

# Swings and roundabouts

## Westpac-McDermott Miller Regional Economic Confidence, December 2017 quarter

19 January 2018

- Economic confidence rose in six regions in the December quarter. However, it was down in five regions, and in many cases, the drop in confidence was substantial.
- Households in Auckland were the most negative about their region's economic prospects. Those in Otago were the most optimistic.
- Confidence in some regions dropped sharply with weaker agricultural conditions and unease about government policy across a number of fronts being key drivers.
- Consumer confidence (a measure of households' views of their own economic conditions) fell in nine of eleven regions.

The close of 2017 saw some very different trends in economic confidence across New Zealand. The Westpac-McDermott Miller Regional Economic Confidence survey showed that confidence rose in six regions in the December quarter. However, it was down in five regions, and in many cases, the drop in confidence was substantial.

Auckland stood out, with the number of households who are pessimistic about the region's prospect now outweighing the number of optimists. We also saw confidence decline in the Bay of Plenty, Canterbury and Southland. In contrast, Otago, and the Waikato both saw sizeable lifts in economic confidence.

In Auckland, negativity has been driven by developments in the housing market and concerns about what the new government's policies might mean for it. The impending imposition of a regional fuel tax to fund public transport projects may have also been a contributing factor. By contrast, the decline in Canterbury had more to do with the reorientation of activity, as strong rebuild-related growth in recent years has eased off.

Wellington stands in complete contrast to other major metropolitan areas. The possible expansion of the public sector under the new government is likely to have been a key reason for the increase in economic confidence in the region. However, as with Auckland, the impact of government policy on the housing market is likely to have loomed large.

Households in most rural regions were slightly more optimistic about their region's economic performance than in the previous quarter, helped in part by rising horticultural and viticulture prices. Tourism also made a contribution in some rural areas, while construction activity was strong in others.

A number of rural regions that have been among the most optimistic in the country experienced a significant drop in confidence in the December quarter. In the Bay of Plenty, for example, a large number of households who had previously indicated that they felt quite positive about the future downgraded their expectations this quarter. In Southland, weaker dairy and lamb prices and a much publicised drought contributed to sharply lower confidence levels.

### Regional economic confidence\*

Region	Net Confidence (%)		
	Dec-17	Sep-17	Change
Northland	18	17	1
Auckland	-16	8	-24
Waikato	18	6	12
Bay of Plenty	13	37	-23
Gisborne/Hawke's Bay	27	23	5
Taranaki/Manawatu-Whanganui	17	23	-5
Wellington	35	26	8
Nelson/Marlborough/West Coast	33	30	3
Canterbury	19	44	-25
Otago	52	20	32
Southland	24	45	-20

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 December 2017, with a total sample size of 1555.

## Regional Discussion

**Northland:** Economic confidence in Northland edged slightly higher in the December quarter with a net 18% of respondents expecting better times ahead for the region. Falling unemployment and reasonably strong performances from the construction, manufacturing and tourism sectors are likely to have contributed to this slightly better outlook. The agricultural and forestry sectors also performed well, although a recent easing in lamb, beef, dairy and logs prices may have already started to affect confidence in the region. Confidence is also likely to have been dampened by a growing sense of unease about how future government policy might impact the agricultural sector.

**Auckland:** Households in Auckland are the most pessimistic in the New Zealand, with a net 16% expecting the regional economy to worsen over the next 12 months. This gloomy outlook reflects the impact of a cooling housing market and ongoing concerns about Auckland's transport system, not helped by the pending introduction of a 10c per litre regional fuel tax. Concerns about how policy changes will affect the housing market are also likely to have reinforced this negative outlook. The likely impact of this is a slowdown in spending, which will have a ripple effect through the New Zealand economy as a whole.

**Waikato:** Confidence partly recovered in the December quarter with a net 18% of households in the region expecting the regional economy to improve over the next 12 months. Lower unemployment and increases in construction are likely to have supported sentiment, although the extent of any gains will have been hampered by softer prices for beef and dairy. Confidence in the region's economic prospects is also likely to have been affected by growing concerns about how future government policy might impact on the agricultural sector.

