Regional Roundup.

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Contents.

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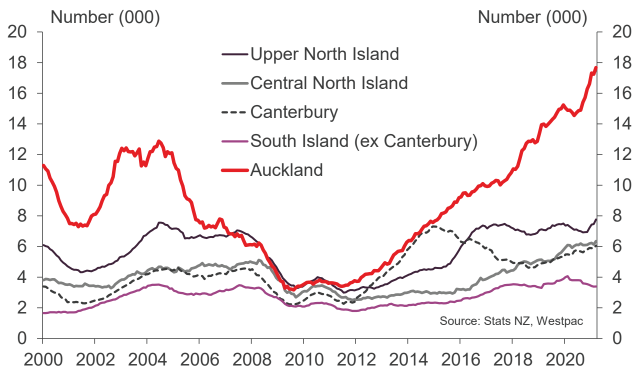
Summary.

New Zealand's recovery is gaining traction and we expect it will continue to strengthen over the year ahead. Rural regions are currently leading the way, although our larger metropolitan areas are likely to gradually close the performance gap. Regions that rely on foreign visitor arrivals will continue to lag.

Accelerating construction activity and rampant house prices have been key features of New Zealand's economic recovery and that is being reflected at a regional level. Indeed, building consents have skyrocketed in the past year, in some cases to record highs, as developers seeking favourable returns have piled in. While all regions have benefitted, the real standouts have been in the upper and central North Island, and Southland.

The rampant housing market has also been a key feature of regional economic recovery, with record prices the order of the day. The biggest gains have been in the rural regions in the North Island, with Gisborne/Hawke's Bay and Taranaki/Whanganui-Manawatu being the standouts. House prices in Auckland and Wellington have also shot the lights out, while those in Canterbury, having previously lagged their metropolitan counterparts, have now built a full head of steam.

Figure 1: Residential building consents - annual



Regions with a rural backbone continue to be the strongest performing regions. That includes the Bay of Plenty, Gisborne/Hawke's Bay, Taranaki/Whanganui-Manawatu, and Northland. All have benefitted from higher or elevated commodity prices. That said, weather issues and labour shortages have been a drag on agriculture and horticultural production.

Metropolitan regions are catching up, with economic activity becoming increasingly broad-based. Manufacturing in Auckland, Christchurch and Hamilton has really picked up. The construction boom has helped in this regard. So too exports underpinned by stronger economic growth in key markets. That in turn has driven activity in the services sector, with the red-hot housing market proving a boon for real restate operators. In the case of Wellington, the key driver has been an expanding public sector, boosted by a Government with a more hands-on approach to the economy.

Many rural regions have hardly felt the loss of visitor arrivals from abroad. Of course, that's not true for all regions. Our big metropolitan regions have been affected, although given the mix of activities that occur in Auckland and Wellington, the impacts have been less muted than for Otago, Southland, and the West Coast. These regions have and continue to feel the brunt of the border closures, despite the recent opening of the travel bubble with Australia.

Looking forward, we think that recently announced changes to the tax treatment of property investments will result in a cooling of the housing market in many regions. That's likely to slow the recovery in consumer spending. The possible exceptions could be Canterbury and Otago, where gains have not been as strong as elsewhere, and where price valuations are not overly stretched.

Construction activity though is likely to remain strong across most regions, given already full pipelines and still attractive returns to investors.

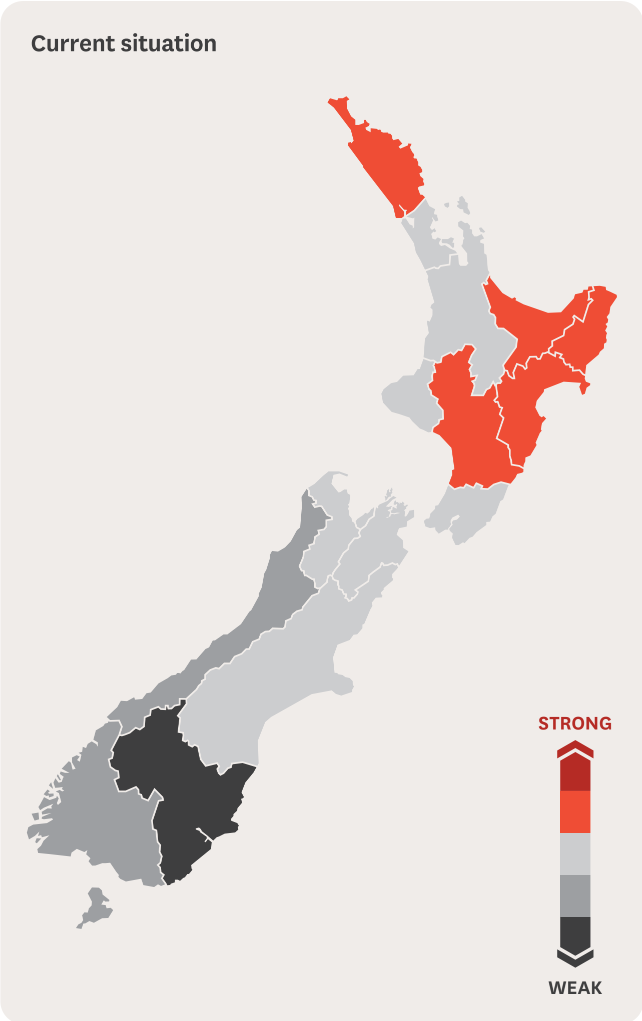
Regions with a large rural backbone are still well set for the year ahead, with commodity prices expected to remain high in coming months as the global economy continues to expand. Metropolitan regions though will close the gap. Indeed, a hot construction sector is likely to spell better times ahead for manufacturers in Auckland, the Waikato and Canterbury, who are also likely to be buoyed by stronger economic growth in key export markets. That in turn is likely to give the services sector a boost and support employment in these major centres.

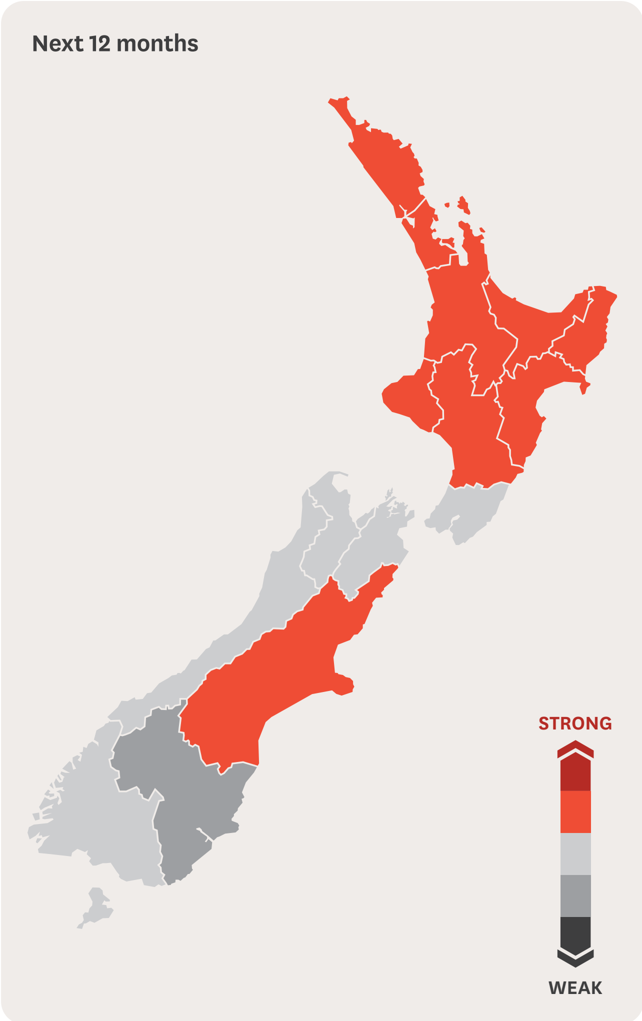
However, regions that rely on foreign tourism will continue to lag. Indeed, we expect that they will only start recovering properly once the borders are opened to visitor arrivals from countries other than Australia. Given the pace of Covid-19 vaccinations, both at home and abroad, that is likely to be some time off.

