

March 2019

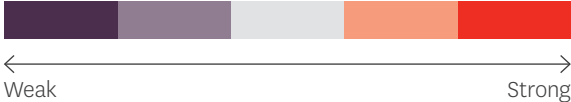
Regional Roundup



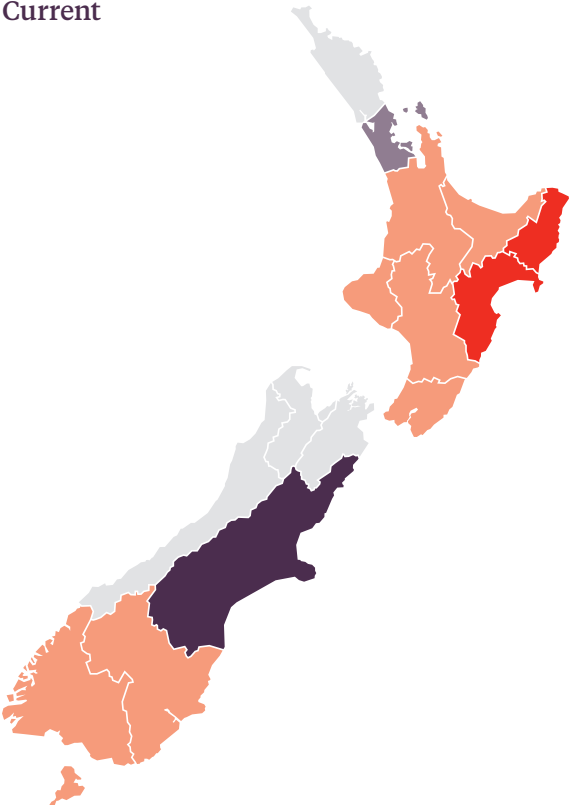
12-month regional outlook

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

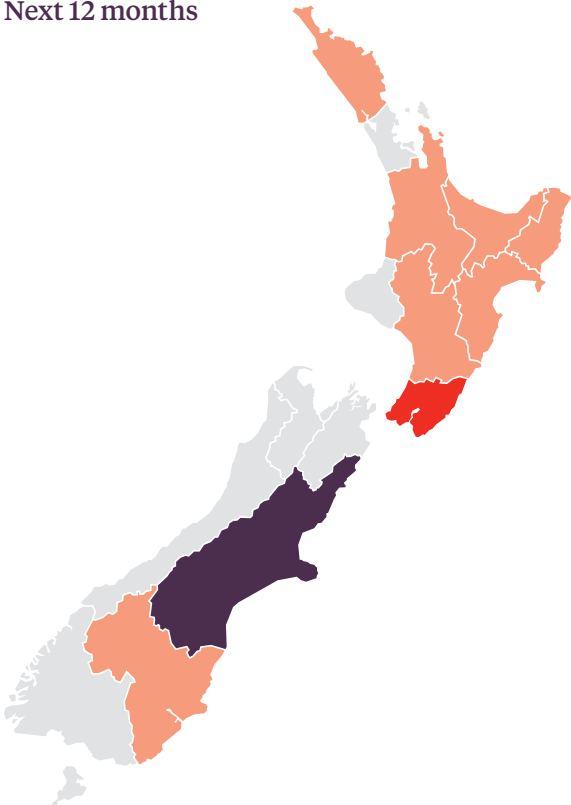
Regional outlook



Current



Next 12 months



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Summary

Economic activity in the southern portions of each island remains very strong, but in some places momentum is starting to flag. The northern parts of each island are weaker, but have caught up a bit. Unfortunately Canterbury remains in the doldrums. The outlook is positive for many regions with Auckland and Northland, in particular, expected to improve on their current lacklustre performance. Some regions are currently experiencing economic booms. However, when population growth and house price inflation inevitably slow, these overheating regions are likely to cool.

In recent times, New Zealand has been an economy of two halves. The southern portions of each island have been absolutely fizzing, propelled by successful agriculture and tourism industries as well as population-induced building booms. Meanwhile, Canterbury and Auckland have been much slower due to flat-to-falling house prices and the unwind of the post-quake rebuild in Canterbury's case. Some of the regions neighbouring those two main centres were also feeling the chill last year.

In the November Regional Roundup we detected early signs that those regional differences were diminishing. That trend has continued this quarter. Erstwhile laggards Northland, Waikato, and Nelson/Marlborough/West Coast have all picked up in recent quarters. Auckland has also shown a few signs of picking up, although falling house prices remain a constraining force. Meanwhile, Gisborne/Hawke's Bay, Otago and Southland are still among the strongest-performing regions in the country, but they are losing momentum and their lead over the rest is diminishing.

