

A pottle of optimism

Westpac McDermott Miller Regional Economic Confidence, December quarter 2015

- All regions other than Northland saw a spike in optimism with regard to the economic outlook for their region.
- Some of the largest improvements in mood were in dairying regions, which were particularly downbeat at the time of our last survey - Taranaki/Manawatu-Whanganui, the West Coast and Southland all saw large positive changes in sentiment.
- The Bay of Plenty is once again the most optimistic region in New Zealand, followed by Otago, which saw a huge upswing in sentiment in the latest quarter.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Sep-15	Dec-15	Change
Northland	-4	-9	-5
Auckland	13	21	8
Waikato	-1	4	5
Bay of Plenty	25	41	16
Gisborne/Hawke's Bay	13	14	1
Taranaki/Manawatu-Whanganui	-15	9	24
Wellington	16	28	12
Nelson/Marlborough/West Coast	16	26	10
Canterbury	23	25	2
Otago	-4	37	41
Southland	-36	16	52

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 1565.

Sentiment has markedly improved across almost all regions since the September survey. In many regions exposed to dairy, this has been in response to a better payout forecast as dairy prices have rebounded since their August lows. Examples include Taranaki/Manawatu-Whanganui, the West Coast and Southland, as well as the Waikato, which had resilient results last quarter given its dairy exposure, and which has seen an even more positive result this quarter.

We have previously set out our expectations of a bounce in sentiment, as the September survey was at a particularly low ebb for the dairy sector, but in some cases the scale of the rise in positivity is surprisingly large. Some of this variation may be explained by wider margins of error, especially for regions like Southland, where sample sizes are small, but a 52-point swing in that region cannot be explained just by statistical noise. There is absolutely no doubt that the region is more upbeat as a \$3.85 Fonterra payout has been revised to \$4.60.

We would caution, however, that the current payout forecast is still weak. We would need to see a further significant uptick in the payout forecast before another bump in sentiment would be likely.

Positivity has strengthened in the major urban centres, too. Canterbury's rise was small (up 1.6 percentage points) off a relatively high base, but further optimism has swept across Auckland (up 8.1) and Wellington (up 12.0). These changes in residents' outlook have occurred even with greater certainty that the Canterbury rebuild has peaked, reducing the likelihood of stronger growth there, and as signs have emerged that the new investor rules in Auckland are taking the wind out of the city's housing market sails.

Northland has seen a slight downturn in what was already a marginally negative outlook. While this is not a strong result, Northland still has a reading well ahead of its five-year average of a net 17% pessimistic. A number of indicators in that region remain positive, as we discuss below.

Regional Roundup

Northland: Although Northland has experienced several challenging years, there is a more optimistic view there now. Unemployment was down sharply in the September quarter, and the kiwifruit industry has recovered well. Tourist guest nights rose 3.3% in the three months to October 2015 compared to a year earlier, and house prices have risen. That said, the region does have some exposure to dairy, and the impact of this summer's El Niño weather pattern is yet to be measured. Forestry is another industry that faces tepid growth, which will also be weighing on sentiment. Residents will want to see how the summer pans out for the tourism, dairy and sheep and beef industries before too much optimism creeps in.

Auckland: Aucklanders' positive view of the region's economic outlook remains undented. Strong house price growth has fuelled a significant wealth effect in Auckland over the last couple of years. Retail sales were up around 8% in the September quarter, for instance. While house price growth has now slowed, there are still many positive signs in the region. Residential construction is booming, and a lot more scope for growth exists. Several new commercial developments are planned downtown, and job advertisements are still remaining strong. Auckland, as an urban centre, has also been more insulated from the commodity price weakness seen elsewhere in New Zealand.

