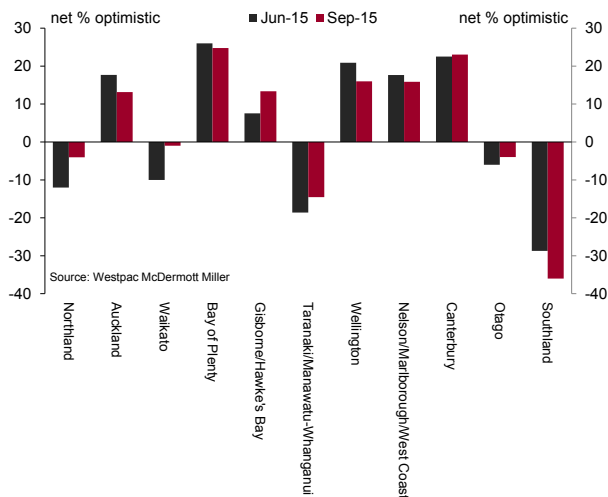


# A tale of two economies

## Westpac McDermott Miller Regional Economic Confidence, September quarter 2015

- Regional economic confidence remained flat across New Zealand in the September quarter with small changes up or down across most regions.
- A dichotomy is emerging between dairy-intensive regions on the one hand, which remain downbeat, and regions with less exposure, whether urban or rural, which are significantly more positive about the economic outlook.
- The Bay of Plenty remains the most optimistic region in New Zealand, closely followed by Canterbury.

### Regional economic confidence



### Regional economic confidence\*

Region	Regional economic confidence (%)		
	Jun-15	Sep-15	Change
Northland	-12	-4	8
Auckland	18	13	-5
Waikato	-10	-1	9
Bay of Plenty	26	25	-1
Gisborne/Hawke's Bay	8	13	6
Taranaki/Manawatu-Whanganui	-19	-15	4
Wellington	21	16	-5
Nelson/Marlborough/West Coast	18	16	-2
Canterbury	23	23	1
Otago	-6	-4	2
Southland	-29	-36	-7
Nationwide	10	10	0

Source: Westpac McDermott Miller

\*Regional economic confidence is the balance of households expecting good, as opposed to bad, economic times in their region over the coming year, as a percentage of total number of households. Sample sizes, and margins of error, vary by region. The national average is weighted by the share of each region in the total population. The survey was conducted over 1-11 September, with a total sample size of 1550.

Regional economic confidence remained stable at an aggregate level in September. A net 10% of New Zealanders are optimistic about their region's economic prospects, compared to a peak of 37% in March 2014.

A clear divergence is emerging between regions. Some are highly exposed to the dairy sector, which is facing far lower prices, meaning tougher times for farmers and support services, and regions with more diverse economies. Southland and Taranaki/Manawatu-Whanganui, and to a lesser extent Otago and the Waikato, are well below the national average in terms of regional economic expectations.

Yet the three main urban centres, with their service-based economies, all retain regional confidence figures above the national average despite falls in confidence in Auckland and Wellington. Northland, Bay of Plenty, and Gisborne and Hawke's Bay, three regions with large rural hinterlands but less exposure to dairy, similarly saw high or improving confidence in the regional economic outlook.

Some regional aggregates, such as Nelson/Marlborough/West Coast, have results that are skewed by their mix of dairy and other industries, such as viticulture, fruit growing and seafood, which makes it hard to read too much into the results there.

## Regional Roundup

**Northland:** Northland households are far less optimistic about the economic outlook for their region than the average New Zealand household. A net 4% of households expect mainly bad economic times in the region over the year ahead. However, confidence in the local economy has improved sharply from a net 17% downbeat on future regional prospects just 6 months ago. Northland has a fair amount of dairying and forestry, which are both industries facing significant challenges at the moment. However, factors that may be helping move the regional outlook toward positive territory include an increase in tourist guest nights of 5.5% on the previous year, and strong growth in house prices, which tends to boost people's sense of economic well-being.

