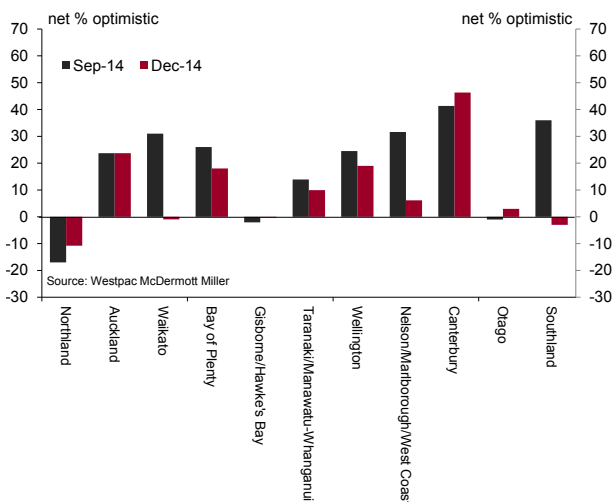


# Dairy downturn takes its toll

## Westpac McDermott Miller Regional Economic Confidence, December quarter 2014

- Consumers' economic confidence has tumbled in Southland and the Waikato, two of New Zealand's main dairying regions.
- By contrast, economic confidence in Canterbury – another centre of the dairy industry – actually rose in the quarter, a testament to the importance of the post-earthquake rebuild.
- Over the last six months the gloss has come off confidence in most regions, though optimists continue to predominate by a decent margin in the three main centres and the Bay of Plenty.

### Regional economic confidence



### Regional economic confidence\*

Region	Regional economic confidence (%)		
	Sep-14	Dec-14	Change
Northland	-17	-11	6
Auckland	24	24	0
Waikato	31	-1	-32
Bay of Plenty	26	18	-8
Gisborne/Hawke's Bay	-2	0	2
Taranaki/Manawatu-Whanganui	14	10	-4
Wellington	25	19	-6
Nelson/Marlborough/West Coast	32	6	-25
Canterbury	41	46	5
Otago	-1	3	4
Southland	36	-3	-39
Nationwide	23	18	-5

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 December, with a total sample size of 1557.

This quarter's Regional Economic Confidence survey was a telling study in contrasts.

In New Zealand's largest and third-largest dairy exporting regions, economic confidence has come crashing down as lower payout forecasts have hit home. Consumers in the Waikato and Southland have fallen back into pessimism for the first time since late-2012 and early-2013, when the Waikato was in the grip of drought and Southland was facing the possible closure of the Tiwai Point aluminium smelter.

But in Canterbury – the second-biggest dairying region – economic confidence actually rose slightly in the quarter, and remains the most optimistic in the country by far. Clearly, this is thanks to ongoing reconstruction activity, though Cantabrians' economic confidence has moderated from the dizzying heights of a year ago.

In most other regions, economic confidence has also lost some of its lustre in the last six months, when much of the country seemed to be basking in the prospects of a stellar dairy season. Optimists continue to outnumber pessimists by a decent margin in Auckland, Wellington, and the Bay of Plenty, but elsewhere the mood is now fairly subdued.

## Regional Roundup

**Northland:** Economic confidence in the region improved this quarter, but remains very subdued. Lower dairy prices and the recent bout of flooding are likely to have taken their toll on economic optimism among local farmers. Meanwhile unemployment in the region remains high, and the housing market seems to have lost momentum again.

**Auckland:** Aucklanders remain optimistic, but noticeably less so than earlier this year. That is somewhat surprising, given the recent drop in mortgage rates, strong population and jobs growth, and signs of a post-election revival in the housing market. Steep rate increases for some, concerns around local government funding, and gloomier global economic news may all be playing a role.

**Waikato:** Economic confidence in New Zealand's biggest dairying region has followed dairy payout forecasts downwards, with pessimists outnumbering optimists for the first time since early 2013. Other signs of economic activity, such as electronic card spending, car registrations, and building consents, have also lost momentum in recent months – though there have been signs of a post-election lift in Hamilton's housing market.

**Bay of Plenty:** Economic confidence in the Bay of Plenty has fallen in the last three months, but remains higher than in many other regions. That may reflect the fact that the horticulture and tourism sectors are doing relatively well, as well as the recent lift in population growth which has boosted retail and construction activity.