**Bay of Plenty:** Confidence fell by 23% in the December quarter, with only a net 13% of households now expecting the region's economy to improve over the next 12 months. This is a significant drop for a region that over the past few years has been among the most optimistic in the country. The slowdown in the housing market is likely to be a key factor weighing on confidence. So too, a recent softening in dairy prices, although higher kiwifruit and avocado prices, together with stronger construction activity, will have supported confidence in the region. Unease over government policy and the impact that this might have on agriculture should also be added to the mix.

**Gisborne/Hawke's Bay:** A net 27% of households in Gisborne and the Hawke's Bay indicated that they are positive about the region's economy over the next 12 months. This is slightly better than the 23% recorded for the September quarter, but still down on the 33% posted in the June quarter. This partial recovery is likely to have been helped by growth in tourism, stronger construction activity, and rising horticultural and viticulture prices, although gains here will have been eroded by a recent weakening in meat and dairy prices. Increasing unemployment, slowing house sales and a growing sense of unease about what government policy might mean for the agricultural

sector are likely to be key considerations for those that are pessimistic about the region's prospects.

**Taranaki/Manawatu-Whanganui:** A net 17% of households in the region expect the local economy to strengthen over the coming year, down from the 23% recorded in the September quarter. While supported by rising crude oil prices and firmer horticultural prices, confidence in the region is likely to have been eroded by a recent softening in dairy and meat prices, as well as concerns about what government policy might mean for the agricultural sector. Rising unemployment in the region is also likely to have been a contributing factor to a lower reading, and this is likely to translate into slower spending growth over coming quarters.

**Wellington:** In contrast to major centres, households in Wellington have become increasingly confident about the economic outlook, with a net 35% expecting better conditions over the next year. The region is now the second most optimistic in the country. Among the factors likely to have contributed to this more positive outlook is the possible expansion of public sector activity in the region as a result of the change in government. A declining unemployment rate, increasing construction activity, and still rising house prices are also likely to have bolstered confidence levels in the capital.

**Nelson/Marlborough/West Coast:** Confidence in the region's economic prospects rose from 30% to 33% in the December quarter. This slight improvement in confidence largely reflects the performance of the tourist and construction sectors, as well as favourable operating conditions in the wine and horticultural industries.

**Canterbury:** Confidence in Canterbury dropped sharply in the December quarter, with only a net 19% of households now optimistic about the region's economic performance over the next 12 months (compared to 44% in September). To a large extent, this is due to the ongoing structural changes in the region. Construction activity has been winding down, and activity is rotating back to the manufacturing and services sectors. Activity in these sectors has grown consistently since 2013, but there are signs that growth is starting to slow, suggesting the possibility of leaner times ahead. The potential implications of government policy for agriculture have also weighed heavily on confidence levels.

**Otago:** A net 52% of Otago households expect the region's economy to improve over the next 12 months, making it by far the most optimistic region in the country. Confidence rose sharply in late-2017, supported by record tourism numbers and higher horticultural prices. Increasing construction sector activity, low unemployment and still strong house price growth are also likely to have contributed to the more optimistic outlook. Recent dry weather conditions in the region do not seem to have dented economic confidence in the region, but this could change as impacts on agricultural production become more evident.

**Southland:** Confidence in Southland's economic prospects fell sharply, dropping from 45% in September to 25% in

December. This is a big drop for a region that has often been one of the most optimistic in the country. The decline can partly be explained by the recent softening in dairy and lamb prices and a growing sense of unease about what government policy might mean for agriculture in the region. The potential impact of recent dry weather in the region on agricultural production and hydroelectric generation is also a key consideration.

### Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Dec-17	Sep-17	Change
Northland	108.4	110.2	-2
Auckland	107.5	114.6	-7
Waikato	110.5	105.6	5
Bay of Plenty	104.9	112.5	-8
Gisborne/Hawke's Bay	105.1	109.6	-5
Taranaki/Manawatu-Whanganui	102.0	112.7	-11
Wellington	108.9	112.3	-3
Nelson/Marlborough/West Coast	113.9	105.5	8
Canterbury	106.5	115.9	-9
Otago	108.6	113.6	-5
Southland	104.6	110.3	-6
Nationwide	107.4	112.4	-5

Consumer confidence (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) declined across nine of eleven regions in the December quarter.

As discussed in our recent bulletin on the Consumer Confidence Index, the drop in confidence appears partly to be a response to the change in government. Slowing economic conditions are also likely to have affected confidence levels, especially in regions dependent on primary sector activity.

