

### Overview of Southland Region

Economic conditions in Southland improved slightly in the December quarter, with Infometrics' provisional estimate of GDP showing growth of 1.4% over the December 2016 year. Improvements were seen across a range of indicators, including retail spending, vehicle sales, guest nights and migration. Traffic flows rose 3.3% over the year.

A deterioration to the number of Jobseeker Support recipients does still show there is a vulnerable group that is not sharing in these better conditions. However, a brighter outlook for key sectors of Southland's economy is likely to see better job prospects in 2017.

The rally in dairy prices through the second half of 2016 looks set to propel Fonterra's farmgate milk price to \$6.00/kgms this season. A price of \$6.00/kgms would push the total dairy payout (excluding dividends) in Southland to almost \$1.4bn, up from \$868m in the 2015/16 season. Even so, farmers' first priority will be reducing debt levels so any spending lifts will be modest.

Although lamb prices took a tumble in the December quarter, a tighter supply of New Zealand lamb and strong demand out of China and other parts of Asia has pushed up lamb prices so far in 2017. Aluminium prices have recovered significantly over recent months and in February were 18% above their September trough in New Zealand dollar terms.

Southland's tourism sector enjoyed a bumper 2016. Total guest nights soared 14%, driven by a 26% lift in guest nights by international visitors as a lack of affordable beds at peak times in Queenstown pushed additional demand into Southland. Data from MBIE shows that visitor spending in Southland totalled \$599m in 2016, up 6.8% from its 2015 level. International visitor spending climbed 17% to \$238m in 2016, while spending by New Zealand visitors rose a mere 1.1% to \$361m. Domestic visitor spending growth was sluggish throughout much of the South Island, with the notable exceptions of Otago and Nelson-Tasman.

Demand for housing in Southland rose in 2016, with prices lifting 9.0%, while sales climbed 21%. People are attracted by affordable housing, a good lifestyle proposition, and relatively low levels of underlying unemployment. Higher prices are beginning to renew interest in building. Although the number of residential building consents over the 12 months to December was 6.0% below its 2015 level, consents during the December quarter spiked to their highest level for a December quarter since 2008. This additional residential work will help keep builders busy, at a time when few consented commercial builds are in the pipeline.

Indicator	Southland Region	New Zealand
<i>Annual average % change</i>		
Gross domestic product	↑ 1.4%	↑ 3.2%
Traffic flow	↑ 3.3%	↑ 4.5%
Residential consents	↓ -6.0%	↑ 10%
Non-residential consents	↓ -21%	↑ 1.7%
House prices*	↑ 9.0%	↑ 15%
House sales	↑ 21%	↓ -0.03%
Guest nights	↑ 14%	↑ 6.2%
Retail trade	↑ 1.2%	↑ 2.9%
Car registrations	↑ 7.9%	↑ 5.9%
Commercial vehicle registrations	↑ 6.0%	↑ 14%
Jobseeker Support recipients	↑ 3.5%	↑ 0.6%
<i>Level</i>		
Unemployment rate	5.0%	5.1%
International net migration	561	70,580

\* Annual percentage change (latest quarter compared to a year earlier)

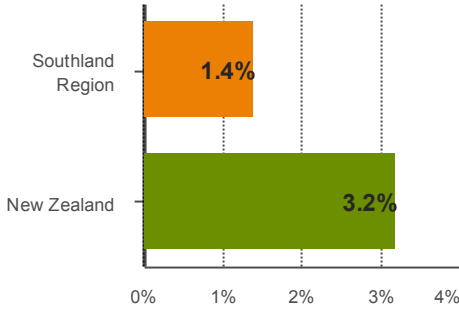
### Overview of national economy

With economic growth accelerating, net migration refusing to peak, and interest rates still at a low level, demand has risen throughout much of the country across a range of indicators. This situation has put renewed pressure on capacity, and firms across a broad cross section of the economy have increasingly been complaining about the difficulty of finding labour and its effect on their ability to expand their business. Such supply-side issues have not been on the radar since 2007/08, before the Global Financial Crisis resulted in a swathe of excess capacity across both the New Zealand and global economies. If these issues continue to mount, then inflationary pressures and the prospect of rising interest rates will increasingly be on decision-makers' radars.

# Gross domestic product

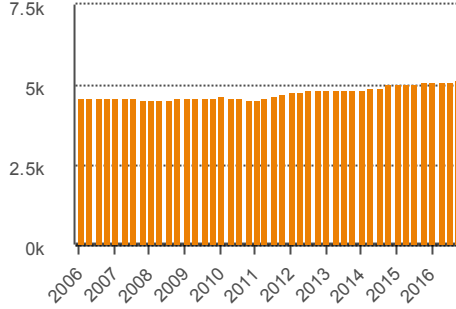
## Gross domestic product growth

Annual average % change Dec 15 - Dec 16



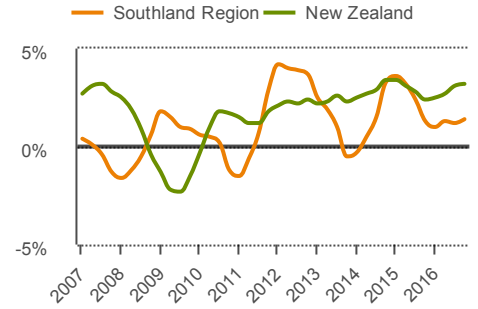
## Gross domestic product (\$m)

Annual level, Southland Region



## Gross domestic product growth

Annual average % change



## Highlights for Southland Region

- GDP in Southland Region was up 1.4% for the year to December 2016 compared to a year earlier. Growth was lower than in New Zealand (3.2%).
- GDP was \$5,169 million in Southland Region for the year to December 2016 (2010 prices).
- Annual GDP growth in Southland Region peaked at 4.2% in the year to March 2012.

