

Westpac McDermott Miller Regional Economic Confidence.

21 December 2020



The optimists strike back – Westpac McDermott Miller Regional Economic Confidence, December 2020 quarter.

- Regional economic confidence bounced higher over the December quarter.
- Optimists now outnumber pessimists in most regions of the country.
- Households in Gisborne/Hawke's Bay, Taranaki/Manawatu-Whanganui, and Nelson/Marlborough/West Coast are the most optimistic.
- Households in Northland, Otago and Southland are the most pessimistic.

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Regional economic confidence* (net confidence %)

Region	Latest	Previous	Change
	Dec-20	Sep-20	
Northland	-6	-1	-5
Auckland	4	-19	23
Waikato	6	-8	14
Bay of Plenty	13	5	8
Gisborne/Hawke's Bay	33	-1	34
Taranaki/Manawatu-Whanganui	21	8	13
Wellington	13	-8	21
Nelson/Marlborough/West Coast	21	9	12
Canterbury	5	-9	14
Otago	0	-15	15
Southland	2	-13	15

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 December 2020, with a total sample size of 1553.

Regional economic confidence bounced over the December quarter, according to the Westpac McDermott Miller Regional Economic Confidence survey. Confidence rose in all but one region over the quarter.

The survey, which asks households how confident they are about their region's economic prospects, took place between 1 and 12 December.

The bounce in confidence may reflect the general rebound in economic activity, including the surge in housing markets nationwide. On top of the local news, positive vaccine developments offshore have added to the feel-good factor.



Regions with large agriculture bases continue to be relatively more confident. Gisborne/Hawke's Bay, Nelson/Marlborough/West Coast and Taranaki/Manawatu-Whanganui were standouts in this regard over the quarter.

In general, the regions that are more dependent on international tourism like Otago have continued to struggle. Confidence in Auckland also remains low. Northland confidence has also been knocked by the news that the refinery operations at Marsden Point are being restructured, with a loss of 90 jobs.

Regional Discussion.

Northland: Regional confidence in Northland dipped five points over December quarter. The region bucked the positive nationwide trend, posting the only nationwide fall over the quarter. The fall may reflect the announcement that the Marsden Point Refinery is restructuring, with resultant job losses. Meanwhile, the region's agricultural industries are performing well, which may help confidence rebound over coming quarters. The region's housing market has also heated up and we anticipate that this will continue in the new year.

Auckland: Regional confidence in Auckland popped higher over the December quarter. The 23-point jump was the second-highest lift in confidence in the country over the quarter. The lifting of the lockdown restrictions will have contributed to the improved sentiment. And no doubt the red-hot housing market will have given the region another boost. However, Auckland still relies on tourism to a degree and the absence of tourists helps explain why the region is still languishing towards the bottom of the regional economic confidence pile. The Government's confirmation that Trans-Tasman quarantine-free travel will be possible from the first quarter of 2021 will help in this regard.

Waikato: Confidence in the Waikato region posted a healthy lift over the December quarter. The 14-point lift took the region into positive territory, with a net 6% of households now feeling optimistic about the future. A number of factors may have contributed to the lift. The region's agricultural sectors have continued their solid performance, highlighted by Fonterra's lift in its milk price forecast in early December. The region's retailers and accommodation providers will have also benefitted from returning Aucklanders after that region's lockdown restrictions were eased. Finally, the housing market has surged and we anticipate that this will continue to boost the region's economic fortunes in the new year.

Bay of Plenty: The Bay of Plenty economic fortunes gained further in the December quarter. Confidence lifted 8 points over the quarter, with a net 13% of households expecting the region's economy to improve over the year. The region has a number of factors contributing to the relatively healthy picture. The Kiwifruit industry has had a boomer year, with grower returns likely to post fresh record highs this season. Meanwhile, the forestry sector has rebounded strongly from the disruptions earlier in the year. The region, like most, is also benefitting from the pickup in housing market activity. We anticipate that these factors have further to run, and the region is likely to build further on this good run over 2021.

