



WESTPAC REGIONAL ROUNDUP

15 December 2021



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Summary

Not surprisingly, the response to the Delta outbreak has been the biggest factor in the divergence in economic performance across regions in recent months. However, with the introduction of the ‘traffic light’ system and the eventual opening of the borders, that gap is set to narrow quickly. All regions should see broad-based growth over the coming year, although consumer spending is expected to ease as the housing market runs out of steam.

The Delta outbreak was a blow to an economy that had previously been charging upwards. Hardest hit was Auckland, which saw its economy put on ice, as public health authorities doubled down on efforts to control the spread of the variant.

Not surprisingly, economic activity plunged as large swathes of industry were forced to suspend operations. Neighbouring regions such as Northland and parts of the Waikato were similarly impacted, albeit to a lesser degree.

Other regions, subject to fewer restrictions, experienced stronger economic activity, with big contributions being made by agriculture, horticulture, construction and manufacturing. That’s helped to tighten regional labour markets and boost retail spending, which is now back to pre-pandemic levels. By contrast, spending in locked-down Auckland, and to a lesser extent the Waikato and Northland, slumped and until a few weeks ago was still well behind the eight ball.

The exception of course has been Otago which, despite not being subject to restrictions on economic activity, has still been heavily impacted by the closure of New Zealand’s external borders to foreign visitor arrivals and the internal boundaries put around Auckland.

Looking forward, we think that economic activity in Auckland, the Waikato and Northland will catch up to the pack. The catalysts for that will be the shift to the ‘traffic light’ system and removal of internal borders in the upper North Island. Ditto for the staggered reopening of external borders in early 2022, which should bring regions like Otago back into the fold.

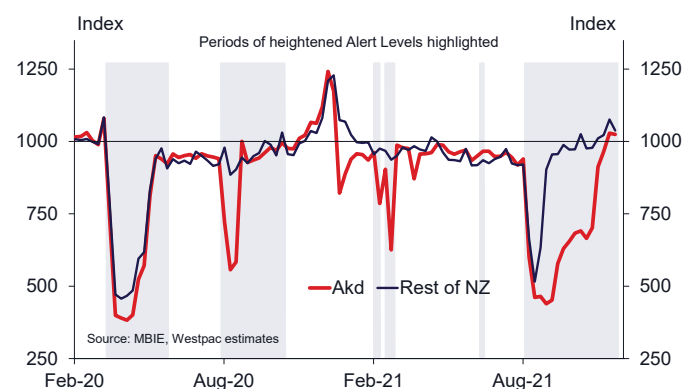
Elsewhere, the portents for 2022 look good.

Regions that have a large rural backbone are well set and we expect them to continue to lead their metropolitan counterparts over the coming year. Indeed, most growers and farmers can expect to benefit from healthy price levels and a positive tailwind provided by a weaker NZ dollar.

Construction is also likely to be a big positive, with elevated levels of consent issuance expected to drive activity in most regions. Ditto for the housing market, although impacts here are likely to wane as price growth slows, turning negative in the second half of 2022. Over time, deteriorating wealth effects are likely to slow spending momentum, especially in places Southland and the West Coast, where the potential for sharper price corrections is higher. Conversely, smaller falls are possible in places like Canterbury and Otago, where gains to date have not been as strong as elsewhere.

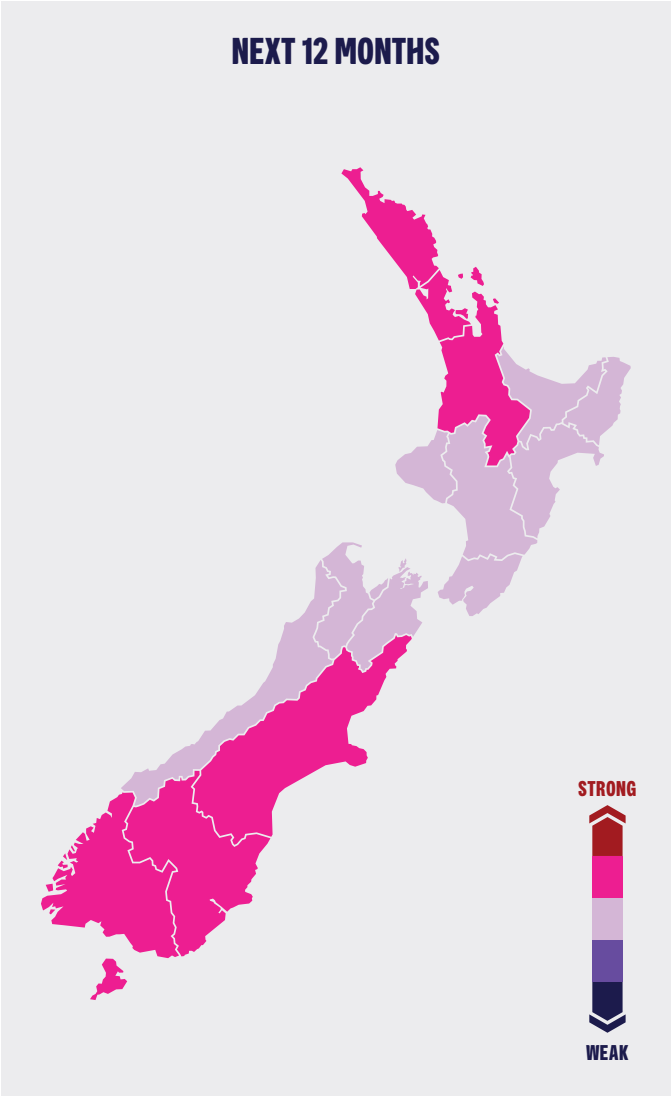
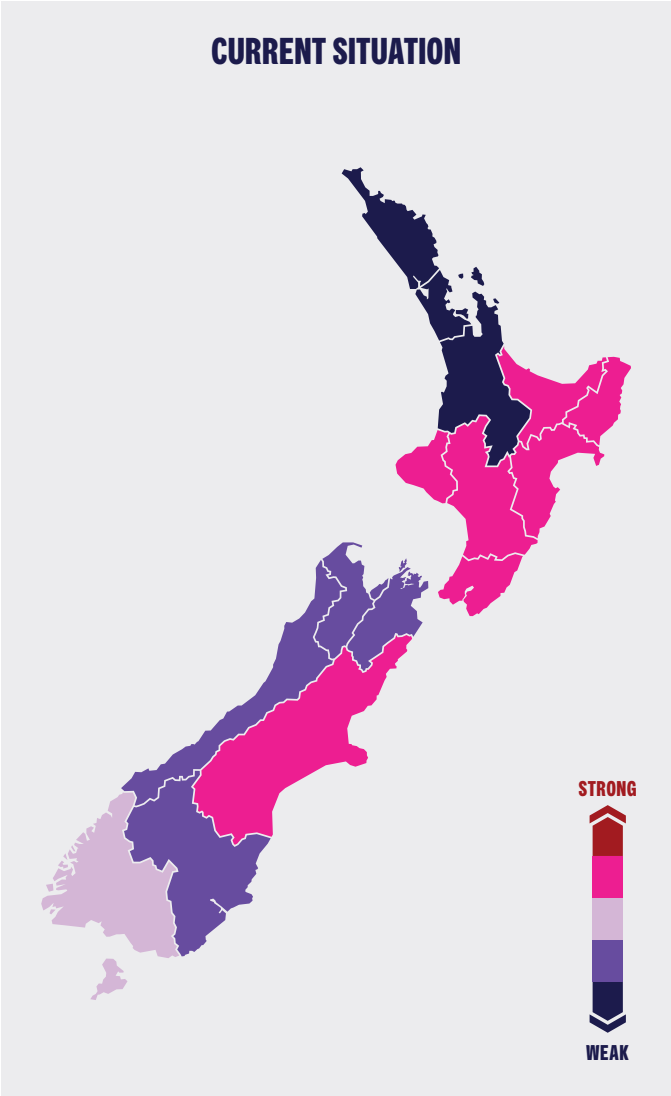
This positive outlook does not come without risk. The most obvious of these relates to the new Omicron variant, and the potential for restrictions on economic activity and border closures once it reaches our shores. Other factors such as persistent inflation, ongoing supply chain disruptions and labour shortages also pose downside risk.

