

# WESTPAC MCDERMOTT MILLER REGIONAL ECONOMIC CONFIDENCE

25 March 2022

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## One-two punch hits regional economic confidence.

- Regional economic confidence has plunged over the March quarter as households across the country were hit by the one-two punch of the Omicron outbreak and cost-of-living increases.
- Moreover, these effects were widespread – all but two regions are now in pessimistic territory.
- While Northlanders remain the most pessimistic in the country, economic confidence plummeted the most in Otago, Taranaki/Manawatu-Whanganui and Wellington households over the quarter.
- Southlanders bucked the trend. Still buoyed by record high meat and dairy prices, confidence in Southland households remains comfortably in positive territory.
- As Omicron cases peak and as Covid restrictions ease, we expect a broad lift in regional economic confidence next quarter. However, ongoing rises in the cost of living may temper the magnitude of any recovery.

Regional economic confidence<sup>1</sup> (net confidence %)

| Region                        | Mar-22 | Dec-21 | Change |
|-------------------------------|--------|--------|--------|
| Northland                     | -22    | -25    | 3      |
| Auckland                      | -6     | -4     | -2     |
| Waikato                       | 3      | 6      | -3     |
| Bay of Plenty                 | -14    | -7     | -7     |
| Gisborne/Hawke's Bay          | -17    | 2      | -19    |
| Taranaki/Manawatu-Whanganui   | -12    | 13     | -25    |
| Wellington                    | -18    | 4      | -22    |
| Nelson/Marlborough/West Coast | -6     | -4     | -2     |
| Canterbury                    | -6     | 7      | -13    |
| Otago                         | -19    | 8      | -27    |
| Southland                     | 14     | 14     | 0      |

Source: Westpac McDermott Miller

With Omicron breaking out across the country and the cost of living rising for all, the Westpac McDermott Miller survey of households showed that regional economic confidence plunged over the March quarter. Confidence in nine regions dived, while just one region bucked the trend and posted a lift in confidence.

Plunging confidence was most noticeable in regions that had been until recently enjoying a relatively Covid-free run. For example, confidence plummeted 25 points in the Taranaki/Manawatu-Whanganui. Meanwhile, Otago also saw a massive 27-point drop as many domestic tourists no doubt shelved plans to visit the region over the quarter.

<sup>1</sup> 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 1-17 March 2022, with a total sample size of 1559.

Southland, in contrast, bucked the trend, with confidence unchanged over the quarter at a relatively positive level of +14. We put that largely down to the very healthy agriculture sector, with both the dairy and meat sectors firing on all cylinders.

By and large though, the impacts of the Omicron outbreak and the cost-of-living increases were felt widely. Whereas previously Auckland and Northland had been confidence laggards due to the high number of Covid cases and/or their traffic light settings, now with Omicron widespread across the country and the cost of living rising for all, all but two regions are now in pessimistic territory. In contrast, back in the December, the balance (seven) of regions sat in optimistic territory.

## Regional discussion.

### Northland

Confidence in Northland households remained the lowest in the country over the March quarter. The region continues to bear Covid's brunt. After joining Auckland in the red traffic light setting last year, the Omicron outbreak has offered little reprieve. Indeed, the timing for the region's tourism industry (over peak season) could not have been worse. However, confidence did lift a smidgeon over the quarter. And with Omicron peaking and many Covid restrictions set to relax, there may be some light at the end of the tunnel for Northland households. However, with the cost of living on the rise, any further improvement in household confidence from here may prove modest.

### Auckland

Auckland household economic confidence remains stuck in negative territory. The City of Sails continues to bear the largest Covid brunt, with the Omicron outbreak initially concentrated in this region. However, economic confidence may get a shot in the arm as cases begin to fall and Covid restrictions are eased over coming months. Auckland is also one of the regions that stands to benefit most from the opening of the border to tourists. With that in mind, confidence may turn the corner over the quarters ahead, although like other regions, the rising cost of living may temper the improvement.

### Waikato

Waikato household economic confidence was one of only two regions to remain in positive territory over the March quarter. Key industries in the region continue to fire. The dairy industry is charging ahead, with the milk price on course for a record high. Meanwhile, manufacturing and construction activity in the region are also strong. Nonetheless, the Omicron outbreak did still dent household economic sentiment over the quarter, recording a three-point drop. From here and as the Omicron outbreak begins to tail off, we expect the ongoing strength of local industries to lead household economic confidence higher over coming quarters.

