

Westpac McDermott Miller Regional Economic Confidence.

29 June 2021



Mixed bag – Westpac McDermott Miller Regional Economic Confidence, June 2021 quarter.

- Regional economic confidence was a mixed bag over the June quarter, with an even split between regions showing improved economic confidence and regions showing weakened confidence.
- The red-hot housing market remained a consistent theme across regions.
- Regions with a rural backbone are generally more confident than the large metropolitan centres, although recent bad weather (flooding in Canterbury and drought in eastern regions) has led to a narrowing in the gap.
- Households in the Waikato are the most optimistic in the country.
- Meanwhile, Northlanders are the most pessimistic in the country.

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Regional economic confidence* (net confidence %)

Region	Latest	Previous	Change
	Jun-21	Mar-21	
Northland	-6	4	-10
Auckland	10	-5	15
Waikato	21	12	9
Bay of Plenty	9	7	2
Gisborne/Hawke's Bay	15	23	-8
Taranaki/Manawatu-Whanganui	13	23	-10
Wellington	11	9	2
Nelson/Marlborough/West Coast	11	11	0
Canterbury	5	22	-17
Otago	10	-2	12
Southland	13	14	-1

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 June 2021, with a total sample size of 1555.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence was a mixed bag over the June 2021 quarter. There was an even split between regions showing improved economic confidence and regions showing weakened confidence.

Booming construction has boosted Auckland and Waikato over the quarter. Indeed, at the current pace Auckland is building enough houses to eat into its housing shortage. The construction boom has also ignited the regions' manufacturing sectors, which are running hot too. Confidence in Auckland will have been further buoyed as the region emerged from the temporary March lockdown.



Weather also impacted this quarter's results. Most notably, economic confidence slumped in Canterbury as the region was hit by severe flooding in early June. With this in mind, it was no surprise that Canterbury recorded the largest dip in economic confidence over the quarter (down 17 points). Meanwhile, confidence in Gisborne/Hawke's Bay dipped, which may have been due to the drought conditions over the quarter.

Putting quarter-to-quarter movements aside, households in rural regions continue to be among the most confident across the country. That includes regions like the Waikato, Gisborne/Hawke's Bay, Taranaki/Manawatu-Whanganui and Southland.

That said, two of the recent regional laggards, Auckland and Otago, have closed the gap over the quarter. In fact, Auckland households recorded the largest improvement (up 15 points) over the June quarter.

Interestingly, there is little evidence that the March tax changes, targeting property investment, have impacted regional confidence.

Regional discussion.

Northland: Confidence in Northland dipped into negative territory over the June quarter, with a net 6% of households feeling pessimistic about the region's economic prospects. However, this move went against the tide of firm economic data over the quarter. The region's housing market is red hot, with prices rising more than 20% in annual terms. And the region's primary industries are generally performing well. Perhaps we could link the dip in confidence to announcements on the cancellation of four-laning of State Highway 1 near Whangarei and/or the news that Marsden Point will move to an import only operation.

Auckland: Confidence in the region's economic prospects surged over the June quarter. The 15-point improvement over the quarter was the largest nationwide. The construction and manufacturing sectors are humming, with the hot housing market a clear catalyst. Similarly, the region's retailers had a strong run over the quarter. Meanwhile, house prices have maintained momentum through the quarter despite the Government's housing policy changes back in March. Confidence in Auckland will have been further buoyed as the region emerged from the temporary March lockdown.

Waikato: Waikato households were the most confident in the country by a large margin over the June quarter. And it's not surprising to see why. The region's manufacturing and construction industries are charging ahead. Underpinning those sectors are the hot housing market as well as the strong agriculture sector. Notably, the farmgate milk price is at a very healthy level, while the region experienced some of country's best growing conditions over the quarter. It's no wonder then that record crowds flocked to this year's National Fieldays.

Bay of Plenty: Confidence in this region's economic prospects lifted a touch in the June quarter, with a net 9% of households expecting their economy to improve over the coming year.

The lift in confidence may reflect the red-hot housing market as sales volumes remained high and prices surged over the quarter. The region's export sectors are also performing strongly. Forestry prices are at record highs, while the 2021 kiwifruit crop also set a new record high, despite reported labour shortages. Construction activity in the region is also solid. On the basis of the strength across key sectors of the region's economy, we anticipate that there may be further lifts in confidence in the coming quarters.