Figure 1: Weekly card spending



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 Auckland has been hit hard by the Delta lockdown.

Nowhere was this more evident than in a sharp drop in spending, as households went into isolation and retailers and hospitality providers were forced to close shop.

Spending in the region has been further undermined by the closure of Auckland's borders, which has prevented people from the rest of the country visiting the region.

While closures affected many industries to a similar extent, some were still able to operate and continue to do so at healthy levels. That includes the region's fast-running homebuilding sector, supported by record building consent issuance.

It also includes firms that manufacture critical building products and materials, needed by building contractors in other regions. An easing of lockdown restrictions since has subsequently led to a rebound in manufacturing activity in the region.

Despite a slump in economic activity, labour market conditions in Auckland remain tight, with firms preferring to look through the lockdown and keep workers on their books. That's reflected in record levels of employment and declining rates of unemployment in the region.

Meanwhile, Auckland's housing market continues to power ahead, posting record high prices. Despite the introduction of measures to rein in the market, monthly price gains have to date remained strong.

Outlook.

On balance, we expect economic activity in Auckland to grow strongly over the coming year. More specifically, the region is expected to benefit most from the easing of lockdown restrictions and the gradual reopening of internal and external borders.

Indeed, the shift to the traffic light system has already resulted in a big pickup in retail activity. More is likely to come when the borders are open. Ditto for hospitality, which is likely to roar back into life after being shut down for an extended period.

Meanwhile, homebuilding activity will continue to support the region's economy, especially given the huge amount of work that is still in the pipeline. That, together with elevated building activity in the rest of the country, should give manufacturing in the region a boost.

We expect that the combined strength of these industries is likely to ensure that the region's labour market remains tight. Hiring is likely to remain strong, which should support wage growth and thus reinforce spending in the region.

In contrast, the housing market is set to cool over the coming year. Initially we expect house price growth to slow over coming months, before turning negative in the second half of the year. The catalyst for this cooling will be higher interest rates.

Figure 1: PMI/PSI - Northern

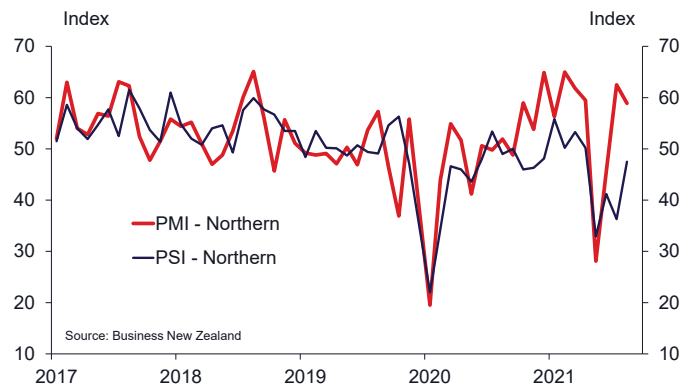


Figure 2: Residential building consents

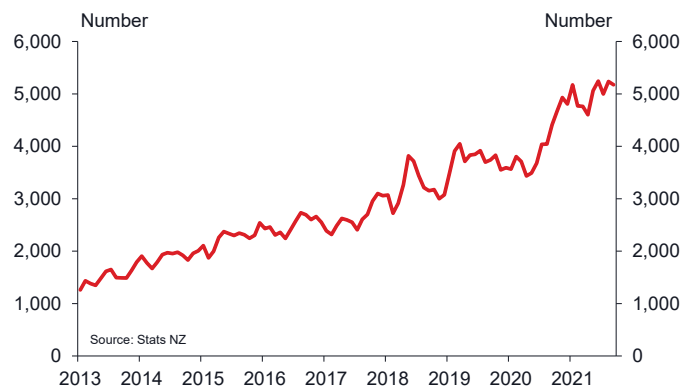
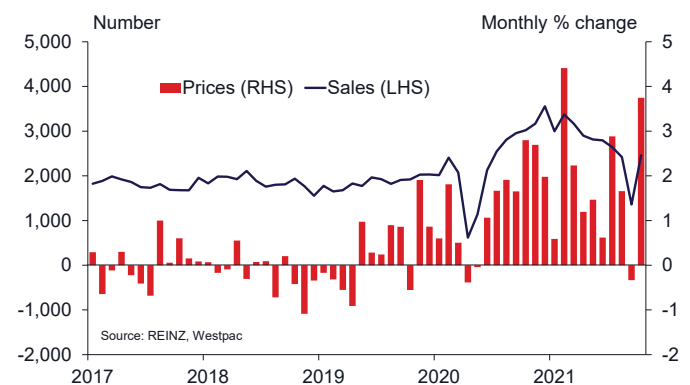


Figure 3: House prices and sales volumes



Bay of Plenty

Current situation.

Less affected by Delta restrictions, economic activity in the Bay of Plenty has been strong.

That is reflected in spending in the region, which despite the absence of foreign tourists remains above pre-pandemic levels.

Conducive conditions in the horticulture sector have also helped. Indeed, kiwifruit growers in this big growing region continue to benefit from strong offshore demand. This year's crop nationally was a massive 16% larger than that produced in 2020, although this additional supply has pushed prices down from record highs.

However, forestry owners in the region will not be feeling quite as positive given a recent drop in log prices. That in turn has resulted in less harvesting activity, forcing many contractors to cut back on their crews.

Meanwhile, the region's housing market continues to post record highs. Growth in prices remains strong, although monthly gains have eased recently.

In contrast to other regions, building activity in the Bay of Plenty is well off its highs. After having peaked earlier in the year, building consent issuance has trended lower, in part because of consent processing delays in Tauranga.

The overall firm level of economic activity has contributed to falling rates of unemployment in the region. Strong demand for labour has in turn supported wage growth and household incomes.

Outlook.

On balance, we expect the Bay of Plenty's economy to perform positively over the coming year, although growth is likely to moderate over the course of 2022.

Underpinning the region's positive outlook is the performance of the kiwifruit industry. We expect that another bumper harvest on the back of recent gold kiwifruit plantings will lead grower incomes higher next season. And while prices may ease over 2022, that is unlikely to be enough to offset the higher fruit volumes.

