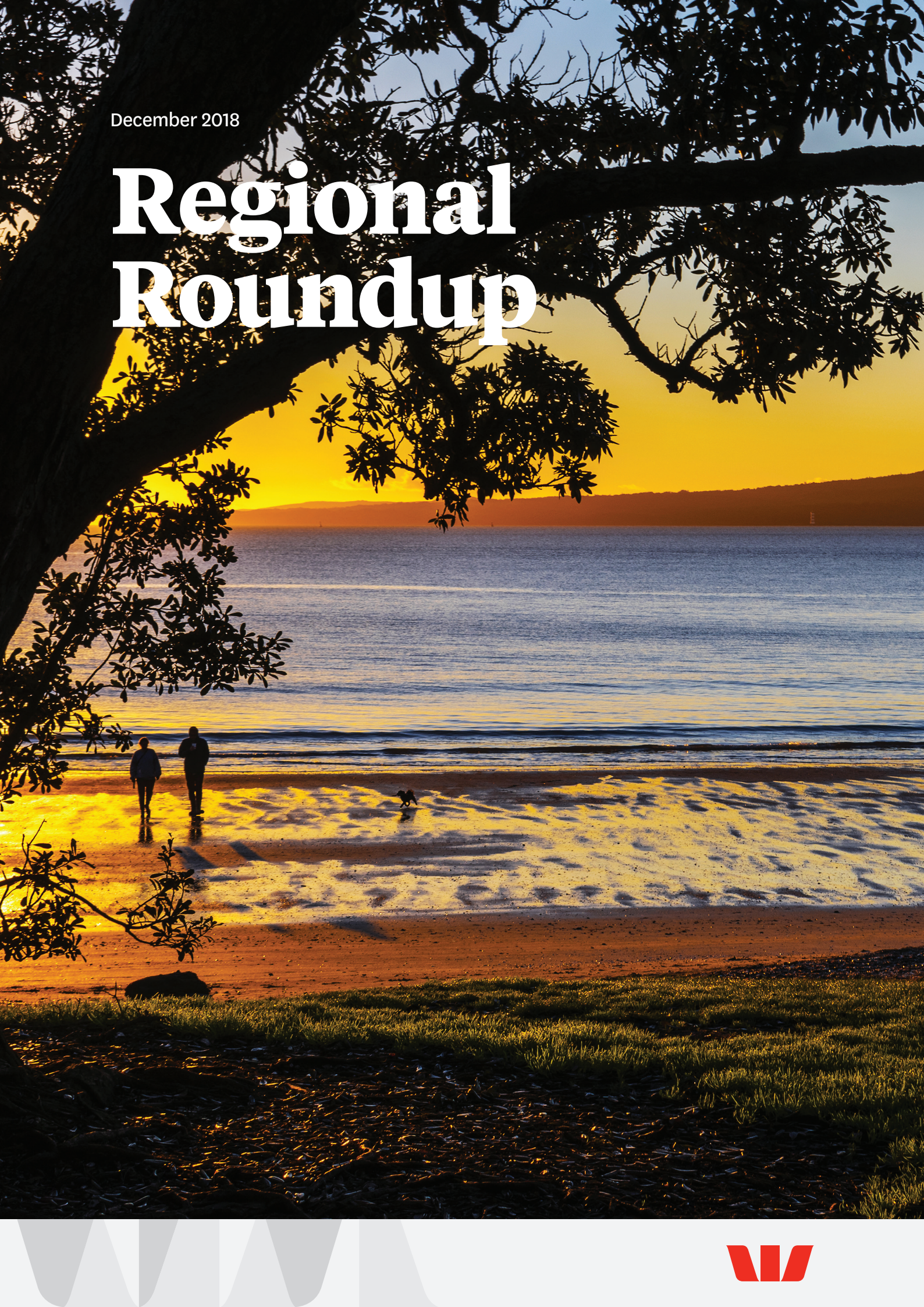


December 2018

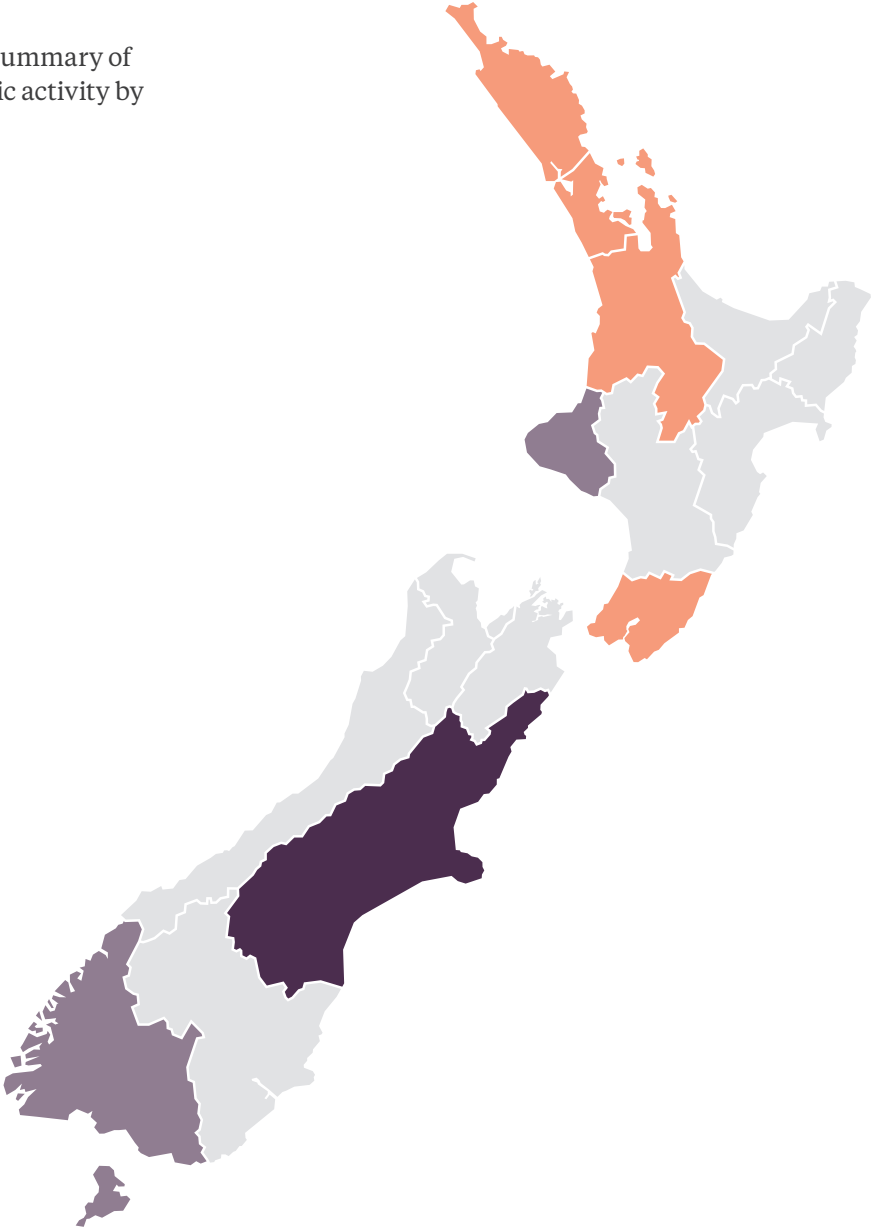
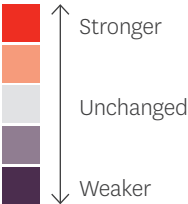
Regional Roundup



