Regional Roundup.

January 2021

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Summary.

New Zealand has started an economic recovery following a series of lockdowns earlier in the year. However, at a regional level, recovery rates differ quite markedly. Regions that have been less affected by Covid-19 have recovered quickly and activity levels, to a greater or lesser extent, are close to where they were prior to when the pandemic hit. In contrast, regional economies more affected by the disease are on a longer road to recovery. We expect that the performance gap between regions that lead and those that lag will close over the course of 2021.

The severity of the post-lockdown recession, and the pace of recovery, has differed depending on the makeup of each region. Regions with a large rural backbone were less affected by Covid-19 and are currently operating at levels close to where they were pre-pandemic. In contrast, regions with big population centres, like Auckland, Wellington, and Canterbury, were affected more severely. Activity in these regions is now recovering but is still below pre-Covid levels. Worse off still are regions that place a heavy emphasis on foreign tourists. That includes Otago, which has been hardest hit by the loss of visitor arrivals from abroad and faces the biggest economic struggle of any region in the country.

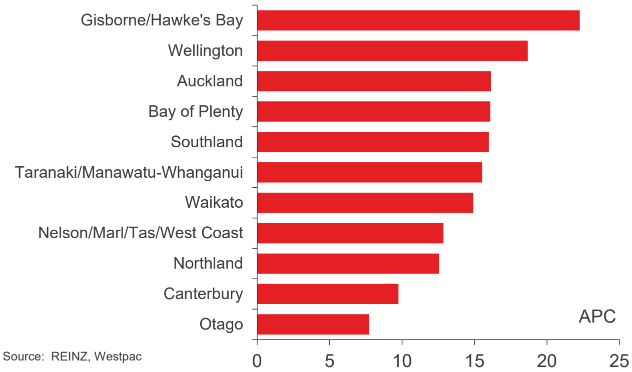
Regions that are heavy on agriculture and forestry continue to be the strongest performing regions in New Zealand. That includes the Bay of Plenty, Gisborne/Hawkes Bay and Northland, all of which have benefitted from a strong horticultural season and slightly better prices for logs. For some, viticulture has been a big earner, mainly because of strong demand for competitively priced wines coming out of New Zealand, while other regions continue to reap the benefits of elevated prices for meat and dairy products. Our expectation is for more of the same over the coming year.

Some of these regions have also benefitted from the fact that they place very little reliance on foreign tourism. Indeed, some have hardly felt the impact of the closure of the border on foreign visitor arrivals, with an increasing number of Kiwis, put off from going abroad, opting to visit other regions instead. Of course, that's not true for places like Auckland and Otago, which have felt the loss of foreign visitor arrivals more acutely than most.

The roaring strength of the housing market in response to low interest rates has helped to boost household spending and an economic recovery in all regions. That is particularly true for some of our big metropolitan regions, specifically Auckland and Wellington. Canterbury is a bit of a laggard in this regard, but we should see bigger gains coming through over the course of the next year.

With more ground to cover, we expect that the big urban centres will see the strongest growth in 2021, which in turn will narrow the performance gap with high-flying rural regions. The red-hot housing market will be a big part of that as house price gains will tend to support household spending.

Figure 1: Median house price growth – November 2020



Source: REINZ, Westpac

Regions with a large rural backbone are also going to perform well over the coming year, with both farmers and growers set to benefit from strong demand in key export markets as well as firm pricing. In turn that should support rural incomes and more spending in our smaller towns. One fly in the ointment might be possible labour shortages due to the closure of the border.

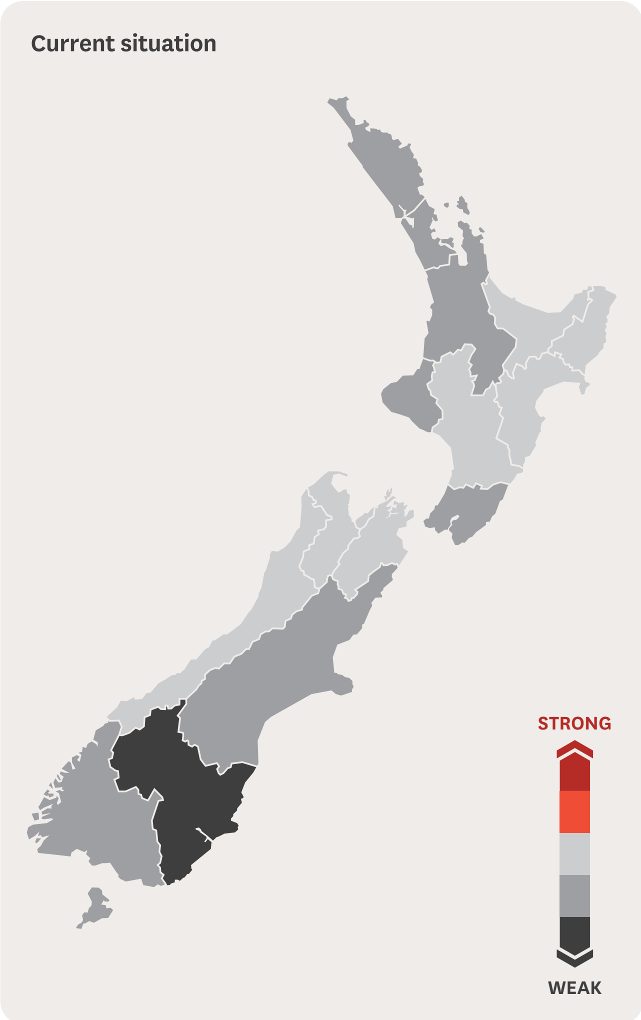
An expected lift in household spending should support regions that either have a large manufacturing base or are a distribution hub, such as Auckland, Canterbury, Palmerston North and Tauranga. They will also benefit from a big shift towards online shopping, although this is likely to be detrimental to town and city centres.

