

Waitomo Caves, Waikato

Regional roundup

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Summary

Our latest Quarterly Economic Overview, out earlier this week, showed that we expect the New Zealand economy to stay stronger for longer.¹ Business confidence and hiring are on the rise, and the pipeline of construction work is particularly strong.

Migration, as a major driver of population and GDP growth, is remaining remarkably strong. While some components of migration are weakening, such as international student numbers from India, the change in the number of New Zealanders returning, or not heading offshore (typically to Australia) has been more surprising.

The good news for New Zealand about the fact that half this migration growth is a reduction in New Zealanders leaving is that it drives demand for all sorts of goods and services across New Zealand – food, clothing, cars, fridges, internet services, school education and everything in between. This underpins the health of many retail and service businesses from Cape Reinga to Bluff.

The outlook for the country overall is also a lot more positive on the back of a happier dairy sector. Our current forecast has been revised to \$5.80 per kilogram of milksolids for the current season, and if anything, there is risk to the upside.

As a result, confidence is returning in places like Southland, Taranaki, Manawatu-Whanganui and the West Coast.

Other commodities, like horticulture, wine and forestry, are recording strong export growth, and are benefitting areas like the east coast of the North Island, and the top of the South Island – Nelson, Tasman and Marlborough. These three regions are now among those with the most positive outlook, weather permitting.

In recent months, some of the largest improvements in outlook have been in Wellington. We have been saying for some time that the subdued level of economic activity and confidence there does not sit with the facts – the region has the highest incomes in the country, a fairly low unemployment rate, and job stability (since talk of further government cuts ceased). At last these facts are being reflected in house price growth, more spending on passenger and commercial vehicles, and higher confidence in the regional outlook.

We go to press less than two weeks after the 7.8 earthquake struck North Canterbury, with its numerous aftershocks continuing to jolt that region. This will certainly affect tourism

to North Canterbury in the short-term at least. But it is too early to tell if the structural damage to a number of buildings in Wellington, and the uncertainty that always comes in the wake of large earthquakes, will derail any of the newfound positivity in the capital as well.

Auckland and the Bay of Plenty, two regions that are booming, still have a strong outlook, although their indicators were more mixed this quarter as activity stabilises at a high level there.

The Canterbury rebuild is past the peak and on the way down. Industry sources have confirmed rising vacancy rates in commercial buildings, and slowing construction work, weakening the outlook for the region.

The Waikato is another region looking very strong. Although it has the biggest dairy herd in the country, it was remarkably resilient to the dairy downturn, meaning that the recent improvement in that sector is simply a bonus to a region already seeing strong population growth, construction and resultant retail demand.

David Norman
Industry Economist

Understanding the regional pages

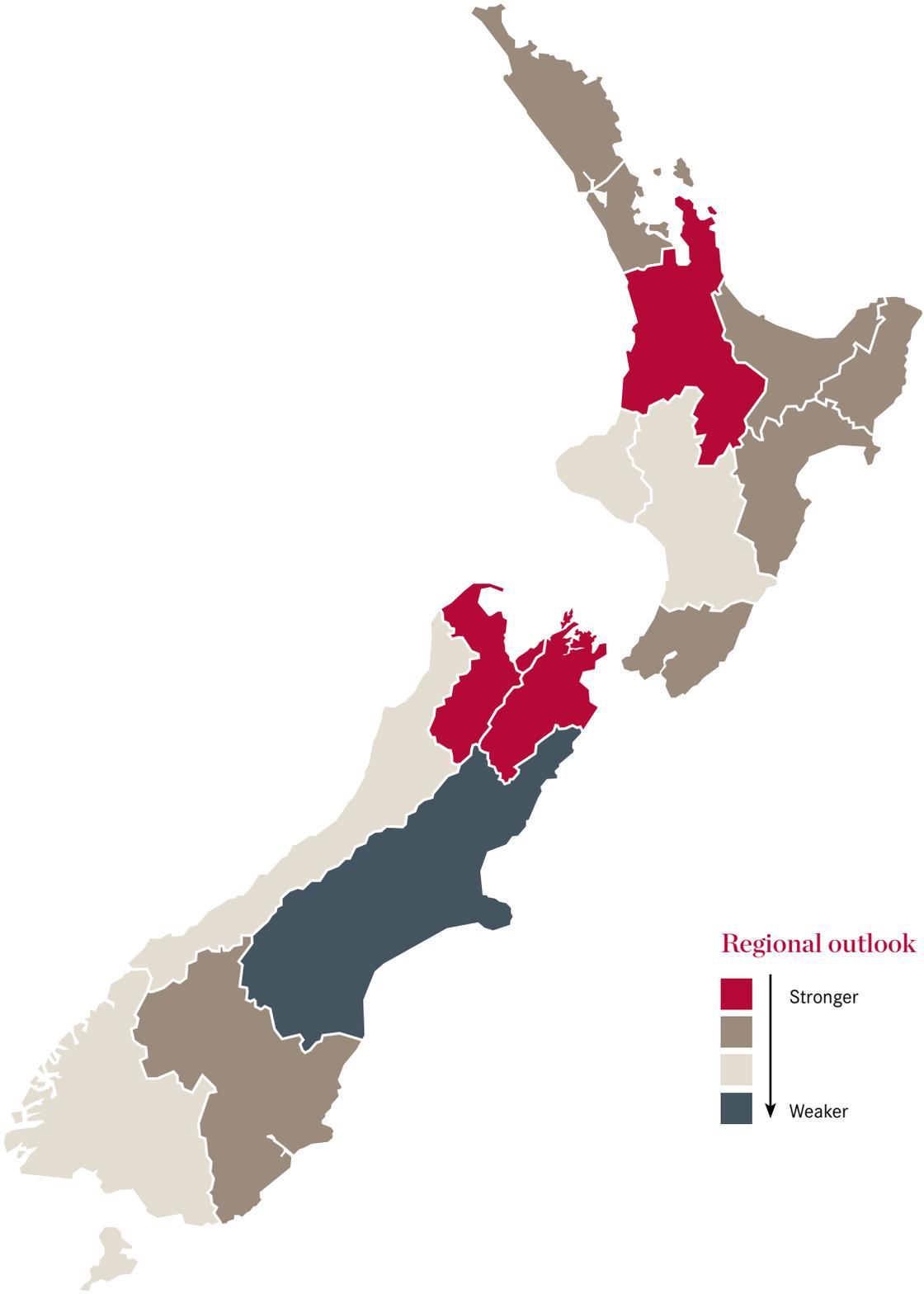
In the following pages, we examine each region's performance in the latest quarter compared with the previous quarter and the five-year average for each indicator. This provides the basis for the analysis and discussion on the outlook for the next couple of years.