**Gisborne/Hawke's Bay:** Economic confidence in the region rose slightly in the December quarter, but remains well below where it was earlier in the year. Conditions faced by the forestry sector remain challenging, though international log prices now seem to have bottomed out. Meanwhile, the region's labour market has been improving, with job vacancies rising and unemployment falling.

**Taranaki/Manawatu-Whanganui:** Economic confidence in Taranaki/Manawatu-Whanganui has continued to slide. That said, the fall was less steep than in other dairying regions such as the Waikato, with households still modestly optimistic on balance.

**Wellington:** Economic confidence in Wellington has fallen for a second quarter in a row, but remains moderately optimistic. While the region's economic indicators saw a noticeable improvement last year, they have lost momentum more recently. In particular, unemployment has stopped falling and the housing market remains slow.

**Nelson/Marlborough/West Coast:** Economic confidence in the region plunged this quarter, with optimists now only barely outnumbering pessimists. This is hard to square with other indicators from the region – perhaps recent concerns around dry weather played a role. Regional unemployment is at four-year lows, guest nights in the West Coast have risen sharply, and since the election there have been signs of life in the Nelson housing market.

**Canterbury:** Cantabrians' economic confidence improved this quarter and continues to be the highest in the country by a huge margin – unsurprisingly so, given the ongoing momentum of the Canterbury rebuild. That said, economic confidence has come off its peak at the start of the year, no doubt influenced by the weaker dairy outlook.

**Otago:** While economic confidence in Otago has picked up a little, it remains very subdued, with optimists only just outnumbering pessimists. This takes some of the gloss off the improvement we have seen in other economic indicators for the region: regional unemployment has fallen significantly over the past year, tourist numbers have been rising, the population is growing, and both the Queenstown and Dunedin housing markets have shown signs of a post-election lift.

**Southland:** Southlanders' economic confidence saw the biggest drop of any region this quarter, with pessimists outnumbering optimists for the first time since late 2012. Given the importance of dairying for the regional economy, this comes as no surprise.

## Consumer confidence: regional breakdown

### Consumer confidence by region

Region	Consumer confidence index		
	Sep-14	Dec-14	Change
Northland	117.6	109.7	-7.9
Auckland	120.2	118.4	-1.9
Waikato	119.0	107.1	-11.9
Bay of Plenty	123.8	116.6	-7.2
Gisborne/Hawke's Bay	107.9	111.8	3.9
Taranaki/Manawatu-Whanganui	107.3	108.9	1.6
Wellington	114.6	120.0	5.4
Nelson/Marlborough/West Coast	114.0	107.9	-6.1
Canterbury	115.9	119.9	4.1
Otago	109.6	105.0	-4.6
Southland	122.0	104.4	-17.6
Nationwide	116.7	114.8	-1.9

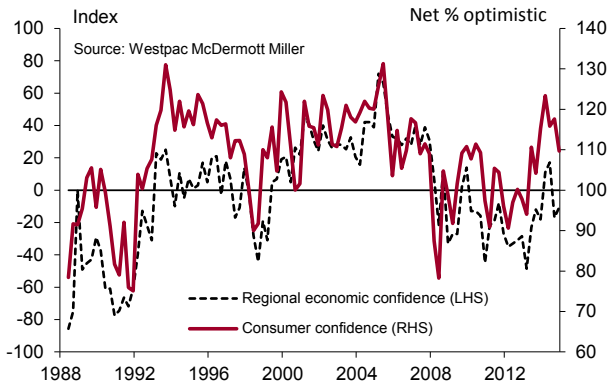
In this bulletin we also report on the regional breakdown of the Westpac McDermott Miller Consumer Confidence Index. Separately from the Regional Economic Confidence Survey, the Consumer Confidence Index summarises responses to questions about households' own financial situation, their expectations for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

Consumer confidence fell in seven out of eleven regions, but the declines were mostly fairly modest. The biggest movers were the Waikato and Southland - here gloom about local economic prospects has translated into wider economic pessimism for New Zealand, a more downbeat assessment of households' own finances, and a reduced willingness to spend on big-ticket items. Consumer confidence in these regions is now below historical averages, though still in modestly positive territory.