12-month regional outlook

This shaded map provides a summary of expected changes in economic activity by region over the next year.

Regional outlook



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Summary

The pecking order among regions is starting to change. The lower part of each island is still outperforming while Canterbury, Auckland and nearby regions are still trailing in terms of regional economic buoyancy. But the gap is starting to close. Over the coming year we expect the economic pickup will be felt most acutely in northern New Zealand, meaning the gap will close further.

New Zealand's economic slowdown of 2017 and early 2018 was marked by sharp divergences among the regions. The epicentres of the slowdown were Canterbury and Auckland. Canterbury struggled with a slowdown in its post-quake rebuild, and Auckland with falling house prices and exposure to the lacklustre consumer side of the economy. Regions in close proximity to Auckland were also weighed down by slower housing markets and consumer economies, although strong rural conditions in these regions created a mixed picture overall.

Meanwhile, the east coast and lower part of the North Island, as well the lower part of the South Island, charted their own more positive course. Farmers, foresters and orchardists in these regions benefitted from high product prices and productivity gains. Accelerated population growth, rapidly rising house prices and elevated construction activity were also sources of stimulus for these regions. And in Wellington's case, expectations of a hiring spree by the new Government gave the region an added kicker.

In this quarter's Regional Roundup, we have detected the beginnings of a shift in the pecking order among regions. Canterbury remains in the doldrums, but other erstwhile laggards like Auckland and Waikato have shown distinct improvement. Meanwhile, previous star performers like Otago and Wellington have cooled slightly. It is still the case that the southern portion of each island is outperforming the northern portion, but the difference is becoming less stark.

Over the coming year, the national economy is expected to pick up a little. This is partly due to a strong lift in Government spending which will affect all regions. But the other driver over the coming year will be the recent drop in mortgage rates and loosening of the Reserve Bank's LVR mortgage lending restrictions, which will temporarily boost house prices.

This swing back toward consumer spending and rising house prices will be felt most acutely in northern parts of New Zealand that are close to Auckland. These are the

regions where we expect regional economic performance will lift the most over the coming year. We also expect Wellington will get a further boost from government spending.

Economic conditions are expected to remain strong in most rural regions, but are not expected to *improve* as noticeably over the coming year. Farm gate incomes will be affected by a further softening in global commodity prices over the coming year – for example, dairy payouts are likely to be lower this season than last. However, government spending on transfers and the Provincial Growth Fund will be offsetting positives.

Beyond the next year, we expect the national economy to slow again, partly because we expect the rate of population growth to slow. This slowdown will be felt most acutely in the lower North Island and Otago, where a burst of population growth has been a major driver of economic buoyancy in recent years. As population growth in these regions drops away, we would expect construction activity and house price inflation to cool alongside.

Understanding the regional pages

The report examines each region's performance in the latest quarter compared with the previous quarter and the five-year average across a set of indicators.

A net score is included for each comparison period. A score greater than zero means more indicators have improved in the latest quarter than in the period of comparison. A score below zero means that results in the latest quarter have, on aggregate been weaker than in the time period of comparison.

This assessment provides the basis for the analysis and discussion on the outlook for the next couple of years. The outlook in turn is also influenced by forecasts produced in a number of other publications, not least of which is the quarterly *Economic Overview* which can be accessed at: <https://www.westpac.co.nz/business/economic-updates/economic-research-and-market-strategy/>

Auckland

The balance of indicators in Auckland remains unchanged from the previous quarter, but is still higher than this time last year and well up on the five year average.

Auckland	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	-14.0	-8.0	12.3
Regional employment confidence	113.0	122.0	112.0
Unemployment rate (s.a.)	3.7%	4.3%	5.2%
Retail sales (\$m, s.a.)	8,684	8,672	8,040
Passenger vehicle regos (s.a.)	29,774	29,672	29,171
Commercial vehicle regos (s.a.)	6,338	5,949	5,287
Guest nights (000, s.a.)	1,876	1,798	1,806
New dwellings consented (s.a.)	3,158	3,810	2,464
House sales (s.a.)	5,579	5,533	6,654
House price change, annual (s.a.)	0.8%	1.0%	10.4%
Net number of indicators rising compared to previous quarter			0
Net number of indicators rising compared to 5 year average			4

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Economic conditions in Auckland are relatively soft when compared to other regions, but the gap is closing.

Auckland's big weakness is its housing market, where subdued house price growth has helped to dampen household spending. Add to this ongoing issues with an under pressure transport system, recent increases in fuel prices, and the imposition of a regional fuel tax, and it is perhaps not surprising that Aucklanders report much lower regional confidence than others.

That said, there are some areas where things are going relatively well. Residential building consents, for example, have grown strongly over the past year, despite a sharp drop in the latest quarter. Non-residential building activity has also been strong, as evidenced by the large number of cranes dotted across Auckland city's landscape.

Unemployment in the region has also tracked lower. In part this reflects the performance of the construction sector. It also reflects activity in the accommodation and food services sectors, despite the fact that tourism growth to the region has slowed in the latest quarter.