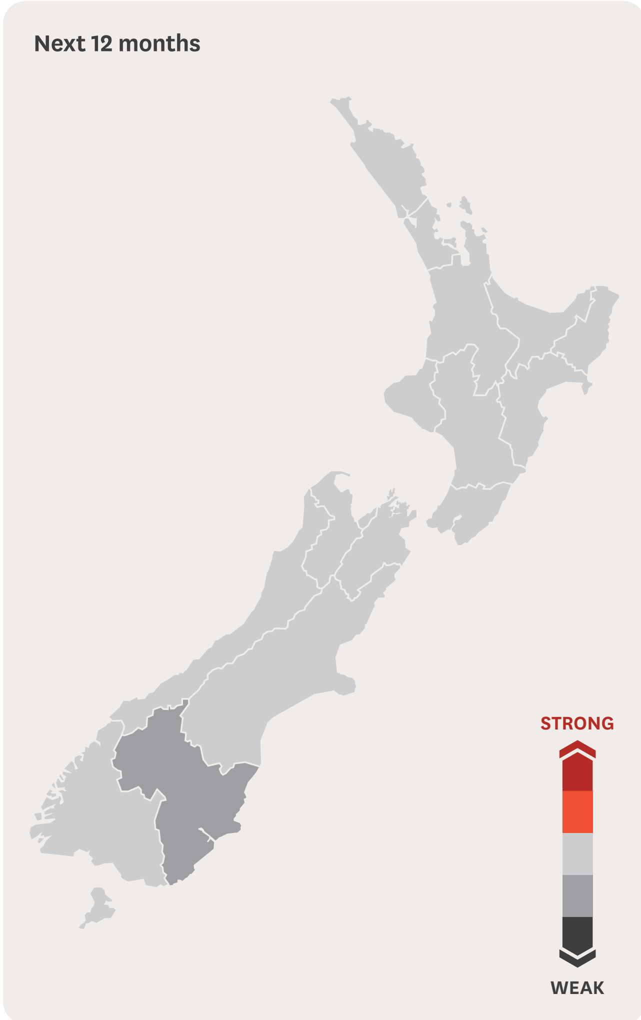
While all regions should benefit from a proposed travel bubble with Australia in early 2021, it's likely to favour those that have been most affected by the loss of foreign tourist arrivals, such as Otago Southland, and Auckland. These regions are also likely to benefit most from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

Boiling this complicated picture down to a single outlook for each region gives us the picture overleaf. The outlook is generally weakest in the southern part of the South Island, while the top of the North, is likely to be the strongest. However, the largest gains are likely to be seen in the big metropolitan regions.

12 month regional outlook.

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





Auckland.

Current situation.

Economic activity in the Auckland has been heavily affected by Covid-19, but is now well on the path to recovery.

Nowhere is the recovery more evident than in Auckland's red-hot housing market. House prices, which had been gaining momentum before Covid-19 struck, have since re-accelerated, with record low interest rates being the key driver.

A re-invigorated housing market has, in turn, supported consumer spending, which is now back at pre-Covid levels. It's also likely that Aucklanders, who may have spent large on overseas holidays in normal years, have instead flashed the cash on durable household goods and property renovations.

The loss of foreign visitor arrivals has been a big deal for this major tourism region. The subsequent loss of spending has been felt acutely by firms in tourism related industries, such as travel services and hospitality, some of which have been forced to close with resultant job losses. The situation has been made worse by a significant fall in domestic business travel to the region, as well as the loss of international fee-paying students.

Manufacturing activity in the region has shown signs of recovery, although it continues to face ongoing supply chain difficulties, mainly relating to shipping. Optimism may also have been dented by recent news that NZ Steel's operations at Glenbrook, south of Auckland, are to be restructured.

Meanwhile construction activity in the region has picked up, but much of this has to do with the resumption of activity following the earlier lockdown. Continued growth in residential building consents augurs well for future construction activity over the medium term.

Outlook.

Auckland's economic recovery will continue over coming quarters, and this will help it to close the gap on other regions that have been less affected by Covid-19.

Indeed, the region is likely to be one of those that benefits most from the proposed travel bubble with Australia in early 2021. This is expected to provide a big shot in the arm to the local hospitality industry. The region is also likely to be among those that benefits most from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

Another major factor that will underpin the region's economic performance is likely to be the housing market, with low interest rates expected to translate into strong house price gains over the coming year. While rising house prices are a source of social concern, they are associated with higher consumer spending, so demand in this region is likely to firm up.

Increasing domestic demand should provide the region's large manufacturing sector with a big shot in the arm. Improving global economic conditions are also likely to provide the region's exporting manufacturers with some cause for cheer.

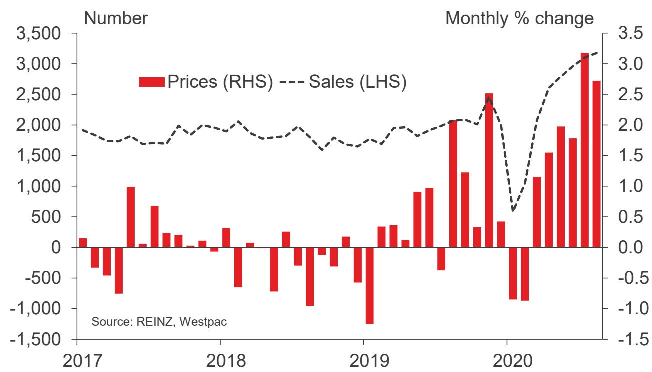
The region also stands to benefit from the accelerated adoption of new digital technologies in the wake of Covid-19. Retailing is continuing to move away from bricks-and-mortar shops towards internet sales and direct-to-consumer distribution. That's likely to favour big population centres like Auckland that have well developed freight distribution hubs.

Manufacturers in the region should benefit from digital technologies in other ways. Indeed, they are already using them to re-engineer processes and transform supply chains. Given the size, scale, and scope of business activities in Auckland, manufacturers in the region are better positioned than most to benefit from resulting productivity gains.

Meanwhile, activity in the residential building sector is likely to remain elevated over the course of the next year, with ongoing housing shortages and a strong housing market expected to offset the dampening effect of weaker population growth.

Figure 1: Visitor spending

Figure 2: Housing market



Bay of Plenty.

Current situation.

The Bay of Plenty's economy has proven resilient in the face of Covid-19. In the main that is because of the export performance of its large horticultural sector, which was able to operate as an essential industry even when restrictions on activity were in place elsewhere.

The lifting of these restrictions has further spurred economic activity in the region. The region's large forestry sector, for example, is now running at full capacity to meet the demands of a resurgent Chinese economy. And with demand having firmed, so too have log prices.

House prices in the region, underpinned by record low interest rates, have accelerated sharply, while rising sales volumes suggest robust market activity. This, in turn, has supported spending in the region, with retail sales rebounding strongly.

Meanwhile, residential construction activity has recovered most of its earlier drop. Residential building consents applications, however, have trended lower in recent months, suggesting softer activity ahead.

The region's tourism sector has struggled, with a post lockdown pickup in spending by Kiwis visiting from other regions not being large enough to offset the loss of international visitor arrivals. The resulting closure of businesses in tourism related industries has led to some job losses, which in turn has contributed to a tick up in regional unemployment.

Outlook.

The Bay of Plenty will continue to be one of the top performing regions in the country over the coming year.

Key here will be the performance of the region's agricultural sector, which is expected to do well. Indeed, growers in the region are expected to benefit from still strong demand for kiwifruit in key export markets, which should keep prices at elevated levels. In turn, that should support spending in the region.

A possible spanner in the work could be labour shortages. Although a perennial problem, the closure of the borders to seasonal workers because of Covid-19 could threaten next year's harvest if left unresolved. The Government's announcement that it will allow 2,000 horticulture workers from the Pacific to enter New Zealand, albeit under strict conditions, has been warmly welcomed by growers in the region.