We also expect that the region's tourism, hospitality and retail sectors will get a leg up once internal borders restrictions are lifted, and Aucklanders are able to travel in time for summer. The lifting of restrictions on foreign visitor arrivals is also likely to have a positive impact later in the year.

Meanwhile, house price growth is set to slow over coming months, turning negative in the second half of the year as mortgage rates rise. Over time, deteriorating wealth effects may begin to slow spending momentum in the region.

In contrast to kiwifruit, the region's other key export sector, forestry, is facing a tough start to 2022. Chinese demand for export logs has plunged, with log prices taking a hit. We expect these lower prices will translate into less harvesting activity next year, and reduced incomes for forest owners in the region.

Figure 1: Residential building consents

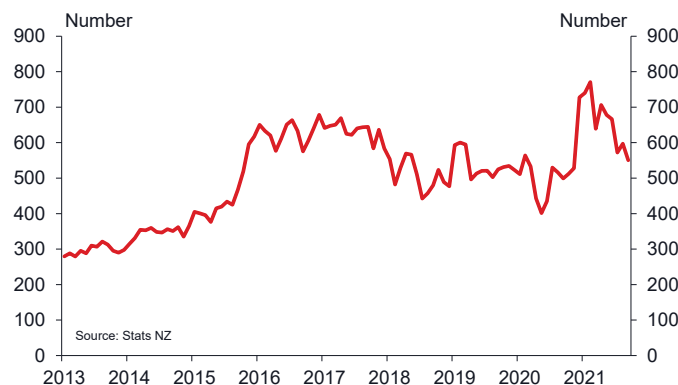


Figure 2: House prices and sales volumes

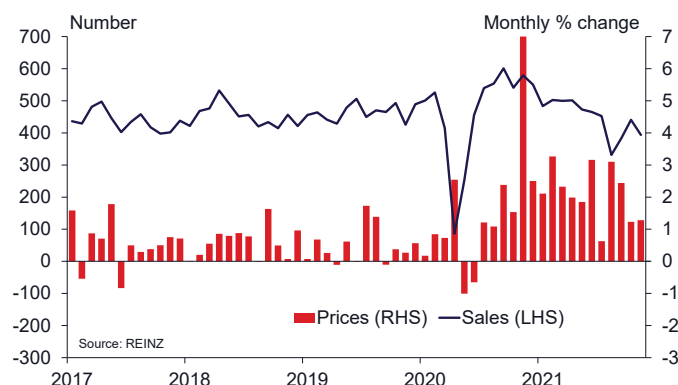
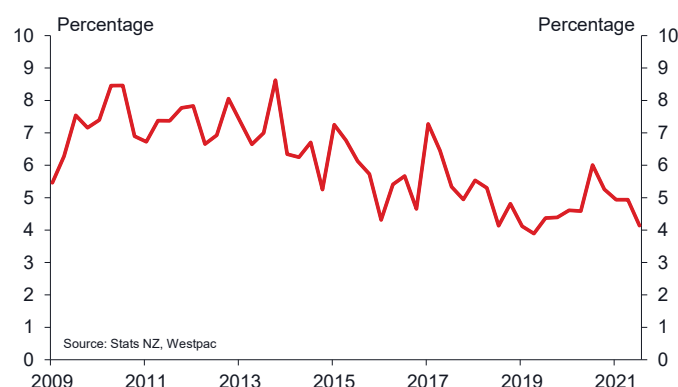


Figure 3: Unemployment rate



Canterbury

Current situation.

Less affected by Delta restrictions, economic activity in Canterbury has been strong. That's reflected in retail spending in the region, which has continued to strengthen.

Conducive agricultural conditions have also helped, with dairy, sheep and beef farmers in the region benefiting from record high prices.

Add to that the region's housing market, which continues to shoot the lights out after having lagged many other regions. Indeed, monthly price gains remain among the strongest in the country.

Building activity has also been strong. In fact, building consents have now surpassed the heights of the Canterbury earthquake rebuild.

That in turn has supported manufacturing activity in the region, which has now partially recovered from the impact of earlier Covid related restrictions.

Not surprisingly given the strength of the local economy, labour market conditions in the region are tight, with many firms desperate to keep workers on their books. That in turn has supported employment in the region. In that regard, the decision of dairy processor Synlait to axe 150 jobs has come as a bit of a shock, although many of those affected shouldn't have too much trouble finding work.

Outlook.

We expect economic activity in Canterbury will remain healthy over the coming year, although the pace of growth may moderate in the latter half of 2022.

Underpinning the outlook is the ongoing strong performance of agriculture. The region's meat farmers are already benefiting from record high farmgate prices while we expect a record high milk price of \$9.00/kg for the 2021/22 season. We expect that a further weakening in the New Zealand dollar will give agricultural export prices another boost over 2022.

Meanwhile, homebuilding activity should continue to support regional economic activity, especially given the huge amount of work that is still in the pipeline.

That in turn should support manufacturing in the region. The region's exporting manufacturers are also well positioned to take advantage of a stronger global economy, especially once well-publicised supply chain issues are resolved.

Service sector activity should continue to benefit from favourable conditions in the manufacturing, construction, and agricultural sectors. The opening up of the border to tourists over the year should also support hospitality in the region.

It's not all one-way traffic though, as we expect house price growth to slow over coming months, turning negative in the second half of the year. In turn, that may slow spending momentum in the region later in the year.

Figure 1: House prices and sales volumes

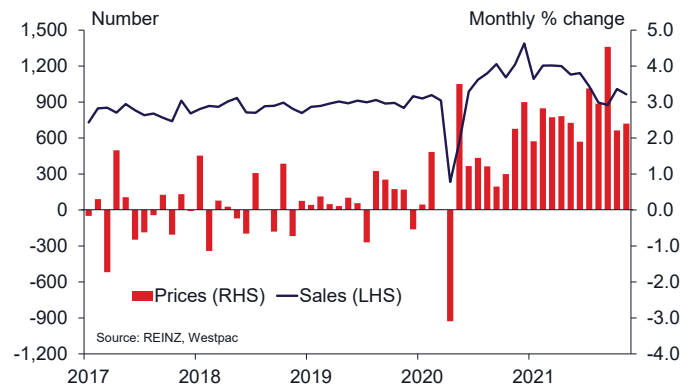


Figure 2: Residential building consents

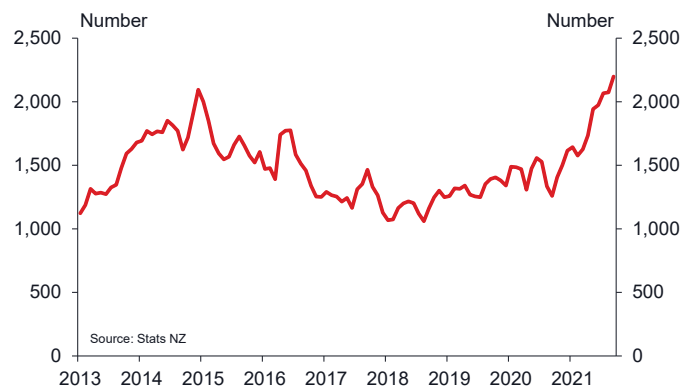
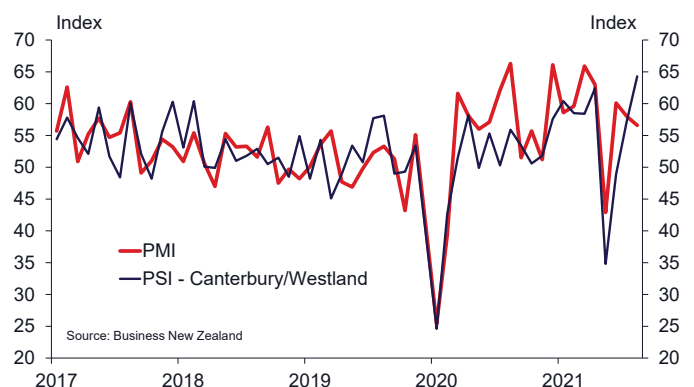


Figure 3: PMI/PSI



Gisborne/Hawke's Bay

Current situation.

