REGIONAL ROUNDUP

14 December 2022

Contents

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Summary

All regions in New Zealand will see slower economic growth in the year ahead, as higher interest rates squeeze household spending power and residential building activity starts to slow. Those regions with a high exposure to export markets, particularly agriculture/horticulture and foreign tourism, will generally fare better than those that don't. To that end, we think that Otago will outperform all others over the year ahead.

Despite ongoing uncertainties, economic activity in most regions has been reasonably strong. A lot of that has to do with the removal of Covid restrictions, including those at the border, which had starved the country of foreign tourists. Indeed, tourism heavy Otago has probably been the most improved region in the country over this year, although admittedly that has come off a low base.

Regions with a large rural backbone, dominated by meat and dairy, continue to do well, even with prices having come off from earlier highs. However, for those dependent on horticulture the picture is less assured. Some regions like those on the top of the South Island have done well. Others closer to the top of the North Island, such as the Bay of Plenty and Gisborne/Hawke's Bay, have struggled in the face of adverse weather conditions and acute labour shortages.

All regions have seen a slowdown in the housing market, with house prices falling and sales volumes continuing to track lower. Nowhere is that more evident than in Auckland and Wellington, which still have the worst performing housing markets in the country. Declines elsewhere have also been substantial, but mostly concentrated in urban provincial centres rather than rural districts.

That in turn has contributed to a softening in consent issuance, although they remain at elevated levels for most regions. Actual building activity though has been strong, with builders continuing to work through backlogs caused by Covid.

Household spending has also been strong and continues to track higher. A lot of that has to do with rising prices. For most regions spending volumes have at best tracked sideways, with several reporting a drop off. It is not clear to what extent this reflects the effect of falling house prices, although we note that nominal retail spending has increased more in regions like Otago and Northland, where house prices have generally performed better.

Looking forward, we expect all regions in New Zealand will see slower economic growth over the coming year.

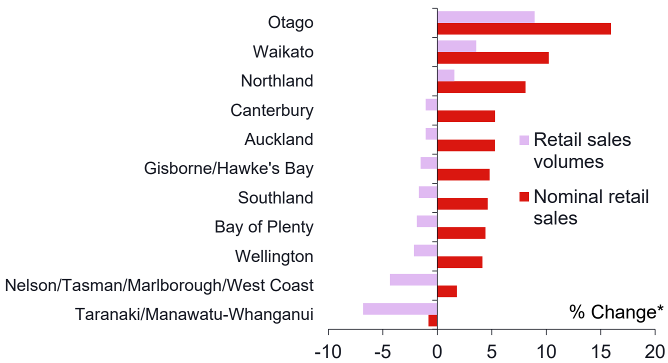
Regions that depend on agriculture/horticulture or rely heavily on tourism are expected to outperform those that do not. For that reason, we are picking Otago to be our top performing region over the coming year, with Southland and Northland following close behind. To be clear, economic activity in these regions is still expected to slow, but not quite as much as in other regions.

This weaker outlook reflects the impact of higher debt servicing costs on household spending with an increasing proportion of mortgage holders expected to refix at much higher interest rates over the coming year. Ongoing increases in living costs and falling house prices will further squeeze spending power in every region.

Worst affected will be regions that have a higher proportion of interest rate sensitive investors or who previously might have recorded big house price gains off small volumes. Auckland tops that list followed by the Manawatu. We would also keep Wellington on that list because it has already experienced a significant loss of household wealth due to falling house prices.

Construction activity is also expected to be less supportive. With consents issuance already on the slide in many regions, we think that building activity will slow once current backlogs have been addressed. That in turn will have negative knock-on effects for regional manufacturing and employment in places like Auckland and Canterbury. Forestry regions such as the Bay of Plenty and Gisborne may also be impacted, although their fortunes will increasingly be tied to a recovery in China.

Figure 1: Retail sales - change from start of interest rate tightening cycle



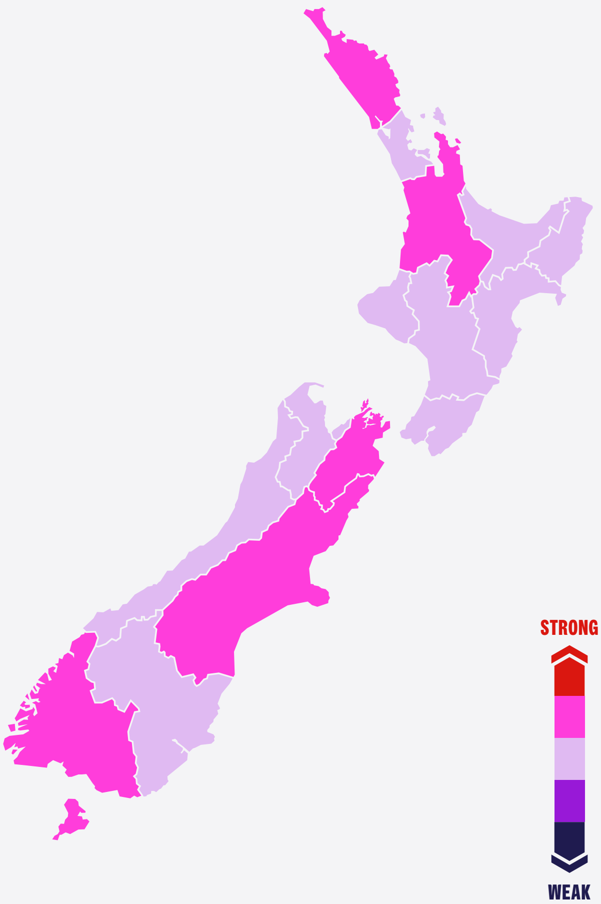
Source: Stats NZ, Westpac

*Compares Q3 2022 with Q4 2021

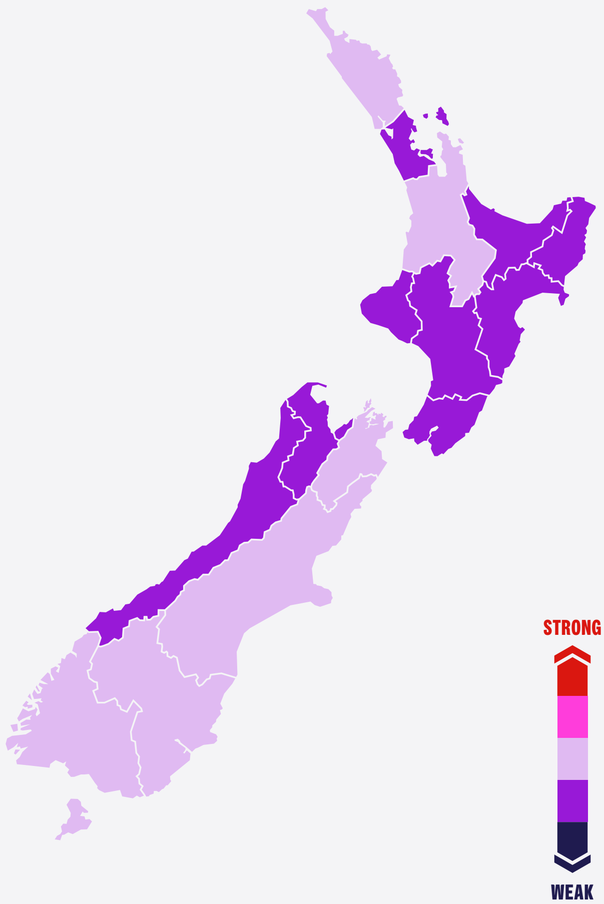
12 month regional outlook

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

CURRENT SITUATION



NEXT 12 MONTHS



Auckland

Current situation.

