

Dwellings and dairy

Westpac McDermott Miller Regional Economic Confidence, September quarter 2016

- Regional economic confidence – whether residents believe their local economy will be better off or worse off in 12 months – strengthened in nine of 11 regions.
- Regional economic confidence has lifted again in regions with large dairy industries such as Southland and Taranaki/Manawatu-Whanganui.
- The strongest improvement in regional economic confidence was in Wellington, where house prices have taken off.
- Other areas not exposed to dairy, but with strong house price growth in recent times, such as Gisborne, the Hawke's Bay and Northland also saw strong growth.
- The Bay of Plenty, the most optimistic region over the last five quarters, remains strong, but is now in second spot, as confidence has ebbed somewhat.
- Meanwhile in Auckland, where housing affordability and debt level discussions have come to dominate, confidence was down for the third quarter in a row.
- Consumer confidence, a separate measure of household's views of their own economic conditions, improved in eight out of 11 regions.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Sep-16	Jun-16	Change
Northland	-1	-12	11
Auckland	3	8	-5
Waikato	17	14	3
Bay of Plenty	34	41	-7
Gisborne/Hawke's Bay	19	4	15
Taranaki/Manawatu-Whanganui	12	3	9
Wellington	39	8	31
Nelson/Marlborough/West Coast	20	20	1
Canterbury	31	26	5
Otago	24	7	17
Southland	20	-10	30

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 1559.

Regional economic confidence bounced sharply in many parts of the country, particularly on the back of an improved dairy outlook, a prospect we have raised since revising our 2016/17 dairy payout forecasts to \$5 from \$4.60. And in the last few weeks, there have been further gains in dairy prices, just prior to and during the interview period for this survey.

Southland, one of the most exposed dairying regions, has seen a switch from pessimists outnumbering optimists, to a net 20% of respondents being optimistic about the region's economic direction. The gains in Taranaki/Manawatu-Whanganui and the Waikato are smaller but no less a step in the right direction. Even less exposed (as a share of employment) dairy regions like Otago and Canterbury appear to have picked up on the good news although tourism and construction have probably buoyed the Otago result as well.

After five quarters at the top of the heap, the Bay of Plenty has finally been dethroned as optimism in Wellington surges.

This buoyancy is possibly on the back of strong gains in house prices in Wellington after years of little change, suggesting a growth-minded outlook that is affecting people's views of where their region is headed. This is not to say that the Bay of Plenty is looking much weaker. Optimists still massively outnumber pessimists. It is too early to tell if this quarter's small decline is the beginning of a trend.

The only other region where regional economic confidence fell is Auckland. For the third quarter in a row, the share of households that were optimistic about the future narrowed. This is perhaps the result of falling home ownership rates due to house price rises, and concerns over household debt levels. It comes despite growing employment (especially in construction and tourism).

Gisborne and the Hawke's Bay, where regional economic confidence slumped dramatically last quarter, also saw a return to improved positivity.

Regional discussion

Northland: A net 1% of Northland households expect the regional economy to weaken over the coming year. This makes Northland the only region in the country where pessimists outnumber optimists. Still, the reading for September is significantly better than in June, when a net 12% of respondents were pessimistic, or March, when 16% were. We have been saying for some time that the outlook for the region's economy is better than residents give it credit for. Surprising resilience in forestry, opportunities in tourism, and a pick-up in house prices could lead to even more positivity in Northland in the months to come.

Auckland: Aucklanders' views of their region's economic prospects fell for the third consecutive quarter in September. A net 3% believe the region's economic fortunes will improve over the coming year, down from 8% in June and 21% in December 2015. This further decline suggests a considerable change for the worse as regards where Aucklanders think the regional economy is headed. There are still a lot of positive indicators in terms of employment, construction and tourism growth, but residents may be worried about housing affordability and rising debt, and this may be tainting their view of how the region is doing.

