

# Westpac McDermott Miller Regional Economic Confidence.

24 September 2019



## All together now – September 2019 quarter.

- Regional economic confidence deteriorated for the third consecutive quarter, with all eleven regions posting a decline.
- Regions with a rural backbone are still more confident than those with large metropolitan centres, but the gap has narrowed significantly.
- The biggest falls were in regions most exposed to deteriorating global economic conditions, particularly those heavily dependent on dairy, forestry and tourism.
- Cantabrians are the most pessimistic about future, edging out Auckland, which saw the smallest decline in confidence.

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### Regional economic confidence\* (net confidence %)

Region	Sep-19	Jun-19	Change
Northland	2	9	-7
Auckland	-1	3	-4
Waikato	11	29	-18
Bay of Plenty	9	19	-10
Gisborne/Hawke's Bay	20	26	-6
Taranaki/Manawatu-Whanganui	11	19	-8
Wellington	3	24	-21
Nelson/Marlborough/West Coast	15	30	-15
Canterbury	-2	15	-17
Otago	10	45	-35
Southland	19	27	-8

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 1-12 September 2019, with a total sample size of 1554.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence deteriorated again in the September 2019 quarter, with all regions recording a fall. This is the third successive quarter where most regions have reported a fall in confidence.

The survey confirms that households in regions that have large metropolitan centres are the least confident. This by itself is not that surprising. Auckland and Canterbury have been underperformers for quite some time. What is news though is that they have now been joined at the bottom of the pecking order by Wellington, a region which has benefitted greatly from government largesse.

Households in regions that have a large a rural backbone tend to be more confident, especially those on the east of the



North island, and south of the South Island. That said, most of these regions, especially those in the South Island, have seen big declines and as a result the gap between these regions and their metropolitan counterparts has narrowed markedly.

Rural regions with the biggest declines tend to be those that are more exposed to global headwinds and/or are seeing slower house price inflation. Otago, for example, has experienced sluggish tourism growth and weaker house price growth. Ditto for Waikato, although they are far more exposed to dairy prices which have been softer over recent months. The same applies to the Bay of Plenty, where harvesting of forests has been affected by a sharp drop in log prices.

Southland, however, stands out. Despite a heightened exposure to dairy prices, its housing market continues to power ahead, and this is likely to be one of the reasons why Southlanders are among the most confident in the country.

This is the first survey to collect data using self-completion online interviews. Previously the survey relied on computer aided telephone interviews. It's not clear to what extent this might have affected reported changes in confidence between quarters. Relative changes between regions, however, are unlikely to have been affected.

## Regional Discussion.

**Northland:** Regional confidence in Northland has again moved lower and is now among the weakest in the country. A net 2% of households in Northland expect their region's economy to improve over the next 12 months, compared to 9% in the preceding quarter. Lower confidence levels are likely to reflect the impact of global headwinds, which have resulted in weaker dairy prices and sharply lower log prices. Tourism has also been struggling and there has been a rise in the number of people on jobseeker benefits. The mood is unlikely to have been helped by slowing house price inflation.

**Auckland:** Regional confidence in Auckland slipped this quarter with a net 1% of households feeling pessimistic about their region's economic prospects compared to a net 3% that had a positive outlook in the June quarter. This downbeat assessment is likely to reflect ongoing weakness in the housing market, higher petrol prices, and a deterioration in labour market conditions, evidenced by a pickup in unemployment and fewer job vacancies. Weakness in manufacturing activity against the backdrop of deteriorating global economic conditions is also likely to be a concern.

**Waikato:** Confidence in this region's economic prospects fell sharply in the September quarter, with a net 11% of households expecting better times ahead compared to 29% in the previous quarter. Falling confidence in this major dairy producing region is likely to reflect the impact of deteriorating global economic conditions, which have resulted in weaker dairy prices and sharply lower log prices. Worries about the impact that environmental policies might have on the dairy sector also loom large, while slowing house price inflation will be a concern.

**Bay of Plenty:** Confidence in this region's economic fortunes fell to just 9% in the September quarter, compared to 19% in the June quarter. Lower confidence levels are likely to reflect the impact of global headwinds, which have resulted in sharply lower log prices, less harvesting activity and job losses. This is also likely to mean slower log volumes through the Port of Tauranga. A slightly smaller kiwifruit harvest might also have contributed, although this still didn't stop growers from increasing their exports to China and Japan. Another factor that might be weighing on households in the region is house price inflation which continues to slow.