We also include a net score for each comparison period. A score greater than zero means more indicators have improved in the latest quarter than in the period of comparison. A score below zero means that results in the latest quarter have, on aggregate, been weaker than in the time period of comparison.

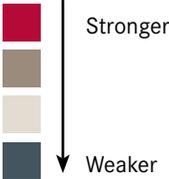
This quarter, our special topic is house prices at the regional and sub-regional level. We analyse what has happened to prices over the last year and the last five years, highlighting whether each region is just beginning its house price growth spurt, or is further along the growth path. Readers may find it helpful to compare this analysis with last quarter's review of people per dwelling ratios for different regions, which helped highlight where housing shortages are greatest.

¹See http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Westpac-QEO-November-2016_Email.pdf

12-month regional outlook



Regional outlook



Auckland

As we pointed out in our August *Regional Roundup*, Auckland's strength over the last couple of years appears to be plateauing (at a high level of activity). Compared to last quarter, positive and negative results were equally matched.

Auckland	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	3.2	8.0	17.8
Regional employment confidence	111.8	103.0	105.9
Unemployment rate (s.a.)	5.4%	4.8%	6.1%
Passenger vehicle regos (s.a.)	29,878	29,135	24,331
Commercial vehicle regos (s.a.)	5,966	5,515	3,871
Guest nights (000, s.a.)	1,886	1,895	1,720
New dwellings consented (s.a.)	2,657	2,448	1,805
House sales (s.a.)	7,312	8,280	7,536
House price change, annual (s.a.)	15.0%	16.1%	13.6%
Net number of indicators rising compared to previous quarter			0
Net number of indicators rising compared to 5 year average			5

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

Regional economic confidence has fallen sharply with the number of optimists and pessimists in the regional economy now broadly matched. In contrast, regional employment confidence is up on the back of strong gains in employment in Auckland, particularly in construction. This means the highly variable quarterly unemployment data must be interpreted

with caution. The unemployment rate in Auckland has fallen, as reflected in growing employment confidence. The unemployment rate is also well down on the same time last year and the five-year average.

Other measures of confidence – passenger vehicle registrations, new dwelling consents, and commercial vehicle registrations – are up compared with all comparison periods. Meanwhile, house sales have fallen sharply, in part as the new loan-to-value restrictions (LVRs) have kicked in, in a region where investors were playing an increasing role.

The outlook for the region

We expect that building consents will continue to tick higher, reaching 11,000 a year (or around 2,750 a quarter) by late 2017. This is in large part dependent on how quickly appeals on the new Unitary Plan are dealt with. With the population of Auckland still growing sharply as net migration continues to hover at historical highs, we expect the gap in housing provision, currently at 32,000, to grow.

This growth will also support a much wider range of businesses – more commercial vehicles will be needed, more cars sold, more retail trade done as the population grows.

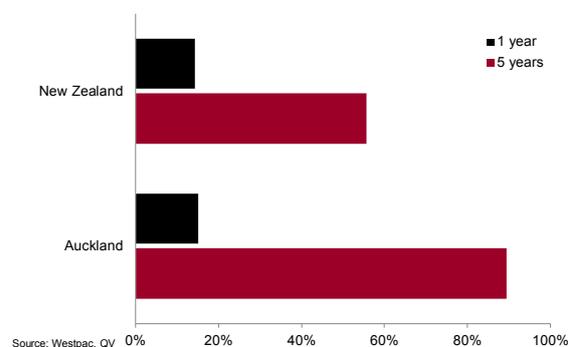
The Auckland region has seen the fastest growth in guest nights in New Zealand, outperforming even Otago, in the nine years to September 2016, as Auckland reinvents itself as destination. Capacity constraints are likely to be the biggest factor hindering the region's tourism sector from growing even faster.

IN FOCUS: House price growth

Auckland was first to see sharp house price growth return after the Global Financial Crisis (GFC), with prices beginning to rise from the second quarter of 2011 as the domestic economy recovered and with floating interest rates falling below 6%. Over the five years to September 2016, dwelling prices rose just under 90% in Auckland, reaching \$1.03 million on average.

Yet over the last year, house price growth has slowed fairly dramatically in Auckland, even as the housing shortfall has surged to 32,000 dwellings. To be clear, prices are still growing strongly – up 15% in the year to September, but well off peak growth rates. This slowing growth rate, despite the widening gap between demand for and supply of housing, is likely for two reasons. First, huge number of single-dwelling properties changed hands in the lead-up to finalising the Unitary Plan. Many of these were properties that sold for well over their rateable values because of their development potential – they were purchased by developers who can begin to get underway. Secondly, new LVRs may restrict growth in the role of investors, who were coming to dominate the Auckland market.

House price growth to September 2016



Source: Westpac, QV

Bay of Plenty

After a year and a half of being the most promising in terms of outlook across New Zealand's regions, the Bay of Plenty has finally flattened a little.

