

# Confidence fades in most regions

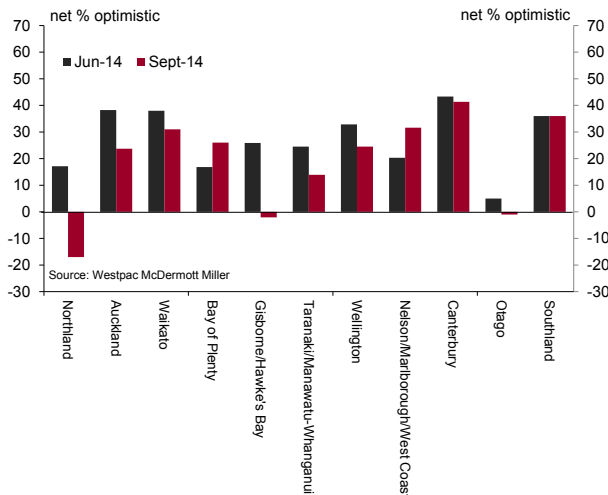
## Westpac McDermott Miller Regional Economic Confidence, September 2014

- Regional Economic Confidence continued to fade in the September quarter, but remains in positive territory. Falling dairy prices, rising interest rates and more mixed economic news are all likely to have played a role in the decline in confidence.
- Economic confidence improved in only two regions this quarter, the Bay of Plenty and Nelson/Marlborough/West Coast. In three regions, confidence has fallen into pessimistic territory.
- Canterbury remains the most optimistic region in New Zealand for the 9th consecutive quarter.

### Regional economic confidence\*

Region	Regional economic confidence (%)		
	Jun-14	Sep-14	Change
Northland	17	-17	-34
Auckland	38	24	-15
Waikato	38	31	-7
Bay of Plenty	17	26	9
Gisborne/Hawke's Bay	26	-2	-28
Taranaki/Manawatu-Whanganui	24	14	-11
Wellington	33	25	-8
Nelson/Marlborough/West Coast	20	32	11
Canterbury	43	41	-2
Otago	5	-1	-6
Southland	36	36	0
Nationwide	32	23	-9

### Regional economic confidence



Source: Westpac McDermott Miller

\*Regional economic confidence is the balance of households expecting good, as opposed to bad, economic times in their region over the coming year, as a percentage of total number of households. Sample sizes, and margins of error, vary by region. The national average is weighted by the share of each region in the total population. The survey was conducted over 1-10 June, with a total sample size of 1565.

Regional economic confidence took another step down in the September quarter across almost all regions of New Zealand. The only parts of the country where households were more upbeat about prospects for their local region than they were three months ago were the Bay of Plenty and Nelson/Marlborough/West Coast. In Southland, confidence remained stable.

Economic confidence in some regions has now slipped below historical averages. While this isn't yet the case on a national level, in five of the eleven regions we survey, the level of households' confidence about their local economy now sits below the ten year average.

The widespread declines in regional confidence can probably be attributed to a number of developments. Undoubtedly economic news has been more mixed in recent months, with plunging dairy prices a particularly notable development. On our

forecasts, revenues for farmers in the dairy sector will be down around \$5bn on last year's levels, which will see many farmers reassessing spending with reverberations felt through the rural sector. Yet given this expectation, it is perhaps surprising there hasn't been bigger knocks to confidence in some of the regions where the dairy industry is integral to the local economy. For example economic confidence was unmoved in Southland to leave it the second most optimistic region in the country, while the Waikato only slipped one place in the rankings, and is now the fourth most optimistic region in the country.

Higher interest rates and the widespread slowing in the housing market may also be weighing on the minds of consumers in many regions. Indeed pre-election jitters may have added to the uncertain outlook for the housing market. There were anecdotal reports of both house buyers and sellers holding off on making decisions in the lead-up to the election.

## Regional Roundup

**Northland:** Northland suffered the biggest loss of confidence in the September quarter. Confidence plunged by 34%, moving the region firmly back into pessimistic territory, and once again the most pessimistic region in the country. The weather probably hasn't helped the mood of Northlanders. Parts of the region have been hit by flooding multiple times in recent months, and this in turn has led to difficult conditions for some dairy farmers in particular. Unemployment in the region remains relatively high, while turnover in the housing market has slowed.

**Auckland:** Economic confidence in Auckland took a sizable step down in the September quarter. While it remains above long run average, the region has tumbled from the second most optimistic in the country last quarter, to just the 7th most optimistic in this survey. Rising interest rates, a pre-election slowing in the housing market, uncertainty ahead of new council housing valuations and slower growth in employment could all be weighing on the minds of Aucklanders.

