

June 2019

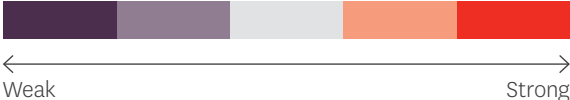
Regional Roundup



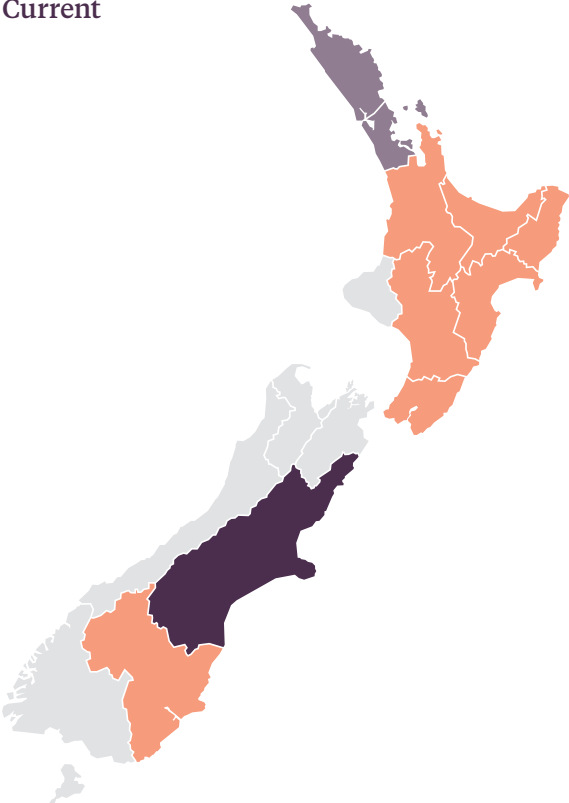
12-month regional outlook

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

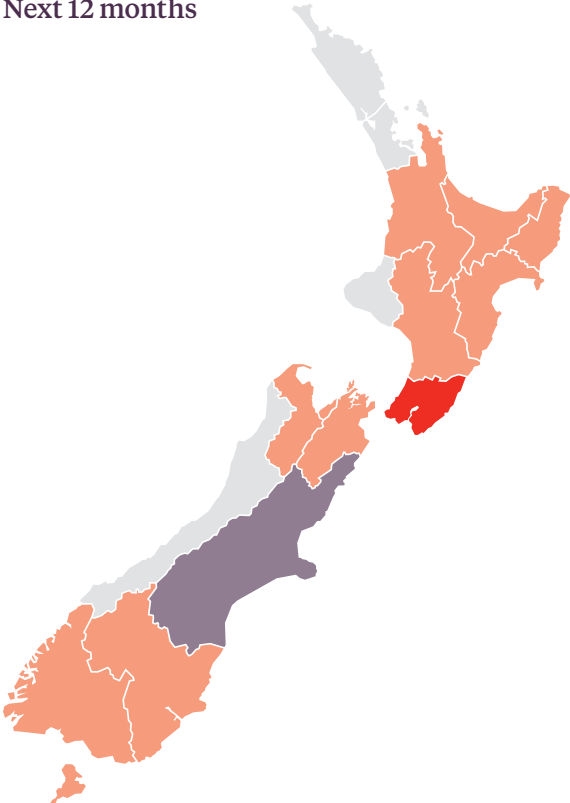
Regional outlook



Current



Next 12 months



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Summary

New Zealand’s economic slowdown over the past couple of years has been due to domestic demand – the slowing Canterbury rebuild, slower house price inflation, low business confidence and slowing population growth. Auckland and Canterbury, which make up half of the country’s population, were disproportionately impacted. Meanwhile, many regions with an agricultural backbone have been booming, as has government-heavy Wellington. But this quarter we have noticed signs that the gap between regions is closing. Some of the red-hot economies have been cooling, and some of the coolest regions have shown signs of a thaw. We expect this regional convergence to continue over the year ahead.

This quarter we have noticed an ongoing shift in the mix of regional economies in New Zealand. Hot spots Gisborne/Hawke’s Bay, Southland, Taranaki and Manawatu-Whanganui all still feature strong economies, but all are showing signs of cooling off. The Top of the South has also plateaued a bit. The nature of this regional economic cooling has been mainly domestic – slower employment growth, slower population growth, slightly cooler housing markets and construction passing its peak are common themes, although not universal.

By contrast, Wellington and Otago have been among the strongest economies for a while, and seem to have powered on this quarter, with ongoing low unemployment and strong construction sectors being key features.

Waikato and Bay of Plenty were not among the real hot spots a year ago. Nevertheless, both regions have featured gradually strengthening economies in recent times, and that seems to have continued this quarter. Both regions are benefitting from cyclically strong agricultural conditions. But there is also a more structural element to it. Businesses are relocating to this band of the North Island, adding to the diversity of the local economy. That should be a durable trend that sees these regions continue to perform well for a while yet.

Auckland and Canterbury remain the economic laggards, although this quarter there were signs of improvement in both. In Canterbury there has been a lift in residential construction consents for the first time in a long while, and the long-dead housing market is showing signs of life. We expect Christchurch house prices to start rising quite rapidly over the year ahead. In Auckland, regional economic confidence has

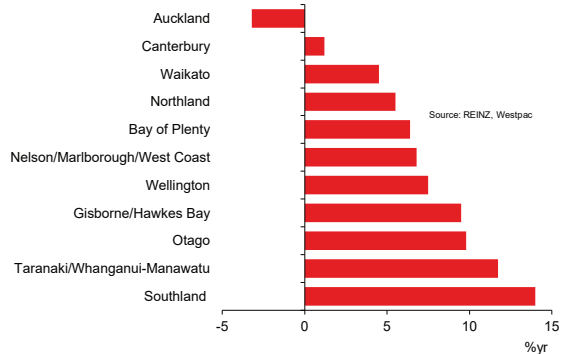
lifted considerably, although it remains the lowest in the country. We are expecting a modest lift in house prices to drive a bit more consumer confidence in Auckland.

Northland in particular seems to have slowed recently, perhaps weighed down by the economic malaise in its much larger southern neighbour. There has been a noticeable cooling of the housing market, a slowdown in construction activity, and a lift in unemployment in the winterless North. We expect that to turn around as Northland benefits from heavy government investment over the year ahead.