Boiling this complicated picture down to a single outlook for each region gives us the picture overleaf. The outlook continues to be generally weaker for the southern part of the South Island, while for the middle and top of the North Island, it is likely to be stronger. Some of the biggest gains, however, are likely to be seen in the large urban centres of Auckland and Canterbury.

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 is building momentum.

In part that's because residential construction activity in the region is running hot. Supported by low interest rates and strong house price gains, building consents, particularly for higher density homes such as townhouses and flats, have ramped up and are currently at levels last seen in the 1970s.

Increasing construction activity has also helped to boost manufacturing in the region. Manufacturers are reporting strong trading activity and order books are filling up fast. Exports have also been a key driver of activity with manufacturers benefitting from stronger economic growth in key markets.

A booming construction sector and growth in manufacturing has meant more demand for labour and business services within the region. Real estate services have benefitted from stronger housing market activity.

Meanwhile, the region's housing market is powering ahead. House prices have accelerated to record levels over the past six months as leveraged investors, accounting for about one-third of sales, have sought yield in a historically low interest environment.

A stronger economic performance has supported spending in the region, which in turn has given retailers a bit of a boost. Card spending remains slightly lower than pre-Covid-19 levels despite Aucklanders having spent large with offshore holidays effectively off limits.

Outlook.

We expect Auckland's economic recovery to continue strengthening over the coming year.

Residential construction activity is underpinning the outlook, with a huge amount of work in the pipeline.

Manufacturing will also continue to benefit from the expected ramp up in construction activity. Exporting manufacturers are also well positioned to take advantage of improving global economic fortunes and the eventual normalisation of supply chains.

In time, we expect house prices in Auckland to stabilise given recently announced changes to the tax treatment of investment properties.

The region should continue to see increased visitor arrivals from Australia come summer. Auckland is one of the few regions in New Zealand that stands to benefit from the recently formed travel bubble with that country. That said, with the lifting of border restrictions on visitor arrivals from other countries still undetermined, the return to heady pre-Covid-19 days remains a long-way off.

A general improvement in economic conditions within the region is likely to translate into more demand for labour. That in turn should help support spending in the region, although gains here are likely to be pared by a softer housing market.

Figure 1: Residential building consents

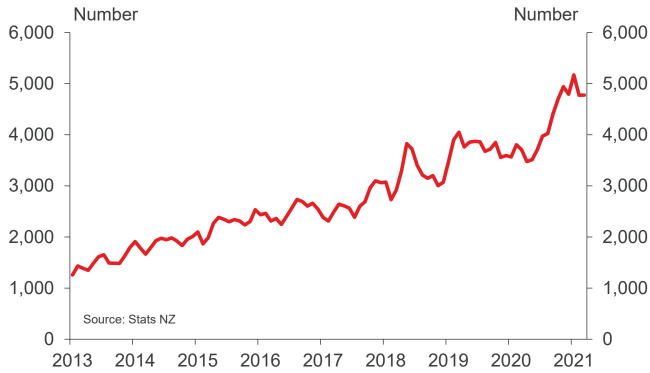


Figure 2: PMI/PSI - Northern

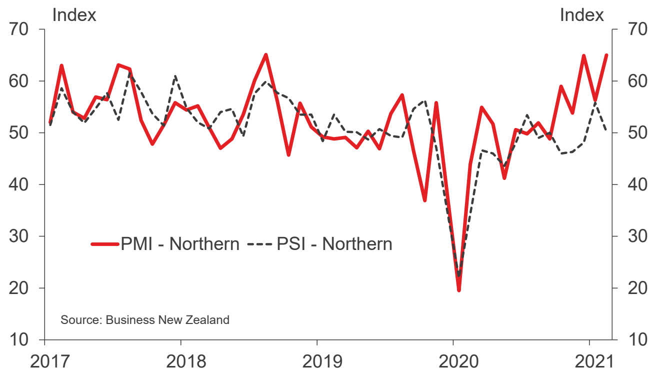
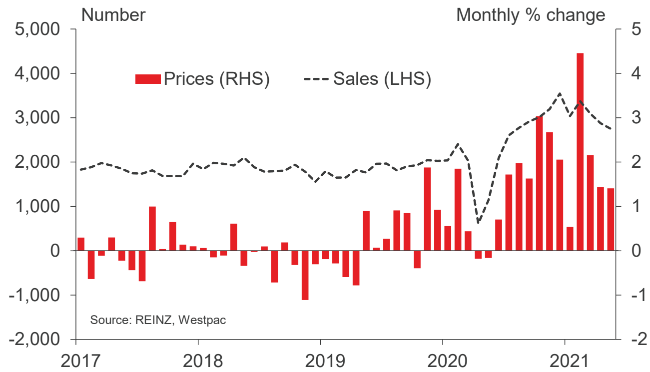


Figure 3: House prices and sales volumes



Bay of Plenty.

Current situation.

The Bay of Plenty's economy continues to perform strongly, with major contributions coming from horticulture, forestry, and construction.

Indeed, residential building activity in the region is growing fast with approved consent applications having accelerated strongly over the past six months.

The horticultural sector is also performing well with export volumes of kiwifruit reflecting the impact of earlier plantings. With prices remaining elevated, export receipts for kiwifruit have reached record highs.

Similarly, forestry owners in the Bay of Plenty continue to benefit from strong demand in China for logs and higher export prices. Log prices have jumped 20% over the past six months.

Meanwhile, house prices, underpinned by record low interest rates, have accelerated to new highs. Sales volumes have stabilised at around pre-Covid-19 levels.

A booming local economy will have contributed to stronger demand for labour, and to lower unemployment. On that front, news that the Whakatane Mill, a major packaging plant in the region, has secured a buyer will have come as a relief to the 200 or so workers that stood lose their jobs. Not so good was confirmation that Norske Skog's Tasman pulp and paper mill at Kawerau will close with the loss of 160 jobs.

A strong economic performance has supported spending in the region, which in turn has given retailers a bit of a boost. However, card spending has not yet got back to pre-Covid-19 levels.

Outlook.

We expect the Bay of Plenty will continue to perform strongly over the coming year. Gains though are likely to slow compared to 2020.

Indeed, growers of horticultural products in this major growing region should continue to benefit from a larger kiwifruit harvest and strengthening demand in export markets. Prices are likely to remain healthy, albeit slightly down on 2020 levels. On an overall basis that should translate into elevated incomes for the region's orchardists.