At the national level, the economy lost steam in late 2018, but we expect it to regain momentum in 2019. The main reason for that is a large increase in government transfers and spending, which will be felt across the whole country. Consequently, the outlook is broadly positive for most regions over the year ahead.

The three main centres will stand out from this trend, but for different reasons. Government largesse will be felt most acutely in Wellington, so the outlook there is particularly strong. In Auckland there has been a very large rise in consents for new dwellings, signalling a lift in construction activity that should boost the local economy over 2019. On the other side of the ledger, Canterbury will remain hampered by cooling reconstruction activity.

There are a number of rural regions of New Zealand currently doing very well, and we expect that to continue

in 2019. True, some are already losing momentum and that may continue this year. Others, such as the Bay of Plenty, have built quite a head of steam and are expected to roll through 2019 in fine form. But many of these regions are overheating, and we do expect they will cool in time.

The regional boom in many parts of New Zealand has been driven by two forces. The first is success in export industries like agriculture, and that can be sustained. But the second driver is not sustainable – population growth, construction, and rising house prices. Population growth is already slowing in many regions, and as it continues to cool the construction booms currently under way will wane. Meanwhile, double-digit house price inflation is currently stimulating strong consumer spending in many regions, but this will not last. When house price inflation slows or goes into reverse as we expect, consumer spending in many regions will slow from the current helter-skelter rates of growth.

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.¹

¹ Available here: <https://www.westpac.co.nz/assets/Business/Economic-Updates/2019/Bulletins-2019/Westpac-QEO-February-2019-WEB.pdf>

Auckland

The balance of indicators suggest that economic activity in Auckland remained largely unchanged in the latest quarter, but remains well up on the five year average.

Auckland	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	15.6	-14.0	11.5
Regional employment confidence	125.6	113.0	113.2
Unemployment rate (s.a.)	4.4%	3.8%	5.1%
Retail sales (\$m, s.a.)	8,870	8,701	8,159
Passenger vehicle regos (s.a.)	28,027	29,717	29,412
Commercial vehicle regos (s.a.)	6,247	6,336	5,411
Guest nights (000, s.a.)	1,912	1,880	1,818
New dwellings consented (s.a.)	2,966	3,139	2,467
House sales (s.a.)	5,623	5,349	5,332
House price change, annual (s.a.)	-0.4%	0.8%	9.6%
Net number of indicators rising compared to previous quarter			0
Net number of indicators rising compared to 5 year average			6

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

Auckland has been one of the economic laggards of New Zealand in recent times, mainly due to flat to falling house prices.

However, there are early signs that activity might be picking up, with a sharp lift in regional confidence, retail spending and house sales being recorded in the last quarter.

New dwelling consents dropped slightly, but that was after a very sharp rise earlier in the year. Meanwhile, non-residential construction activity remains elevated.

The labour market has also been performing relatively well with unemployment trending lower and online job vacancies tracking higher. People are also feeling a lot more optimistic about their future job prospects.

A larger number of people in employment and higher wages have helped to increase spending.

The outlook for the region

Auckland is still a laggard but it is showing early signs of picking up and we expect that to continue in 2019.

Key to this will be a big ramp up in residential construction activity already signalled by a sharp increase in building consents in 2018.

Lower interest rates might also help by spurring on the housing market. However, how this affects house prices in the region is a little uncertain given the recent introduction of the foreign buyer ban.

Consumer spending should still be supported by an increase in government transfers to low and middle income families in the region. A larger number of people in work, higher wages and lower petrol prices should also put more cash in pockets.

Beyond 2019, we expect falling house prices, slower population growth and a plateau in construction activity to cause the Auckland economy to slow.

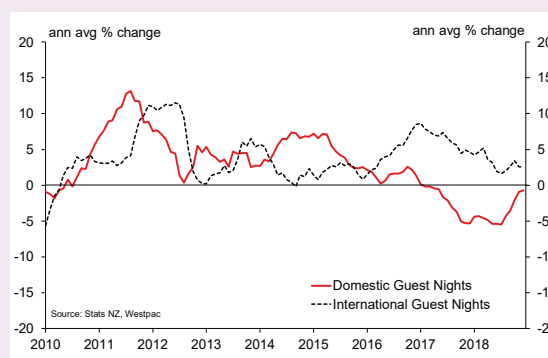
In focus: Tourism

Auckland attracts more overnight tourists than any other region in the country. Traditionally a one-night stopover, the region has become a tourist destination in its own right, with guest nights almost evenly split between visitors from abroad and those that come from other regions.

