

Rural Relief

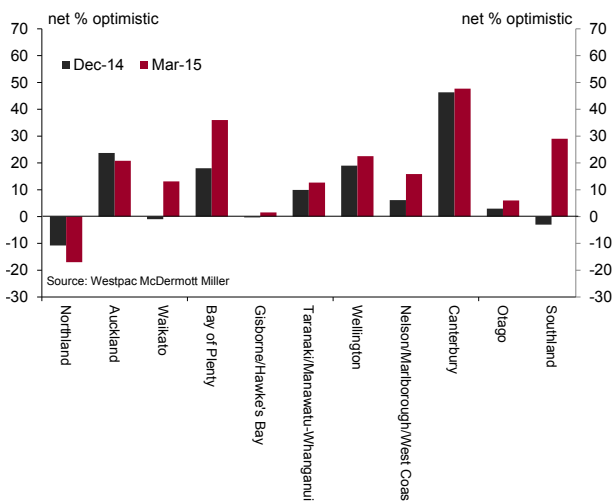
Westpac McDermott Miller Regional Economic Confidence, March quarter 2015

- Consumers' economic confidence rose in the March quarter, recovering some of the December quarter's decline.
- The biggest improvements were generally seen in the rural regions where confidence had been hit hardest in the previous survey. While low milk prices and dry weather have presented challenges, conditions may not be as bad as was feared three months ago.
- Urban consumers have responded cautiously to cheaper fuel and falling interest rates.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Dec-14	Mar-15	Change
Northland	-11	-17	-6
Auckland	24	21	-3
Waikato	-1	13	14
Bay of Plenty	18	36	18
Gisborne/Hawke's Bay	0	2	2
Taranaki/Manawatu-Whanganui	10	13	3
Wellington	19	23	4
Nelson/Marlborough/West Coast	6	16	10
Canterbury	46	48	1
Otago	3	6	3
Southland	-3	29	32
Nationwide	18	21	3

Regional economic confidence



Source: Westpac McDermott Miller

*Regional economic confidence is the balance of households expecting good, as opposed to bad, economic times in their region over the coming year, as a percentage of total number of households. Sample sizes, and margins of error, vary by region. The national average is weighted by the share of each region in the total population. The survey was conducted over 1-11 March, with a total sample size of 1561.

Regional economic confidence rose in the March quarter, clawing back some of the ground that was lost in the December quarter. The rural regions and smaller centres generally saw the biggest gains, whereas confidence in the main centres was mixed.

There's a sense that the rural regions were bracing themselves for some particularly tough times in the previous survey. At the time, Fonterra's farmgate milk price for the current season was expected to fall below \$5/kg, compared to the record \$8.40/kg paid in the previous season. As if that wasn't enough, emerging signs of an El Niño weather pattern highlighted the potential for a severe drought this summer.

Three months on, and while conditions have indeed gotten tougher for the farming sector, they're perhaps not as bad as feared. A pickup in world dairy prices has raised hopes for a better result next season, and very high prices for beef in the US market have provided some offset. And while dry weather has prevailed across most of the country until very recently, the overall impact hasn't been as severe as in other recent droughts.

The relatively subdued responses from the main centres are more puzzling, given that cheaper fuel, falling interest rates and rising house prices have been a boon to urban consumers. That said, the level of confidence remains higher on average in the main centres, especially in the Canterbury region as the post-earthquake rebuild continues to generate jobs and income growth.

Regional Roundup

Northland: The Northland region saw the biggest fall in economic confidence in the March quarter, and is the only region where confidence remains negative on balance. In terms of the direction of change at least, the survey result is somewhat at odds with the region's recent economic performance: employment has risen 11% in the last year and the unemployment rate has fallen (although at 8% it remains above the national average), house sales and building consents have picked up, and tourist spending has risen strongly.

Auckland: Economic confidence in the Auckland region fell to a two-year low in the March quarter. Cheaper fuel and falling interest rates don't appear to have done much to boost sentiment, although actions would suggest otherwise: retail spending in the Auckland region is growing faster than the national average. It may be that the rampant rise in house prices is creating as much angst as joy; indeed, the recent slowing in the pace of building consents, despite the efforts to reduce red tape and the obvious need to build more, doesn't inspire confidence that the Auckland housing market will achieve a better balance any time soon.

Waikato: While regional economic confidence rose strongly in the March quarter, it recovered less than half of the 32-point plunge seen in the December quarter. Activity indicators for the region have generally been strong, but as the country's largest dairying region, the plunge in the expected milk price for this season and recent dry weather are likely to have been cause for concern.

