

Mind the gap

Westpac-McDermott Miller Regional Economic Confidence, June 2019 quarter

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- Regional economic confidence deteriorated for the second consecutive quarter, with seven of eleven regions posting a decline.
- Recent economic outperformers such as the Bay of Plenty, Gisborne/Hawkes' Bay and Wellington, experienced the sharpest falls in confidence.
- Confidence also fell in major dairy producing regions, like the Waikato and Southland.
- The biggest improvement in confidence was in Auckland, followed by Taranaki/Manawatu-Whanganui.
- However, households in Auckland and neighbouring Northland are still the least confident in the country, while those in Otago are the most confident.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence deteriorated in the June 2019 quarter, with seven of eleven regions recording a fall. This follows on from the previous quarter where eight regions posted a drop in confidence.

The falls in confidence recorded for this quarter were generally much larger than the increases and they typically occurred in regions where confidence was already very high. Notable examples include the Bay of Plenty, Gisborne/Hawkes Bay, Wellington and Southland, all of which have enjoyed an extended run of strong economic growth, but may now be showing some signs of weakness. The only exception to this is Otago, where confidence is very high and actually lifted further this quarter.

Despite a deterioration, households in regions with a large rural backbone continue to be more confident about the future than their metropolitan counterparts. However, the gap in confidence levels is beginning to narrow as fast growing agricultural based regional economies start to slow and conditions in our major metropolitan centres begin to improve.

Auckland saw the biggest increase in household confidence. Lower interest rates and a decision not to implement a capital gains for the local housing market are likely to have boosted spirits in the region. However, despite this improvement, Aucklanders remain the least optimistic in the country, closely followed by neighbouring Northland.

Regional economic confidence*

| Region | Net Confidence (%) | | |
|-------------------------------|--------------------|--------|--------|
| | Jun-19 | Mar-19 | Change |
| Northland | 9 | 20 | -11 |
| Auckland | 3 | -10 | 13 |
| Waikato | 29 | 34 | -5 |
| Bay of Plenty | 19 | 49 | -30 |
| Gisborne/Hawke's Bay | 26 | 48 | -21 |
| Taranaki/Manawatu-Whanganui | 19 | 10 | 9 |
| Wellington | 24 | 38 | -14 |
| Nelson/Marlborough/West Coast | 30 | 26 | 5 |
| Canterbury | 15 | 19 | -3 |
| Otago | 45 | 40 | 5 |
| Southland | 27 | 36 | -9 |

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 June 2019, with a total sample size of 1555.

Regional Discussion

Northland: A net 9% of households in Northland expect their region's economy to improve over the next 12 months, compared to 20% in the preceding quarter. Confidence in the region's economic future is likely to have been affected by slowing house price growth, weakening construction activity, and softer labour market conditions. Growth in international guest nights has been negative for some time now, while domestic guest nights have been subdued. That said, farmers and growers in the region continue to benefit from elevated prices for dairy, meat and forestry products.

Auckland: Household confidence in Auckland's economic prospects rose by more than any other region during the June quarter. A net 3% of households in Auckland were positive about their region's economic prospects compared

to a net 10% that had a pessimistic outlook in the March quarter. This improved outlook is likely to reflect greater positivity about the region's flagging housing market, following a cut in the OCR and a decision by the Government not to proceed with a capital gains tax. The other big positive for the region is construction activity with residential building consents having gained a second wind.

Waikato: Confidence in this region's economic future is high but edged lower in the June quarter, with a net 29% of households expecting better times ahead compared to 34% in the previous quarter. The local economy has performed well and continues to do so, although recent signs of a slowdown might be weighing on confidence. Unemployment, which had been tracking lower, has now begun to rise. Similarly, the region's housing market, which had been buoyant, looks as if it is slowing. Higher dairy payout forecasts should have lifted spirits, but sentiment among farmers in this major dairy producing region remains low due to concerns about having to comply with environmental regulations and worries about stalling dairy farm prices.