Waikato: After two quarters in which pessimists outnumbered optimists on the outlook for the Waikato region, December saw a return to positivity. The bounce reflects marginally improved fortunes for the dairy sector. The Waikato employs one in every four dairy workers in New Zealand, so its fortunes are very strongly tied to that sector. At the time of the September survey, dairy prices were exceptionally low and farmers were looking at a payout of around \$3.85 per kilogram of milk solids. The mood has improved although many farmers will still be struggling even at the higher payout. Sentiment is mixed across the region, however. Strong house price growth in Hamilton, suggests a lot more confidence in the city than in some other parts of the region, where tractor sales, for instance, are down 23% from sales for the November quarter in 2014.

Bay of Plenty: For the third quarter in a row, Bay of Plenty residents are more positive about their region's economic outlook than any other region in New Zealand. A resurgent kiwifruit industry, strong house price growth, and falling unemployment all point to this rise in optimism. Electronic card sales were up 8.4% in the September 2015 quarter, compared to the same quarter last year, and house prices were up strongly in the region's largest city, Tauranga. Guest nights grew 3.3% in the three months to October 2015, compared to the same period a year ago. At the same time, the economic outlook does vary across the region. Our view is that the west is looking a lot more rosy than the east, where a tepid forestry sector means views on the outlook are likely to be more mixed.

Gisborne/Hawke's Bay: For the fifth straight quarter, there was an improvement in Gisborne and Hawke's Bay residents' views of how the regional economy will pan out over the next 12 months. A net 14% of respondents were upbeat, up a whisker from the September quarter, and from a net 2% feeling

pessimistic in September 2014. Although residents are still a bit less optimistic about the outlook than most regions in New Zealand, positivity does appear to be growing. Electronic card sales have risen modestly, and there has been some growth in house prices. At the same time, this region is likely to be one of the worst affected by the El Niño weather pattern hitting over summer. Depending on how this affects the region's sheep and beef farmers and fruit growers, we may see some reversal of the recent upswing.

Taranaki/Manawatu-Whanganui: Taranaki and Manawatu-Whanganui have seen a significant improvement in outlook for the regional economy but remain the second least optimistic region in New Zealand. A net 9% of respondents were upbeat in December, compared to a net 15% of respondents who were pessimistic in September. Taranaki and Manawatu-Whanganui are major dairy regions, and their September mood reflected dairy's challenges. Since then, the dairy payout forecast has risen, with a commensurate bounce reflected in regional economic confidence. At the same time, Taranaki continues to bear the brunt of low oil prices – this means very little new exploration activity is happening there, affecting jobs and dampening regional economic confidence. Consumers will likely wait and see what happens to commodity prices before confidence rises much further.

Wellington: Wellington residents' views on the region's economic outlook rose sharply in December. A net 28% of respondents were upbeat, compared to September, when a net 16% of respondents were optimistic. Much of this optimism appears to be based on the high level of incomes relative to costs of living rather than necessarily an expectation of fortunes improving, given the mixed data at hand. Wellingtonians have been positive about the region's future since March 2013, but this is the strongest reading since June 2014. After a long period of flat house price growth, there are signs of life – at least across the urban centres within the region. Less perceived risk of more central government job cuts will likely play some role in this positivity.

Nelson/Marlborough/West Coast: The overall regional economic confidence reading for the Top of the South rose in December. A net 26% of respondents were upbeat, substantially better than in September. The industrial composition of this region varies significantly. On the one hand, the West Coast has large dairy and mining sectors, both of which have struggled with lower commodity prices. On the other hand, Nelson-Tasman and Marlborough have benefitted from a stronger wine industry and booming tourism. Guest nights in the three months to October 2015 were up 11% compared to the same quarter last year, for instance. The dichotomy is evident in house prices, which were up in Nelson, Tasman and Marlborough in the three months to November 2015, but down in Buller, Grey and Westland.

Canterbury: Cantabrians remain positive about the outlook for their regional economy. The reading for the region is almost unchanged from September, with a net 25% of respondents feeling upbeat about where the region is heading economically over the next year. The result reflects the plateauing of the Canterbury rebuild, the dominant story in the region. There is still a lot of rebuild work to be done, but the amount of work is

not expected to grow further in the next year. At the same time, house price growth is flattening in Christchurch especially as supply begins to better match demand. Respondents may feel a little less confident about the region's outlook as we move into 2016 and further evidence of the rebuild wind-down emerges.