We expect the overall New Zealand economy to pick up over the coming year as low interest rates stimulate a revival in the housing market and government spending comes on line. The upturn we foresee will be most noticeable in regions that were worst affected by the slowdown in the first place – Canterbury, Auckland and Northland. That said, these regions will still be slower than other parts of the country. We also expect the government factor to drive further strength in Wellington, which is our pick for the hottest regional economy of the coming year.

Most other regions are expected to carry on with reasonable economic conditions, although there will be some variation. International tourism is really slowing. That is going to impact Otago and West Coast most heavily. Other parts of the South Island and some North Island regions will also feel the impact. Among regional industries, we expect forestry, horticulture and meat will continue to do well, while dairy and mining continue to struggle, with commensurate impacts on regional economies.

Figure 1: House price inflation in regions of New Zealand, year to May



Auckland

Current Situation

Economic conditions in Auckland seem to have softened. The housing market remains in the doldrums, confidence remains fragile despite lifting, and the region's labour market looks like it might be losing momentum.

Add to this, a slowdown in tourist guest nights and rising fuel prices, and it's little wonder that spending per person has almost flat-lined. And that is despite an increase in government transfers to low and middle income families, which should have contributed to a pickup in retail sales.

The housing market has been a major influence, with price declines and slowing sales volumes reflecting the impact of a raft of government measures. The Auckland housing market is also feeling the effect of reduced foreign buyer interest, in common with Sydney, Melbourne and Vancouver, which has been exacerbated by the foreign buyer ban. The threat of a capital gains tax has also had an impact on the market.

Tourism to the region has been slowing, mainly because of a contraction in international guest nights. Growth in domestic guest nights remains positive, but has slowed markedly over the past year.

The big positive for the region looks to be construction. After peaking at record levels in April 2018, and slowing thereafter, residential building consents seemed to have gained a second wind, driving stronger construction activity and increasing demand for labour.

Outlook

Auckland's economy is set to pick up over the next year, as lower interest rates and a decision by the Government not to proceed with a capital gains tax boosts the region's housing market. However, we still expect Auckland house prices and its economy generally to underperform relative to the rest of New Zealand.

The return to rising house prices is likely to support consumer spending. Government stimulus will also have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

However, slowing economic growth in key markets, such as Australia will adversely affect the exports of manufactured goods.

These factors are also likely to cap growth in tourism numbers from abroad, which could affect service exports, which have been growing strongly. Auckland's vibrant tech and business services sectors, however, will remain a highlight.

Figure 1: Housing market

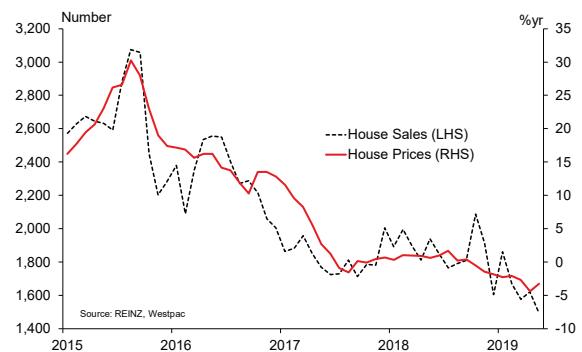


Figure 2: Tourism guest nights

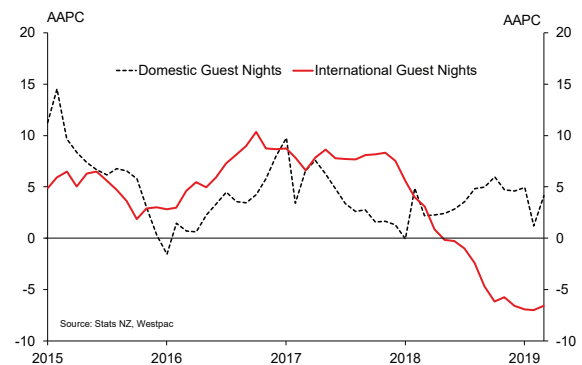
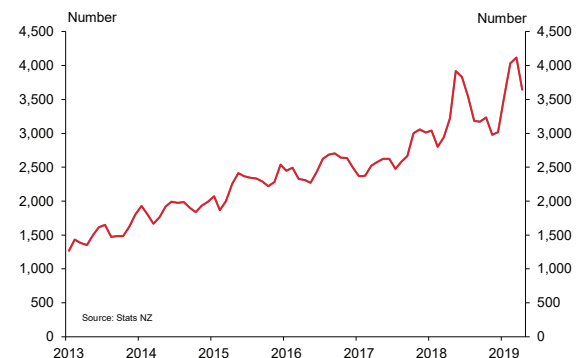


Figure 3: Residential building consents



Bay of Plenty

Current Situation

Economic conditions in the Bay of Plenty remain strong, with the region benefitting from increased production gains and higher prices for kiwifruit, a still relatively strong housing market, and firm construction activity.

The region continues to attract new firms as it positions itself as a low cost transportation and logistics hub. The opening up of a new university is also likely to have added to the vibrancy.

Increased activity in the region means greater demand for labour, particularly in areas such as healthcare, medical, hospitality and tourism. Job advertisements have been growing by about 10% for quite a while now and unemployment has declined.

The housing market remains relatively upbeat with house prices continuing to grow at a fair clip. However, the pace of price growth has eased more recently and sales volumes are also down, suggesting that the housing market has cooled a bit.

Buoyant building consent activity reflects the vibrancy in the region, although both population growth and residential construction have passed their peak. There is still a lot of commercial development taking place, particularly in Tauranga, with the CBD transformation already underway and a number of shopping malls in the suburbs having been completed.

Tourism though has softened, with international guest nights lower than a year ago. Domestic guests nights are growing, but at a slower rate. That said, these figures exclude visitors that arrive on the increasing number of cruise ships to Tauranga.

Outlook

Economic conditions in the Bay of Plenty should remain relatively buoyant over the coming year, with high prices for kiwifruit in particular set to underpin activity in the region. Farmers and growers should also experience elevated prices for sheep meat and forestry products.

Construction activity, which has come off earlier highs, is likely to soften slightly over the coming year as population growth slows.