The outlook for the region's forestry sector remains positive with a fast-growing Chinese economy expected to underpin export strength out of the region over the coming year. Log prices could get a further leg up from a drop in transport costs over the coming year once capacity shortages in shipping are resolved and supply chains begin to normalise.

In time, we expect house prices in the Bay of Plenty will stabilise given recent changes to the tax treatment of investment property.

By contrast, residential construction activity should remain elevated for much of the next year. In large part that's because of attractive developer returns, which are likely to underpinned by elevated house prices and still very low interest rates.

Raised activity should continue to underpin a further improvement in labour market conditions. That should feed into consumer spending, although growth in this regard is likely to be weighed down by the impact of a weaker housing market.

Figure 1: Residential building consents

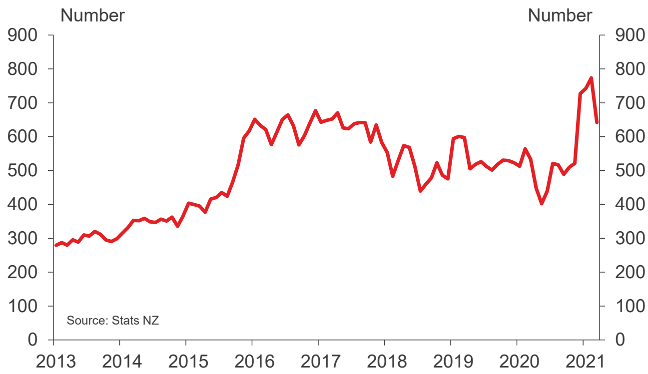
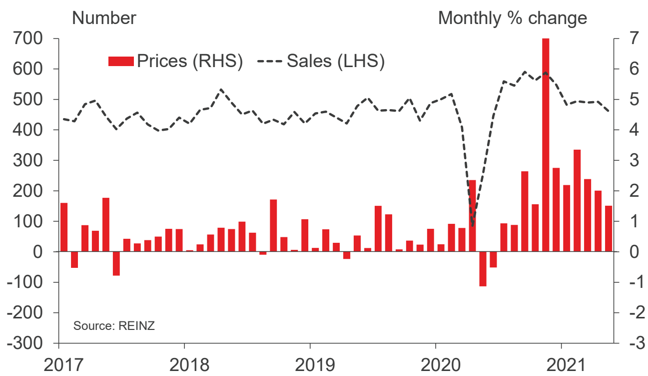


Figure 2: House prices and sales volumes



Canterbury.

Current situation.

Economic activity in Canterbury continues to improve and is also becoming more broad-based.

First up, the region's farmers will have been buoyed by a 25% increase in the milk price since the beginning of the year, as well as the recent turnaround in meat prices. However, widespread recent flooding in the region will have dampened the mood.

Residential construction activity has also picked up, reflecting an increase in building consents. With average consent times exceeding the 20-working day statutory time frame, indications are that the pipeline of work in the region is getting bigger.

That's helped to support manufacturing activity in the region, with many firms reporting increased trading activity and filled order books. Exports have also been a key driver of manufacturing in the region with firms benefitting from stronger economic growth in key markets.

Consumer spending though remains well off pre-Covid-19 levels. That partly reflects the impact of a lack of foreign visitors during the summer period, with Canterbury often acting as a gateway to other regions, as well as unemployment in associated industries, such as hospitality, which continues to edge higher.

Meanwhile, house prices, initially off to a slow start, have accelerated strongly in recent quarters. In contrast to other regions, price gains in Canterbury are growing at an increasingly faster pace, with sales volumes still well above pre-Covid-19 levels.

Outlook.

Canterbury's economic recovery is well set and should gather pace over the coming year. That should help it close the gap on other regions.

Indeed, the region's sheep, beef and dairy farmers stand to benefit from rising farmgate prices. Prime meat prices are set to accelerate over the course of the year as the Covid-19 vaccine rollout gathers pace in the US, Europe and the UK, and people head back to the restaurants.

With a growing pipeline of work, residential construction activity is expected to be strong over the coming year. A ramp up in consents in the past year mostly reflects attractive developer returns, which have been underpinned by elevated house prices and very low interest rates.

In turn, manufacturing should benefit from elevated construction activity. Exporting manufacturers are also well positioned to take advantage of an improvement in global economic fortunes and the normalisation of supply chains.

Service sector activity should continue to benefit from conducive conditions in the manufacturing and construction sectors over the coming year. However, the closure of the borders to all foreign tourists (except Australians) should keep a lid on activity in the region's hospitality sector.

Meanwhile, house prices in the region should stabilise given recent changes to the tax treatment of investment properties. However, house prices in Canterbury may prove more resilient because of relative price differentials with other metropolitan regions, and valuations that don't appear to be stretched.

Figure 1: PMI/PSI

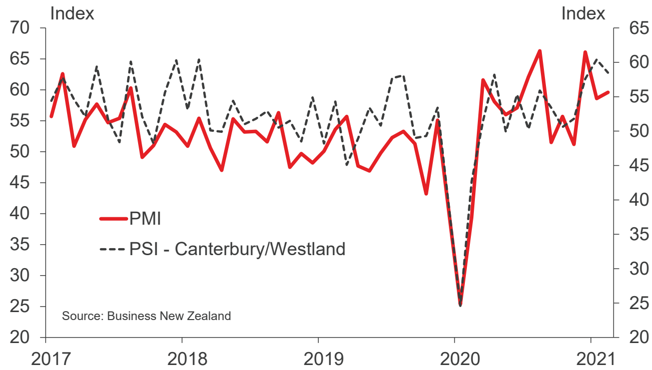


Figure 2: Residential building consents

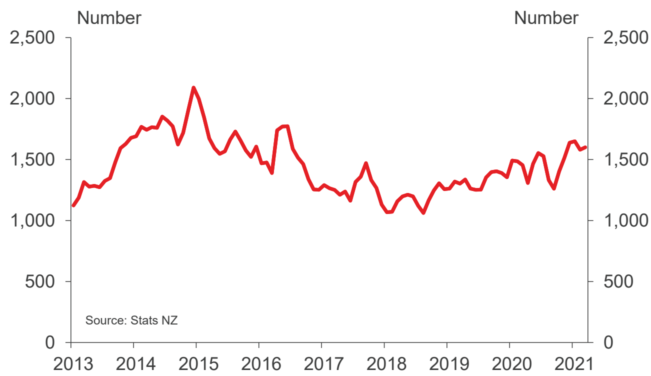
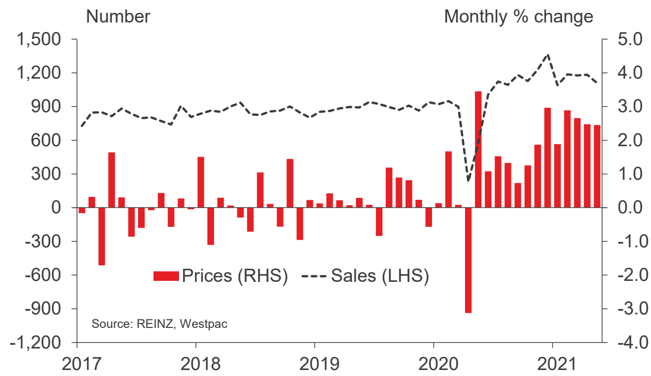


Figure 3: House prices and sales volumes



Gisborne/Hawke's Bay.

Current situation.

