

ECONOMY SHOWING RESILIENCE TO LOW DAIRY PRICES

Since the 2011/12 peak pay-out, the dairy industry has experienced a multi-billion dollar reduction in income. So how are the dairy-dominant regions coping and how has it impacted the wider economy?

The combined data from Valocity and Veda can provide some insights into the wider economic effects. The good news is that the economy is coping well. This can be inferred from what is happening at a national level and what is not emerging in the dairy-intensive regions of Waikato, Taranaki, West Coast and Southland, where dairy farming and manufacturing exceed 5% of regional employment totals (and 10% or more of GDP).

Veda figures show that the national proportion of payments in arrears is improving amongst businesses. Valocity figures show that overall, there is increasing wealth due to higher national house prices. In the key dairying sectors, house prices have risen in Waikato and Taranaki, but not on the West Coast or in Southland. Veda figures indicate that payments arrears by businesses are rising in three of the four dairy regions – Waikato being the exception – but the level of overdue payments remains moderate. There is not widespread signs of stress, even amongst the dairy-intensive regions.

Table 1. Proportion of business with overdue payments more than 90 days and housing activity between March quarters 2014 and 2016 for groupings of NZ regions.

TABLE 1. OVERDUE PAYMENTS AND HOUSING ACTIVITY BETWEEN MARCH QUARTERS 2014 AND 2016					
REGION	OVERDUE >90 DAYS		HOUSE PRICES	HOUSE SALES	INVESTOR PURCHASES
	2014	2016			
Auckland	3.7%	3.5%	31.1%	-9.8%	-17.5%
Wellington/Canterbury	2.0%	3.8%	6.2%	16.9%	0.3%
Dairy-intensive regions	1.9%	3.7%	8.3%	37.4%	24.1%
Other rural regions	1.5%	2.9%	8.2%	49.2%	48.5%

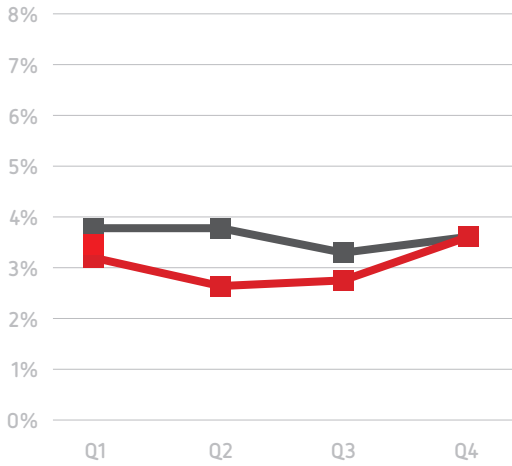
Source: Veda & Valocity

Both stories – low dairy prices and higher house prices – have been widely discussed in recent years. The combined data of Veda and Valocity provide a unique opportunity to

run the two trends together at a regional level as seen in the table above.

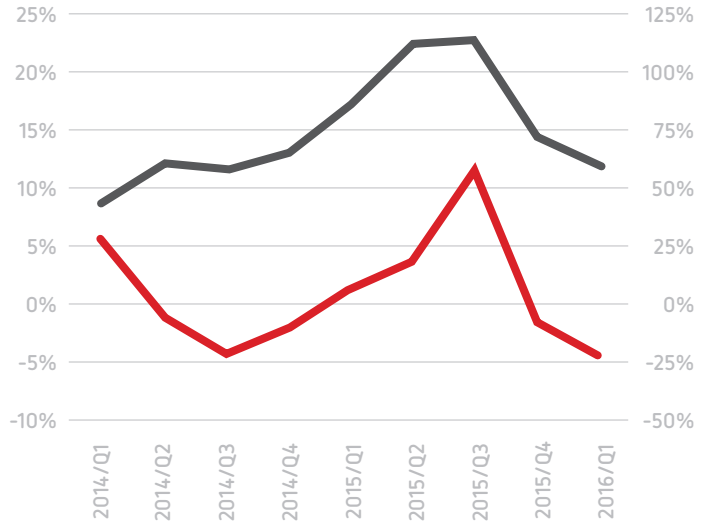
FIGURES 1A AND 1B. OVERDUE BUSINESS PAYMENTS AND HOUSING ACTIVITY, AUCKLAND

FIGURE 1A. Proportion of payments >90 days overdue, Auckland



■ 2014 ■ 2015 ■ 2016 Source: Veda

FIGURE 1B. Housing activity, Auckland



■ Annual % dwelling price (left axis) ■ Annual % investor purchases (right axis) Source: Valocity