Economic activity in Auckland has been mixed, with signs of a slowdown becoming increasingly evident.

The region's weakening housing market looms large in this regard. House prices have fallen sharply and are now the second worst performing in the country. Sales volumes reflect this dynamic, while listings have also slowed.

A weaker housing market has undermined the incentive to build. While consent issuance appears to have plateaued at a high level, property developers are reporting weaker demand for new builds. Actual building activity has continued to grow, although hindered by a shortage of skilled labour in the region.

Meanwhile, operating conditions in the region's manufacturing sector remain fragile, with activity falling sharply in response to a drop in new orders. By contrast, service activity in the region has increased as household spending has rotated away from goods towards services.

Retail spending in the region continues to rise, although much of that reflects rising prices. By contrast, retail sales volumes have effectively moved sideways over the past year.

The level of retail spending has been supported by the return of foreign tourists to the region, with accommodation providers, restaurants, bars, and cafes, particularly in the city, reporting higher sales following the opening of the borders and the relaxation of social distancing requirements. Spending by foreign visitors in New Zealand's largest tourism region is now within touching distance of where it was pre-Covid.

Outlook.

We expect that economic growth in Auckland will slow over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs will further squeeze household spending power.

The effect on households will be exacerbated by falling house prices. We continue to expect that Auckland's housing market will underperform the national average, largely because of relative price differentials and the fact that interest-rate-sensitive investors make up a larger proportion of property purchasers in this region.

Over time the slowdown in spending is expected to result in a softening of the region's labour market, as businesses pull back on hiring and unemployment edges higher from near record lows.

Building activity is also likely to become less supportive. We think that deteriorating financial conditions in the year ahead will adversely affect demand for new builds, resulting in fewer consents being issued and eventually less building activity.

On a more positive note, growing tourism numbers, especially over the peak summer months, should provide some partial relief to retailers and hospitality providers in the region.

Figure 1: House prices and sales

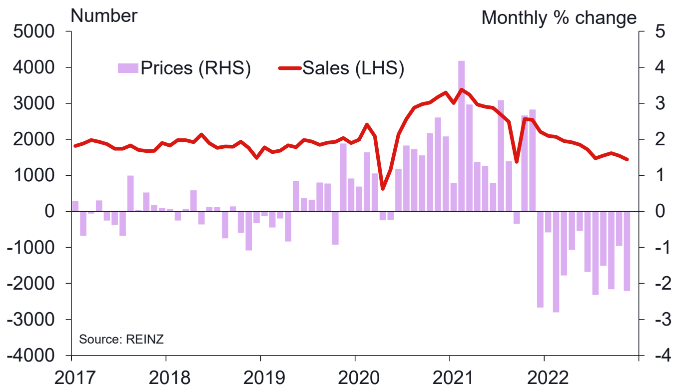


Figure 2: Residential building consents

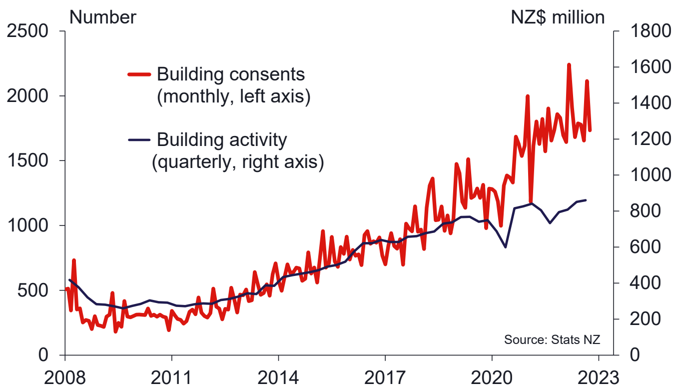
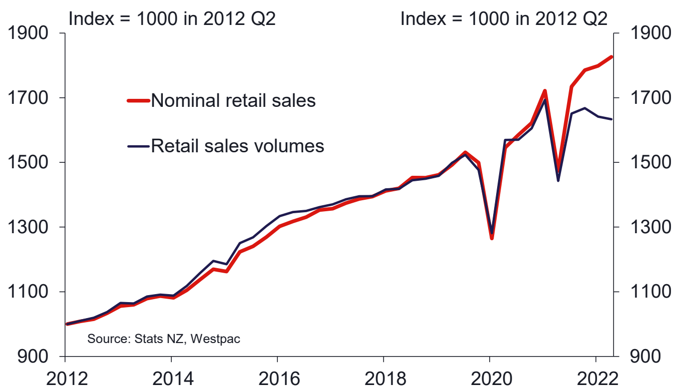


Figure 3: Retail sales



Bay of Plenty

Current situation.

Economic growth in the Bay of Plenty has weakened as traditional drivers have underperformed.

Nowhere is that more evident than in the region's big kiwifruit sector. Many growers in the region have experienced lower returns due to fruit quality issues caused by labour shortages. Intensive reconditioning and repacking of picked fruit has not only led to an increase in fruit losses, but also made it harder to export.

House prices have also tumbled. The magnitude of price declines has been similar to those recorded in other regions that have a large rural backbone. Tauranga and Western Bay of Plenty, which had previously experienced some of the largest price increases, saw the biggest falls.

A weaker housing market has undermined the incentive to build, resulting in a decline in consent issuance. Actual building activity, however, is still likely to be strong with builders continuing to work through backlogs created by Covid.

Retail spending in the region continues to rise, although much of that reflects rising prices. By contrast, retail sales volumes in the region have drifted slightly lower over the past year.

The level of retail spending has been supported by the return of foreign tourists to the region, with accommodation providers, restaurants, bars, and cafes, particularly in tourism hotspots, reporting higher sales. Spending by foreign visitors to the region is now within touching distance of where it was pre-Covid.

Outlook.

Economic activity in the Bay of Plenty is expected to ease further over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will further squeeze household spending power.

Add to that a regional downturn in construction. With consents issuance already trending lower, we expect building activity in this region will slow once builders have worked through existing backlogs.

On a more positive note, forestry owners in this big logging region should see some modest price gains over the coming year as the Chinese economic recovery gathers strength. Still elevated demand for sawn timber from builders across the country should also support harvest volumes.