Waikato: A net 17% of Waikato households expect the regional economy to strengthen over the coming year. This reading is up from a net 14% feeling optimistic in June, but is far ahead of the 14% net pessimistic in March. Dairy is likely to have played some role in the improving outlook, but it is likely there is more to the story than that. The Waikato is experiencing strong population growth, which underpins demand for housing, retail and services. Although the region has a relatively diversified economy, it does have a big dairy sector, which means residents will be more positive about the outlook given the improved dairy payout forecasts.

Bay of Plenty: A net 34% of Bay of Plenty households expect the regional economy to strengthen over the coming year. After five consecutive quarters with the strongest reading in

the country, the Bay of Plenty has been bumped to second by Wellington. The Bay saw regional economic confidence fall from a net score of 41% last quarter, but remains strongly upbeat, which is unsurprising. The region is enjoying strong population growth, a resultant construction boom, and the benefits of a strong horticulture sector.

Gisborne/Hawke's Bay: A net 19% of Gisborne and Hawke's Bay households expect the regional economy to strengthen over the coming year. Confidence rebounded after a relatively weak reading of just 4% net optimists in June. The result is well down on the exceptional result seen in March 2016 (net 33% positive), but is well-above the five-year average of 9%. This result underscores the fact that there is a lot to be positive about in Gisborne and the Hawke's Bay at present. The region's horticulture sector is doing well, house prices are rising, which is encouraging retail spending, and forestry remains remarkably resilient. Meat and wool is also doing moderately well.

Taranaki/Manawatu-Whanganui: A net 12% of Taranaki and Manawatu-Whanganui households expect the regional economy to strengthen over the coming year. This result was a significant improvement on the June survey result that followed several weak dairy auctions, but is still subdued compared to many regions. With one of the highest exposures to dairy, the level of caution in households' views of where their region is headed are not surprising. Westpac's milk solids price forecasts have been revised up to \$5 per kilogram for the current season on the back of some solid recent dairy auction results, so we may see a little more optimism flow through. At the same time, residents remain quite pessimistic about their own personal circumstances. With oil and gas still depressed and the outlook for sheep and beef mixed, households don't appear to be getting carried away.

Wellington: A net 39% of Wellington households expect the regional economy to strengthen over the coming year. This result is the highest recorded in nearly nine years, and is up dramatically from the reading of just 8% net optimistic last quarter, although that particularly weak reading appears to have been an anomaly. Wellington's regional economic confidence has been inexplicably weak in recent times, but it appears that residents are beginning to acknowledge the strength in the local economy, with expectations that the region will be better off in a year. The population is growing, house prices are surging, and the region enjoys some of the highest incomes in the country.

Nelson/Marlborough/West Coast: A net 20% of Nelson, Marlborough and West Coast households expect the regional economy to strengthen over the coming year. This result is roughly the same as in June, and is much in line with readings over the last 18 months. The result is also a fraction ahead of the five-year average of 18%. This is another positive result for the region, which has been remarkably resilient in its regional economic confidence given its exposure to dairy during the downturn. As a result, we are now seeing less of a bounce than we might have anticipated with the current partial recovery in dairy prices.

Canterbury: A net 31% of Canterbury households expect the regional economy to strengthen over the coming year. This is the strongest result in the region for 18 months. Canterbury saw regional economic confidence rise from 26% in June, and has now had two consecutive quarters of rises. It is a little surprising that residents have such a strong view of the regional outlook given that households' views of their own fortunes (as evidenced by the separate consumer confidence survey results) are less optimistic. This may be partly driven by the recent recovery in milk prices at auction, as people see that as having a positive impact on the regional economy. But the economic activity associated with the rebuild after Canterbury's devastating earthquakes is now past its peak and the gradual wind-down in rebuild work is underway.