Lower interest rates and a recent decision by the Government not to proceed with a capital gains tax are likely to mean that house prices, already growing by almost double digits, will continue their strong run.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

Figure 1: Unemployment rate

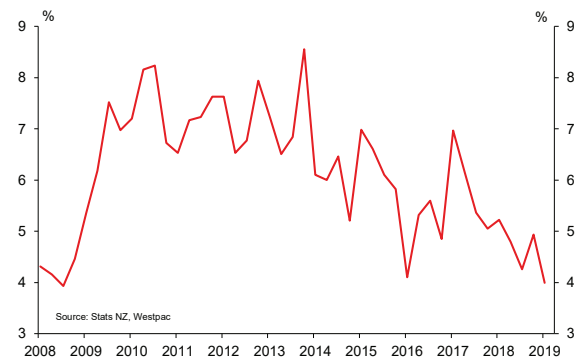


Figure 2: Housing market

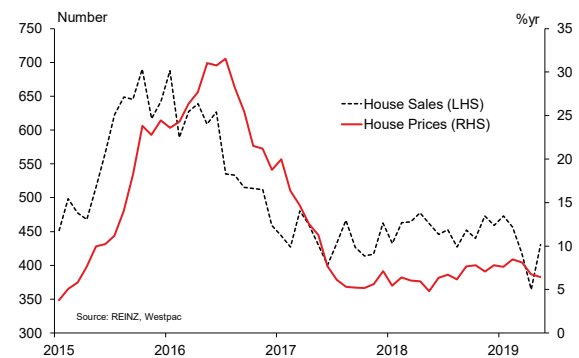
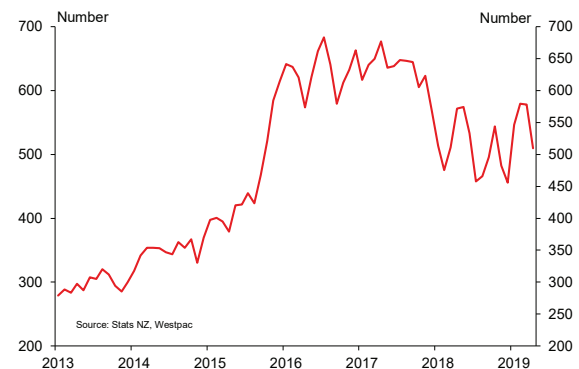


Figure 3: Residential building consents



Canterbury

Current Situation

Economic conditions remain fragile as the local economy comes to grips with life post earthquake recovery. However, this seems to be Christchurch centred rather than rural Canterbury. The rural sector continues to benefit from still strong meat prices and still elevated dairy prices.

By contrast, activity in Christchurch seems to have dipped. The region's manufacturing and services sectors are both struggling, with output gains having generally trended lower over the past couple of years.

The slowdown in services is likely to partly reflect the impact of a weaker tourism numbers on retail, accommodation and food services. The pace of growth in both international and domestic guest nights has shown a marked deterioration in recent quarters, despite a pickup in Chinese visitors.

A mixed performance from manufacturing and services and an ongoing decline in construction activity are likely to be the reasons why demand for labour in the region has fallen, unemployment has edged higher and spending has slowed

That said, recent consent numbers suggest that residential construction activity might be about to pick up. More homes are slated to be built closer to the city centre in a bid to encourage more people back into the CBD.

The housing market is also showing signs of an improvement, with prices clearly trending upwards. However, the market remains fragile, with the number of houses exchanging hands having tracked lower over the course of 2019.

Outlook

Economic activity in Canterbury may improve over the next year. The slowing rebuild will remain a drag, meaning that Canterbury will continue to underperform other regions. But there are some offsetting positives. The agricultural sector is likely to benefit from high meat prices and a higher dairy payout.

House prices should also pick up, as lower interest rates and a decision by the Government not to proceed with a capital gains tax boosts the region's housing market. House prices in Canterbury are now seriously cheap relative to other parts of New Zealand. We doubt that this "Canterbury discount" can get deeper from here, so we expect Canterbury house price inflation to rise to around 9% next year, in common with the rest of New Zealand ex Auckland.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services should also help to boost the region.

However, slowing economic growth in key markets, such as Australia, could adversely affect the exports of manufactured goods and cap tourism growth in the region.

Figure 1: Manufacturing and services performance

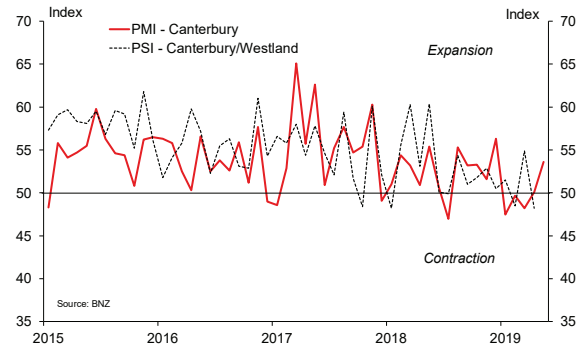


Figure 2: Tourism guest nights

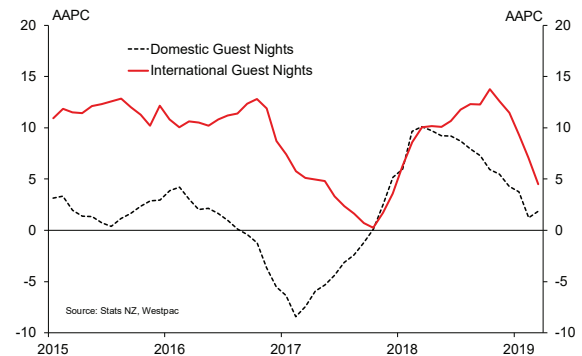
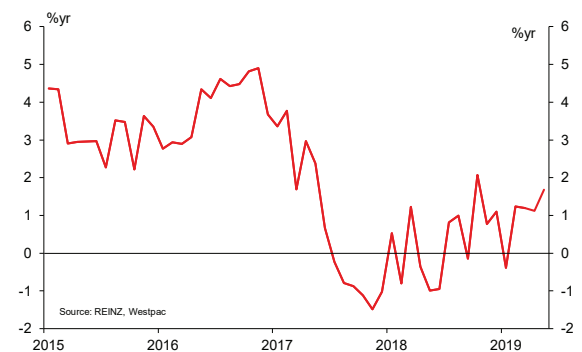


Figure 3: Housing market



Gisborne/Hawke's Bay

Current Situation

Signs are that the red hot Gisborne/Hawke's Bay economy might be showing the first signs of a slowdown.