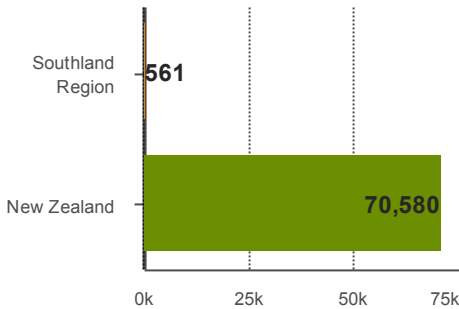
## National overview

New Zealand's GDP grew by a rapid 3.2% over the year to December 2016, according to Infometrics' provisional estimate of GDP. Growth continued to be supported by ongoing strength in the construction sector, elevated consumer spending, and sharp increases to tourism activity. Rapid population growth due to elevated net international migration inflows also added to demand. Infometrics' latest forecasts predict that GDP growth will average close to 3.0%pa over the next couple of years, but the forecasts also highlight that the solid growth outlook masks several risks that hang over the economy. The forecasts warn that capacity constraints are becoming more widespread, at a time when wholesale interest rates are beginning to rise. These two factors, coupled with significant global political uncertainty, pose risks to our medium-term economic outlook, particularly if and when migration eventually tapers off.

# International net migration

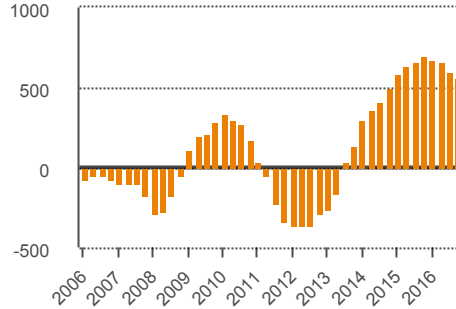
## Net migration

Number of persons, year to December 2016



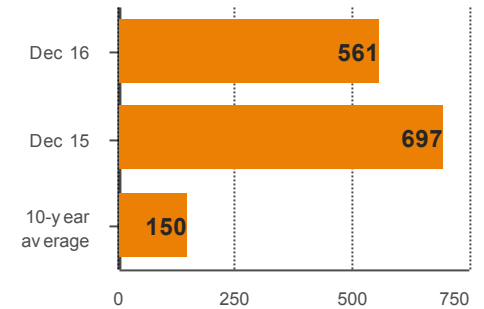
## Net migration

Annual number of persons, Southland Region



## Net migration

Annual number of persons, Southland Region



## Highlights for Southland Region

- Southland Region experienced a permanent and long-term net migration gain of 561 persons in the year to December 2016. This compares with a gain of 697 a year ago, and a ten year average of 150 (gain).
- New Zealand's annual net migration increased to 70,580 from 64,926 a year ago.

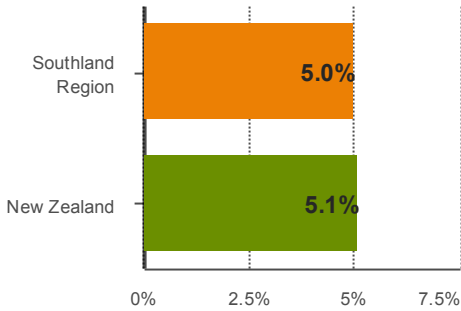
## National overview

Continued growth in arrivals saw annual net migration edge upwards again to 70,580 people in December. However, even with arrivals growing rapidly, there has still been a lift in departures of working-age people in the December quarter ending a multi-year decline. This increase is reflective of the drop-off in student arrivals, but there has also previously been a surge in people arriving on work visas and some of whom will be returning home. Although we expect departure numbers to continue tracking upwards during 2017, the basis for this increase will primarily be the fact that there are more people in New Zealand that could leave, and in the case of those on limited-time visas, those that have to leave. Given the strength of the New Zealand economy and the tight labour market, we believe there is also room for arrivals to increase further over the year ahead. As a result, net migration is expected to keep ticking upwards through 2017.

# Unemployment rate

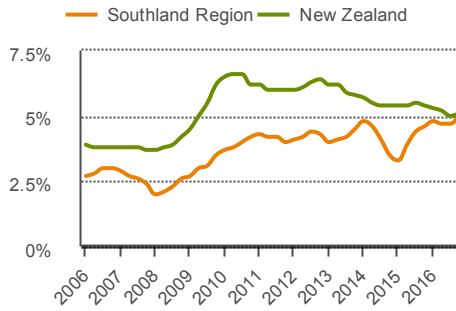
## Unemployment rate

Average annual rate, year to December 2016



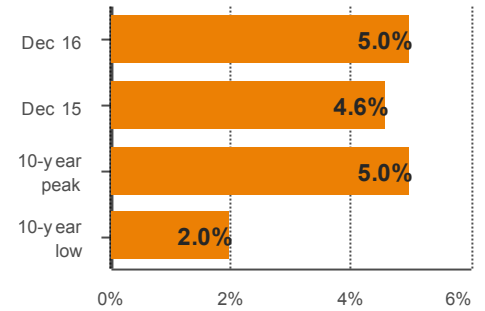
## Unemployment rate

Average annual rate



## Unemployment rate

Annual average, Southland Region



## Highlights for Southland Region

- The annual average unemployment rate in Southland Region was 5.0% in December 2016, up from 4.6% a year earlier.
- The unemployment rate in Southland Region was lower than in New Zealand, where the unemployment rate averaged 5.1% over the year to December 2016.
- Over the last ten years the unemployment rate reached a peak of 5.0% in December 2016;