Economic activity in this region has been strong. That's reflected in spending in the region, which has strengthened over recent months.

Conducive agricultural conditions are likely to have helped, with sheep and beef farmers in the region buoyed by record high prices.

On balance, the region's house market has continued to perform well. Indeed sales volumes have picked up recently. Building activity also remains strong, supported by record consent issuance.

Conducive economic conditions have contributed to a tight labour market in the region, with most industries reporting labour shortages. That in turn has contributed to a pickup in employment, while unemployment has plunged to a record low.

The region is experiencing some headwinds though. A recent drop in export log prices has resulted in less harvesting activity, forcing many contractors to cut back on their crews.

Meanwhile, 2021 has been mixed for the region's wine and apple industries. Both have seen healthy export prices this year, but that's been offset by a weather-impacted grape harvest and labour shortages crimping this year's apple crop.

Outlook.

The Gisborne/Hawke's Bay economy should perform solidly over the coming year, with growth set to moderate over the course of the year.

Underpinning the outlook is the performance of agriculture, with the region's meat farmers expected to benefit from record high farmgate prices through to the autumn. We expect that a further weakening in the New Zealand dollar will give meat prices another boost over 2022.

Meanwhile, homebuilding is likely to remain buoyant, especially given a still healthy pipeline of work.

We also expect that the region's tourism, hospitality and retail sectors will get a leg up once internal borders restrictions are lifted, and Aucklanders are able to travel in time for summer. The lifting of restrictions on foreign visitor arrivals is also likely to have a positive impact later in the year.

It's not all one-way traffic though. Indeed, we suspect that labour shortages may continue to crimp apple production in the region over the coming year.

The region's forestry sector is also likely to face a tough start to 2022. Chinese demand for export logs has already plunged, with log prices taking a hit. We expect these lower prices will

translate into less harvesting activity next year, and as a result reduced incomes for forestry owners in the region.

Meanwhile, house price growth is set to slow over coming months, turning negative in the second half of the year as mortgage rates rise. Over time, deteriorating wealth effects may begin to slow spending momentum in the region.

Figure 1: House prices and sales volumes

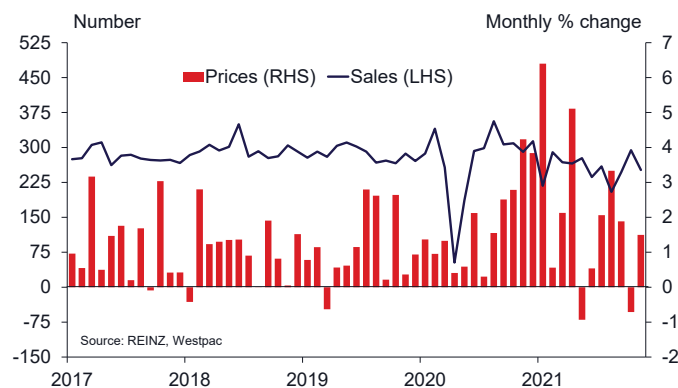


Figure 2: Residential building consents

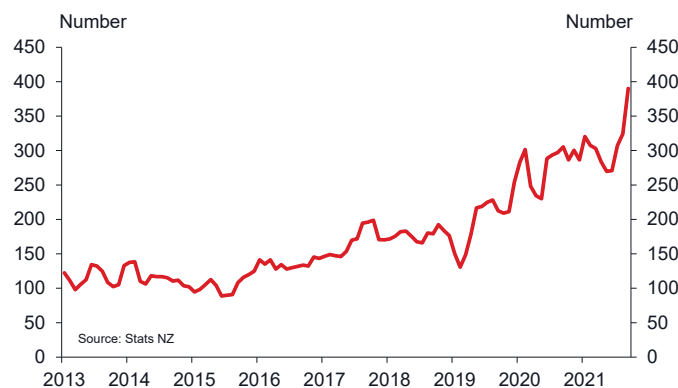


Figure 3: Unemployment rate



Nelson/Marlborough/West Coast

Current situation.

Despite being less affected by Delta restrictions, economic activity in this region has been sluggish. This sluggishness has been best reflected in household spending, which has remained below pre-pandemic levels.

Part of that is likely to be because of the bursting of the travel bubble with Australia, and the impact that that has had on the region's already under pressure hospitality and retail sectors. Restrictions on inter-regional travel with Auckland may have also contributed.

Meanwhile, 2021 has been mixed for the region's wine and apple industries. Both have seen healthy export prices this year, but that's been offset by a weather-impacted grape harvest and labour shortages crimping this year's apple crop.

On a more positive note, the region's housing market is still performing strongly, posting big monthly gains.

Building activity also remains buoyant, and that has been underpinned by rising consent issuance.

The more subdued economic performance has been reflected in the region's labour market, with unemployment having ticked higher over the last couple of quarters.

Outlook.

On balance, we expect economic activity in this region will be mixed over the coming year.

On the positive side of the ledger, we expect the reopening of borders to domestic visitors and foreign arrivals could be a boon for the region, especially for its struggling hospitality and retail sector.

Add to that homebuilding, which is expected to support the region's economy, especially given the amount of work that is still in the pipeline.

On the negative side, we suspect that labour shortages may continue to crimp apple production in the region over the coming year.

Meanwhile, the outlook for the region's grape growers and winemakers is also patchy, with a lot hinging on the size and quality of the 2022 harvest. Until then, however, the ongoing effects of the smaller 2021 harvest will continue to affect incomes in the sector.

Lastly, house price growth is set to slow over coming months, turning negative in the second half of the year. That slowdown could be quite steep given the very thin market that operates in this region.