The local economy has been performing strongly, in part because of price and volume increases for pip fruit exports, with new cargo records being set for the Port of Napier. This has been supported by elevated prices for logs, as well as higher prices for both lamb and beef.

Add to this a strong housing market, still low unemployment and an increase in job advertisements, and spending has been strong in the region.

That said, there are tentative signs that economic momentum is beginning to slow and these may explain why confidence in the region's economic prospects has come off. Despite being the highest in the country, house price growth has edged lower over successive quarters, while sales volumes have effectively shifted sideways. That said, the number of days taken to sell remains the lowest in the country.

Similarly, building consents, which have been strong, have started to soften, suggesting weaker construction activity ahead.

Tourism to the region has also slowed. Despite a strong summer season, evidenced in part by an increase in the number of cruise ships to the region's ports, annualised growth in international guest nights to the region has fallen sharply and in 2019 has actually contracted. It could have been worse had it not been for domestic guest nights, which have rebounded in recent months.

Outlook

Economic conditions in the Gisborne/Hawke's Bay are expected to remain buoyant over the coming year with a booming horticulture sector in particular set to underpin activity in the region. Farmers and growers should also experience elevated prices for lamb, beef and forestry products.

Lower interest rates and a recent decision by the Government not to proceed with a capital gains tax are likely to mean that house prices, already growing by double digits, will continue their strong run.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in Government capital expenditure should also help to boost the region.

A recent move to risk-based pricing for insurance in areas that are quake prone or subject to sea-level rise could result in price changes for commercial buildings, with those needing remediation work to meet code likely to experience a drop in prices.

Higher insurance costs could result in some commercial buildings that are non-code compliant being pulled down with new buildings constructed in their place. This should boost non-residential construction in the near-term, but in the long-term could drive up the costs of doing business in the region. It could also result in some firms relocating to other regions where the risks from natural disasters are lower.

Figure 1: Housing market

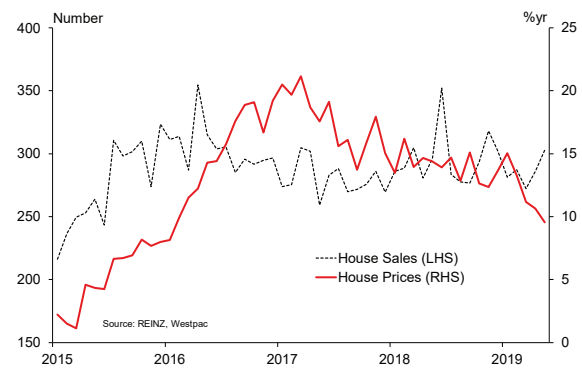


Figure 2: Unemployment rate

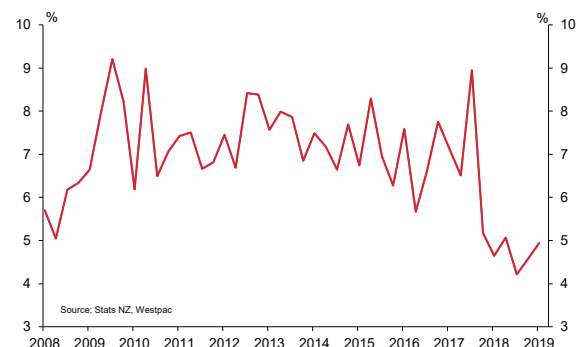
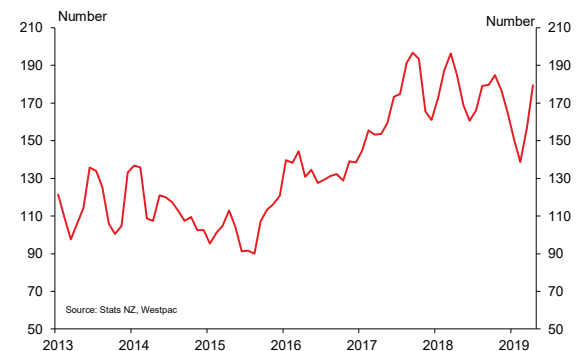


Figure 3: Residential building consents



Nelson/Marlborough/West Coast

Current Situation

Activity in this region seems to be plateauing. The agricultural sector is benefitting from strong export prices for horticultural, meat, forestry and dairy products, but confidence is low in some sub-sectors due to concerns about environmental and other compliance costs.

Drought conditions and wildfires in some areas earlier in the year are likely to have adversely affected production of some commodities. However, warmer weather temperatures contributed to an unprecedented early grape harvest in Marlborough, although by all accounts production was down on previous years.

Unemployment is also likely to have fallen because of increased hiring in the hospitality and food services industries to cater for the big pickup in visitor numbers that occurred in early 2019. However, on an annualised basis, growth in domestic and international guest nights has slowed markedly, turning negative in early 2019.

Despite two consecutive declines in the unemployment rate, demand for labour seems to be weakening, with the growth in online jobs having fallen precipitously and now close to zero.

House price inflation in the region has slowed, with sharper falls evident in Nelson. The recent increase in sales volumes is largely due to more houses changing hands in Tasman.

On the positive side, building activity continues to grow at pace, with dwelling consents more than reversing a sharp drop earlier in the year. The underlying trend, underpinned by growth in retirement units, is still positive and should continue to underpin construction activity for the rest of 2019.

Outlook

Economic conditions in this region are likely to improve off the back of stronger prices for horticultural and meat products, a higher dairy payout and strong activity in the forestry sector. Wine exports should be supported by further growth in grape production.

Support should also come from ongoing house price growth, due to lower interest rates and a recent decision by the Government not to proceed with a capital gains tax.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in Government capital expenditure should also help to boost the region.

A recent move to risk-based pricing for insurance in areas, such as Marlborough, that are quake prone or subject to sea-level rise could result in price changes for commercial buildings, with those needing remediation work to meet code likely to experience a drop in prices.

Higher insurance costs could result in some commercial buildings that are non-code compliant being pulled down with new buildings constructed in their place. This should boost non-residential construction in the near-term, but in the long-term could drive up the costs of doing business in the region. It could even result in firms relocating to other regions where the risks from natural disasters are lower.