This region's economy has been performing strongly mainly because of the performance of primary industry in the region and increased construction activity.

Indeed, residential construction activity in the region is running hot. Supported by low interest rates and strong house price gains, building consents are currently running at record levels.

For farmers and growers, it's been a tough start to the year, with the region affected by drought conditions and labour shortages in some areas. That said, the region's farmers will have been buoyed by a recent turnaround in sheep and beef prices, which have benefitted from growing demand in key export markets.

Orchardists too have seen relatively healthy prices for apples, albeit slightly down on last year. The size of the crop is also significantly lower with fruit being left to rot because of labour shortages. Meanwhile, forestry owners in the region continue to benefit from strong export prices. Log prices have jumped 20% over the past six months.

A rampant housing market has also contributed to the booming local economy, having outperformed all others. However, after continuing to grow at breakneck speed, prices dipped slightly in May.

A strong economic performance has contributed to a pickup in demand for labour and falling unemployment in the region. That in turn has contributed to more consumer spending, with retail sales significantly up on the same time last year.

Outlook.

We expect the Gisborne/Hawke's Bay economy to perform strongly over the coming year. Indeed, we expect the region will continue to be one of the top performing regions in New Zealand.

A big part of that is likely to be because of residential construction activity, which is expected to grow strongly over the coming year given the amount of work in the pipeline.

The region's meat farmers also stand to benefit from higher farmgate prices. Prime meat prices are set to accelerate over the course of the year as the Covid-19 vaccine rollout gathers pace in the US, Europe and the UK, and people head back to the restaurants. Farm incomes are, however, likely to be affected by the lingering effects of the recent drought.

That said, the region's apple growers are likely to see lower incomes over the coming year because of a smaller apple crop and flat to falling prices.

The outlook for the region's big forestry sector remains positive with a fast-growing Chinese economy expected to be the key driver of log exports out of the region over the coming year. Log prices could get a further leg up from a drop in transport costs over the coming year once capacity shortages in shipping are resolved and supply chains normalise.

Meanwhile, house prices in the region are expected to stabilise over the coming year given recent changes to the tax treatment of investment properties.

A strong economic performance is likely to underpin an improvement in labour market conditions. A further fall in unemployment should feed into more spending, although the pace of growth is likely to be pared by an expected flattening of housing prices.

Figure 1: Residential building consents

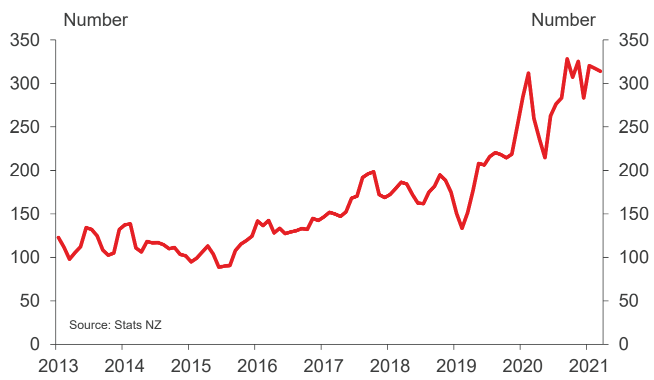
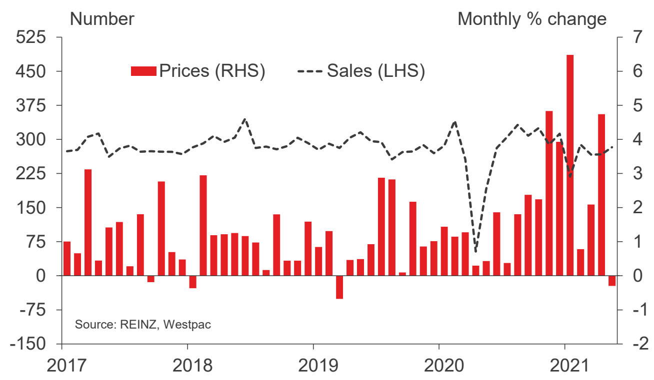


Figure 2: House prices and sales volumes



Nelson/Marlborough/West Coast.

Current situation.

Economic activity at the top of the South has been solid rather than spectacular, mainly because of a mixed performance from its primary industry.

Orchardists have continued to benefit from relatively healthy prices for apples. However, the size of the crop has been significantly lower than in the past with fruit being left to rot because of labour shortages. Meanwhile, forestry owners in the region continue to benefit from strengthening demand in China for logs and higher export prices.

Not so good are conditions facing viticulture in the region, with severe frost in the spring of 2020 contributing to a much smaller grape harvest in 2021. Despite being of a high quality, this is likely to have adversely affected the income of both grape growers and winemakers in this major producing region.

That said, residential construction activity remains relatively buoyant, with approved consents at healthy levels. They are, however, well off pre-Covid-19 highs and seem to be tracking lower over time.

Meanwhile, house prices, underpinned by record low interest rates, have accelerated in recent months to new record highs. That said, while monthly price gains have been very strong, sales have ratcheted down recently.

Firm economic activity is likely to have contributed to a pickup in demand for labour. That should have translated into more spending. We suspect the sharp fall in retail sales over recent quarters reflects the fact that there have been fewer people picking fruit in the region.

Outlook.

On balance, we expect economic activity in this region to continue firming over the coming year.

Indeed, the outlook for the region's forestry sector remains positive with a fast-growing Chinese economy expected to be the key driver of log exports out of the region over the coming year. Log prices could get a further leg up from a drop in transport costs over the coming year once capacity shortages in shipping are resolved and supply chains normalise.

Residential construction activity should also be relatively buoyant, given the amount of work still in the pipeline. Meanwhile, house prices in the region are expected to stabilise over coming quarters given recent changes to the tax treatment of investment properties.

The news isn't quite as good for the region's apple growers, who are likely to see lower incomes over the coming year because of a smaller apple crop and flat to falling prices.

The region's grape growers and winemakers are also likely to face some challenging times over the coming year. While strengthening demand should translate into higher prices, a significantly smaller harvest is likely to mean less income for grape growers and winemakers in the region.

Firming activity levels are likely to result in more job vacancies. That should mean increased employment, more spending, and improved operating conditions for the region's retailers.

