

Westpac McDermott Miller Regional Economic Confidence.

29 September 2021



Lockdown leads regional economic confidence lower – Westpac McDermott Miller Regional Economic Confidence, September 2021 quarter.

- Regional economic confidence dipped in the September quarter as the country re-entered lockdown.
- However, some rural regions bucked the trend, with agricultural prices hitting very healthy levels (and, in some cases, record highs) across a broad range of sectors.
- Households in Canterbury are the most optimistic in the country.
- Unsurprisingly given the extended lockdown, Aucklanders are the most pessimistic in the country.

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Regional economic confidence* (net confidence %)

Region	Sep-21	Jun-21	Change
Northland	4	-6	10
Auckland	-7	10	-17
Waikato	7	21	-14
Bay of Plenty	1	9	-8
Gisborne/Hawke's Bay	18	15	3
Taranaki/Manawatu-Whanganui	11	13	-2
Wellington	11	11	0
Nelson/Marlborough/West Coast	8	11	-3
Canterbury	25	5	20
Otago	-2	10	-12
Southland	15	13	2

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 September 2021, with a total sample size of 1557.

The Westpac McDermott Miller survey of households showed that regional economic confidence dipped overall in the September quarter. Confidence fell in six regions, rose in four regions, and was unchanged in one (Wellington).

The nationwide lockdown will have hit retailers and hospitality businesses across the country, with Auckland particularly hard hit by its extended lockdown. And in a double-whammy Auckland's hot construction sector will have seen activity stall as work was only permitted once the region moved down to Alert Level 3.



In contrast, for many essential services it was business as usual. This was particularly noticeable in many rural regions where agricultural activity was mostly unimpacted. At the same time, regions outside of Auckland benefited from an earlier relaxing of lockdown restrictions in September.

Putting quarter-to-quarter movements aside, households within regions with large agricultural sectors continue to benefit from very strong agricultural export prices and incomes. As a result, regions like Canterbury, Gisborne/Hawke's Bay, and Southland are among the most confident across the country.

Unsurprisingly given the extended lockdown, households in the Auckland region are the most pessimistic. Similarly, confidence has slid in Otago, with the lockdown hitting the region's key tourist hotspots hard once again.

Regional discussion.

Northland: Confidence in Northland jumped back into positive territory in the September quarter, with a net 4% of households feeling optimistic about the region's economic prospects. Northland was also one of only four regions to gain in confidence over the quarter, despite the region being stuck in Alert Level 4 longer than all other regions except Auckland. We put the improvement down to the broad strength in its key primary industries. Notably for Northland, the jump to record high farmgate beef and lamb prices over the quarter would have spurred confidence higher in many parts of the region.

Auckland: Unsurprisingly, the extended lockdown has hit confidence in the region's economic prospects hard in September. The region recorded both the lowest confidence reading (-7) and the largest drop in confidence (-17 points). The drop marks a swift reversal of the 15-point improvement in the previous quarter. Generally, at that point the Auckland region was firing on all cylinders. On this basis, and looking back at previous experience, we expect the economy to snap back into action once lockdown restrictions ease more fully. Of course the question remains as to when exactly that will happen.

Waikato: Households' confidence in the region's economic prospects dipped in the September quarter. With most of the region's key industries remaining strong (think agriculture, manufacturing and construction), the proximity to Auckland is the most likely driver of the fall. There will have been some direct impact from the extended border closure as well as retailers, hospitality and accommodation providers will have seen a drop in customers and guests. Looking through the lockdown, the underlying strength in the Waikato economy remains in place. Indeed, we expect the region to be back towards the head of the pack of regional economies by year end.

Bay of Plenty: Confidence in this region's economic prospects remained on balance positive in the September quarter, but only by a whisker. Confidence slid 8 points to +1 over the quarter. The lockdown likely explains most of this drop, however forestry prices slipped from their record highs over the quarter, so this move may have also been a factor in the decline. Elsewhere, the region remains on sound economic

footing, and we expect confidence to rebound over the remainder of the year. However, we remain wary of worker shortages, and we will be keeping one eye on developments in this regard particularly for the region's key kiwifruit sector.