Bay of Plenty: Economic confidence in the Bay of Plenty region rose sharply in March, reaching its highest level since late 2009. Indeed, relative to its long-run average, the level of confidence in the Bay of Plenty is the highest of any region. The kiwifruit industry has made a much stronger than expected recovery from the Psa virus, and the region is also one of many that has benefited from the surge in tourist spending over the last year.

Gisborne/Hawke's Bay: Economic confidence rose slightly for a second straight quarter, but remains well below year-ago levels. Conditions for the forestry sector remain challenging, although the weaker New Zealand dollar and falling transport costs have helped to improve returns, and harvesting has picked up a little following a significant slowdown in early 2014. The unemployment rate in these regions rose in the December 2014 quarter, and remains one of the highest in the country.

Taranaki/Manawatu-Whanganui: Economic confidence rose slightly in the March quarter, but as in most rural regions it was well down on year-ago levels. Economic activity indicators for these regions have been relatively subdued, with soft growth in retail spending and a rise in the unemployment rate in the latest quarter. The housing market has also been a notable underperformer: these were among the few regions to record a fall in house prices over the last year.

Wellington: Wellington one of only two regions to see a lift in economic confidence compared to a year ago. Unemployment has fallen to a four-year low, house prices are now rising gradually rather than falling, and tourism has been particularly strong. Despite the general sense of fiscal restraint, it's notable that the public sector was an above-average contributor to GDP growth over the last year.

Nelson/Marlborough/West Coast: Economic confidence rose in the March quarter, though it reclaimed less than half of the December decline. The economic performance of these regions has been mixed recently: unemployment has risen, but retail and tourism spending have been strong. Dry conditions will have weighed on regional economic confidence to some degree, although only Marlborough has seen an official drought declaration.

Canterbury: Not surprisingly, Canterbury remains the most confident region by a wide margin, although it only eked out a small gain in the March quarter and was down on a year ago. The post-quake rebuild in Christchurch is still in its growth phase, driving low unemployment and strong consumer spending growth. Nevertheless, the region has been affected by the changing fortunes of the dairying sector: milk prices have fallen sharply, and the drought has had its most severe impact in South Canterbury.

Otago: Regional economic confidence rose slightly, but remains well below its long-term average. While the region has seen reasonable jobs growth, it wasn't enough to prevent a rise in the unemployment rate over the second half of 2014. Queenstown has been the star performer within the region, with strong growth in tourist spending and a substantial lift in house prices since the election.

Southland: Southland saw by far the biggest increase in regional economic confidence, although the 32-point rise still wasn't quite enough to undo the December quarter plunge. Unlike the other major dairying regions, drought hasn't been a significant threat for Southland, which might help to explain the relatively large rebound in economic confidence this quarter.

Consumer confidence: regional breakdown

Consumer confidence by region

Region	Consumer confidence index		
	Dec-14	Mar-15	Change
Northland	109.7	118.2	8.5
Auckland	118.4	119.6	1.3
Waikato	107.1	111.2	4.1
Bay of Plenty	116.6	121.0	4.4
Gisborne/Hawke's Bay	111.8	115.8	4.0
Taranaki/Manawatu-Whanganui	108.9	117.8	8.9
Wellington	120.0	115.9	-4.1
Nelson/Marlborough/West Coast	107.9	105.6	-2.3
Canterbury	119.9	121.0	1.0
Otago	105.0	115.8	10.8
Southland	104.4	111.1	6.7
Nationwide	114.8	117.4	2.5

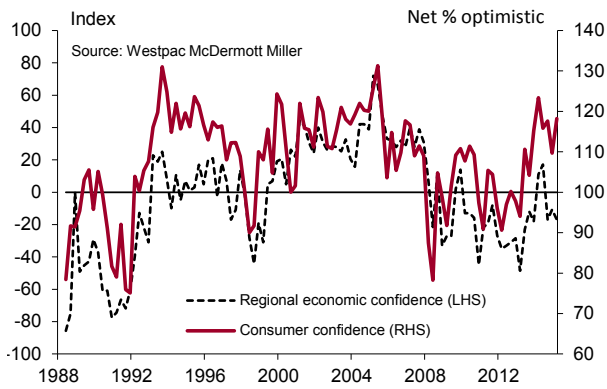
In this bulletin we also report on the regional breakdown of the Westpac McDermott Miller Consumer Confidence Index. Separately from the Regional Economic Confidence Survey, the Consumer Confidence Index summarises responses to questions about households' own financial situation, their expectations for the New Zealand economy as a whole, and their current willingness to buy a major household item.