Figure 1: House prices and sales volumes

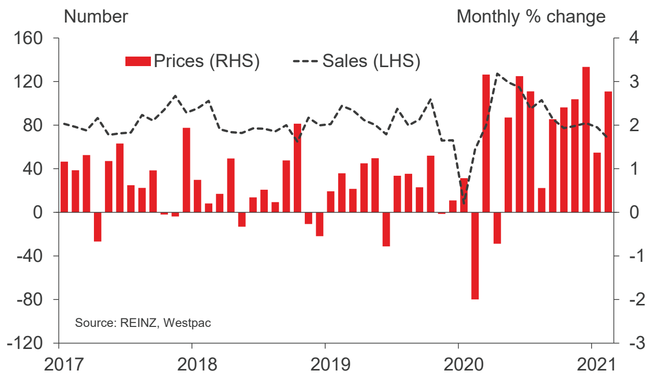


Figure 2: Residential building consents

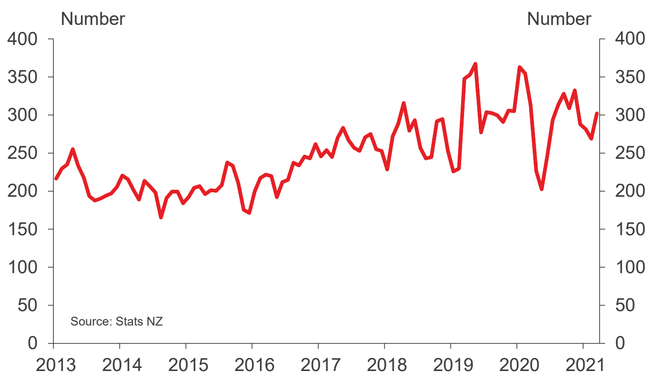
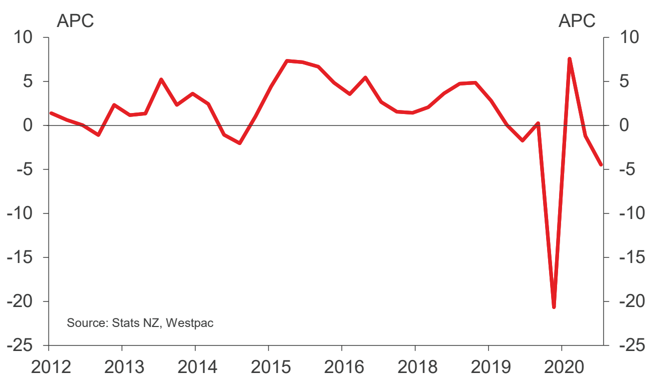


Figure 3: Retail sales



Northland.

Current situation.

The Northland economy continues to perform strongly because of a strong performance from its primary industry,

Indeed, the region's farmers will have been buoyed by a 25% increase in the milk price since the beginning of the year, reflecting surging economic growth in China, as well as a recent turnaround in meat prices, which will also have boosted farmgate incomes. Forestry owners in the region are also likely to have benefitted from strengthening demand in China for logs and higher export prices. Log prices have jumped 20% over the past six months.

The region's horticultural sector has also performed well, with kiwifruit exports finding favour in overseas markets. Growers continue to benefit from elevated prices, although worker shortages remain a concern for some.

Meanwhile, residential construction activity in the region is red hot. Indeed, building consents have skyrocketed over the past year, and are currently running at record levels.

A strongly performing housing market has also contributed to a booming local economy. That said, monthly price gains are starting to soften, while sales volumes have come off and are now lower than they were pre-Covid-19.

A strong economic performance has also contributed to a big pickup in demand for labour and that's contributed to falling unemployment in the region. That in turn has supported consumer spending, with retail sales significantly up on the same time last year.

Outlook.

Northland is set for a strong year and although the pace is likely to slow, we are picking it to retain its position as one of this country's top performing regions.

Indeed, the region's sheep, beef and dairy farmers stand to benefit from rising farmgate prices. Prime meat prices are set to accelerate over the course of the year as the Covid-19 vaccine rollout gathers pace in the US, Europe and the UK, and people head back to the restaurants. That should translate into higher farmgate incomes.

Similarly, we expect growers of horticultural products in this major growing region to continue to benefit from a larger kiwifruit harvest and healthy prices. That should translate into still elevated incomes for the region's orchardists.

The outlook for the region's big forestry sector remains positive with a fast-growing Chinese economy expected to be the key driver of log exports out of the region over the coming year. Log prices could get a further leg up from a drop in transport costs over the coming year once capacity shortages in shipping are resolved and supply chains normalise.

House prices though are expected to stabilise over coming quarters given recent changes to the tax treatment of investment properties and the recent slowdown in sales volumes in the region. By contrast, residential construction activity in the region should strengthen further, given the large amount of work still in the pipeline.

A strong economic performance is likely to translate into more jobs with demand for labour having ticked up recently. That in turn should feed into spending, which suggests a firming in retail activity.

Figure 1: House prices and sales volumes

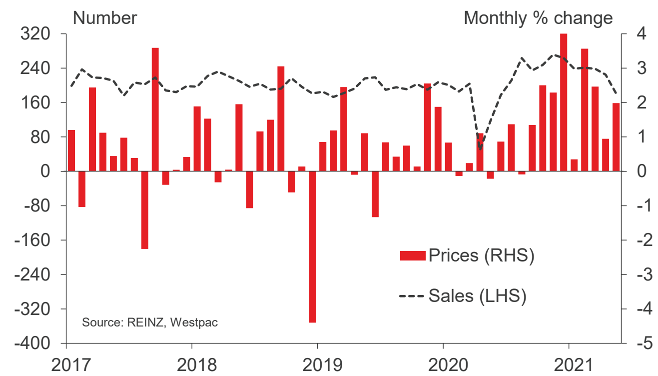


Figure 2: Residential building consents

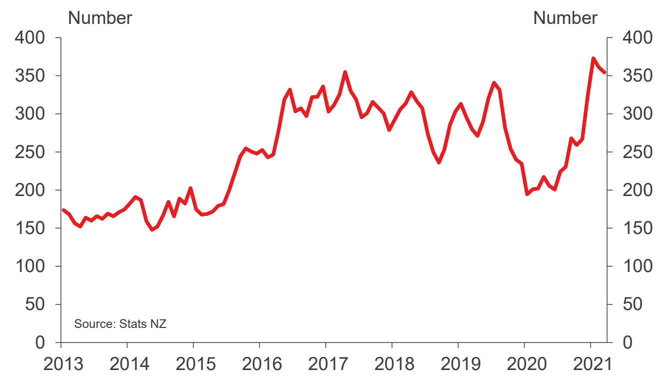
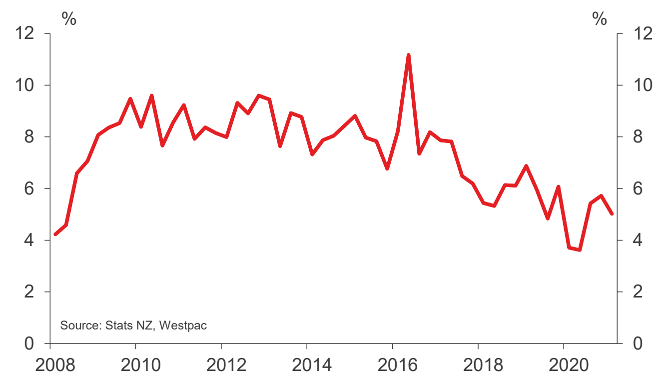


Figure 3: Unemployment rate



Otago.

Current situation.

The Otago region is doing it tough. Economic activity continues to be heavily affected by the closure of New Zealand's borders.

Indeed, the loss of visitor arrivals and international students from abroad has been particularly disruptive for the many businesses operating in the region's services sector. That said, a recently announced $100m package of investments, focusing on reinvigorating tourism in the South Island, will have gone down well in this beleaguered region.

The region will also have been given a lift by the performance of agriculture. The region's farmers will have been buoyed by a 25% increase in the milk price since the beginning of the year, reflecting surging economic growth in China, as well as a recent turnaround in meat prices, which will also have boosted farmgate incomes.

Ditto for the region's summer fruits, such as grapes used for winemaking, which unlike other producing regions, has experienced conducive weather conditions, resulting in a good yield.

Regional manufacturing activity has also picked up. Exports have been a key driver with manufacturers benefitting from improved global economic growth. Converting the hillside works in Dunedin into a rail rolling stock assembly plant will have gone down well.

