

Westpac McDermott Miller Regional Economic Confidence.

31 March 2021



Taking a breather – Westpac McDermott Miller Regional Economic Confidence, March 2021 quarter.

- Regional economic confidence edges lower on balance, following a big gain in the previous quarter.
- Lockdown restrictions have been a key factor.
- Regions with a rural backbone are more confident than the large metropolitan centres.
- Aucklanders are again the most pessimistic, narrowly edging out Otago.
- Central North Island regions are the most optimistic, followed by Canterbury, which posted its biggest gains in two years.

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Regional economic confidence* (net confidence %)

Region	Latest	Previous	Change
	Mar-21	Dec-20	
Northland	4	-6	10
Auckland	-5	4	-9
Waikato	12	6	6
Bay of Plenty	7	13	-6
Gisborne/Hawke's Bay	23	33	-10
Taranaki/Manawatu-Whanganui	23	21	2
Wellington	9	13	-4
Nelson/Marlborough/West Coast	11	21	-10
Canterbury	22	5	17
Otago	-2	0	-2
Southland	14	2	12

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 March 2021, with a total sample size of 1557.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence edged lower with 6 of 11 regions reporting a fall in the March 2021 quarter. That comes after big gains being reported in the previous December quarter.

This quarter's results reflect some offsetting developments. On the one hand, confidence has been supported by strong housing market gains, which have been seen in all regions, and farmgate incomes in rural regions. On the other hand, sentiment has been adversely affected by a lack of international tourism during the peak summer season, ongoing uncertainties relating to the opening of the borders,



and the temporary impact of lockdown restrictions on economic activity.

Households in regions that have a large rural backbone and a strongly performing agricultural sector are among the most confident. That includes regions like Gisborne/Hawke's Bay, Taranaki/Manawatu-Whanganui and Canterbury, as well as major dairy producing regions such as the Waikato and Southland.

By contrast, larger metropolitan centres that are more vulnerable to the community spread of Covid-19 and/or who rely heavily on international tourism, are among the least confident. That includes regions like Otago and Auckland.

There is little doubt that the strong housing market has had a direct bearing on regional economic confidence. Given this, it will be interesting to see to how recently announced tax changes targeting property investment will affect regional confidence over coming quarters.

Regional Discussion.

Northland: Confidence in Northland improved in the March quarter with a net 4% of households feeling optimistic about the region's future. That reflects the region's hot housing market, which continues to see strong sales volumes and escalating property prices. However, it also reflects the strong performance of the region's agricultural sector, with farmers continuing to benefit from soaring dairy prices. Forestry and horticulture in the region are also doing well, with activity being supported by strong demand in key export markets.

Auckland: Confidence in this region's economic prospects deteriorated in the March quarter with a net 5% of Auckland households feeling pessimistic about the future. That makes them the most pessimistic in the country. Confidence will have been hit by lockdown restrictions that temporarily disrupted economic activity and heightened uncertainties in the region. A lack of international visitor arrivals during the peak summer season is also likely to have weighed heavily on the region's struggling hospitality sector. On a more positive note, the region's homeowners will have been buoyed by a strong performance in the housing market.

Waikato: Confidence in the Waikato rose further in the March quarter, with a net 12% of households in the region feeling optimistic about the future. That reflects a hot housing market, which continues to see strong sales volumes and escalating property prices. Increased optimism is also likely to reflect a strong performance from the region's agricultural sector, with soaring dairy prices a key contributor. Stronger activity in manufacturing, particularly food, healthcare and construction are also likely to have helped lift sentiment in the region.

Bay of Plenty: Confidence in this region's economic prospects dropped in the March quarter but remains positive with a net 7% of households expecting their economy to improve over the coming year. The drop in confidence is likely to reflect

labour shortages in the kiwifruit industry. The proposed closure of the paper and packaging manufacturer, Whakatāne Mill, which has since been confirmed for the end of June, will also have dampened spirits. That said, a red-hot housing market, which continues to see strong sales volumes and escalating prices, coupled with strong export incomes from forestry and horticulture will have provided some cause for cheer.