The outlook for the region

Activity in Auckland should improve over the coming year and by more than other regions due to an expected rise in house prices. This will reduce the underperformance of the Auckland region. Beyond next year, we expect the Auckland economy to weaken again as slower population growth in the region and a weaker housing market begin to weigh on spending.

Spending over the next year, however, should benefit from a slight lift in house prices, underpinned by lower mortgage rates and recently announced changes to LVR mortgage lending restrictions, although gains could be limited by government policies aimed squarely at foreign investors.

A planned acceleration in government spending, much of it going on pay increases in the public sector and social transfers to low income families, superannuitants, students and the unemployed, should provide some additional support.

Residential building activity in the region should continue to increase over the coming year given the level of consents approved in recent quarters. However, as population growth slows, so too will the need to build more houses, which suggests that over time construction activity will become less of a driver of regional economic activity than it is at present.

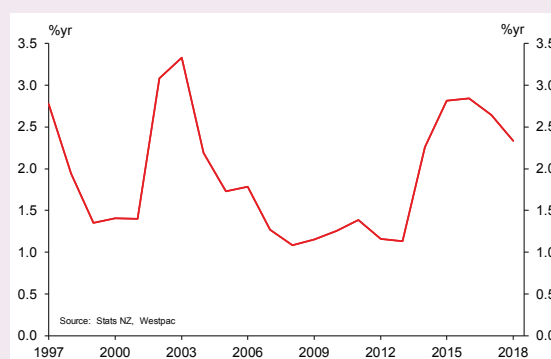
In focus: Population growth

Auckland has the fastest growing population in the country. However, the pace of growth has slowed from its peak in 2016, and this has resulted in a narrowing of the growth gap with other regions.

Most of this has been due to a slowdown in net foreign arrivals, who tend to be more concentrated in Auckland than in other regions.

It also might reflect internal migration to other regions. Annually, there are more people leaving Auckland for other regions than entering it, and the rate has picked up in recent years.

Population growth in Auckland



Bay of Plenty

The balance of indicators in the Bay of Plenty remain unchanged from the previous quarter. The indicators are, however, slightly worse than a year ago, but still up on the five year average.

Bay of Plenty	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	28.7	44.6	31.0
Regional employment confidence	119.2	115.6	107.7
Unemployment rate (s.a.)	4.1%	4.8%	5.8%
Retail sales (\$m, s.a.)	1,502	1,473	1,361
Passenger vehicle regos (s.a.)	3,518	3,599	3,164
Commercial vehicle regos (s.a.)	1,084	1,060	867
Guest nights (000, s.a.)	954	1,006	908
New dwellings consented (s.a.)	493	539	509
House sales (s.a.)	1,262	1,366	1,442
House price change, annual (s.a.)	4.2%	3.5%	10.4%
Net number of indicators rising compared to previous quarter			0
Net number of indicators rising compared to 5 year average			2

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Economic activity in the Bay of Plenty appears to be slower than for other regions in New Zealand, although conditions within the region are very mixed.

Business activity is looking upbeat, with Tauranga in particular benefitting from a growing reputation as a cost-effective logistics hub. The region continues to attract new firms, resulting in more demand for labour. As a consequence, the rate of unemployment continues to trend lower while advertised job vacancies remain at elevated levels.

House prices continue to rise with a slight pickup in the latest quarter, mostly because of lower mortgage rates and ongoing population growth. The Bay of Plenty as a whole has one the fastest growing populations in New Zealand with people being attracted to growing employment opportunities and lifestyle possibilities.

That said, residential building consents have fallen quite significantly and have been trending downwards for some time. This suggests that residential construction activity has slowed and does not augur well for the future. Non-residential building consents have also turned downwards in the latest quarter, although this comes after a period of successive increases, underpinned by activity in Tauranga.

The outlook for the region

Activity in the Bay of Plenty should improve after having underperformed in recent quarters. However, it is likely to weaken thereafter as slower population growth and a weaker housing market begin to weigh on spending. The region's rural backbone will also provide support.

Consumer spending over the coming year should benefit from a slight lift in house prices, underpinned by lower mortgage rates and recently announced changes to LVR mortgage lending restrictions, although gains could be limited by government policies aimed at cooling the housing market. These factors are likely to weigh more heavily on districts such as Tauranga, where house prices are already elevated.

A planned acceleration in government spending, especially that focusing on social transfers to low income families and superannuitants, should provide some additional support to spending, especially in rural districts.

Despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will be affected by a softening in horticulture and forestry prices. Dairy payouts are also expected to be down this year.

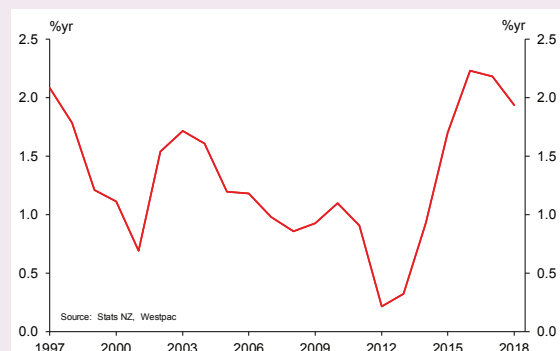
In focus: Population growth

Like most regions in the upper North Island, the Bay of Plenty boasts a high population growth rate.

Growth has, however, slowed since 2016, albeit not to the same extent as nearby Auckland.

Most of this is due to a slowdown in foreign arrivals and an increase in those returning home. Migrants from abroad as well as people migrating from Auckland are the largest contributors to population growth in the region.

Population growth in Bay of Plenty



Canterbury

Activity levels in Canterbury remain weaker than the rest of the country, with the balance of indicators suggesting a deterioration in the latest quarter. Activity seems little changed when compared to the same quarter last year, and is only slightly better than the five year average.