Otago: Residents of Otago are among the most upbeat over their region's economic outlook. A net 37% of respondents thought the region's fortunes would improve in the next 12 months, a remarkable turnaround after a net 4% were pessimistic in the September quarter. The old story of strong growth led by the Queenstown-Lakes area, with increasing property values, and more tourism has returned. Guest nights are up more than 7% in the latest quarter compared to a year ago, house prices are up, and unemployment remains the second lowest in the country after Canterbury. The region has significant exposure to meat producers, however, and time will tell if the El Niño weather pattern will moderate the mood as a dry summer hits.

Southland: Three months ago, Southlanders were the most pessimistic in the country about the region's economic outlook, but that view has seen a dramatic reversal. A net 16% of respondents expect the next 12 months to be better for their region's economy in the latest survey. Southland is very exposed to dairy, and as a result, its September reading was dismal as the dairy payout forecast was exceptionally low. With a limited recovery in the payout forecast, farmers are feeling more positive. Still, tractor sales, a measure of farm confidence, were down 22% in the three months to November, compared to a year earlier. Other regional indicators like tourist guest nights (up 6.5%) and reasonably strong electronic card sales are balancing the subdued mood on-farm.

Consumer confidence: regional breakdown

Consumer confidence by region

Region	Consumer confidence index		
	Sep-15	Dec-15	Change
Northland	104.0	109.9	5.9
Auckland	111.4	113.9	2.6
Waikato	100.8	108.2	7.4
Bay of Plenty	107.3	109.6	2.3
Gisborne/Hawke's Bay	103.4	117.1	13.7
Taranaki/Manawatu-Whanganui	101.9	104.7	2.8
Wellington	101.8	111.0	9.2
Nelson/Marlborough/West Coast	103.6	114.0	10.4
Canterbury	108.3	105.1	-3.2
Otago	100.8	113.4	12.6
Southland	92.8	103.0	10.2
Nationwide	106.0	110.7	4.6

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 lifted in all regions other than Canterbury in the December quarter. Interestingly, even though regional economic confidence rose in that region, consumer confidence was down. This mixed result implies a weakening view of households' personal economic outlook compared with the broader regional outlook.

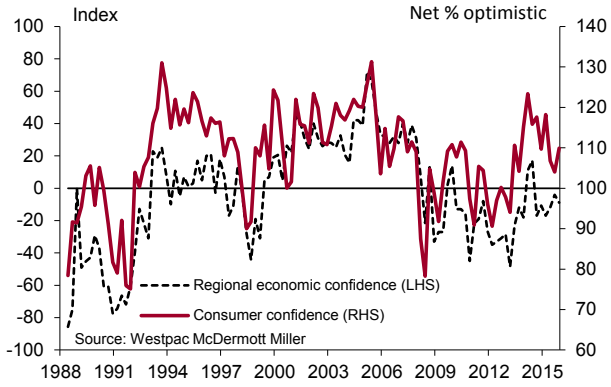
In Northland, the opposite was true. Households were more bullish about their own future compared with their views on the economic future of the region.

The regions with the most buoyant consumer confidence were Gisborne/Hawke's Bay, Nelson/Marlborough/West Coast and Auckland. This is a fascinating mix. The view of Auckland households is easiest explained – the region has seen strong house price growth until recently, making many consumers feel wealthier. Gisborne and Hawke's Bay are feeling a lot more positive than they did three months ago, perhaps driven by a steady market for beef exports, and some house price growth. Nelson/Marlborough/West Coast consumers are much more confident as dairy prices have partly recovered and as viticulture continues to do well.