Gisborne/Hawke's Bay: Gisborne/Hawke's Bay is the most bullish region in the country. Moreover, confidence jumped a whopping 34 points over the quarter, with a net 33% of respondents now expecting the region's economy to improve over the next 12 months. The region's primary industries have underpinned the surge. Forestry's rebound in activity has led the charge, but horticulture is not far behind, while the sheep and beef sector continues to tick over. The region also has the hottest housing market in the country, with prices up over 20% for the year. Looking ahead, we expect the hot housing market to continue to add to the bullish vibe over coming quarters. Indeed, we wouldn't be surprised if the region climbed yet higher in the confidence stakes in 2021.

Taranaki/Manawatu-Whanganui: Confidence in this region's economic fortunes stepped higher again over the December quarter, with a net 21% of households expecting economic conditions to improve over the coming year. This step up left the region's households the second-most-optimistic in the country. The region is likely to have benefitted from the strength in the agriculture and forestry sectors over the quarter. Meanwhile, the region's housing market is running hot, and is likely to continue simmering into the new year.

Wellington: Regional confidence in the Capital has jumped over the December quarter. Confidence bounced 21 points, with a net 13% of households in the region now expecting the Capital's economy to improve over the coming year. This lift partly reflects the surging housing market, with Wellington's market posting the country's second-highest annual lift in house prices. Meanwhile, the second term for the government, including an outright majority, may have added to the sense of stability among Wellington's large public service.

Nelson/Marlborough/West Coast: Confidence in the region jumped 12 points over the December quarter. Regional confidence in the Top of the South is the second highest in the country, with a net 21% of respondents expecting the region's economy to improve over the year ahead. The jump in sentiment is likely to have been underpinned by the strength of key regional industries, including agriculture, horticulture, viticulture and forestry. The region's housing market is also surging, particularly in terms of sales. We anticipate that this surge will continue into 2021 and give a further boost to regional economic confidence in the new year.

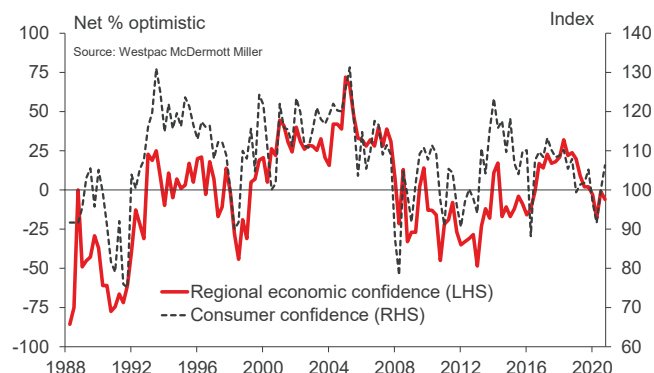
Canterbury: Regional confidence in Canterbury jumped into positive territory over the December quarter. Confidence lifted 14 points, with a net 5% of households now expecting the largest South Island economy to improve over the coming year. This lift is likely to reflect the broad improvement across the region's manufacturing and agricultural sectors, with the region's hot housing market also contributing. However, the tourism sector has remained a drag on the region. Looking to 2021, things are likely to improve further as international tourists return at some point and as the housing market remains hot.

Otago: Optimists equalled pessimists in Otago over the December quarter. This is marked turnaround after a net 15%

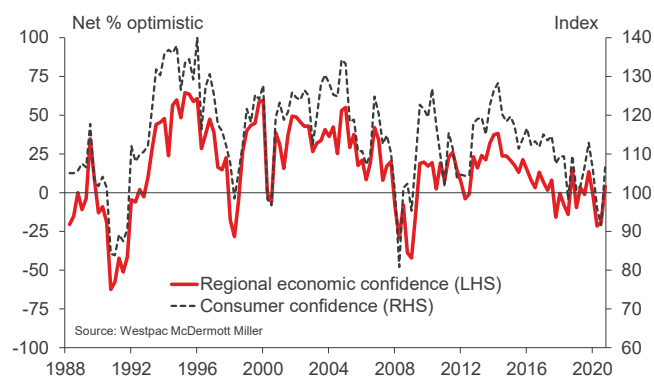
of respondents back in the September quarter expected the economy to deteriorate over the year ahead. The continued return of domestic tourists would have boosted tourist hotspots like Queenstown and Wanaka, while the firm agriculture sector has also underpinned regional incomes. Even the housing market tide has turned. Looking ahead, the prospect of returning international visitors and students over 2021 should see economic fortunes steadily improve over the year.