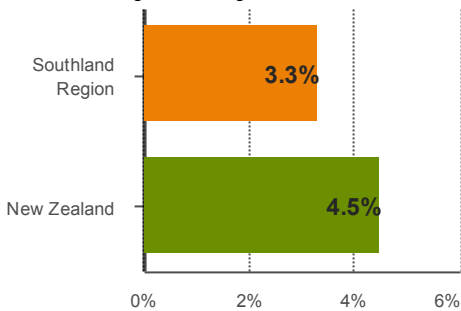
## National overview

The unemployment rate increased from 4.9% to 5.2% in the December quarter, taking the average unemployment rate across 2016 to 5.1% compared to an average of 5.4% in 2015. Although the increase in the December quarter appears to contradict the general consensus that the labour force is nearing capacity, there is more to the data than meets the eye. Not only did population growth see the labour market expand by 0.8%, but good employment conditions saw the participation rate rise to 70.5%. Furthermore, growth in the number of people employed and hours worked ticked up strongly, which further reassures us of the underlying strength of the labour market. Growth is becoming more wide spread across industries, and people are spending much less time unemployed than previously.

# Traffic flow

## Annual change in traffic flows

Annual average % change Dec 15 - Dec 16



## Highlights for Southland Region

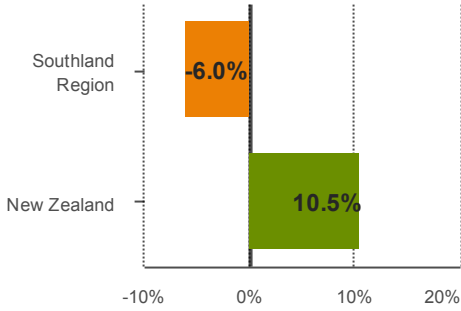
- Traffic flows in Southland Region increased by 3.3% over the year to December 2016. This compares with an increase of 4.5% in New Zealand.

## National overview

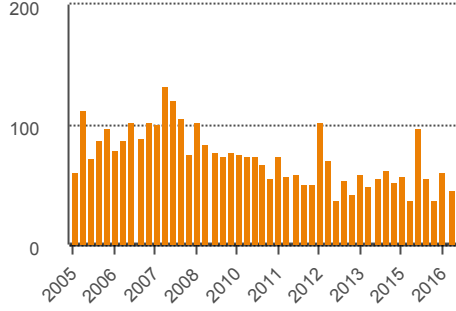
Traffic flows continued to grow strongly in the closing stages of 2016, with vehicle movements rising 4.5% nationally over the 12 months to December 2016. Growth was highest in areas of fast population growth, particularly regions surrounding Auckland, as well as in places with large visitor sectors, such as Queenstown-Lakes and Mackenzie District. Unsurprisingly the 14 November 2016 Kaikōura Earthquakes caused major disruptions to traffic flows through the upper South Island. Traffic flows during the December 2016 quarter fell 44% in Kaikōura from their December 2015 quarter level. Due to the redirection of traffic from SH1 traffic flows through Hurunui and Tasman districts pushed up by 51% and 13% respectively over the same period. Although traffic flows in Marlborough grew modestly, their distribution changed markedly. Vehicle movements south of Blenheim fell heavily, but climbed rapidly next to the inland route into Tasman, while flows on the direct route to Nelson were also up slightly.

# Residential consents

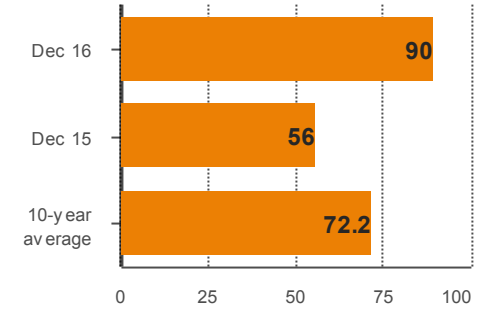
**Growth in no. of new dwelling consents**  
Annual average % change Dec 15 - Dec 16



**Residential consents**  
Quarterly number, Southland Region



**Number of new dwelling consents**  
Quarterly number, Southland Region



## Highlights for Southland Region

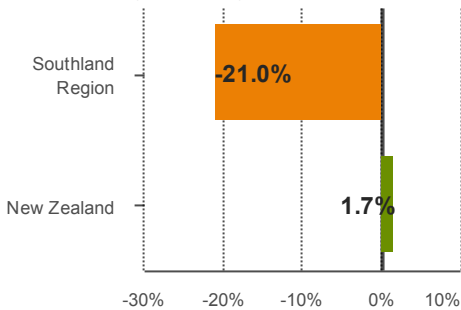
- A total of 90 new residential building consents were issued in Southland Region in the December 2016 quarter, compared with 56 in the same quarter last year.
- On an annual basis the number of consents in Southland Region decreased by 6.0% compared with the same 12-month period a year ago. The number of consents in New Zealand increased by 10% over the same period.