However, in contrast to other regions, residential construction activity in Otago has started to flatten off, with building consent approvals back to levels last seen in 2018. That said, building consent approvals in the Queenstown-Lakes district increased sharply earlier this year.

Spending also remains under the cosh despite rising house prices, with retail sales in deep negative territory. The region's housing market has performed reasonably well, although with confidence in the region at a low ebb, price gains have been significantly lower than those achieved in other regions.

Outlook.

Economic activity in Otago is expected to show some improvement over the coming year. However, it will continue to lag other regions because of its exposure to international tourism.

That said, Otago is one of the few regions in the country that stands to really benefit from the recently formed travel bubble with Australia, especially with the winter skiing season now upon us.

The region's sheep and beef farmers also stand to benefit from rising farmgate prices. Prime meat prices are set to accelerate over the course of the year as the Covid-19 vaccine rollout gathers pace in the US, Europe and the UK, and people head back to the restaurants.

Similarly, growers in the province should also benefit from strong demand and still elevated prices for horticultural products in key exports. A high yielding grape harvest bodes well for wine production over the coming year. The region's winemakers are also likely to benefit from stronger export demand, particularly in the US market.

Meanwhile, house prices in the region are expected to stabilise over the next year given changes to the tax treatment of investment properties and slowing sales volumes. That said, there is potential for the housing market in Otago to do better than in other regions given relative price gains over the past year. The Queenstown Lakes District may also benefit from being more reliant on overseas money rather than local investors.

Residential construction activity is also likely to plateau given the pace of building consent approvals in the region.

On balance, we think that a better economic outlook is unlikely to be reflected in a substantive improvement in the region's labour market. Indeed, the key driver for consumer spending is much more likely to be still rising house prices, which we expect to do relatively well over the coming year.

Figure 1: Tourism electronic card spending

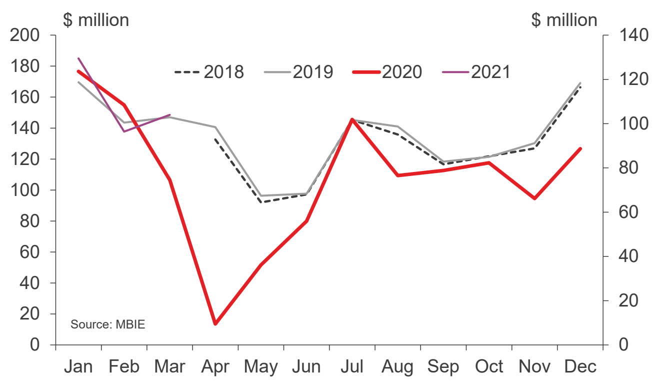
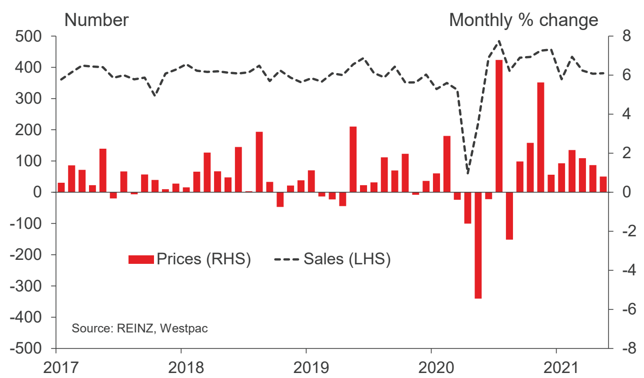


Figure 2: House prices and sales volumes



Southland.

Current situation.

Economic activity in Southland has firmed over recent quarters, with activity across several key sectors showing an improvement.

Indeed, residential construction activity in the region has been running hot. Supported by low interest rates and strong house price gains, consent issuance in the region has been building a head of steam and is currently running at record levels.

Dairy has also done well. Farmers in this big dairy producing region will have been buoyed by a 25% increase in milk prices since the beginning of the year, reflecting surging economic growth in China, as well as a recent turnaround in farmgate meat prices. Healthy price levels will have supported farmgate incomes in the region.

Meanwhile, the region's manufacturing sector has picked up. Exports have been a key driver of manufacturing activity, with the region's largest employer, the Tiwai Point aluminium smelter benefitting from a recovery in global economic fortunes. Although uncertainties remain, greater clarity on the smelter's future will have increased confidence in the region.

That said, the loss of international visitor arrivals to this tourism dependent region has been felt, especially during the peak summer months, and remains a big drag on economic activity in the region.

Meanwhile, the region's housing market has done well, although price gains have not been quite as impressive as in other regions.

Firmer activity is likely to have contributed to a recent pickup in demand for labour. Unemployment though has ticked higher, and that may help explain why retail sales growth in the region remains in negative territory.

Outlook.

We expect economic activity in Southland to strengthen over the coming year. However, the region will continue to underperform compared to New Zealand's top performing regions, mainly because of its reliance on international tourism.

Indeed, the region's sheep, beef and dairy farmers stand to benefit from rising farmgate prices. Prime meat prices are set to accelerate over the course of the year as the Covid-19 vaccine rollout gathers pace in the US, Europe and the UK, and people head back to the restaurants. That, in turn, should support farmgate incomes in the region.

The big Tiwai point smelter should also get a lift from still rising commodity prices. After posting a loss for the 2020/21 year, the region's largest employers are likely to move into the black over the coming year as rising global demand underpins the price for high quality aluminium.

The region's also stands to benefit more than most from the recent opening of the travel bubble with Australia. However, with the gradual lifting of border restrictions on visitor arrivals from other countries only likely to start sometime in 2022, the return to heady pre-Covid-19 days remains a long-way off.

Meanwhile, house prices in the region should stabilise in coming quarters given recent changes to the tax treatment of investment properties. By contrast, residential construction activity should strengthen over the coming year, with a large amount of work still in the pipeline.

Improving economic fortunes should translate into more jobs and with demand for labour having ticked up recently, that is likely to mean a further drop in the jobless rate. That in turn should feed into consumer spending, implying better times ahead for the region's retailers.

Figure 1: Residential building consents

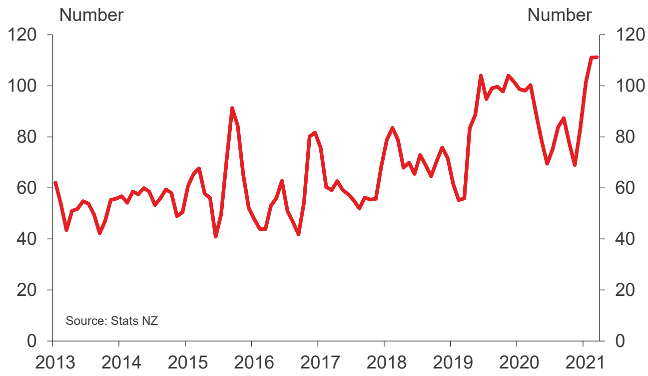
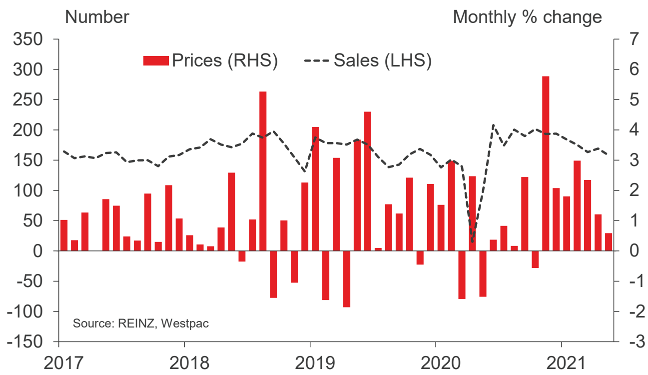


Figure 2: House prices and sales volumes



Taranaki/Manawatu-Whanganui.

