Northland's prospects.

Beef prices are off record highs but we expect them to remain at reasonable levels. Lamb prices will remain solid with weaker global supply providing support. Stronger horticulture and tourism will keep the unemployment rate in check.

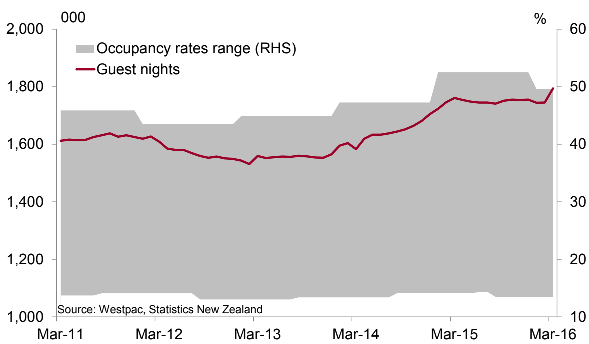
Construction activity will rise as the consents approved in recent months translate into on-site work.

IN FOCUS: Tourism growth and capacity

Over the five years to March 2016, guest nights rose just 11% in Northland, well below the national gain of 17%. Guest nights rose steadily between late 2013 and early 2015, then plateaued again until early 2016, before rising again. This suggests a massive opportunity for Northland to cash in on the boom in tourism, given its proximity to Auckland and its warmer winter climate.

Yet low season occupancy rates have barely changed, and remain the lowest in the country. At the other end of the spectrum, summer occupancy rates have been improving, rising above 50% in recent times. This growth in summer and weakness in winter have left Northland with one of the largest gaps between summer and winter occupancy rates.

Guest nights and occupancy rates, 12-month rolling total and ranges



Occupancy rates excluding holiday parks average between 25% and 65% across low and high season. This suggests that accommodation is not in short supply. However, reduced flights into Northland may have made it a harder-to-reach destination.

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Otago

Economic indicators for Otago were more positive than negative in the March quarter, and are still well up on the average over the last five years.

Otago	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	11.9	36.6	4.2
Regional employment confidence	104.7	103.4	98.9
Unemployment rate (s.a.)	4.7%	4.6%	4.6%
Passenger vehicle regos (s.a.)	2,040	1,923	1,475
Commercial vehicle regos (s.a.)	637	577	433
Guest nights (000, s.a.)	1,462	1,456	1,241
New dwellings consented (s.a.)	498	389	292
House sales (s.a.)	1,262	1,310	1,068
House price change, annual (s.a.)	10.4%	8.3%	5.0%
Net number of indicators rising compared to previous quarter			2
Net number of indicators rising compared to 5 year average			7

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

Regional economic confidence was down sharply in the March quarter although it remains well above the five-year average. From quarter to quarter there can be some measurement noise at the regional level, but nevertheless, the scale of the change suggests there has been a drop in optimism.

Employment confidence remains firm, which is unsurprising given that the region has one of the lowest unemployment rates.

Other indicators of confidence are pointing in the right direction, which bodes well for the region's outlook. House prices were up more than 10% in the March quarter compared with a year earlier. The number of new dwellings being consented has rocketed away, up more than 25% on the previous quarter.

Meanwhile both households and businesses continue to invest more in vehicles. Otago is one of just two regions where the number of passenger vehicles registered in the March quarter was significantly higher than in December. Meanwhile, commercial vehicle registrations are growing to support the large rise in residential building activity that is occurring.

The outlook for the region

Tourism is the big story in Otago, and especially in the Queenstown-Lakes District. We expect the sector's good run the sector to continue.

The residential building boom, again driven the Queenstown-Lakes District, will continue unabated. Over the next several months, the wave of consents approved in the March quarter will translate into construction activity, creating jobs. House prices will rise, although there may be some moderation in the rate.

But a key point is that the buoyant results presented here are skewed toward one part of the region. The outlook for Dunedin and Clutha, for instance, is not nearly as rosy. To put this into perspective, the Queenstown-Lakes District has a population one quarter the size of Dunedin, but it is consenting twice as many new dwellings.