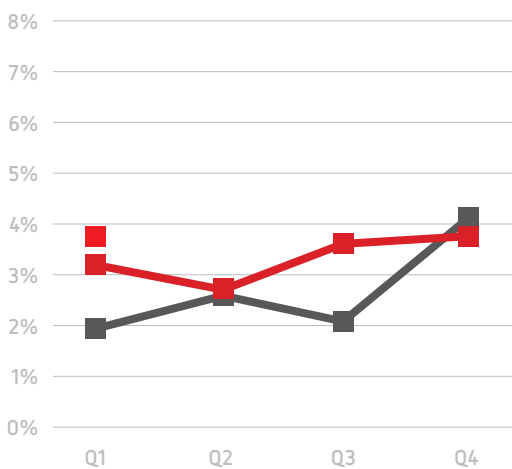
According to Veda, the Auckland region is seeing a reduction in overdue payments of more than 90 days this year than it was two years ago. There was a slight increase in the March quarter, relative to 2015, but more recent partial figures (not shown here) point to continued improvement.

This business strength in Auckland is likely to be closely linked to the population growth and an active housing market.

House prices have risen sharply in recent years, particularly when investor interest has increased (the graphs show the change in the number of sales to investors between the same quarter each year, with investors defined as those people with multiple dwelling ownership). Generally higher house prices, and the associated debt increase, creates a significant wealth and liquidity effect in the Auckland region.

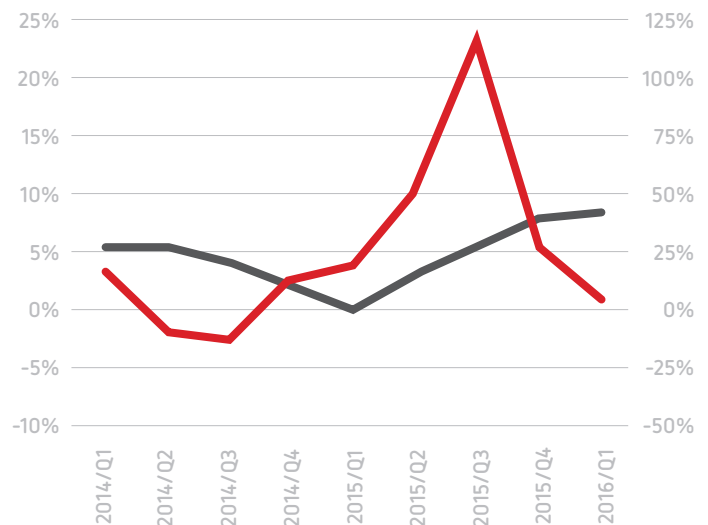
FIGURES 2A AND 2B. OVERDUE BUSINESS PAYMENTS AND HOUSING ACTIVITY, DAIRY-INTENSIVE REGIONS (WAIKATO, TARANAKI, WEST COAST, SOUTHLAND)

FIGURE 2A. Proportion of payments >90 days, dairy-intensive regions



■ 2014 ■ 2015 ■ 2016 Source: Veda

FIGURE 2B. Housing activity, dairy-intensive



■ Annual % dwelling price (left axis) ■ Annual % investor purchases (right axis) Source: Valocity

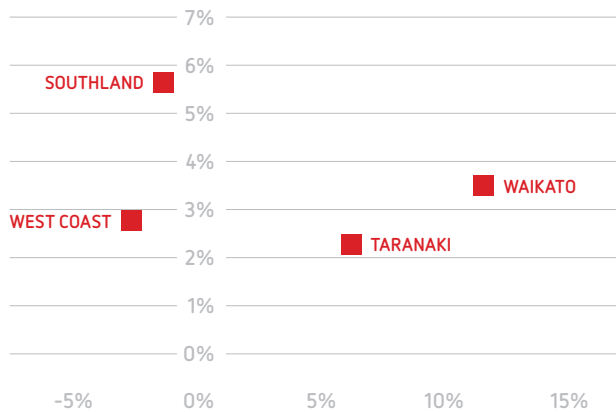
Meanwhile, businesses in the dairy-intensive regions of Waikato, Taranaki, the West Coast and Southland are experiencing greater difficulty with overdue payments now more than two years ago. However the overall level of overdue payments remains moderate. The major change occurred last year, with payments this year similar to last year, including in more recent data not shown in the graph above.