Bay of Plenty	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	34.0	40.6	14.1
Regional employment confidence	103.4	104.2	100.8
Unemployment rate (s.a.)	5.3%	5.8%	6.5%
Passenger vehicle regos (s.a.)	3,278	3,310	2,487
Commercial vehicle regos (s.a.)	966	893	597
Guest nights (000, s.a.)	965	961	820
New dwellings consented (s.a.)	596	655	380
House sales (s.a.)*	3,951	4,593	3,201
House price change, annual (s.a.)	27.8%	22.1%	7.6%
Net number of indicators rising compared to previous quarter			-2
Net number of indicators rising compared to 5 year average			9

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV
 *House sales data includes Bay of Plenty and Waikato

The way to interpret these results is not that the outlook for the region is bleak. Instead, the recent rate of expansion is taking a breather, meaning that in the latest quarter, results were more mixed. All nine indicators were stronger in the September 2016 quarter than the average across the last five years. Regional economic confidence is the second-highest in the country. Regional employment confidence remains similarly positive.

The unemployment rate continues to trend down, and is somewhere in the mid-5% range now, from 6% a year ago and an average of 6.5% over the last five years.

Tangible measures of confidence – passenger vehicle registrations, commercial vehicle registrations, house sales and prices – all remain strong, even if some are down quarter-on-quarter.

And house prices are up 27% on the year, the fastest growth of any region in New Zealand as the population has grown, interest rates have remained low, and buyers have looked outside of Auckland for purchases.

The outlook for the region

The region's population is expected to continue to see strong growth for the next 12 to 18 months, supporting house prices, retail spending, and business confidence. As a result, we expect to see strong growth in construction-related employment and in the services that support construction. Consent numbers are expected to remain strong. This activity will also help keep the unemployment rate low.

We expect the buoyant economic conditions to support strong levels of regional economic and employment confidence.

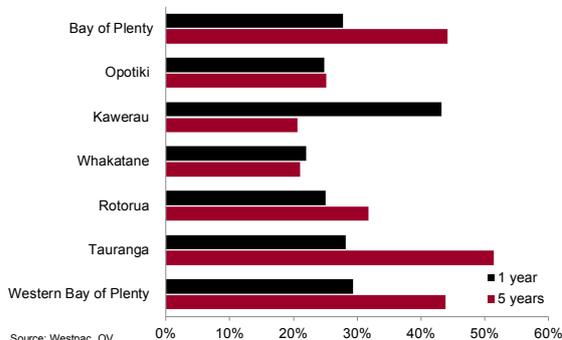
Tourism is one area where the region has not grabbed its share of the growing pie, and it is possible that as domestic tourists get priced out of some of New Zealand's major tourist destinations, the Bay of Plenty may benefit.

IN FOCUS: House price growth

Like Auckland and the Waikato, the Bay of Plenty has seen strong population growth in recent years, centred mostly on Tauranga and the western Bay of Plenty District. As a result, the decline in people per dwelling between 1996 and 2007 was arrested, first through the GFC (although to a far lesser extent than Auckland), and latterly through higher property prices.

Strong building activity and continued population growth in the Bay over the next few years will see little change in the ratio of people per dwelling. Dwellings consented in the 12 months to June are up an incredible 55% over the previous year, so the construction sector is clearly gearing up to meet demand. But we expect residents per dwelling to fall gently as population growth remains firm over the next couple of years. To achieve the return to falling household size, around 1,300 consents will need to be approved each year for the next seven. This implies a strong level of ongoing building activity. A far higher number was consented in the last year, but that was aided by a number of multi-unit developments, whereas in the Bay of Plenty, most development is still of stand-alone dwellings.

House price growth to September 2016



Canterbury

There is a lot more work to be done in the Canterbury rebuild, particularly with regard to commercial and anchor projects, and the region remains exceedingly positive.

Canterbury	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	30.7	25.8	36.3
Regional employment confidence	122.4	104.6	111.4
Unemployment rate (s.a.)	3.7%	3.3%	3.7%
Passenger vehicle regos (s.a.)	9,705	8,961	7,633
Commercial vehicle regos (s.a.)	1,714	1,495	1,422
Guest nights (000, s.a.)	1,280	1,238	1,145
New dwellings consented (s.a.)	1,524	1,772	1,446
House sales (s.a.)	2,874	3,017	2,578
House price change, annual (s.a.)	4.7%	4.0%	6.1%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			5

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

Regional economic confidence bounced in September 2016. Employment confidence was exceptionally high, at 122 in the quarter, with a score above 100 implying net optimism. This latter result is somewhat surprising given that the residential component of the rebuild is winding down, and the unemployment rate is rising. Still, much of the commercial building remains to be done, and sales of passenger and commercial vehicles are up.

But other indicators are not as strong. Most notably, the number of new dwellings consented is falling, as are house sales. Even economic confidence is off its five-year average seen as a result of rebuild activity in the region starting to wind down.

Tourism is one area in which the region has lagged. Capacity took a big knock as a result of many hotels being damaged in the city centre, but quarterly and annual growth in recent months has stalled even as capacity is restored.

The outlook for the region

Further recent discussions with Canterbury property industry leaders suggest that our contention in the Commercial Property report published in June were correct.² Vacancy rates are rising, and there is unlikely to be sufficient demand to justify more commercial building in the city centre beyond the end of 2017. Commercial rental rates are falling already.

We expect the number of new dwelling consents to continue to taper off toward a business-as-usual level. We expect the unemployment rate to tick up toward the 4% level and beyond over the next 12 to 18 months.

Immense opportunity exists for Canterbury to claim back its share of the growing tourism pie, but the slow pace of delivery of the convention centre and the hotel infrastructure that would support it are two of the factors likely to be hindering growth.

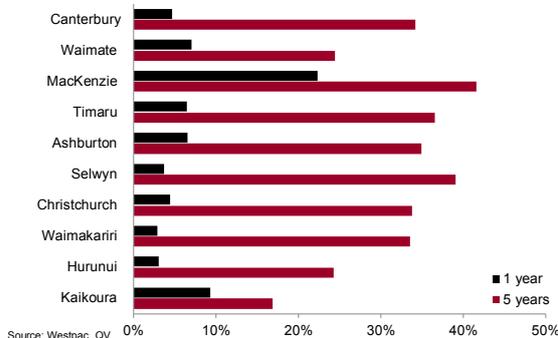
² <http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Industry-Insights-Commercial-Property-June-2016.pdf>

IN FOCUS: House price growth

In the wake of the devastating Canterbury earthquakes of late 2010 and 2011, a shortage of housing developed in the region. This shortage was driven by both the uninhabitability of many existing houses due to damage, and the army of construction workers who descended on the city to undertake the rebuild. As a result, dwelling prices grew strongly. In Christchurch, Selwyn and Waimakariri in particular, prices soared. Even in more distant areas, where many Christchurch residents migrated, such as Timaru and Ashburton, prices rose sharply.