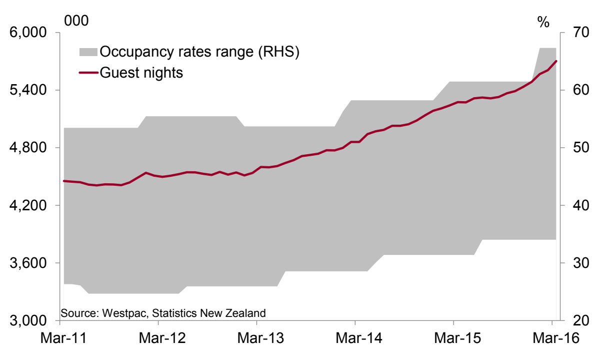
Similarly, Clutha and Waitaki have far larger dairy industries, meaning the outlook there is likely to remain subdued for some time.

IN FOCUS: Tourism growth and capacity

The last five years have seen huge growth in guest nights and occupancy rates. Annual guest nights grew 28% over this time, with a further 3,400 guests per night in the March 2016 year compared to five years earlier. This equates to around a dozen more medium-sized hotels being filled over that period.

But accommodation capacity has not been added as fast as guests have been arriving. Occupancy rates in low season have risen to 34%. High season rates have reached 67%. When holiday parks are excluded, occupancy rates across the year range between 49% and 81%. Putting this in perspective, the low season rate of 49% is as high as Taranaki and Manawatu-Whanganui's high season rate.

Guest nights and occupancy rates, 12-month rolling total and ranges



With higher occupancy rates, hotel room prices have risen in the Queenstown-Lakes District in particular. With night flights now being added to Queenstown, demand for beds will continue to grow, but the slow pace at which beds are added will mean even higher room prices.

Southland

The dairy downturn is being felt acutely across Southland, with most indicators down again. Workers in Southland are nearly four times more likely to work in dairy as New Zealand workers overall.

Southland	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	-22.0	16.0	21.8
Regional employment confidence	98.7	101.4	103.7
Unemployment rate (s.a.)	4.8%	4.0%	4.5%
Passenger vehicle regos (s.a.)	723	747	587
Tractor regos (s.a.)	75	73	76
Guest nights (000, s.a.)	268	247	212
New dwellings consented (s.a.)	45	53	59
House sales (s.a.)	482	529	432
House price change, annual (s.a.)	5.0%	4.0%	1.5%
Net number of indicators rising compared to previous quarter			-3
Net number of indicators rising compared to 5 year average			-1

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

Regional economic confidence turned sharply negative again in March, leaving residents' outlook well below the five-year average. Similarly, employment confidence is down as residents ponder the impact the dairy outlook is having on their jobs.

As a result, other measures of economic confidence, such as passenger vehicle registrations, and new dwelling consents, are down on the previous quarter.

But there are some good news stories. Tourism is growing strongly, and there have been modest gains in house prices as interest rates have remained low and as fewer New Zealanders have emigrated. These factors have raised underlying demand for housing.

The outlook for the region

Westpac forecasts a further season of dairy payouts under $5, making it three difficult seasons in a row. This will be unwelcome news to the region's 4,500 dairy workers.

Meat and wool, which employs twice as many workers in the region as dairy, faces a more mixed outlook. Beef prices are better than they were a couple of years ago, while lamb prices are not as high. We expect the sector to broadly tread water over the next couple of years.

This rural outlook will have a dampening effect on economic confidence and big-ticket spending decisions, like vehicles and new residential construction. The unemployment rate has remained relatively low compared to national averages, but may well tick up over the next 12 months.

House price gains are likely to be more muted than elsewhere in the country because of the dairy effect. As net migration comes off its record highs and the outflow of New Zealanders to Australia resumes (albeit at lower levels than at many times in the past), demand for new housing in the region will weaken, keeping house price growth in check.

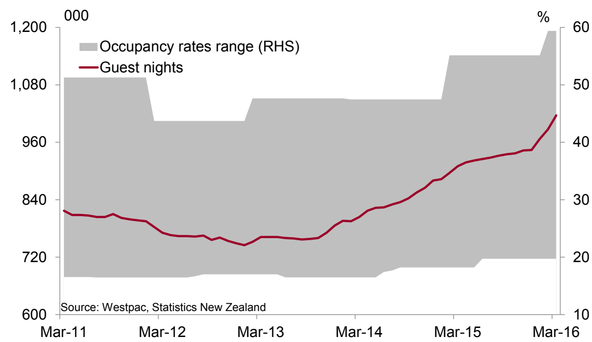
Tourism is one area where we would expect to see further growth, with a lot of potential for the region to grab more of the surge in the number of visitors coming to this country.