Otago: A net 24% of Otago households expect the regional economy to strengthen over the coming year. This was a strong result, up from a net 7% optimistic in the June quarter, and 12% in March. The latest confidence reading is well above the five-year average for the region of just 4% net positive. The most recent result is justified given the strength in the Otago economy at the moment. Tourism in particular is growing very well in the Queenstown-Lakes District, while Central Otago's horticulture sector is also doing well. Nevertheless, the economic outlook is mixed depending where in the region you are. Although dairy is not as important to Otago as to Southland or Canterbury, the region's regional economic confidence does seem to have responded to fluctuating dairy prices.

Southland: A net 20% of Southland households expect the regional economy to strengthen over the coming year. This result was a complete reversal from the net 10% of respondents who thought the economy would weaken in the June survey, and is a further improvement upon the net 22% who were pessimistic in March 2016. We expected to see a strong bounce in regional economic confidence in Southland. The region has the highest exposure to employment in the dairy sector of all of New Zealand's regions, so better milk price forecasts are being reflected in regional economic confidence.

Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Sep-16	Jun-16	Change
Northland	108	88	19
Auckland	113	112	1
Waikato	108	104	4
Bay of Plenty	107	110	-3
Gisborne/Hawke's Bay	107	96	12
Taranaki/Manawatu-Whanganui	96	102	-5
Wellington	108	108	0
Nelson/Marlborough/West Coast	108	101	7
Canterbury	103	106	-3
Otago	108	97	11
Southland	102	96	7
Nationwide	108	106	2

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 rose a smidgeon overall, from 106.0 to 108, including rises in eight of the 11 regions. This is an unsurprising change given the modest overall improvement in regional economic confidence. Only the Bay of Plenty and Canterbury saw consumer confidence fall, and both by relatively small amounts.

The strongest gains were in Northland and Gisborne/Hawke's Bay, but these were after a much weaker result in June. The latest results were more in line with recent trends.

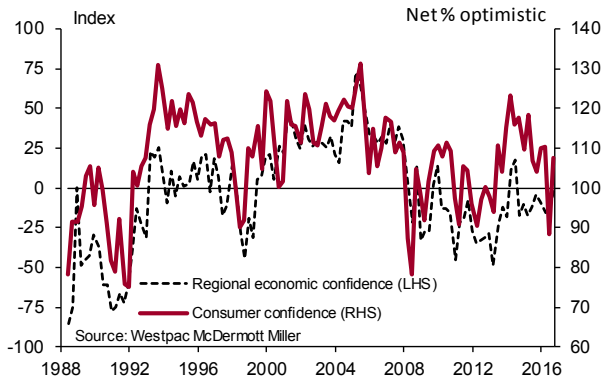
Otago, which saw the third largest gain in fortunes, appear to be building on strength in tourism and construction in the Queenstown-Lakes district in particular. The scale of growth there means that even though the district is a small part of the regional picture, it is putting upward pressure on confidence.

At the other end of the spectrum, the only regions where consumer confidence fell are the Bay of Plenty, Taranaki/Manawatu-Whanganui, and Canterbury. Canterbury appears to be slowly returning to more moderate levels of consumer confidence as the rebuild there moderates. The result for Taranaki/Manawatu-Whanganui is more surprising. While dairy is by no means out of the woods yet, we would have expected the recent rebound in dairy prices to underpin a stronger consumer confidence reading in big dairy regions. This appears to have been the case in Southland and the Waikato, but not in Taranaki/Manawatu-Whanganui.

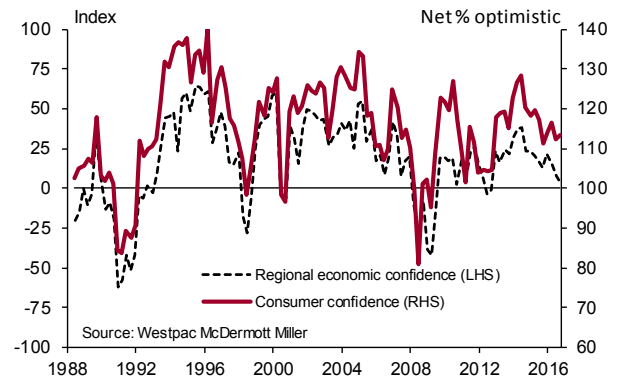
Meanwhile, Bay of Plenty consumer confidence was down slightly although it remained around the overall national level. This implies that households there may feel a little more positive about their region's outlook than their own personal prospects.

