

WESTPAC MCDERMOTT MILLER REGIONAL ECONOMIC CONFIDENCE

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Regional economic confidence dipped over the December quarter.

- Regional economic confidence dipped over the December quarter as Covid restrictions and disruptions weighed on some regions and omicron concerns emerged in others.
- Notably, Auckland and Otago bucked the trend as Covid travel restrictions were eased for Aucklanders.
- Southland households, buoyed by record high meat and dairy prices, are the most optimistic in the country.
- Northlanders were the most pessimistic in the country as the region was stuck in the red ‘traffic light’ setting and the prospect of move to ‘orange’ seemed distant.

Regional economic confidence¹ (net confidence %)

Region	Dec-21	Sep-21	Change
Northland	-25	4	-29
Auckland	-4	-7	3
Waikato	6	7	-1
Bay of Plenty	-7	1	-8
Gisborne/Hawke's Bay	2	18	-16
Taranaki/Manawatu-Whanganui	13	11	2
Wellington	4	11	-7
Nelson/Marlborough/West Coast	-4	8	-12
Canterbury	7	25	-18
Otago	8	-2	10
Southland	14	15	-1

Source: Westpac McDermott Miller

The Westpac McDermott Miller survey of households showed that regional economic confidence dipped overall in the December quarter. Confidence slid in eight regions, while three regions bucked the trend and posted a lift in confidence.

The dip in confidence was most noticeable in regions that had been until recently relatively happy with their lot. We suspect that reflects the looming prospect of the omicron variant spreading throughout the country, and thus putting at risk the freedoms that those in the regions have become accustomed to.

¹ 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 2021, with a total sample size of 1558.

In contrast, Aucklanders were simply relieved to regain some freedoms of movement following the Delta lockdown. Meanwhile, Otago tourism businesses and thus some households breathed a sigh of relief knowing that business would pick up over the key holiday period once Aucklanders were able to travel.

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 Southland and Taranaki/Manawatu-Whanganui are the most confident across the country.

The main outlier this quarter was Northland. Despite strong agricultural incomes, Northlanders were by far the most pessimistic in the country as the region was stuck in the red 'traffic light' setting and the prospect of a move to 'orange' seemed distant.

Regional discussion.

Northland

Confidence in Northland plunged over the December quarter. Indeed, the 29-point drop took confidence to its lowest level since 2013. Northland was stuck in the red 'traffic light' setting over the quarter and the prospect of a move to 'orange' remained distant, with vaccination rates lagging behind other regions. Indeed, the Covid restrictions were particularly ill-timed given they coincided with the beginning of summer and the region's tourist season. In addition, the dip in forestry returns over the second half of 2021 may have further dented confidence. Bucking the trend, the region's meat and dairy sectors continue to perform strongly. And with agriculture's prospects still strong, we expect the region's economic fortunes will turn at some stage over the year.

Auckland

At first glance, prospects for Auckland households look to be on the improve. While still in negative territory, confidence lifted by 3 percentage points over the quarter. This improvement coincided with the announcement of a relaxation in the region's Covid restrictions, particularly as they related to travel. Whether Auckland builds on these gains, however, remains to be seen. With the country now back at the 'red' traffic light setting and omicron in the community, confidence is likely to prove fragile. In short, with Auckland likely to be at the epicentre of the omicron outbreak, Auckland's bumpy Covid ride is set to continue.

Waikato

Households' confidence in the region's economic prospects remained largely unchanged over the December quarter. On the positive side of the ledger, the region's key industries remain strong, with the dairy and construction sectors running particularly hot. However, the proximity to locked-down Auckland and the omicron threat have had an offsetting effect over the quarter. Looking through the Covid ups and downs, 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 over the year.

Bay of Plenty

Confidence in this region's economic prospects took a hit over the December quarter. Confidence slid 8 percentage points to -7 over the quarter. The looming omicron threat most likely explains a good chunk of the fall in confidence. In addition, forestry prices continued to slip over the quarter, so this move may have also been a factor in the decline. Otherwise, the region remains on a sound economic footing, and we expect confidence to rebound over the remainder of the year. That said, we are still 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 plunged over the quarter, with Gisborne/Hawke's Bay optimists now outnumbering pessimists by only 2 points. The decline in forestry returns would have hit the region hard. Indeed, there were several anecdotes of forestry gangs stood down amidst the slowdown in logging. No doubt the omicron threat would have added to the increase in caution amongst the region's households. However, other sectors are not nearly as gloomy. The meat sector remains buoyant on record returns, while the indications are that orchardists can expect a good fruit harvest this season.