Figure 1: Tourism guest nights

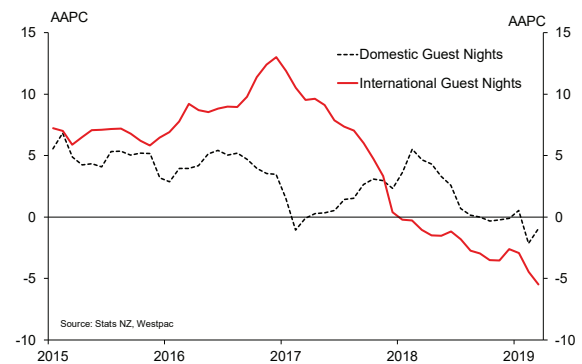


Figure 2: Housing market

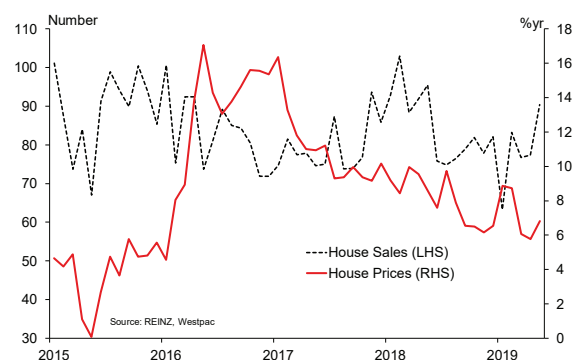
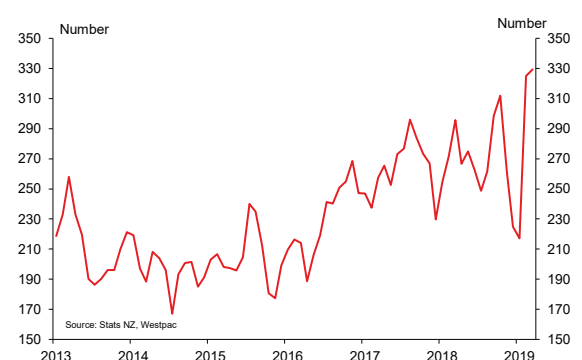


Figure 3: Residential building consents



Northland

Current Situation

Activity in Northland has cooled rapidly, despite positive conditions in the mainstay agricultural sector, with prices for dairy, meat and forestry products all holding up relatively well.

This slowdown is most evident in the labour market, which has turned softer. Unemployment had trended downwards for a number of quarters, but has now moved higher for two consecutive quarters. A contraction in online job vacancies merely confirms softer labour market conditions.

In part this could be because of a slowdown in tourism. International guest nights have now turned negative, reflecting a loss popularity for New Zealand as a whole as a tourism destination, while growth in domestic guest nights has almost dropped to zero.

Construction activity also looks to be weakening, with residential consenting activity having trended downwards since 2017, and is likely to continue to do so as population growth softens.

House price growth has slowed markedly in recent quarters and is now among the weakest in the country. Sales volumes have also trended downwards, despite a recent small pick up.

All of this has contributed to slower consumer spending growth. It might have been a lot worse had it not been for government transfers to low and middle income households.

Outlook

Activity in Northland should improve over the coming year, off the back of high meat prices, a higher dairy payout and strong activity in forestry.

Support should also come from stronger house price growth, as a result of lower interest rates and a recent decision by the Government not to proceed with a capital gains tax.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

Residential construction activity, though, is expected to slow further from current levels, as net migration flows slow.

By contrast, non-residential and civil construction activity could see a pickup with increased funding from the Provincial Growth Fund (PGF). Northland is by far the largest beneficiary of investment out of the PGF, something which is set to continue after the Government invited KiwiRail to apply to the Fund for money to fix Northland's ageing railway lines.

Figure 1: Unemployment rate

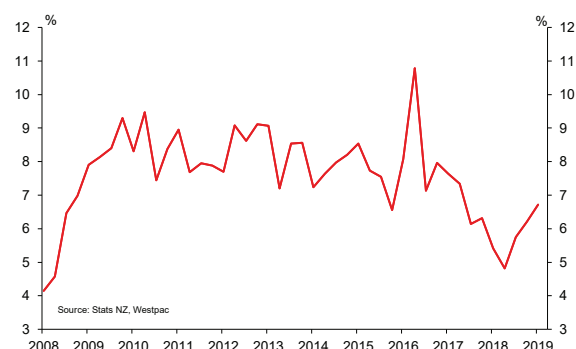


Figure 2: Residential building consents

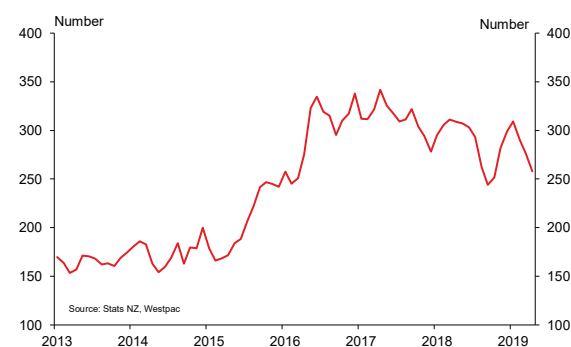
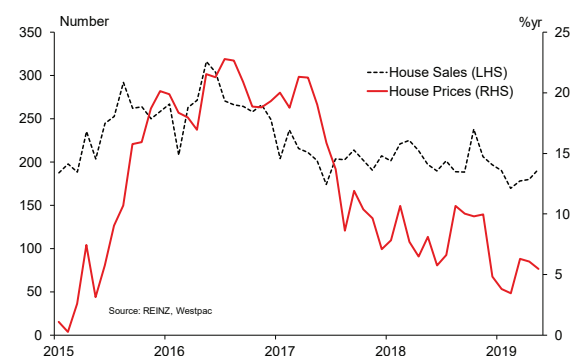


Figure 3: Housing market



Otago

Current Situation

Otago continues to be one of the strongest performing regions in New Zealand. In part this is because of conducive conditions in the agricultural sector, with returns on meat and dairy products holding up relatively well. Grape growers are also doing well, buoyed by an early grape harvest earlier in the year, and the horticulture sector is booming.

Sharply lower unemployment is also likely to have helped, although slowing growth in job vacancies suggest weakening demand for labour. Growth in online job vacancies is still healthy, but has fallen markedly in recent quarters. This is likely to reflect the declining performance of the region's manufacturing and service sectors.

