

North and South divide

Westpac-McDermott Miller Regional Economic Confidence, September 2018 quarter

Dominick Stephens, Chief Economist +64 9 336 5671

Paul Clark, Industry Economist +64 9 336 5656

- Six of eleven regions posted a deterioration in regional economic confidence.
- Households in New Zealand’s most southern regions were the most confident. Southland also posted by far the biggest gains.
- By contrast, households in the upper North Island have become less confident.
- Confidence in regions with large metropolitan centres has also fallen, with Auckland by far the most pessimistic in the country.
- Consumer confidence (a measure of households’ views of their own economic conditions) fell in six of eleven regions.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence deteriorated in the quarter ending September 2018, with six of eleven regions showing a drop compared to the previous quarter.

Regional confidence dropped hardest in the north of each island, but tended to be stronger in the south. Auckland stood out, with growing pessimism in the region reflecting the impact of a sluggish housing market, rising fuel prices, and the recent implementation of a regional fuel tax. It’s possible that negativity in this region has spilled over into neighbouring regions. By contrast, households in the lower part of the South Island seem to be forging their own path, with high and rising levels of confidence in Southland and Otago.

Confidence in the big urban regions took a bit of a hit with significant declines recorded by each of the three major metropolitan areas. While rural regions were mixed, they were generally more positive than their urban cousins. This rural/urban split neatly reflects the way the New Zealand economy is tracking. The consumer spending side of the economy has slowed and this is reflected in waning urban confidence. Meanwhile, agricultural exports and tourism are going gangbusters, and this is showing up in economic buoyancy and better confidence in many rural regions.

Regional economic confidence*

Region	Net Confidence (%)		
	Sep-18	Jun-18	Change
Northland	22	32	-10
Auckland	-14	-8	-6
Waikato	10	7	3
Bay of Plenty	29	45	-16
Gisborne/Hawke's Bay	41	31	10
Taranaki/Manawatu-Whanganui	18	11	7
Wellington	30	39	-9
Nelson/Marlborough/West Coast	31	47	-16
Canterbury	21	31	-10
Otago	42	31	11
Southland	49	13	36

Source: Westpac McDermott Miller

*Regional economic confidence reflects the difference between the percentage of survey respondents that expect economic conditions in their region to improve and those that expect prospects to worsen over the next 12 months. Sample sizes and margins of error vary by region. The survey was conducted over 1-10 September 2018, with a total sample size of 1556.

Regional Discussion

Northland: A net 22% of households in Northland expect their region’s economy to improve over the next 12 months, down from 32% posted in the June quarter. This drop in confidence is likely to reflect the impact of a slowing housing market, evidenced by weaker sales volumes and sharply lower house price growth. It could also be due to the impact of higher fuel prices and a possible spill-over in negativity from neighbouring Auckland. That said, confidence in the region remains relatively high, reflecting a still positive outlook for the agricultural, horticultural and forestry sectors, as well as ongoing investment and spending by government.

Auckland: Household confidence is extremely low in Auckland and far lower than any other region in New Zealand. A net 14% now expect conditions in the region to deteriorate over the coming year. This gloomy outlook reflects a lacklustre housing market, slowing net migration into the region, higher fuel prices and the recent

implementation of a regional fuel tax to fund local transport initiatives. Impending adjustments to fuel excise duties and road user charges are unlikely to have improved the mood. A much publicised drop in business confidence might also be having an impact on how households view the region's prospects.

Waikato: Economic confidence in the Waikato edged slightly higher in the September quarter after falling sharply in the previous quarter. Improved confidence is likely to reflect a relatively positive outlook for meat and dairy production and a strong regional jobs market. However, a slowdown in house prices, a possible spill-over in pessimism from neighbouring Auckland, and ongoing anxieties regarding the Mycoplasma bovis cattle disease in this key dairy producing region are likely to be major reasons why households in the Waikato are the second least confident in the country.

Bay of Plenty: Confidence in this region's economic prospects slumped in the September quarter, reversing almost all of the gains achieved in the previous quarter. This is a surprising result given that business is booming, unemployment is falling, and government investment and spending is on the up. A strong horticultural season should have also added to a degree of positivity, although there has been a marked slowdown in house price growth and tourism numbers have flat lined. The main reason for the decline in confidence is likely to be technical, with a relatively large number of respondents that previously stated they had confidence in the region's economic future opting not to respond in the most recent survey.

