

# Up, up and away

## Westpac-McDermott Miller Regional Economic Confidence, December 2018 quarter

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- All eleven regions posted an improvement in regional economic confidence.
- Households in New Zealand's most southern regions and on the east coast of the North Island are the most confident.
- Households in the upper North Island remain the least confident. Auckland though, has made the largest gains.
- Confidence at the top of the South is up sharply, and despite some volatility, shows an underlying positive trend.
- Consumer confidence, which measures households' views of their personal economic circumstances, rose in ten of eleven regions, with households reporting an increased appetite for spending.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence picked up in the December 2018 quarter, with all regions showing an improvement when compared to the previous quarter.

Regional confidence was generally stronger in the South Island, although there were pockets of real strength on the east coast of the North Island. Gisborne/Hawkes Bay and Nelson/Marlborough/West Coast were the standouts, not only because they are the most confident in the country, but also because they made some of the biggest gains. Confidence in Otago and Southland was also high, although this was less surprising given that they are perennial strong performers. A key feature of all these regions has been strong population growth and rising house prices.

Confidence in the big urban regions has also improved, especially in Auckland, which recorded the biggest gains bar none. This comes after a prolonged period of pessimism and could reflect the recent sharp drop in petrol prices and interest rates. Auckland is also experiencing rising construction activity, a housing market recovery, and falling unemployment. Canterbury also showed some large gains, although confidence levels have tended to move around a bit as the region struggles to re-orientate itself in the post-earthquake reconstruction period.

### Regional economic confidence\*

Region	Net Confidence (%)		
	Dec-18	Sep-18	Change
Northland	24	22	2
Auckland	16	-14	30
Waikato	16	10	6
Bay of Plenty	37	29	8
Gisborne/Hawke's Bay	52	41	11
Taranaki/Manawatu-Whanganui	26	18	8
Wellington	38	30	8
Nelson/Marlborough/West Coast	51	31	19
Canterbury	36	21	14
Otago	50	42	8
Southland	51	49	2

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 1-11 December 2018, with a total sample size of 1555.

### Regional Discussion

**Northland:** A net 24% of households in Northland expect their region's economy to improve over the next 12 months, marginally up on the 22% posted in the September quarter. This slight improvement is likely to reflect the impact of still rising house prices, lower interest rates, stronger population growth and falling petrol prices. A planned acceleration in government spending is also likely to have helped lift the mood in a region which stands to gain disproportionately from allocations out of the Provincial Growth Fund.

**Auckland:** Households in Auckland are feeling considerably better about their region's economic prospects, although they still are the least optimistic country. A net 16% now expect conditions in the region to improve over the coming

year, the first time in four quarters where optimists have outnumbered pessimists. The improved outlook is likely to reflect continued growth in residential and non-residential building activity and falling rates of unemployment. A sharp fall in petrol prices is also likely to have helped. Auckland has been struggling for some time with high housing costs relative to income, and traffic congestion. This may explain why confidence is so low despite a relatively healthy local economy.

**Waikato:** Economic confidence in the Waikato lifted in the December quarter, building on the small gains recorded in the previous quarter. Confidence remains at fairly modest levels, with only a net 16% expecting better times ahead for their region. Weaker dairy, meat and forestry prices are likely to be key considerations. Contagion effects from neighbouring Auckland might also be a factor. That said, falling unemployment, a rise in the number of advertised job vacancies and a relatively buoyant housing market are likely to have provided some cause for cheer.

**Bay of Plenty:** Confidence in the Bay of Plenty's economic prospects bounced back in the December quarter, after falling sharply in the previous quarter. This is likely to be because business activity in the region is strong and unemployment has fallen. House prices have also picked up, underpinned by strong population gains and lower interest rates. Lower petrol prices are also likely to have been a factor. The success of the region's horticulture industry is probably also adding to the sense of optimism in the region.

**Gisborne/Hawke's Bay:** Households in Gisborne and the Hawke's Bay are overwhelmingly positive about their region's prospects and are the most optimistic in the country. A net 52% of households now expect their region's economy to improve over the next 12 months. The upbeat mood reflects strong population growth, elevated house prices, low unemployment and increased job creation in the region. The success of the horticulture industry and a bumper grape harvest coupled with lower petrol prices are also likely to have added to the air of positivity, although slightly weaker prices for beef, lamb and mutton may have dampened sentiment in some areas.