Gisborne/Hawke's Bay: Confidence in this region's economic prospects bucked the nationwide trend, rising three points in the September quarter. Indeed, with a net 18% 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 37% on a year ago. Meanwhile, the record high farmgate beef and lamb prices will have boosted the region's farmers still grappling with a lack of rain. We largely expect the good times to last, although we remain cautious of continued improvement given the labour market challenges that the horticulture industry faces over the coming summer and the region's need for further rain.

Taranaki/Manawatu-Whanganui: Confidence in this region's economic prospects dipped a touch in the September quarter, with a net 11% of households now expecting conditions to improve over the coming year. The housing market is white hot, with prices in the Manawatu-Whanganui region up circa 47% on a year ago (the biggest jump in the country) and Taranaki prices up 29%. Very strong farmgate meat and dairy prices are boosting the region's farm incomes. Indeed, on the basis of this strength in the outlook for agricultural returns, we anticipate that the region will remain towards the head of the confidence pack through to the end of the year.

Wellington: Confidence in Wellington held firm in the September 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. There's also a solid pipeline of housing construction that should ensure strong construction work over the coming year or so and start to relieve the worst of the housing shortages. However, while housing construction should continue at pace, Transmission Gully has been further delayed which may dent confidence over the next quarter or two.

Nelson/Marlborough/West Coast: Confidence in this region's economic prospects slipped 3 points in the quarter, with a net 8% of households expecting economic conditions to improve over the coming year. Parts of the region (the West Coast) will have been buoyed during the previous quarter by the opening of the Trans-Tasman bubble, but this quarter saw the double whammy of the bubble closing and the domestic lockdown. Looking ahead, we expect a mixed economic performance for the region as tourism continues to battle, worker shortages loom over summer for the region's horticulture and viticulture sectors, while the dairy, meat and forestry sectors are likely to remain strong.

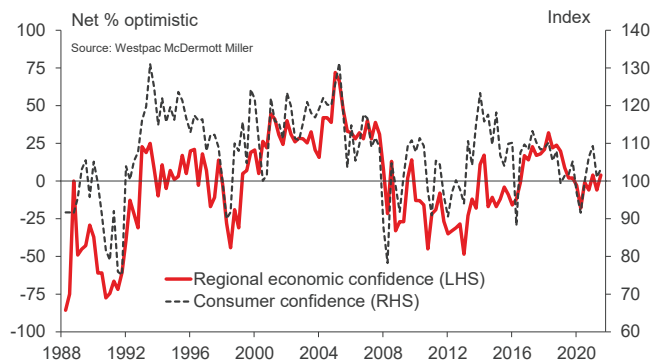
Canterbury: Regional confidence in Canterbury jumped in the September quarter, with the region topping the nationwide table. Confidence lifted a whopping 20 points, with a net 25% of households feeling positive about the region's economic

prospects over the coming 12 months. There is real strength in the region's economy, with agriculture and manufacturing performing strongly. And more recently, the housing market has strengthened, and construction activity has also followed. We expect this broad economic strength to remain until year end and well into 2022.

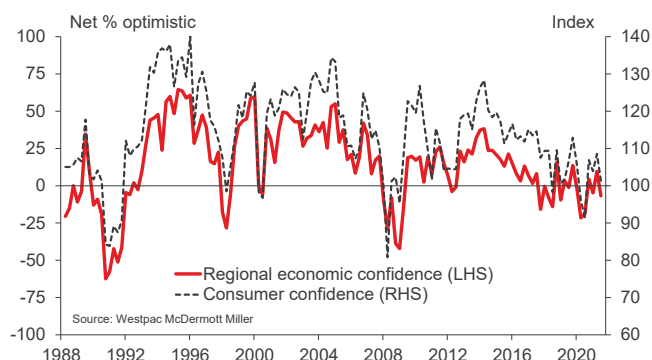
Otago: Economic confidence in the Otago region plummeted 12 points in the September quarter, with a net 2% of households pessimistic about the future. Compared to the previous quarter when the opening of the Trans-Tasman bubble buoyed the mood in the Queenstown Lakes district, this quarter saw the bubble close on top of the domestic lockdown. On the positive side, agriculture continues to go from strength to strength, and that's likely to keep the economy ticking along in the rest of the region.