Consumer confidence rose in nine out of eleven regions in the March quarter, with the rural regions and smaller centres reporting larger gains for the most part. Just as falling dairy prices caused rural sentiment to tumble in the December survey, the recent pickup in world prices seems to have boosted consumers' perceptions about the wider economy, regardless of the localised impacts of drought.

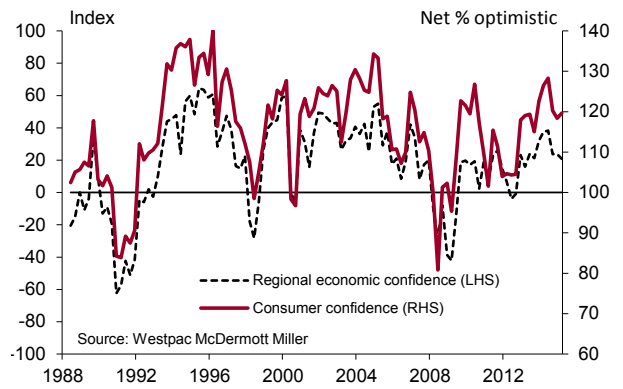
The generally flat results for the main centres for the second survey in a row are more of a puzzle, given the combination of cheaper fuel, falling interest rates and rising house prices over the last six months. One explanation may be the mixed blessing of high and rising house prices – good for existing property owners, not so much for those trying to get on the property ladder. Another may be the high exchange rate. While the New Zealand dollar has fallen against the US dollar, it has moved sharply higher against the euro, yen and Australian dollar. That is not good news for export-oriented and import-competing manufacturers, who tend to cluster in the urban centres.