The upcoming kiwifruit harvesting season should also support the regional economy. Returning backpackers and Recognised Seasonal Employer (RSE) workers should mean a better harvest and improved returns for orchardists in the region.

The outlook for tourism is also positive. Growing tourism numbers over the peak summer months, should support retailers, hospitality providers and tourism operators in the region, particularly in tourism hotspots like Rotorua, and to a lesser extent, Tauranga.

Figure 1: House prices and sales

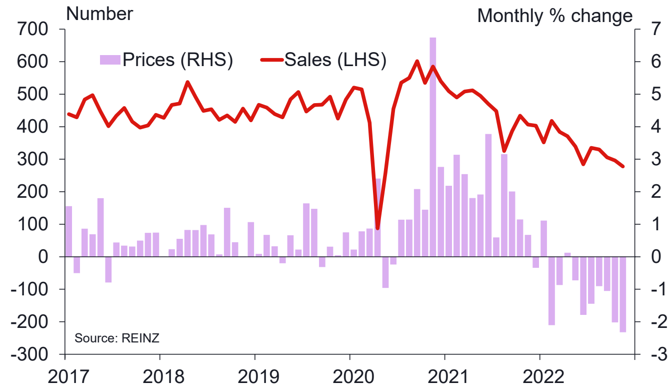


Figure 2: Residential building consents

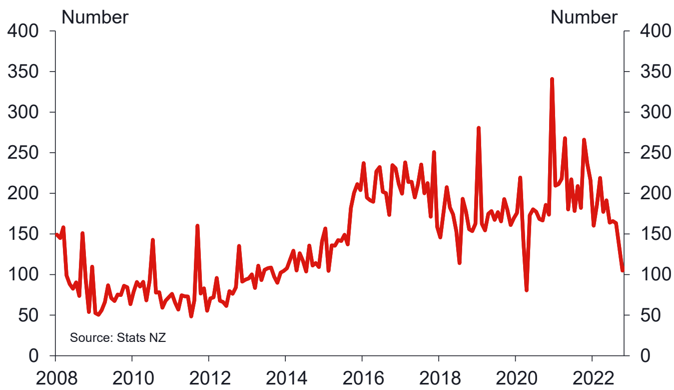
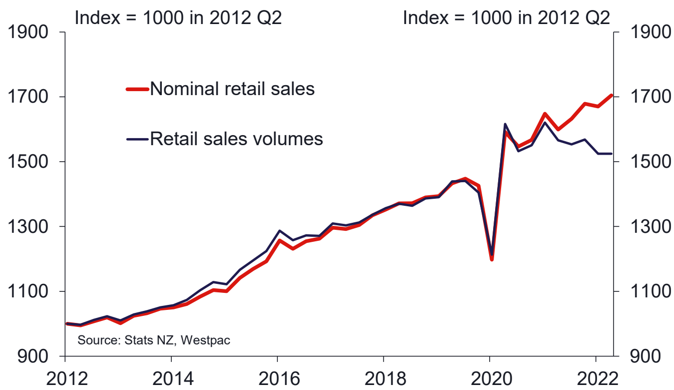


Figure 3: Retail sales



Canterbury

Current situation.

Economic activity in Canterbury remains buoyant, but signs of a slowdown are emerging.

A key point of difference for this region has been the performance of agriculture. Dairy and meat farmers in the region continue to be profitable despite sharply rising input costs and prices having come off earlier highs. Farmgate incomes have also benefited from a supportive NZD exchange rate.

House prices in the region have turned lower, although the declines seen so far have lagged other regions and have been of a smaller magnitude. That reflects a couple of things. Firstly, relative price valuations, with earlier price gains having come later than for other regions. And secondly, the strength of house prices in rural Canterbury, which have outperformed those in Christchurch itself.

However, a slowing housing market has yet to be reflected in building consents or actual building activity, both of which continue to track higher. That said, property developers in the region are reporting weaker demand for new builds, forcing some to lay off staff.

Retail spending in the region continues at a brisk pace, although much of that reflects rising prices. By contrast, retail sales volumes have drifted slightly lower over the past year.

The level of retail sales has been supported by the return of foreign tourists to this gateway region, with accommodation providers, restaurants, bars, and cafes, particularly in the tourism hotspots, reporting higher sales. Spending by foreign visitors to the region is now within touching distance of where it was pre-Covid.

Outlook.

We expect that economic activity in Canterbury will slow over the coming year, although we think it will still outperform the other big metropolitan centres.

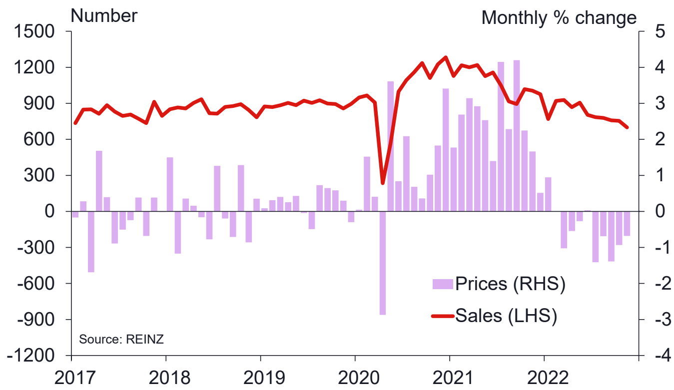
Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

Add to that a regional downturn in construction. We think that deteriorating financial conditions over the coming year will adversely affect demand for new builds, resulting in fewer consents being issued and eventually less building activity.

That said, meat and dairy farming should support activity in the region. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Ditto for tourism. An expected increase in foreign tourists who use Christchurch as an entry point into other South Island regions should provide some cheer to local retailers and hospitality providers. That though will not be enough to offset the drop in spending elsewhere in the region.

Figure 1: House prices and sales



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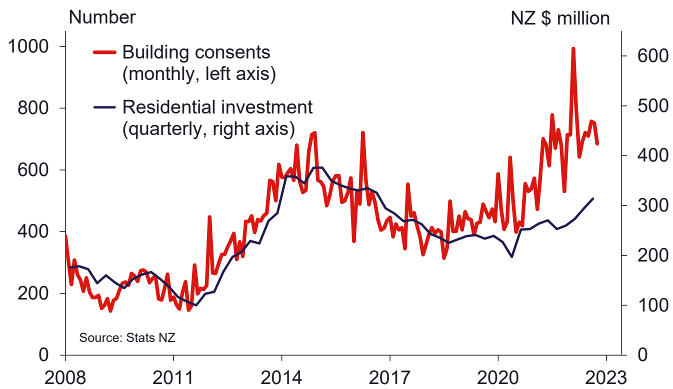

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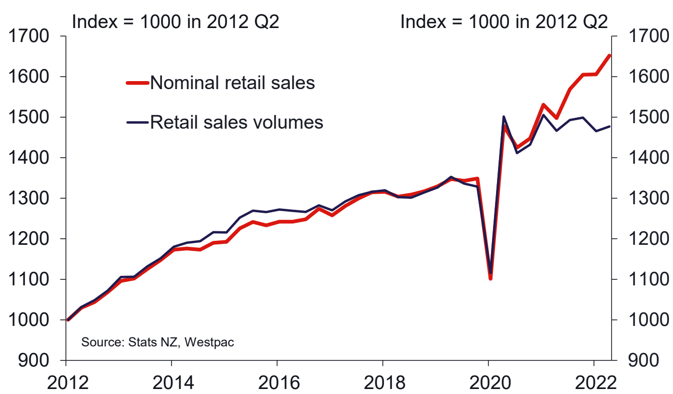


Gisborne/Hawke's Bay

Current situation.