Consumer spending is also likely to have benefitted from a buoyant housing market, with house prices picking up in May. That said, house price growth has trended lower, while the number of houses being sold has also dropped.

New dwelling consents in the region remain well above the long-term average and the construction sector is being kept busy by commercial projects, such as the new hospital in Dunedin and hotel building in Queenstown.

A concern for the region will be the performance of tourism, which is seeing a drop in occupancy rates. Tourism, a big driver of growth in the region, has fallen sharply mainly because of weakness in international guest nights. By contrast, domestic guest nights have picked up, albeit only slightly.

Outlook

Economic conditions in Otago are likely to remain relatively buoyant over the coming year, but the region is likely to lose some of its earlier momentum.

Slowing economic growth in key markets, notably Australia and China, is likely to further slow growth in tourists to the region. This is likely to have a bigger impact on the Central Lakes district than other parts of the region, which do not depend as much on tourism.

On the positive front, farmers and growers should experience high meat prices and a higher dairy payout. A better grape harvest should also translate into higher wine volumes and horticulture will continue to boom.

Residential building activity should pick up off the back of a recent acceleration in building consents, and is likely to remain firm due to ongoing net migration from other regions in New Zealand.

Lower interest rates and a recent decision by the Government not to proceed with a capital gains tax are likely to mean that house prices will pick up again.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

Figure 1: Housing market

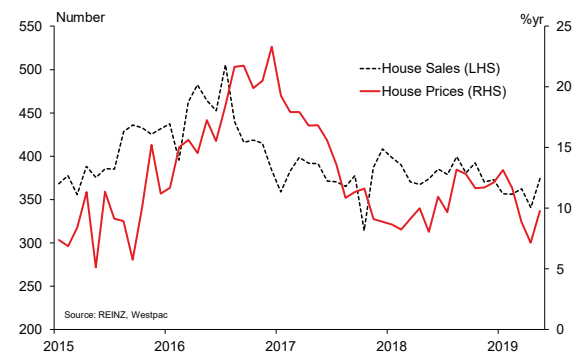


Figure 2: Residential building consents

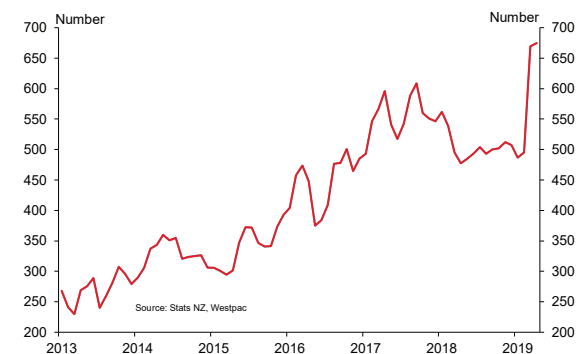
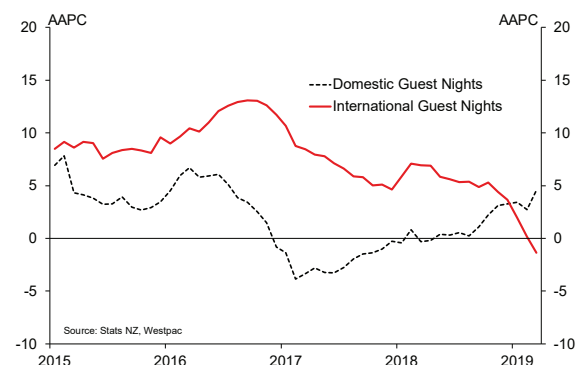


Figure 3: Tourism guest nights



Southland

Current Situation

Economic activity in Southland seems to be plateauing, with weaker construction activity and slower tourism growth offsetting positive contributions from the agricultural sector, which has benefitted from elevated prices for meat and dairy products.

Despite relatively strong dairy prices, confidence among dairy farmers in this region remains low because of concerns about having to comply with environmental regulations and worries about stalling dairy farm prices.

Unemployment continues to fall, reflecting shortages in key industries, particularly agriculture, manufacturing and tourism-related accommodation and food services. Despite a slowdown, online job advertisements are still growing at a fair clip suggesting that demand for labour is relatively strong.

Southland's housing market remains one of the strongest in New Zealand, with prices continuing to grow strongly. Meanwhile sales volumes, which had been trending down, have now started to shift sideways.

Meanwhile residential building consent issuance seems to be trending lower. This does not augur well for near-term construction activity or employment in the region.

Outlook

Economic conditions in Southland are expected to remain buoyant over the coming year, with farmers and growers expected to see high meat prices and raised dairy payouts. Despite this, sentiment among dairy farmers is likely to remain subdued, although spirits might be lifted a bit by falling interest rates and confirmation that the Government has cancelled its capital gains tax plans.

An expected pickup in non-residential building is also likely to help, with news that a multi-million dollar makeover of the Invercargill CBD has been given the green light to proceed.

Meanwhile residential construction activity is expected to slow. Population growth in this region is relatively low when compared to other regions, and could slow further over the coming year.

Lower interest rates and a recent decision by the Government not to proceed with a capital gains tax are likely to mean that house prices in the region will continue to grow strongly.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