Figure 1: House prices and sales volumes

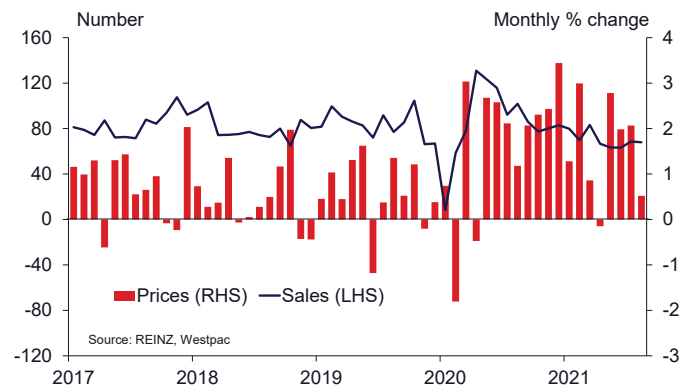


Figure 2: Residential building consents

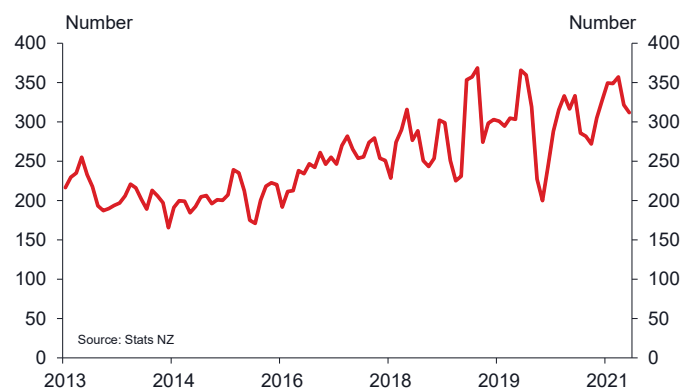


Figure 3: Unemployment rate



Northland

Current situation.

The performance of the Northland economy has been a bit up and down recently, reflecting the impact of intermittent snap lockdowns in the province, and stringent restrictions in neighbouring Auckland.

The up and down nature of activity in this region has been best demonstrated in retail spending patterns, which have lifted higher in recent weeks.

The consistent performers over 2021 have been the region's dairy, sheep and beef sectors, all of whom have benefited from very high or record prices.

The region's kiwifruit growers are also likely to be in good spirits, having benefited from strong production volumes and still relatively elevated prices.

However, forestry owners in the region will not be feeling quite as positive given a recent drop in log prices, which has resulted in less harvesting activity. In turn that has forced many contractors to cut back on their crews.

Meanwhile, house prices in the region continue to post record highs. Building activity also remains strong, supported by record consent issuance.

Strong activity levels have contributed to a tight labour market in the region, with many industries reporting labour shortages. That in turn has contributed to a big fall in unemployment.

Outlook.

On balance, we expect the Northland economy to perform strongly in coming months.

Indeed, both hospitality and retail are likely to get a boost once boundary restrictions are relaxed and the region can open up to visitors from other regions. Although not a big destination for foreign tourists, the gradual reopening of the external borders to visitor arrivals from abroad should provide a further leg up for these sectors over the course of the year.

Also underpinning the outlook is the performance of agriculture with the region's sheep, beef and dairy farmers all expected to benefit from record high farmgate prices through 2022.

We expect that another bumper harvest on the back of recent gold kiwifruit plantings will lead grower incomes higher next season. And while prices may ease over 2022, that is unlikely to be enough to offset the higher fruit volumes.

Similarly, homebuilding in the region should continue to bolster activity in the region, especially given a still healthy pipeline of work.

The region though is also likely to face some headwinds.

Indeed, forestry is already facing a tough start to 2022. Chinese demand for export logs has already plunged, with log prices taking a hit. We expect these lower prices will translate into less harvesting activity next year, and reduced incomes for forestry owners in the region.

Meanwhile, house price growth is set to slow over coming months, turning negative in the second half of the year. Over time, deteriorating wealth effects may begin to slow spending momentum in the region.

Figure 1: House prices and sales volumes

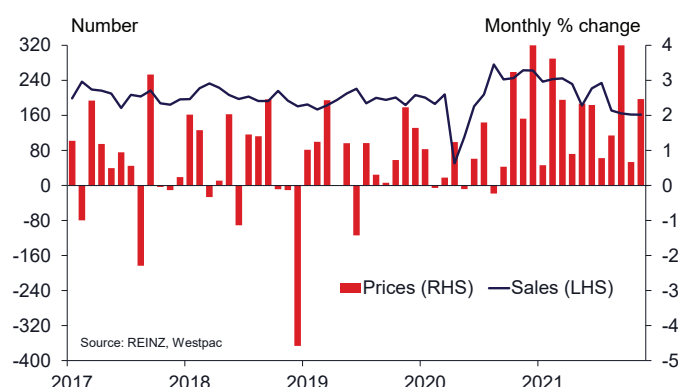


Figure 2: Residential building consents

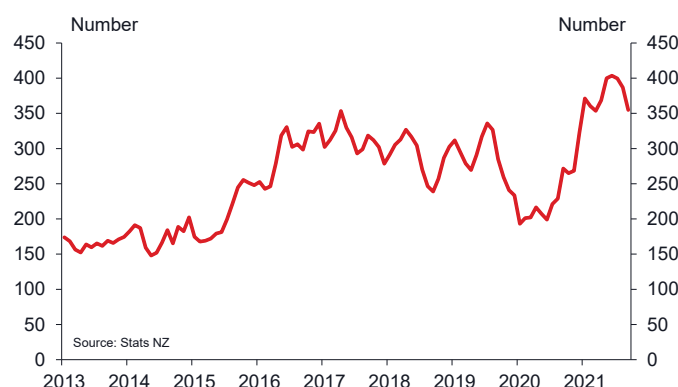
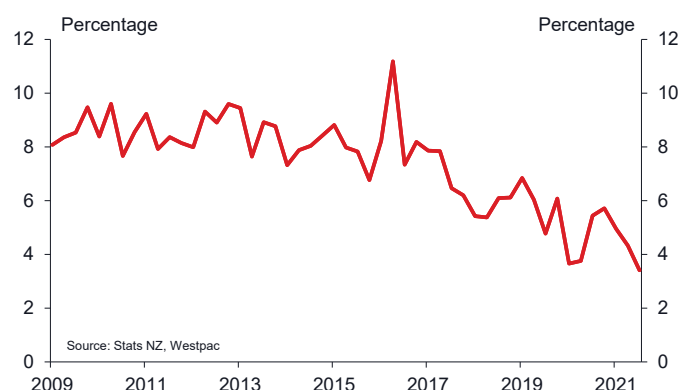


Figure 3: Unemployment rate



Otago

Current situation.

Otago has continued to do it tough, with the closure of the international border and heightened restrictions on Aucklanders' ability to travel severely curtailing activity in the region.

That is clearly reflected in hospitality and retail spending in the region, both of which are well off pre-pandemic levels.

Indeed, after having benefited earlier in the year from the opening of the Australia/New Zealand travel bubble, tourism spending slumped in September and October.

Other industries have done better. That includes the region's meat and dairy farmers, both of whom have benefited from very high, if not record, prices.

Ditto for manufacturing, which has largely recovered from earlier Delta-related disruptions.

Building activity remains elevated with consent issuance at close to record levels.

At the same time, house prices in the region continue to post record highs, although monthly gains have eased. Ditto for sales volumes, which now are in line with pre-pandemic levels.

Improving conditions outside of hospitality and tourism have contributed to a tight labour market in this region, with many industries reporting labour shortages. That is reflected in a sharply lower level of unemployment.

Outlook.

Economic activity in Otago should improve markedly over the coming year with the region set to narrow the performance gap with other regions.

Indeed, both hospitality and retail in the region are likely to get a near-term boost once boundary restrictions in the upper North Island are relaxed and the region can receive visitors from Auckland. The lifting of restrictions on foreign visitor arrivals is also likely to have a positive impact later in the year.