Gisborne/Hawke's Bay: Confidence in this region's economic prospects remain upbeat despite a 10-point drop in the March quarter. Indeed, with a net 23% of respondents still expecting their economy to improve over the next 12 months, households in this region remain the most confident in the country (albeit equalling those in Taranaki/Manawatu-Whanganui). That reflects the red-hot housing market, which continues to break records, outperforming all others. Meanwhile, forestry activity continues to benefit from strong export demand and higher log prices. Horticulture is not far behind despite some concerns about possible labour shortages during the apple picking season, while sheep and beef farming continues to tick over.

Taranaki/Manawatu-Whanganui: Confidence in this region's economic prospects edged higher in the March quarter, with a net 23% of households now expecting conditions to improve over the coming year. That makes this region the most optimistic in the country equal with Gisborne/Hawke's Bay. Increased positivity is likely to reflect the red-hot housing market, which continues to see strong sales volumes and escalating property prices. It's also likely to reflect a strong performance from the region's agricultural and forestry sectors, with confidence further boosted by increasing crude oil and gas prices on world markets.

Wellington: Confidence in Wellington slipped slightly in the March quarter, with 9% of households feeling optimistic about the region's economic future. The drop in confidence is likely to reflect housing shortages in the region and ongoing negative publicity focusing on council issues. That said, a red-hot housing market, which continues to see strong sales volumes and escalating prices, will have lifted spirits. Wellington's large public sector continues to insulate the local economy from the worst impacts of Covid-19 through the procurement of services from supplier industries and by providing a stable level of employment in the region.

Nelson/Marlborough/West Coast: Confidence in this region's economic prospects fell sharply from its recent high, with a net 11% of households in the March quarter now expecting economic conditions to improve over the coming year. Much of this drop is likely to reflect the impact of a lack of international tourists on the region, particularly on the West Coast. That said, a buoyant housing market and supportive incomes in the agriculture, horticulture, viticulture and forestry sectors will have provided some cause for cheer.

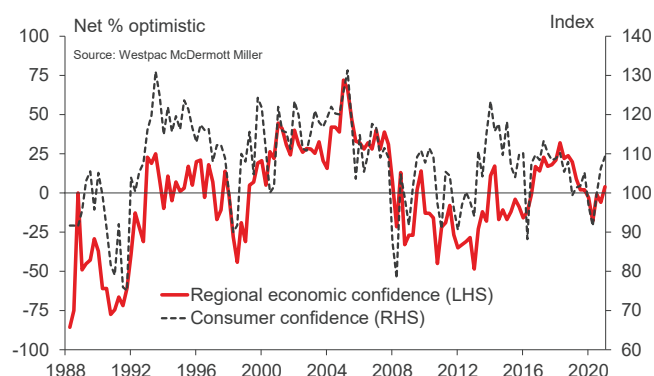
Canterbury: Regional confidence in Canterbury picked up sharply in the March quarter, with 22% of households in the region feeling positive about the region's economic prospects over the coming 12 months. The increase was the largest in

the country and represents the biggest gain posted in the region over the last two years. In part that reflects a sharp acceleration in house prices, which are now catching up to those of other regions. Growing positivity is also likely to reflect a strong performance from the region's agricultural sector, while manufacturing continues to benefit from increased export demand.

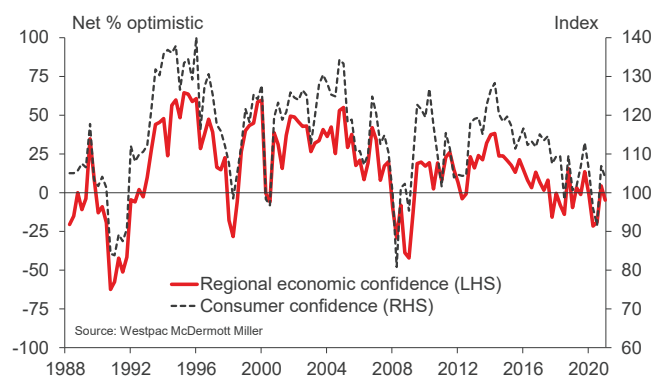
Otago: Confidence in this region's economic prospects deteriorated in the March quarter, with a net 2% of households feeling pessimistic about the future. That makes households in the region the second most pessimistic in the country. This lack of confidence reflects the absence of international visitor arrivals during the peak summer period as well as ongoing uncertainties about when the borders might open. That said, sentiment in the region will have been supported by a stronger housing market, with increases seen in both sales and prices in recent months.