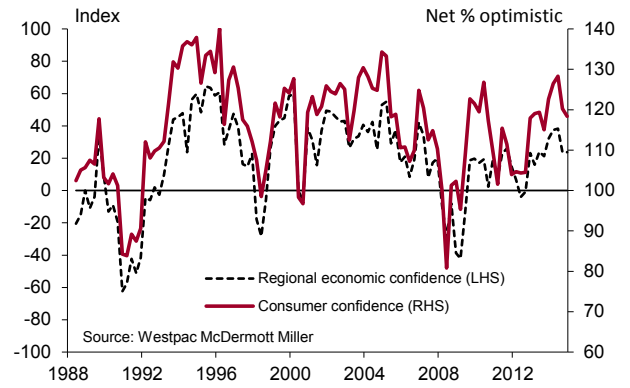
While consumer confidence rose in Wellington and Canterbury, we were a little surprised not to see a similar move in Auckland. After all, urban consumers have enjoyed a boost to their purchasing power from lower petrol prices (which fell below \$2/litre during the survey period) and falling mortgage rates, and there has been a post-election resurgence in the Auckland's housing market. Perhaps rampant house prices are causing as much concern for those wanting to rise up the Auckland property ladder as they are boosting the wealth of those already on it.

**Felix Delbrück**  
Senior Economist