## National overview

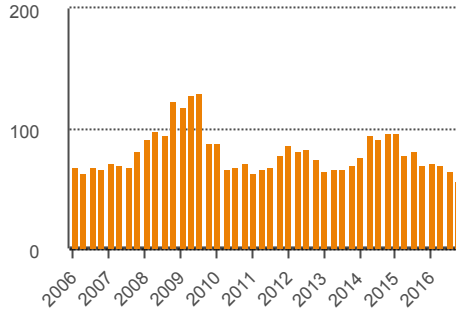
Although consents over the December year were up 10% from a year earlier, consents during the month of December were down 13% from their December 2016 level. Auckland accounted for 70% of the decline in the December month. Auckland's weakness is surprising given the Unitary Plan effectively increases the supply of land available to build upon, and was expected to increase the number of denser dwelling types being built. A possible explanation is the lack of spare capacity in the construction sector, with people finding it difficult to hire tradespeople and being put off by the associated price rises. The weakness in consent volumes was not isolated in Auckland and almost all regions in the North Island saw the rate of growth in the number of total consents pull back over the December quarter.

# Non-residential consents

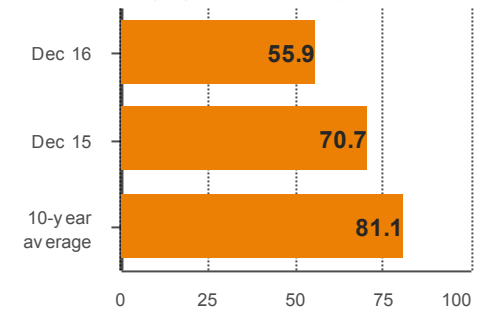
**Growth in value of consents**  
Annual average % change Dec 15 - Dec 16



**Non-residential consents, Southland Reg**  
\$m, annual running total, Southland Region



**Value of non-residential consents**  
Annual value (\$m), Southland Region



## Highlights for Southland Region

- Non-residential building consents to the value of \$56 million were issued in Southland Region during the year to December 2016.
- The value of consents decreased by -21% over the year to December 2016. By comparison the value of consents in New Zealand increased by 1.7% over the same period.
- Over the last 10 years, consents in Southland Region reached a peak of \$130 million in the year to September 2009.

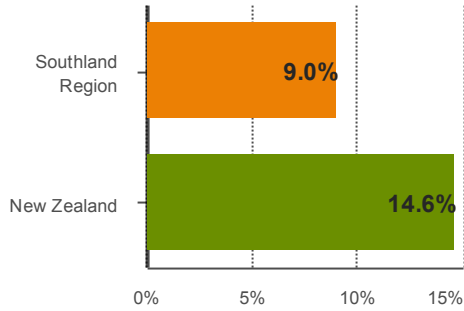
## National overview

The value of non-residential building consents ticked up in December, but this lift only partly offset the slide in consents during mid to late-2016. As a result, the value of non-residential consents in 2016 was only 1.7% higher than a year earlier — the slowest annual growth since February 2013 and, given building costs increases, a fall in the volume of consents. Accommodation building continued to be the biggest of the few bright spots in non-residential consents in the December quarter. At a regional level, consents for non-residential building in Auckland have fallen over the past three months, while Wellington saw the biggest increase in non-residential consents in the December quarter. We anticipate an increase in consents for most non-residential building types over the next quarter, but limited capacity in the construction sector will continue to restrain activity on the non-residential building front.

# House prices

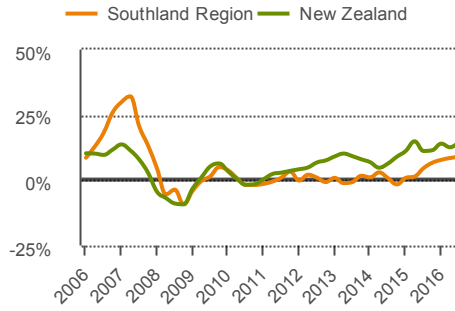
## Annual change in house prices

Annual % change Dec 15 - Dec 16



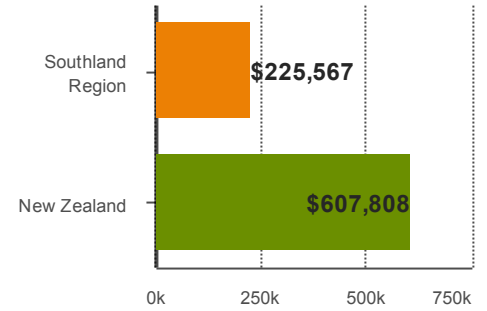
## House price growth

Annual % change



## Average current house value

Average for 12 months to Dec 2016



## Highlights for Southland Region

- The average current house value in Southland Region was up 9.0% in December 2016 compared with a year earlier. Growth underperformed relative to New Zealand, where prices increased by 15%.
- The average current house value was \$225,567 in Southland Region over the December 2016 year. This compares with \$607,808 in New Zealand.

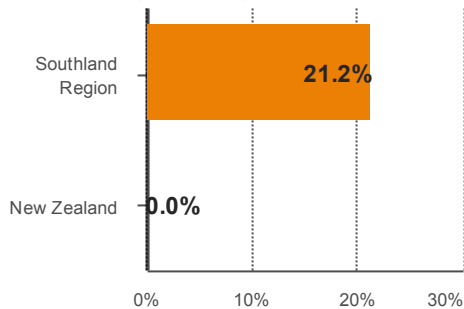
## National overview

House prices in Auckland fell 0.3% over the month of December — the biggest seasonally adjusted decline (and one of only three falls) since October 2011. Tighter loan-to-value restrictions have softened housing demand in recent months to a surprising degree in Auckland. This cooling of Auckland house price inflation has also been apparent in neighbouring Hamilton, Tauranga, Western Bay of Plenty, and Waikato District. In contrast, house price inflation in many other parts of the country picked up in the December quarter, particularly in places where housing is relatively affordable. House price inflation in Dunedin, Kaipara, and South Waikato hit new highs of 17%, 24%, and 31%pa respectively in December, showing that there is still a lot of heat in these markets.