Current situation.

The Taranaki/Manawatu-Whanganui region is performing strongly because of favourable conditions in agriculture, forestry, construction, and more recently, the energy sector.

Indeed, the region's forestry sector continues to benefit from strong Chinese demand, with export log prices having jumped 20% over the past six months. Similarly, farmers in region will have been buoyed by a 25% increase in milk prices since the beginning of the year. Healthy price levels have supported farmgate incomes in the region.

Meanwhile, residential construction activity in the region is red hot. Supported by low interest rates and strong house price gains, consent issuance in the province has accelerated in recent months and is currently running at record levels.

A rampant housing market has also contributed to the strong local economy, outperforming those in most other regions.

Taranaki's oil and gas sector has also done better with the global economic recovery pushing up energy prices.

Not so good was news that Methanex had put its Waitara Valley methanol plant on the go slow after failing to secure adequate gas supplies.

Stronger economic activity in the region has underpinned an improvement in labour market conditions. Online job vacancies have skyrocketed recently. That together with a strong housing market performance is likely to explain why consumer spending in the region has strengthened recently.

Outlook.

We expect economic activity in this region is likely to continue to strengthen over the coming year.

For one thing, the region's energy sector is likely to benefit from elevated crude oil prices. The region is also likely to benefit from sustained demand for methanol as global economies rebuild post Covid and natural gas-based methanol becomes increasingly regarded as a cleaner burning fuel.

The region's dairy farmers stand to benefit from high milk prices. Ditto for forestry, with log prices likely get a further leg up from a drop in transport costs over the coming year as capacity shortages in shipping are finally resolved and supply chains normalise.

Meanwhile, house prices in the region are expected to stabilise over the coming year, mainly because of changes made to the tax treatment of investment properties. Slowing sales volumes and weaker monthly price gains also suggest that house prices in the region will start to flatten off.

That said, residential construction activity in the region is likely to strengthen given a recent acceleration in building consent applications and the volume of work already in the pipeline.

Strengthening activity should mean more jobs for the region. That in turn should feed into more spending, bringing further cheer to the region's retailers.

Figure 1: Residential building consents

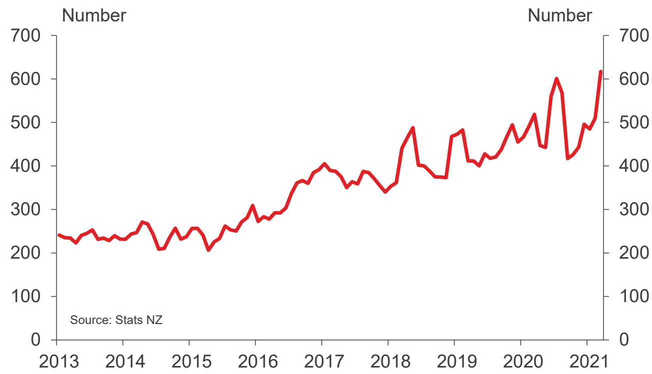


Figure 2: PMI/PSI – Central

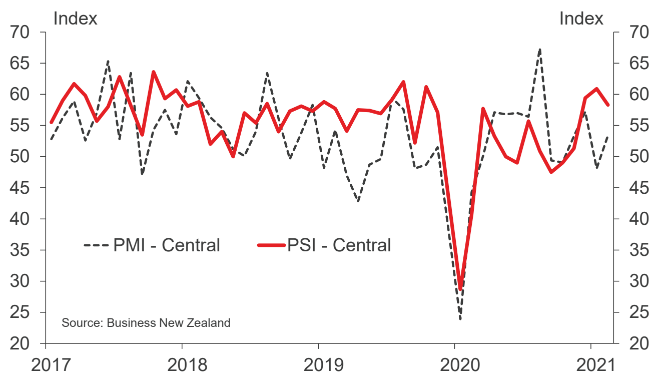
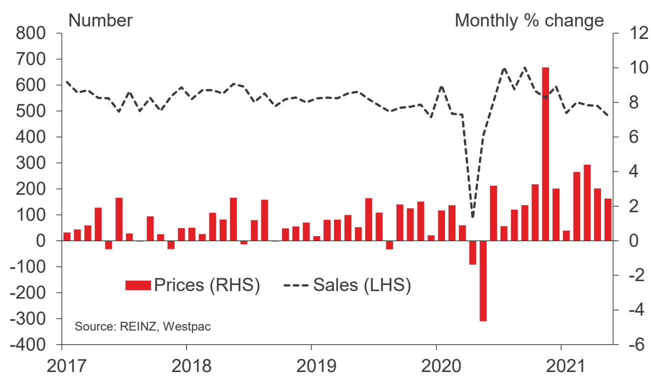


Figure 3: House prices and sales volumes



Waikato.

Current situation.

Economic activity in the Waikato has strengthened and is becoming more broad-based with big contributions coming from the primary, construction and manufacturing sectors.

Indeed, farmers in this big dairy producing region will have been buoyed by a 25% increase in the milk price since the beginning of the year, reflecting surging economic growth in China, as well as a recent turnaround in meat prices. Healthy price levels have supported farmgate incomes in the region.

At the same time, the region's forestry sector continues to benefit from strong Chinese demand.

Meanwhile, residential construction activity in the region is red hot. Supported by low interest rates and strong house price gains, consent issuance in the province has accelerated in recent months and is currently running at record levels.

A ramp up in construction in turn has benefitted manufacturing activity in the region. Firms are reporting increased trading activity and fast filling order books. Manufactured exports are also benefitting from the global economic recovery. News that a proposed billion dollar industrial and housing development at Ōhinewai has been given the green light will have been broadly welcomed.

A strongly performing housing market has also contributed to the region's strong economic performance. That in turn has contributed to a pickup in spending, with retail sales sharply up on last year.

Outlook.

We expect the broad-based expansion underway in Waikato to gain further momentum over the coming year, with most sectors expected to make positive contributions. That should help it close the performance gap with high performing rural regions.

Indeed, with a massive amount of work in the pipeline, residential construction activity is likely to be a strong contributor over the coming year. News that Hamilton City Council is struggling to keep up with consent applications is consistent with this view.

The region's meat and dairy farmers also stand to benefit from higher prices. Prime meat prices are set to accelerate over the course of the year as the Covid-19 vaccine rollout gathers pace in the US, Europe and the UK, and people head back to the restaurants.

Meanwhile, the region's manufacturers are well set to benefit from an expected pickup in residential construction activity. Exporting manufacturers are also well positioned to take advantage of a further improvement in global economic fortunes and the normalisation of supply chains.

House prices though should stabilise in coming quarters given recently announced changes to the tax treatment of investment properties.

Strengthening activity in the region should mean more jobs. With demand for labour having increased recently, the likelihood is that the labour market will tighten over the coming year. That in turn should feed into more consumer spending, bringing further cheer to the region's retailers.