Canterbury	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	21.3	31.1	33.3
Regional employment confidence	112.1	115.6	112.9
Unemployment rate (s.a.)	3.4%	4.0%	3.4%
Retail sales (\$m, s.a.)	3,025	3,071	3,000
Passenger vehicle regos (s.a.)	9,241	9,413	9,167
Commercial vehicle regos (s.a.)	1,795	1,951	1,718
Guest nights (000, s.a.)	1,405	1,442	1,263
New dwellings consented (s.a.)	1,112	1,241	1,496
House sales (s.a.)	2,676	2,528	2,568
House price change, annual (s.a.)	1.3%	0.5%	3.4%
Net number of indicators rising compared to previous quarter			-4
Net number of indicators rising compared to 5 year average			1

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

To some extent this reflects conditions in the agricultural sector with farm gate incomes adversely affected by weaker prices for dairy and meat products.

It might also reflect softness in the housing market. House prices and rents in the region continue to reflect the impact of increasing supply. However, rising house sales volumes suggest that there might be some signs of life in the local housing market.

The regional labour market has been soft. Indeed, prior to the latest quarter, rates of unemployment had been gradually trending upwards as the regional economy continued its transition out of rebuild stimulus. Further weakness was reflected in advertised job vacancies, which had been trending down for some time, eventually turning negative in July and August. Unemployment fell in the latest quarter, but we suspect this may reflect survey volatility. Conditions have improved in the manufacturing sector, but service sector activity seems to be going sideways, despite the opening up of new retail and hospitality developments in the region. Tourism in particular seems to be struggling with many visitors now seeing the region as an entry point to other regions.

The outlook for the region

Canterbury is expected to remain a laggard relative to other regions over the coming year due to the ongoing unwind of the rebuild.

Consumer spending should, in the near term, benefit from a slight lift in house prices, underpinned by lower mortgage rates and recently announced changes to LVR mortgage lending restrictions. However, given that the supply of housing has lifted sharply recently, the impact of these factors is likely to be smaller than what would be the case in other regions.

The local economy should get a bit of a boost from a planned acceleration in government spending, much of it going on pay increases in the public sector and social transfers to low income families, superannuitants, students and the unemployed.

Despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will continue to be affected by a further softening in global commodity prices.

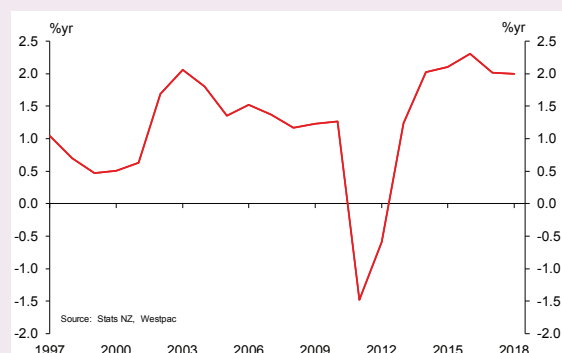
In focus: Population growth

Canterbury has had one of the fastest growing populations in the country over the past several years as the population recovers from the earthquakes.

Much of this had to do with the large influx of construction workers from abroad to work on the rebuild.

Canterbury, like Auckland, has a net outflow of people to other regions in New Zealand. However, unlike Auckland, the loss has slowed in recent years as the rebuild has progressed.

Population growth in Canterbury



Gisborne/Hawke's Bay

On balance, the indicators suggest that activity levels in the Gisborne/Hawke's Bay region have strengthened significantly in the latest quarter. Activity is also much higher than the same period last year, and well up on the five year average.

Gisborne/Hawke's Bay	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	41.0	31.0	21.5
Regional employment confidence	120.7	114.0	104.4
Unemployment rate (s.a.)	4.1%	5.1%	6.7%
Retail sales (\$m, s.a.)	905	897	832
Passenger vehicle regos (s.a.)	1,936	1,900	1,639
Commercial vehicle regos (s.a.)	719	612	537
Guest nights (000, s.a.)	403	390	343
New dwellings consented (s.a.)	184	163	138
House sales (s.a.)	822	935	811
House price change, annual (s.a.)	9.5%	11.9%	8.9%
Net number of indicators rising compared to previous quarter	6		
Net number of indicators rising compared to 5 year average	10		

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Gisborne/Hawke's Bay is one of the strongest performing regions in New Zealand, despite the impact of slightly weaker prices for beef, lamb and mutton on farm incomes. Horticultural prices remain elevated and the region has experienced a bumper grape harvest.

The upbeat feel of the region is reflected in double digit house price growth. The housing market continues to benefit from net migration inflows, particularly from offshore. There have also been some people moving from

Auckland and other centres in the North Island, looking for a change in lifestyle at a more affordable price.

The regional labour market is also strong with unemployment having declined for a number of quarters. New jobs are being created and the number of job vacancies being advertised has accelerated as firms struggle to fill entry level positions. Government investment in youth development programmes in the region is also likely to have contributed to strong employment growth.

One of the key factors driving lower unemployment has been construction activity. Building consents have been rising for a couple of quarters and this is likely to have been reflected in stronger residential building activity, particularly in Hastings.

The outlook for the region

Activity in the Gisborne/Hawke's Bay region is likely to remain buoyant over the coming year. But further ahead we expect the region to drift back into the pack. Some of the region's current outperformance has been driven by a burst of population growth, which will eventually wane. However, the region's rural backbone will continue to provide support in the long term.

In the near term at least, ongoing rises in house prices should support household spending. A planned acceleration in government spending, much of it going on pay increases in the public sector and well as social transfers to low income families, superannuitants, students and the unemployed, will also boost the local economy.

Despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will continue to be affected by a softening in global prices of beef, lamb, mutton and forestry products. A bumper grape harvest is likely to result in greater wine production and exports from this major wine producing region.

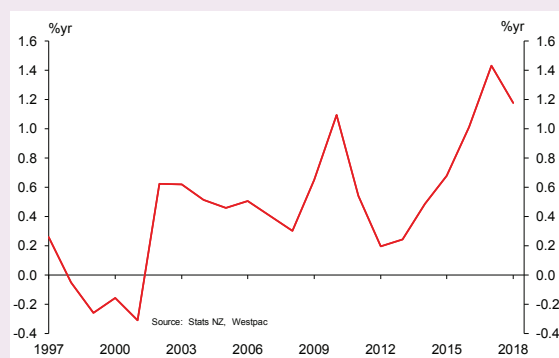
In focus: Population growth

Like most rural regions, population growth in the Gisborne/Hawke's Bay region is typically lower than the national average.

However, in recent years the rate of growth in the region has picked up, mainly because of decline in the number of people leaving for overseas.

