Regional Roundup.

October 2019

Contents.

Contributing authors.

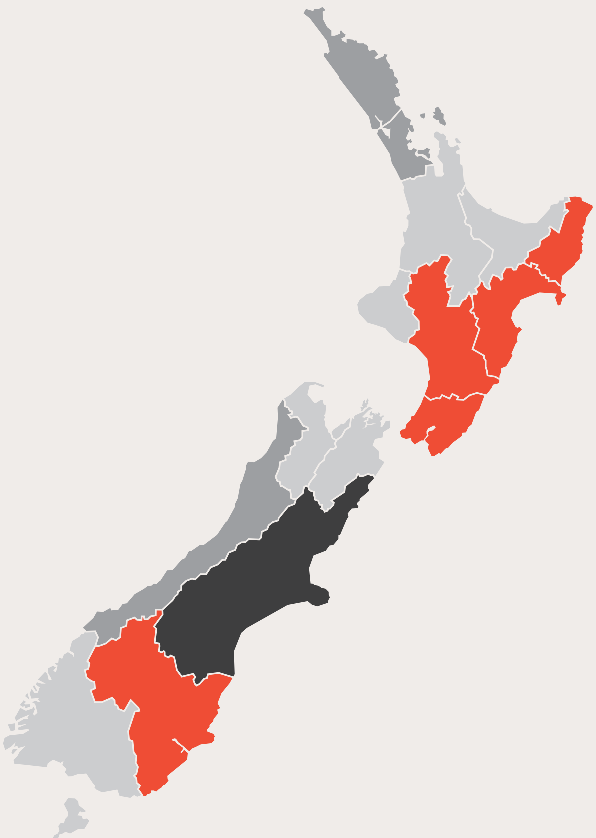
Dominick Stephens, Chief Economist
+64 9 336 5671

Paul Clark, Industry Economist
+64 9 336 5656

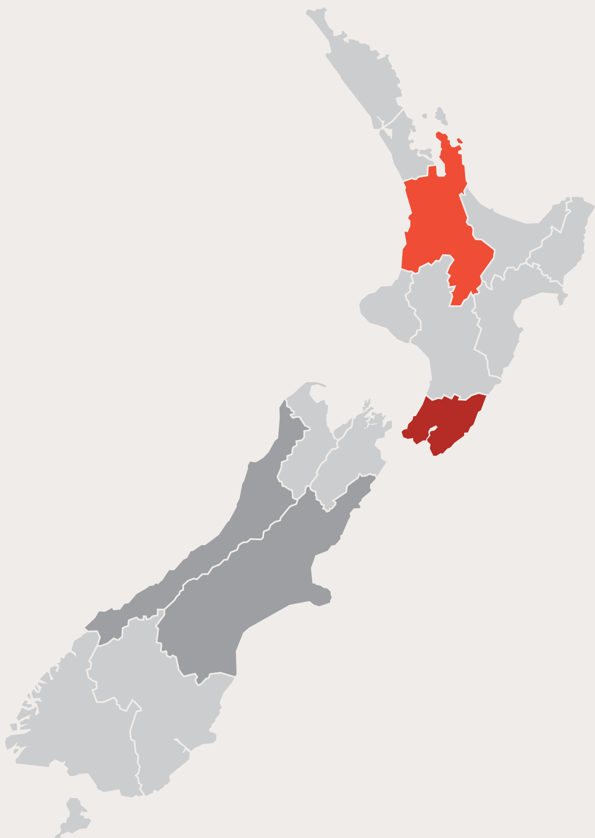
12 month regional outlook.

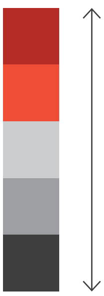
These shaded maps provide a summary of current and future economic growth by region over the next year.

Current situation



Next 12 months



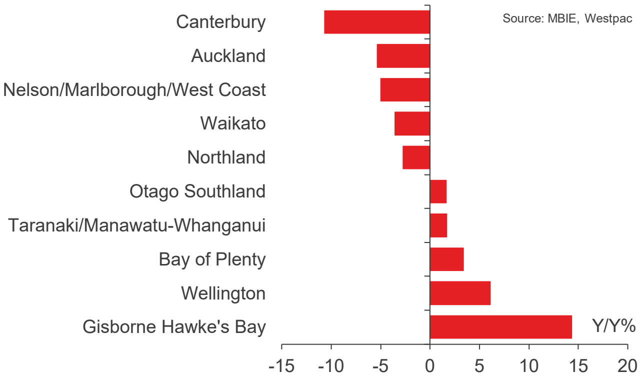


Summary.

The nature of New Zealand's economic slowdown is evolving, and that's affecting the regional makeup of the economy. The smaller, more export focussed regions of New Zealand are still outperforming the big smokes in Auckland and Canterbury, but the margin has narrowed. Over the year ahead, we expect that margin to narrow further.

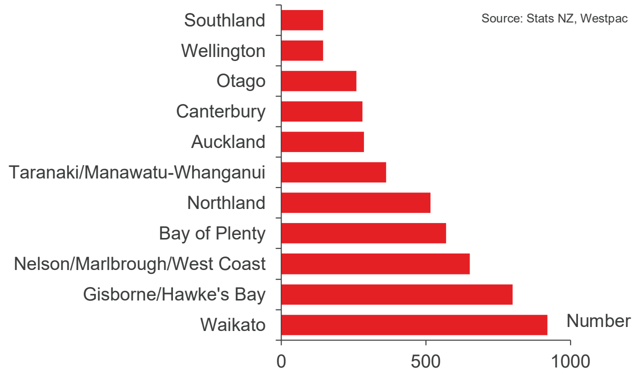
New Zealand's economic slowdown began in 2016, but at first it was mainly a consumer-driven domestic phenomenon. Auckland and Canterbury, which make up half the country, were the most downbeat as their housing markets, and Canterbury's construction sector went into reverse. But more export-oriented regions, particularly those in the lower half of the North Island and Otago, continued to power ahead. There was also a shift in population growth away from Auckland towards other regions, which reinforced the two-speed economy. Meanwhile, Wellington boomed in part due to the change of Government.

Figure 1: Online job vacancies – June 2019



In recent months the slowdown has intensified, and it has changed character. Regions that were previous top-performers are now starting to feel the pinch as New Zealand's key export industries come under pressure. Export log prices tumbled in June and harvesting soon slowed. Some forestry crews are already out of work, and we think more will follow, which could contribute to higher unemployment on the East Coast of the North Island and in Northland. Meanwhile, sentiment in dairy regions such as the Waikato, Taranaki, Manawatu and Southland remains fragile amid ongoing concerns about the impact of government policy. And international tourism has clearly slowed, particularly affecting the South Island's economy. Happily, there are exceptions – horticulture, sheep and beef are still going great guns, which is a soothing balm to the otherwise deteriorating export conditions for regions such as Otago, Hawke's Bay and Gisborne.