# House sales

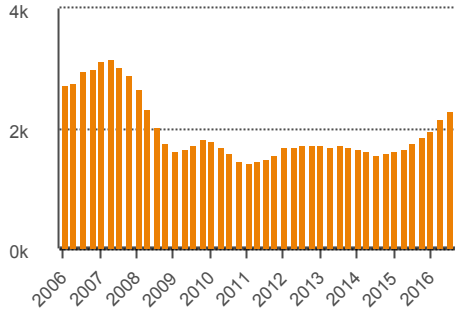
## Annual change in house sales

Annual average % change Dec 15 - Dec 16



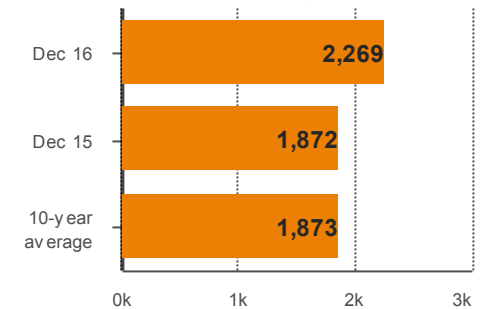
## House sales

Annual number, Southland Region



## House sales

Annual number, Southland Region



## Highlights for Southland Region

- House sales in Southland Region in the year to December 2016 increased by 21% compared with the previous year. Growth outperformed relative to New Zealand, where sales decreased by 0.03%.
- A total of 2,269 houses were sold in Southland Region in the 12 months ended December 2016. This compares with the ten year average of 1,873.

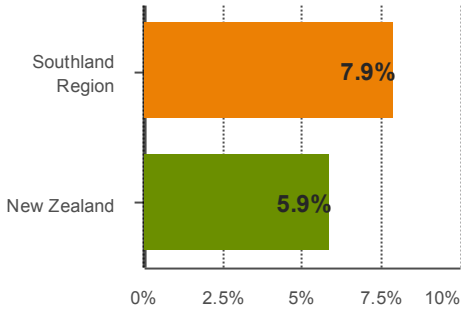
## National overview

The number of houses sold rose 1.5% over December, the first rise in seven months (seasonally adjusted). The monthly rise was mainly due to a greater volume of sales in areas outside of Auckland, but activity in Auckland also rose by 0.9%, having tracked steadily downwards for most of 2016. However, sales volumes of the 12 months to December 2016 were still flat compared to their 2015 level. Sale volumes in Auckland and its surrounding areas saw declines over the 2016 year, with Waikato falling by 2.4%, Bay of Plenty by 0.4%, and Auckland by 13%. Sales in Canterbury, Wellington, and Otago rose 6.1%, 7.7%, and 11% respectively over the year.

# Car registrations

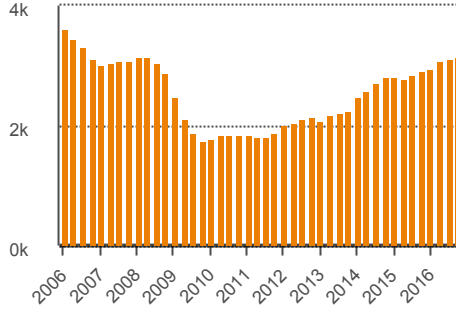
## Car registrations

Annual average % change Dec 15 - Dec 16



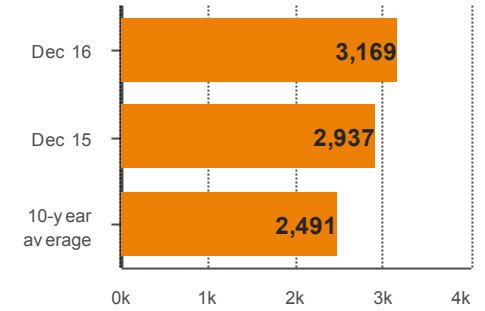
## Car registrations

Annual number, Southland Region



## Car registrations

Annual number, Southland Region



## Highlights for Southland Region

- The number of cars registered in Southland Region increased by 7.9% in the year to December 2016 compared with the previous 12 months. Growth was higher than in New Zealand, where car sales increased by 5.9%.
- A total of 3,169 cars were registered in Southland Region in the year to December 2016. This compares with the ten year average of 2,491.

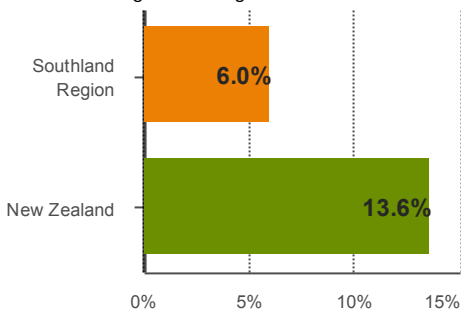
## National overview

Total car sales in 2016 were up 5.9% on their 2015 level, with sales of both new cars and used imports rising strongly. New car sales in 2016 totalled more than 100,000 — almost double the number of new car sales in 2009. Breaking new cars sales down by size categories shows that the increase in sales is broad-based across large and small size categories (split at 1,600ccs). Looking ahead, we anticipate further growth in new car sales as favourable employment levels, an expanding economy (and population), and low import prices drive up demand. Used car sales across the December 2016 year were up 4.1% from 2015 and were also at their highest annual level since the year to March 2006! Used car sales reached a plateau in 2015, but strong population growth forced used car sales still higher last year.