**Waikato:** With the dairy sector making up a big part of the local economy, this is one region where we would expect to see falling dairy prices affecting confidence in local prospects. And indeed confidence in the region has continued to fall, but only modestly so. As well as the drop in dairy revenues, retail spending growth in the region lags the national average, and the unemployment rate in the region has shown little improvement this year.

**Bay of Plenty:** After falling in the June quarter, economic confidence in the Bay of Plenty region bucked the national trend, picking up in the September survey. In some ways this is a surprising result given the falls in dairy and log prices we have observed. However, other parts of the primary sector such as horticulture are faring much better. Buoyancy in the tourism sector may also be boosting confidence in this region.

**Gisborne/Hawke's Bay:** Economic confidence fell sharply in the Gisborne/Hawke's Bay region in September, after improving fairly steadily over the previous 18 months. Indeed, pessimists

outnumbered optimists for the first time since early 2013 and confidence is now below long run averages. It's difficult to point to a particular reason for the big swing in confidence. The region has seen modest employment growth over the past year, and prices in the sheep and beef sector have been very favourable. However, the forestry sector is feeling the effects of falling international log prices and ongoing debate about the Ruataniwha dam may be weighing on confidence.

**Taranaki/Manawatu-Whanganui:** Economic confidence continued its downward slide in the Taranaki/Manawatu-Whanganui for the third consecutive quarter and is now below its long run average. The region is part of New Zealand's dairying heartland and falling dairy prices are likely to be felt hard in the region, with farmers likely to cut back spending with local support industries.

**Wellington:** In Wellington, economic confidence fell this quarter, but only partially reversed the big jump we observed three months ago. Often one of the less optimistic regions in the country, Wellington now sits firmly in the middle of the pack. There has been solid employment growth in the region, while house prices have improved over the last few months despite a drop in turnover.

**Nelson/Marlborough/West Coast:** Economic confidence in the Nelson/Marlborough/West Coast region bucked the nationwide trend by improving in the September quarter. A diverse region, it could be benefitting from a pickup in tourism, a relatively buoyant mood in the horticulture sector and solid growth in retail spending.

**Canterbury:** Although economic confidence fell in Canterbury, Cantabrians remained more optimistic about prospects for their region than any other part of the country. The unemployment rate in the region is the lowest in the country by a substantial margin and, as the rebuild continues to progress, local job prospects remain strong. In the housing market turnover has been broadly stable over the last year and prices have ticked higher in recent months. Falling dairy prices are also likely to be a factor in the decline in confidence.

**Otago:** Otago was one of just three regions where pessimists outnumbered optimists this quarter. The decline leaves economic confidence in the region below its long run average. The drop in confidence this quarter goes against the flow of some more positive developments in the local economy in recent months. Retail spending growth in the region is running ahead of the national average, while employment growth in the region has been particularly strong over the last year (second only to Canterbury).

**Southland:** Southlanders stood against the growing tide of pessimism this quarter, and remained relatively upbeat about prospects for their local economy. That's a surprising result given the importance of the dairy industry in this region. Other developments however have been more positive. The unemployment rate in the region fell sharply last quarter, and retail spending is going strongly.

## Consumer confidence: regional breakdown

### Consumer confidence by region

Region	Consumer confidence index		
	Jun-14	Sep-14	Change
Northland	115.8	117.6	1.8
Auckland	128.3	120.2	-8.1
Waikato	117.6	119.0	1.4
Bay of Plenty	112.5	123.8	11.3
Gisborne/Hawke's Bay	123.8	107.9	-15.9
Taranaki/Manawatu-Whanganui	115.8	107.3	-8.4
Wellington	118.8	114.6	-4.2
Nelson/Marlborough/West Coast	118.3	114.0	-4.2
Canterbury	121.9	115.9	-6.0
Otago	110.4	109.6	-0.8
Southland	114.2	122.0	7.8
Nationwide	121.2	116.7	-4.4

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

Although consumer confidence fell on a nationwide basis in the September quarter, this wasn't mirrored across all regions. Indeed, consumer confidence actually increased in four out of the eleven regions surveyed, with the biggest jump coming in the Bay of Plenty where locals were particularly upbeat about prospects for the national economy at both a near term and longer term horizon. Households in the Bay of Plenty were the only region to be more optimistic about prospects for the national economy over the next year than they were three months ago.