Economic activity in this region has softened as traditional drivers have underperformed.

Nowhere is that more evident than in the region's big apple producing sector. A dire shortage of pickers meant that this year's apple crop was smaller than expected. Orchard incomes were, however, supported by higher apple prices and a weaker NZD exchange rate.

A smaller grape harvest earlier in the year is also likely to have dampened wine production in the region. That is in contrast to other grape growing regions which have been able to replenish their inventories.

On a positive note, the region's sheep and beef farmers remain profitable despite sharply higher input costs and prices having come off their highs. Farmgate incomes continue to benefit from a supportive NZD exchange rate.

House prices though continue to fall. The biggest declines were recorded in the main population centres of Napier and Hastings. Relative price differentials are likely to explain why house prices in rural districts have proven to be more resilient.

A weaker housing market has undermined the incentive to build, leading to a sharp drop in consent issuance. Actual building activity, however, is still likely to be strong with builders continuing to work through backlogs created by Covid.

Retail spending in the region continues at a brisk pace, although much of that reflects rising prices. By contrast, retail sales volumes have trended lower over the past year.

The level of retail sales has been supported by the return of foreign tourists to the region, with accommodation providers, restaurants, bars, and cafes, reporting higher sales.

Outlook.

We expect economic growth in this region will ease further over the coming year.

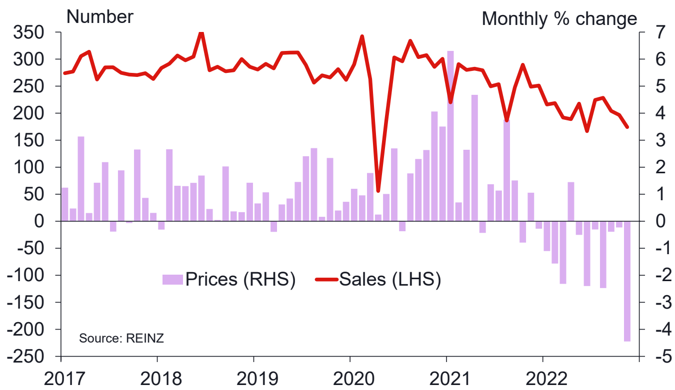
Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

That said, sheep and beef farming should support activity in the region. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Similarly, apple production is expected to benefit from the return of backpackers and Recognised Seasonal Employer (RSE) workers to pick fruit during the upcoming harvest season. An improved grape harvest in 2023 would also support wine production in the region.

Meanwhile forestry owners in the region are set for some modest price gains as the Chinese economy gathers strength. Still elevated demand for sawn timber from builders across the country should also support logging activity in the region.

Figure 1: House prices and sales



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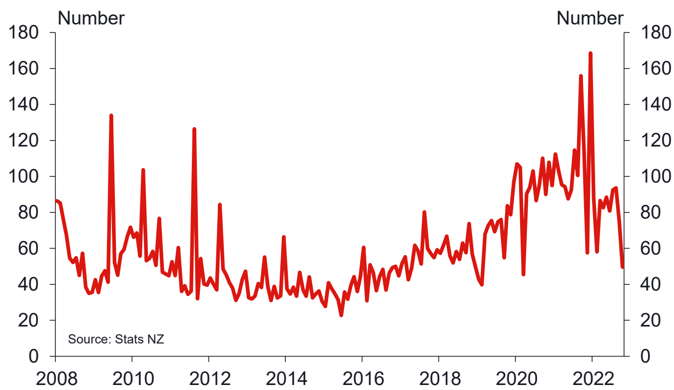

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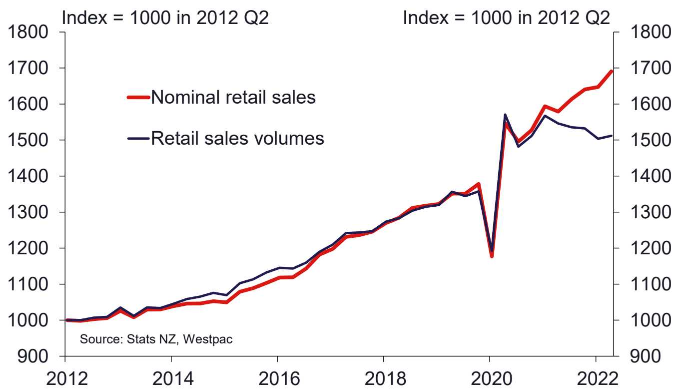


Nelson/Marlborough/West Coast

Current situation.

Economic conditions in this region have been relatively buoyant, despite adverse weather conditions.

On a positive note, the good grape harvest recorded earlier this year has found favour with the region's winemakers who have been able to rebuild depleted stocks.

The region's orchardists are also doing well. Better weather conditions early in the year ensured a bigger apple crop, despite fruit loss due to a shortage of pickers. Higher apple prices have also helped to boost orchard gate incomes.

At the same time, the region's meat farmers remain profitable despite sharply higher input costs and prices having come off their highs. Farmgate incomes continue to benefit from a supportive NZD exchange rate.

That said, economic activity more generally has been disrupted by a series of adverse weather/flood events, which temporarily closed off several key roads in Nelson and Marlborough.

The region's housing market has also turned lower. The magnitude of the drop, however has been less marked than in many other regions with a rural backbone. Meanwhile, sales volumes have resumed their downward slide, which does not augur well for house prices in the future.

However, a slowing housing market has yet to make its mark on consent issuance which continues to trend higher. Actual building activity is also likely to be strong with builders continuing to work through backlogs created by Covid.

Retail spending in the region continues to rise, although much of that reflects rising prices. The level of retail spending has also been supported by the return of foreign tourists, with accommodation providers, restaurants, bars, and cafes reporting higher sales. Meanwhile, retail sales volumes have fallen markedly and are now back at pre-Covid levels.

Outlook.