That said, there has also been some internal migration, particularly from other centres in the North Island.

Population growth in Gisborne/Hawke's Bay



Nelson/Marlborough/West Coast

The balance of indicators suggests that activity in the top of the South Island has fallen for a third consecutive quarter. The magnitude of the decline this quarter is significant although activity levels are still about the same as those in the corresponding period last year.

Nelson/Marlborough/West Coast	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	31.2	47.2	27.0
Regional employment confidence	115.7	117.9	106.8
Unemployment rate (s.a.)	4.7%	4.4%	4.1%
Retail sales (\$m, s.a.)	913	898	849
Passenger vehicle regos (s.a.)	1,658	1,706	1,531
Tractor regos (s.a.)	125	52	55
Guest nights (000, s.a.)	877	934	862
New dwellings consented (s.a.)	263	278	230
House sales (s.a.)	812	850	792
House price change, annual (s.a.)	7.4%	7.2%	6.7%
Net number of indicators rising compared to previous quarter			-4
Net number of indicators rising compared to 5 year average			8

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

To some extent this weaker performance reflects conditions in the agricultural sector with farm incomes starting to be adversely affected by weaker prices for dairy and meat. However, horticultural prices remain elevated and the region has experienced a good grape harvest.

House prices continue to rise due to constrained housing supply, lower mortgage rates and above trend population growth. The region continues to be an attractive place for people approaching retirement age and has been able to attract its fair share of foreign migrants.

In focus: Population growth

Like most rural regions, population growth in this region is typically lower than the national average.

That said, the pace of population growth has picked up in recent years, mainly because of more people moving from other regions, most of whom are from the South Island. However, like many other regions, population growth began to slow in 2018.

Unemployment, though, has picked up again. This is the seventh consecutive quarter where the jobless rate in the region has either increased or gone sideways and stands in direct contrast to the rest of the country. Declining job vacancies further reflect a lack of demand for labour in the region, especially in the hospitality sector which has been affected by a slowdown in tourism and a weaker retail sector, evidenced in part by an increase in vacant retail space in some of the larger provincial centres. Sluggish construction activity is also likely to have contributed with both residential and non-residential building consents having fallen in recent quarters.

The outlook for the region

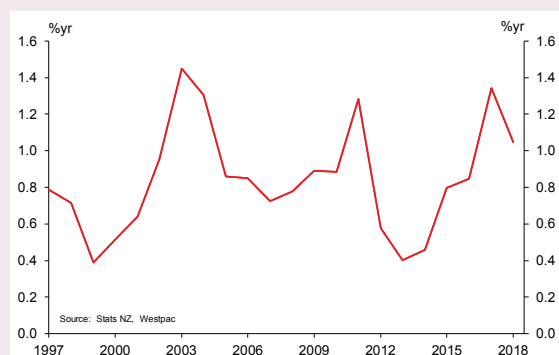
Activity in the Nelson/Marlborough/West Coast region should improve over the coming year, but weaken thereafter as slower population growth in the region and a weaker housing market begin to weigh on spending.

Over the coming year, house prices in the region should still benefit from lower interest rates and recently announced changes to LVR mortgage lending restrictions. The extent which it does, however, will depend. House prices in the region have already been rising for quite some time and in some areas, such as Nelson city, are already at levels that are amongst the highest in the country, relative to incomes.

This lift in house prices should support household spending, which will also benefit further from a planned acceleration in government spending, much of it going on pay increases in the public sector and well as social transfers to low income families, superannuitants, students and the unemployed.

Despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will continue to be affected by a softening in global prices for meat, forestry and horticultural products. Dairy payouts are also expected to be lower this year. On the positive side, a strong grape harvest augurs well for wine exports, which should benefit from currency weakness.

Population growth in Nelson/Marlborough/West Coast



Northland

Activity levels in Northland fell sharply in the latest quarter, after posting a small decline in the preceding quarter. They are also slightly down on the same quarter last year, although much higher than the five year average.

Northland	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	22.0	32.0	3.8
Regional employment confidence	110.0	119.4	104.9
Unemployment rate (s.a.)	5.7%	4.8%	7.4%
Retail sales (\$m, s.a.)	725	713	666
Passenger vehicle regos (s.a.)	1,384	1,434	1,314
Commercial vehicle regos (s.a.)	526	546	468
Guest nights (000, s.a.)	495	501	458
New dwellings consented (s.a.)	241	305	252
House sales (s.a.)	606	587	641
House price change, annual (s.a.)	5.1%	4.6%	9.0%
Net number of indicators rising compared to previous quarter			-4
Net number of indicators rising compared to 5 year average			4

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

To some extent this weaker performance reflects conditions in the agricultural sector with farm gate incomes starting to be adversely affected by weaker prices for meat and dairy products. On the positive side, horticultural prices remain elevated.

The region’s house prices continue to rise, albeit at a slower pace than before. This reflects a lack of available housing stock for sale, lower mortgage rates and stronger population growth.

Household spending has slowed, perhaps due to weaker conditions in the labour market, which have been evidenced by a big pickup in unemployment. Northland is the only region in the North Island to have posted a rise in unemployment in the latest quarter. A drop in job vacancies, particularly in the construction, retail and hospitality industries, suggest a lack of demand for labour, which does not augur well for future economic activity.

The outlook for the region

We expect Northland to bounce back from its current weak patch over the coming year on the back of rising house prices. However, further ahead we expect the Northland economy to weaken as slower population growth and a weaker housing market begin to weigh on spending.

The housing market in the region should get a pickup from lower interest rates and recently announced changes to LVR mortgage lending restrictions, similar to nearby Auckland.

This should support household spending, which will be further underpinned by a planned acceleration in government spending, much of it going on pay increases in the public sector and well as social transfers to low income families, superannuitants, students and the unemployed.

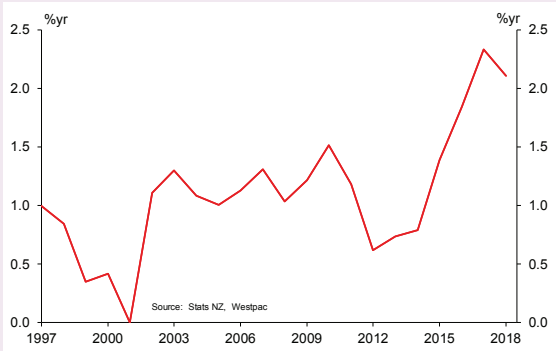
Despite an expected weakening of the New Zealand dollar, it’s likely that farm gate incomes will continue to be affected by a softening in global prices for dairy, meat, forestry and horticultural products.