The outlook for the region's forestry sector is also looking positive, with a fast recovering China expected to lead log prices higher over the coming year.

Meanwhile, the region's housing market should continue to perform well, with record low interest rates to be the key driver of activity in the market. By contrast, weaker population growth is set to slow construction activity over the coming year.

The region also stands to benefit from the accelerated adoption of new digital technologies in the wake of Covid-19. Retailing is continuing to move away from bricks-and-mortar showrooms towards internet sales and direct-to-consumer distribution. That is negative for the vibrancy of smaller town centres, but could favour places like Tauranga which has set itself up as a low-cost transport/distribution hub.

Figure 1: House prices and sales volumes

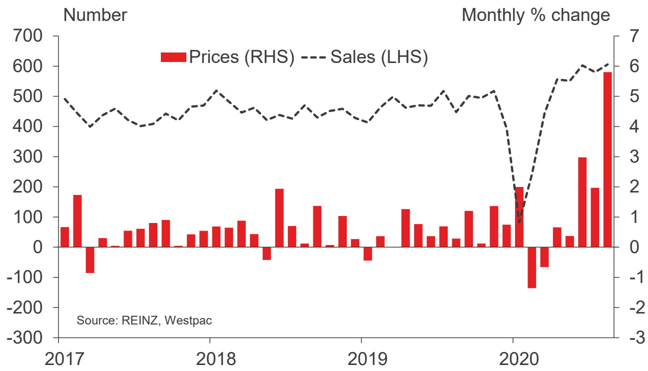


Figure 2: Retail sales

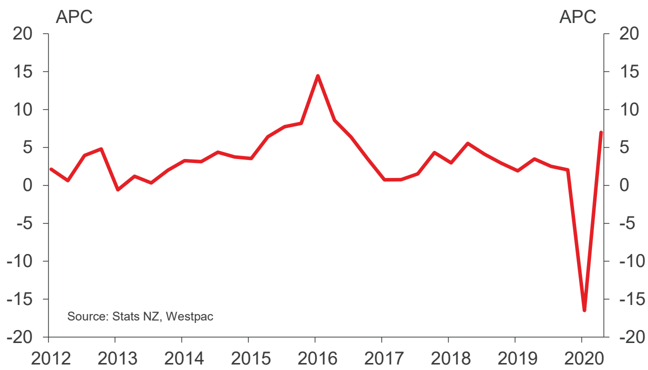
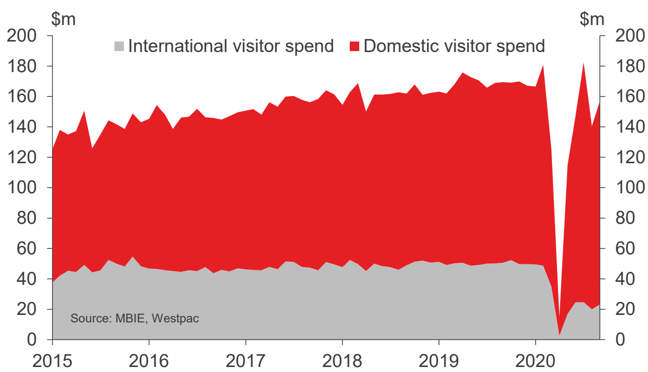


Figure 3: Visitor spending



Canterbury.

Current situation.

Economic activity in Canterbury has been mixed. The rural parts of the region are doing relatively well, while the urban and tourism focused parts are facing greater challenges.

Meat and dairy farmers in the region have benefitted from the returning strength of the Chinese economy, which has helped to support prices and farmgate incomes.

By contrast, tourism has been hard hit by the closure of New Zealand's borders, with a pickup in spending by domestic visitors falling well short of what is needed to offset the loss of international tourists and business travellers. As a result, many of the region's travel service providers, bars, and restaurants have found themselves under pressure. Some have been forced to close, with resulting job losses contributing to a tick up in unemployment.

However, activity in the manufacturing sector has bounced back strongly after having been locked down earlier in the year. That reflects the catching up of "lost" production as well as a pickup in local demand. Supply chain difficulties, which relate mainly to shipping, remain a key concern for manufacturers in the region.

Meanwhile, house prices in the region, underpinned by record low interest rates, have picked up sharply, although in relative terms gains remain modest when compared to most other regions. Sales volumes have also picked up, which augurs well for house prices in the future.

Developments in the housing market have helped to propel spending in the region, with retail sales rising strongly after the earlier lockdown on economic activity.

Outlook.

Canterbury's recovery will continue over coming quarters, and this will help to close the gap on other regions less affected by Covid-19.

The region is likely to get a boost from the proposed travel bubble with Australia in early 2021, which will provide a big shot in the arm to the local hospitality industry. The region is also likely to be among those that benefit from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

Also important will be the ongoing success of agriculture in key export markets. Dairy and meat farmers in the region should continue to benefit from demand from a fast recovery Chinese economy over the coming year. Still elevated prices are likely to be reflected in farmgate incomes.

A big positive for the region is likely to be the housing market, with record low interest rates and relatively low prices compared to other major metropolitan regions expected to translate into stronger house price growth over the coming year. That in turn will support household spending. By contrast, weaker population growth is set to slow construction activity over the coming year.

Strong domestic demand should also be good news for the region's big manufacturing sector, while improved global economic fortunes are likely to provide some cause for cheer for the region's exporting manufacturers.

Figure 1: Housing market

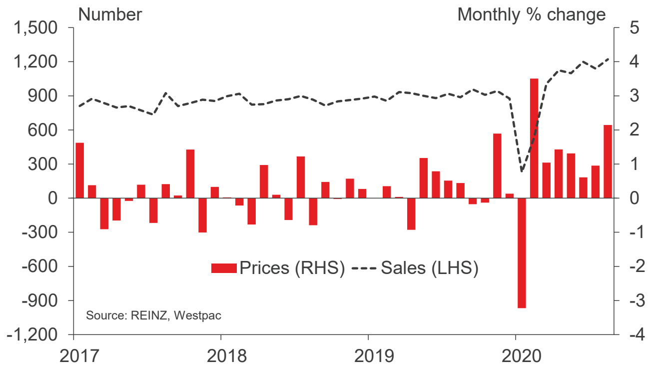


Figure 2: Manufacturing and services activity

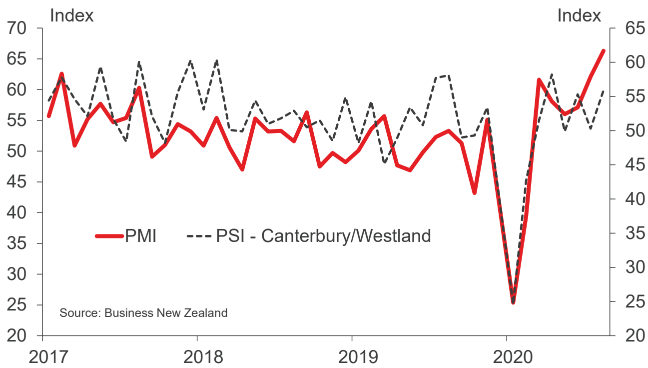
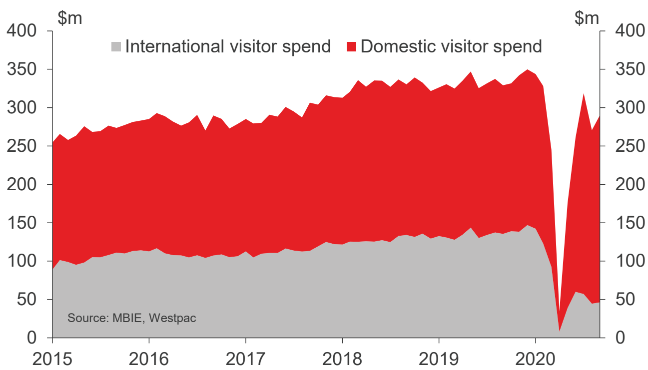