**Taranaki/Manawatu-Whanganui:** A net 26% of households expect their region's economic prospects to improve over the coming year compared to 18% in the September quarter. Confidence is likely to have been bolstered by rising house prices (which are growing at some of the fastest rates in the country), population growth, and increased residential construction activity. The region also has a tight labour market, evidenced by falling rates of unemployment and rising job vacancies. That said, confidence remains fragile with a softer outlook for meat and dairy exporters a particular concern. In Taranaki, concerns about the future of oil exploration may be weighing on confidence.

**Wellington:** Economic confidence in Wellington improved in the December quarter with a net 38% of households expecting their local economy to improve over the coming 12 months. The pickup in confidence is likely to reflect still

strong growth in house prices, lower unemployment and increased job vacancies. A recent easing in LVR mortgage lending restrictions and lower interest rates will also have lifted the mood. So too, government spending plans for the public sector, which should have employment and economic benefits for the region.

**Nelson/Marlborough/West Coast:** A net 51% of households expect their region's economic prospects to improve over the next 12 months, sharply up from the 31% recorded in the September quarter. Although optimism in the region has been subject to large swings between quarters, the underlying trend is one of increasing positivity. Much of this can be explained by rising house prices, helped along by a limited supply of housing, lower mortgage rates and above trend population growth. The success of the horticulture industry and a good grape harvest, which augurs well for wine exports, are also likely to have lifted sentiment, although weaker dairy and meat prices may have dampened optimism in some areas.

**Canterbury:** Confidence in Canterbury rose sharply in the December quarter with a net 36% of households expecting the region's economy to improve over the next 12 months. Lower petrol prices and easing mortgage rates are likely to have been the main contributing factors. So too, an improvement in manufacturing activity, which may have contributed to a drop in unemployment. Despite this, confidence in the region's future remains jittery, largely because of ongoing uncertainties about the drivers of regional activity once post-earthquake construction work has wound down. Sluggish house prices and weaker meat and dairy prices are unlikely to have helped matters.

**Otago:** A net 50% of households in Otago expect their region's economy to strengthen over the coming year. This is the third consecutive quarter where households have reported increased levels of confidence. The upbeat mood reflects the impact of accelerated population growth, rapidly rising house prices and elevated construction activity in the province. Conducive weather conditions are likely to have boosted the production of grapes in the region, with positive knock-on effects for wine exports. Expectations for the summer tourist season and the spending bonanza that accompanies it are also likely to have loomed large.

**Southland:** Confidence in Southland nudged slightly higher in the December quarter, with a net 51% of household expecting the regional economy to improve in the coming year. Households in this region are among the most optimistic in the country with current levels sitting way above the five year average. In part this reflects the strength of the housing market. Strong population growth, low interest rates and relatively affordable housing are key reasons why house price gains have accelerated. A lack of housing stock has also boosted residential construction activity while non-residential building has benefited from the re-development of the Invercargill CBD. That said, slightly weaker prices for meat and dairy may have dampened sentiment in some areas.

## Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Dec-18	Sep-18	Change
Northland	107.9	105.4	3
Auckland	109.5	98.2	11
Waikato	97.0	94.4	3
Bay of Plenty	110.4	109.1	1
Gisborne/Hawke's Bay	115.1	104.7	10
Taranaki/Manawatu-Whanganui	100.4	104.5	-4
Wellington	115.4	110.2	5
Nelson/Marlborough/West Coast	107.7	106.7	1
Canterbury	112.8	108.0	5
Otago	115.8	113.4	2
Southland	106.0	105.9	0
Nationwide	109.1	103.5	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.

Consumers in our main urban regions saw the biggest improvements in consumer confidence in the December quarter. Gains recorded in regions with a large rural backbone were mostly modest in comparison.

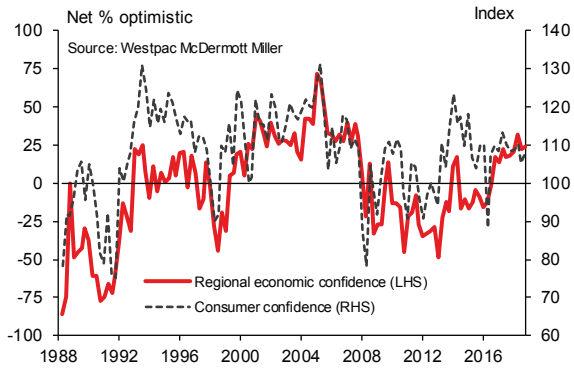
Auckland showed the biggest gains. Consumers in this region are generally feeling a lot better about how the national economy is performing and seem to be in the mood for spending.