But that run has ended. As the residential component of the rebuild winds down, and as many larger construction companies seek to relocate workers north to Auckland's housing and commercial building boom, supply and demand are being more equally matched in Canterbury. As a result, rental rates are falling, and annual house price gains are the weakest in the country, at just 4.7% for the region and even lower at 4.4% in Christchurch.

House price growth to September 2016



Source: Westpac, QV

Gisborne / Hawke's Bay

The Gisborne and Hawke's Bay regions have enjoyed improving fortunes for the last few quarters and this quarter's results continue to point toward strength over the months to come.

Gisborne/Hawke's Bay	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	19.0	4.2	9.2
Regional employment confidence	97.3	92.5	98.6
Unemployment rate (s.a.)	6.5%	5.5%	7.2%
Passenger vehicle regos (s.a.)	1,806	1,721	1,326
Commercial vehicle regos (s.a.)	568	534	397
Guest nights (000, s.a.)	374	367	311
New dwellings consented (s.a.)	135	126	120
House sales (s.a.)	746	906	642
House price change, annual (s.a.)	16.0%	10.2%	4.0%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			7

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

Regional economic confidence soared in the September quarter although there can be some volatility in regions like Gisborne and the Hawke's Bay, where sample sizes are smaller. Employment confidence remains weak, with a higher-than-national-average unemployment rate. Unemployment is below the five-year average of 7.2%, but remains in the 5.5% to 6.5% band.

Other indicators are far more positive. Measures of business and household confidence – commercial vehicle registrations,

passenger vehicle registrations, and dwelling consents – are up strongly for the quarter.

Tourism continues to grow, with guest nights reaching 374,000 in the quarter. With two major airlines flying to the region, there is an opportunity for the Gisborne and Hawke's Bay region to grow its tourism market.

The outlook for the region

Horticulture is booming. Forestry prices are hovering near record highs, and beef exports are coming off a high in terms of dollar value of exports. Sheep and wool are not doing as well, while dairy is recovering. All these factors combined point to a relatively rosy outlook for the east coast primary sector over the next year, weather permitting.

With population growth centred in Napier and Hastings, those areas will continue to see strong demand growth for retail and other services, as well as house price growth. Dwelling consents are also expected to stay strong, which means plenty of work for the construction sector.

Given an overall positive picture, we would expect regional employment confidence to pick up a little, as the unemployment rate falls. Tourism is expected to continue to grow, with the region not having the same capacity constraints as some other parts of the country. This will also provide a buffer against the vagaries of the primary sector, which is weather dependent.

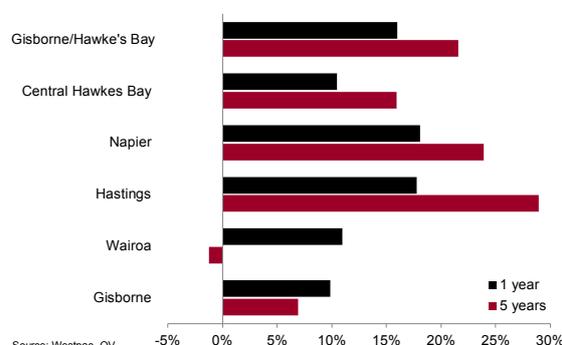
We may see some moderation in regional economic confidence results.

IN FOCUS: House price growth

The Gisborne and Hawke's Bay regions have seen house price growth accelerate strongly in the last 12 months although rates vary significantly across constituent districts. Napier and Hastings have both seen growth of around 18% in the last 12 months, whereas the Central Hawke's Bay, Gisborne and Wairoa have seen rates of 10% to 11%. This follows the trend seen nationally where urban centres have been enjoying growth rates well above those of rural areas. This is the result of most population growth being into urban centres, and the relative economic outcomes between service-oriented centres and the dairy, meat and wool dominated rural areas.

That said, with other sectors like horticulture and wine doing well, the east coast's rural areas may well see some more growth in property values over the next 12 to 18 months. The five-year growth rate for all parts of the region remains weaker than in many other parts of the country, suggesting some more gains are likely.

House price growth to September 2016



Nelson / Marlborough / West Coast

The Top of the South, consisting of Nelson, Tasman, Marlborough and the West Coast, enjoyed a particularly strong quarter in September, as confidence rebounded.

Nelson/Marlborough/ West Coast	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	20.4	19.7	18.5
Regional employment confidence	109.1	96.7	101.7
Unemployment rate (s.a.)	3.5%	5.9%	4.5%
Passenger vehicle regos (s.a.)	1,580	1,539	1,202
Tractor regos (s.a.)	52	43	46
Guest nights (000, s.a.)	919	889	793
New dwellings consented (s.a.)	237	221	211
House sales (s.a.)	781	801	719
House price change, annual (s.a.)	11.3%	9.3%	3.7%
Net number of indicators rising compared to previous quarter			7
Net number of indicators rising compared to 5 year average			9

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

As dairy's outlook continued to improve, confidence ramped up in the region. Regional economic confidence is now higher than the five-year average, and a smidgeon above the June reading. But employment confidence leapt higher, after languishing for some time. This move was coupled with a big fall in the recorded unemployment rate. We would caution that due to small sample sizes, these two indicators could moderate next quarter.

Only one indicator was down in the region – house sales – but the fall was small and the result is in line with what is happening in all regions. But other measures of confidence – passenger vehicle registrations, tractor registrations, and new dwellings consented – were all up.

Tourism is also seeing growth, with guest nights up almost 10% over the same quarter a year ago, and up 16% compared to the five-year average.