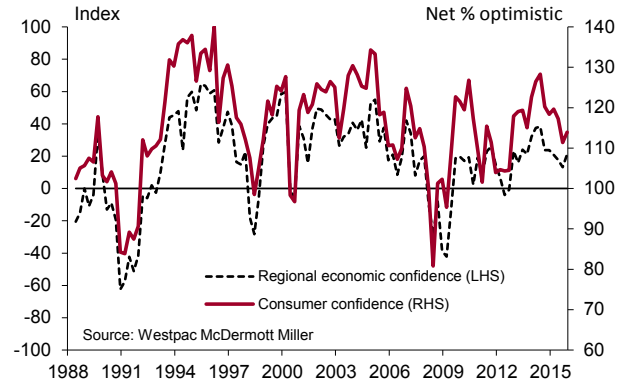
Overall consumer confidence rose to around national long-term averages, at 110.7.

David Norman
Industry Economist

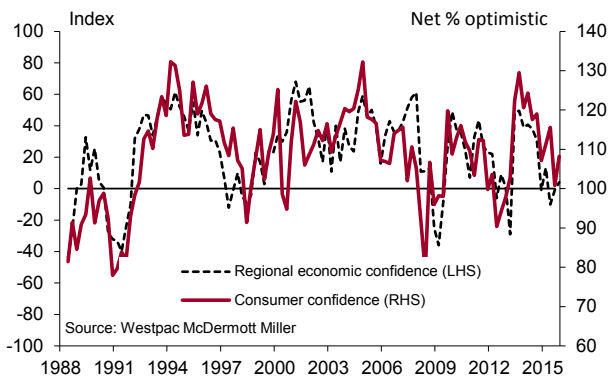
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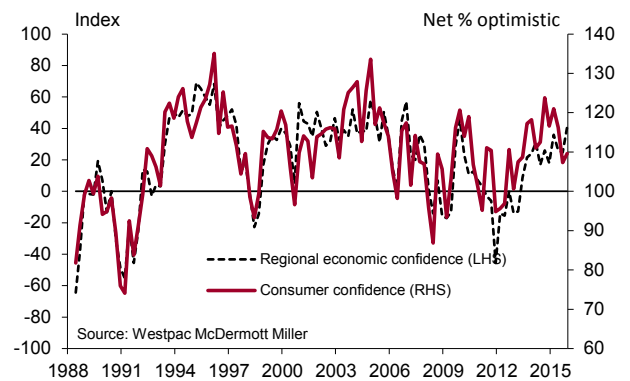
Auckland



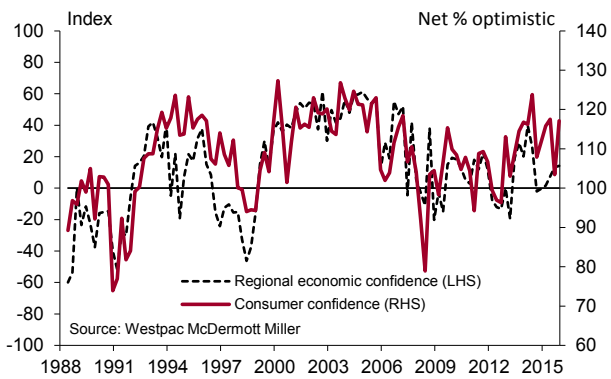
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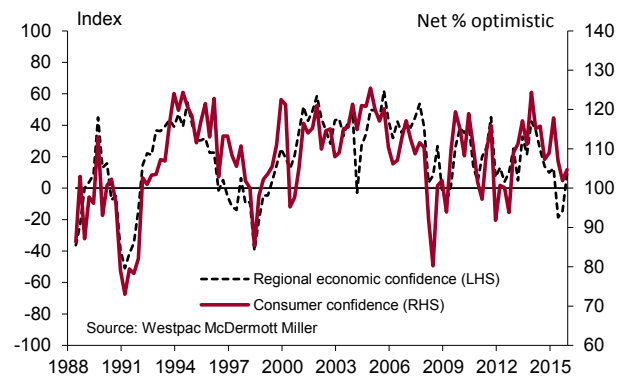
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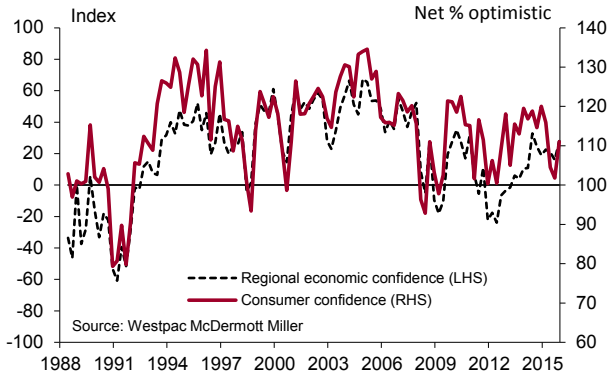
Gisborne/Hawke's Bay