We expect economic growth in this region will ease further over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

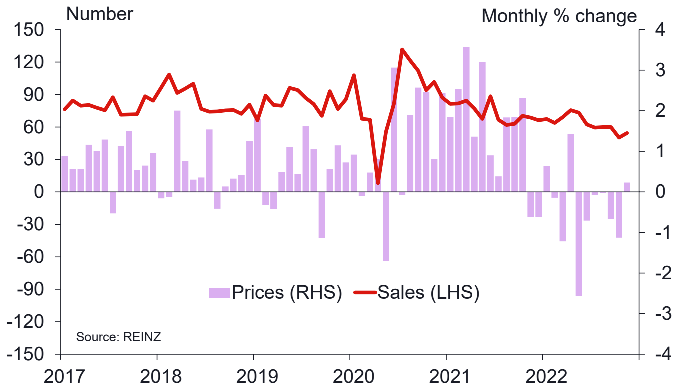
That said, we expect houses prices will continue to outperform those in many other regions given a relatively high proportion of well healed retirees that live in this region, and the lifestyle nature of properties that exist there.

On a positive note, meat farming should continue to support activity in the region. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

The region should also benefit from a better performance from viticulture, with a bumper grape harvest expected to translate into increased wine production and a stronger export performance. Weather conditions permitting, the return of backpackers and Recognised Seasonal Employer (RSE) workers should mean a larger apple crop, less wastage, and better returns for the region's orchardists.

The ongoing recovery in tourism should also support economic activity, especially with the summer holiday season ahead. That should boost retail and hospitality across the region, with standouts likely to be Nelson and Blenheim.

Figure 1: House prices and sales



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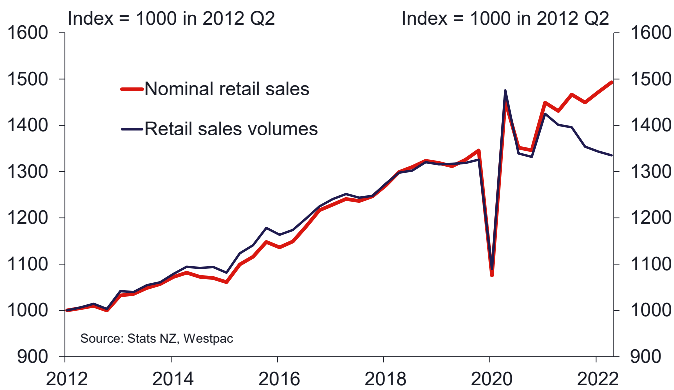

Northland

Current situation.

Economic activity in Northland has been relatively strong.

In part that is because dairy and meat farmers in the region remain profitable despite sharply higher input costs and prices having come off earlier highs. Farmgate incomes have also benefited from a supportive NZD exchange rate.

In addition, the region's housing market continues to perform better than most others. That said, Northland's housing market has cooled as interest rates have moved higher.

Spending in the region has proven resilient to the slowdown in the housing market and higher interest rates. Indeed, retail sales continue at a brisk pace, with much of that reflecting the impact of higher prices. By contrast, retail sales volumes have drifted slightly lower over the past year.

The level of retail sales has been supported by the return of foreign tourists with accommodation providers, restaurants, bars, and cafes, particularly in the region's tourism hotspots, reporting higher sales. Spending by foreign visitors to the region is now within touching distance of where it was pre-Covid.

That said, a slowing housing market has reduced the incentive to build. Despite a recent spike in consent issuance, which was for new retirement villages, building intentions have trended lower over time. Actual building activity, however, is still likely to be strong with builders continuing to work through backlogs created by Covid.

Ditto for non-residential building activity, with significant investment being made in new hospitals, schools, and civic buildings, particularly in the Whangarei district.

Outlook.

We expect that economic growth in Northland will slow over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

Add to that a regional downturn in construction. With consents issuance already edging lower, we expect building activity in Northland will slow once builders have worked through existing backlogs.

That said, meat and dairy farming should continue to support activity in the region. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Meanwhile, forestry owners in the region are set for some modest price gains as the Chinese economy gathers strength. Still elevated demand for sawn timber from builders across the country should also support logging activity in the region.

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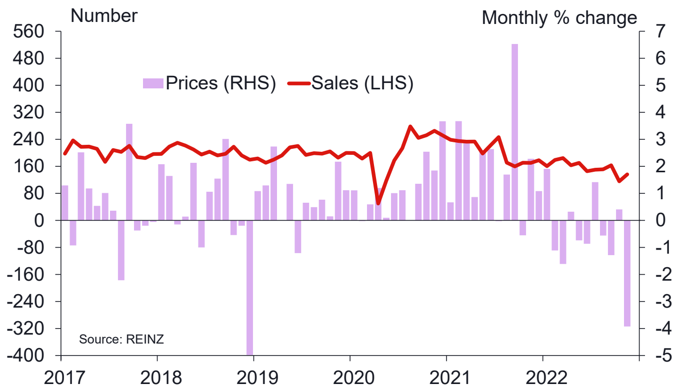


Figure 2: Residential building consents

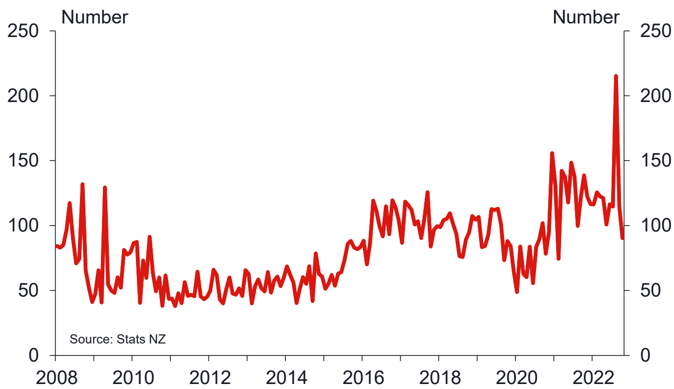
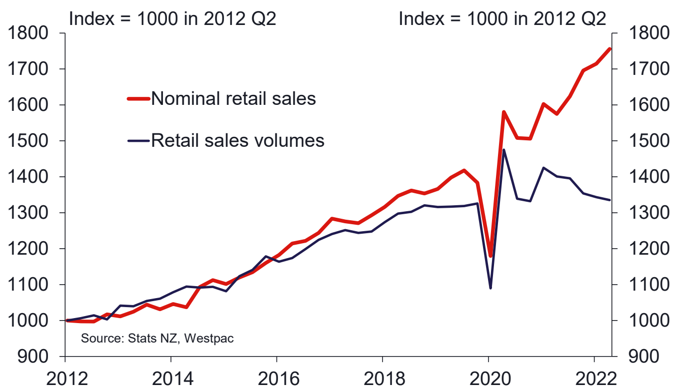


Figure 3: Retail sales



Otago

Current situation.

Economic activity in Otago has strengthened in recent months, albeit from a low base.

In part that is because the region's meat farmers have remained profitable despite sharply higher input costs and prices having come off their highs. Farmgate incomes have also benefited from a supportive NZD exchange rate.

But what has really given the region a big boost has been the removal of border restrictions, and a sharp increase in visitor arrivals, mostly expat Kiwis and Australians coming for a skiing holiday.

Card spending by foreign visitors in this big tourist region is now back to pre-Covid levels.