Bay of Plenty: Confidence in this region's economic fortunes plummeted from 49% in the March quarter to just 19% in June. This is a surprising result considering that economic activity in this region has been robust. The region continues to benefit from favourable conditions for kiwifruit and forestry, still firm construction activity, and a strong labour market. That said, there are signs that economic conditions might be weakening in some areas. Growth in house prices, for example, has pulled back in recent months, and this may be weighing on households.

Gisborne/Hawke's Bay: A net 26% of households in Gisborne and the Hawke's Bay expect their region's economy to improve over the next 12 months, compared to 48% in the preceding quarter. A drop in confidence was expected given that this previously red hot region has been losing momentum, but the magnitude of the fall was surprising. The region continues to benefit from favourable conditions for pipfruit and forestry, while prices for lamb and beef have remained elevated. That said, there are signs that economic momentum is beginning to slow. Despite being the highest in the country, house price growth has edged lower over successive quarters, while sales volumes have effectively shifted sideways. Ditto for building consents, which were strong, but have started to come off, suggesting weaker construction activity ahead.

Taranaki/Manawatu-Whanganui: A net 19% of households expect their region's economic prospects to improve over the coming year compared to 10% in the previous quarter. Confidence is likely to have been supported by firm conditions in the agricultural sector, relatively strong construction activity and a housing market which continues to outperform, particularly in the Manawatu-Whanganui region. A recently held national summit focusing on how to transition away from fossil fuels as well as the announcement of investments into renewable energy are also likely to have lifted the mood in the region.

Wellington: Confidence in this region's economic prospects fell from 38% in the March quarter to 24% in June. This big fall comes despite a relatively strong economic performance, underpinned by increasing spending and hiring by government, rising construction activity to fill existing shortages and higher house prices. That said, there are some signs that conditions might be weakening and it's likely that these are weighing on confidence. Not least of these is house price growth, which has started to slow. Similarly consumer spending has remained subdued while the number of vehicles being registered in the region has weakened.

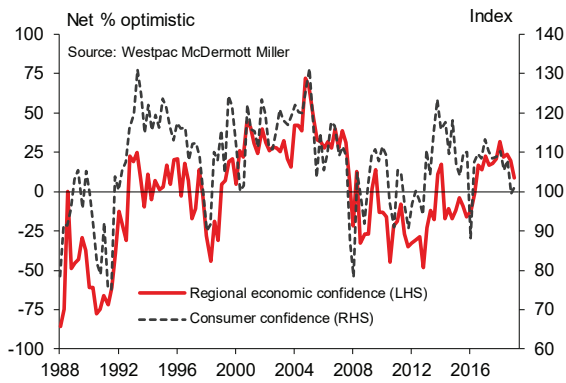
Nelson/Marlborough/West Coast: A net 30% of households expect their region's economy to improve over the next 12 months, a slight increase on the 26% recorded in the March quarter and enough to make households in the region the second most optimistic in the country. To a large extent this reflects positive conditions in the agricultural sector with the region benefitting from strong prices for horticultural, meat and forestry products. Increased hiring in the hospitality, food services and the construction industry are also likely to have added to a sense of positivity in the region.

Canterbury: A net 15% of households expect their region's economy to improve over the next 12 months, a small drop from the 19% posted for the March quarter. Household confidence remains low as the rebuild continues to unwind and demand for labour softens. More recently we've also seen evidence of a slowdown in local manufacturing and services. That said, there are signs of life in the long-dead housing market.

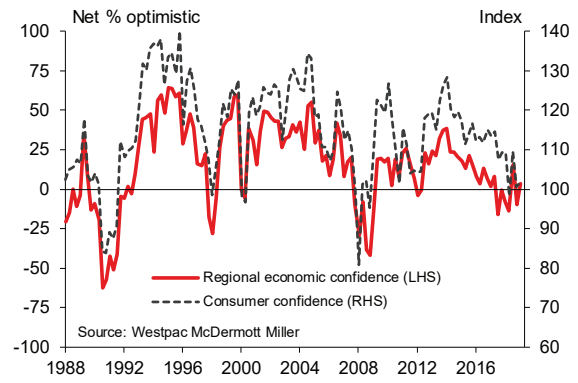
Otago: A net 45% of households expect their region's economic prospects to improve over the coming year compared to 40% in the preceding quarter. Households in this region are the most confident in the country despite a recent cooling of economic activity, as evidenced by a slowdown in house price growth and tourist activity. In part, this is because of conducive conditions in the agricultural sector, with returns on meat and dairy products both holding up well. Grape growers are also doing well, buoyed by an early grape harvest earlier in the year, and the horticulture sector is booming. Confidence might also have been buoyed by a strong pickup in construction activity, which will have helped to lower unemployment in the region.