Figure 2: Employment – forestry and logging



We think that economic conditions are going to get worse before they get better, especially for regions with big exposures to tourism, dairy, forestry and manufacturing. But nobody will be completely immune to the general economic slowdown. Our recent Regional Confidence survey showed that confidence is down across the whole country.

But looking further ahead, the outlook for GDP growth is more constructive. We expect that ultra-low interest rates are going to cause asset prices to rise, including houses – nationwide house price inflation is forecast to accelerate from 2% now to 7% next year. The turnaround will be felt most acutely in Auckland and Canterbury, where we expect house price inflation to switch from negative to positive. Meanwhile, the long-awaited lift in government spending is under way via transfers to households, higher pay for many state employees, and the provision of additional services. This fiscal stimulus, combined with a stronger housing market, is expected to give consumer spending a shot in the arm.

A recovery in consumer spending would benefit service industries in the cities more than primary industries around the country. Hence our view is that the difference in economic performance between regions will continue to narrow over the year ahead.

Auckland.

Current situation.

Economic activity in Auckland seems to be slowing. Confidence at best remains fragile, fuel prices are elevated, passenger car and commercial vehicle registrations are weakening, and the housing market continues to languish. That said, a recent uptick in house sales off the back of lower mortgage rates and the cancellation of the capital gains tax suggests an improvement in house prices in coming quarters.

Add to this a weakening labour market, evidenced by a pickup in regional unemployment and a big drop in job vacancies, and it is little wonder that spending growth in the province remains weak despite an increase in government transfers to low- and middle-income families.

That said, there are some positive signs. Auckland, which is New Zealand's biggest tourism region continues to attract foreign tourists. It is only one of two regions in the country to have grown international guest nights, while growth in domestic visitor arrivals has also picked up.

Construction activity is booming with building consents having risen to 14,000 in the last year – surpassing the previous peak seen in the 1970s. That includes the building of an increasing number of medium density homes (townhouses, flats, etc).

Outlook.

Economic activity in Auckland is likely to get worse before it gets better and this may lead to a rise in unemployment. However, as the coming year unfolds, we would expect activity levels to improve as lower interest rates and increased government expenditure encourages more household spending.

Lower interest rates and the cancellation of a proposed capital gains tax are expected to bolster house prices in the region. Auckland was particularly impacted by the foreign buyer ban so even though we expect house prices in this region to accelerate from current levels, they will still underperform when compared to other regions in New Zealand.

Meanwhile, manufacturing activity in the region is likely to struggle in the face of strong competition in key export markets, and will be increasingly disrupted by the deepening trade dispute between the US and China. The same is true of the services sector, which is likely to feel the effects of a slowdown in international tourism arrivals.

One of the big drivers of economic activity in Auckland is likely to be the construction. Residential building consents continue to rise hand over fist to address existing shortages, and this should feed into more building work over the coming year. Furthermore, given low interest rates, commercial property yields in the region are now at levels that are likely to encourage non-residential building activity.

Longer term though, we expect slowing migration will cap growth in regional construction activity. After a decade of uninterrupted growth in construction activity, this is likely to feel quite disappointing to some.

Figure 1: Housing market

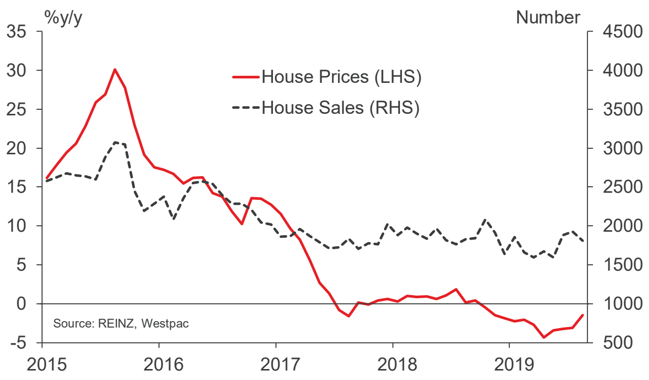


Figure 2: Unemployment rate

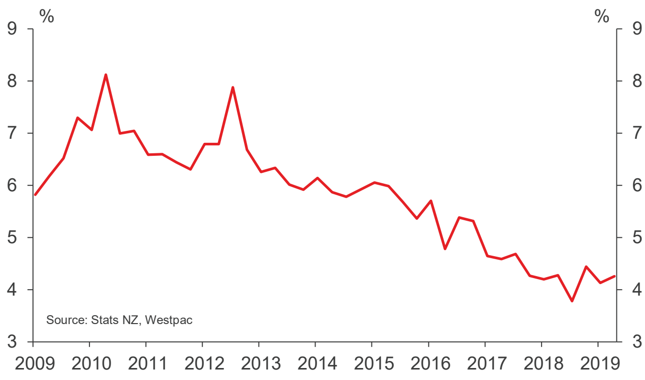
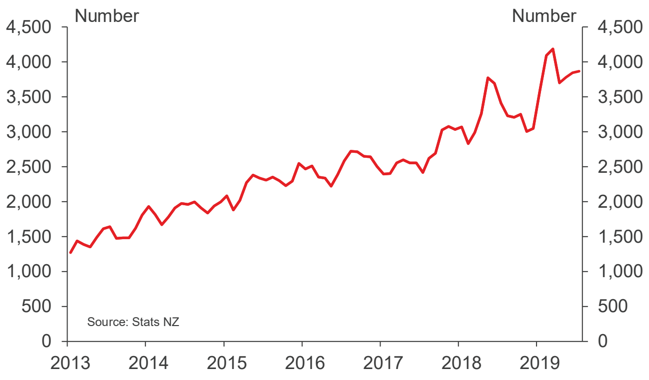


Figure 3: Residential building consents



Bay of Plenty.

Current Situation.

Signs are that economic conditions in the Bay of Plenty are beginning to cool. Although bolstered by increased kiwifruit exports to China and Japan and higher prices for meat, the region has been adversely affected by sharply lower log prices.

Forestry activity had been growing strongly, with big log volumes gains going through the Port of Tauranga. However, with log prices falling sharply in June, harvesting activity in this major forestry and timber producing area has started to slow. Volumes through the port are likely to fall as a result.

Tourism to the region also looks to have softened with annualised international guest nights continuing to track lower compared to a year ago. Despite a recent pickup, spending by foreign and domestic visitors has also slowed markedly.

Notwithstanding the above, the region's economy has still performed well over the past year, driving demand for commercial space and a surge in property development. Unemployment has also tracked lower, although with activity in the region beginning to slow, demand for labour has eased. This might help to explain why confidence in the region has fallen so sharply.

The other reason could be softer house price inflation, which has affected spending. Passenger vehicle and commercial vehicle registrations have been trending lower for some time, while retail spending has slowed markedly over the first half of this year.

Outlook.