Figure 3: Visitor spending



Gisborne/Hawke's Bay.

Current situation.

The Gisborne/Hawke's Bay economy has proven resilient in the face of Covid-19, mainly because of its reliance on agriculture, which has performed solidly over 2020.

Horticulture and viticulture have been standouts, while the sheep and beef sectors have benefitted more recently from the rebounding Chinese economy. Healthy prices have supported farmgate and orchard gate incomes, which in turn has supported spending in the region.

Activity levels will have been further lifted by the removal of Covid-19 restrictions. The region's large forestry sector, for example, is now running at full capacity to meet the demands of a resurgent Chinese economy. Forestry owners have also benefited from higher export prices for logs.

Tourism activity in the region has been less affected by the closure of New Zealand's borders than in most other regions. Indeed, a big pickup in spending by visitors from other regions in recent months has helped many small businesses, especially those that rely on the tourist trade, to keep afloat.

Spending has also been supported by developments in the region's housing market, which continues to be a standout performer. Underpinned by record low interest rates, house prices in Gisborne/Hawke's Bay are among the fastest growing in the country. Sales volumes have also picked up, which indicates that prices will continue rising in the near-term.

Building activity in the region has also impressed, with intentions to build rising sharply in recent months.

Outlook.

Gisborne/Hawke's Bay will continue to be one of the top performing regions in the country over the coming year.

Key will be the performances of the region's agriculture and viticulture sectors, both of which are expected to do well, although possible labour shortages remain a concern.

Indeed, growers of horticultural products in the region should continue to benefit from strong demand in key export markets, which in turn should keep prices elevated. Orchardists in the region will be relieved by the news that the Government will allow 2,000 horticulture workers from the Pacific to come into the country to pick fruit during the upcoming harvesting season.

Meanwhile the region's meat farmers should continue to benefit from firm demand from China.

The outlook for the region's forestry sector is also looking positive, with a fast recovering China expected to push log prices higher over the coming year.

Grape growers should continue to benefit from growing demand for competitively priced wine in key US and UK export markets. Increasing home wine consumption is driving strong retail demand in these markets.

The region's red-hot housing market is also likely to perform strongly over the coming year, with record low interest rates being the dominant driver. By contrast, weaker population growth is set to slow construction activity over the coming year.

All up, these factors should mean more spending over the next year, which is likely to be welcome news for the region's retailers and hospitality providers.

Figure 1: Visitor spending

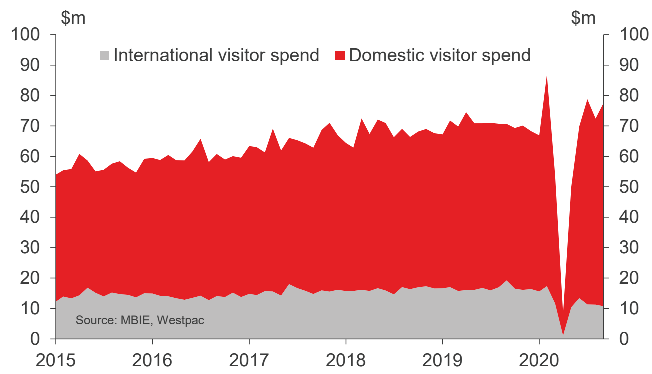
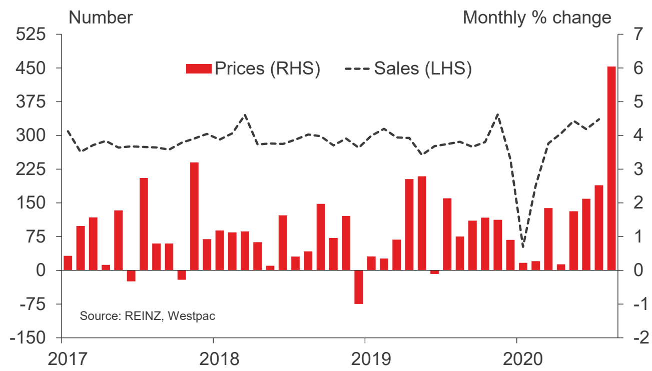


Figure 2: Housing market



Nelson/Marlborough/West Coast.

Current situation.

Economic activity at the top of the South has remained relatively resilient over the course of 2020. In the main that is because of the performance of its agricultural sector, most of which was allowed to operate even when restrictions on economic activity were in place elsewhere.

The horticultural sector looms large in this regard with key exports like apples continuing to find favour in overseas markets. Growers in the region have further benefitted from elevated prices, although access to labour is becoming a concern. The same applies for grape harvesting and winemaking in the region, which continued unabated during lockdown.

The region's sheep and beef farmers will also have cause for cheer, having been able to stay open when most industries were closed. Relatively stable demand for meat products in key export markets has also gone down well in the region.

Activity levels will have been further lifted by the return of the region's large forestry sector, which is now running at full capacity to meet the demands of a resurgent Chinese economy. Forestry owners have also benefited from higher export prices for logs.

Tourism has been the weak spot for the region with visitor arrivals trending lower even before the emergence of Covid-19. That trend looks to have continued recently despite a large, but temporary rise in the number of Kiwis visiting from other regions. As a result, many firms in tourist related industries have been forced to close, contributing to tick up unemployment.

Meanwhile house prices, underpinned by record low interest rates continue to make strong gains, although the pace of growth has slowed recently. Sales volumes have also ticked higher, after a shortage of listings had seen sales ease in prior months.

Outlook.

Along with its counterparts at the top of the North Island, we expect this region to be one of the better performers over the coming year.

The region's economy is likely to benefit from the proposed travel bubble with Australia in early 2021, which will provide a shot in the arm to the local hospitality industry. How much though will depend on whether the travel bubble is in place over the summer period, which is traditionally the time when foreign tourists visit the region. The region is also likely to benefit from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

The region is also expected to benefit from the performance of its agricultural, horticultural, and forestry sectors, each of which is expected to do well over the coming year, despite the potential for labour shortages in some areas.