The outlook for the region

In our last *Regional Roundup*, we said we believed the outlook for the region was stronger than the numbers suggested. That has proven correct, with the numbers (especially confidence figures) now reflecting more accurately the level of activity.

The recent earthquakes in North Canterbury are creating some challenges in Marlborough in particular. For instance, the tourism sector may suffer as people put off travel there until they have greater certainty about the impacts of the quakes on the region's infrastructure. It is also likely to mean a significant amount of local construction work, particularly of horizontal infrastructure.

Two drivers of the region – wine and horticulture, are expected to continue to support economic activity, weather permitting.

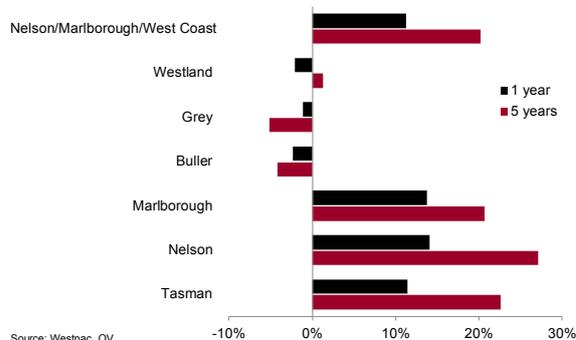
The recent uptick in building consents is expected to continue. As we highlighted in the last *Regional Roundup*, the number of people per dwelling has risen in the region as building has not kept up with population growth.

IN FOCUS: House price growth

The top of the South Island has had the most mixed house price outcomes of all New Zealand's regions. While the region overall has seen prices grow in recent years, up 11% in the last 12 months and 20% over five years, the West Coast has mostly seen declines. Buller and Grey districts have both experienced falling prices over the last five years, with slow population growth, a challenged dairy sector (especially between 2014 and 2016) and weak hard commodity prices (coal).

Growth in Nelson, Tasman and Marlborough has been more buoyant. Nelson has seen growth of 27% over the last five years, with half of that in the 12 months to September. With a strong wine and horticulture sector, we expect there may be scope for more growth in house prices in these three districts over the next 18 months.

House price growth to September 2016



Northland

We have seen a strong rebound in indicators for Northland, which is unsurprising given our comments in the last *Regional Roundup* that the region's confidence indicators in particular appeared to belie its recent industry-by-industry performance.

Northland	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	-1.0	-12.0	-16.3
Regional employment confidence	108.3	96.1	97.9
Unemployment rate (s.a.)	7.1%	11.0%	8.2%
Passenger vehicle regos (s.a.)	1,422	1,364	1,012
Commercial vehicle regos (s.a.)	469	466	340
Guest nights (000, s.a.)	518	455	420
New dwellings consented (s.a.)	291	347	193
House sales (s.a.)	808	902	564
House price change, annual (s.a.)	19.7%	17.1%	5.7%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			9

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

Regional economic confidence and regional employment confidence both rebounded sharply in the quarter. We had been surprised by the June reading for economic confidence in particular, so the recovery this quarter is more in line with the achievements in other indicators.

The latest unemployment reading is more in line with recent history and suggests a decline in the longer-term

unemployment rate, which will be welcome in a region that has long experienced elevated unemployment.

Other indicators are also strongly positive – passenger and commercial vehicle registrations – are up 40% over their five-year averages.

Tourism is also beginning to take off. The September quarter was particularly strong, with 518,000 guest nights, up 17% on the same quarter last year, and 23% over the five-year average.

The outlook for the region

Northland is expected to continue to enjoy a period of solid growth. Dairy's recovery will assist, plus there is renewed strength in forestry, with prices remaining solid. Meat and wool's outlook is more mixed, but not as weak as it has been in the past.

Add to this the surge in population growth, and the uptick in building consents, and we expect to see a lot more building activity. And all the extra people moving to the region implies more demand for retail goods and services, and vehicles.

We expect the unemployment rate will continue to tick slowly lower in Northland on the back of this improved outlook.

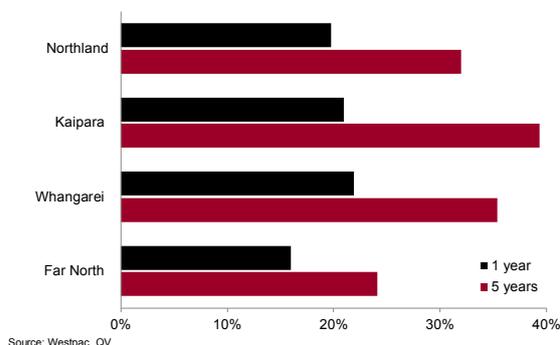
Tourism may also grow further although the region has been somewhat hampered by difficulty of access. Its lower half is relatively easily accessible from New Zealand's largest city, but flights into the region are few and far between and largely unavailable direct from other parts of New Zealand.

IN FOCUS: House price growth

In the last year, the pattern of dwelling price growth spreading beyond Auckland has been clearly demonstrated in Northland. Prices in the region have grown by nearly 20%, compared with just 32% over the last five years. This indicates that the vast bulk of growth has been in the last 12 months as wealth and investment spread beyond Auckland's house price boom. The centres closest to Auckland, such as Whangarei, have seen the strongest growth in the last 12 months and over the last five years. Distant Far North has seen much weaker growth.

The region is also enjoying some population growth, including anecdotal evidence of Aucklanders retiring there, which will boost demand for housing and therefore prices. We suspect that there may be scope for a little more growth in dwelling prices in the region given growth rates over the last five years.

House price growth to September 2016



Otago

After a period of strong growth, Otago's indicators are flattening. This is not indicative that conditions are weakening, but simply that they remain at elevated levels rather than continuing to rise.