Economic activity in the Bay of Plenty is likely to weaken before it improves, as global headwinds weigh heavily on export orientated activity in the region. However, as the coming year unfolds, we would expect economic activity to lift as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key markets are likely to adversely affect tourism, while slightly softer kiwifruit prices and still depressed logs prices could dampen horticultural and forestry activity.

However, the flow on effects for regional unemployment are likely to be small, especially in the region's horticultural sector, which is always short of labour. The same applies for the region's forestry sector, where harvesting operations tend to be large scale, involving big contracting crews that are less likely to lay off workers during a downturn.

On a more positive note, the region's meat farmers should still benefit from increased demand from China, which continues to be affected by the spread of African Swine Flu.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should give the region's housing market a bit of a nudge, with house price inflation expected to pick up. Household spending should be further supported by increased government expenditure on transfer payments and frontline public services.

Figure 1: Tourism spend

Figure 2: Unemployment rate

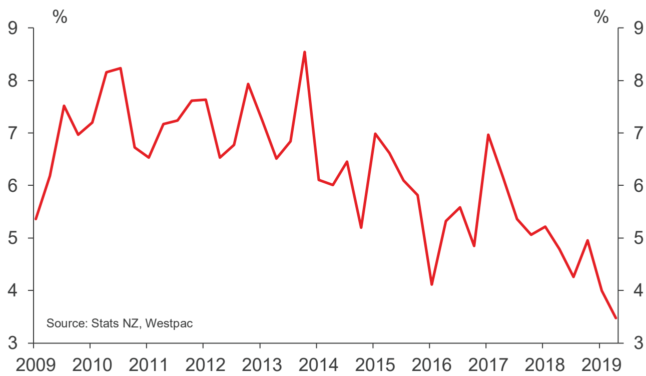
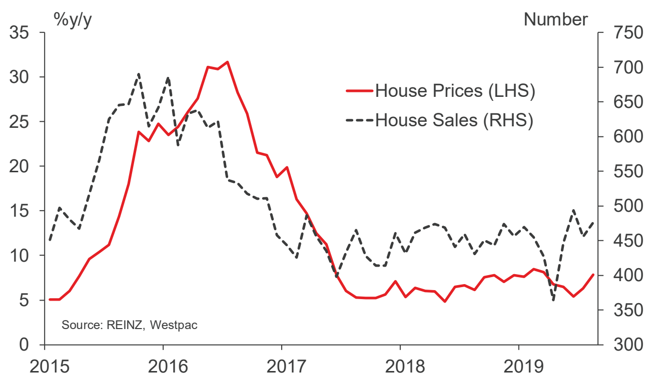


Figure 3: Housing market



Canterbury.

Current Situation.

Economic conditions remain fragile as the local economy continues to re-orientate itself away from reconstruction-led growth. Ongoing concerns about how government policy might affect dairying are unlikely to have lightened the mood, although strong export demand for meat might have given some cause for cheer.

Manufacturing production in the region has been sluggish for some time with latest estimates suggesting a contraction in July. The same applies for services, where arguably the slowdown has been even more marked, in part because of weaker tourism numbers. Both sectors are now staring down the barrel of a slowing global economy.

Unemployment in the region remains relatively volatile, reflecting the fragile nature of region's economy. The long-term decline in construction activity is likely to be a key reason why job vacancies in the region have contracted for 18 successive months. However, weakening demand for labour has broadened out in recent months, with job advertisements in professional services, tourism related industries, and manufacturing all contracting.

On a more positive note, building consent issuance has been trending upwards. Meanwhile, major building projects such as the metro sports facility, convention centre and upcoming stadium are likely to boost the accommodation and tourism related sectors in the future.

In addition, the housing market is showing tentative signs of life, with sales volumes and prices starting to trend higher.

Outlook.

Canterbury is likely to feel the effects of a slowing global economy in coming months, and this should be seen in weaker manufacturing activity and rising levels of unemployment. However, as the coming year unfolds, we would expect economic activity to improve as lower interest rates and increased government expenditure encourages more household spending.

Despite relatively favourable milk prices, farmers are likely to remain cautious about their spending plans. That said, meat farmers in the region should benefit from increased demand from China, which continues to be affected by the spread of African Swine Flu.

Ongoing global uncertainties and weakening economic growth in key source markets is likely to mean that tourism activity in the region will remain under pressure. The resulting slowdown in tourist spending is likely to affect activity in the services sector.

Meanwhile, manufacturing activity is likely to remain weak as activity relating to the rebuild tails off and competition in export markets, disrupted by the deepening trade dispute between the US and China, ramps up.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should help to push house prices higher. Household spending should be further supported by increased government expenditure on transfer payments and frontline public services.

Figure 1: Manufacturing and services performance

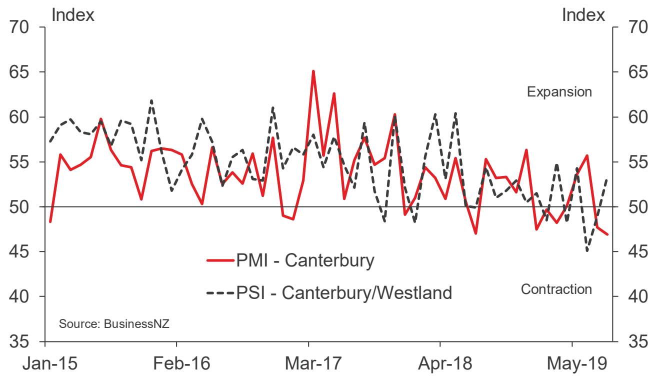


Figure 2: Tourism guest nights

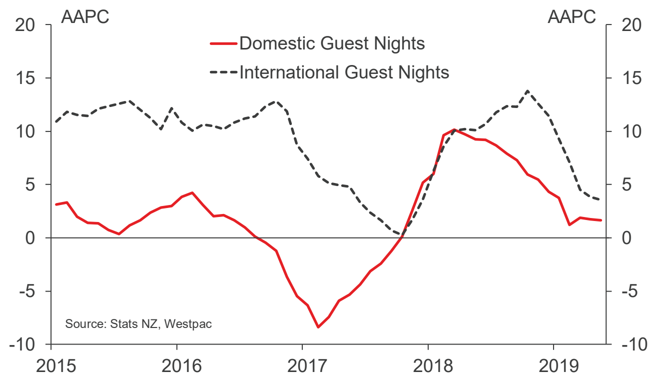
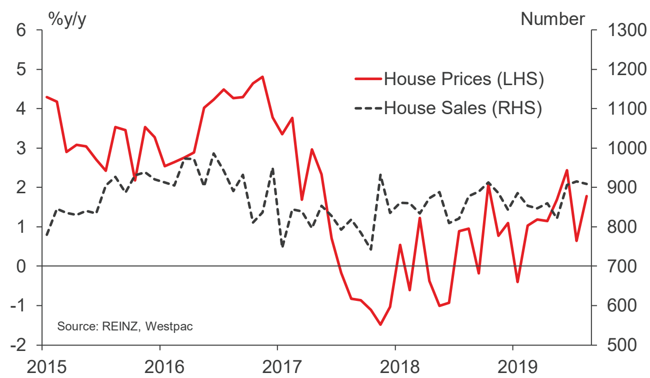


Figure 3: Housing market



Gisborne/Hawke's Bay.