Indeed, growers of horticultural products in the region should continue to see strong demand in key export markets, which in turn should keep prices elevated. Similarly, sheep and beef farmers should continue to benefit from firming Chinese demand.

Grape growers, meanwhile, should continue to benefit from growing demand for competitively priced wine in key US and UK export markets. Increasing home wine consumption is driving strong retail demand in these markets.

The outlook for the region's forestry sector is also looking positive, with a fast recovering China expected to push log prices higher over the coming year.

Meanwhile, the region's housing market should continue to perform well, with record low interest rates to be the key driver of activity in the market. By contrast, weaker population growth is set to slow construction activity over the coming year.

All up these factors should support household spending in the region over the coming year. That is likely to be welcome news for the region's retailers and hospitality providers, who are likely to struggle given the challenges facing tourism.

Figure 1: Housing market

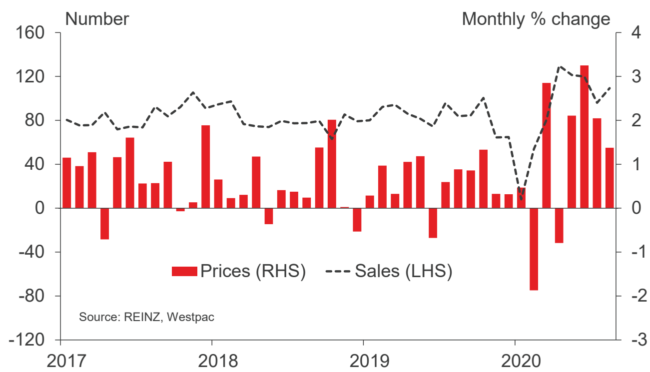
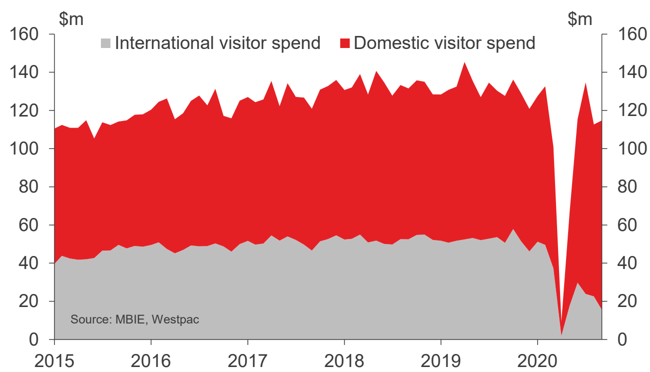


Figure 2: Visitor spending



Northland.

Current situation.

Economic activity in Northland has been resilient mainly because of its reliance on agriculture, which has performed solidly over 2020.

Sheep, beef, and dairy farmers in the region have all benefitted from the returning strength of the Chinese economy. Healthy prices have supported farmgate and orchard gate incomes, which in turn has supported spending in the region.

The region's economy has also benefitted from a resumption of forestry activity and slightly higher log prices. Meanwhile, horticultural production continues to benefit from still strong export demand, with kiwifruit in particular recording export prices at record levels.

Positivity in the region has further been reinforced by a strong performance from the region's housing market, with prices and sales volumes both climbing.

The region has also seen a pickup in tourism spend. Increased spending by domestic tourists has easily offset the loss of international tourism, providing a lifeline for many small businesses in the region.

Activity in the region had been undermined by a Covid-19 led drop in refined petroleum production at the Marsden Point refinery earlier in the year. However, with domestic travel demand having picked up, production volumes have started to recover recently, albeit still below 2019 levels.

Confirmation that Refining NZ will be restructuring its Marsden Point operations, resulting in the loss of 90 jobs, has not gone down well. Unemployment, which had been tracking to historically low levels, has lifted recently, as firms badly affected by Covid-19, have been forced to close. As a result, there has been a pickup in those applying for jobseeker support.

Outlook.

The economic outlook for Northland is positive given its agricultural base. The region is also likely to benefit from its proximity to Auckland's economic recovery.

Growers of horticultural products in the region should continue to benefit from strong demand in key export markets, which in turn should keep prices elevated. Possible labour shortages may constrain activity in some areas. Similarly, dairy and meat farmers in the region stand to benefit from continued strong demand from China.

The outlook for the region's forestry sector is also looking positive, with a fast recovering China expected to push log prices higher over the coming year.

The region should also get a pickup from increased refining activity at Marsden Point, at least in the short-term, as the economy improves and demand for transportation fuel rises. But with the refinery owners already having signalled their intention to shift towards the importation of refined fuels, such gains are likely to be of a temporary nature.

Meanwhile, Northland's housing market should continue to perform well, with record low interest rates the key driver of activity in the market. By contrast, weaker population growth is set to weigh on construction activity over the coming year.

All up these factors should support household spending in the region over coming quarters. That is likely to be welcome news for Northland's retailers, accommodation and hospitality providers who are also likely to benefit from more Kiwis visiting the region.

Figure 1: Housing market

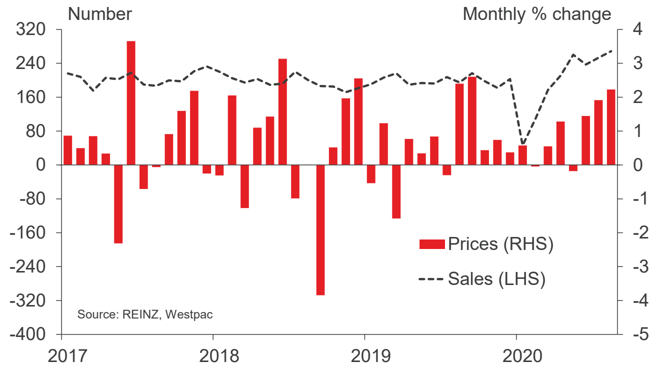
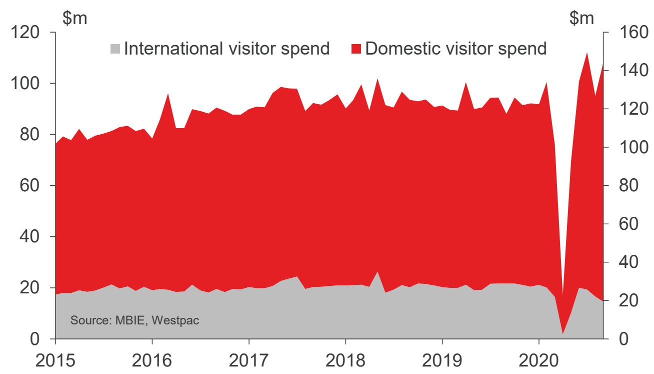


Figure 2: Visitor spending



Otago.

Current situation.