**Auckland:** A net 13% of households expect good economic times in the region over the year ahead. However, it is worth noting that the region has seen one of the sharpest declines in net optimists over the last three months. Sharply higher house prices have created a general sense of economic well-being. But even as housing affordability has become the dominant economic issue in Auckland, concerns over the possibility of a correction in house prices may be taking hold, bringing confidence down. Yet retail spending, vehicle sales, and views on whether now is a time to buy a major household item, which are all other measures of consumer confidence, remain strong.

**Waikato:** Waikato households are equally split on the question of whether their region can expect better or worse economic times over the next year, with a net 1% of households expecting mainly bad economic times. With more a quarter of New Zealand's dairy jobs, the Waikato's fortunes are strongly linked to an industry that is experiencing a lot of uncertainty. This is reflected in sales of farm vehicles being down 10% on the previous year. On the other hand, residential consent values and private vehicle sales are up more than 10%. These factors point to a mix in views between urban centres like Hamilton, and rural areas.

**Bay of Plenty:** For the second quarter in a row, the Bay of Plenty remains the region with the most positive expectations for the local economy. A net 25% of households expect good economic times in the region over the year ahead. The Bay

of Plenty continues to be spared from some of the economic woes affecting other regions, as the kiwifruit industry has bounced back strongly from the ravages of the PSA outbreak. Retail spending remains buoyant and house prices in Tauranga continue to rise. Confidence is also reflected in sales of commercial and private vehicles.

**Gisborne/Hawke's Bay:** A net 13% of households expect good economic times in the region over the year ahead. Gisborne and the Hawke's Bay are relatively isolated from the challenges faced by other parts of the national economy. Card spending remains steady and sales of private vehicles, another measure of confidence, are up. Although house price growth is mixed across the region, a net 16% of survey respondents believed now was a good time to buy a major household item.

**Taranaki/Manawatu-Whanganui:** In Taranaki and Manawatu-Whanganui, a net 15% of households are expecting worse economic times over the next year. This is a marginal improvement on the net 19% who were pessimistic in June. Taranaki has experienced the double whammy of poor dairy fortunes and a sharply falling oil price. Card spending is down in Taranaki and the June quarter unemployment data suggests a lot more people out of work. But despite the negative view, there are some positives – residential consent values and private vehicle sales remain buoyant. Palmerston North and the wider Manawatu have seen card spending rise and unemployment fall.

**Wellington:** Wellingtonian households remain relatively optimistic when asked about the economic outlook for the region. A net 16% of households expect good economic times in the region over the year ahead although this is down from 21% last quarter. Wellington has been in 'steady as she goes' mode for some time. Retail spending remains fairly strong, and the region has an unemployment rate below the national average. At the same time, house price growth is weak, and vehicle sales are relatively flat. This suggests that much of the buoyancy may be more a sense of relief that the harshest of the central government job cuts appears to have ended than any new driver of economic activity.

**Nelson/Marlborough/West Coast:** The Top of the South remains relatively positive about the outlook for the regional economy over the next 12 months. A net 16% of households are expecting better economic times over the next year. There appears to be a dichotomy between the dairy and mining-focused West Coast, where conditions have turned down sharply, and Nelson-Tasman-Marlborough, where the wine industry, fruit growing, and seafood provide a fair amount of diversification in the local economy. Card spending and private vehicle sales are up in these other parts of the wider region.

**Canterbury:** Canterbury households are far more optimistic about the economic outlook for their region than the average New Zealand household. A net 23% of households expect good economic times in the region over the year ahead.

Although the Canterbury rebuild has peaked, construction activity is expected to remain strong until late next year. There has been a slowdown in residential building activity, and a commensurate slowdown in house price growth, but a lot of the non-residential building work still needs to be done. Meanwhile retail sales are up sharply over the last year, and vehicle sales remain strong.

**Otago:** Residents of Otago are far less optimistic about the economic outlook for their region than the average New Zealand household. A net 4% of households expect mainly bad economic times in the region over the year ahead. Otago has a fair amount of exposure to the struggling dairying sector, which will explain some of the pessimism. At the same time, tourist guest nights are up around 5.4% on the same quarter a year ago, and the prospects for sheep and beef, while not setting the region alight, are reasonable. Another factor pointing to more optimism is the growth in residential consent values.