Current Situation.

Economic activity in the Gisborne/Hawke's Bay region was steady this quarter after softening a little last quarter.

The region's horticulture, sheep and beef sectors continue to benefit from strong offshore demand. Meanwhile, forestry growers in the region, who have long benefited from conducive operating conditions, are cutting back on harvesting activity following a sharp drop in log prices.

The region's housing market remains very strong, despite house price growth having trended lower over time. Both Gisborne and Hawke's Bay have seen record lows for new listings and sales volumes have been slowing.

Construction has also been on the move with residential building consents having accelerated upwards in recent months. The region has also benefitted from funding from the Provincial Growth Fund (PGF) for improvements to the Gisborne port and road access to it. Meanwhile large-scale commercial developments continue apace in Hawke's Bay.

Other areas of activity are not quite as positive. Unemployment in the region has begun to pick up, and growth in online job advertisements has eased. Firms are still looking to hire but are being constrained by a lack of available skills. Confidence in the region's economic future has also reversed and consumers are feeling less confident than they were. This is reflected in weaker spending growth, evidenced in part by a slowdown in passenger vehicle sales.

Tourism to the region seems to be performing relatively well with growth in domestic guest nights more than offsetting a contraction in international guest nights. Although having softened in recent months, spending by international tourists continues to be positive, outpacing that of domestic tourists.

Outlook.

Gisborne/Hawke's Bay is likely to feel the effects of a slowing global economy in coming months, and this should be seen in lower prices for several of its key exports. However, as the coming year unfolds, we would expect economic activity in the region to lift as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key markets are likely to mean weaker returns for fruit producers and still depressed log prices. The forestry sector is likely to see job losses as a consequence. Harvesting activity in this region is often small scale, involving small contracting crews that are more sensitive to changing log prices.

On a more positive note, the region's meat farmers are expected to benefit from increased demand from China, which continues to be affected by the spread of African Swine Flu.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax is likely to boost house prices in the region. Household spending should be further supported by increased government expenditure on transfer payments and frontline public services.

However, the extent of any spending gains could be undermined by a rise in unemployment due to a generally slower economy.

Figure 1: Housing market

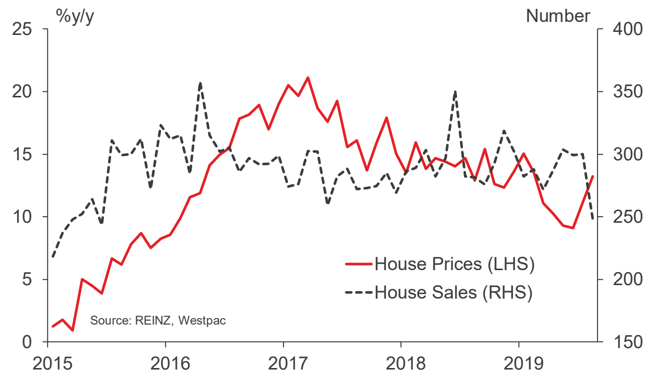
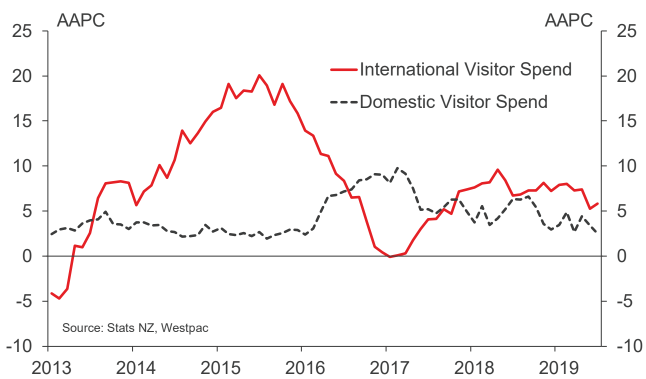


Figure 2: Residential building consents

Figure 3: Tourism spend



Nelson/Marlborough/West Coast.

Current Situation.

Activity across the region is weakening because of flat spending, weaker tourism volumes, deteriorating conditions in forestry and weak sentiment in the dairy sector.

Farmers in the region have benefitted from higher prices for horticultural and meat products. Although weather conditions have resulted in a smaller grape harvest, improvements in grape quality will have gone down well.

However, uncertainties about how government policy might affect dairying, and a sharp drop in log prices more recently, will not have been well received by the region's already anxious dairy farmers and forestry growers.

Tourism too remains firmly on the back foot with guest nights having contracted in recent months. As a result, spending by tourists, both local and international, has continued to edge lower and is now basically at the same level as a year ago.

On a more positive note, the unemployment rate continues to fall and as is usually the case, sits well below the national average. Faced with increasing difficulties finding skilled labour, firms in the region are placing fewer online job advertisements than they were.

House prices in the region are still rising at a fair clip, particularly in places like Marlborough and Tasman, growth has cooled. Meanwhile, sales volumes which had been rising, have also fallen.

Construction also continues to be a positive for the region despite a recent drop in consent issuance. The number of consents approved can be quite volatile from month-to-month, but the underlying trend remains positive and should continue to underpin residential construction activity for the rest of 2019.

Outlook.

Economic activity in this region is likely to weaken before it improves, as global headwinds affect export orientated activity. However, as the coming year unfolds, we would expect economic activity to lift slightly as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key markets are likely to mean softer export prices for kiwifruit and logs, which could dampen activity in the region's horticultural and forestry industries. Wine exports from the region, particularly to the US and the UK, might also be adversely affected by the global slowdown. That said, the region's meat farmers should benefit from increased demand from China, which continues to be affected by the spread of African Swine Flu.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should provide the local housing market with a bit of a boost. Consumer spending should be further supported by increased government expenditure on transfer payments and frontline public services.

However, the extent of any spending gains could be undermined by a rise in unemployment due to weaker operating conditions in key industries as well as a generally slower economy.