Further underpinning the outlook is the ongoing strong performance of agriculture. The region's meat farmers are already benefiting from record high farmgate prices, while we expect a record high milk price of \$9.00/kg for the 2021/22 season. We expect that a further weakening in the New Zealand dollar will give agricultural export prices another boost over 2022.

Meanwhile, homebuilding activity should continue to support the region's economy, especially given the huge amount of work that is still in the pipeline.

We expect the housing market to buck the overall positive trend. House price growth is set to slow over coming months, turning negative in the second half of the year. That said, there is potential for the housing market in Otago to outperform other regions given its relatively modest price gains over the past year.

Figure 1: Tourism card spending

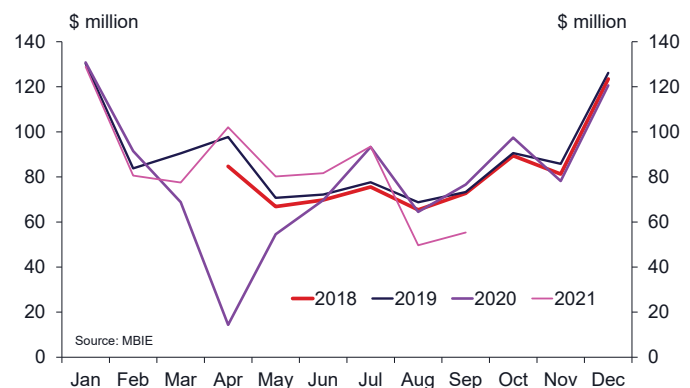


Figure 2: House prices and sales volumes

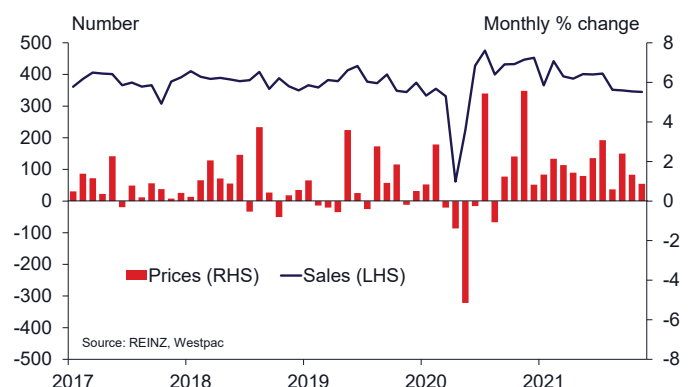
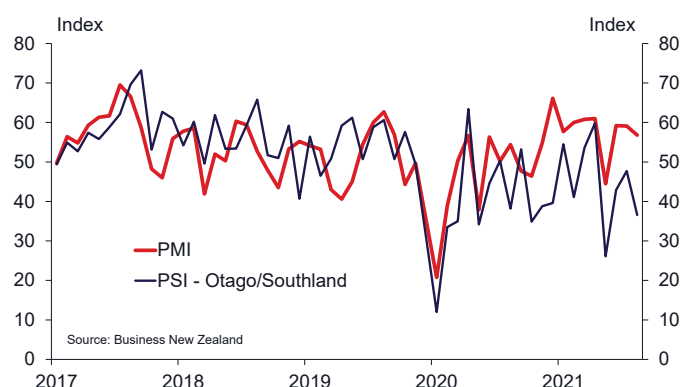


Figure 3: PMI/PSI - Otago



Current situation.

Less affected by Delta restrictions, economic activity in Southland has been strong.

That's reflected in spending in the region, which has continued to strengthen over recent months, despite the absence of foreign visitor arrivals.

And in that regard, the region continues to do it tough. Indeed, after having benefited earlier in the year from the opening of the Australia/New Zealand travel bubble, tourism spending slumped in September/October.

Fortunately, other industries have performed better. That includes the region's dairy and meat farmers, both of whom have benefited from rising prices.

Ditto for manufacturing, which has largely recovered from earlier Delta-related disruptions.

Exports have been the key driver of manufacturing activity in the region. In that regard, the aluminium smelter at Tiwai Point has benefited from higher aluminium prices, which remain at healthy levels. Several food manufacturing businesses in the region have also benefited from the global economic recovery.

At the same time, house prices continue to post record highs, although monthly gains have slowed. Sales volumes have also tracked lower in recent months.

Building activity remains elevated, with consent issuance at close to record levels.

Outlook.

We expect Southland's economy to post a strong performance in the coming year, boosted in no small part by the lifting of internal and external borders.

Indeed, both hospitality and retail in the region are likely to get a near-term boost once boundary restrictions in the upper North Island are relaxed and the region can receive visitors from Auckland. The lifting of restrictions on foreign visitor arrivals is also likely to have a positive impact later in the year.

The region's meat farmers are already benefiting from record high farmgate prices, while we expect a record high milk price of \$9.00/kg for the 2021/22 season. We expect that a further weakening in the New Zealand dollar will give agricultural export prices another boost over 2022.

The region is also likely to benefit from still-strong global demand for hard commodities. With the aluminium smelter at Tiwai Point now operating at full tilt, the Southland economy stands to gain from elevated aluminium prices (albeit somewhat off their recent decade highs).

Add to that the strength in homebuilding, which will continue to be a big driver of economic activity, given the amount of work that is still in the pipeline.

Meanwhile, house price growth in the region is set to slow over coming months, turning negative in the second half of the year. That slowdown could be quite steep given the very thin market that operates in this region.

Figure 1: Tourism card spending

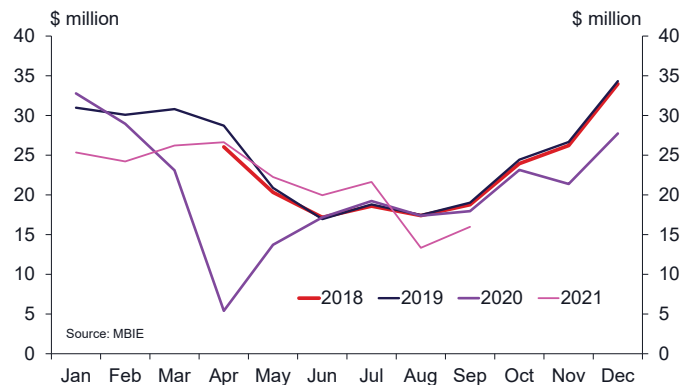


Figure 2: House prices and sales volumes

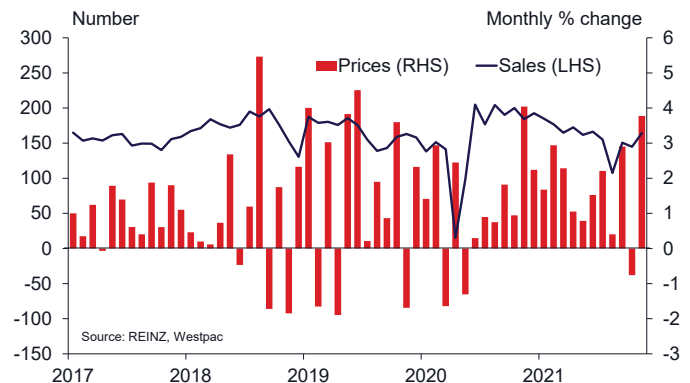
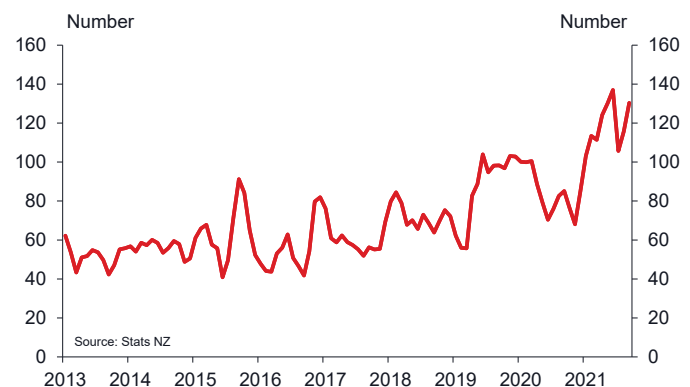


Figure 3: Residential building consents



Taranaki/Manawatu-Whanganui

Current situation.