Economic activity in this tourism dependent region continues to be badly affected by the closure of New Zealand's borders. The lifting of restrictions on domestic travel has only partially helped to offset this loss and as a result Otago has been the hardest hit region in New Zealand.

The loss of visitor arrivals from abroad has been particularly disruptive for places like Queenstown and Wanaka, with many tourism related businesses being forced to close. Unemployment in the region has risen sharply as a result. In Dunedin, education providers continue to miss on out on international students because of ongoing border restrictions.

Construction activity has also begun to slow. Unlike many other regions, residential building consent approvals have fallen sharply in recent months.

On a more positive note, the region's economy has benefitted from a strong agricultural performance. The strength of the Chinese economy has underpinned growth with meat producers in the region benefitting from relatively firm prices. Ditto for the region's summer fruit industry, despite concerns about the availability of labour for harvesting.

Manufacturing activity in the region has also shown some improvement, with gains across many sectors reflecting pent up domestic demand for manufactured products.

House prices have responded positively to record low interest rates, although annual price increases have been among the slowest in the country, reflecting ongoing economic uncertainties and difficulties in the region.

Outlook.

Economic activity in Otago is expected to improve over the coming year. However, given its overweight exposure to international tourism, the province is still likely to remain economically weaker than other regions.

That said, Otago will be one of those regions that benefits most from the proposed travel bubble with Australia in early 2021. The region is also likely to be among those that benefits most from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

Meanwhile weaker population growth is set to slow construction activity. However, publicly funded projects, such as the new Dunedin Hospital, costing $1.4bn, should support non-residential building activity in the region.

House prices in the region are likely to rise because of record low interest rates, although price increases may be slower than elsewhere.

Sheep and beef farmers in the region are likely to benefit from ongoing export demand from a fast recovering China. Ditto for the region's horticultural sector, although this industry may face some acute labour shortages as we move into summer.

Meanwhile grape growers should continue to benefit from ongoing demand for competitively priced wine in key US and UK export markets. Increasing home wine consumption should continue to drive strong retail demand in these markets.

Figure 1: Visitor spending

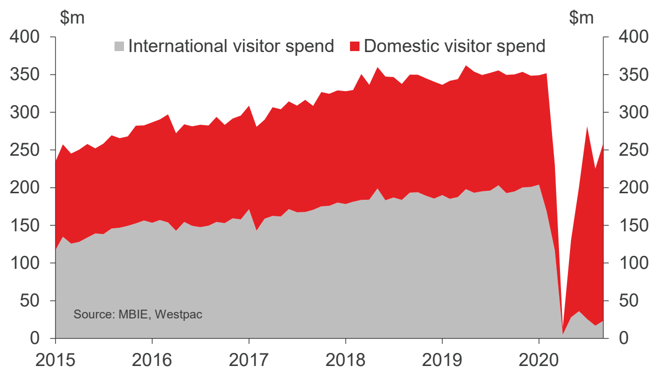


Figure 2: Manufacturing and services activity

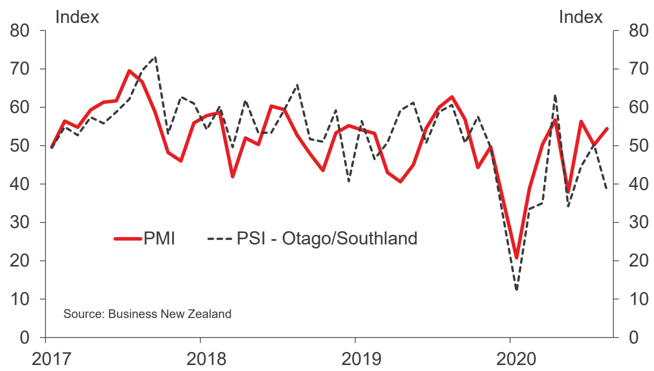
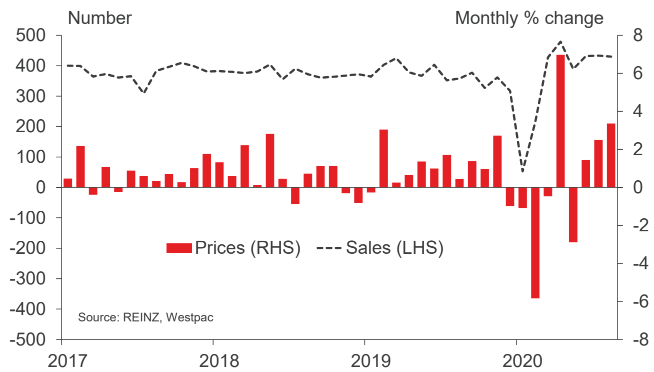


Figure 3:Housing market



Southland.

Current situation.

Southland has been heavily affected by the loss of international tourists. However, overall economic activity remains relatively upbeat, supported in large part by a resilient agriculture sector.

That includes dairy and meat farming, both of which have benefitted from the returning strength of the Chinese economy. Healthy price levels have supported farmgate incomes in the region.

Tourism has been hard hit by the closure of New Zealand's borders, with a pickup in spending by domestic visitors falling well short of what is needed to offset a drop in international tourists to the region. As a result, many firms in tourist related industries have found themselves under pressure, with several being forced to close.

Meanwhile, manufacturing activity in Southland has almost recovered to pre-Covid-19 levels, although ongoing uncertainties relating to the timing of the closure of Tiwai Point's aluminium smelter continue to loom large. Reports are that skilled staff from the smelter have already started to move out of the region.

Despite difficulties in the tourism sector, unemployment in the region continues to track lower and is currently the lowest in the country. The drop in the unemployment is likely to have supported spending, with retail sales growing more strongly than they did this time last year.

Southland's housing market, which has been an outperformer for some time, continues to perform strongly with higher prices reflecting the impact of record low interest rates. Sales volumes remain elevated, suggesting that prices should rise further over the coming year.

Outlook.

The economic outlook for the Southland is mixed with the ongoing loss of foreign tourism, especially during the summer, set against the positive impact of firm agricultural prices.

Key here will be the performances of the region's dairy and meat producers, both of which are expected to do well over the coming year. Most farms in the region are likely to remain profitable given the positive outlook for farmgate prices.

Manufacturing in the region might also get a boost from rising aluminium prices. Although slated for closure, with a date still to be determined, Tiwai Point should swing into profit if, as expected, prices rise on the back of stronger global economic growth.

Southland is likely to one of those regions that benefit most from the proposed travel bubble with Australia in early 2021. This will deliver a big shot in the arm to the local hospitality industry, especially if it comes in time for summer, when the region traditionally receives most of its overseas visitors. The region is also likely to be among those that benefits most from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

Meanwhile, house prices in the region are expected to rise because of record low interest rates and cheap mortgages. However, weaker population growth is set to slow construction activity over the coming year.