# Commercial vehicle registrations

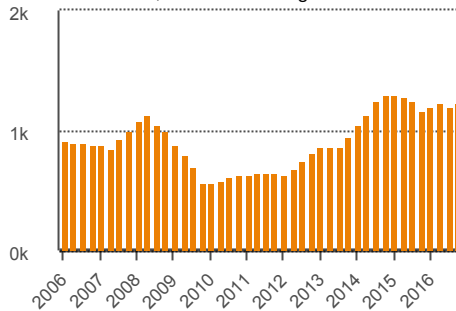
## Commercial vehicle registrations

Annual average % change Dec 15 - Dec 16



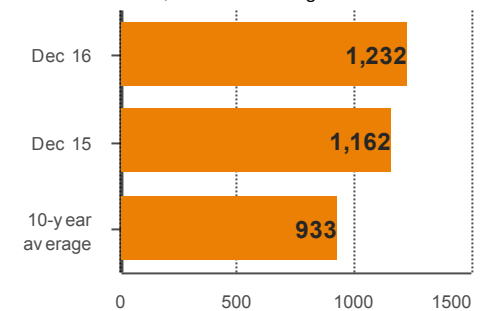
## Commercial vehicle registrations

Annual number, Southland Region



## Commercial vehicle registrations

Annual number, Southland Region



## Highlights for Southland Region

- The number of commercial vehicles registered in Southland Region increased by 6.0% in the year to December 2016 compared with the previous 12 months. Growth was lower than in New Zealand, where commercial vehicle sales increased by 14%.
- A total of 1,232 commercial vehicles were registered in Southland Region in the year to December 2016. This is higher than the ten year annual average of 933.

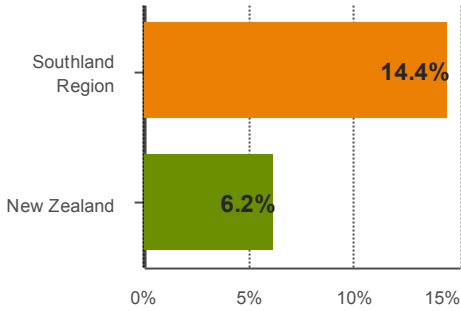
## National overview

Total commercial sales over the December 2016 year rose 14% from their 2015 level. The increase was driven by strong growth in light commercial vehicles sales. Although truck sales eased through the first half of the year, there was an increase in heavy commercial vehicle sales during the December quarter. Given the strong positive outlook for consumer and business demand over the year ahead, and the expected increase in freight kilometres (due to the re-routing through the South Island), we think that the underlying lift in heavy commercial vehicles sales in December is an early sign of increasing heavy commercial vehicle sales this year. Light commercial vehicle sales are likely to be supported by high levels of profitability in the construction sector and a more stable outlook for dairy farmers.

# Guest nights

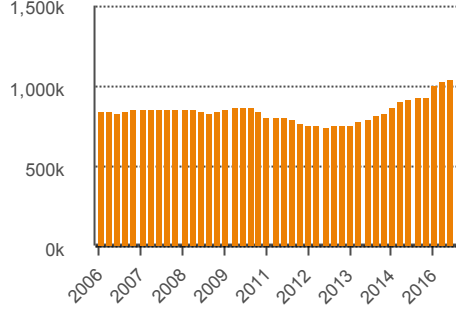
## Guest nights

Annual average % change Dec 15 - Dec 16



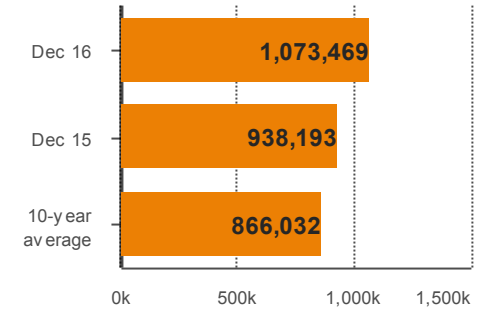
## Guest nights

Annual number, Southland Region



## Guest nights

Annual number, Southland Region



## Highlights for Southland Region

- Total guest nights in Southland Region increased by 14% in the year to December 2016. This compares with an increase of 6.2% in New Zealand.
- Visitors stayed a total of 1,073,469 nights in Southland Region during the year to December 2016, which was up from 938,193 a year ago.

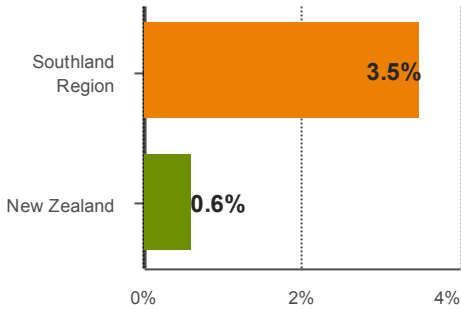
## National overview

Guest nights in 2016 climbed to a record 38,500,000, up 6.2% from their 2015 level. This growth was spread across both international (up 11.8%) and domestic (up 2.4%) guest nights, as the tourism sector benefited from 12% growth in the number of international visitors arriving into New Zealand and better employment conditions lifted New Zealanders' willingness to spend on weekend getaways. Visitor spending data from MBIE showed an 8.3% increase in visitor spending in 2016, with spending by international visitors climbing 12.9%, while domestic visitor spending grew 5.1%. We expect further increase in inbound tourism in 2017, particularly from all parts of Asia. At the same time, ongoing strength in the New Zealand labour market will help underpin domestic spending by New Zealanders. One of the biggest challenges in 2017 for the tourism sector will be ensuring it maintains its social licence to operate as capacity issues are causing a backlash from residents in certain areas.