### Bay of Plenty

Like the majority of regions, confidence in this region's economic prospects took a hit over the March quarter. Confidence slid 7 points to -14. With no major developments

in the region's key industries, we put the slide down to the Omicron outbreak and cost of living increases. Looking ahead, the industry outlook is solid for the kiwifruit sector, assuming labour shortages don't bite too much. Meanwhile, forestry prices have recently stabilised after falling from mid-2021. However, looking forward, it remains to be seen whether the key industry outlook along with easing Covid restrictions will prove enough to outweigh inflation concerns in the eyes of the region's households.

### Gisborne/Hawke's Bay

Confidence in this region's economic prospects was amongst the hardest hit nationwide over the March quarter. Household economic confidence plunged 19 points over the quarter, dipping into negative territory for only the second time since 2015. With no major developments in the region's key industries, we put the slide down to the Omicron outbreak and cost of living increases. Looking forward and as Omicron passes, we expect the region's economic fortunes to return into positive territory. Notably, we're expecting a big second half of the year for the meat sector on the back of record high prices. Although as with other regions, ongoing cost-of-living increases will temper that improvement for many.

### Taranaki/Manawatu-Whanganui

Confidence in this region's economic prospects was the second hardest hit nationwide over the March quarter. Household economic confidence plunged 25 points over the quarter. We put the slide entirely down to the Omicron outbreak and cost of living increases, as the outlook for the region's major industries if anything improved (surging energy prices, for example, should buoy the economic outlook for Taranaki). Looking forward and as Omicron passes, we expect the region's economic fortunes to improve. Notably, we expect the agriculture and energy sectors to remain very strong on the back of very strong, if not record-high prices. Although as with other regions, ongoing cost-of-living increases will temper that improvement for many.

### Wellington

Household economic confidence in Wellington plunged over the March quarter. Confidence in the region's prospects slid 22 points, with a net 18% of households expecting conditions to worsen over the coming year. No doubt the Omicron outbreak and the cost-of-living increases weighed heavy for many households in the region. In addition, the rapidly cooling housing market, which has posted the largest drop in house prices nationwide to date, may have weighed on sentiment. Lastly, the occupation of Parliament grounds, while not strictly economic, may have further soured the mood. From here, and as the Omicron peak passes, economic confidence may start to recover, although ongoing cost-of-living concerns may slow any recovery.

### Nelson/Marlborough/West Coast

Nelson household economic confidence remains stuck in negative territory. Household economic confidence dipped two points to -6 over the quarter. With no major developments in the region's key industries, we put the slide down to the Omicron outbreak and cost of living increases. However, with Omicron cases near or at their peak, economic confidence

may start to turn the corner as cases begin to fall and Covid restrictions are eased over coming months. The region, and the West Coast in particular, also stands to benefit from the opening of the border to tourists. With that in mind, confidence may turn the corner over the quarters ahead, although like other regions, the rising cost of living may temper the improvement.

## Canterbury

Like the majority of regions, confidence in this region's economic prospects took a hit over the March quarter. Confidence slid 13 points to -6 over the quarter. With no major developments in the region's key industries, we put the slide down to the Omicron outbreak and cost of living increases. Those factors aside Canterbury's key industries continue to fire. Notably, Canterbury's housing market remains resilient, with prices continuing to rise over recent months. On that basis, we economic confidence is likely to recover as cases begin to fall and Covid restrictions are eased over coming months. Although like other regions, the rising cost of living may temper the magnitude of the improvement.

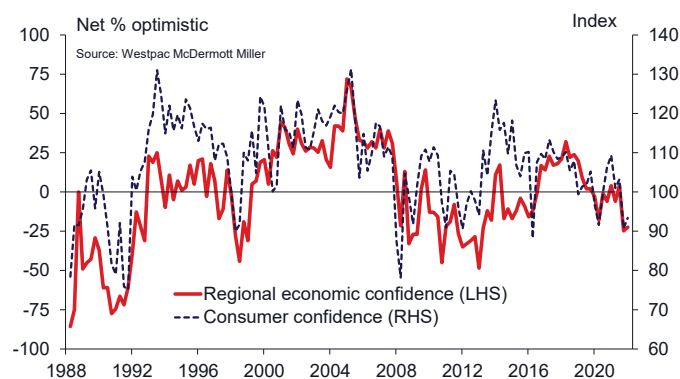
## Otago

Confidence in this region's economic prospects was the second hardest hit nationwide over the March quarter. Household economic confidence plunged 27 points over the quarter. No doubt the plunge reflected the fact that domestic tourists shelved plans to visit the region over the quarter. However, there is better news on the horizon. Notably, the opening of the border to tourists and the general relaxing of Covid restrictions will give the region a major shot in the arm over coming quarters. Indeed, the region's fortunes are likely to remain heavily dependent on Covid gyrations over the year ahead and beyond.