Taranaki/Manawatu-Whanganui

Taranaki/Manawatu-Whanganui was one of the few regions to see a tick up in confidence this quarter. Indeed, the 2-point lift took the region to the second-most confident nationwide. The housing market has cooled from white hot to merely hot, but prices are still up at least 20% on a year ago over both Taranaki and the Manawatu-Whanganui. Equally strong farmgate meat and dairy prices also continue to boost the region's farm incomes. Indeed, based on this strength in the outlook for agricultural returns, we anticipate that the region will remain towards the head of the confidence pack through 2022.

Wellington

Household economic confidence in Wellington took a hit over the December quarter. Confidence in the region's prospects slid 7 points, with just a net 4% of households expecting conditions to improve over the coming year. No doubt the threat of omicron loomed large for Wellingtonians, while another delay in the opening of Transmission Gully may have further spoiled the mood. In contrast, the housing market remains relatively buoyant, while a solid pipeline of housing construction should ensure strong construction work over the coming year or so. Similarly, with the government signalling a boost to Budget 2022 spending allowances, the public service expansion is likely to continue. All up and Covid gyrations aside, we expect the capital's economic prospects to improve over the year.

Nelson/Marlborough/West Coast

Confidence in this region's economic prospects took a hit, dropping 12 points over the quarter and into negative territory. Omicron's threat will have accounted for a large part of the slump in confidence, particularly for tourism-dependent regions like the West Coast. Indeed, with the border still closed indefinitely, there is little light at the end of tunnel for tourism businesses across the region. Otherwise, the region's

primary industries are generally faring well, and this aspect of the region's economic prospects bodes well for a rebound in confidence at some point during the year.

Canterbury

Regional confidence in Canterbury tumbled in the December quarter, with the magnitude of the fall in confidence only behind Northland nationwide. Covid cases in the region over the quarter and the threat of omicron will have weighed heavily on Cantabrians' minds. Meanwhile, poor growing conditions also likely put a damper on the otherwise strong agriculture sector. In contrast, the region's housing market surge continued over the quarter, with house prices posting the highest nationwide gains over 2021. On this basis and putting Covid gyrations aside, we expect the region's economic prospects to rebound over 2022.

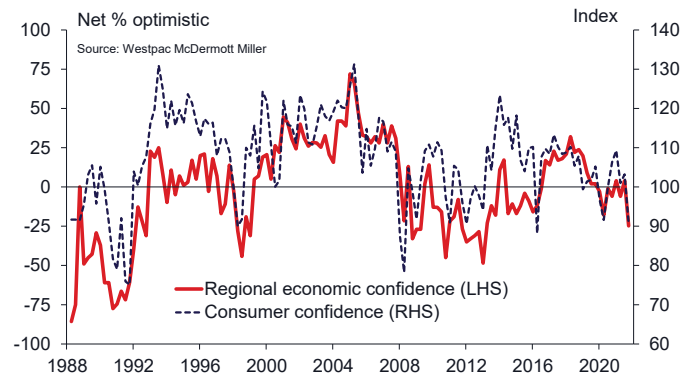
Otago

Economic confidence in the Otago region jumped 10 points over the December quarter, with the jump the highest recorded nationwide over the quarter. The lifting of Aucklanders' travel restrictions would have accounted for much of the improvement particularly given the timing coincided with the height of the Central Otago tourist season. Record meat returns would have further boosted confidence over the quarter. However, we expect this pickup to prove temporary. The omicron outbreak is likely to cut short the tourism season, and with no word on the opening of our borders, the region's tourism-related businesses are set for another tough year.

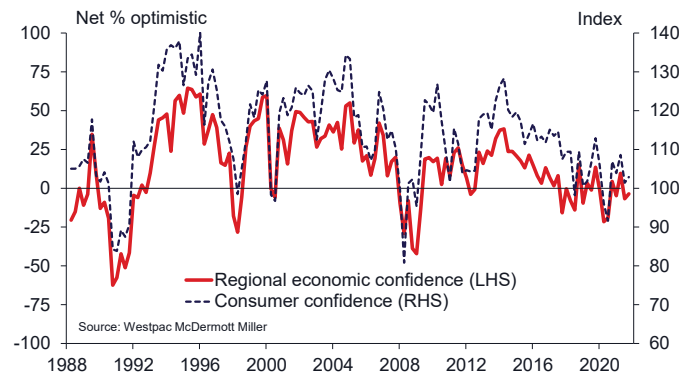
Southland

Economic confidence in Southland held firm in the December quarter, with a net 14% of households still expecting their economy to improve over the coming year. Indeed, Southland topped the confidence charts over the quarter. Importantly for the region, the agriculture sector is firing on all cylinders with both farmgate milk and meat prices at record highs. The housing market and construction sector are similarly strong, notably with the region's construction pipeline the fullest it's ever been. Looking ahead, we expect agriculture's good fortunes to continue and therefore for the region to remain in a good economic patch over 2022.