**Southland:** Southland households are the least optimistic in New Zealand about the economic outlook for their region. A net 36% of households expect mainly bad economic times in the region over the year ahead. This constitutes a net 65% reversal in just 6 months and is the lowest reading since September 1991. Southland is a region with just 2.1% of New Zealand's population, but it has 10% of dairy employment. This level of exposure to an industry with a lot of current uncertainty is weighing heavily on confidence. Unemployment has risen quite sharply in the last 6 months, and purchases of farm vehicles are down 8.4% in the last 6 months over the same period last year.

### Consumer confidence: regional breakdown

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

### Consumer confidence by region

Region	Consumer confidence index		
	Jun-15	Sep-15	Change
Northland	106.8	104.0	-2.8
Auckland	117.3	111.4	-5.9
Waikato	115.6	100.8	-14.8
Bay of Plenty	116.3	107.3	-8.9
Gisborne/Hawke's Bay	117.5	103.4	-14.1
Taranaki/Manawatu-Whanganui	106.9	101.9	-5.0
Wellington	104.5	101.8	-2.8
Nelson/Marlborough/West Coast	109.8	103.6	-6.2
Canterbury	114.7	108.3	-6.4
Otago	108.2	100.8	-7.4
Southland	101.8	92.8	-9.0
Nationwide	113.0	106.0	-7.0

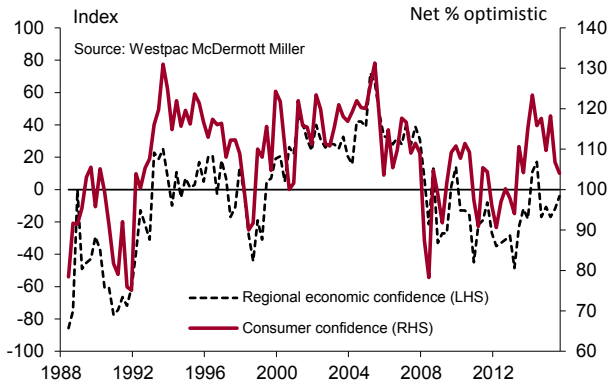
Consumer confidence fell in all eleven regions in the September quarter. That most likely reflects concerns about weak dairy prices, the plateauing of rebuild activity in Canterbury, and the Reserve Bank's response to the slowing economy in cutting interest rates.

In some cases, respondent's views on where the national economy is heading were at odds with their views on the regional economy. For instance, regional economic expectations in Gisborne and the Hawke's Bay, Northland, and Taranaki and Manawatu-Whanganui all shifted in a positive direction although the latter two were still pessimistic overall. Yet all three of these regions expected the national outlook to worsen over the coming year. This is particularly remarkable in the case of Taranaki and Manawatu-Whanganui, given the region's exposure to dairy and oil and gas, another industry battling low commodity prices.

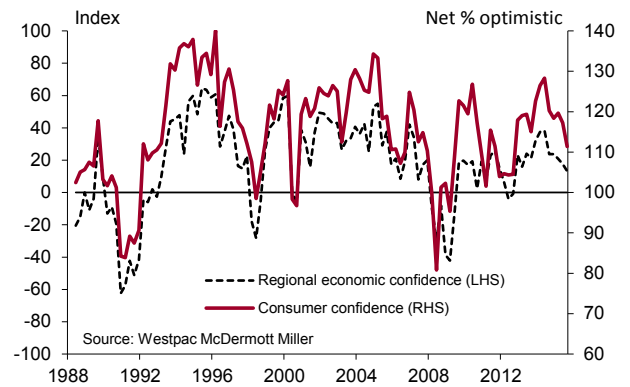
Remarkably, even in regions where regional and national economic confidence was low, a net positive proportion of respondents still thought now was a good time for a major household purchase. This varied between a net 6% in Southland and a net 26% in Auckland.