Gisborne/Hawke's Bay: A net 41% of households in Gisborne and the Hawke's Bay expect the region's economy to improve over the next 12 months. The upbeat mood largely reflects the impact of a buoyant housing market, with both house prices and sales volumes continuing to outperform. A bumper horticultural and grape growing season is also likely to have added to the air of positivity, which will have been further underpinned by commitments from the Government on investment and spending in the region.

Taranaki/Manawatu-Whanganui: A net 18% of households in this region expect the local economy to strengthen over the coming year, slightly up on the 11% posted in the June quarter. Household confidence is likely to have been bolstered by strongly rising house prices, especially in the Manawatu and Whanganui regions. The announcement by the Government that it would invest in initiatives aimed at developing a hydrogen production facility in Taranaki are also likely to have gone down well, especially considering an earlier decision not to grant any more deep-sea oil and gas exploration licences in the region.

Wellington: Economic confidence in Wellington slipped in the September quarter with a net 30% of households expecting their local economy to improve over the coming 12 months. Falling confidence is likely to reflect the impact of a slower housing market, evidenced by lower sales volumes and slowing house price inflation. Higher fuel

prices and worries about falling business confidence might also have contributed to this lower reading. That said, confidence in the region's prospects still remains relatively upbeat possibly because of an expected increase in public sector activity. This should have positive knock-on effects for other industries in the region.

Nelson/Marlborough/West Coast: Household confidence in this region's economic prospects fell sharply, from 47% in June to 31% in September. Fewer tourist visitors, especially to Nelson and Marlborough, slowing house prices, and a pickup in unemployment across the region are likely to have weighed on how households view the region's economic prospects. That said, confidence in the region's regions future is still relatively high. This may be because of a strong performance in primary sector activity, particularly in horticulture, viticulture and forestry. Despite some softness, dairy prices are also likely to have supported incomes, although sentiment will have been affected by uncertainties relating to the spread of the Mycoplasma bovis cattle disease to the region.

Canterbury: Confidence in Canterbury fell in the September quarter with a net 21% of households expecting their local economy to improve over the next 12 months. While rising fuel prices will have been a contributing factor, uncertainties about what is going to drive the regional economy once the post-earthquake construction boom comes to an end is likely to have taken centre stage. Manufacturing and services activity in the region has been patchy at best in recent quarters, while questions have been raised over the viability of some planned commercial projects in Christchurch's CBD. That said, confidence in the region's future will have been buoyed by the strong growth in tourist arrivals with further gains likely. A relatively strong performance from the agricultural sector should have also lifted the mood.

Otago: A net 42% of households in Otago expect the local economy to strengthen over the coming year, up on the 31% recorded in the previous quarter. Households in this region are the second most optimistic in the country. The upbeat mood in the province partly reflects the impact of a buoyant housing market, with house price growth being among the strongest in country. Booming business activity and record tourist numbers combined with elevated prices for most primary products produced in the region will also have added to an air of positivity.

Southland: Confidence in Southland accelerated in the September quarter with a net 49% of households expecting their regional economy to improve in coming years. This is the most optimistic households in this region have been since the March 2014 quarter and they are easily the most upbeat in the country. The region is expected to continue to benefit from growth in meat and dairy exports, while elevated construction activity should ensure that the region is better able to meet an expected increase in tourists to the area. The redevelopment of the Invercargill CBD is also likely to add to a growing sense of vibrancy in the region, which would have been underlined by falling unemployment, more spending by the Government and rising business confidence.

Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Sep-18	Jun-18	Change
Northland	105.4	110.2	-5
Auckland	98.2	109.4	-11
Waikato	94.4	102.8	-8
Bay of Plenty	109.1	112.1	-3
Gisborne/Hawke's Bay	104.7	104.9	0
Taranaki/Manawatu-Whanganui	104.5	103.0	1
Wellington	110.2	114.7	-5
Nelson/Marlborough/West Coast	106.7	109.0	-2
Canterbury	108.0	106	2
Otago	113.4	109.6	4
Southland	105.9	105.0	1
Nationwide	103.5	108.6	-5

As reported in our earlier Bulletin, consumer confidence nationally (which summarises households' expectations about their own financial situation, their expectations for the NZ economy as a whole, and their willingness to buy a large household item) fell sharply in the September quarter, the lowest it's been in six years.