Figure 1: Visitor spending

Figure 2: Unemployment rate

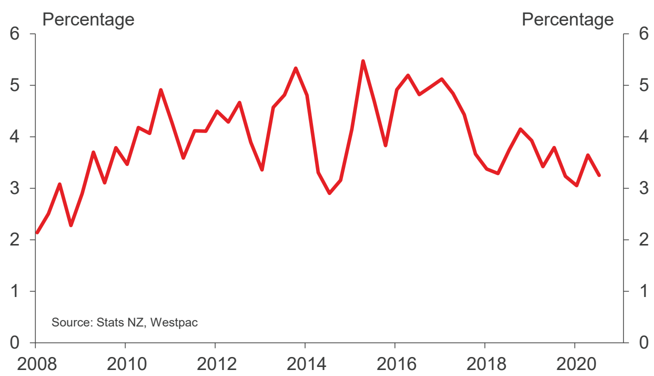
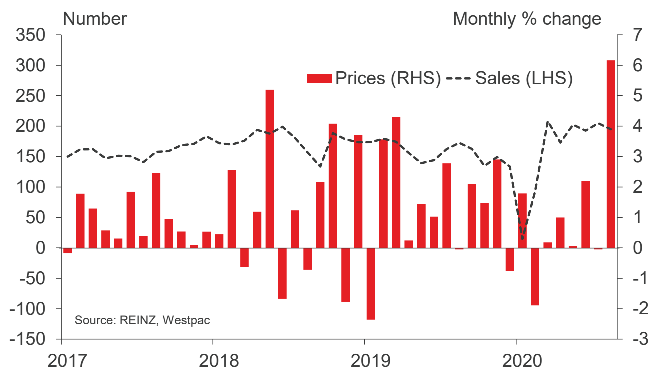


Figure 3: Housing market



Taranaki/Manawatu-Whanganui.

Current situation.

Economic activity in Taranaki/Manawatu-Whanganui has been resilient mainly because of its high reliance on agriculture and to a lesser extent forestry, both of which have performed well during 2020.

That includes dairy farming, which has benefitted from the returning strength of the Chinese economy. Healthy price levels have supported farmgate incomes in the region.

The region's economy has also benefitted from a resumption of forestry activity, which is now running at full tilt to meet increasing demand from China, as well as slightly higher log prices.

Positivity in the region has been further reinforced by the performance of the region's red-hot housing market. Underpinned by record low interest rates, house prices in both the Manawatu and Taranaki have risen sharply in recent months. This in turn, has supported spending in the region.

On a less positive note, the impact of Covid-19 on energy markets has loomed large for Taranaki's oil and gas sector, despite recent global crude oil and methanol price gains.

The region's tourism sector has also struggled, with a drop in spending from Kiwis visiting from other regions and a loss of international visitor arrivals. The resulting closure of businesses in tourism related industries has led to job losses, which in turn has contributed to a tick up in regional unemployment.

Outlook.

This region is likely to be one of New Zealand's stronger performing regions given the outlook for firm agricultural commodity prices and higher global energy prices over the coming year.

Indeed, expectations of higher crude oil prices off the back of a stronger global recovery could go some way to offsetting the impact of declining oil production in the region. Rising methanol prices are also likely to provide some cause for cheer for the region's extractive industries.

The region's prospects should also be bolstered by the performance of the dairy sector, which is likely to benefit from strong demand from China. Forestry should also make a positive contribution, with rising demand from a fast recovering China expected to lead log prices higher.

The region's economy is also likely to benefit from the proposed travel bubble with Australia in early 2021, which should support the local hospitality industry. The region is also likely to benefit from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

Meanwhile, house prices in the region will continue to rise over the coming year because of low interest rates. That, together with still favourable conditions in the agricultural sector, should support spending in the region.

Figure 1: Visitor spending

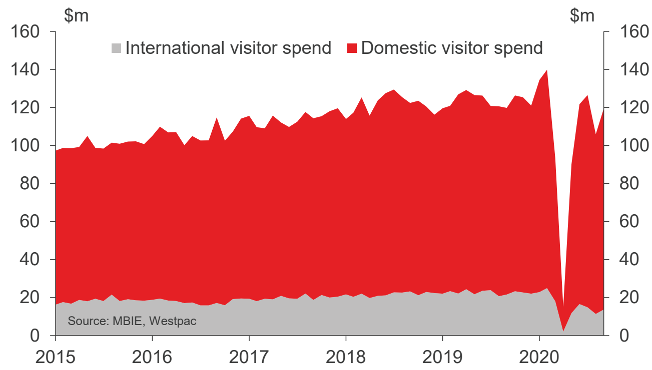


Figure 2: Housing market

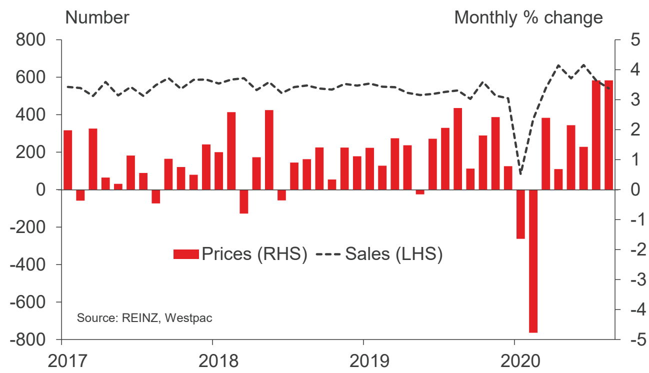
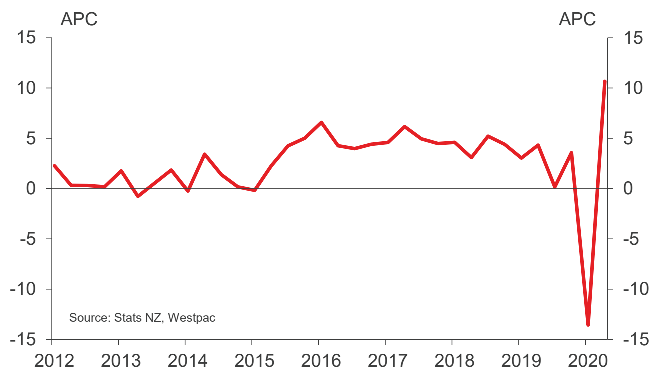


Figure 3: Retail sales



Waikato.

Current situation.

Economic activity in the Waikato has been heavily affected by Covid-19, but now is well on the path to recovery.

The agricultural sector continues to provide support to the region's economy. Indeed, the region's dairy and meat farmers have both benefitted from the returning strength of the Chinese economy, which has helped to keep prices high and support farmgate incomes.

The economic recovery underway in Waikato is also evident in sectors such as ex-food manufacturing, and discretionary retail, both of which have kicked into gear following lockdowns earlier in the year.

Spending in the Waikato is also likely to have increased because of rising house prices. Underpinned by record low interest rates, house prices in the Waikato continue to power ahead, and are well up on the same time last year.