# Jobseekers

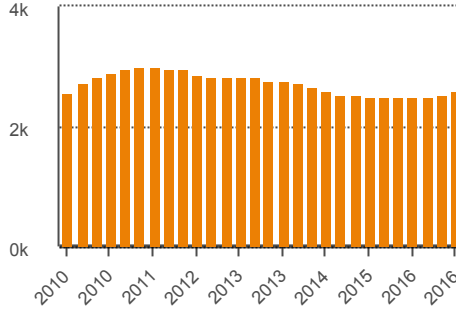
## Annual change in Jobseekers

Annual average % change Dec 15 - Dec 16



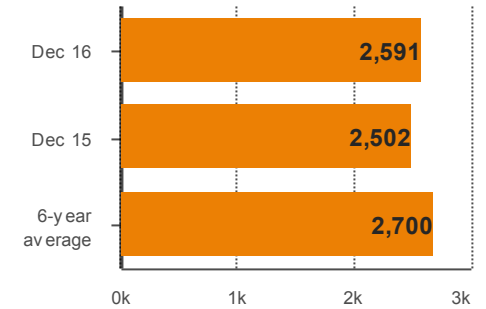
## Jobseekers

Annual average, Southland Region



## Jobseekers

Annual average, Southland Region



## Highlights for Southland Region

- Working age Jobseeker Support recipients in Southland Region in the year to December 2016 increased by 3.5% compared with the previous year. Growth was higher relative to New Zealand, where the number of Jobseeker Support recipients increased by 0.6%.
- An average of 2,591 people were receiving a Jobseeker Support benefit in Southland Region in the 12 months ended December 2016. This compares with an average of 2,700 since the start of the series in 2010.

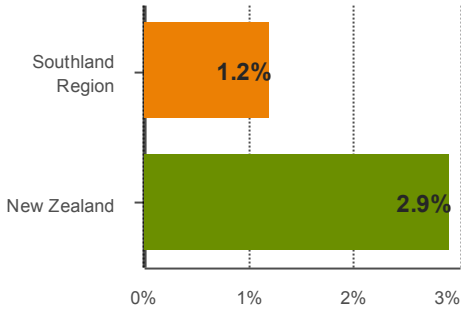
## National overview

The number of people receiving Jobseeker Support averaged 120,421 through 2016, taking the average number of Jobseeker Support recipients across the whole year to 0.6% above its 2015 level. A closer look at labour market statistics from the December quarter shows that part-time employment fell by 2.2% over the quarter, while full-time employment rate rose by 1.6%. Typically, a shift from part-time to full-time employment indicates the early stages of business expansion, as businesses tend to offer their existing part-time employees more hours before looking to the wider labour force. Looking ahead, the minimum wage will be raised by 50c in April to \$15.75 per hour, which will put further pressure on wages in industries with high proportions of low-waged workers.

# Retail trade

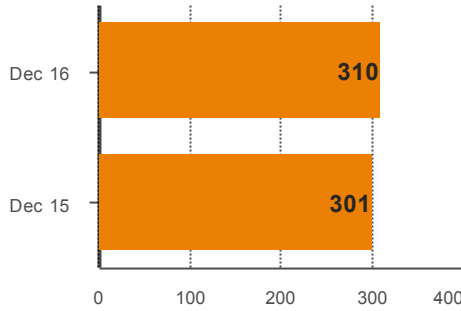
## Growth in retail sales

Annual average % change Dec 15 - Dec 16



## Retail sales

Quarterly value (\$m), Southland Region



## Highlights for Southland Region

- Electronic card retail spending in Southland Region, as measured by Marketview, increased by 1.2% over the year to December 2016 compared to the previous year. This compares with an increase of 2.9% in New Zealand.

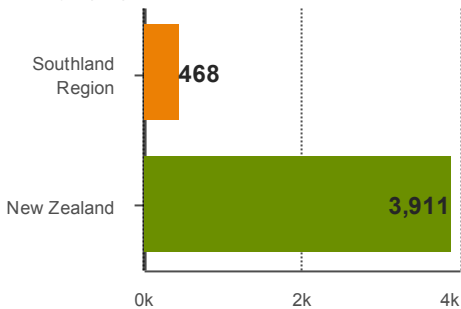
## National overview

Retail spending continued to grow at a healthy rate over the closing stages of 2016, with data from Marketview showing that electronic card spending on retail purchases over the twelve months to December was up 2.9% from a year ago. Statistics New Zealand's Retail Trade Survey showed that motor vehicle retailing and motor vehicle services spending were particularly strong, as were purchases of durable goods, such as floor coverings and homeware, as well as electronic goods retailing. Looking ahead, we anticipate further increases in retail sales as continued economic and population growth, along with higher wages, drive up demand, while consumer confidence has also strengthened.