Southland: Economic confidence in Southland picked up sharply in the March quarter, with a net 14% of households expecting their economy to improve over the coming year. That reflects a hot housing market, which continues to see strong sales growth and escalating property prices. It's also likely to reflect a strong performance from the region's agricultural sector, with soaring dairy prices a key driver. Sentiment is likely to have been further boosted by news of an investigation into the potential for a large-scale renewable hydrogen production plant as well as plans to build a huge cloud computer data centre in the region.

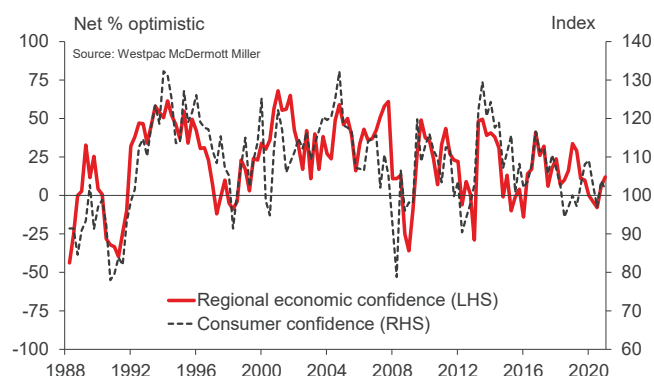
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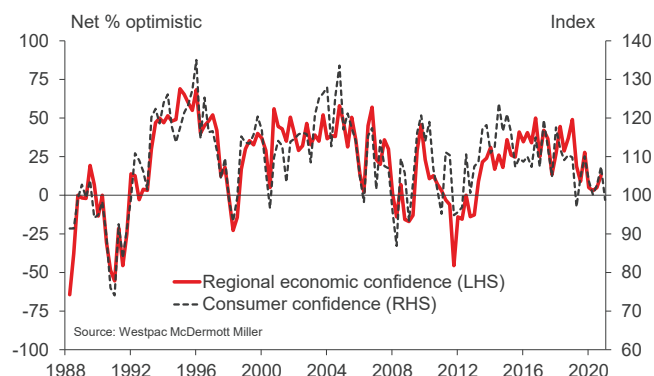
Auckland



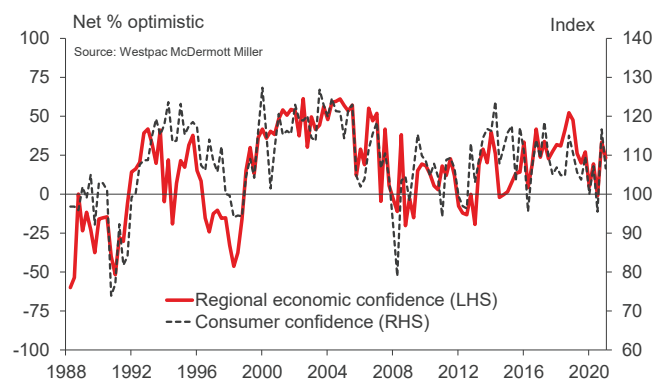
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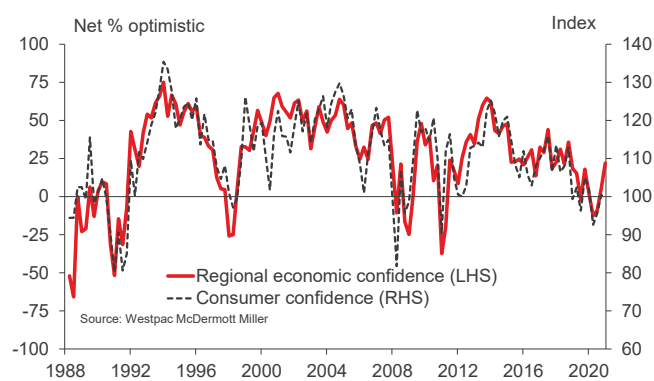
Bay of Plenty