Less affected by Delta restrictions, economic activity in the region has been strong.

That's reflected in retail spending in the region, which has continued to strengthen over recent months.

Conducive agricultural conditions are likely to have helped, with dairy, sheep and beef farmers in the region buoyed by very high, if not record prices.

The region's housing market has been red-hot, with prices in the Manawatu in particular continuing to outperform all others. That said, sales volumes in the region have tracked lower over time.

Building activity remains elevated. Consents, which accelerated earlier in the year, have now stabilised at just below record levels.

Meanwhile the region's big oil and gas producers will have benefited from higher global energy prices, despite declining production levels. That said, the industry has been heavily affected by closure of the borders, which has severely limited access to short-term skilled migrants.

At the same time, South Taranaki seems to be transitioning to cleaner energy, with a multimillion-dollar wind farm and solar park officially opening in June of this year.

A strong economic performance has contributed to a tightening labour market, evidenced by a sharply lower rate of unemployment.

Outlook.

We expect this region's economy will perform solidly over the coming year, although growth is set to moderate over the course of the year.

We expect agriculture to underpin the region's economy over 2022. The region's sheep and beef farmers are already benefiting from record high farmgate prices, while we expect a record high milk price of \$9.00/kg for the 2021/22 season. We expect that a further weakening in the New Zealand dollar will give agricultural export prices another boost over 2022.

At the same time, homebuilding should continue to support the region's economy, especially given the recent trend in building consent approvals.

On the negative side of the ledger, we expect that the oil and gas industry as well as forestry will face headwinds over the year. Both are likely to face lower export prices over the year and, in the case of oil and gas, ongoing falls in production.

At the same time, house price growth is set to slow over coming months, turning negative in the second half of the year. Over time, deteriorating wealth effects may begin to slow spending momentum in the region.

Figure 1: Residential building consents

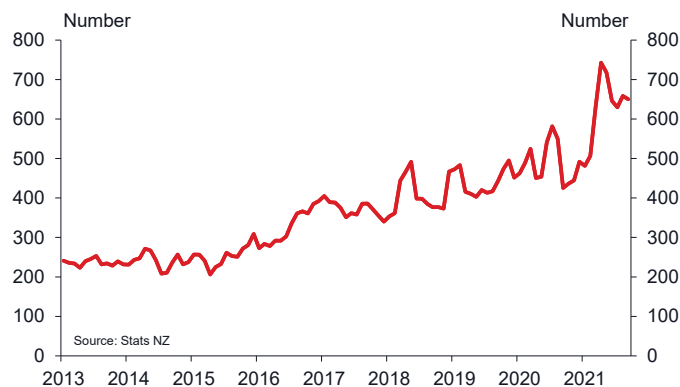


Figure 2: PMI/PSI - Central

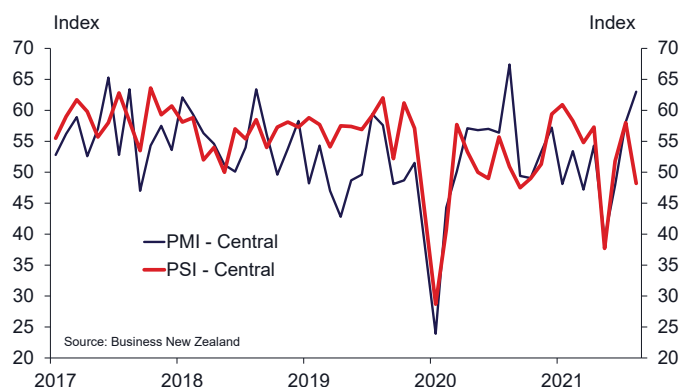
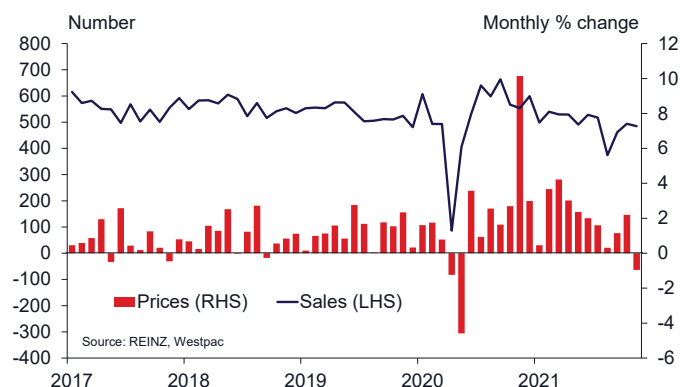


Figure 3: House prices and sales volumes



Waikato

Current situation.

Economic activity in the Waikato has been a bit up and down, reflecting the impact of intermittent snap lockdowns in much of the region, including Hamilton, as well disruptions caused by stringent restrictions in neighbouring Auckland.

To a large extent, the up and down nature of activity in this region is mirrored in spending, which has only recently recovered to pre-pandemic levels.

Part of that is likely to be because of the bursting of the travel bubble with Australia, and the impact that has had on the region's already under pressure hospitality and retail sectors. Restrictions on inter-regional travel with Auckland are also likely to have contributed.

That said, some industries have performed strongly, including the region's dairy and meat farmers, both of whom have benefited from very high, if not record prices.

Residential building activity also continues at pace. And the pipeline is full, with residential consent issuance running hot over the past few months. Ditto for non-residential activity, with several large business/commercial/industrial parks either in the process of being consented or under construction.

Meanwhile, the housing market has remained strong, with prices posting solid gains over the spring.

Despite weakened economic activity, labour conditions in the Waikato are tight, with firms preferring to look through the disruptions caused by Delta and keep workers on their books. That's reflected in record levels of employment in the region.

Outlook.

We expect Waikato to perform strongly over the coming year. The region is set to be among those who benefit most from the easing of lockdown restrictions and the gradual re-opening of internal and external borders.

At the same time, the region's meat farmers are already benefiting from record high farmgate prices, while we expect a record high milk price of \$9.00/kg for the 2021/22 season. We expect that a further weakening in the New Zealand dollar will give agricultural export prices another boost over 2022.

Meanwhile, homebuilding and commercial construction activity are likely to remain a key support for the region's economy, especially given the amount of work that is in the pipeline. That in turn should support regional manufacturing activity.

We expect the housing market, though, to buck the overall positive trend. House price growth is set to slow, turning negative in the second half of the year. That could dampen otherwise strong household spending in the region.