In focus: Population growth

Northland is a bit different to most regions that have a strong rural backbone, with population growth easily exceeding the national average.

Most migration to the region is internally driven, with Auckland accounting for the vast majority of migrants to the region. Indeed, Aucklanders attracted to cheaper properties in the region are often cited as being a key driver of house prices.

Population growth in Northland



Otago

The balance of indicators suggests that activity levels in Otago nudged higher in the current quarter after moving slightly lower in the previous quarter. They are also slightly higher than in the same period last year and significantly better than the five year average.

Otago	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	42.0	31.0	18.2
Regional employment confidence	122.7	110.4	105.3
Unemployment rate (s.a.)	4.1%	3.2%	4.0%
Retail sales (\$m, s.a.)	1,286	1,291	1,237
Passenger vehicle regos (s.a.)	2,063	2,049	1,918
Commercial vehicle regos (s.a.)	722	756	599
Guest nights (000, s.a.)	1,524	1,595	1,426
New dwellings consented (s.a.)	505	493	427
House sales (s.a.)	1,162	1,139	1,151
House price change, annual (s.a.)	10.1%	10.6%	10.9%
Net number of indicators rising compared to previous quarter			1
Net number of indicators rising compared to 5 year average			6

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Otago is one of the strongest performing regions in New Zealand, although the degree of outperformance was less marked this quarter. Slightly weaker prices for sheep, beef and dairy products may be a factor. But conducive weather conditions are likely to have supported the production of grapes in the region (which implies increased wine production).

House prices continue to post double digit growth, although growth is marginally down on the previous quarter. While having slowed slightly, the region continues

In focus: Population growth

Population growth in Otago has accelerated sharply and is now the second highest in the country after Auckland. Most of this is centred on the Queenstown-Lakes and Central Otago districts.

This strong population growth has contributed to rapidly rising house prices.

Most migration to the Queenstown-Lakes district is by foreign migrants, with Auckland being the largest source of people from within New Zealand. For Central Otago, most new migrants come from other regions in the South Island and from Dunedin.

to experience strong population growth, easily outpacing residential construction activity, particularly in the Queenstown-Lakes district. A resulting shortage of housing stock and higher prices has encouraged buyers to look elsewhere in the region. Meanwhile interest has also been strong in Dunedin and surrounding areas, with strong buyer interest coming from Auckland and Queenstown.

Unemployment ticked higher this quarter after falling sharply in the preceding quarter and now sits higher than the national average. Activity in the region's services sector, led by tourism, seems to have flattened out while growth in manufacturing output looks to be slowing. Registration of new commercial vehicles was also lower. The softer tone is evidenced by a fall in the number of people employed in the region with a decline in job vacancies confirming a slowdown in demand for labour.

A slightly softer labour market and slowing tourist numbers are likely to be key reasons why consumer spending may have plateaued. Despite a still buoyant housing market, retail sales have effectively flat-lined while new vehicle purchases have at best shown marginal growth.

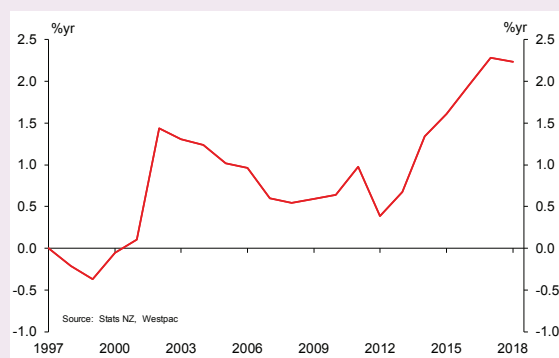
The outlook for the region

Otago's economic outperformance is partly based on an extraordinary burst of population growth which has boosted construction activity and pushed up house prices.

This situation seems likely to persist over the coming year with low mortgage rates and the recent easing in LVR mortgage lending restrictions fuelling house prices. However, population growth will inevitably cool, and when it does a part of the economy's current dynamism will diminish.

After a very strong few years, we expect to see less growth in tourism and international education. And despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will continue to be affected by a further softening in global commodity prices over the coming year.

Population growth in Otago



Southland

The balance of indicators suggest that activity levels in Southland have picked up sharply in the latest quarter. Activity in the region is also significantly better than for the same period last year and is much stronger than the five year average.

Southland	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	48.5	13.0	21.0
Regional employment confidence	120.7	118.4	108.3
Unemployment rate (s.a.)	3.7%	3.1%	4.3%
Retail sales (\$m, s.a.)	465	462	453
Passenger vehicle regos (s.a.)	1,020	952	799
Tractor regos (s.a.)	93	80	76
Guest nights (000, s.a.)	307	307	258
New dwellings consented (s.a.)	71	61	61
House sales (s.a.)	571	542	488
House price change, annual (s.a.)	10.1%	9.1%	5.9%
Net number of indicators rising compared to previous quarter			7
Net number of indicators rising compared to 5 year average			10

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Southland has been one of the strongest performing regions in the New Zealand, despite the impact of slightly weaker prices for sheepmeat, beef and dairy on farm gate incomes. That said, incomes in the region still remain well above break-even.

The housing market in Southland is going strong. Not only are house prices rising faster than before and are now in double-digit figures, the volume of sales are also up and

so are listings. To a large extent this reflects the relative affordability of houses in the region which is attracting the attention of investors and first time buyers. A lack of housing stock in some parts of the region has led to rental shortages, dramatically increasing rents.

In contrast to most other regions, unemployment has begun to tick up, although it still remains far lower than the national average. In part this is likely to reflect some sluggishness in the services sector, evidenced in part by flat tourism and retail sales numbers. Growth in advertised vacancies in the region is also down, suggesting a slowdown in demand for labour, which has been strong until now.

The outlook for the region

Southland's extraordinary run of outperformance is unlikely to continue, although the region's economy will remain supported over the coming year. Further ahead we would expect activity in the region to weaken as slower population growth and a weaker housing market begin to weigh on spending.