Figure 1: Tourism spend

Figure 2: Housing market

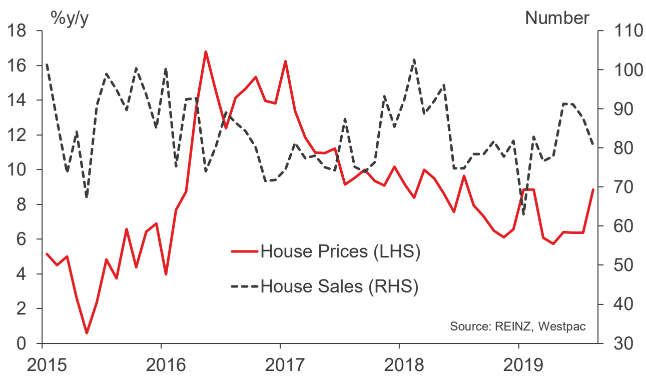
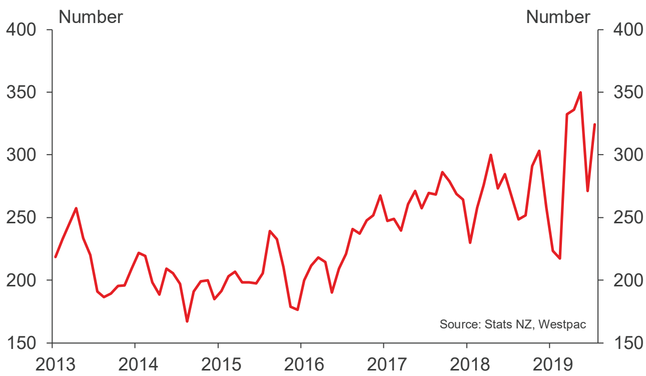


Figure 3: Residential building consents



Northland.

Current Situation.

Economic activity in Northland looks to be slowing despite meat and horticultural prices having held up well recently. Sharply lower log prices are likely to be among the reasons why confidence among Northlanders has dropped markedly.

After having risen in prior quarters, unemployment in the region has again ratcheted down. In part this reflects the impact of government sponsored initiatives targeting youth deemed to be at risk of long-term unemployment. Despite this, unemployment remains high compared to other regions and the number of people in the region on jobseeker benefits has been steadily rising over the past year or so. Demand for labour has also turned decidedly softer, with growth in online job advertisements dipping into the red.

Building activity has lifted with building consent issuance trending higher over the course of 2019. The region's building sector also continues to benefit from funding from the PGF. Meanwhile non-residential consents, mostly for farm buildings, have trended upwards.

Activity in the region is also likely to have been supported by rising house prices, although the pace of growth has been trending lower for some time. Increasing sales volumes more recently suggests stronger buyer demand going forward.

Tourism activity in the region has remained relatively flat with a pickup in domestic visitors effectively offsetting a decline in international guest nights. Tourism spending also remains subdued. The naming of Northland and the Bay of Islands as a top visitor destination in the Asia Pacific region by The Lonely Planet should have some positive spinoffs over the coming year.

Outlook.

Northland is likely to feel the effects of a slowing global economy in coming months, and this should be seen in lower prices for its key exports and rising levels of unemployment. However, as the coming year unfolds, we would expect economic activity to lift slightly as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key markets are likely to mean weaker returns for kiwifruit producers and still depressed log prices. The forestry sector is likely to see job losses as a consequence. A fair amount of harvesting activity in this region is small scale, involving small contracting crews that are more sensitive to changing log prices.

On a more positive note, the region's meat farmers should still benefit from increased demand from China, which continues to be affected by the spread of African Swine Flu.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should help to bolster the local housing market. Consumer spending should be further supported by increased government expenditure on transfer payments, frontline public services, and the roll out of PGF funded projects.

However, the extent of any spending gains could be undermined by a rise in unemployment due to weaker operating conditions in the forestry sector and a generally slower economy.

Figure 1: Unemployment rate

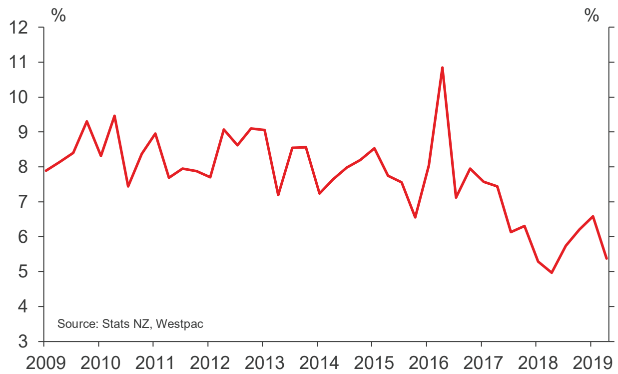


Figure 2: Housing market

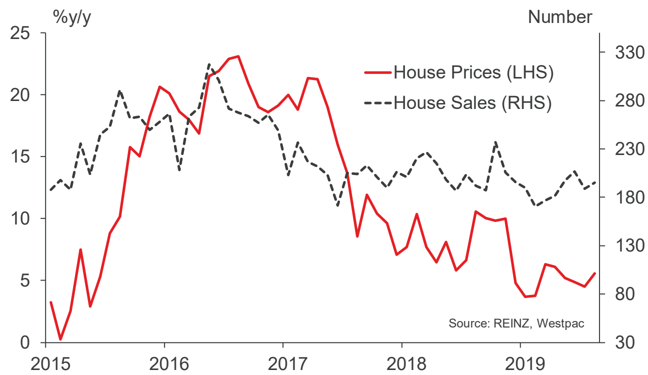


Figure 3: Tourism spend

Otago.

Current Situation.

Economic activity in Otago looks as if it's come off the boil. That is despite higher prices for meat, pip and stone fruit, which are likely to have benefitted farmers and growers in the region. However, uncertainties about how government policy might affect dairying will have increased anxiety levels among local farmers.

The construction sector is being kept busy by ongoing commercial projects in Dunedin, including those at the University of Otago. Meanwhile, building consent issuance seems to have stabilised at reasonably high levels after some volatility earlier this year.

Tourism activity has been slowing, with annualised growth in international guest nights having dipped into the red. However, that excludes visitors arriving in Port Chalmers by cruise ship and an increase in the people staying at local bed and breakfast establishments. Spending by international and domestic visitors to the region has also slowed markedly.

The region's labour market is also showing signs of softening with growth in online job vacancies having slowed. Weaker demand for labour is likely to reflect a drop in manufacturing activity and a stuttering performance from the services sector.

House price inflation has been slowing for some time, while sales volumes have generally trended lower. A slowing housing market coupled with weaker spending by tourists may explain why growth in retail sales has only just managed to stay in the black.

Outlook.

Otago is likely to feel the effects of a slowing global economy in coming months, and this should be seen in weaker tourism activity, sluggish manufacturing and softer prices for key exports. However, as the coming year unfolds, we would expect economic activity to lift as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key source markets are likely to dampen tourism to the region. The resulting slowdown in tourist spending is likely to be more significant in this tourism dependent region than in other regions. The Central Lakes district is likely to be hardest hit.

Meanwhile, manufacturing activity is likely to remain weak in the face of strong competition in export markets, as well as disruptions stemming from the deepening trade dispute between the US and China. These global headwinds are also likely to mean softer export prices for pip and stone fruit. That said, the region's meat farmers should benefit from increased demand from China, which continues to be affected by African Swine Flu. Despite relatively favourable milk prices, farmers are likely to remain cautious about their spending plans.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should help to bolster the local housing market, with house price inflation set to catch a second wind. Spending should be further supported by increased government expenditure on transfer and frontline public services.

However, the extent of any spending gains could be undermined by a rise in unemployment due to weaker activity in the manufacturing and tourism sectors.