A lot of that spending has gone into hospitality with the region's hotels, restaurants and tourism operations all feeling the love. Queenstown in particular is bursting at the seams. That in turn has contributed to very low unemployment and stronger demand for labour, with many firms reporting difficulties in finding workers.

Retail spending more generally continues to rise, although much of that reflects rising prices. By contrast retail volumes have moved sideways.

Meanwhile, the region's housing market has turned, although the magnitude of the price declines seen so far have been small. Sales volumes continue to track lower, suggesting that prices are set to fall further.

A weaker housing market has undermined the incentive to build, resulting in consent issuance plateauing at a high level. Actual building activity is still strong with builders continuing to work through backlogs created by Covid. Ditto for non-residential construction activity, which has been boosted by a raft of major projects currently underway in Dunedin.

Outlook.

We expect that economic activity in Otago will slow over the coming year. That said, we are still picking it to be the best performing region in the country.

In large part that is because of returning tourists, which should continue boost the coffers of retailers, hospitality providers and tourism operators over coming months. Finding enough workers will continue to be a major challenge for many in the region despite changing immigration settings.

While Australia will continue to be the main source of visitors, we expect that higher-spending long haul travellers from the northern hemisphere will make up an increasing proportion of those visiting the region.

Meat farming should also support activity in the region. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Household spending though will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will further squeeze household spending power.

That said, we think that house prices in this region will do better than the national average given the relatively small gains that were previously recorded.

Building activity is also likely to become less supportive. We think that deteriorating financial conditions in the coming year will adversely affect demand for new builds, resulting in fewer consents being issued and eventually less building activity.

Figure 1: Foreign visitor electronic card spending

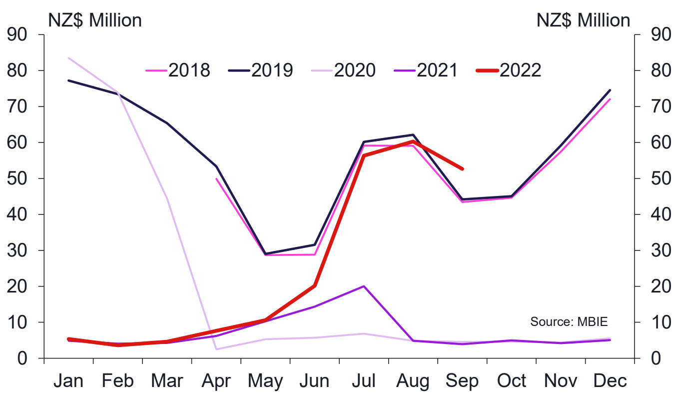
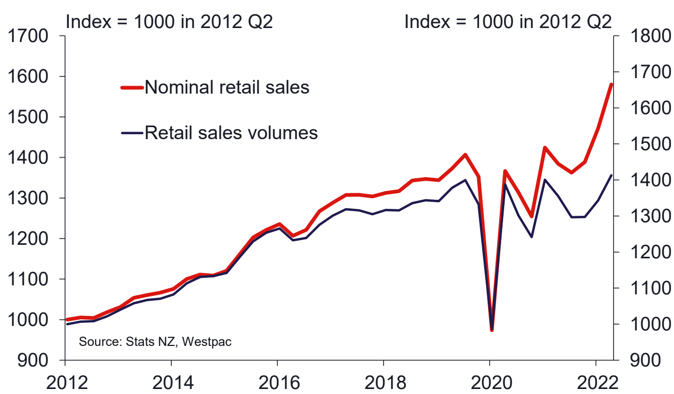


Figure 2: Retail sales



Southland

Current situation.

Economic activity in Southland has been strong.

On a positive note, dairy and meat farmers in the region remain profitable despite sharply higher input costs and prices coming off their highs. Farmgate incomes have also benefited from a supportive NZD exchange rate. That said, production in the region will have been impacted by wet weather conditions.

Meanwhile, the region's largest manufacturer, the smelter at Tiwai point, continues to be benefit from still high aluminium prices and a supportive NZD exchange rate. News that China will be easing some of its Covid restrictions will have provided further cause for cheer in the deep South.

At the same time, the region's housing market continues to perform better than most others, presumably off the back of favourable price differentials.

That said, Southland's housing market has weakened, and that's reduced the incentive to build. While consent issuance appears to have plateaued at a high level, property developers in the region are reporting weaker demand for new builds. Actual building activity, however, is still likely to be strong with builders continuing to work through backlogs created by Covid.

Retail sales continue at a brisk pace, although much of that reflects rising prices. By contrast, retail sales volumes have drifted slightly lower over the past year.

The level of retail sales has been supported by the return of foreign tourists with accommodation providers, restaurants, bars, and cafes, particularly in the region's tourism hotspots, reporting higher sales. Spending by foreign visitors to the region is now within touching distance of where it was pre-Covid.

Outlook.

We expect economic growth in Southland will slow over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

That said, dairy and meat farming should remain a key support for the region's economy. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Similarly, aluminium prices are expected to nudge higher on the back of a Chinese economic recovery. With hydroelectric generating capacity in the region now fully restored after sustained periods of rainfall earlier this year, activity in the region should be buoyed by the possible resumption of Potline 4 operations at Tiwai Point in early 2023.

The region should also benefit from increased tourism, with hospitality providers and tourism operators likely to benefit from an overflow of visitors from neighbouring Otago.