The other big gainer was the Gisborne/Hawke's Bay region. Much like Auckland, consumers in this region are increasingly willing to go out and purchase a major household item.

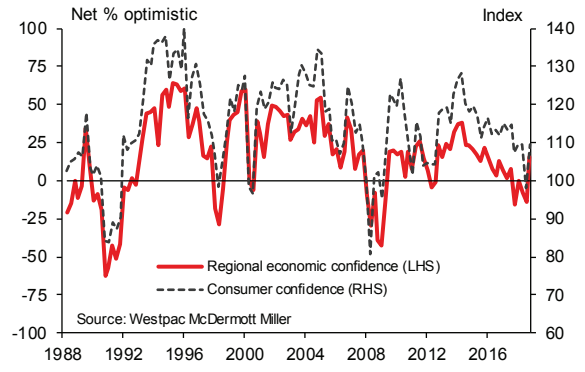
Surprisingly there has been no change in consumer confidence levels in Southland. While consumers are really positive about what the future holds for their own region, they are less upbeat about their own financial circumstances and are not optimistic about the country's economic prospects.

Taranaki/Manawatu-Whanganui is the only region where consumers were less optimistic than they have been. Not only are they less optimistic about their finances, but they are also pretty downbeat about the economy as a whole. That said, consumers in the region still seem willing to spend, presumably because the recent fall in petrol prices and a drop in interest rates has put more cash in their pockets.