Figure 1: Unemployment rate

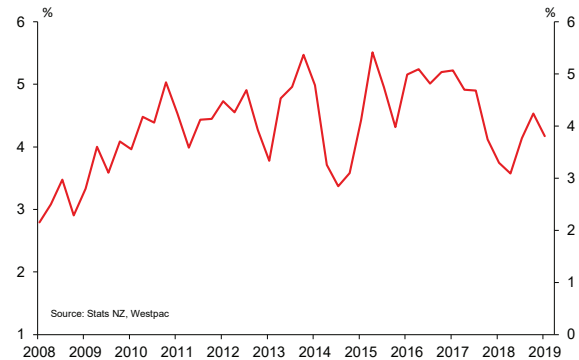


Figure 2: Housing market

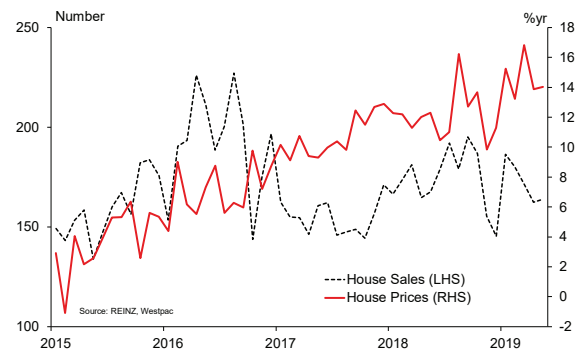
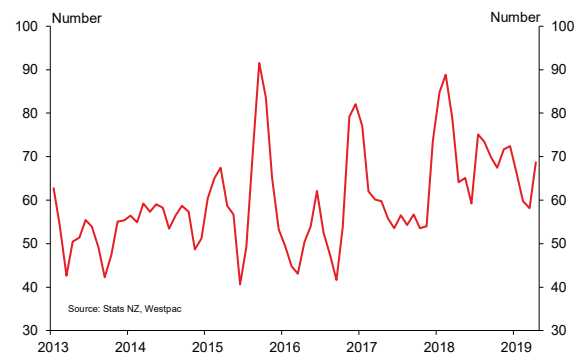


Figure 3: Residential building consents



Taranaki/Manawatu-Whanganui

Current Situation

After posting a string of strong performances, it looks as if activity in the region might have taken a turn for the worse.

Most of this is likely to be in Taranaki, which is struggling to come to terms with how it might transition away from a dependency on fossil fuels. By contrast, the Manawatu-Whanganui region is likely to have benefitted from still elevated prices for dairy and meat products.

Despite relatively strong dairy prices, confidence among dairy farmers in this region remains low. To a large extent this reflects ongoing concerns that farmers have about complying with environmental regulations and worries about stalling dairy farm prices.

Unemployment has begun to rise, growth in job vacancies has slowed and people in the region are feeling decidedly less confident that they were before.

This could be because of a slowdown in construction activity. That said, building consent issuance has shown an upward trend, indicating stronger construction activity in the near future. Construction activity in Taranaki is being underpinned by growth in retirement villages.

Although a small contributor to regional economic fortunes, tourism guest nights continue to weaken. This is mainly because of a big drop in international guest nights. By contrast, the relatively small number of people visiting from other parts of the country has trended upwards over time.

Despite a bit of a slowdown recently, house prices in the region are still showing double digit growth. The real outperformer has been the Manawatu-Whanganui, where prices have reached record highs. Price growth in the Taranaki region has been solid rather than spectacular, led by slower gains in the New Plymouth district.

Outlook

Economic activity in Taranaki is likely to be weighed down by conditions in the heavyweight oil and gas industry, which is coming to terms with its new operating reality, slowing output levels, and lower crude oil prices.

However, across the wider region some cheer might be provided by the performance of the agricultural sector, which is expected to benefit from high meat prices and raised dairy payouts. Sentiment among dairy farmers is likely to remain subdued, but spirits might be lifted a bit by falling interest rates and the cancellation by Government of its capital gains tax plans.

Lower interest rates and a recent decision by the Government not to proceed with a capital gains tax are likely to mean that house prices should continue their strong run.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

A recent move to risk-based pricing for insurance in areas that are quake prone or subject to sea-level rise could result in price changes for commercial buildings, with those needing remediation work to meet code likely to experience a drop in prices.

In some cases, higher insurance costs could result in some commercial buildings that are non-code compliant being pulled down and replaced by up-to-spec buildings. This should boost non-residential construction in the near term, but in the long-term could drive up the costs of doing business. It could even result in firms relocating to other regions where the risks from natural disasters are lower.

Figure 1: Residential building consents

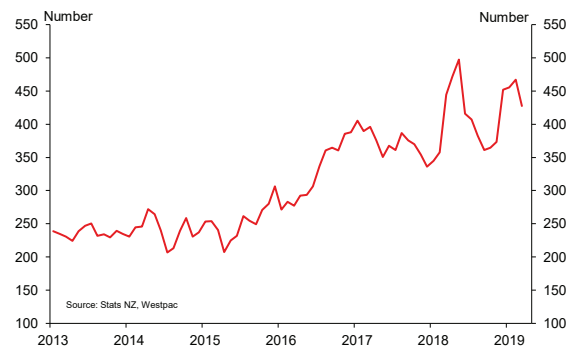
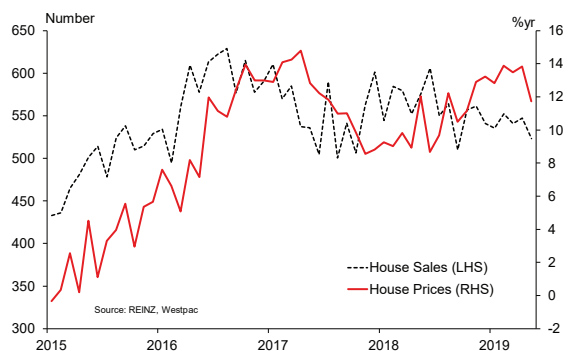


Figure 2: Housing market



Waikato

Current Situation

Activity in Waikato continues to build on gains achieved in prior quarters, in part because of supportive conditions in the agricultural sector, with returns on dairy, meat and forestry holding up relatively well.

However, despite the performance of dairy prices, confidence among dairy farmers in this major dairy producing area remains low. To a large extent this reflects ongoing concerns that farmers have about complying with environmental regulations and worries about stalling dairy farm prices.

The vibrancy of the Waikato is also because of the number of new firms establishing a presence in the region. This is particularly true for Hamilton, with many new firms, involved in manufacturing, agri-tech, financial services and IT, taking up residence in newly completed industrial parks close to the city. Construction activity in the region's capital reflects this expansion and with more people coming to the area, residential building consents have powered ahead.

This growing economic dynamism is increasing demand for labour which has helped to drive unemployment lower. That said, the most recent pickup in the unemployment rate coupled with a slowdown in online job vacancies suggests that demand for labour has begun to cool.

The region's housing market remains relatively buoyant, although house price growth has edged lower. Low interest rates, big population gains, and the close proximity of Auckland has helped to drive prices to record levels in most districts, while sales volumes have essentially gone sideways. The biggest gains were in the South Waikato district with good proximity to Hamilton, Rotorua and Taupo.

The same cannot be said for tourism, which has been flat. International guest nights to the region have plummeted, although these have been partially offset by an increase in domestic visitors to the region.