Figure 1: House prices and sales

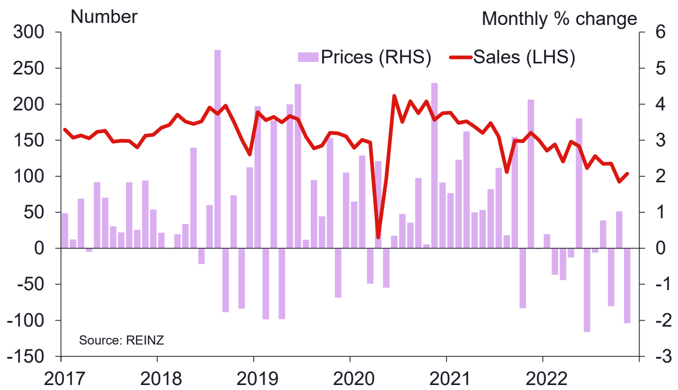


Figure 2: Residential building consents

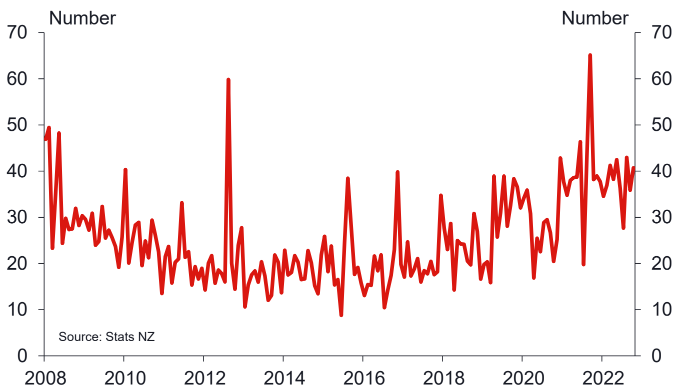
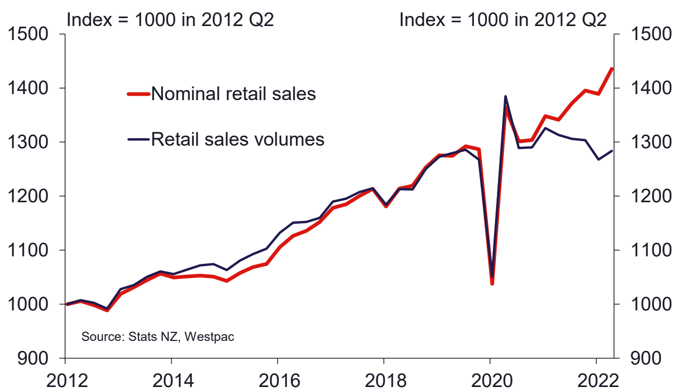


Figure 3: Retail sales



Taranaki/Manawatu-Whanganui

Current situation.

Economic activity in this region has been mixed.

On a positive note, the region's dairy and meat farmers remain profitable despite sharply higher input costs and prices having come off earlier highs. Farmgate incomes have also benefited from a supportive NZD exchange rate.

The region's oil and gas producers though will be in good spirits with energy prices remaining elevated due to ongoing geopolitical uncertainties and cuts to oil production by OPEC. That said, oil and gas production has continued to drift lower over the past year.

Meanwhile, house prices in the region have turned lower. The magnitude of the price drops so far has been similar to those in other regions that have a large rural backbone, with the largest falls recorded in the Palmerston North, Rangitekei and Whanganui districts.

The drop in house prices has undermined the incentive to build, and that has contributed to a slowdown in consent issuance in Taranaki and more recently, the Manawatu. Actual building activity, however, is still likely to be strong with builders continuing to work through backlogs created by Covid.

Spending in the region has so far proven fairly resilient to the slowdown in the housing market. Indeed, retail sales have tracked higher, although much of that reflects rising prices. By contrast, retail sales volumes have fallen markedly, but are still above pre-Covid levels.

The level of retail sales has been supported by the return of foreign tourists with accommodation providers, restaurants, bars, and cafes, particularly in New Plymouth, reporting higher sales. Although small in magnitude, spending by foreign visitors in the region is back at pre-Covid levels.

Outlook.

We expect economic growth in this region will ease over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs will also squeeze household spending power.

The effects on households will be exacerbated by falling house prices. Having the highest average days to sell and having previously posted the biggest gains in the country, we expect house prices in the Manawatu will underperform the national average over the coming year.

Add to that a regional downturn in construction. With consents issuance already trending lower, we expect building activity in Taranaki to slow once builders have worked through existing backlogs. Building activity in the Manawatu, however, should be stronger for longer, given current levels of consent issuance.

That said, dairy and meat farming should remain a key support for the region's economy. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Similarly, the region's oil and gas producers should benefit from still elevated energy prices. Prices are likely to reflect ongoing uncertainties relating to the global economic outlook, evolving geopolitical developments, and global supply conditions.

Figure 1: Residential building consents

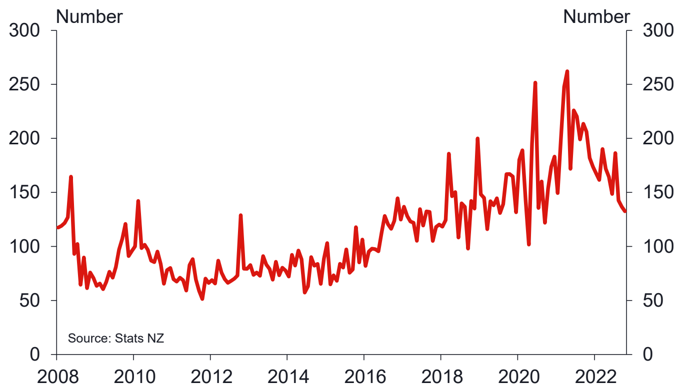
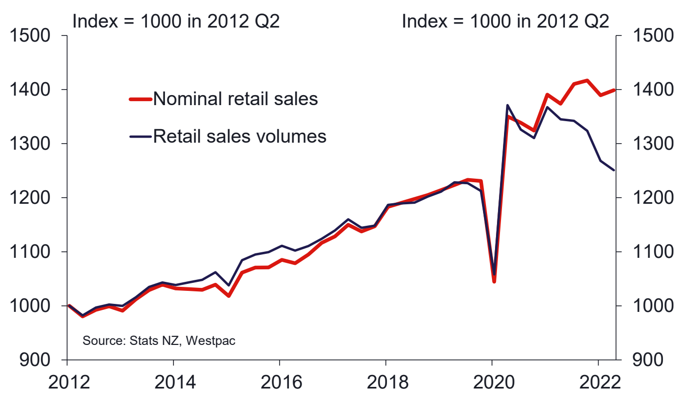


Figure 2: Retail sales



Waikato

Current situation.

Economic activity in the Waikato economy has been relatively buoyant.

On a positive note, dairy and meat farmers in the region remain profitable despite sharply higher input costs and prices coming off their highs. Farmgate incomes have also benefited from a supportive NZD exchange rate. That said, production will have been impacted by wet weather conditions.

House prices though have turned lower, although the magnitude of declines to date is not out of kilter with those posted by other regions with a large rural backbone. Declines were evident across all districts, with the largest falls recorded in Hamilton.

The drop in house prices has reduced the incentive to build, and that has contributed to a levelling off in consent issuance. Actual home building activity has also flattened off, although it remains at elevated levels with builders continuing to work though backlogs created by Covid. Non-residential building activity in the region also remains strong, with several big industrial parks, such as the Ruakura inland port, nearing completion.

Meanwhile, retail sales continue to rise at a brisk pace, although much of that reflects rising prices. By contrast, retail sales volumes have moved sideways over the past year.

The level of retail sales has been supported by the return of foreign tourists with accommodation providers, restaurants, bars, and cafes reporting higher sales. Spending by foreign visitors to the region is now back to where it was pre-Covid.

Outlook.

We expect economic growth in the Waikato will ease over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

That said, dairy and meat farming should remain a key support for the region's economy. Prices are set to drop in the short term but should edge higher over the second part of the year as demand in key export markets recovers and global supply remains relatively tight.

Similarly, building activity should remain elevated for a while yet given the large amount of work in the pipeline. Thereafter, as financial conditions continue to deteriorate, we think that consent issuance will decline and that should eventually lead to a slowdown in building activity.

The region is also likely to get a much needed boost from foreign visitor arrivals, especially over the coming holiday season. That in turn should provide some partial, but welcome relief to retailers and hospitality providers in the region.