Gisborne/Hawke's Bay: Confidence in this region's economic prospects remains relatively upbeat despite an 8-point drop in the June quarter. Indeed, with a net 15% of respondents still expecting their economy to improve over the next 12 months, households in this region are the second most confident in the country. On the positive side of the ledger, the housing market remains red hot, with prices up around 36% on a year ago. However, the primary sector has run into a few speed bumps, with drought weighing on the sheep and beef sector and labour shortages, particularly during the picking season, souring the performance of the horticulture sector.

Taranaki/Manawatu-Whanganui: Confidence in this region's economic prospects dipped in the June quarter, with a net 13% of households now expecting conditions to improve over the coming year. Despite the dip, the region is the third equal most optimistic in the country with Southland. The housing market is white hot, with prices in the Manawatu-Whanganui up 52% on a year ago (the biggest jump in the country) and Taranaki prices up 34%. The strong farmgate milk price is boosting the region's farm incomes, while higher oil prices is boosting activity in the Taranaki. Indeed, based on the strength in these key industries, we anticipate that there may be further lifts in confidence in the coming quarters.

Wellington: Confidence in Wellington ticked higher in the June quarter, with a net 11% of households feeling optimistic about the region's economic future. The housing market remains red hot, with prices rising at the second-fastest rate in the country behind Manawatu-Whanganui. However, the hot housing market is a double-edged sword, with housing shortages weighing on confidence for some households. Looking at the labour market, prospects are firm, with Central Government demand underpinning broader labour market strength.

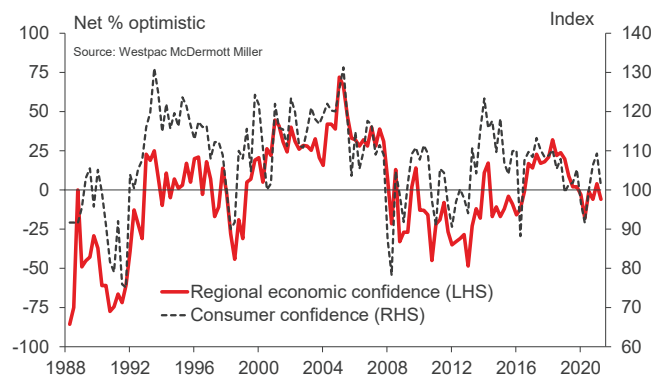
Nelson/Marlborough/West Coast: Confidence in this region's economic prospects was unchanged for the quarter, with a net 11% of households expecting economic conditions to improve over the coming year. On the positive side of the ledger, the hot housing market remains a key driver of local activity, with house prices up 29% on a year ago. However, the region's key primary industries have been a mixed bag of late. Indeed, this year's grape harvest was down 21% and 33% in Marlborough and Nelson, respectively, on last year's. Also, Nelson's apple crop was crimped by the shortage of workers during the picking season. Meanwhile, the West Coast continues to struggle through the absence of international tourists, although the strong farmgate milk price will have provided some offset for the Coast.

Canterbury: Regional confidence in Canterbury slid in the June quarter, with a net of 5% of households in the region feeling positive about the region's economic prospects over the coming 12 months. We pin the fall on the severe flooding that the region experienced in early June. Looking beyond the floods, the region's key sectors are performing well. Indeed, the underlying activity in the manufacturing, construction and agricultural sectors is firm. On this basis, we expect the economic confidence of households to rebound next quarter.

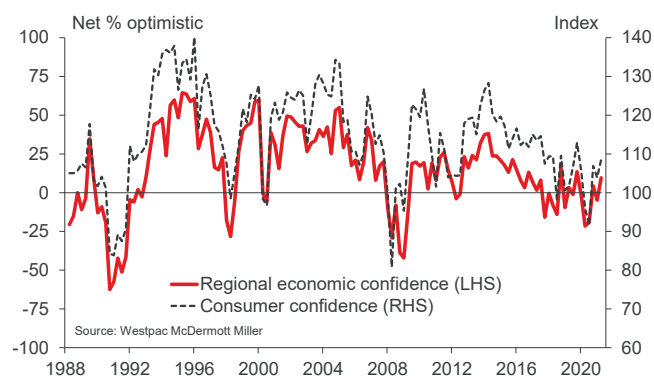
Otago: Economic confidence in the Otago region spiked in the June quarter, with a net 10% of households feeling optimistic about the future. That's the highest reading since the Covid pandemic. The opening of the Trans-Tasman bubble would have helped the mood in the Queenstown Lakes district. But not only that, the Otago housing market has sprung back to life over recent months. House prices are now sitting 24% above a year ago. In turn, this has boosted the construction sector. However, the retail sector is still weak, and is unlikely to fully recover until the border re-opens to other key tourist markets.