In the near term, the housing market should benefit from lower interest rates and the recently announced easing in LVR mortgage lending restrictions. This may encourage some first time buyers into more affordable housing in the region.

The benefits gained should help to support household spending, which will be further underpinned by a planned acceleration in government spending, much of it going on pay increases in the public sector and well as social transfers to low income families, superannuitants, students and the unemployed.

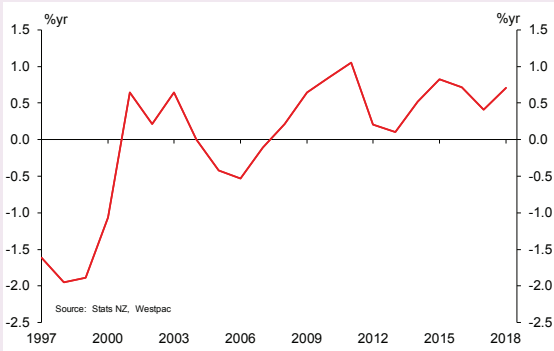
Despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will continue to be affected by a further softening in global commodity prices over the coming year. Dairy payouts will be lower this year than in the recent past.

In focus: Population growth

The pattern of population growth in Southland differs markedly from the rest of the country. Population growth is typically quite slow and that remains the case even during the recent national population boom.

Foreign migration to the Invercargill district is significant and is dominated by people from India, most of whom visit the region for educational purposes. Internal migration to this district is largely made up from people from other regions in South Island, and from other districts within Southland.

Population growth in Southland



Taranaki/Manawatu-Whanganui

The balance of indicators suggest that activity levels in this region have picked up sharply in the latest quarter. They are also slightly up on the same quarter last year and are significantly ahead of the five year average.

Taranaki/Manawatu-Whanganui	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	17.9	11.3	16.2
Regional employment confidence	111.9	107.4	103.7
Unemployment rate (s.a.)	4.4%	6.2%	5.8%
Retail sales (\$m, s.a.)	1,531	1,513	1,452
Passenger vehicle regos (s.a.)	3,414	3,332	3,070
Tractor regos (s.a.)	115	109	95
Guest nights (000, s.a.)	515	517	466
New dwellings consented (s.a.)	360	420	312
House sales (s.a.)	1,593	1,712	1,541
House price change, annual (s.a.)	10.0%	9.9%	7.0%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			10

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

This region has been one of the strongest performing regions in New Zealand, despite slightly weaker prices for meat, dairy and horticulture. In part this is likely to be because of a temporary lift in crude oil prices, which are likely to have boosted activity in the oil and gas industry.

The region has also benefitted from a strong housing market, with house prices growth being among the highest in the country. To a large extent, the increase in house prices reflects how affordable houses in the region are, particularly in district likes like Rangitikei and Whanganui. It might also reflect the impact of population growth, with

people attracted to job opportunities and higher average salaries in New Plymouth.

Residential construction activity in the region has been strong. Building consents have grown because of an increase in population size. More recently, however, there has been a flattening off and in the last quarter consents fell, suggesting the possibility of slower activity ahead.

The region's labour market has also tightened. Unemployment is down, with job growth in Taranaki being among the highest in the country. In part this is due to improved operating conditions in the oil and gas industries. Other areas of growth include utilities, retail, recreation and health services. Meanwhile, growth in the number of job vacancies has also increased, confirming that demand for workers in the region remains elevated.

The outlook for the region

Like much of the country, activity in this region is expected to experience a bit of pickup over the coming year, but can be expected to weaken thereafter as uncertainties in the oil and gas industry effectively slow net foreign migration and house prices start to ease.

In the near term, the housing market in the region should still benefit from lower interest rates and the recently announced easing in LVR mortgage lending restrictions.

The benefits gained should help to support household spending, which will be further underpinned by a planned acceleration in government spending, much of it going on pay increases in the public sector and well as social transfers to low income families, superannuitants, students and the unemployed in the region.

Activity in the region could be hit by the recent weakening in crude oil prices, although the impacts are likely to be partially offset by a weakening New Zealand dollar. The same applies for dairy prices and to lesser extent horticulture prices, with negative consequences for farm-gate incomes.

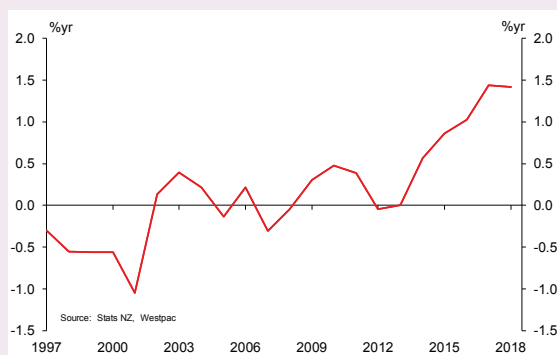
In focus: Population growth

Like most regions with a large rural base, population growth in this region is low when compared to the national average. However, unlike other regions, population growth in the region hasn't slowed since 2016.

Net foreign migration has been significant, with fewer people leaving for overseas.

A small number of people migrate to this region from other parts of New Zealand. Most come from other regions in the North Island, with Auckland being the largest single source.

Population growth in Taranaki/Manawatu-Whanganui



Waikato

The balance of indicators suggest that activity in the Waikato has improved in the latest quarter. Activity in the region also seems a bit higher than this time last year.

Waikato	Latest Quarter	Compared to	
		Previous Quarter	5 Year Average
Regional economic confidence	10.0	7.0	16.7
Regional employment confidence	97.2	117.9	105.9
Unemployment rate (s.a.)	4.0%	4.3%	5.1%
Retail sales (\$m, s.a.)	2,180	2,133	1,972
Passenger vehicle regos (s.a.)	4,891	4,894	4,423
Commercial vehicle regos (s.a.)	1,567	1,617	1,330
Guest nights (000, s.a.)	896	881	822
New dwellings consented (s.a.)	950	877	790
House sales (s.a.)	2,080	1,890	2,103
House price change, annual (s.a.)	5.2%	4.8%	10.0%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			2

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Activity in the Waikato seems to be improving despite weaker dairy, meat and forestry prices, which will have affected farm gate incomes.