House prices have also increased for the combined four regions between the March quarters of 2014 and 2016 although the relationship with investor activity is not strong.

However the dynamics within each region differs, as discussed below.

FIGURE 3. OVERDUE BUSINESS PAYMENTS AND HOUSING ACTIVITY, INDIVIDUAL DAIRY-INTENSIVE REGIONS

FIGURE 3. Average payments >90days due (year ended March 2016) vs Change in dwelling prices (March Q 2014 - March Q 2016)



Source: Veda & Valocity

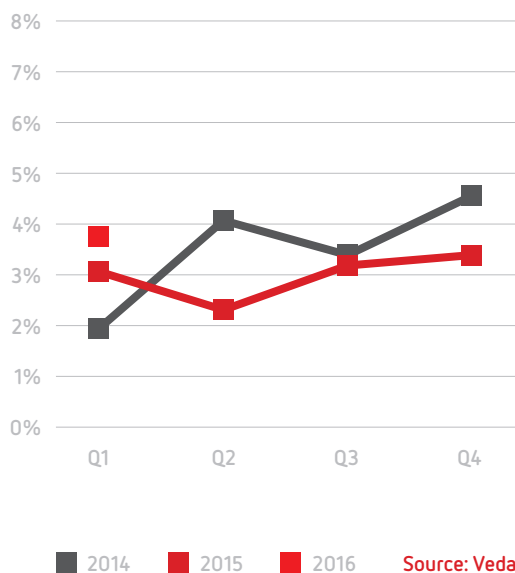
Waikato is the fastest growing property market, with investor interest strengthening sharply in 2015. Dwelling prices have also increased in Taranaki but investors have played a small role. Meanwhile Southland and the West Coast dwelling prices were selling in the March 2015 quarter below that of the same time in 2014, with varying degrees of investor interest during the intervening period.

However in spite of a combined weak housing market and low dairy incomes on the West Coast, the level of late payments by businesses remains relatively low.

Further south, the combination of forces is showing as more overdue payments amongst Southland businesses in the last 12 months. This region appeared most exposed at present.

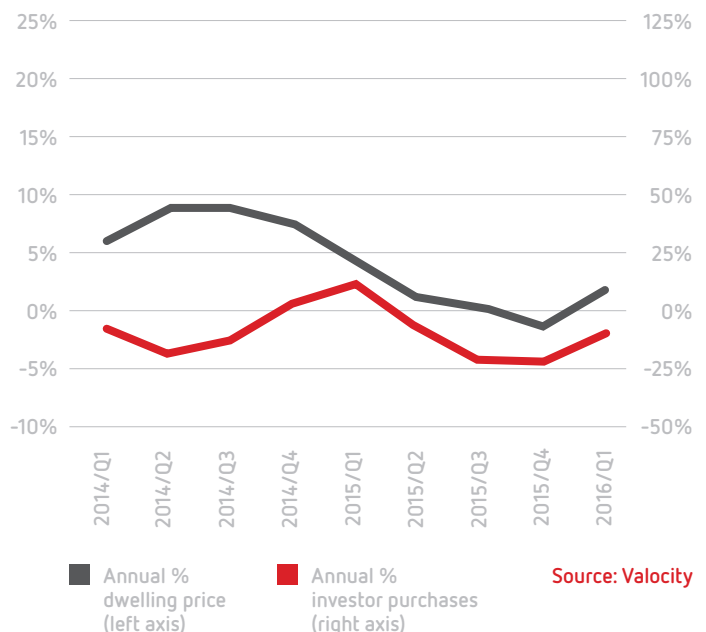
FIGURES 4A AND 4B. OVERDUE BUSINESS PAYMENTS AND HOUSING ACTIVITY, WELLINGTON/CANTERBURY

FIGURE 4A. Proportion of payments >90 days, Wellington/Canterbury



Source: Veda

FIGURE 4B. Housing activity, Wellington/Canterbury



Source: Valocity

Interestingly, the grouping with the highest arrears recorded amongst businesses at present is in the combined Wellington and Canterbury grouping. Conversely late payments are lowest amongst the remaining, largely rural, regions.