Figure 1: Residential building consents

Figure 2: Tourism spend

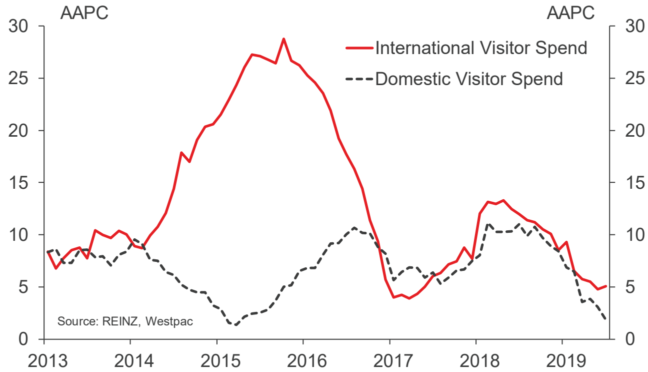
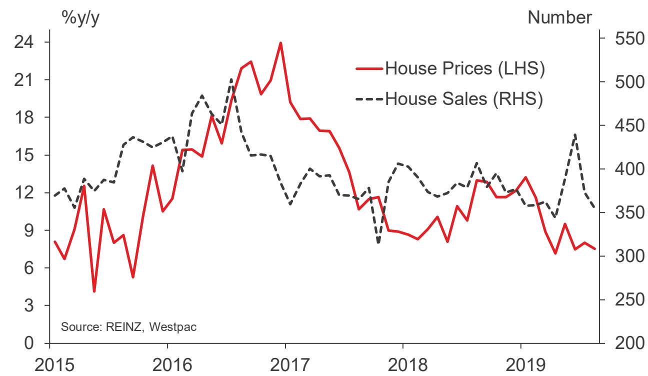


Figure 3: Housing market



Southland.

Current Situation.

Economic activity in Southland is flattening off. In large part this reflects a decline in manufacturing activity and a mixed performance from the region's services sector. Ongoing uncertainties about how government policy might affect dairying are unlikely to have helped matters, although the meat sector is doing well.

The region is also struggling with a slowdown in tourist numbers, although on an annualised basis, growth in both international and domestic guest nights remains marginally positive – the only region outside of Auckland to achieve this feat.

The local housing market continues to outperform, and Southland remains the only region is the country showing a steeply positive growth trajectory. The market continues to benefit from favourable price differentials and low inventory levels. That said, sales volumes have been trending lower for some time.

The same applies for construction activity, which is set to benefit from a recent surge in building consent issuance. Plans to demolish an entire central city bloc in Invercargill to make way for a retail and office development augurs well for future non-residential building activity.

The region also continues to experience very low levels of unemployment. However, other indicators suggest that demand for labour is slowing. Growth in online job vacancies has fallen markedly in recent months, and this is likely to be because of weakness in manufacturing activity and a stuttering performance from its services sector.

Low unemployment, still positive tourist numbers and a strong housing market, have all contributed to a pickup in retail sales. At the same time, both passenger and commercial vehicle sales have also edged higher.

Outlook.

Southland is likely to feel the effects of a slowing global economy in coming months, and this should be seen in weaker tourism activity and softer prices for some of its key exports. However, as the coming year unfolds, we would expect economic activity to lift slightly as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key markets are likely to mean that growth in tourist arrivals from abroad will continue to slow. And, much like its neighbour, the resulting slowdown in tourist spending is likely to be more significant in this tourism dependent region than in other regions, with effects being felt across the services sector.

Despite relatively favourable milk prices, farmers are likely to remain cautious about their spending and expansion plans. However, the region's meat farmers should benefit from increased demand from China, which continues to be affected by the spread of African Swine Flu.

Meanwhile, manufacturing activity in the region is likely to struggle in the face of strong competition in export markets, and disruptions related to the deepening trade dispute between the US and China. Not all manufacturing, however, is likely to come under the cosh, with elevated levels of building activity in and around Invercargill expected to boost demand for building materials and products.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should help to bolster the local housing market, with house price inflation likely to remain elevated. Spending should be further supported by increased government expenditure on transfer and frontline public services.

However, the extent of any spending gains could be undermined by a rise in unemployment due to weaker operating conditions in the manufacturing and tourism sectors.

Figure 1: Tourism guest nights

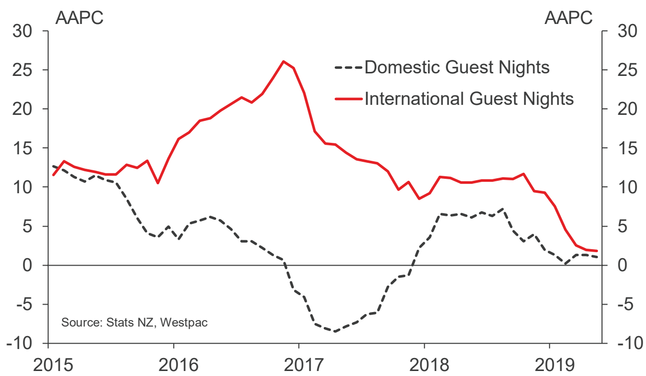
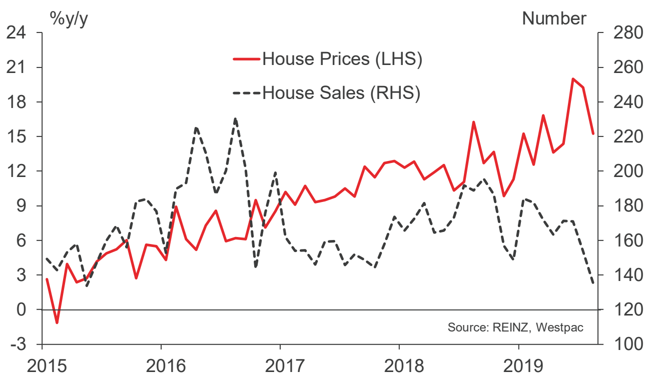


Figure 2: Housing market



Taranaki/Manawatu-Whanganui.

Current Situation.

Overall activity levels in this region seem to be consolidating after having plunged in the previous quarter. The region is likely to have benefitted from elevated prices for meat, although uncertainties will have dampened sentiment in the dairy sector. Ditto for log prices, which have contracted sharply over the past month, although log volumes through the Port of Taranaki have still been growing.

Recent developments in Taranaki's oil and gas industry, including a pickup in exploration activity in the Tui field and the return of Methenex to full production, will have buoyed spirits in the region. So too, confirmation of the soon-to-be established New Energy Development Centre, which will focus on bridging the gap between the region's current energy production mix and its future one.

Residential consent issuance has remained elevated, reaffirming an underlying positive trajectory in construction activity. Strong issuance activity has been evident in the Whanganui-Manawatu region, underpinned by an increase in retirement village developments. Taranaki's growth has also been helped by a sustained increased in non-residential consents.