Figure 1: Tourism card spending

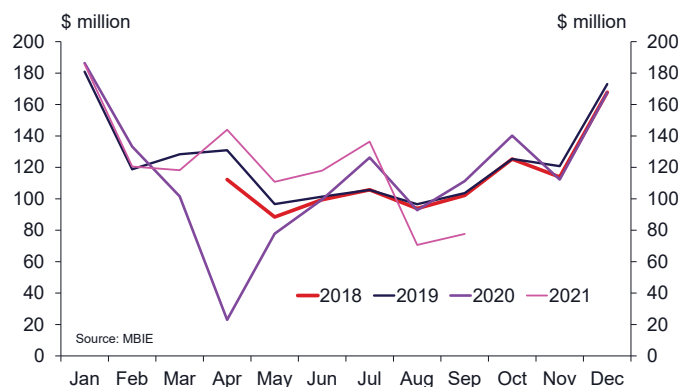


Figure 2: Residential building consents

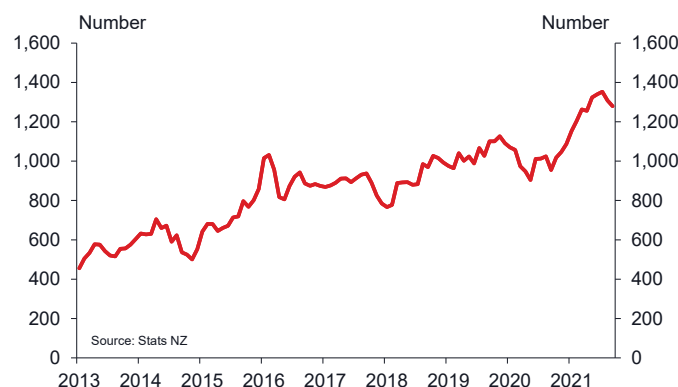
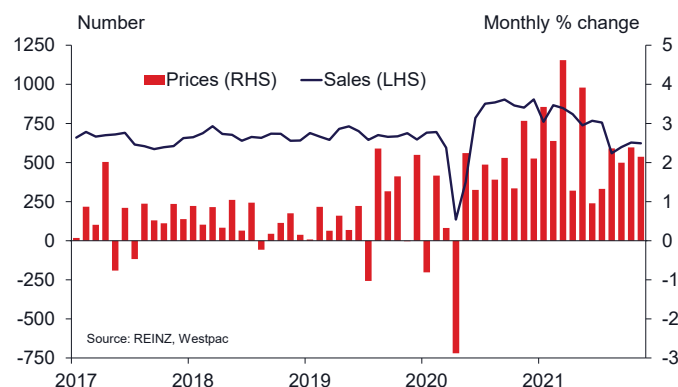


Figure 3: House prices and sales volumes



Current situation.

Economic activity in Wellington has remained buoyant, with the region largely insulated from the impact of Delta restrictions.

That's reflected in spending in the region, which has continued to strengthen over recent months.

The performance of the region's economy also reflects the importance of the public sector and its ability to operate normally despite the disruptions caused by Delta. That in turn has helped to support activity in other industries, including information technology, legal, consulting and other business services.

With working from home now the norm for many in the region, much of the spending seen in the capital has been in the suburbs, with retailers in the CBD reporting lower walk-in volumes.

Other industries have also been doing well. Indeed, residential building activity has been buoyant. After a period of consolidation, building consents have again picked up and are currently running at just below record levels.

The housing market has also been a strong performer, with the region continuing to post record high prices. Price growth remains strong, although monthly gains have eased markedly over the course of 2021.

As is the case in other regions, labour market conditions remain tight. Unemployment has fallen sharply in recent months, and that has supported household incomes in the capital.

Outlook.

We expect economic activity in Wellington to remain solid over the coming year.

Indeed, the region's hospitality and retail sectors are both likely to get a near-term boost from inter-regional travel, especially from Auckland. Further support should come from the gradual reopening of national borders to foreigners not put off by strict isolation requirements.

Ongoing growth in the public sector is likely to underpin activity levels in the capital next year. This activity is likely to include the centralisation of healthcare, and the legislative programme for reforming the provision of water. That in turn is likely to mean more work for industries that rely on government expenditure.

Meanwhile, homebuilding should continue to support the region's economy, with building consents expected to remain at elevated levels. Civil construction activity is also expected to support activity as the authorities in the capital address well-publicised infrastructure issues.

Bucking the positive trend, house price growth is set to slow, turning negative in the second half of the year. That in turn may mean less momentum in spending growth later in the year.

Figure 1: Residential building consents

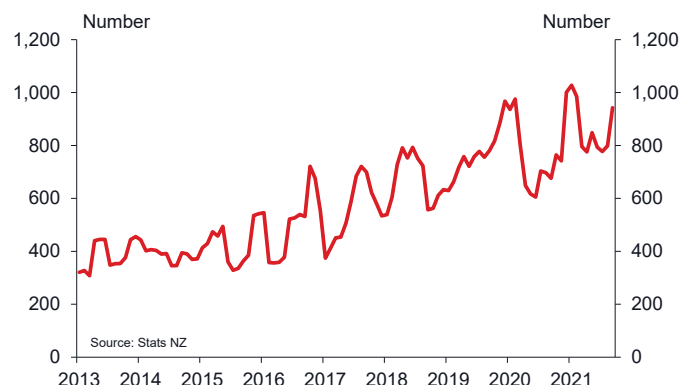


Figure 2: House prices and sales volumes

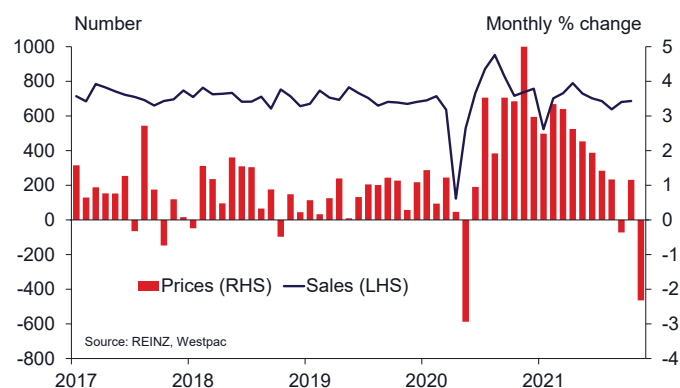
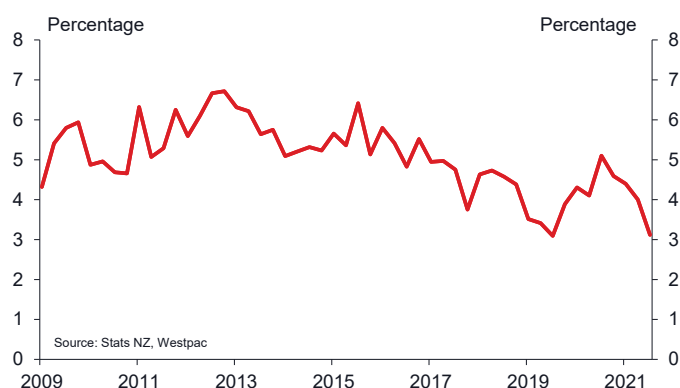


Figure 3: Unemployment rate



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