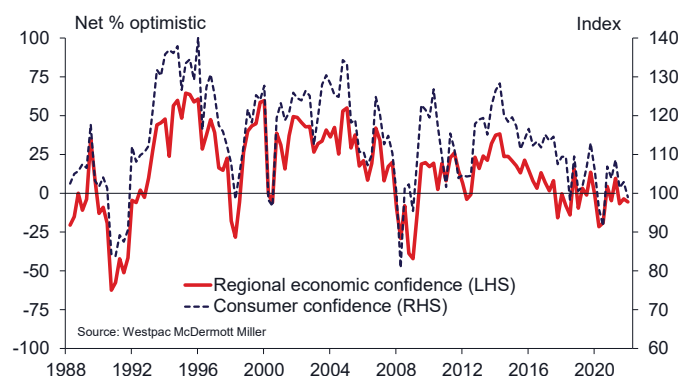
## Southland

Southland bucked the nationwide trend, with confidence unchanged over the quarter at a relatively positive level of +14. Indeed, Southland topped the regional economic confidence charts for the second quarter in a row. We put that largely down to the very healthy agriculture sector, with both the dairy and meat sectors firing on all cylinders. Looking ahead and with the agriculture sector outlook still strong, we expect confidence to remain firm. On balance, confidence may even get a bump higher as Omicron cases peak and Covid restrictions ease.

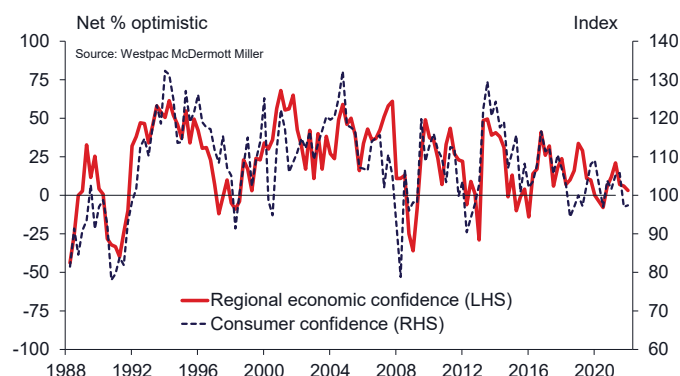
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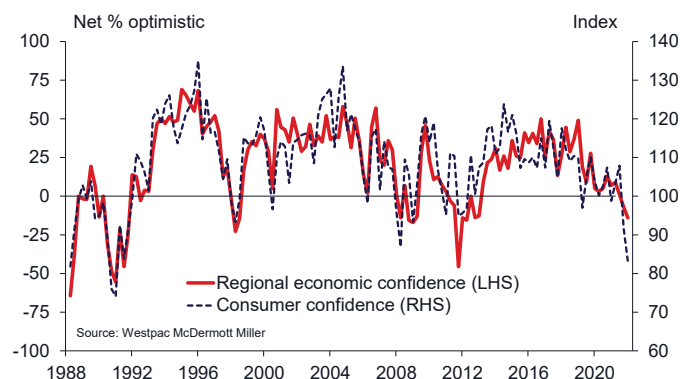
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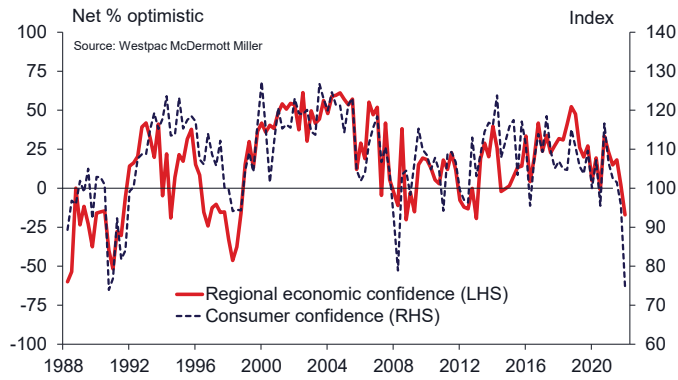
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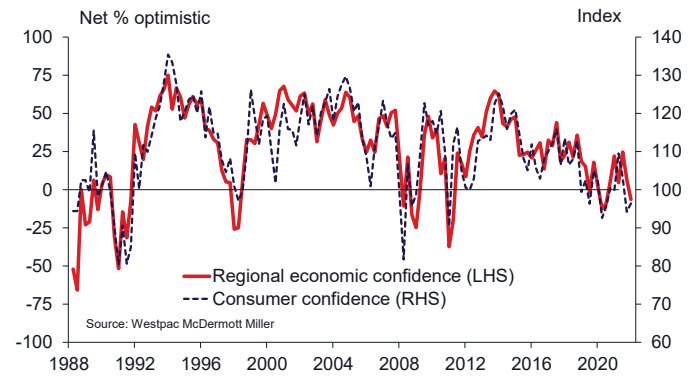
### Bay of Plenty