Otago	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	23.8	7.0	3.7
Regional employment confidence	105.6	96.7	99.3
Unemployment rate (s.a.)	3.8%	4.3%	4.2%
Passenger vehicle regos (s.a.)	1,934	1,936	1,560
Commercial vehicle regos (s.a.)	520	535	456
Guest nights (000, s.a.)	1,423	1,512	1,277
New dwellings consented (s.a.)	494	376	316
House sales (s.a.)	1,353	1,470	1,115
House price change, annual (s.a.)	20.3%	16.6%	7.2%
Net number of indicators rising compared to previous quarter			2
Net number of indicators rising compared to 5 year average			9

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

Regional economic confidence has surged, after a positive, but much weaker, result in June. A net 24% of respondents believe the region's economic outlook is better. Similarly, regional employment confidence has lifted strongly after weakness in the last quarter.

The unemployment rate remains one of the lowest in the country, at around 4%, with numerous anecdotal examples among people we speak to in the region of shortages in staff,

especially in Queenstown-Lakes District, where a lot of the growth is occurring.

Surprisingly, guest nights have fallen in the latest quarter in seasonally-adjusted terms. It is too early to tell if this is a trend, possibly resulting from capacity constraints, or if it is simply a blip that will pass out of the data next quarter. We will continue to watch for changes in this measure.

The building boom in the region, driven by demand for holiday homes, investment properties and owner-occupied dwellings, continues unabated. Nearly 500 new dwellings were consented in the three months to September.

The outlook for the region

As we highlighted in the last *Regional Roundup*, capacity constraints within the tourism sector are already creating challenges. We would be surprised to see guest nights fall again next quarter, but limited accommodation space and the resultant rise in prices will be a negative for the reputation of the region if it goes too far.

With horticulture booming, dairy recovering, and meat and wool facing a reasonable outlook, we expect conditions more broadly across the region to also remain positive.

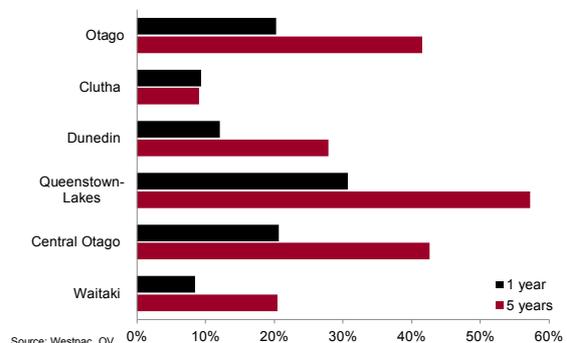
We expect the unemployment rate to hover around 4%. There will be significant amounts of work for the construction sector, which will face some of the challenges Auckland is having in attracting workers given the increasingly high costs of living in the Queenstown area in particular.

IN FOCUS: House price growth

The Otago region has seen one of the fastest average rates of dwelling price growth over the last five years, but this is a region of mixed fortunes. The bulk of the growth can be explained by insatiable demand for housing in the Queenstown-Lakes District and to a lesser degree in central Otago. This is the result of both the desirability of the location for owning property, and the boom in the tourism sector, which means a lot more housing is required to house workers in the sector. The ongoing tourism boom is likely to mean demand continues to grow, both for accommodating staff and among visitors who take a shine to the area and look to buy holiday homes.

Meanwhile in other parts of the region – Clutha, Dunedin and Waitaki – growth has been far more subdued. Still, these parts of the region are seeing solid gains now. The fact that one-year growth has been similar to five-year gains suggests there is still some scope for dwelling price growth. However, much lower population growth in these parts of the region mean gains are unlikely to be as strong as in the Queenstown-Lakes District.

House price growth to September 2016



Southland

Southland's key economic indicators remain weak despite a return to greater confidence in the September quarter. But digging a little deeper indicates that the headlines overstate the challenges.

Southland	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	19.8	-10.0	16.8
Regional employment confidence	108.0	94.3	102.7
Unemployment rate (s.a.)	5.0%	5.0%	4.3%
Passenger vehicle regos (s.a.)	793	799	625
Tractor regos (s.a.)	64	67	76
Guest nights (000, s.a.)	256	273	218
New dwellings consented (s.a.)	40	61	57
House sales (s.a.)	628	639	454
House price change, annual (s.a.)	7.7%	5.1%	2.2%
Net number of indicators rising compared to previous quarter			-3
Net number of indicators rising compared to 5 year average			3

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

As dairy prices lifted in the September quarter, confidence returned to the Southland economy, where workers are four times more likely to work in dairy than across New Zealand overall. Regional economic confidence improved dramatically, with a net 20% of respondents feeling the future looked brighter. Employment confidence also recovered well, lifting well into positive territory. This is surprising given the unemployment rate

remained flat, and indicates that this was more about people in employment feeling confident about keeping their jobs.

Several indicators show as declines in the table, but were in fact largely unchanged. These include the unemployment rate, passenger vehicle registrations, tractor registrations, guest nights, and house sales. The only negative in the quarter that was substantial was the decline in new dwellings consented. Only 40 new dwellings were approved in the quarter, compared to 61 in the June quarter.

One further positive that may help stimulate retail activity in the region is the rise in house prices, which has accelerated to 7.7% for the year to September.

The outlook for the region

With our milk price forecast rising to \$5.80, it is little surprise that the region is feeling more positive. We expect this positivity to continue. Still, relative to other parts of the country, Southland residents are likely to be more cautious about spending given the tough two years dairy has come through. Meanwhile, the region's meat and wool farmers face a modest outlook.

Tourism has been doing very well in the region of late, led by Fiordland, where day-trips from Queenstown are now being lengthened to overnight stays. The challenge will be to keep these visitors for longer, including a stay in Invercargill, which has not benefitted nearly as much from the tourism boom.

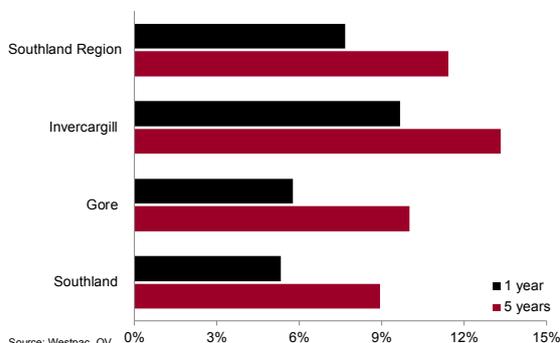
We also expect to see some resurgence in tractor and passenger vehicle sales as confidence returns to the local economy.