Southland: Economic confidence in Southland was largely unchanged over the June quarter, with a net 13% of households (down 1 point from March) expecting their economy to improve over the coming year. Importantly for the region, the dairy sector is firing on all cylinders with the farmgate milk price at a very healthy level. Similarly, construction activity is firm on the back of the hot housing market. However, the region is still feeling the impact from the border closure and the broad absence of international tourists. Indeed, retail spending has yet to rebound to pre-Covid levels.

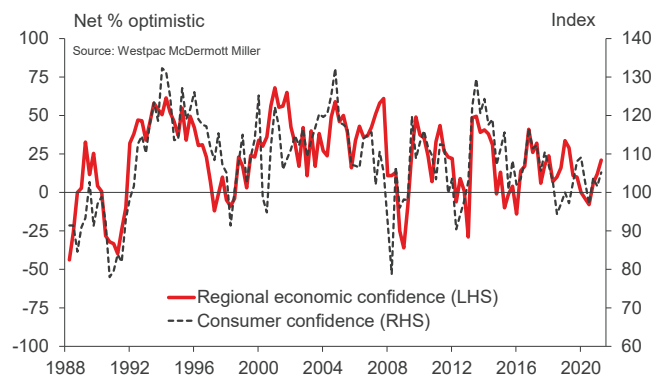
Northland



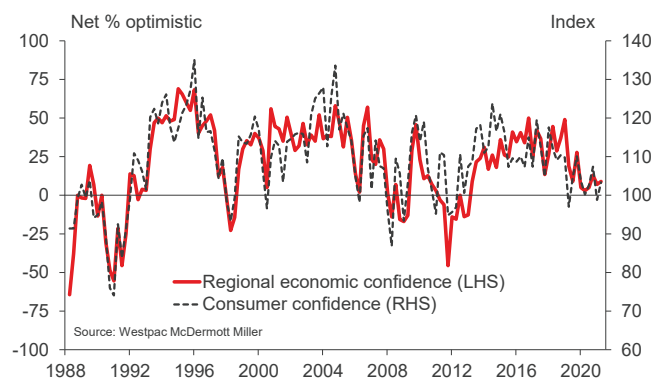
Auckland



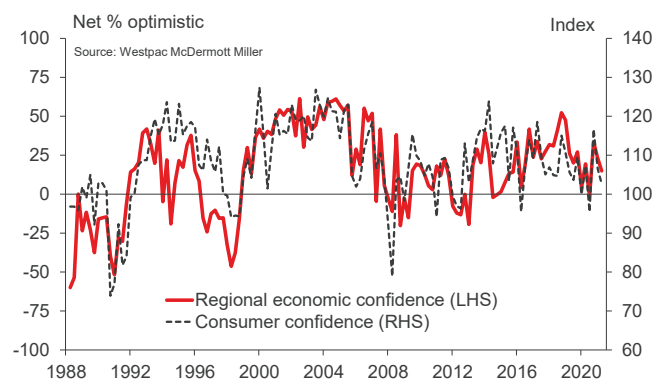
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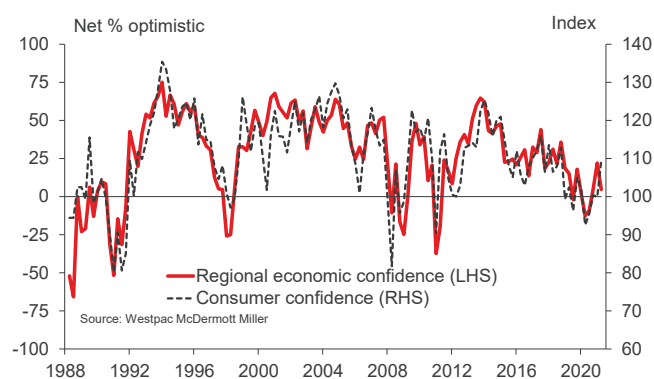
Bay of Plenty