IN FOCUS: Tourism growth and capacity

Southland has enjoyed strong growth in tourism recently. Over the last five years, the region recorded the second strongest growth in guest nights across New Zealand's 11 regions, with a further 550 visitors per night compared to the March 2011 year.

The region still has weak low season occupancy rates of around 20% although these have risen slightly. Growth in high season occupancy rates have been stronger. Occupancy was 59% over summer 2015/16, compared to 48% five years ago. Excluding holiday parks, summer occupancy rates reached 69%, while winter rates reached 26% in the March 2016 year. This latter figure is the second lowest in the country, after Northland.

Guest nights and occupancy rates, 12-month rolling total and ranges



This suggests that tourism offers significant potential for growth in the region, even in the high season. While accommodation supply does not appear to be a constraint, improved access from Otago, to allow spill-over effects from the tourism boom there would support growth in Southland.

Taranaki / Manawatu – Whanganui

The Taranaki and Manawatu-Whanganui region is home to New Zealand's oil and gas sector, and a large dairy sector. Unsurprisingly, current regional economic performance is weak.

		Compared to	
Taranaki/Manawatu-Whanganui	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	-22.0	9.2	14.2
Regional employment confidence	93.3	101.8	98.5
Unemployment rate (s.a.)	6.7%	6.3%	6.7%
Passenger vehicle regos (s.a.)	2,826	2,859	2,452
Tractor regos (s.a.)	89	102	86
Guest nights (000, s.a.)	472	458	429
New dwellings consented (s.a.)	294	290	239
House sales (s.a.)	1,491	1,464	1,287
House price change, annual (s.a.)	5.9%	3.8%	2.1%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			4

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

Regional confidence, both with regard to employment and the broader outlook for the region, declined sharply in the March quarter. After a few good dairy auctions late last year, confidence rallied, but this was soon diluted by further weak dairy results in early 2016.

As a result, the region has the lowest employment confidence of any region in New Zealand, and regional economic confidence is the second lowest. The unemployment rate is largely unchanged over the last several quarters, apart from some quarterly volatility.

The underlying lack of confidence in the economy is reflected in a number of other indicators. Both passenger vehicle and tractor registrations are down, suggesting the lack of confidence is affecting business and households.

One positive is the housing and construction front. More homes are being built despite the regional downturn, and low interest rates and population growth are stimulating house price growth. Population growth is being assisted by far fewer New Zealanders emigrating to Australia than in the past, ensuring a higher base level of housing demand.

The outlook for the region

Dairy faces a third weak season in 2016/17. Industry sources in the Manawatu suggest that many farmers there have a break-even point around $5 per kilogram of milk solids, indicating that many farmers will continue to struggle over the coming season.

Oil and gas prices also remain at levels unlikely to spur new exploration. We expect this to remain the case for some time.

As a result, most indicators will remain weak over the next 12 months. Unemployment may well rise slightly, and overall confidence will stay down. This will mean less confidence to make big-ticket purchases than elsewhere, and weaker house price growth than in less dairy-dominant parts of the country. House price growth will soften further as net migration slips from record highs and more New Zealanders head across the ditch.

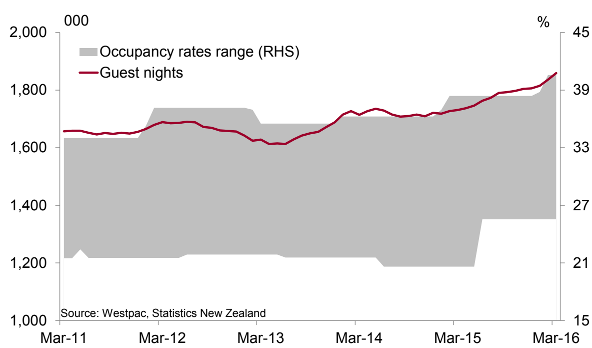
One potential area of growth is tourism, where a lot more can be done, as we explore further below.

IN FOCUS: Tourism growth and capacity

Tourism growth in Taranaki and Manawatu-Whanganui has been weak over the last five years. Annual guest nights are up just 12% since 2011, reaching 1.86 million in the March 2016 year.