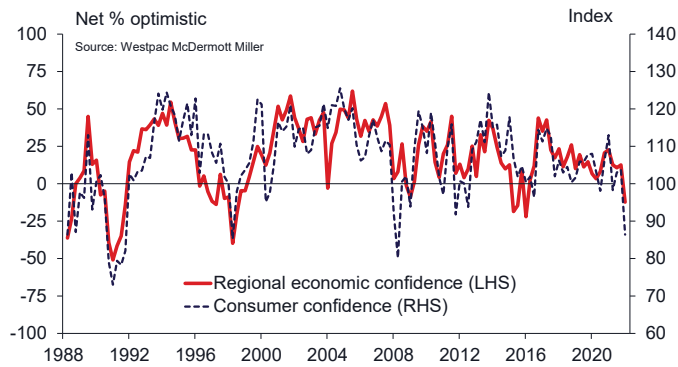
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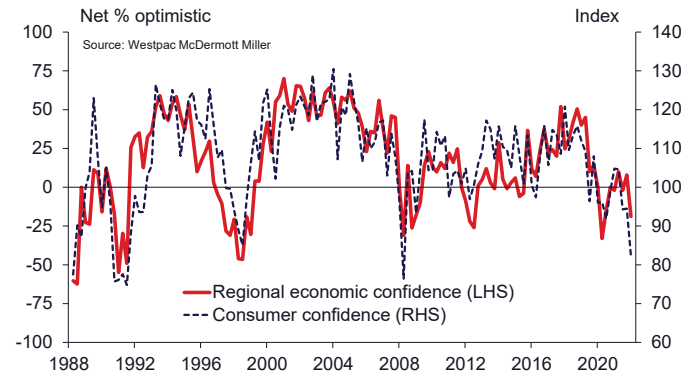
### Canterbury



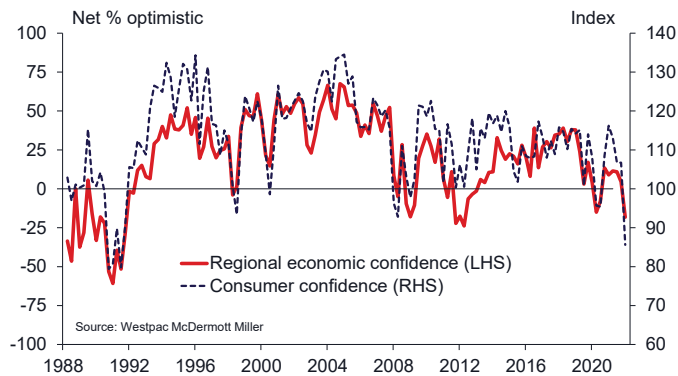
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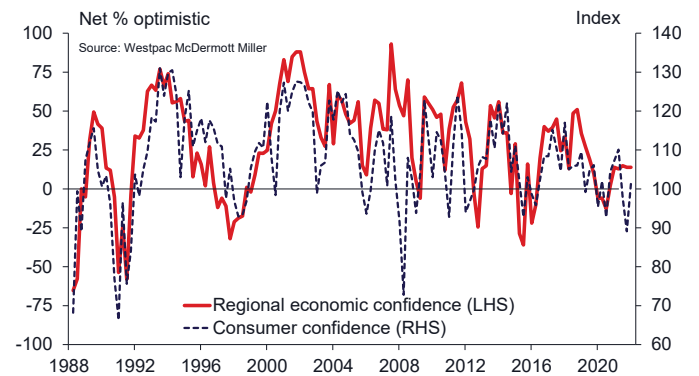
### Otago



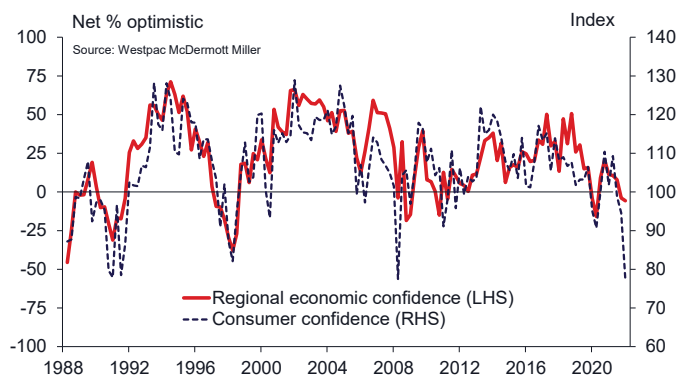
### Wellington



### Southland



### Nelson/Marlborough/West Coast





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