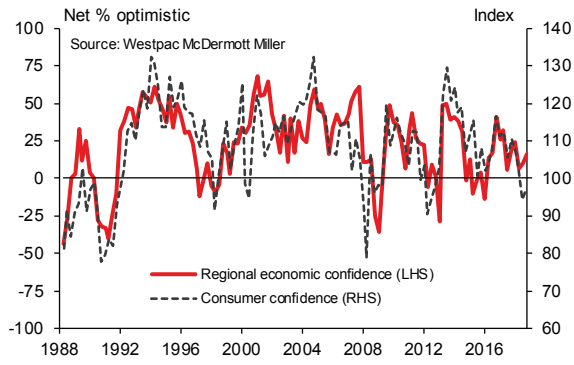
### Northland



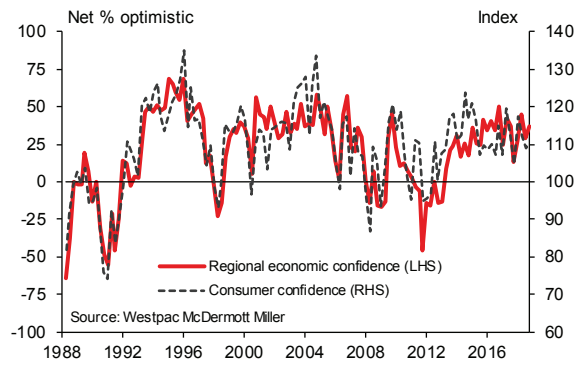
### Auckland



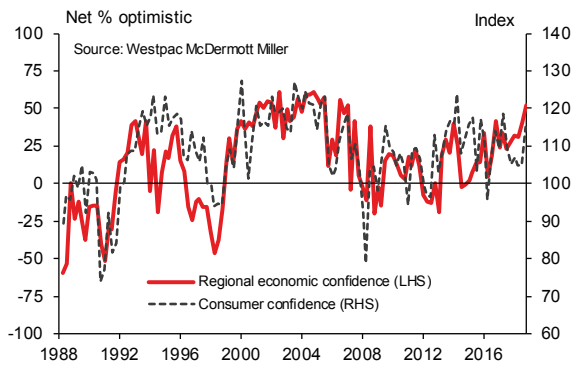
### Waikato



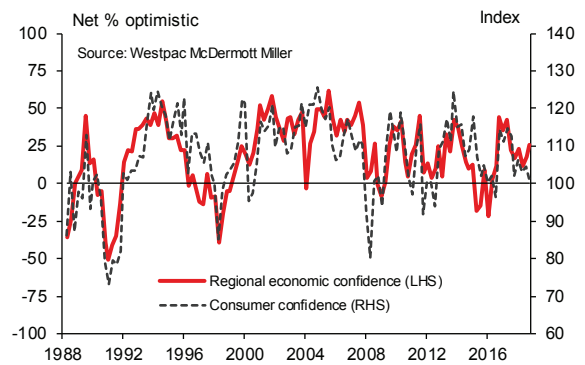
### Bay of Plenty



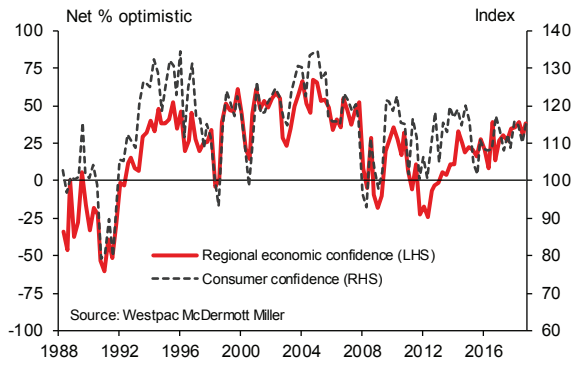
### Gisborne/Hawke's Bay



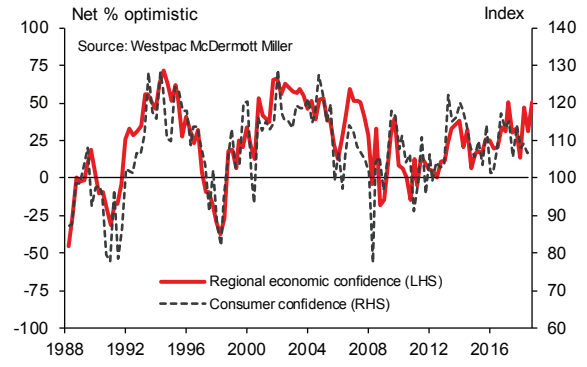
### Taranaki/Manawatu-Whanganui



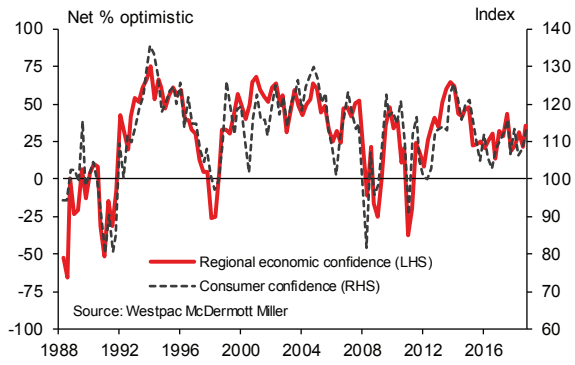
### Wellington



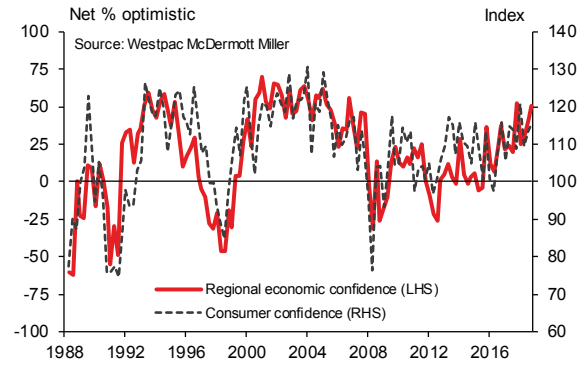
### Nelson/Marlborough/West Coast



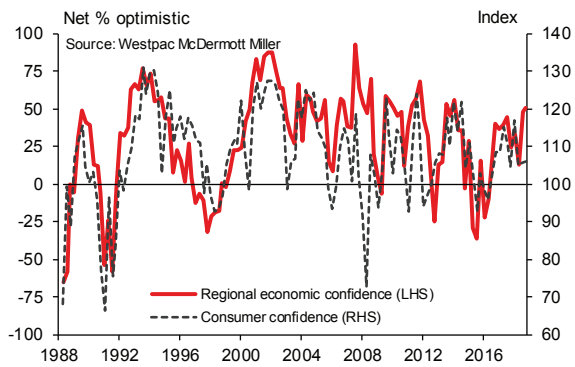
### Canterbury



### Otago



### Southland



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