Over the same period, occupancy rates have risen slightly. Low season occupancy rates have grown to 26% over the five years, while high season rates have increased off a very low base. Excluding holiday parks, occupancy rates in the year to March hovered between 35% and 49%, some of the country's lowest.

Guest nights and occupancy rates, 12-month rolling total and ranges



But the gap between low season and high season occupancy rates for the region is the narrowest of all 11 regions. This implies, firstly, that weather conditions are not a huge influence on low season occupancy rates. A likely reason is the ski-fields located in the region that boost winter tourism. Clearly more opportunity exists to boost low season occupancy rates by promoting the region as a winter tourism destination. Secondly, more needs to be done to grow high season occupancy rates.

Westpac Institutional Bank

Waikato

Economic conditions across the Waikato were stable in the March quarter. Compared to long-term averages, the region is still performing strongly despite the dairy downturn.

Waikato	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	-14.0	4.0	16.4
Regional employment confidence	95.5	93.7	100.0
Unemployment rate (s.a.)	5.8%	5.1%	6.3%
Passenger vehicle regos (s.a.)	4,139	4,130	3,381
Commercial vehicle regos (s.a.)	1,301	1,229	925
Guest nights (000, s.a.)	808	816	734
New dwellings consented (s.a.)	978	883	587
House sales (s.a.)*	4,161	4,412	2,991
House price change, annual (s.a.)	16.9%	14.1%	5.0%
Net number of indicators rising compared to previous quarter		0	
Net number of indicators rising compared to 5 year average			5

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

Regional economic confidence slumped in March 2016 on the back of weak dairy auction results. Similarly, although regional employment confidence actually rose, it remained below 100, indicating that pessimists outnumbered optimists.

Unemployment rose although we would caution that this figure is subject to considerable measurement variation from quarter to quarter. The unemployment rate has been broadly stable and a little below the long-run average of 6.3% over the last several quarters.

Other indicators are more positive. Passenger vehicle registrations are flat even as they fall in most regions, and registrations of commercial vehicles are up. House prices rose by 17% in the year to March, and the number of new dwelling consents also grew strongly.

But these headline indicators mask a mix of conditions at a sub-regional level. House price growth and the rise in dwelling consents is limited almost entirely to Hamilton, while dairy-related weakness persist in the rural hinterland.

Guest nights, despite dipping slightly in the latest quarter, are growing strongly, highlighting another area of opportunity for the region.

The outlook for the region

A third season of sub-$5 dairy payouts will subdue the economic outlook in this dairying region. That said, industry sources suggest that Waikato dairy farmers are better able to weather the current storm than many. With arguably the best dairy land in the country and lower on-farm debt, the break-even point for many farmers is closer to $4.

We nevertheless expect the sub-regional confidence dichotomy to remain. Hamilton will continue to see population growth and house price rises, while the rural areas will see more cautious purchasing behaviour. Commercial vehicle sales, driven by strong building activity in the largest city, will remain strong.

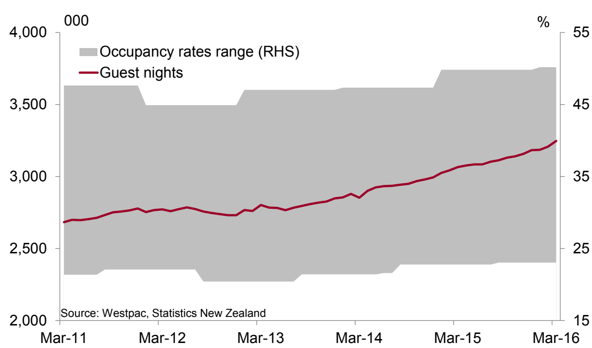
Tourism will still benefit from proximity to the country's largest airport and interest stimulated by the Hobbit trilogy.

IN FOCUS: Tourism growth and capacity

The Waikato has enjoyed consistent growth in guest nights across the last five years. Guest nights reached 3.25 million in the year to March 2016, the sixth highest in the country, up 21% since 2011. The region hosts an extra 1,500 guests a night on average compared to five years ago.

Occupancy rates have edged up slightly. Low season occupancy rates have remained low, at 23% in the March 2016 year, up from 20%. High season rates reached 50% in the March 2016 year. These are still relatively low occupancy rates, implying room to grow tourism without much additional accommodation.