**Gisborne/Hawke's Bay:** A net 20% of households in Gisborne and the Hawke's Bay expect their region's economy to improve over the next 12 months, compared to 26% in the preceding quarter. Despite the drop, households in this region are the most confident in the country. The region's housing market remains very strong even if the market is past its peak. At the same time, there has been an acceleration in residential building consents which augurs well for construction activity in the future. That said, slightly lower confidence levels are likely to reflect the impact of a global headwinds, which have resulted in sharply lower log prices, less harvesting activity and job losses at a time when the region's labour market is already showing signs of a deterioration.

**Taranaki/Manawatu-Whanganui:** A net 11% of households expect their region's economic prospects to improve over the coming year compared to 19% in the June quarter. This effectively reverses the gains recorded in the June quarter. This drop in confidence is a bit surprising considering recent positive developments in Taranaki's oil and gas industry and strong house price gains, particularly in the Manawatu-Whanganui region. That said, lower confidence levels are likely to reflect the impact of deteriorating global economic conditions, which have resulted in weaker dairy prices, sharply lower log prices and a slowdown in tourist arrivals from abroad.

**Wellington:** Confidence in this region's economic prospects has plunged from 24% in the June quarter to 3% in September, placing it among the least confident in the country. This big fall comes after another large decline in the previous quarter. It's not immediately clear why this should be given the boost that the local economy is getting from government. However, possible reasons might include well-publicised problems with the region's public transport system, rising rents in the capital and a move towards risk-based underwriting for property and contents insurance in this natural disaster-prone region. A marked slowdown in house price inflation is unlikely to have helped matters.

**Nelson/Marlborough/West Coast:** A net 15% of households expect their region's economy to improve over the next 12 months, compared to 30% in the June quarter. Despite this big fall, households in the region remain amongst the most confident the country. Elevated prices for horticultural and meat products might have helped. A vintage grape harvest is also likely to have gone down well. That said, confidence has still halved. In large part this reflects the impact of global headwinds, which have resulted in weaker dairy prices, a

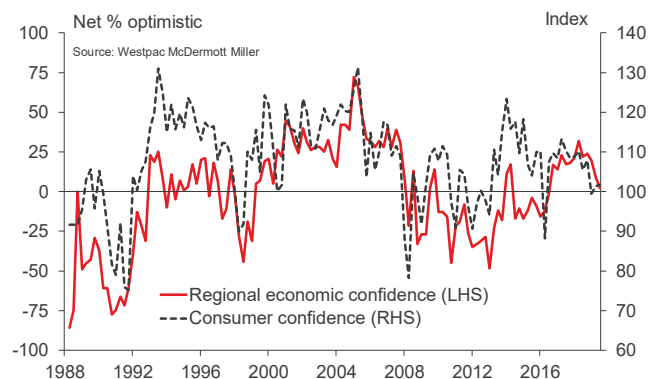
sharp drop in log prices, and softer tourism numbers. A slowing housing market might also be cause for concern, although house prices are still growing at a fair clip.

**Canterbury:** Confidence has dropped sharply and households in the region are now the least confident in the country. A net 2% of Cantabrians feel pessimistic about their region's economic prospects compared to a net 15% that had a positive outlook in the June quarter. Economic conditions in the region remain fragile as the local economy re-orientates itself in the post-earthquake recovery period. The manufacturing sector remains weak, while activity in the services sector continues to soften, not helped by a decline in tourism numbers. Both are now staring down the barrel of a slowdown in the global economy. Unemployment meanwhile has edged higher, while demand for labour has fallen. Weaker dairy prices in recent months are unlikely to have helped.

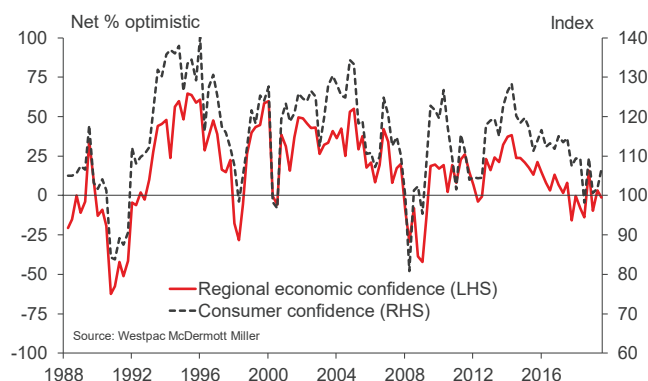
**Otago:** A net 10% of households expect their region's economic prospects to improve over the coming year compared to 45% in the preceding quarter. This massive drop means that this region moves from being the most confident in the country to a middle of the pack performer. This is likely to reflect the impact of global headwinds, which have resulted in a slowdown in international tourist arrivals, weaker dairy prices, sharply lower log prices and a marked softening in regional house price inflation.