However, the region's tourism sector has struggled, with a post lockdown pickup in spending from Kiwis visiting from other regions not lasting long enough to offset the loss of international visitor arrivals. The resulting closure of businesses in tourism related industries has led to some job losses, which in turn has contributed to rising unemployment in the region.

Residential building activity in the region also remains a bit of a sticking point with approved consents still struggling to get back to pre-Covid levels. A further drop in approved building consents suggests weaker residential construction activity over coming quarters.

Outlook.

Waikato's economic recovery should see it close the gap on other regions that have been less affected by Covid-19.

Key here will be the ongoing success of agriculture in key export markets. Both dairy and meat farmers in the Waikato should benefit from a strong economic recovery in China over the coming year. Still elevated prices are likely to be reflected in farmgate incomes.

Also important will be the performance of the region's housing market, with record low interest rates expected to support further growth in house prices over the coming year. By contrast, weaker population growth is set to slow construction activity over the coming year.

Still favourable conditions in agriculture and a buoyant housing market should translate into stronger domestic demand, and that signals better times ahead for the region's manufacturing sector. Improving global economic fortunes should also provide the region's exporting manufacturers with some cause for cheer.

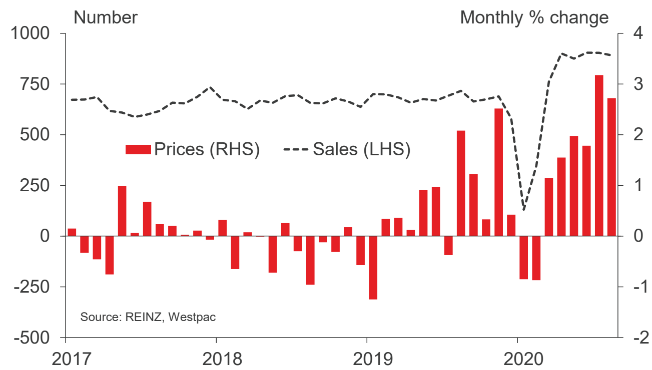
Manufacturers in the region should also benefit from new digital technologies, which are already helping to re-engineer process flows and transform supply chains. Given the size, scale, and scope of business activities in Hamilton, manufacturers in the region are better positioned than most to benefit from resulting productivity gains.

The region should also benefit from the accelerated adoption of new digital technologies in other ways. Retailing is continuing to move away from bricks-and-mortar showrooms towards internet sales and direct-to-consumer distribution. That is negative for the vibrancy of smaller town centres in the region but should favour places like Hamilton and its Northgate Waikato freight hub, which is scheduled to be fully operational by the end of March 2021.

All up these factors should support household spending in the region over coming quarters. That is likely to be welcome news for the Waikato's retailers and hospitality providers over the coming year.

Figure 1: Visitor spending

Figure 2: Housing market



Wellington.

Current situation.

The Wellington region was among those most heavily affected by Covid-19, despite the performance of the public sector, which was able to operate when the country was in lockdown. Recent indicators suggest that the region has turned the corner and is now recovering strongly.

Nowhere is the recovery more evident than in Wellington's red-hot housing market. House prices in the region have accelerated in recent months, with record low interest rates being the key driver.

A reinvigorated housing market has, in turn, helped to support consumer spending, with retail sales posting strong gains more recently. However, with many of the region's public workers now opting to work from home and shopping online, this hasn't necessarily translated into stronger sales for the high street.

Construction activity in the region has also been strong, helped in no small part by a big pick up in consents prior to the country going into lockdown. Meanwhile, the region's large ICT sector has also benefited from an increase in demand for remote services from firms and government agencies alike.

On a less positive note, the region's tourism sector continues to feel the impact of border restrictions even though it depends more on domestic rather than international visitors. Spending by Kiwis from other regions had already been trending lower prior to Covid-19 and has continued to slow since. In large part that reflects a loss of business travellers, as well as some big-name sporting and music events. The resulting closure of accommodation establishments, cafes and restaurants in the region has contributed to a big tick up in unemployment.

Outlook.

Wellington's economy should see a further lift in economic activity over coming quarters, and that should help it close the gap with regions that have been less affected by Covid-19.

The region's economy is likely to get a lift from the proposed travel bubble with Australia in early 2021, which should support the local hospitality industry. The region is also likely to benefit from a gradual lifting of restrictions on travellers from other countries later in 2021, although a return to pre-Covid vibrancy in tourism remains some way off.

The local economy should also benefit from activity in the housing market. Indeed, with momentum already set, we expect record low interest rates will drive up house prices in the region even further. That in turn is likely to support spending in the region.

The outcome of November's national elections is likely to be positive for public sector employment in the region over the coming year and that should also help to boost spending. However, with more public sectors workers opting to work from home, and internet shopping already entrenched, that's likely to favour online retail and suburban shops rather than those on the capital's high street.

The accelerated adoption of digital solutions will also have other impacts. The shift away from bricks-and-mortar, for example, is likely to mean more goods being moved directly from manufacturers and distribution hubs to end consumers. That could boost activity at the port and the associated freight/logistics hub located close by.

Meanwhile, residential building activity in the capital is likely to move sideways over the coming year, with slowing population growth expected to offset the impact of an ongoing housing shortage and rampant house price inflation.

Figure 1: Visitor spending

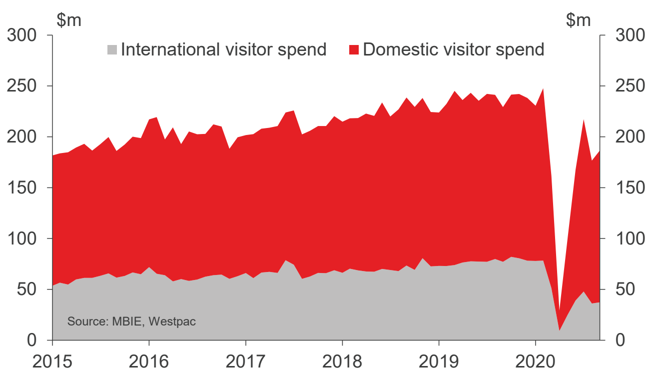
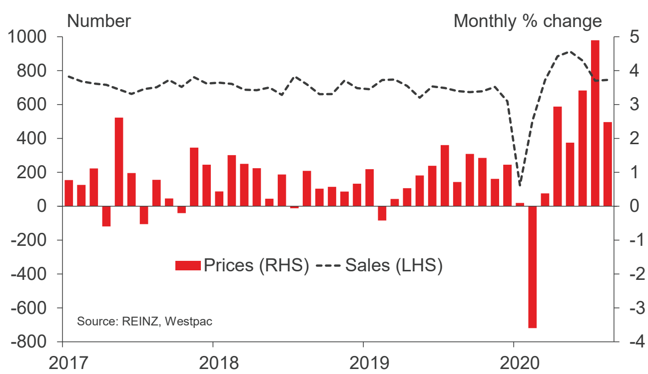


Figure 2: Housing market



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