Southland: Economic confidence in Southland lifted in the September quarter, with a net 15% of households expecting their economy to improve over the coming year. Southland was one of the four regions to see confidence improve, and Southland households are now the third most optimistic in the country. Importantly for the region, the agriculture sector is firing on all cylinders, with the farmgate milk price at a very healthy level and farmgate meat prices at record highs. Looking ahead, we expect agriculture's good fortunes to continue and therefore for the region to remain in a good patch too.

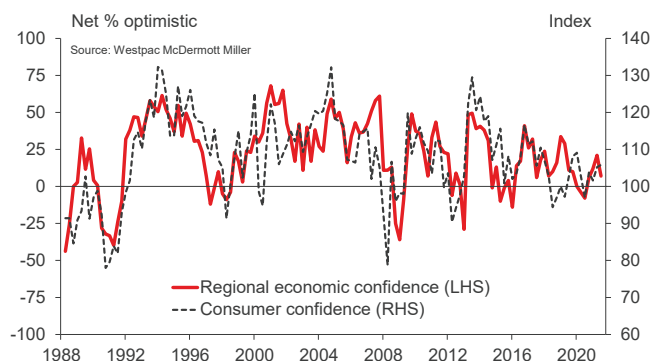
Northland



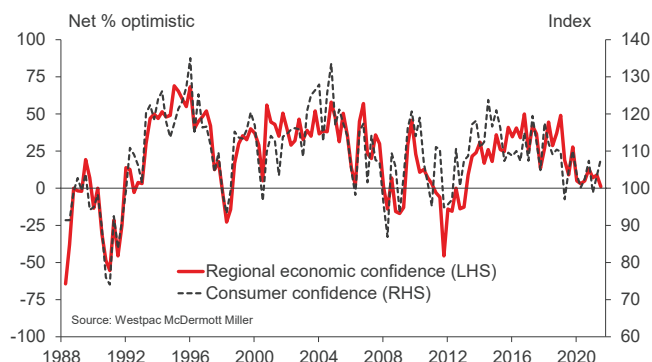
Auckland



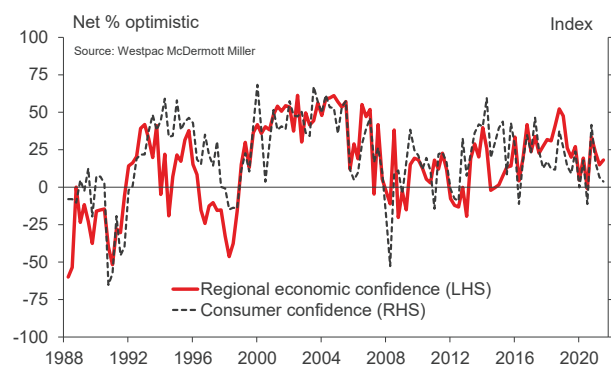
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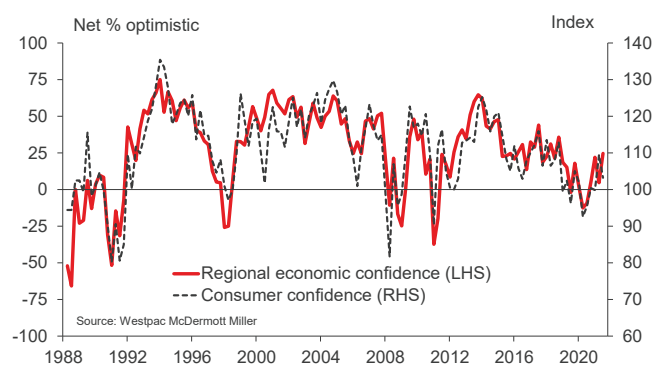
Bay of Plenty