**Southland:** Confidence in Southland fell to 19% in the September quarter, from 27% in the previous quarter. Southlanders have traditionally been among the most confident in the country and that remains the case. In large part this is because the region's housing market is continuing to outperform. However, confidence in the province has weakened and this is likely to be because of deteriorating global economic conditions, which have resulted in weaker dairy prices, softer manufacturing activity and an up and down performance from the region's services sector.

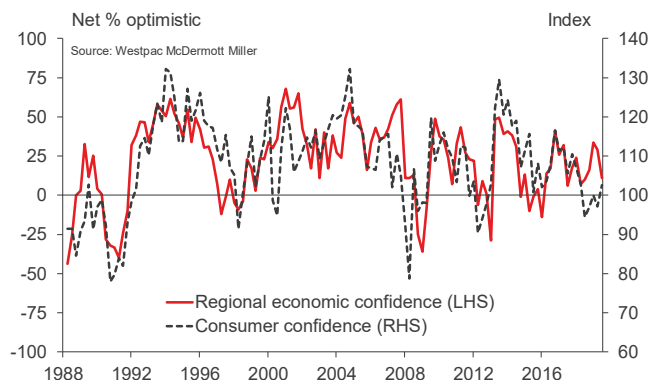
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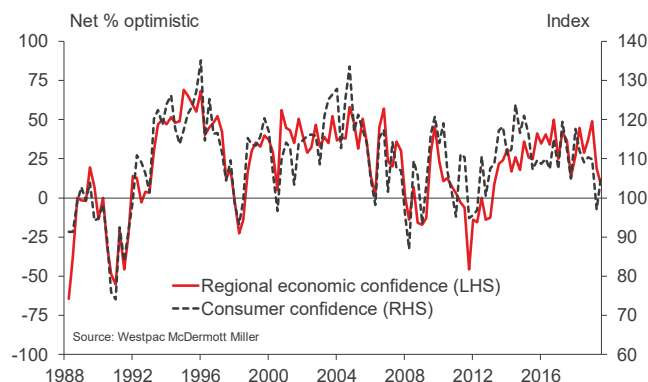
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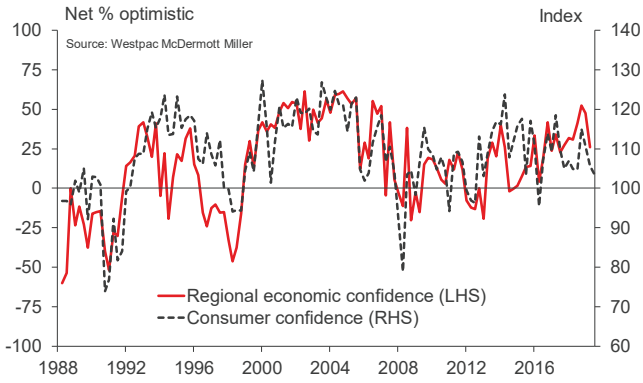
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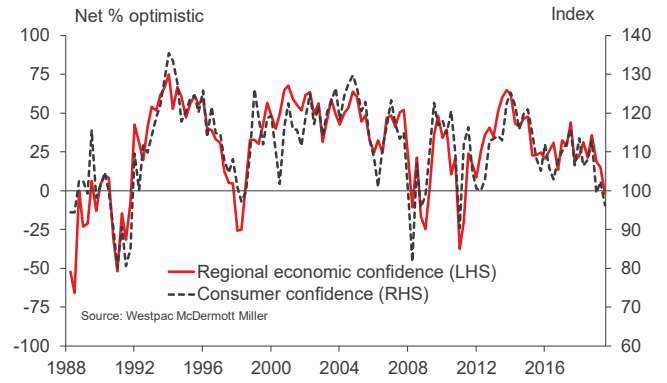
### Bay of Plenty