Outlook

Economic conditions in the Waikato are likely to remain buoyant, supported by high meat prices, and a higher dairy payout. Sentiment among dairy farmers is likely to remain subdued, but spirits might be lifted a bit by falling interest rates and the cancellation by Government of its capital gains tax plans.

The region is also expected to benefit from strong construction activity to meet the demands of a growing population, while commercial construction is likely to remain firm as more businesses establish a presence in the region.

Still strong population gains, lower interest rates and a recent decision by the Government not to proceed with a capital gains tax are likely to mean that house prices should see a bit of a pickup over the course of the next year.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

However, slowing economic growth in key markets, notably Australia and China is likely to curb growth in international tourists. Growth in domestic tourists should continue to edge higher.

Figure 1: Residential building consents



Figure 2: Unemployment rate

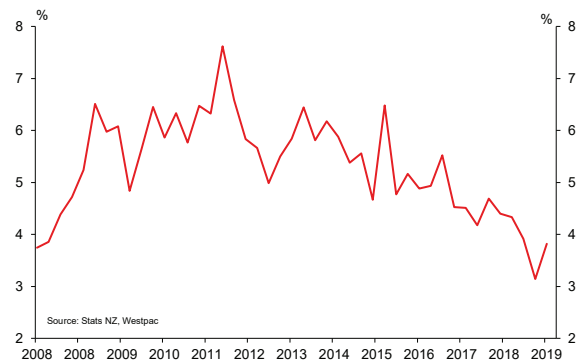
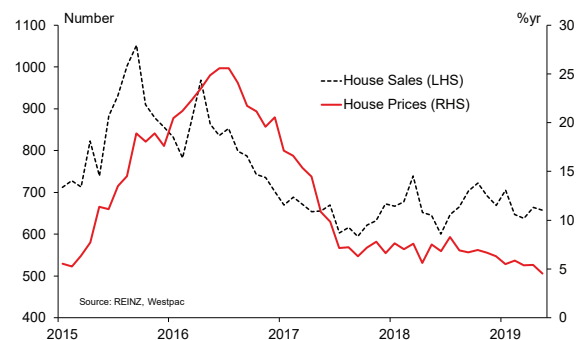


Figure 3: Housing market



Wellington

Current Situation

The Wellington economy is picking up a head of steam. Unemployment has plunged as government departments have increased their hiring, construction activity has powered ahead to fill persistent housing shortages and house prices have continued to rise. Although subject to some volatility, the number of houses exchanging hands has effectively gone sideways over the past year or so.

Demand for labour in the region is upbeat, with growth in job vacancies, unlike most other regions, remaining strong. As a result, confidence levels are rising.

After peaking at record levels in April 2018 and slowing thereafter, residential building consents seem to have gained a second wind, driving stronger construction activity and increasing demand for labour.

However, this doesn't seem to have translated into stronger consumer spending, which at best is showing marginal growth. The increase in government transfers to low and middle income families introduced last year is not really evident either, although this could have been offset by a rise in petrol prices earlier this year.

Another reason could be tourism, which at best has moved sideways. While the region has seen a big increase in domestic guest nights, international guest nights have plunged.

Outlook

Economic activity in Wellington is likely to strengthen further, mainly because of the impact of increased government spending on the wider regional economy. This should also ensure that demand for labour remains strong.

The region should also see strong construction activity to address ongoing housing shortages and the demands of a growing population.

Lower interest rates, high rents, and a recent decision by the Government not to proceed with a capital gains tax are likely to result in stronger house price growth over the coming year.

This should bolster consumer spending. Government stimulus too will have an important part to play, with ongoing support in the form of the Families package and increased winter energy payments coming into effect over the coming year. A big lift in spending on public services and a ramp up in infrastructure building should also help to boost the region.

That said, a recent move to risk-based pricing for insurance in areas that are quake prone or subject to sea-level rise could result in a distortion in prices for commercial buildings in the capital, with those needing remediation work likely to experience a drop in prices.

Higher insurance costs could also result in some existing commercial buildings being pulled down and new buildings constructed in their place. This should boost non-residential construction in the region in the near-term, but in the long-term could drive up the costs of doing business in the capital. It could even result in firms relocating to other regions where the risks from natural disasters are lower.

Figure 1: Unemployment rate

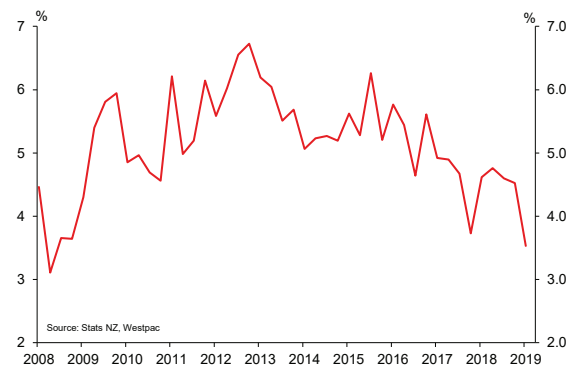


Figure 2: Residential building consents

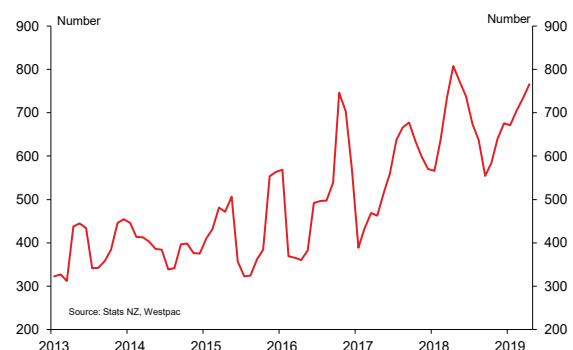
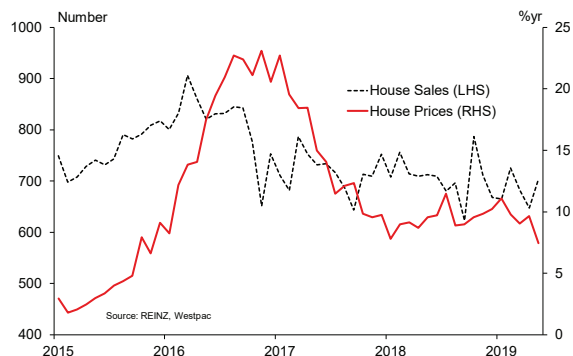


Figure 3: Housing market



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