Southland: Confidence in Southland fell to 27% in the June quarter, from 36% in the previous quarter. Southlanders have traditionally been among the most confident in the country and that remains the case. The regional economy had generally been doing well, although recently things seem to have plateaued. House prices are still rising, but construction and tourism have slowed. Despite a higher dairy payout forecast, confidence among dairy farmers in the region remains low because of concerns about having to comply with environmental regulations and worries about stalling dairy farm prices.

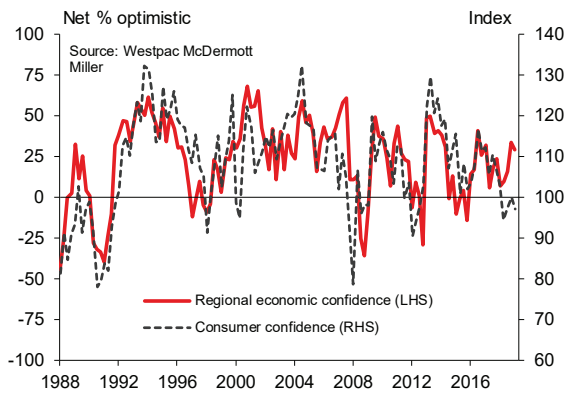
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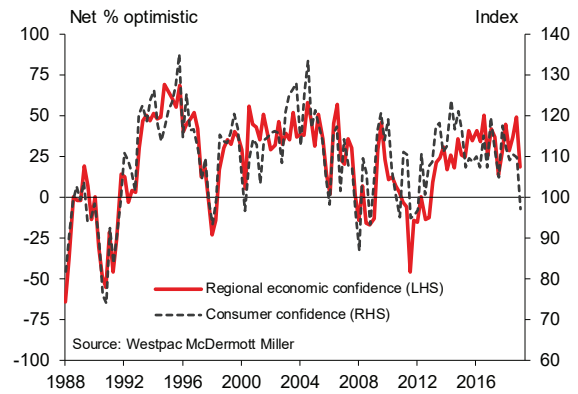
Auckland



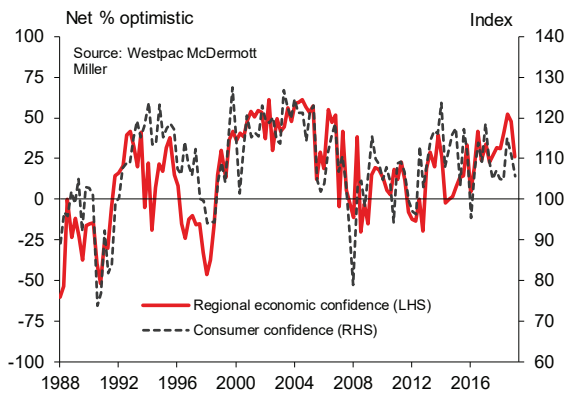
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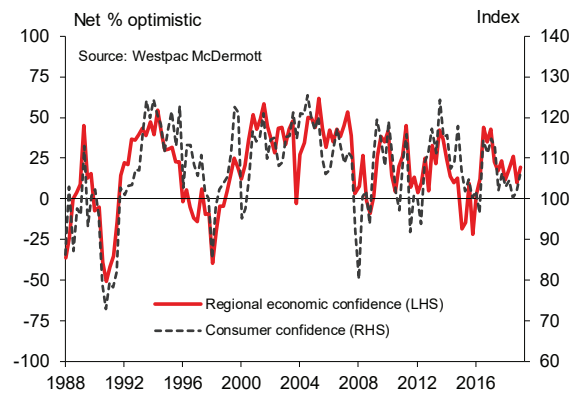
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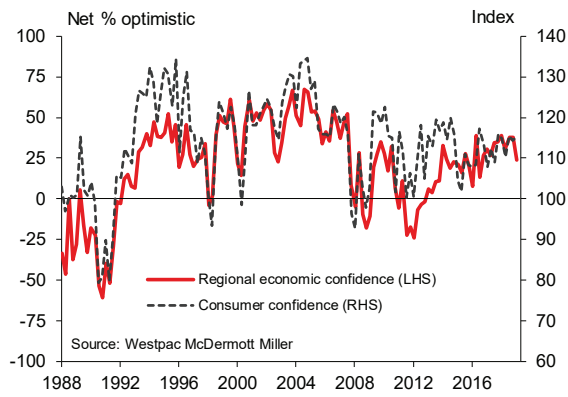
Gisborne/Hawke's Bay