The graphs above show that the recent rise in arrears in Wellington/Canterbury is only slight and that there has been little pickup in house prices or investor interest in total across these two, largely urban, regions.

The graphs below show that while the level of arrears is low this year, elsewhere in New Zealand the rate of payments beyond 90 days overdue does vary considerably from quarter

to quarter. The average level of payments that were over 90 days overdue in the year ending March 2016 range between the regions - for example Marlborough saw 2.0% whereas Northland recorded 4.0% – both of which are relatively moderate levels.

The average two-year dwelling price increase for the rest of New Zealand was also modest. Again, economic conditions in Marlborough appear more positive than other regions, with it recording a 16.3% increase in property prices in the last two years. At the other extreme, the average house price had declined 2.5% in Manawatu-Wanganui. As in general, there appears to be no major signs of distress.

FIGURES 5A AND 5B. OVERDUE BUSINESS PAYMENTS AND HOUSING ACTIVITY, OTHER RURAL REGIONS (I.E. THOSE REGIONS NOT IN ABOVE GRAPHS)

FIGURE 5A. Proportion of payments >90 days, other rural regions

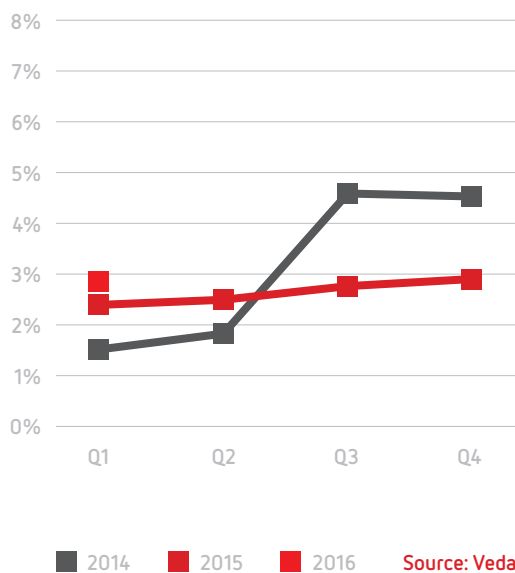
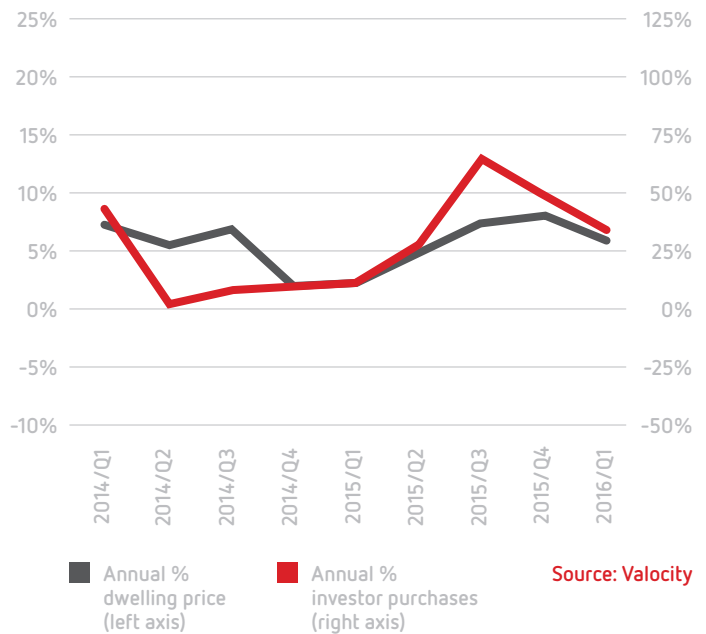


FIGURE 5B. Housing activity, other rural regions



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