Southland: Economic confidence in Southland jumped back into positive territory over the December quarter. A net 2% of respondents now expect the region's economy to improve over the year ahead. The fact that the government has given the Tiwai Point aluminium smelter a reprieve may have contributed to the jump. Agricultural sector strength, including Fonterra's milk price forecast lift, is also likely to have helped confidence higher. And like the rest of the country, the Southland housing market has heated up and is likely to continue to run hot at the start of 2021. With tourists returning over the year as well, we anticipate that confidence will continue to head higher over the year ahead.

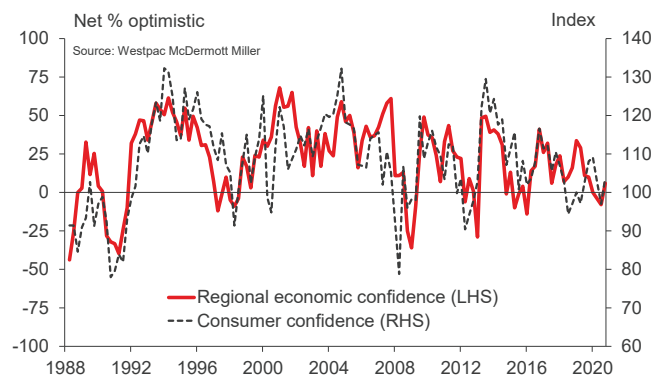
Northland



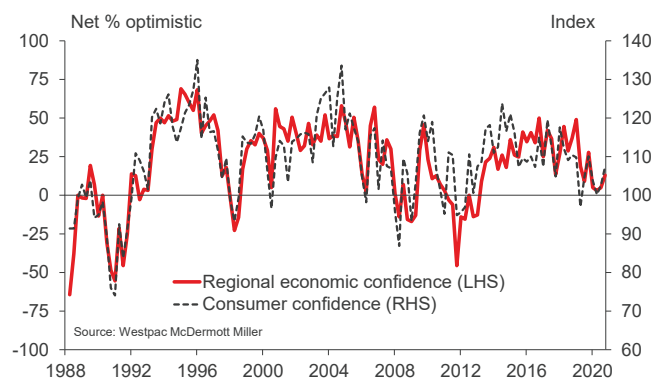
Auckland



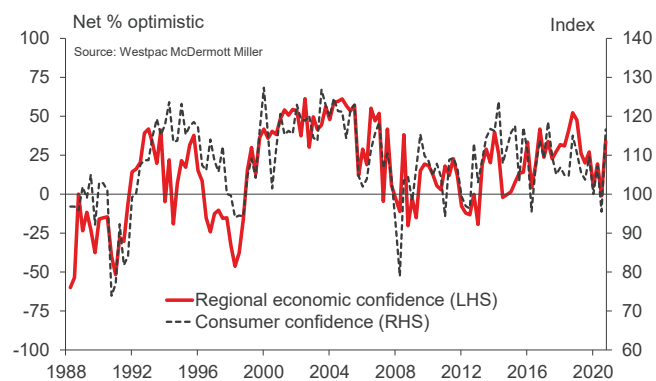
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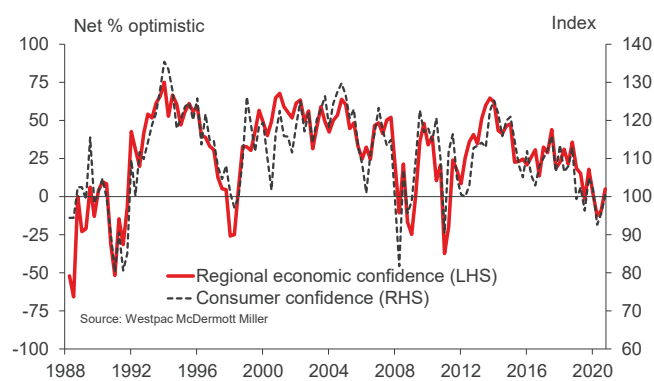
Bay of Plenty