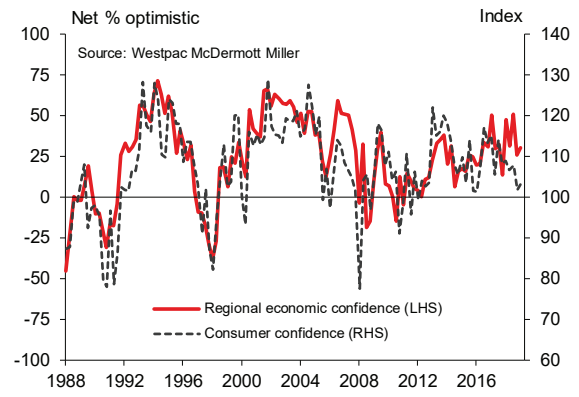
Taranaki/Manawatu-Whanganui



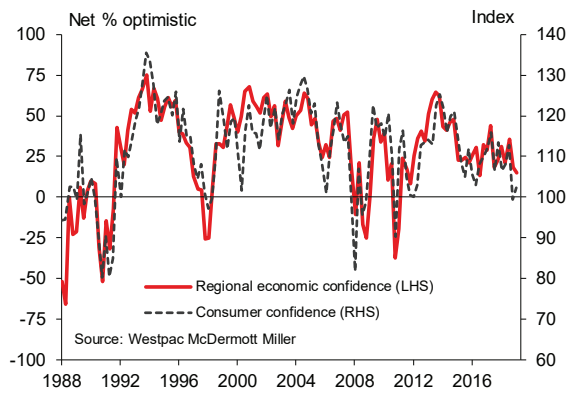
Wellington



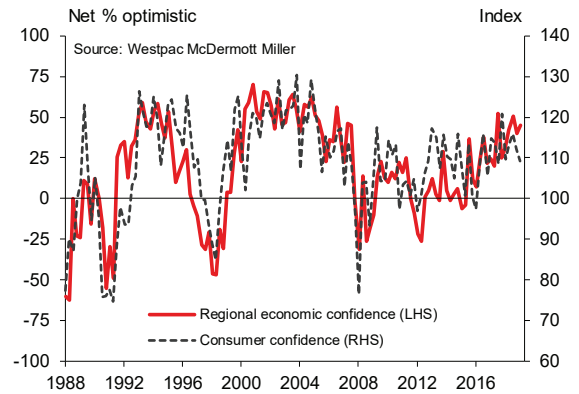
Nelson/Marlborough/West Coast



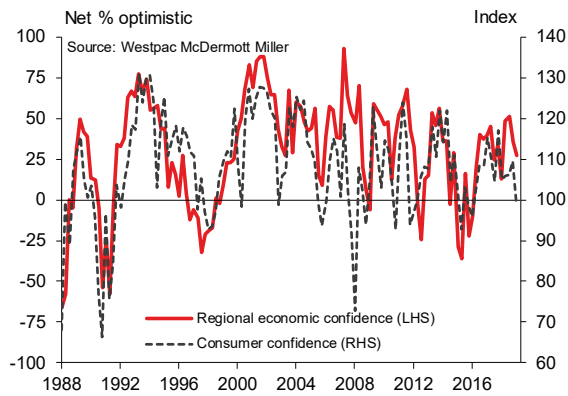
Canterbury



Otago



Southland



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