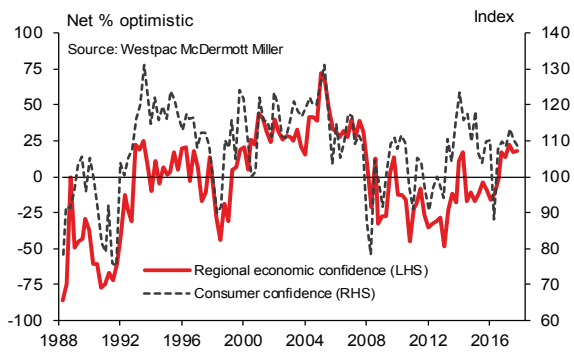
The fall in consumer confidence in Auckland and Wellington reflects concerns about the housing market and new government policies that might affect it, while in Canterbury, the ongoing rebalancing of economic activity is likely to be a key consideration.

Households in the Waikato and the Nelson/Marlborough/West Coast regions were the only ones expecting an improvement in their financial circumstances over the coming year, much in line with expectations they have for their region's economic prospects.

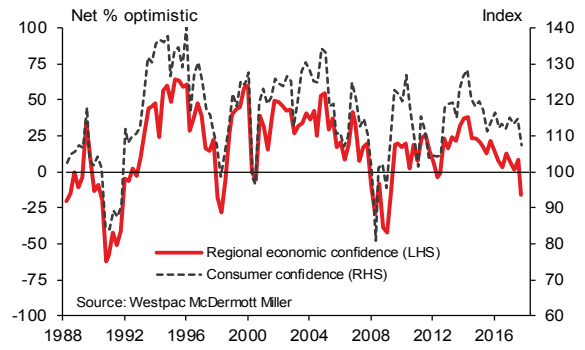
#### Paul Clark

Industry Economist

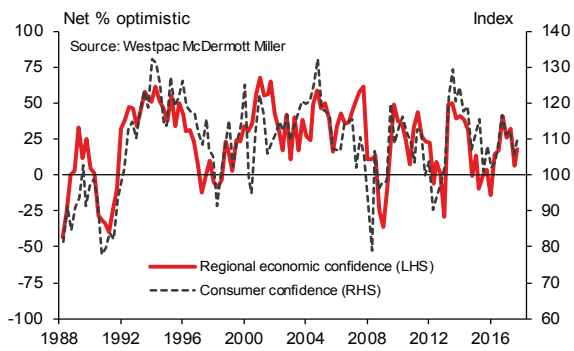
### Northland



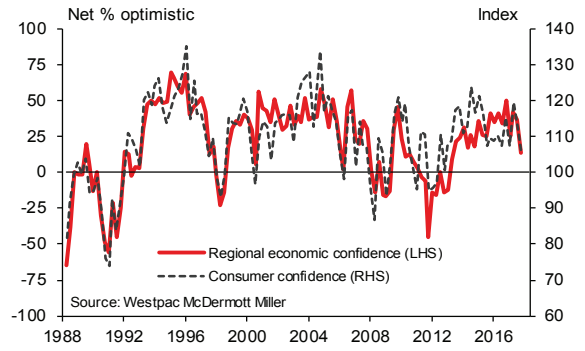
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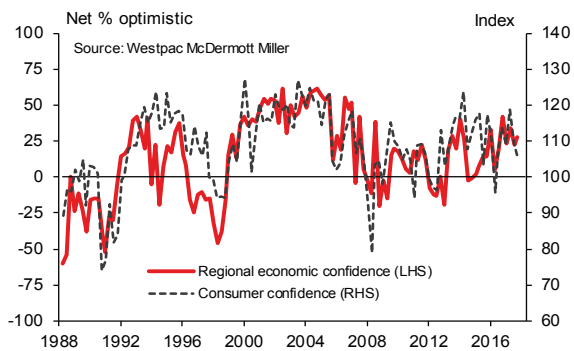
### Waikato