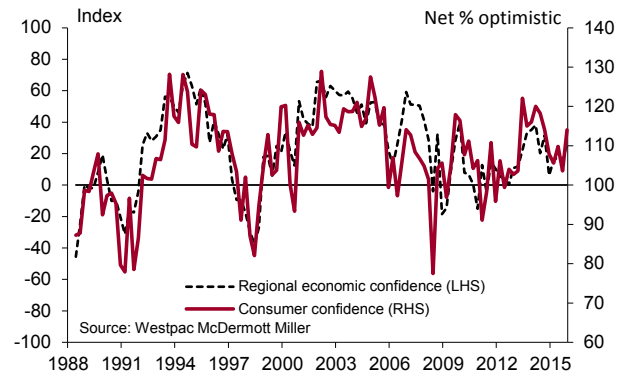
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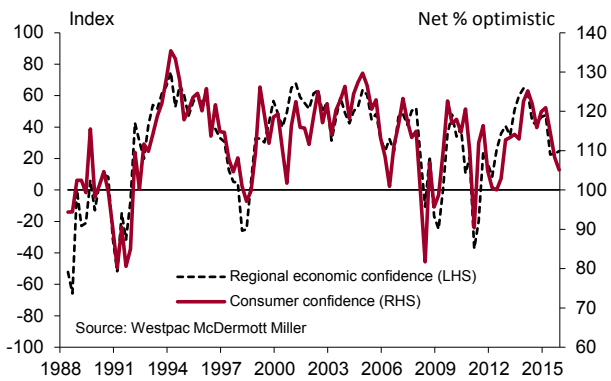
Wellington



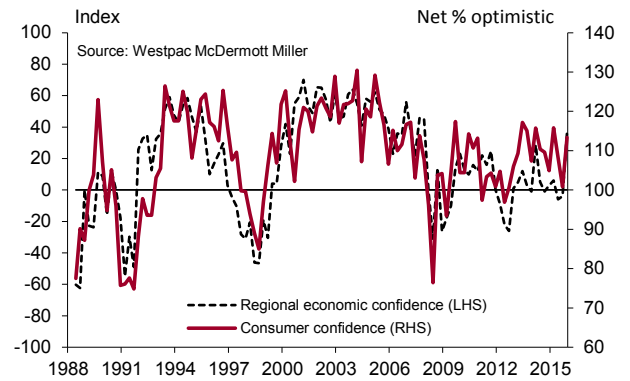
Nelson/Marlborough/West Coast



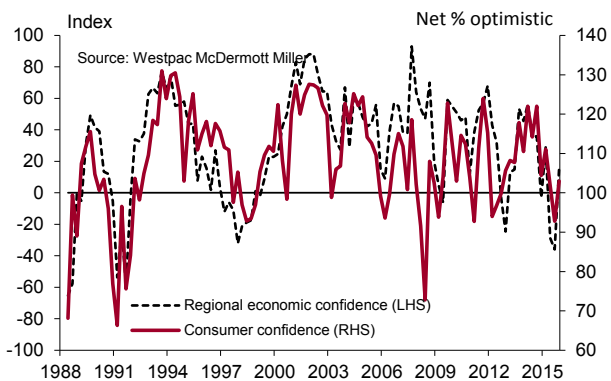
Canterbury



Otago



Southland



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