# Total dairy payout

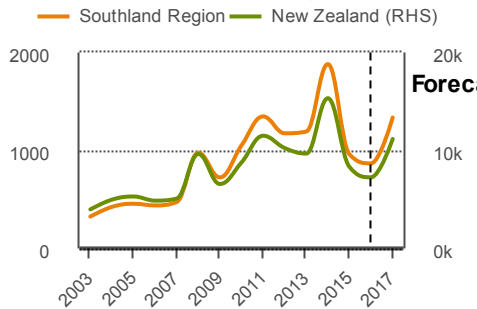
## Total dairy payout

Change (\$m) between 2015/16 and 2016/17 season



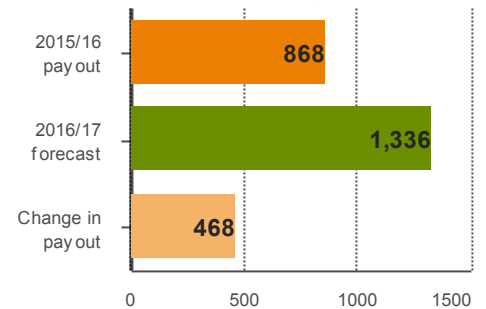
## Total dairy payout

\$m each season, Southland Region



## Total dairy payout

\$m each season, Southland Region



## Highlights for Southland Region

- Southland Region's total dairy payout for the 2015/16 season is estimated to have been approximately \$868m.
- Southland Region's dairy payout for the 2016/17 season is expected to be approximately \$1,336m, \$468m higher than last season, assuming that production levels from last season are maintained.
- The total dairy payout for New Zealand is estimated to have been approximately \$7,261m in the 2015/16 season, and is expected to be \$3,911m higher in the 2016/17 season.

## National overview

Prices at GlobalDairyTrade's online auctions surged 56% between mid-July and early December and appear to have stabilised over the last couple of months. New Zealand's milk production in October and November, the two peak months for the season, was down 5.0% from the same period in 2015, while production levels in Australia and Europe are well down from a year earlier as well. Price increases will provide welcome relief for dairy farmers. Reserve Bank data shows that dairy farming debt expanded by 9.2% over the year to June 2015 (well above the 3.9% increase in other agricultural debt) and a further 6.2% over the following 12 months. The increase in dairy-related debt over the last couple of years means that, even with Fonterra's farmgate milk price looking set to surge to at least \$6.00/kgms this season, farmers will still be cautious with their spending and concentrate on reducing their debt levels instead until into 2018.



# Technical notes

## Gross Domestic Product

Gross Domestic Product is estimated by Infometrics. A top down approach breaks national industrial production (sourced from production based GDP measures published by Statistics New Zealand) is broken down to TA level by applying TA shares to the national total. Each TA's share of industry output is based on earnings data from LEED. GDP growth in recent quarters is based on a model which uses the various partial economic indicators presented in this report as inputs.

## Net migration

Net migration is the difference between the number of arrivals and departures of permanent and long-term migrants. Data is sourced from International Travel and Migration statistics from Statistics New Zealand.

## Unemployment

Regional level unemployment rates are sourced from Statistics New Zealand's Household Labour Force Survey. Trends in the number of Jobseekers at TA level are used to break down regional unemployment rates to TA level. To reduce volatility the unemployment rate is presented as an average for the last four quarters.

## Traffic flow

Traffic flow growth rates are calculated from the number of vehicles passing approximately 110 sites monitored by New Zealand Transport Agency. Each of the sites has been mapped to a territorial authority.

## Retail Sales

The retail spending data is sourced from Marketview. It measures total electronic card spending using spending through the Paymark network and adding to it an estimate of non-Paymark network spending using the pattern of BNZ card holder spending at non-Paymark retailers. For further breakdown of the data by storetype and other variables contact Marketview.

## Accommodation

The number of guest nights is sourced from Statistics New Zealand's Accommodation Survey. A guest night is equivalent to one guest spending one night at an establishment. For example, a motel with 15 guests spending two nights would report that they had provided 30 guest nights.

## House sales

The number of house sales is sourced from REINZ. The indicator measures the number of house sales at the point when the sale becomes unconditional. The unconditional date is the date when all the terms of an agreement have been satisfied and the sale and purchase can proceed to settlement.

## House values

House value (dollar value) are sourced from QVNZ. The levels quoted in the report are average current values over the past 12 months. An average current value is the average (mean) value of all developed residential properties in the area based on the latest house value index from QVNZ. It is not an average or median sales price, as both of those figures only measure what happens to have sold in the period. These average current values are affected by the underlying value of houses (including those not on the market) and are quality adjusted based on the growth in each house's price between sales.

## Building consents

Building consents data are sourced from Statistics New Zealand. Non-residential consents include the value of both new buildings and alterations.

## Vehicle sales

Car and commercial vehicle sales data are sourced from New Zealand Transport Authority. Sales are based on new registrations which include the first time registration of new vehicles and used vehicles imported from overseas.

## Dairy

Dairy data has been sourced from the "New Zealand Dairy Statistics", a publication co-owned by DairyNZ and LIC, as well as calculations made by Infometrics. The data accords to dairy seasons, which run from June to May. Total dairy payouts in each territorial authority have been calculated by Infometrics by utilising milk solids production in conjunction with Fonterra's farmgate milk price (excluding dividends) from the dairy season in question. For the current season, Infometrics calculates a payout forecast using our own expectation of the farmgate milk price and the assumption that milk solids production continues running at the same level from the previous season.

## Jobseekers Support

In July 2013 the New Zealand's welfare system changed to better recognise and support people's work potential. As part of this the Jobseekers Support benefit was introduced. This benefit is for people who can usually look or prepare for work but also includes people who can only work part-time or can't work at the moment, for example, because they have a health condition, injury or disability.

Data presented for the September 2013 quarter onwards is provided by the Ministry of Social Development (MSD). Data prior to September 2013 are Infometrics estimates based on re-grouping pre-July 2013 benefit categories to be consistent with the post-July 2013 benefit categories. The pre-July 2013 benefit categories used to estimate the number of Jobseekers Support recipients are: Unemployment Benefit and Unemployment Benefit Hardship; Unemployment Benefit Training and Unemployment Benefit Hardship Training; Sickness Benefit and Sickness Benefit Hardship; Domestic Purposes Benefit - Sole Parent (if youngest child is 14 or over); Women Alone and Widow's Benefit (without children or with children 14 or over)