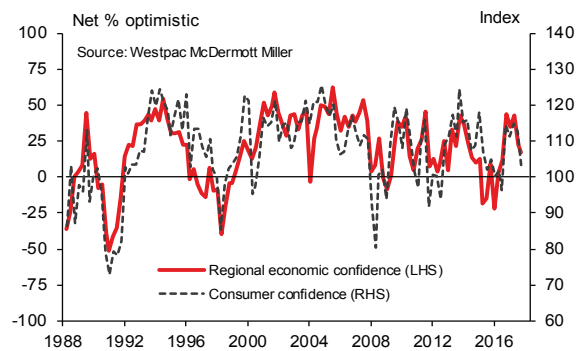
### Bay of Plenty



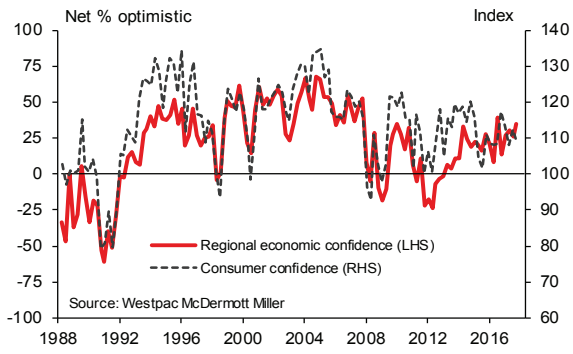
### Gisborne/Hawke's Bay



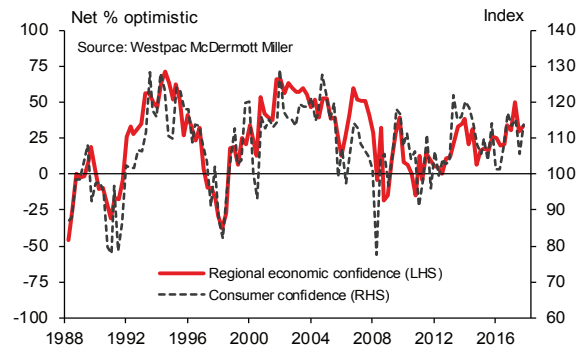
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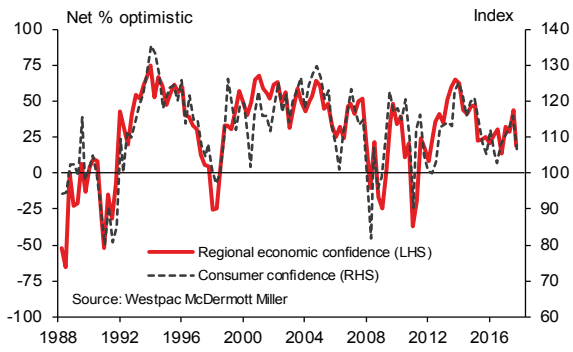
### Wellington



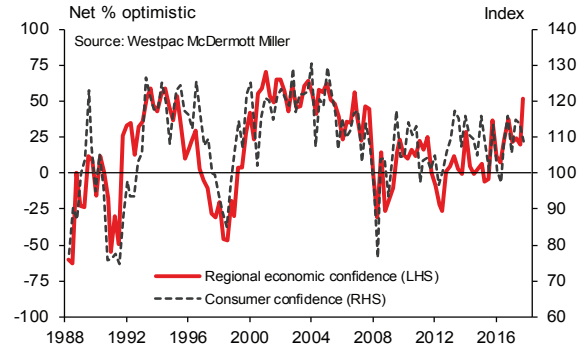
### Nelson/Marlborough/West Coast



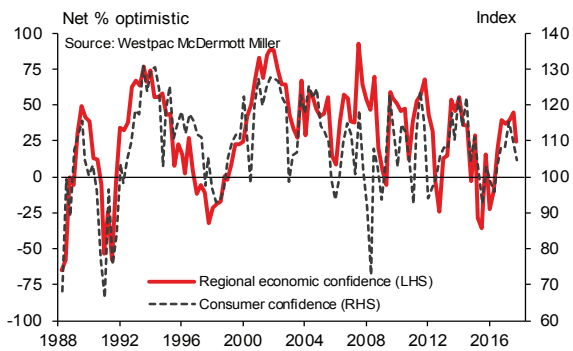
### Canterbury



### Otago



### Southland



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# Contact the Westpac economics team

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**Dominick Stephens**, Chief Economist +64 9 336 5671

**Michael Gordon**, Senior Economist +64 9 336 5670

**Satish Ranchhod**, Senior Economist +64 9 336 5668

**Paul Clark**, Industry Economist +64 9 336 5656

**Any questions email:** [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

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