David Norman
Industry Economist

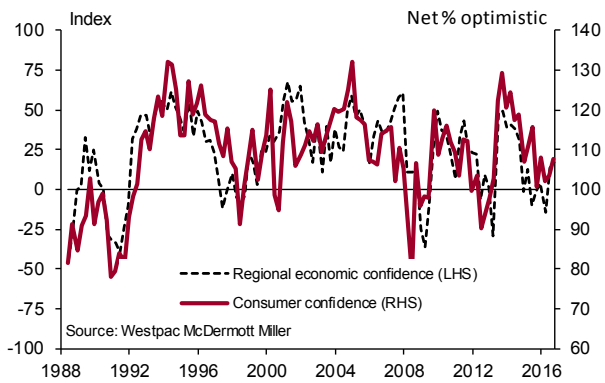
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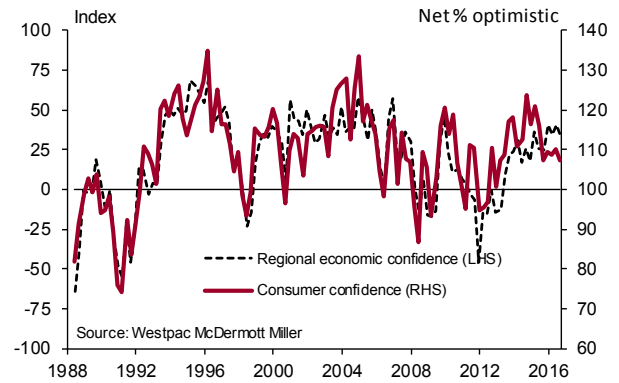
Auckland



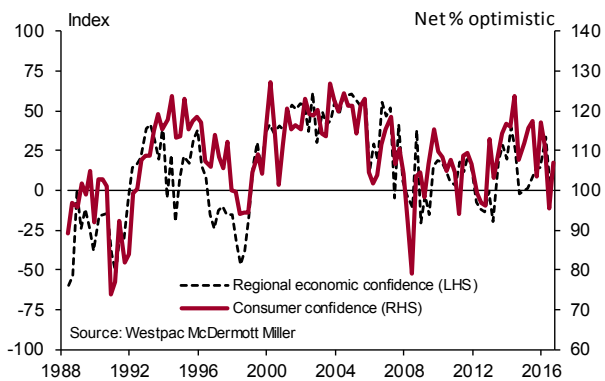
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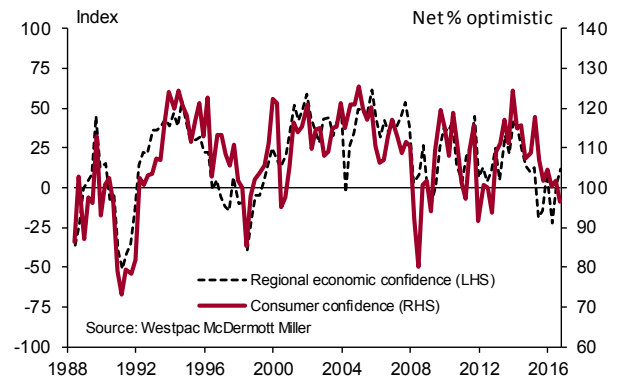
Bay of Plenty