Figure 1: Residential building consents

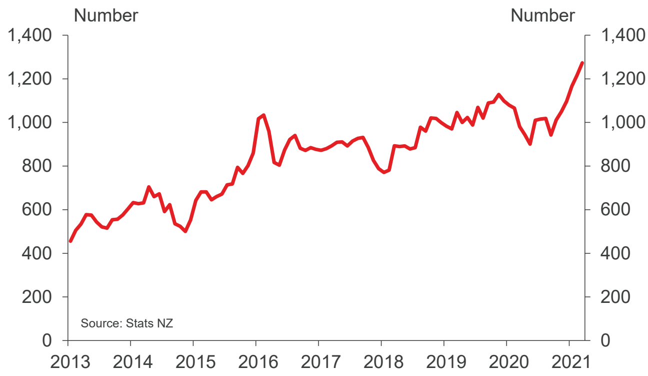


Figure 2: PMI/PSI - Northern

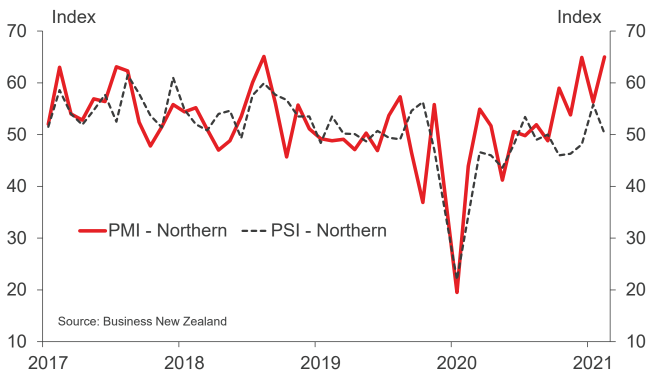
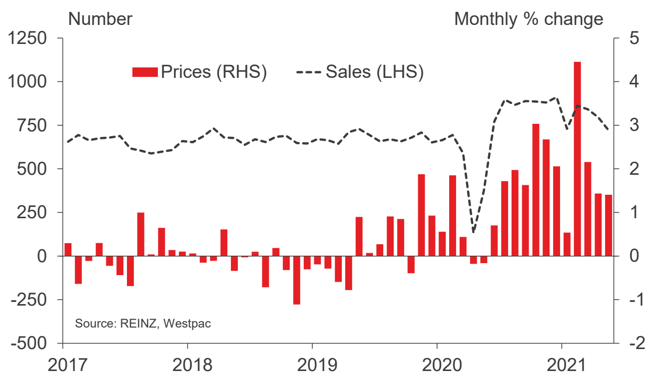


Figure 3: House prices and sales volumes



Wellington.

Current situation.

Economic activity in Wellington continues to improve, supported by an expansion of the public sector and raised construction activity.

Indeed, activity in the capital is being supported by more employment in the public sector, which is being boosted by the Government's more hands-on approach to the economy.

An expanding public sector in turn has meant more work for supporting services in the region. That includes a range of business and professional services, including ICT and media.

Meanwhile, residential construction activity in the region is gathering momentum. Supported by low interest rates and strong house price gains, consent issuance in the region, particularly for high density homes, has accelerated over the past year or so and is now running at elevated levels.

A rampant local housing market has also contributed to the economic strength in the region. Indeed, house prices have easily outperformed those in other major urban centres, and although monthly gains have slowed recently, they remain strong.

More employment and a stronger housing market are likely to have provided some support to consumer spending. Indeed, retail sales are up on a year ago and card spending is back to pre-Covid-19 levels.

That said, with working from home becoming the norm in the public sector, many retailers in the capital have struggled, and some have closed, as shopping has moved online.

Outlook.

We expect economic activity in Wellington's will gain further momentum over the coming year.

Indeed, activity levels are likely to be boosted by the expanding role of the public sector and the centralisation of functions in areas such as healthcare. That is likely to mean more demand for public servants in the capital, which in turn implies more work for firms that supply goods and services to the sector.

With a healthy level of work still in the pipeline, residential construction activity is also likely to be strong over the coming year. That should eat into a long-standing housing shortage in the region. Civil activity should also pick up as the authorities focus on tackling well publicised infrastructural issues in the capital.

Meanwhile, house prices in the region are expected to stabilise over the coming year. That's likely to be driven by changes to the tax treatment of investment property. In contrast to other regions, sales volumes have picked up in recent months, suggesting that a predicted slowdown in the housing market may take a little longer than elsewhere. A weaker housing market will act as a drag on consumer spending in the region.

Strengthening activity in the region should mean more jobs, which in turn should feed into more spending. While that is likely to reinforce an already established trend towards more online shopping, that should still bring more cheer to the region's retailers.

Figure 1: Residential building constraints

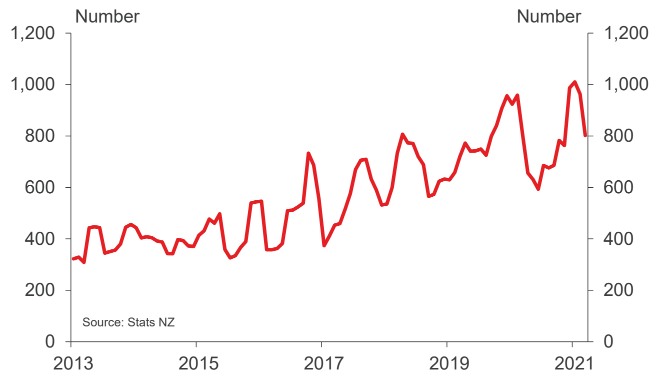


Figure 2: House prices and sales volumes

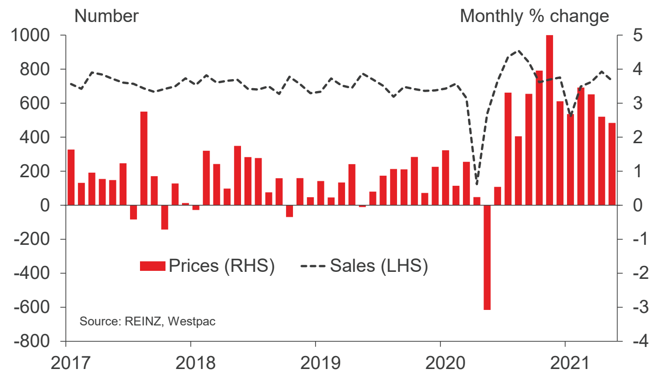
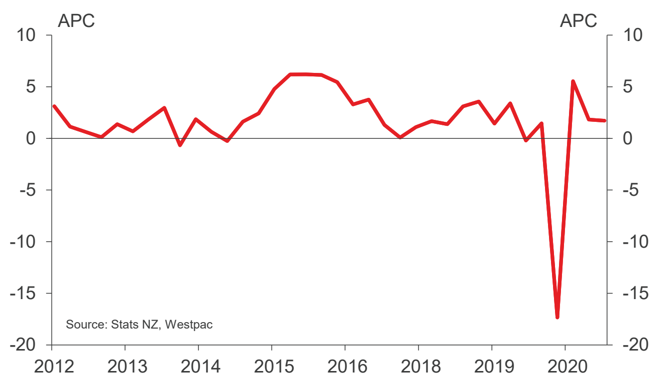


Figure 3: Retail sales



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