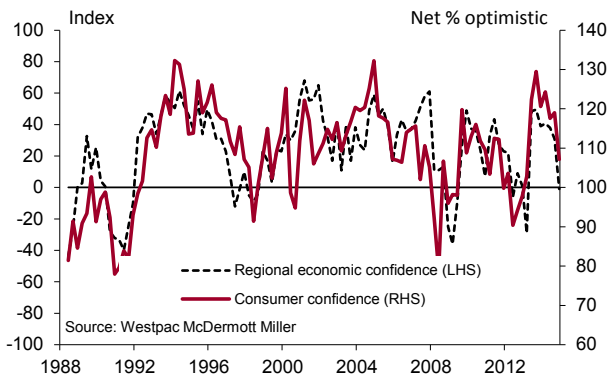
### Northland



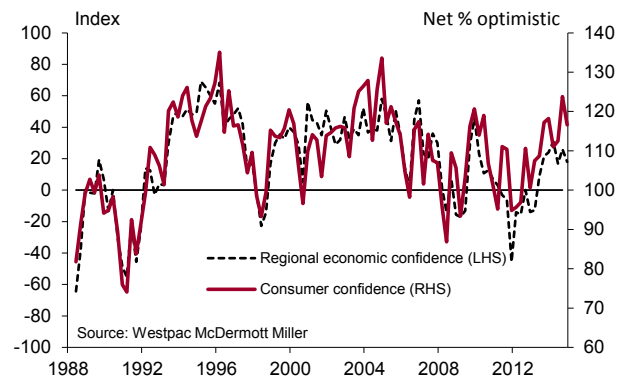
### Auckland



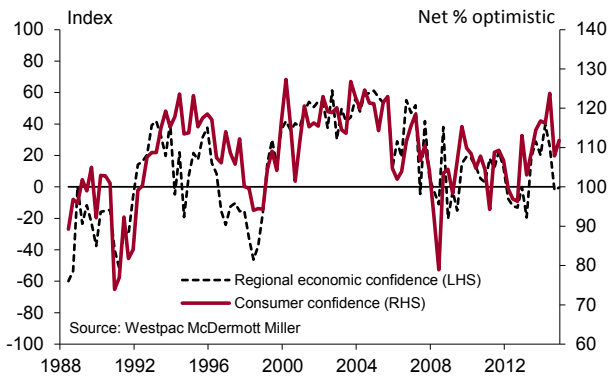
### Waikato



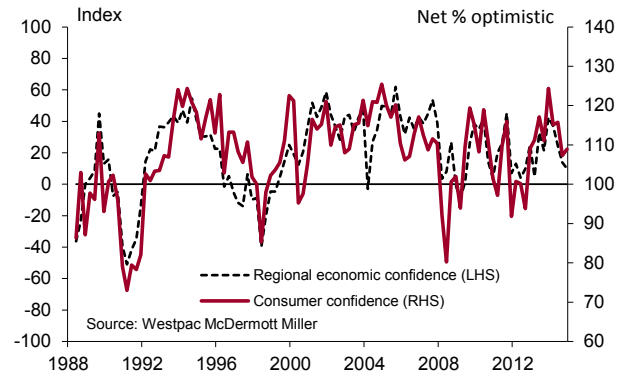
### Bay of Plenty



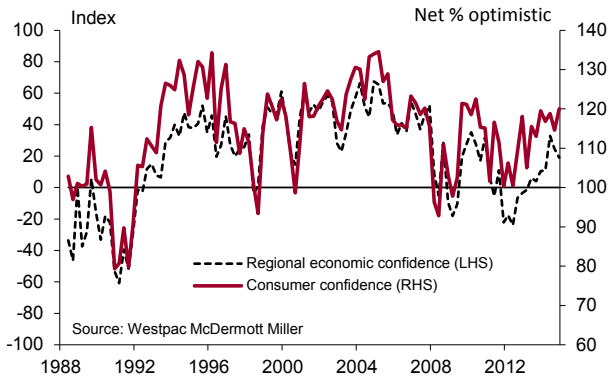
### Gisborne/Hawke's Bay



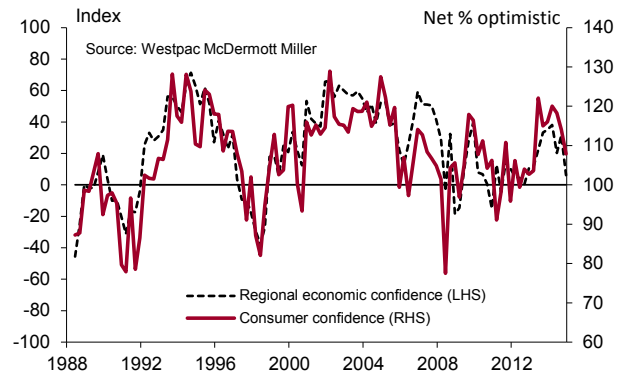
### Taranaki/Manawatu-Whanganui



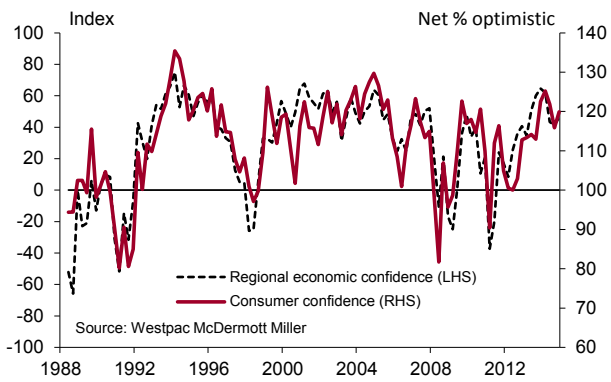
### Wellington



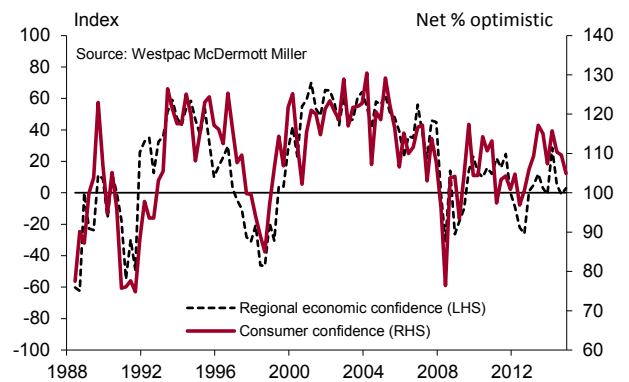
### Nelson/Marlborough/West Coast



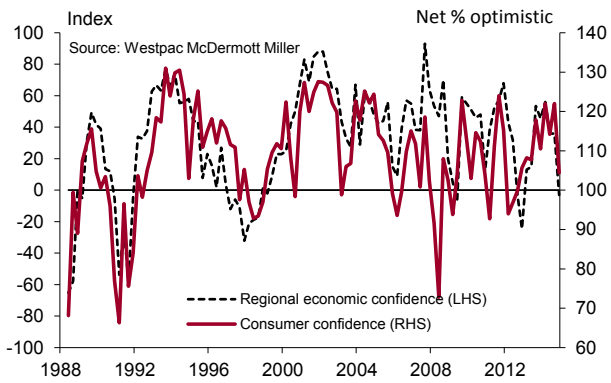
### Canterbury



### Otago



### Southland



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