IN FOCUS: House price growth

The Southland region has had the lowest average rate of dwelling price growth in the country over the last five years, and the second-lowest over the last 12 months. Growth has been spread relatively equally across the region, however, with no districts seeing a decline in prices. The region overall has seen growth of 7.7% in the last year, and 11% over the last five years. The Southland District has been weakest, with prices up just 5.3% in the year, and 8.9% in five years.

But with dairy recovering of late, and confidence in the region improving, prices may edge up further. Southland is seeing some population growth as New Zealand enjoys the strongest growth in 40 years, which may underpin demand, while interest rates are expected to remain low for some time yet.

House price growth to September 2016



Taranaki / Manawatu – Whanganui

With dairy prices and the resultant payout forecast rising sharply, the Taranaki and Manawatu-Whanganui regions are feeling a lot more positive than it has in the recent past.

Taranaki/Manawatu-Whanganui	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	11.9	2.6	11.4
Regional employment confidence	99.9	96.9	98.1
Unemployment rate (s.a.)	4.9%	5.3%	6.2%
Passenger vehicle regos (s.a.)	3,013	3,057	2,583
Tractor regos (s.a.)	80	71	88
Guest nights (000, s.a.)	461	471	435
New dwellings consented (s.a.)	379	307	252
House sales (s.a.)	1,722	1,715	1,344
House price change, annual (s.a.)	11.0%	8.0%	3.6%
Net number of indicators rising compared to previous quarter			4
Net number of indicators rising compared to 5 year average			7

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

Regional economic confidence took another step higher in September, with a net 12% of respondents feeling positive about the regional outlook. Employment confidence implied that optimists and pessimists were broadly matched. The unemployment rate has continued to decline, and is well below the five-year average of 6.2%, which will play a big part in improving employment confidence.

Already, tractor registrations are up, suggesting more

confidence on-farm although these figures remain well below long-term averages.

The number of new dwellings being consented is now 50% higher than the five-year average, led mostly by the Manawatu District.

Guest nights were slightly weaker in the latest quarter, and tourism is one area where the region could look to grow rapidly, especially with the attention the region is getting in the media thanks to coverage by one of the world's most well-known travel guides.

The outlook for the region

We expect positivity to return to the region while dairy prices hold up. The unemployment rate should remain at lower levels through this period, while passenger vehicle registrations are likely to rebound on the back of more household confidence.

Still, one of the region's other major industries – oil and gas – remains depressed, and that will continue to moderate the mood in Taranaki.

With new domestic flights into New Plymouth and Palmerston North, we would have expected stronger growth in guest nights, even if only from domestic tourists. Time will tell if this begins to eventuate after what is now around nine months of the services operating.

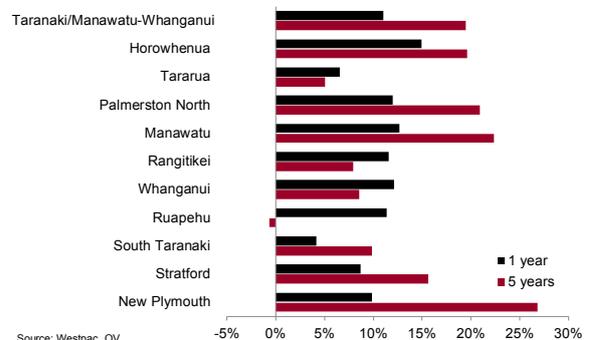
We continue to expect solid construction activity although we may see a more modest outturn in the December quarter.

IN FOCUS: House price growth

These regions are among a handful that have recorded some dwelling price declines in recent years, with Ruapehu falling (by less than 1%) in the last five years. In fact, many parts of the region have only in the last year erased declines they had been seeing until then – Whanganui, Rangitikei and Taranua have all grown more in the last year than their total growth over five years, implying earlier falls. But this is indicative of the challenges the region has been seeing in recent years, particularly with a weaker dairy sector and a modest outlook for meat and wool.

New Plymouth and the Manawatu District (most notably around Feilding) have been the standouts in recent times. New building in Feilding, which is recording the strongest population growth in the wider Manawatu, will be pushing up average house prices by virtue of the amount of new stock added. The region is seeing some population growth, and with confidence returning in dairy, we may well see more growth in dwelling prices.

House price growth to September 2016



Waikato

The Waikato economy faces a healthy outlook, with almost all indicators pointing to greater strength over the months to come.

Waikato	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	17.0	14.0	14.4
Regional employment confidence	108.1	103.9	100.1
Unemployment rate (s.a.)	4.6%	4.9%	5.7%
Passenger vehicle regos (s.a.)	4,667	4,610	3,592
Commercial vehicle regos (s.a.)	1,387	1,204	994
Guest nights (000, s.a.)	877	831	750
New dwellings consented (s.a.)	922	832	628
House sales (s.a.)*	3,951	4,593	3,201
House price change, annual (s.a.)	23.5%	21.0%	7.6%
Net number of indicators rising compared to previous quarter			7
Net number of indicators rising compared to 5 year average			9

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV
*House sales data includes Bay of Plenty and Waikato

The only indicator that was weaker in September was house sales, in line with a downward trend across the country as fewer properties came to market and following tighter lending standards.

But confidence, both in the overall regional economic outlook, and in the employment outlook, was up. A net 17% of respondents believe the next year will see better regional economic outcomes than last year, and a majority of

respondents are also positive about employment prospects. This is unsurprising as the unemployment rate continues to fall, now below 5%, and as dairy prices recover strongly from two years of weakness. The Waikato is the largest dairying region in the country in absolute terms.

Passenger and commercial vehicle registrations, and new dwelling consents are also up, as the region scrambles to house and transport its burgeoning population, as well as to provide the retail and other goods and services the people need.