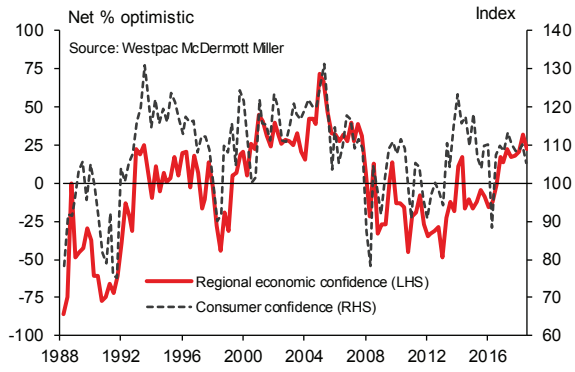
However, the regional detail shows a mixed picture with consumer confidence falling quite sharply in some regions, but rising, albeit only marginally, in others.

The largest falls were in the upper North Island, with consumers in Auckland, Waikato and Northland indicating that they did not feel that they were better off than a year ago and/or were not expecting their financial circumstances to improve over the next year. Consistent with this was a lower willingness among households in these regions to purchase a major household item.

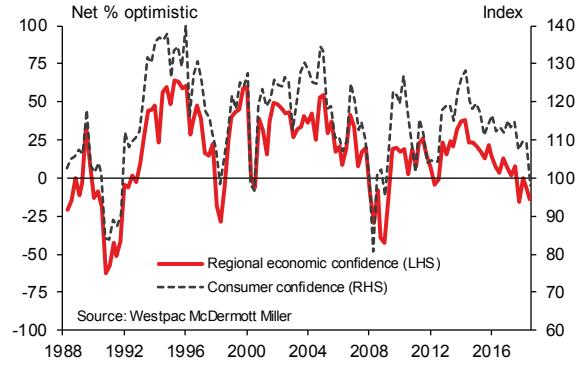
Wellington also experienced a significant drop, but in contrast to Auckland, consumer confidence in the region remains relatively healthy. Although Wellingtonians are feeling a little less sure about what the future holds, they still remain relatively upbeat about their current financial circumstances.

Four regions recorded an improvement in consumer confidence during the September quarter, although in each case, gains were marginal. In Taranaki/Manawatu-Whanganui, Canterbury and Otago confidence edged higher with more consumers feeling financially better off than a year ago and expecting an improvement in economic conditions over the next five years. Confidence in Southland also improved with households feeling financially better off than a year ago and showing a greater willingness to purchase a major household item.

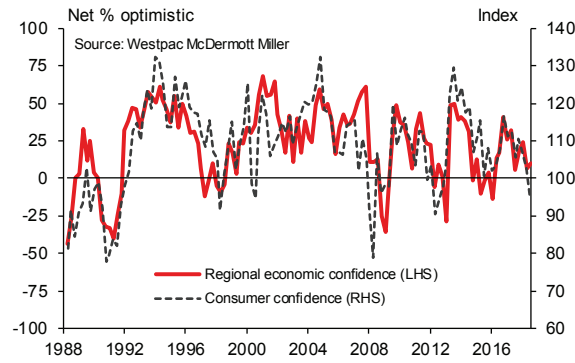
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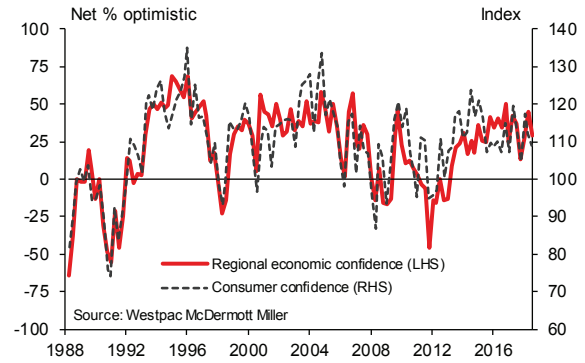
Auckland