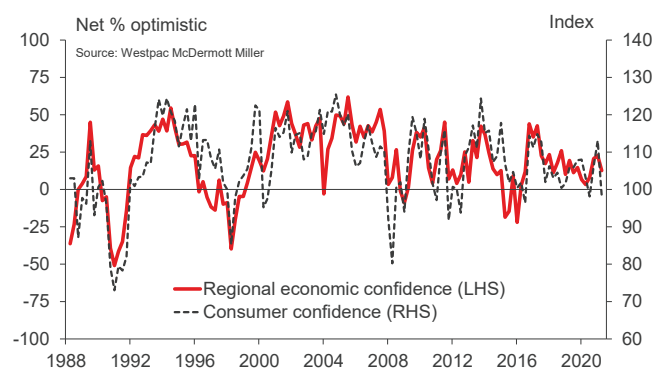
Gisborne/Hawke's Bay



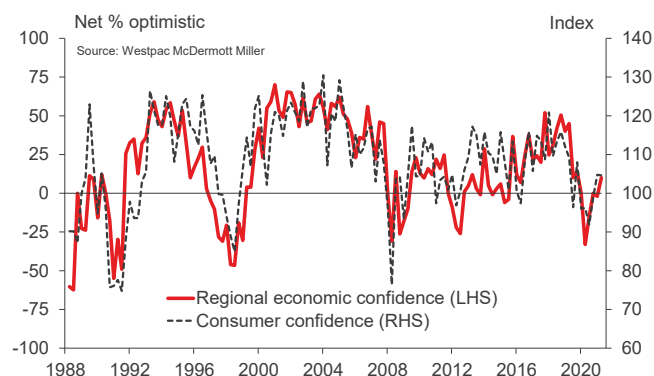
Canterbury



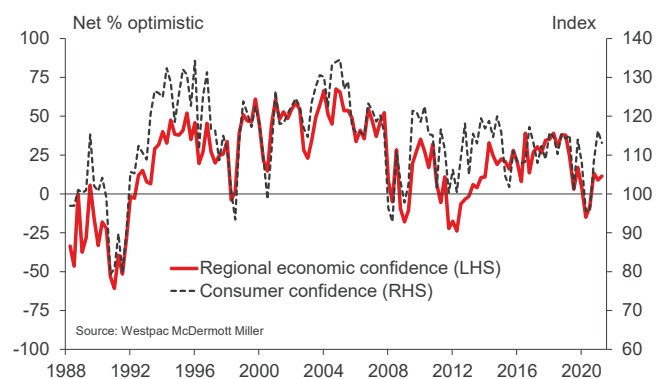
Taranaki/Manawatu-Whanganui



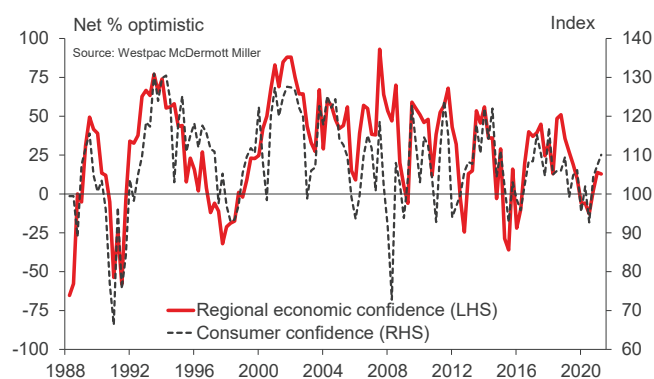
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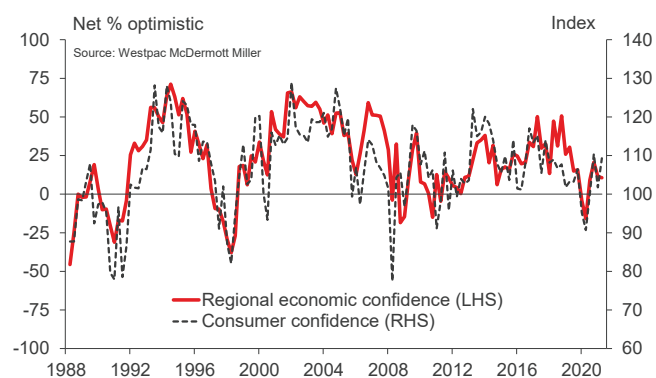
Wellington



Southland



Nelson/Marlborough/West Coast



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