Guest nights and occupancy rates, 12-month rolling total and ranges



Even excluding holiday parks, high season occupancy rates peaked at just 64% in the latest year. Opportunities to seize upon the strong growth in tourism, and to gain from the region's proximity to the country's largest airport abound. Some industry sources have suggested that tourism support infrastructure such as better public transport would increase tourism growth in the region.

Institutional Bank

Wellington

Wellington's economic indicators mostly deteriorated in the latest quarter although the region's performance remained better than its average over the last five years.

		Compared to	
Wellington	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	20.2	28.0	7.3
Regional employment confidence	99.3	97.0	100.6
Unemployment rate (s.a.)	6.3%	5.5%	6.2%
Passenger vehicle regos (s.a.)	4,906	4,976	4,326
Commercial vehicle regos (s.a.)	927	966	717
Guest nights (000, s.a.)	781	763	704
New dwellings consented (s.a.)	350	501	362
House sales (s.a.)	2,401	2,509	2,009
House price change, annual (s.a.)	7.3%	4.8%	2.6%
Net number of indicators rising compared to previous quarter			-3
Net number of indicators rising compared to 5 year average			3

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

Regional economic confidence remains among the highest in the country, with a net 20% of respondents feeling positive about the regional outlook.

Regional employment confidence strengthened in the March quarter, but overall remains weaker than the five-year average despite some positive signs in the region's economy.

The unemployment rate bounced in March, but we suspect as with many of the regional level unemployment readings, that there may be significant measurement noise. There seems little doubt, however, that the unemployment rate has actually risen slightly since late 2014.

Other measures of confidence, including registration of passenger and commercial vehicles, have also fallen, and new residential building consents plummeted in the March quarter. The fall in consents was partly the result of a large number of multi-unit consents being issued in the December quarter, inflating those numbers.

On a positive note, low interest rates and underlying demand from moderate population growth have pushed house prices up by as much as 7.3% over prices 12 months ago. Meanwhile, tourism has been a stand-out for the region, with a growth rate matching the national increase in recent years.

The outlook for the region

Our view is that the region's prospects are better than confidence surveys suggest. Further job cuts in the government sector appear to be off the table and we expect employment confidence to edge up over the next 12 months.

We expect the fall in residential building consents in the March quarter to be temporary, and that stronger levels of around 400 a quarter will resume.

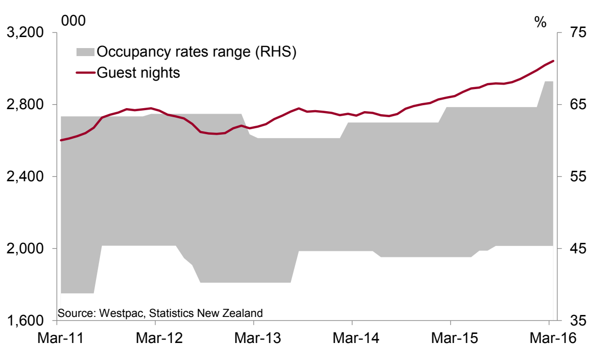
Further growth in tourism is expected, with the rises affected as much by the region's ability to provide appropriate tourism infrastructure as by demand growth. As net inward migration slows, we may see less strength in house price growth as underlying population growth weakens, but low interest rates are likely to keep house price growth in positive territory for the next 12 to 18 months.

IN FOCUS: Tourism growth and capacity

After a period of weakness in tourism, Wellington has enjoyed a substantial lift in guest nights over the last two years. Annual guest nights breached three million for the first time in the February 2016 year. An extra 1,200 guests stay in the region each night compared to five years ago.

Recent indications are that capacity constraints are emerging. Overall occupancy rates reached 68% last summer, higher even than the high season rate in Otago, and second only to Auckland. Low season rates are around 45%. When holiday parks are excluded, high season occupancy rates reach as high as 75%. As a result, hotel room prices are rising, particularly for higher end accommodation.

Guest nights and occupancy rates, 12-month rolling total and ranges



This trend is likely to continue, and opportunities for growth may be limited if additional capacity is not added rapidly. A runway extension would attract more new visitors to the city, or displace visitors from other parts of the country, meaning even more new accommodation space would be required.

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