**David Norman**  
Industry Economist

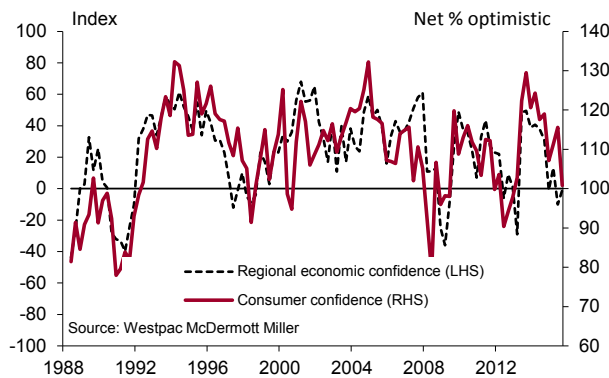
### Northland



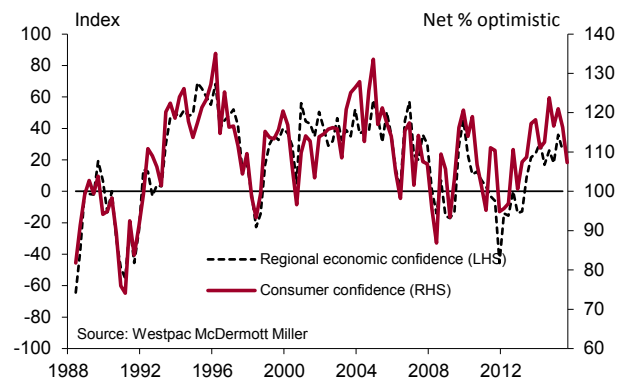
### Auckland



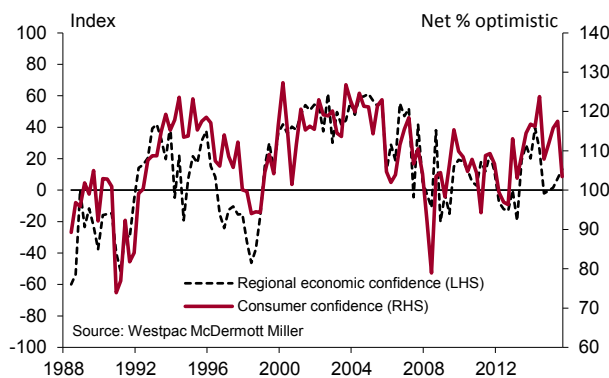
### Waikato



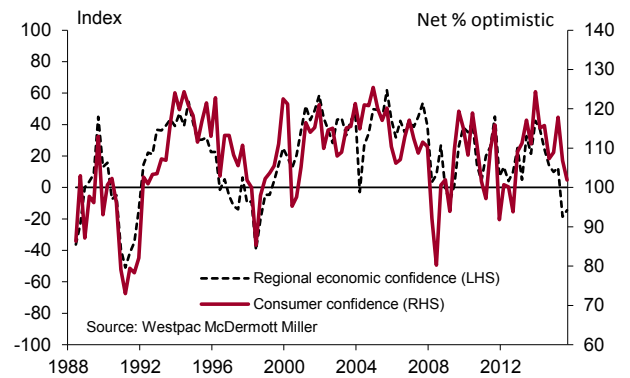
### Bay of Plenty



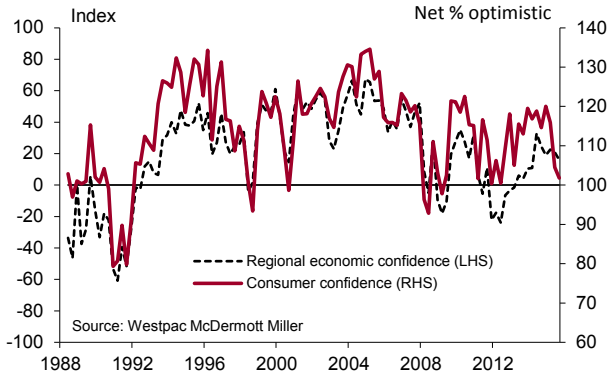
### Gisborne/Hawke's Bay



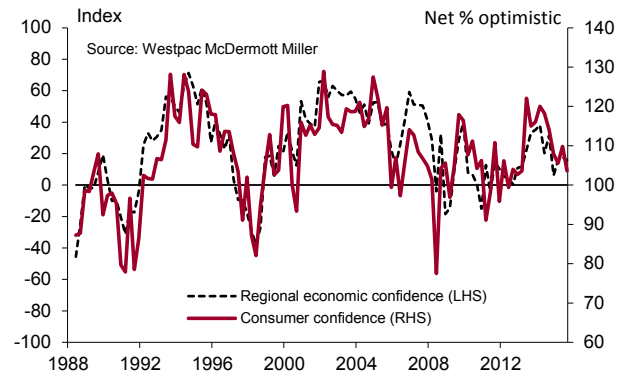
### Taranaki/Manawatu-Whanganui



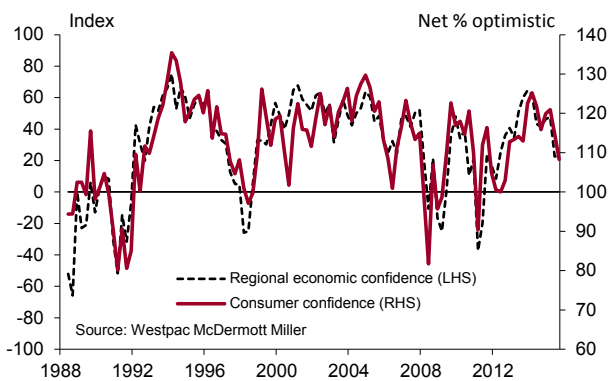
### Wellington



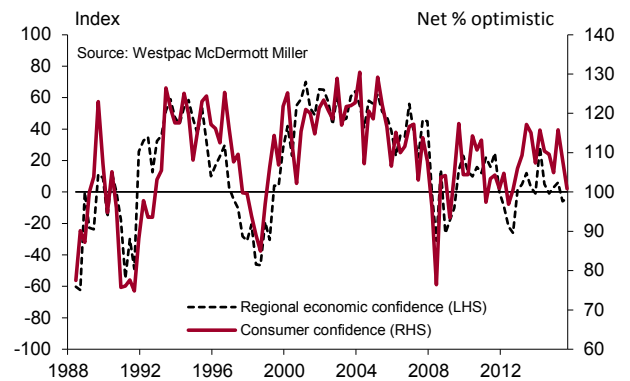
### Nelson/Marlborough/West Coast



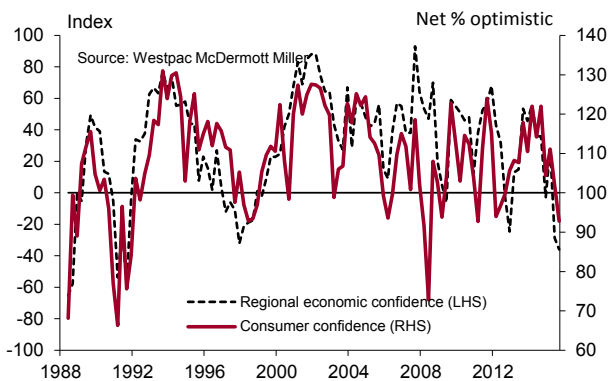
### Canterbury



### Otago



### Southland



## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Satish Ranchhod**, Senior Economist  
+64 9 336 5669

**David Norman**, Industry Economist  
+64 9 336 5656

Any questions email:  
economics@westpac.co.nz

## Disclaimer

**Things you should know:** Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at [www.cleanenergyregulator.gov.au](http://www.cleanenergyregulator.gov.au) as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

### **Additional information if you are located outside of Australia**

**New Zealand:** The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

**Disclaimer continued overleaf.**

## Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**U.K.:** Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.