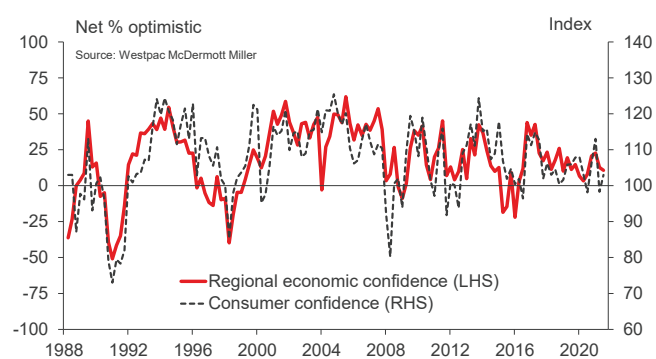
Gisborne/Hawke's Bay



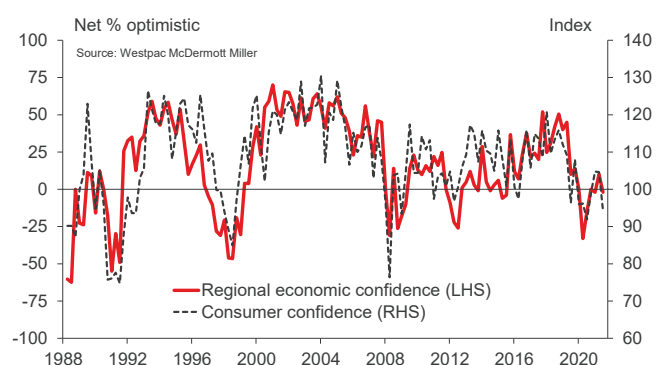
Canterbury



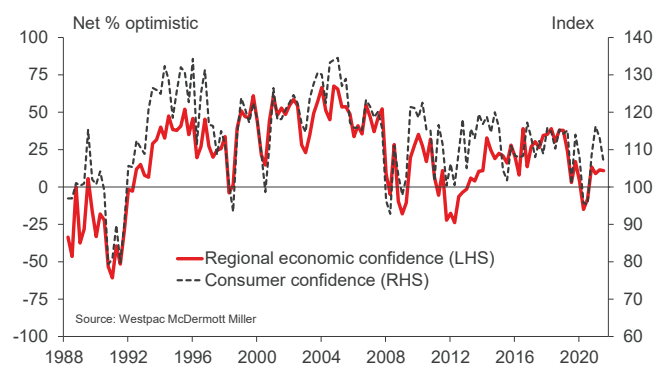
Taranaki/Manawatu-Whanganui



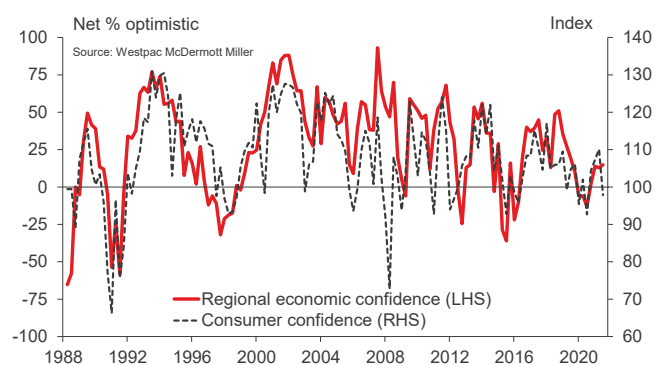
Otago



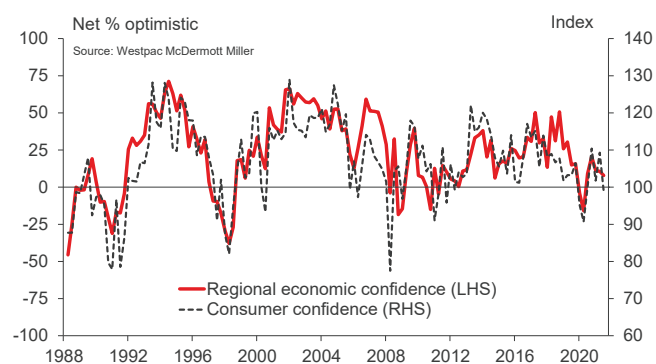
Wellington



Southland




Nelson/Marlborough/West Coast



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