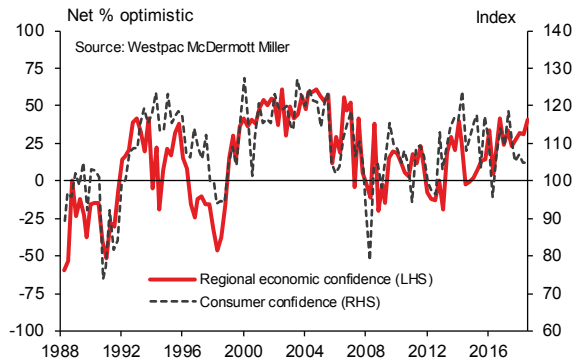
Waikato



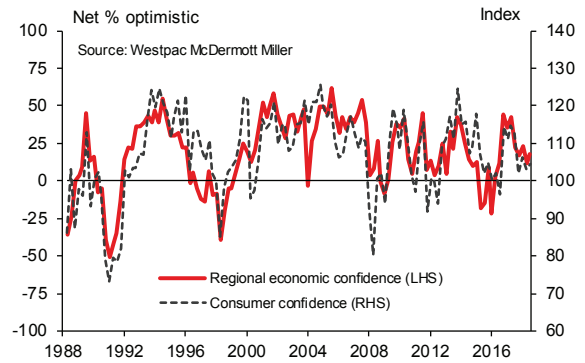
Bay of Plenty



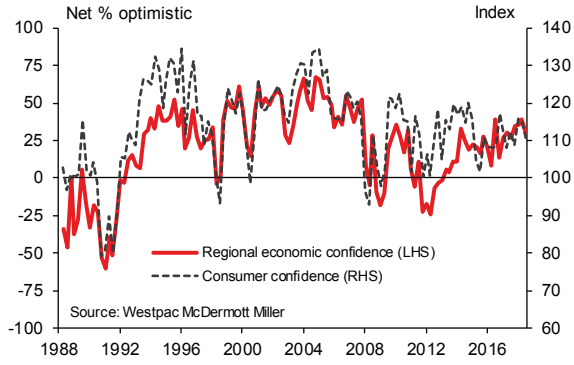
Gisborne/Hawke's Bay



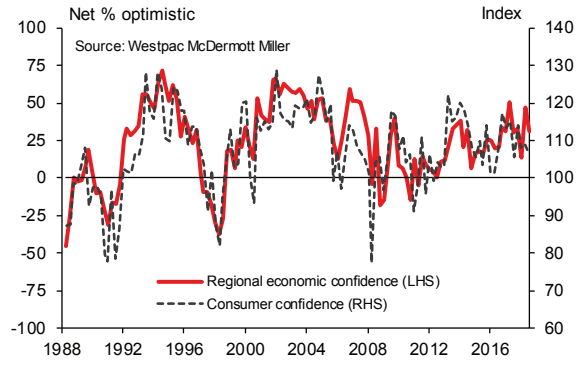
Taranaki/Manawatu-Whanganui



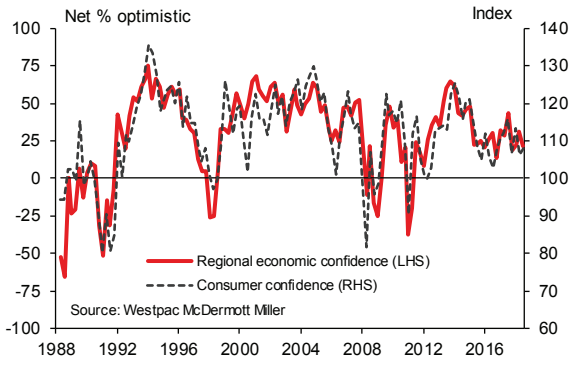
Wellington



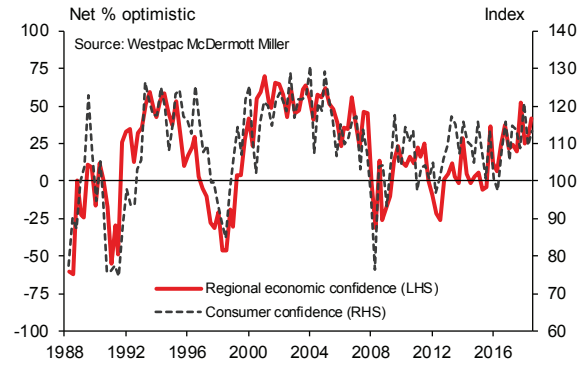
Nelson/Marlborough/West Coast



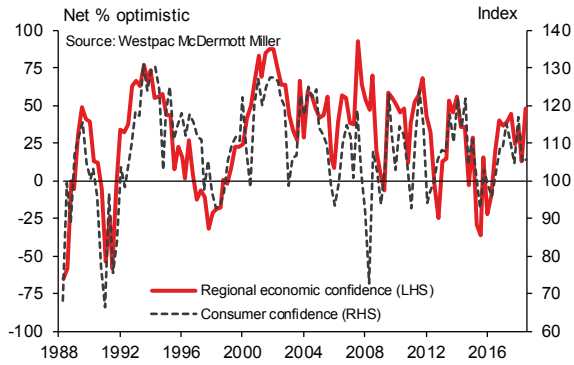
Canterbury



Otago



Southland



Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@westpac.co.nz

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