Tourism continues to weaken, mainly because of a contraction in international guest guests. It has, however, been supported by an increase in domestic guest nights, although the pace of growth has eased over the past month or so. Annualised spending by tourists visiting the region remains relatively healthy, although there has been a marked slowdown in growth in 2019.

The big positive for the region has been the housing market, which is on fire. The Manawatu-Whanganui region, in particular, has been an outperformer over the past year, and currently has the second highest house price growth rate in the country, Taranaki has been no slouch either, and although prices have not grown quite as fast, growth has been ramping up in recent months.

Outlook.

Economic activity across this diverse regional grouping is likely reflect the effects of a slowing global economy in coming months, and this should be seen in softer prices for some of its key exports. However, as the coming year unfolds, we would expect economic activity to lift slightly as lower interest rates and increased government expenditure encourages more household spending.

Ongoing global uncertainties and weakening economic growth in key markets are likely to mean still depressed prices for logs, which could dampen activity in the forestry sector. Flat crude oil prices and slowing output levels are also likely to slow economic activity in Taranaki. Despite relatively favourable milk prices, the region's dairy farmers are likely to remain cautious about their spending plans. Meanwhile, meat farmers should benefit from increased demand from China, which continues to be affected by African Swine Flu.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should help to keep house price inflation at elevated levels. Spending should be further supported by increased government expenditure on transfers and frontline public services as well as additional investments associated with transitioning Taranaki away from fossil fuels.

Figure 1: Residential building consents

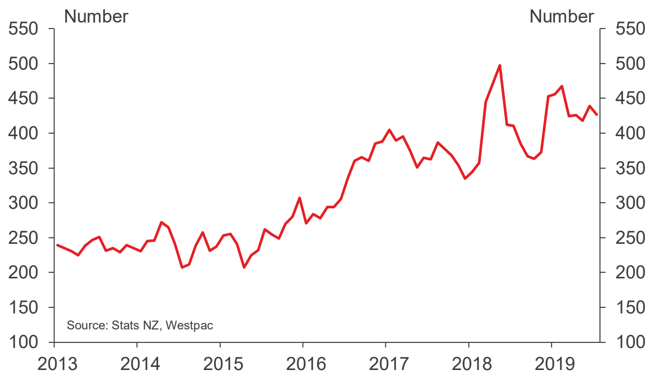


Figure 2: Tourism spend

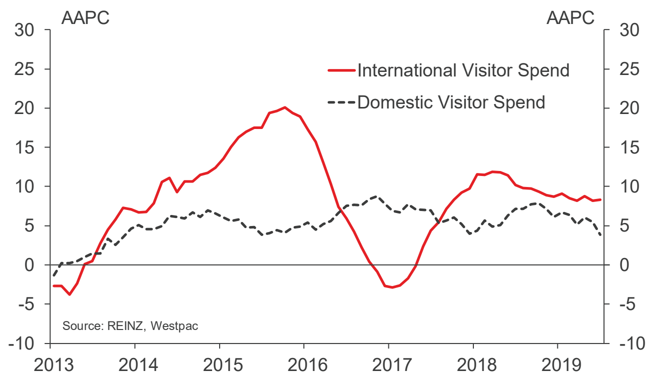
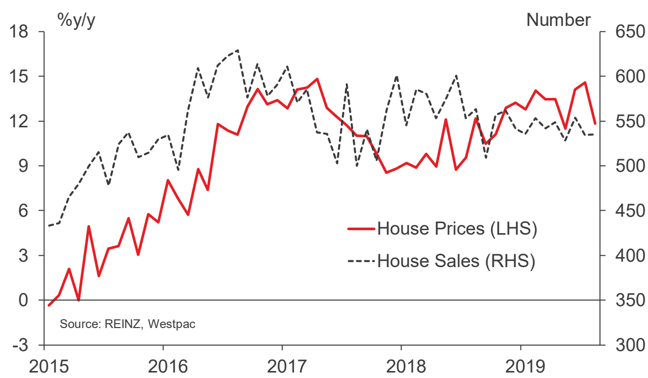


Figure 3: Housing market



Waikato.

Current Situation.

Activity in Waikato is cooling after a sustained period of gains. Ongoing uncertainties about how government policy might impact dairying will have increased anxiety levels among farmers in this major dairy producing region, while the sharp fall in forestry log prices in June will have affected harvesting activity.

The region remains an attractive option for new firms, given its proximity to Auckland and Tauranga. This is particularly true for Hamilton, with many new firms setting up shop in its Rotokauri and Te Repa industrial parks. The region continues to attract firms involved in food processing, financial services and IT, while Hamilton's CBD is filling up with new restaurants and bars.

Builders are also busy. Building consent issuance remains at elevated levels, which augurs well for future building activity. Non-residential consents are also on the rise, mostly because of an increase in farm buildings and new industrial buildings.

House price inflation in the region has slowed sharply in recent months, although big gains are still to be had outside of Hamilton City, particularly in places like Waipa, Otorahanga and South Waikato districts. Meanwhile, sales volumes have moved largely sideways.

Tourism has also slowed, but only marginally. The region continues to benefit from visitors from other parts of the country, which have more than offset a drop in international tourist numbers. It's likely that the region is benefitting from being the gateway between Auckland and the rest of the country. Unlike most other regions, growth in tourism spending has edged higher recent months.

Outlook.

Economic activity in the Waikato is likely to weaken before it improves, as global headwinds affect export orientated activity in the region. However, as the coming year unfolds, we would expect economic activity to lift as lower interest rates and increased government expenditure encourages more household spending and a rise in business investment.

Ongoing global uncertainties and weakening economic growth are likely to ensure that log prices will remain soft, which may mean less harvesting activity in the region. However, the impact on unemployment in the region is likely to be small given that most harvesting activity in this region is large scale, involving big contracting crews that are less likely to lay off workers during a downturn. Despite relatively favourable milk prices, farmers are likely to remain cautious about their spending and expansion plans.

At the same time, increasing global headwinds affecting key source markets should mean fewer visitor arrivals from abroad. Weaker spending by tourists is likely push up unemployment in related sectors.

On the domestic front, sharply lower interest rates and a decision by the Government not to proceed with a capital gains tax should mean that house price inflation will pick up from current levels. Spending should be further supported by increased government expenditure on transfers and frontline public services.

However, the extent of any spending gains could be undermined by a rise in unemployment due to a generally slower economy.