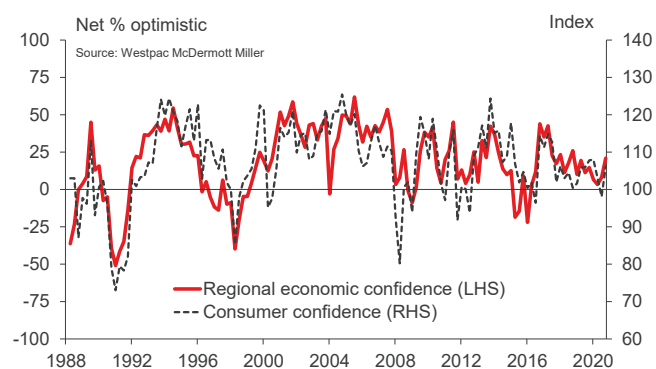
Gisborne/Hawke's Bay



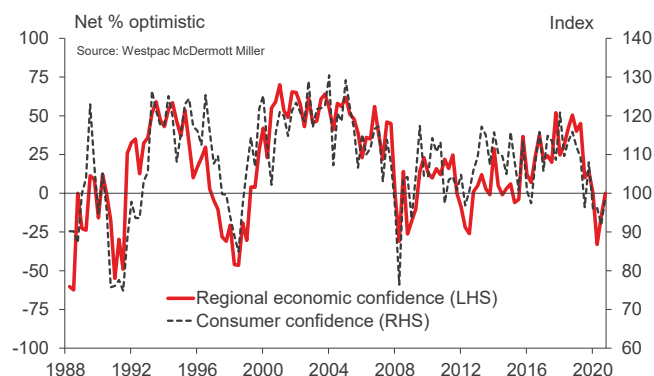
Canterbury



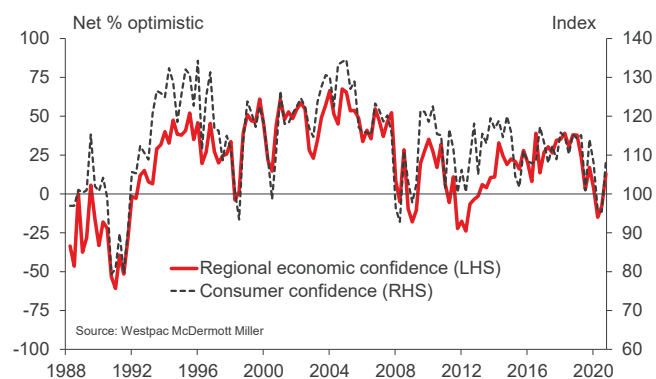
Taranaki/Manawatu-Whanganui



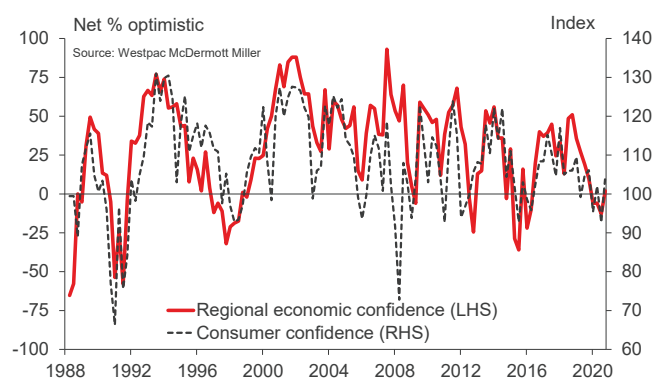
Otago



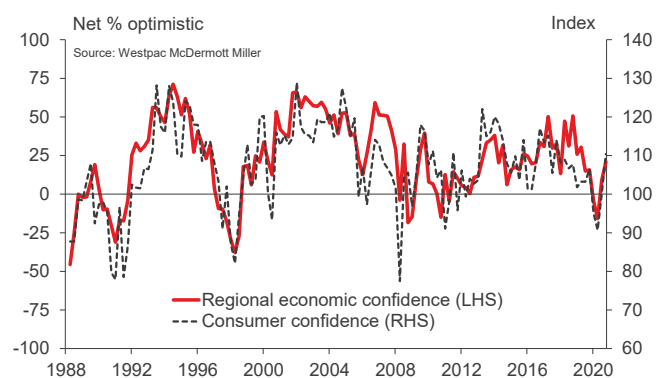
Wellington



Southland



Nelson/Marlborough/West Coast



Contact the Westpac economics team.

Dominick Stephens, Chief Economist

+64 9 336 5671

Michael Gordon, Senior Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

economics@westpac.co.nz

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