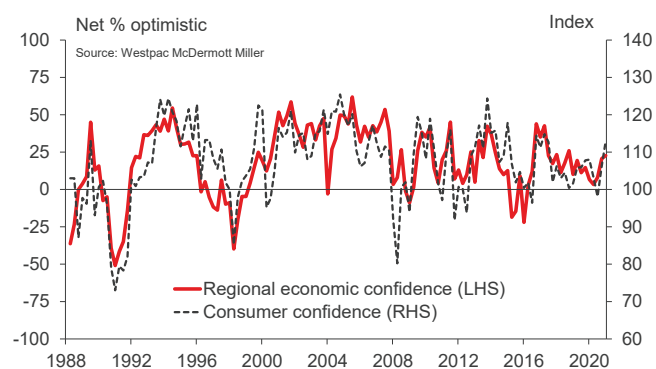
Gisborne/Hawke's Bay



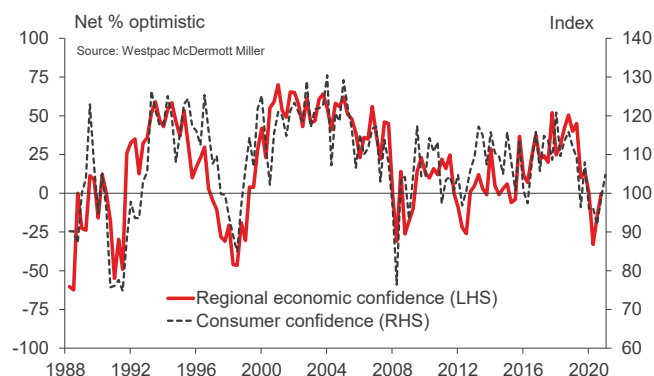
Canterbury



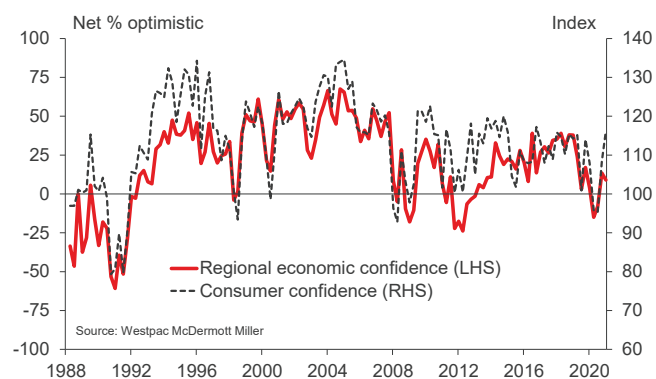
Taranaki/Manawatu-Whanganui



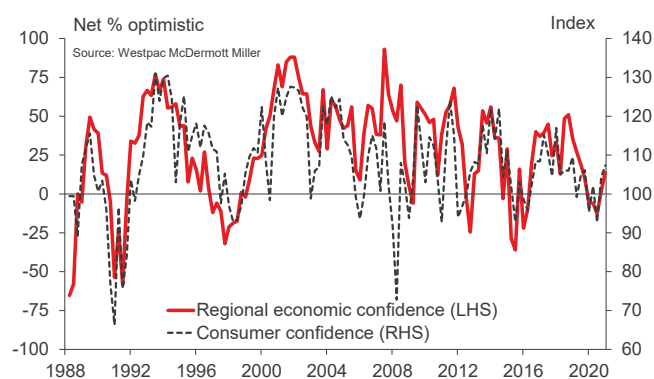
Otago



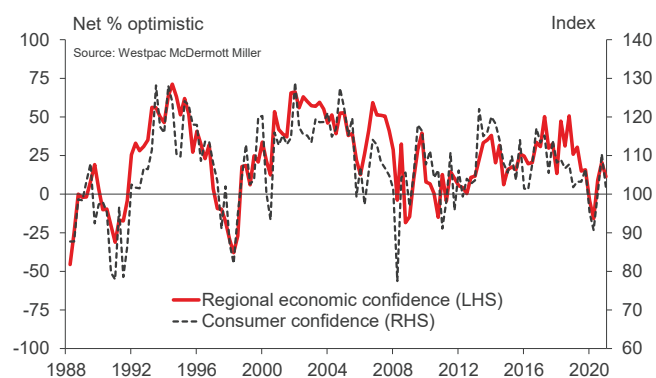
Wellington



Southland



Nelson/Marlborough/West Coast



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