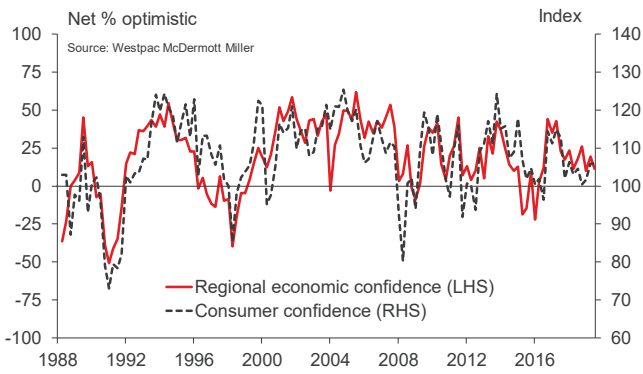
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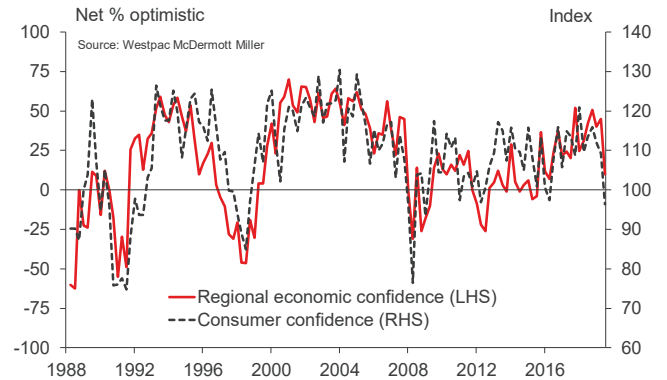
### Canterbury



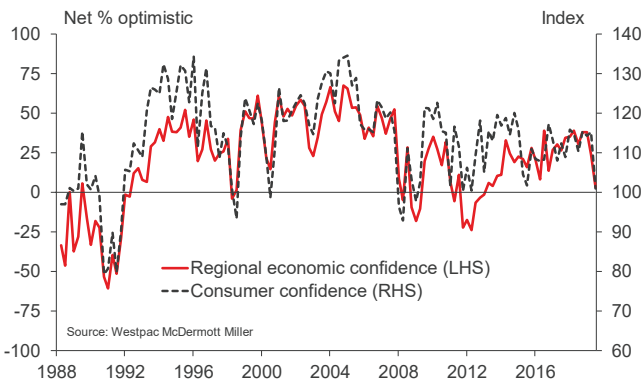
### Taranaki/Manawatu-Whanganui



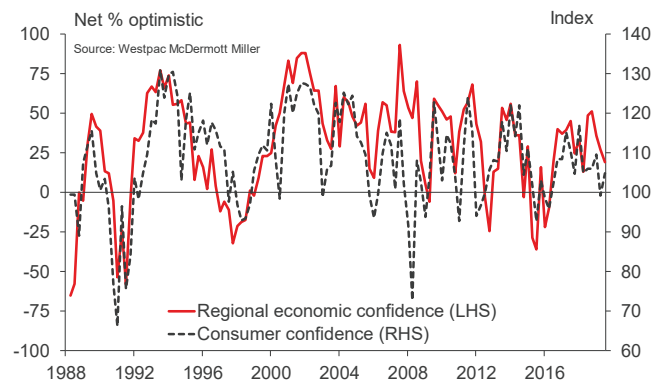
### Otago



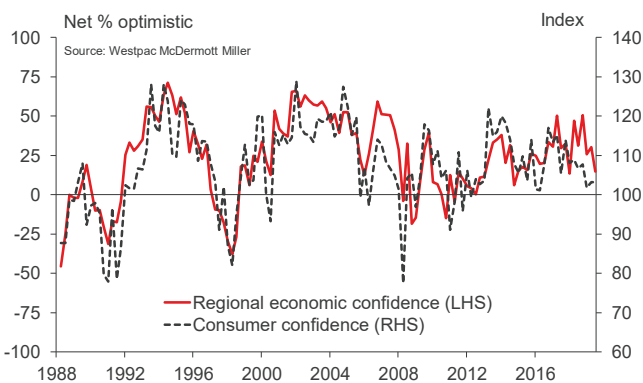
### Wellington



### Southland



### Nelson/Marlborough/West Coast





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