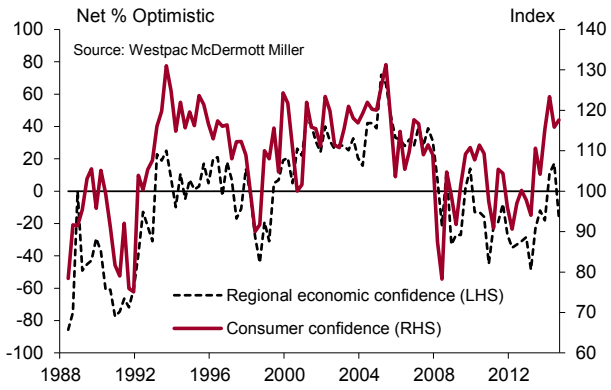
In contrast, consumer confidence fell particularly sharply in the Gisborne/Hawke's Bay region. There, households were the most downbeat in the country about the likelihood of buying a major household item, and there was a particularly sharp fall in their view of prospects for the national economy over the next year.

But more generally, rising interest rates don't yet seem to be having a big impact on spending decisions in all regions. In five of eleven regions consumers thought now was a better time to buy a large household item than three months ago.

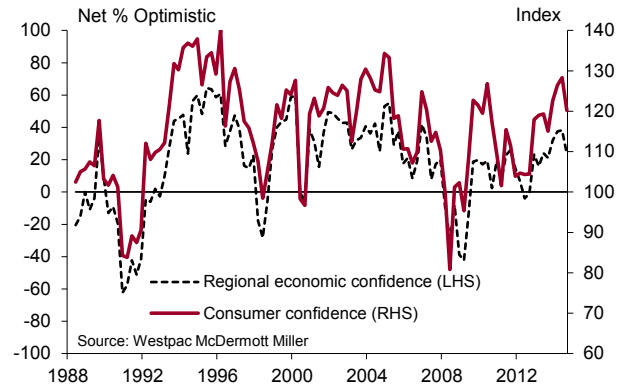
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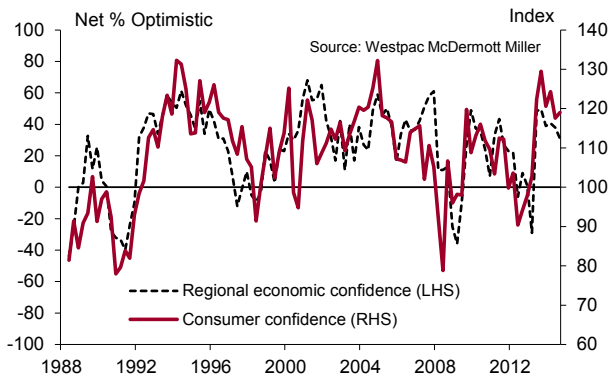
### Northland



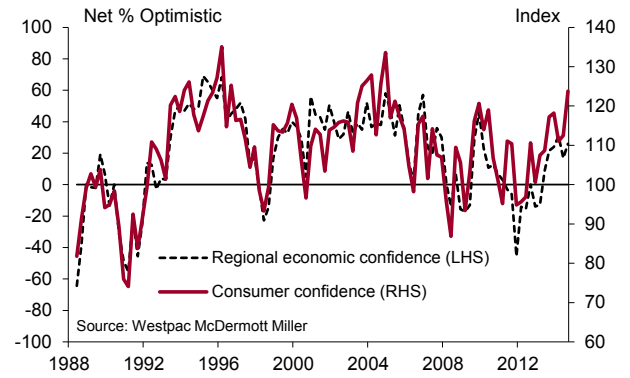
### Auckland



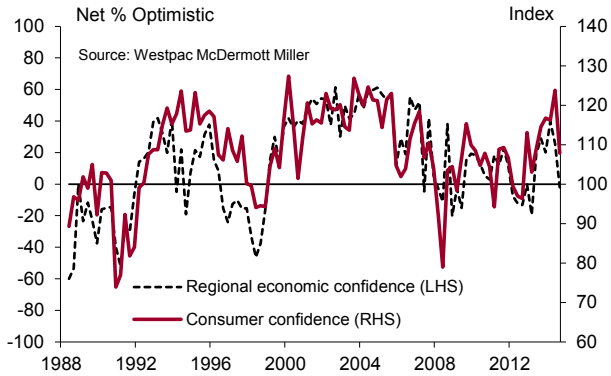
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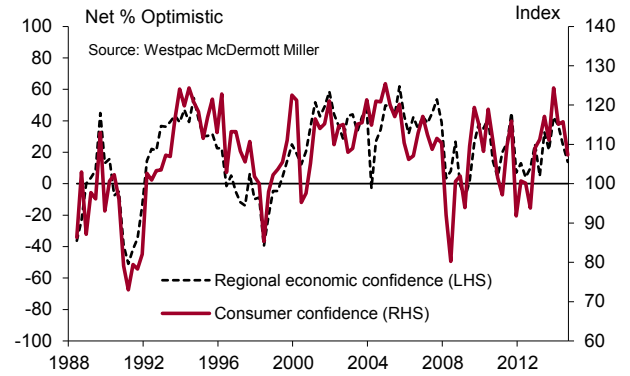
### Bay of Plenty