Figure 1: House prices and sales

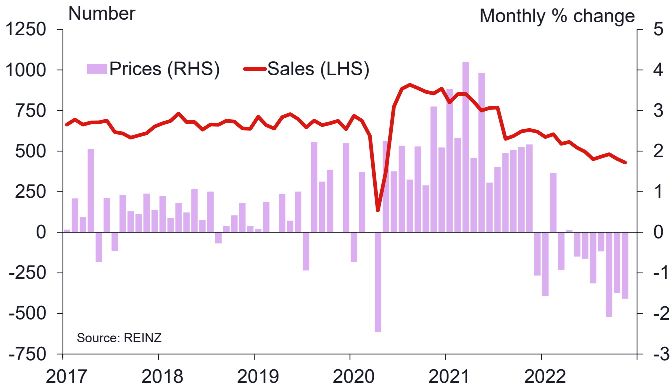


Figure 2: Residential building consents

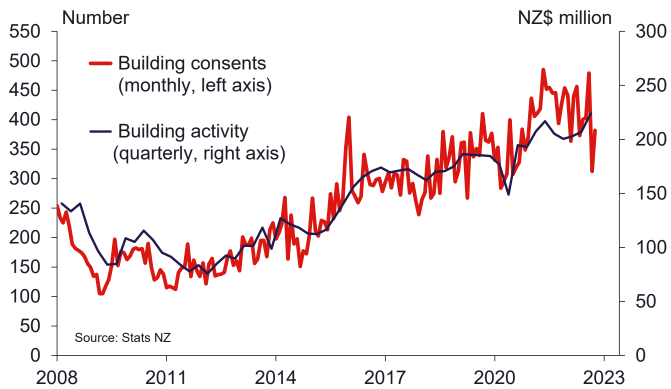
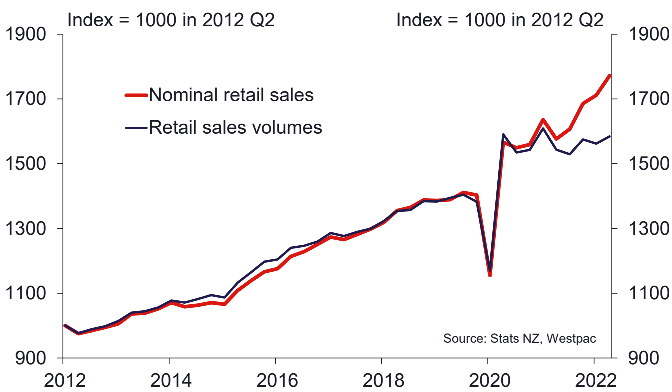


Figure 3: Retail sales



Wellington

Current situation.

Economic activity in Wellington has been mixed, with signs of a slowdown becoming increasingly evident

The big negative has been the performance of the region's housing market. House prices in Wellington have dropped further than in any other region in the country and are now back to where they were in late 2020. Sales volumes have also fallen but may have bottomed out in recent months.

Falling house prices coupled with higher interest rates are also likely to explain why consent issuance in the region has begun to turn, albeit at elevated levels. Actual building activity though continues to power ahead despite shortages of skilled labour shortages in the capital.

On a more positive note, Wellington's CBD is showing signs of a recovery. People are returning to the city and that is giving a much needed boost to retailers and hospitality providers. It is also attracting new retailers, such as Tommy Hilfiger and Calvin Klein, both of whom are set to open stores in the old Kirkcaldie and Stains building. A number of other retailers have reportedly set up shop in the redeveloped Stewart Dawson corner.

At the same time, the region's labour market is continuing to tighten. Unemployment has now reached new lows while employment continues to rise. Demand for labour remains strong as the government ramps up its legislative programme.

Retail spending in the region continues to rise, although much of that reflects rising prices. By contrast, retail sales volumes have drifted slightly lower over the past year.

The level of retail sales has been supported by the return of foreign tourists with accommodation providers, restaurants, bars, and cafes reporting higher sales. Spending by foreign visitors to the region is within touching distance of pre-Covid.

Outlook.

We expect economic activity in Wellington will slow over the coming year.

Household spending will come under pressure from higher debt servicing costs, with a high proportion of mortgage holders due to refix at much higher interest rates in the year ahead. Ongoing increases in living costs and falling house prices will also squeeze household spending power.

The return of workers to the city centre will have little impact on spending in the region other than changing its geographic distribution. Put simply, there is likely to more spending in the CBD and less in the suburbs. The only real gains, and they are likely to be at the margin, will be because of consumers opting for bricks and mortar retail rather than online shopping.

Over time that slowdown in spending is expected to result in softening of the region's labour market, as business pull back on hiring and unemployment edges higher from near record lows.

Building activity is also likely to become less supportive. We think that deteriorating financial conditions in the coming year will adversely affect demand for new builds, resulting in fewer consents being issued and eventually less building activity.

That said, activity should continue be supported by the Government's ongoing legislative/regulatory programme. That will continue to drive employment in public administration services as well as supporting industries.

The return of foreign visitor arrivals should also provide a timely boost. Although not a big tourist region, an increase in visitor arrivals over the peak summer holiday season will be welcomed by retailers and hospitality providers alike.

Figure 1: House prices and sales

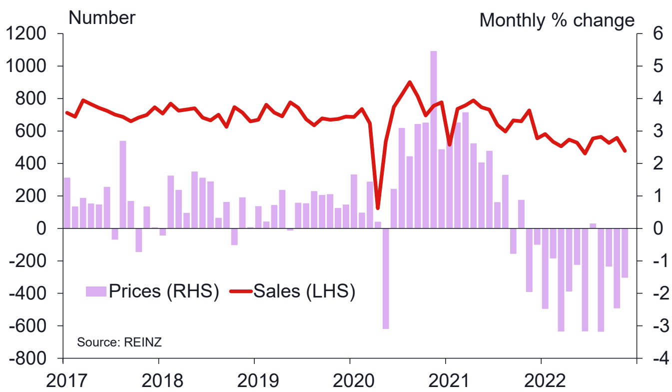
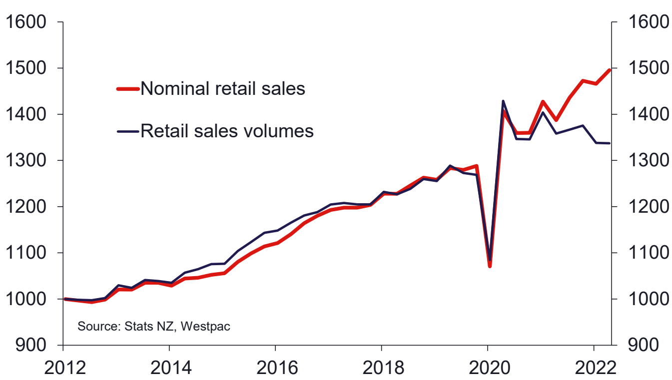


Figure 2: Retail sales



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