Figure 1: Residential building consents

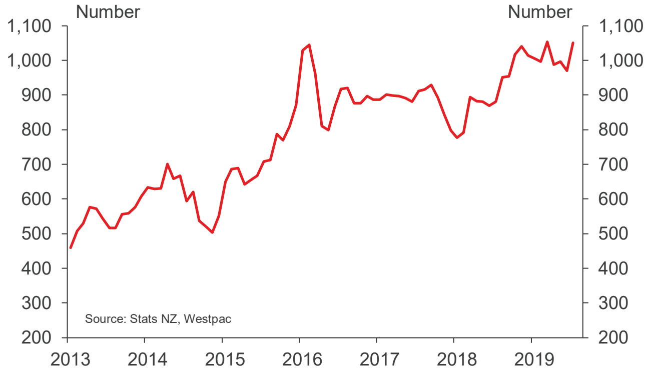


Figure 2: Housing market

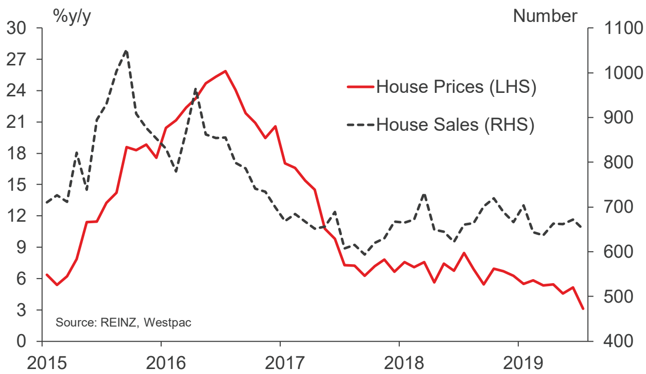
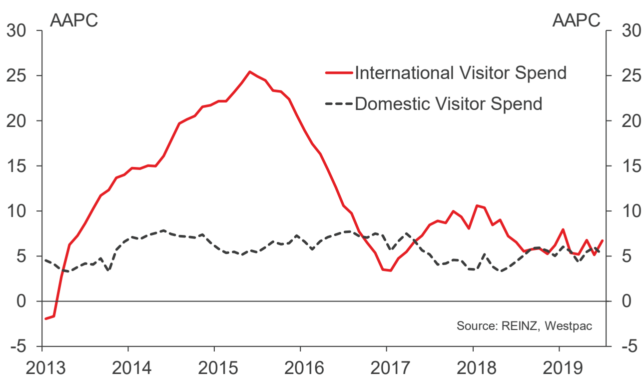


Figure 3: Tourism spend



Wellington.

Current Situation.

After having previously picked up a head of steam, Wellington's economy looks like it might be taking a bit of a breather.

Despite a relatively strong economic performance, people in the region are increasingly feeling less confident about the future. Reasons are likely to include well-publicised problems with the region's transport system, rising rents in the capital and changes to risk-based underwriting for property and contents insurance in this natural disaster-prone region.

The region's housing market might also be creating some jitters. The pace of house price growth has begun to slow markedly while sales volumes have been a bit up and down.

That said, there are several reasons why Wellingtonians should be feeling positive. Not least of these is the labour market, which continues to power ahead with job vacancies still going strong. In part, this reflects a ramp up in Government spending on public services, and a consequential increase in hiring. Employment gains have, however, been broad based, with sectors like construction and IT also hiring more people.

Increased demand for labour is also reflected in greater demand for commercial office space and industrial buildings, which has contributed to strong price growth.

Construction firms in the region still have full order books. Recent data suggests that despite edging lower, building consents remain elevated, mainly because of sustained demand, driven by an ongoing housing deficit in the region. Indeed, the current pace of consents issuance is unlikely to meaningfully reduce Wellington city's deficit of about 3,800 houses, which suggests stronger construction activity in the future.

Tourism has slowed, weighed down by a contraction in international guest nights. However, domestic guest nights continue to grow strongly, and this is reflected in tourism spend in the region.

Outlook.

Economic activity in Wellington is expected to remain upbeat, in large part because of spending by the Government on frontline public services and the public service in general. This will have ripple effects through the region's economy, affecting not just government, but also industries that provide goods and services to the public sector.

Sharply lower interest rates with the likelihood of more to come, and a decision by the Government not to proceed with a capital gains tax is likely to provide the local housing market with a second wind over the course of the coming year. Consumer spending should be further supported by increased government expenditure on transfers and frontline public services as well as increased investment in regional infrastructure.

Gains in household spending should also be supported by a strongly performing labour market. However, with unemployment having already trended lower for some time, further increases in employment are likely to be modest.

Construction activity should remain elevated for a while yet as the region looks to address a persistent housing shortage. Low interest rates are likely to make property development an attractive option. However, as population growth eases over time, the pressure for new dwellings should eventually weaken, implying less building activity longer term.

Figure 1: Housing market

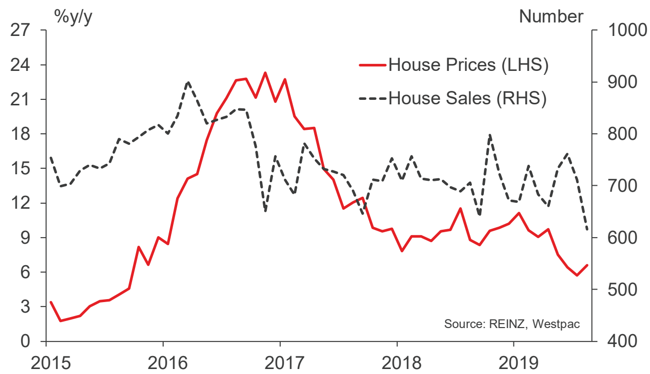


Figure 2: Unemployment rate

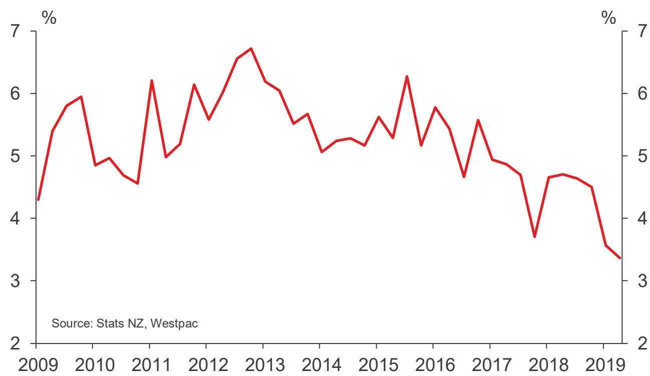
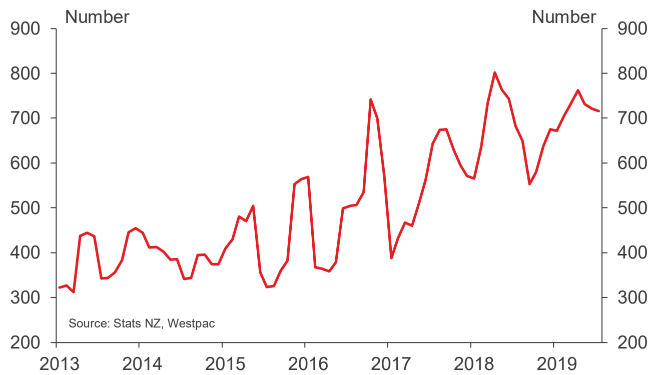


Figure 3: Residential building consents



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

Paul Clark, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Disclaimer.