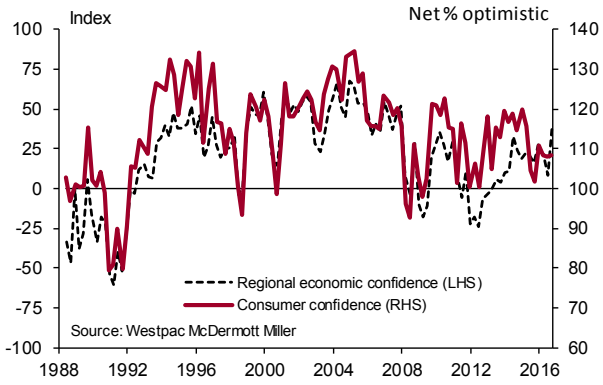
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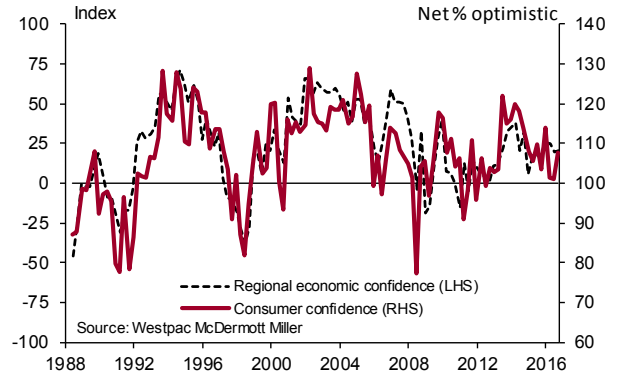
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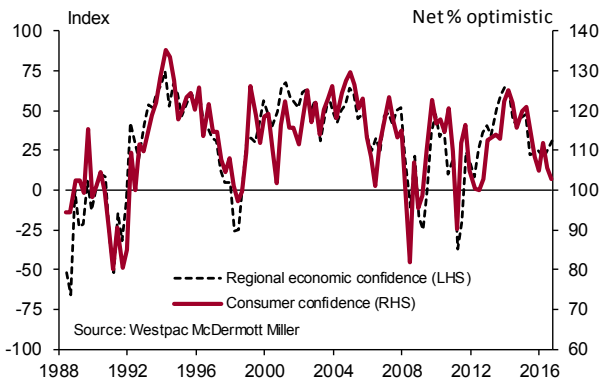
Wellington



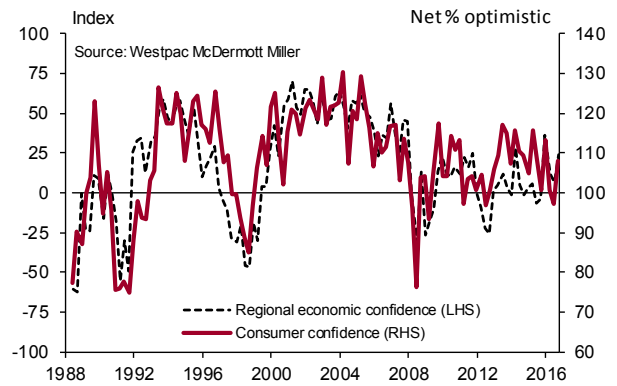
Nelson/Marlborough/West Coast



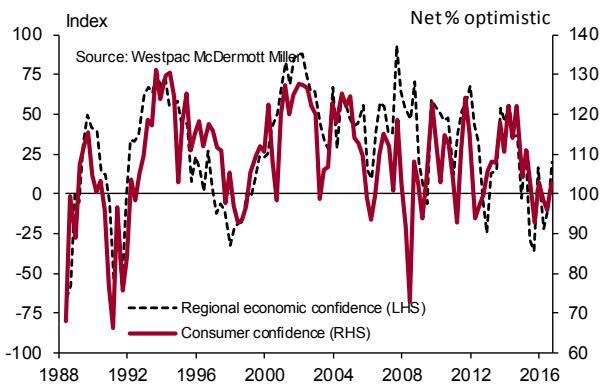
Canterbury



Otago



Southland



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