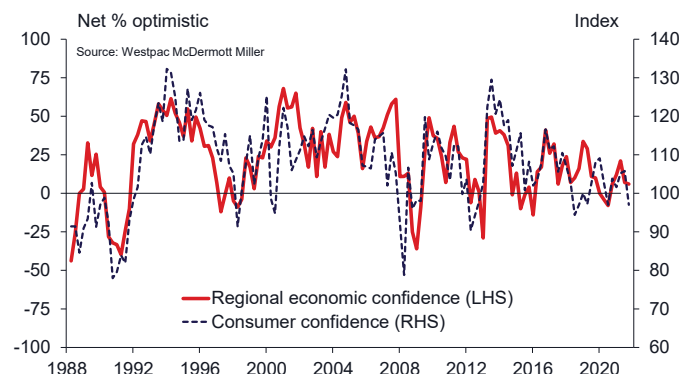
Northland



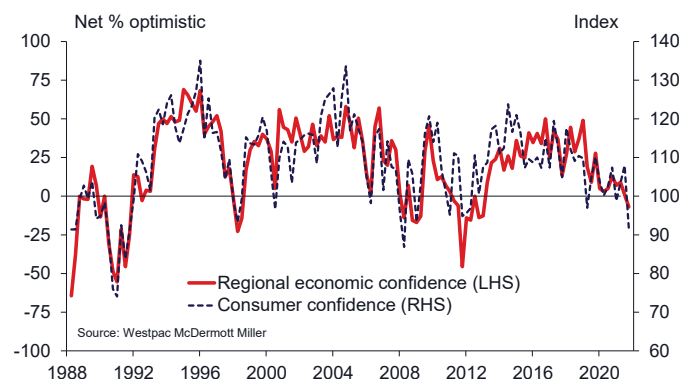
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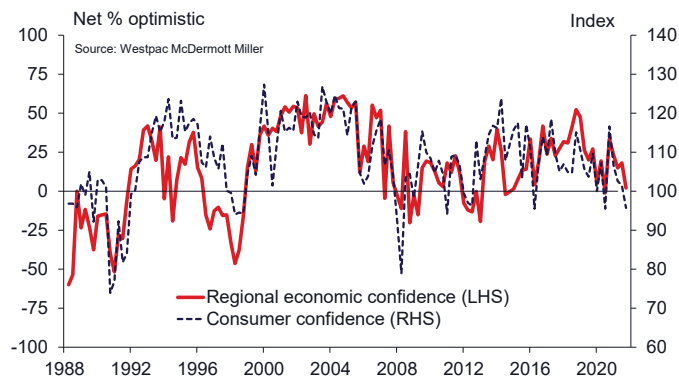
Waikato