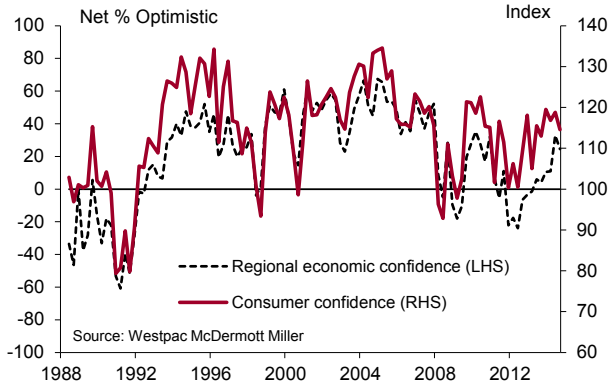
### Gisborne/Hawke's Bay



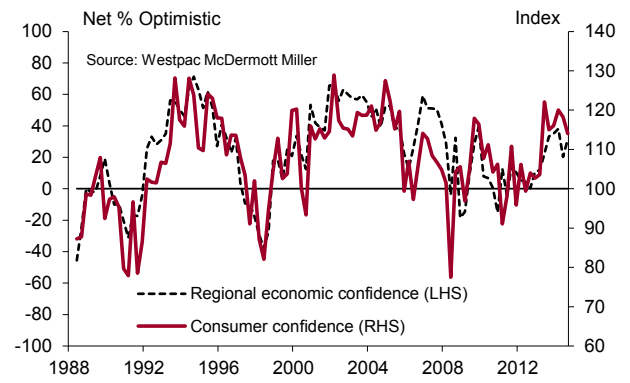
### Taranaki/Manawatu-Whanganui



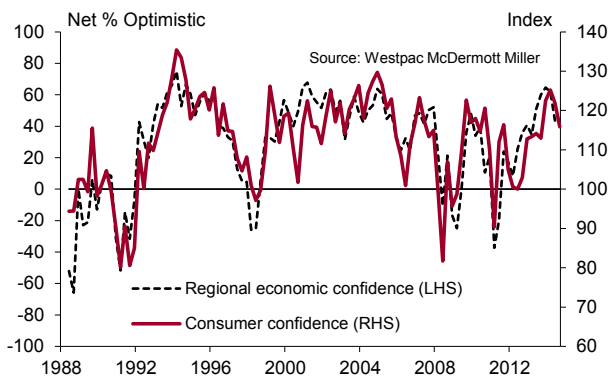
### Wellington



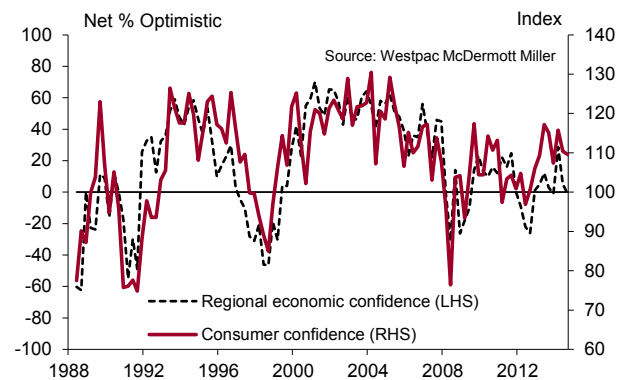
### Nelson/Marlborough/West Coast



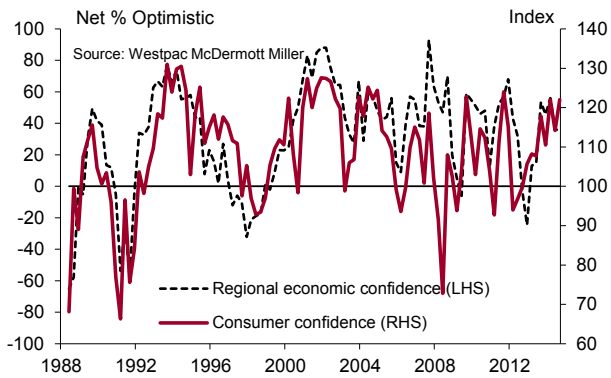
### Canterbury



### Otago



### Southland



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