Tourism also continues to grow. Guest nights reached 877,000 in the September quarter, up 5% from the previous quarter.

The outlook for the region

With strong population growth, and dairy's recovery, the Waikato is looking especially strong for the next few quarters. We expect to see a lot more construction activity as the region tries to house the influx of people. At the same time, the demands associated with a growing population – vehicles, homeware, food, clothing, utilities and other services – will support retail activity there.

New building activity will also underpin strong construction job growth although the region may find it runs into capacity constraints being experienced across the upper North Island.

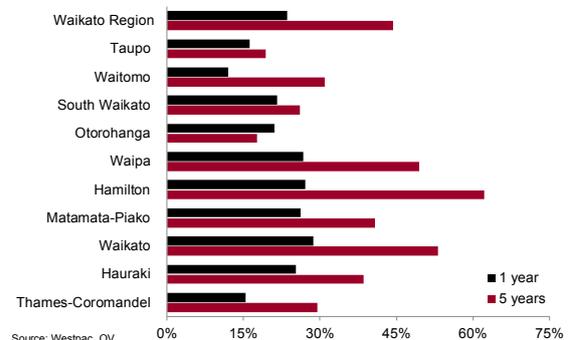
Tourism seems set to continue growing in the Waikato although the sheer size of the lift in the latest quarter is unlikely to be repeated in December. The region does not yet seem to be hitting the same tourism infrastructure constraints that other main centres are experiencing.

IN FOCUS: House price growth

The Waikato has experienced some of the highest house price growth rates in the country in recent months. But fortunes have been mixed within the region. In the last year, Hamilton, Waipa, Matamata-Piako and Waikato District have all seen similarly strong rates of growth. But growth in other parts of the region have been much lower. In Waitomo, for instance, dwelling prices are up 12%, less than half of the 27% seen in Hamilton.

Despite two tough seasons for the dairy sector, to which the Waikato is highly exposed, growth has been solid. It is underpinned by strong population growth and anecdotally, perhaps a growing exodus from Auckland toward cheaper housing. This explanation is supported by examining where growth has occurred – in Hamilton and its surrounds, with a focus on the corridor north to Auckland, rather than south to Taupo or Waitomo. The Waikato probably has less way to go in the current price surge than many regions, and it remains to be seen what impact the new LVR restrictions on investors may have.

House price growth to September 2016



Wellington

Wellington's regional indicators have rebounded strongly in recent quarters. All indicators other than house sales are now better than in the previous quarter, the same quarter a year ago, and the five-year average.

Wellington	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	39.0	8.0	9.4
Regional employment confidence	106.0	99.4	100.8
Unemployment rate (s.a.)	4.7%	5.6%	5.7%
Passenger vehicle regos (s.a.)	5,611	5,271	4,524
Commercial vehicle regos (s.a.)	1,023	977	767
Guest nights (000, s.a.)	786	759	709
New dwellings consented (s.a.)	862	579	410
House sales (s.a.)	2,523	2,590	2,094
House price change, annual (s.a.)	19.8%	11.7%	5.2%
Net number of indicators rising compared to previous quarter			7
Net number of indicators rising compared to 5 year average			9

Source: Westpac, McDermott Miller, Statistics New Zealand, NZTA, QV

House sales fell slightly in the quarter, but this was a trend seen across New Zealand's regions, and should not be seen as a negative on its own.

Instead, there is growing positivity in the region. Economic confidence in September was the highest in the country, with a net 39% of respondents thinking the region's economic outlook was rosy. Employment confidence is up as well.

The unemployment rate continues to fall although there is a lot of fluctuation in that figure and the reading may moderate a little in the December quarter.

Other indicators of confidence – passenger and commercial vehicle sales, and new dwelling consents – are up strongly. The number of new dwellings consented in the September quarter was more than double the five-year average although it did include some “lumpy” multi-unit developments.

Tourism is also on the up. Guest nights rose 6% in the last year. House prices, have also surged in recent months, and are up 20% in a year.

The outlook for the region

As we go to press, Wellington is dealing with the impacts of the recent North Canterbury and Marlborough earthquakes. While the quakes did not centre on Wellington, it has been the most affected large city, with several buildings experiencing structural damage. It is too early to tell what these quakes may do to regional economic confidence, house sales (which may stall due to challenges getting insurance), newbuild activity, and even tourism.

The unemployment rate is expected to remain lower over the next several quarters.

In the absence of further earthquake damage, we would expect to see continued strength in sales of vehicles, and economic and employment confidence will likely rebound within a couple of quarters even if there is a dip in December.

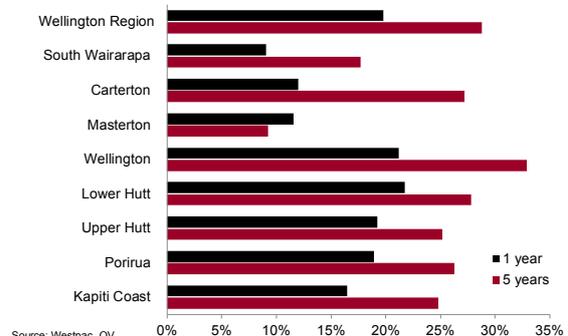
IN FOCUS: House price growth

Despite the highest incomes in the country, a high level of qualifications, and few overall job losses in central government despite the government's efforts to reduce headcount, there were few signs of life in Wellington's housing market, often a symbol of economic confidence.

But that has all changed in the last 12 months, with prices in the region up 20% since September 2015. The gains have been widespread across urban Wellington – Wellington City, Lower Hutt, Upper Hutt, Porirua and even more distant Kapiti Coast have enjoyed growth rates of over 16% in the last 12 months. Growth rates in the Wairarapa have been lower although Carterton was an early bloomer, and has managed growth over 27% in five years.

The timing of growth, and its limited extent thus far, suggest that the Wellington region may have some way to go yet in terms of house price growth. The region is experiencing stronger population growth than it has for many years, with net migration nationally remaining strong.

House price growth to September 2016



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