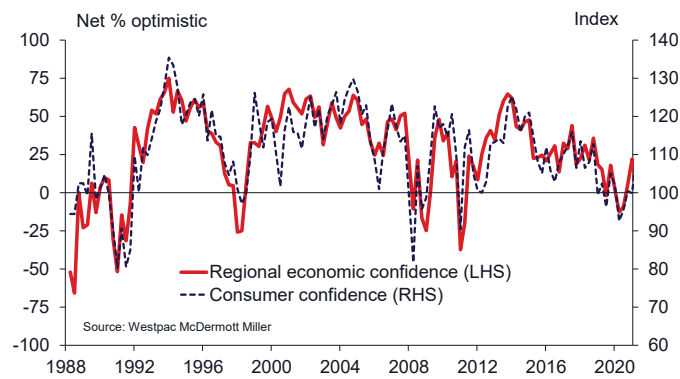
Bay of Plenty



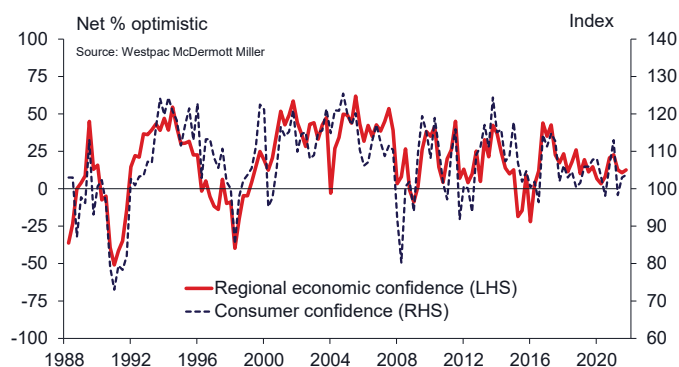
Gisborne/Hawke's Bay



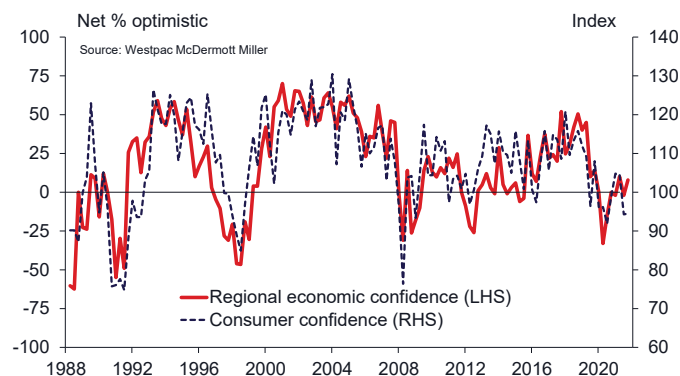
Canterbury



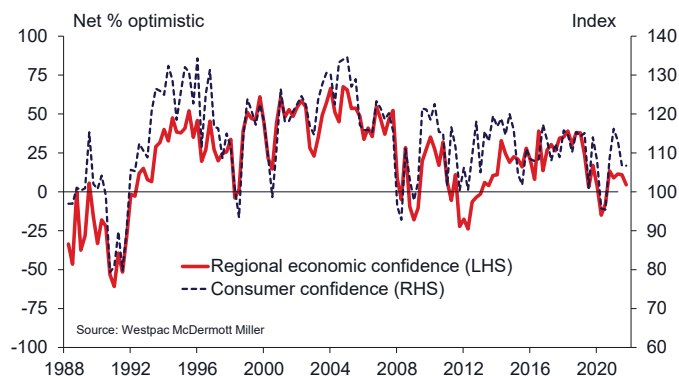
Taranaki/Manawatu-Whanganui



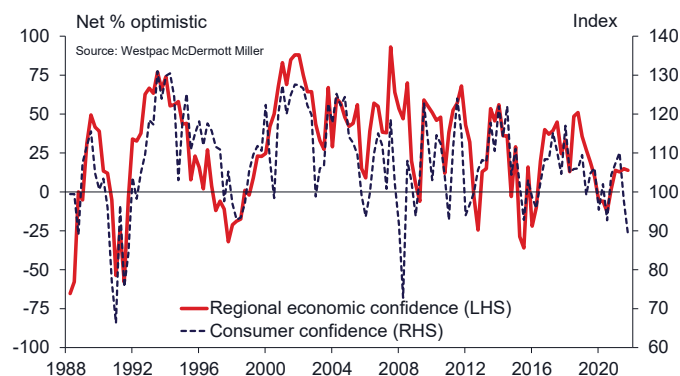
Otago



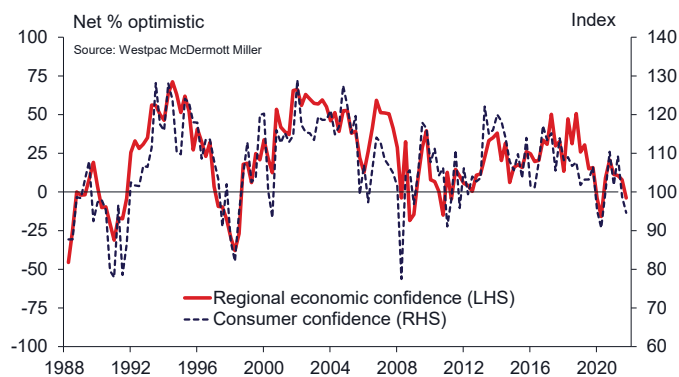
Wellington



Southland



Nelson/Marlborough/West Coast



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