Improving conditions are helping to drive demand for labour and as a result the rate of unemployment in the region has fallen over the course of 2018. Growth in the number of jobs being advertised also remains elevated, with demand for technical skills being particularly strong.

In part, lower unemployment reflects activity in the residential construction sector with residential building consents having trended up throughout 2018.

The region has also benefited from a relatively good performance from its housing market. House prices seem to have gained a second wind with price inflation having picked up and the number of houses being sold increasing. This is likely to reflect a recent sharp drop in mortgage rates. While house prices gains were widespread, the largest were in rural districts, such as South Waikato, where properties were more affordable and in cheaper parts of Hamilton still within commutable distance of the city centre.

With the region seemingly performing a bit better, it is a bit surprising that confidence in the region's economic prospects has fallen. Households in the region are the second least confident in the country. Like many neighbouring regions, regional confidence is likely to have been affected by deepening pessimism just up the road in Auckland.

The outlook for the region

Like other parts of northern New Zealand, the Waikato is likely to experience some improvement relative to other regions over the coming year. However, activity levels are expected to weaken thereafter as slower population growth and a weaker housing market begin to weigh on spending.

Household spending in the near term is likely to be boosted by a lift on house prices, underpinned by lower interest rates and an easing in LVR mortgage lending restrictions.

A planned acceleration in government spending, much of it going on pay increases in the public sector and well as social transfers to low income families, superannuitants, students and the unemployed, should provide some additional support.

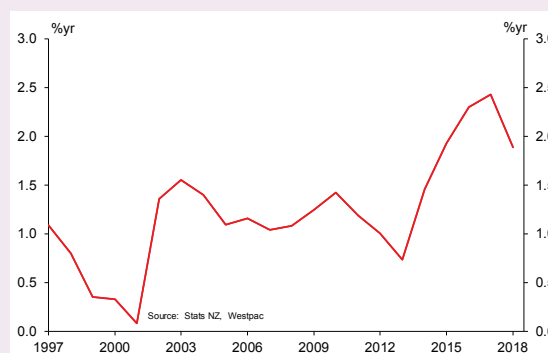
Despite an expected weakening of the New Zealand dollar, it's likely that farm gate incomes will continue to be affected by a further softening in global dairy, meat and forestry commodity prices over the coming year.

In focus: Population growth

The Waikato region is one of the fastest growing in the country, with population growth typically exceeding the national average. However, population growth has slowed since 2016.

The number of number of foreign migrants moving to the region easily outstrip those arriving from Auckland. Most of these are foreign students seeking an education. The region also attracts a relatively small number of people from other regions.

Population growth in Waikato



Wellington

The balance of indicators suggests that activity levels in Wellington have eased slightly in the latest quarter. However the regional economy is still performing well, with activity levels well above the same time last year, and significantly higher than the five year average.

Wellington	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	30.3	39.0	24.4
Regional employment confidence	119.0	116.8	106.0
Unemployment rate (s.a.)	4.6%	4.8%	5.1%
Retail sales (\$m, s.a.)	2,292	2,281	2,177
Passenger vehicle regos (s.a.)	5,785	5,881	5,220
Commercial vehicle regos (s.a.)	1,493	1,397	1,059
Guest nights (000, s.a.)	799	798	753
New dwellings consented (s.a.)	547	733	503
House sales (s.a.)	2,088	2,111	2,169
House price change, annual (s.a.)	7.6%	8.0%	8.5%
Net number of indicators rising compared to previous quarter			-2
Net number of indicators rising compared to 5 year average			6

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Wellington's economy continues to perform well, although there are some signs that the region has taken a bit of breather with a number of indicators suggesting a slowdown in demand. Nowhere is this more evident than in retail sales, which have effectively moved sideways during the quarter, in part reflecting the impact of higher fuel prices, which have slowed spending in other areas.

That said, employment confidence is up and the rate of unemployment has fallen. To a large extent this reflects

the Government's spending and hiring plans for the region. Meanwhile the number of job vacancies being advertised has trended higher for most of 2018, suggesting an increase in demand for labour.

The region's housing market remains buoyant, with house prices and rents growing strongly. Lower mortgage rates are likely to have been a key driver.

Residential building consents have fallen, which suggests that construction activity is set for a slowdown. This, together with flat tourism numbers, is likely to be among the reasons why there has been a slowdown in household spending in the region.

The outlook for the region

Like much of the country, activity in Wellington is expected to experience a bit of pickup over the coming year, but weaken thereafter as slower population growth and a weaker housing market begin to weigh on spending.

Household spending in the near term is likely to be supported by a lift in house prices, which are likely to be underpinned by lower interest rates and an easing in LVR mortgage lending restrictions.

It should also be supported by an increase in government spending on the public sector. Higher salaries, more jobs for frontline staff and white collar workers, and increased levels of public sector procurement, should all translate into stronger retail activity in the region. So too an increase in social transfers made by the Government to low income families, superannuitants, students and the unemployed.

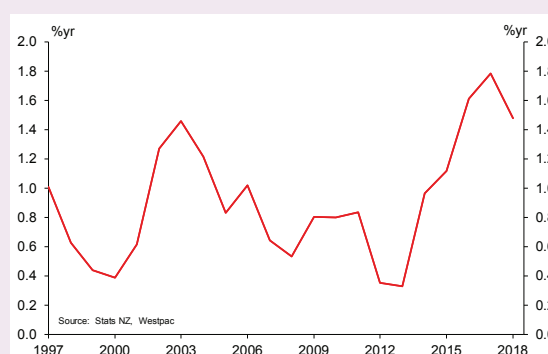
Slowing consent numbers suggest that residential building activity will slow from current levels. With construction activity expected to be roughly in line with slowing population growth, it's likely that the housing shortage experienced in the region should stabilise, and as a result construction should become less of a driver of regional economic activity in the future.

In focus: Population growth

Wellington's population tends to grow a little slower than the national average, and certainly slower than either Auckland or Canterbury. Population growth stepped up sharply from 2015 and has slowed slightly over the past year.

The region depends heavily on foreign migrants, with significant numbers going to the region for educational purposes. In general, the region attracts more people from other regions than it loses, but on a net basis the gain is quite small. The region does, however, attract a large number of people from the South Island.

Population growth in Wellington



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