Michael Gordon
Senior Economist

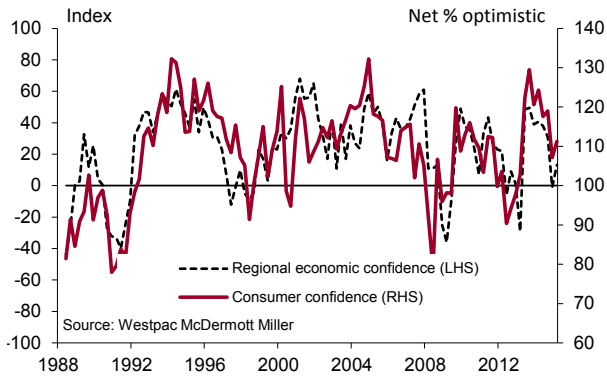
Northland



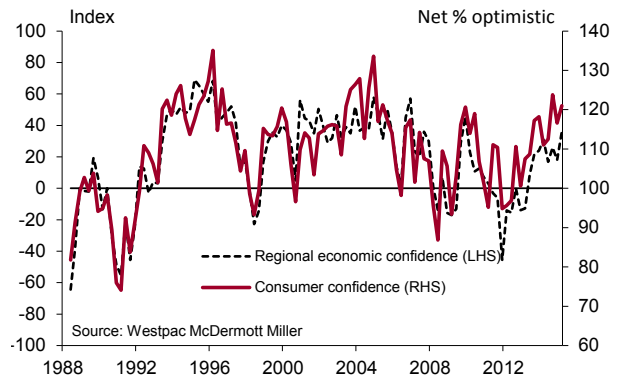
Auckland



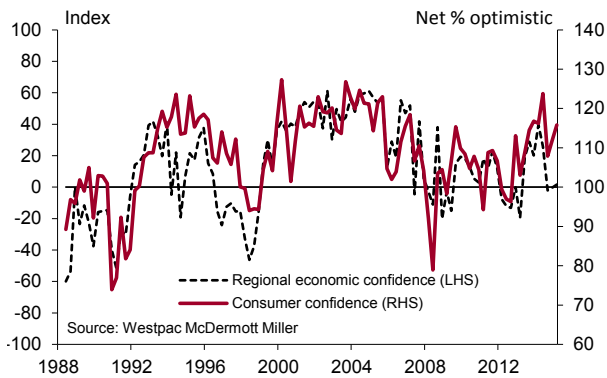
Waikato



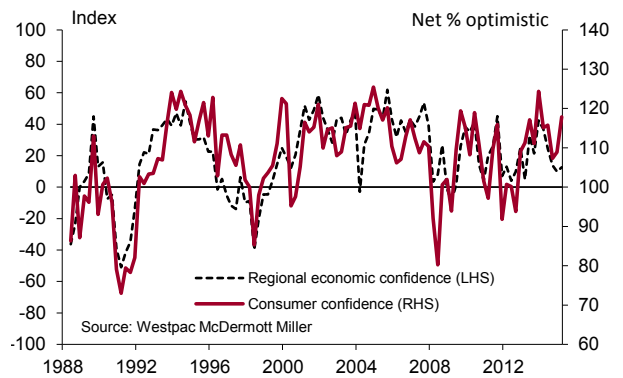
Bay of Plenty



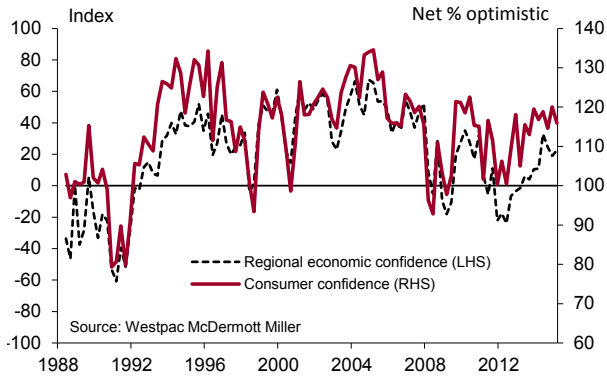
Gisborne/Hawke's Bay



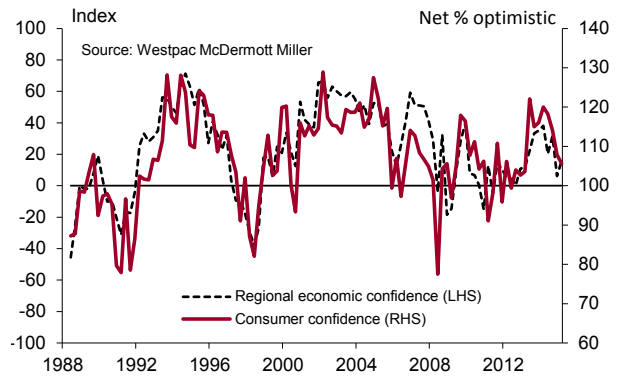
Taranaki/Manawatu-Whanganui



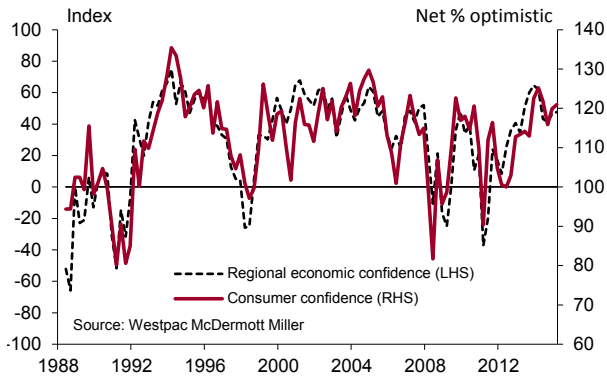
Wellington



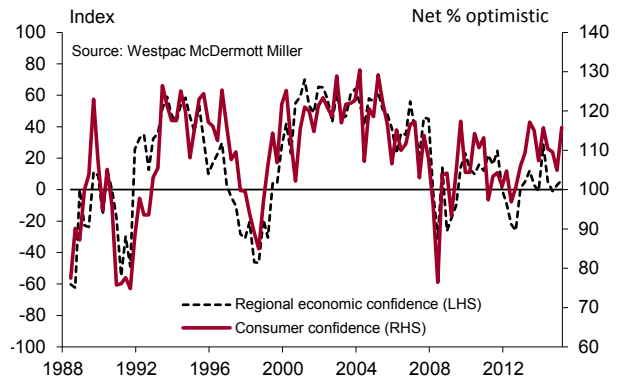
Nelson/Marlborough/West Coast



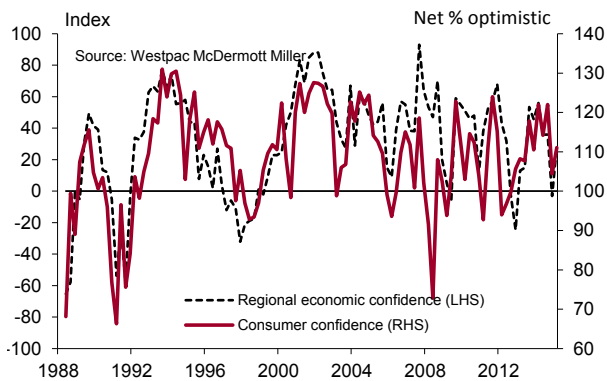
Canterbury



Otago



Southland



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