On an annualised basis, total guest nights in the region have been growing, although the rate of growth has slowed since the end of 2016.

The slowdown in domestic guest nights, however, started back in 2014. In part this reflects capacity constraints in the region and growth in demand from foreign tourists, which despite having declined, remains in positive territory.

Guest nights in Auckland



Bay of Plenty

The balance of indicators for the Bay of Plenty suggest a slight improvement in activity in the latest quarter. Activity levels are slightly better than a year ago, and well up on the five year average.

Bay of Plenty	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	37.0	28.7	31.7
Regional employment confidence	113.7	119.2	107.8
Unemployment rate (s.a.)	5.1%	4.2%	5.6%
Retail sales (\$m, s.a.)	1,505	1,499	1,380
Passenger vehicle regos (s.a.)	3,389	3,501	3,223
Commercial vehicle regos (s.a.)	1,173	1,082	895
Guest nights (000, s.a.)	990	960	918
New dwellings consented (s.a.)	461	487	506
House sales (s.a.)	1,366	1,325	1,243
House price change, annual (s.a.)	5.3%	4.2%	10.5%
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, REINZ

This region is buzzing. Confidence is high, trade volumes through the Port of Tauranga are at record levels, tourism numbers are good, and firms are still flooding into the region, quickly filling up newly developed industrial estates.

The region's performance also reflects what is happening in the agricultural sector, with prices for forestry, kiwifruit, avocado, dairy and meat products holding up pretty well.

In focus: Tourism

In the North Island, the Bay of Plenty is second only to Auckland in terms of number of guest nights. The vast majority of visitors to the region come from within New Zealand, although the region has become increasingly popular with foreigners.

Although not shown in guest night estimates, Tauranga in particular has benefited from an increase in the number of international cruise ships visiting the city.

Total guest nights have grown on an annualised basis, although the pace of growth has slowed markedly. This is particularly evident in international guest nights, with growth having turned negative in recent quarters. To a large extent, this is likely to reflect a loss of popularity for

The labour market continues to perform well, with unemployment trending lower and online job vacancies powering ahead. More people are in employment and wages have started to rise, which in turn has helped to increase spending.

Consumer spending has also begun to reflect an increase in government transfers to low and middle income households and the recent fall in petrol prices.

Rising house prices are also likely to have helped, although recent gains have been solid rather than spectacular. Rising sales volumes suggest that demand for property in the region remains strong.

Despite a recent pick up in residential building consents, consenting activity in the region has trended downwards since late 2017.

The outlook for the region

The Bay of Plenty is likely to perform strongly over the coming year as firms continue to establish themselves in the area and activity through the port of Tauranga climbs.

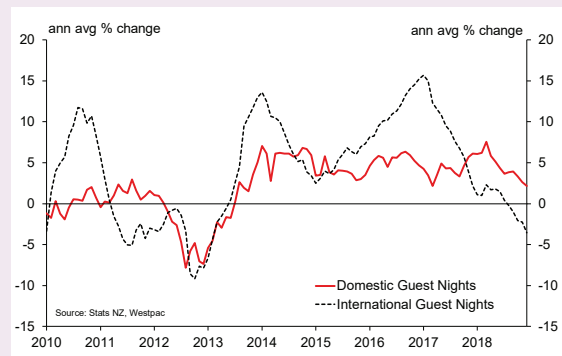
Rising farm gate incomes should provide some additional support, with farmers and growers likely to benefit from still-favourable prices for kiwifruit, avocados and dairy products.

Buoyant house prices are likely to support spending in the region. An increase in government transfers to low and middle income families and more people in work should provide additional support. Higher wages and lower petrol prices are likely to put more cash in pockets.

However, spending by tourists is set to continue slowing, mainly because of a slowdown in foreign arrivals.

New Zealand as a whole as a tourism destination rather than the Bay of Plenty specifically.

Guest nights in Bay of Plenty



Canterbury

The balance of indicators suggest that activity in Canterbury has picked up in the latest quarter. They are also significantly up from a year ago, although only a little above the five year average.

Canterbury	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	35.8	21.3	31.8
Regional employment confidence	119.0	112.1	113.1
Unemployment rate (s.a.)	3.7%	3.4%	3.4%
Retail sales (\$m, s.a.)	3,064	3,031	3,025
Passenger vehicle regos (s.a.)	9,134	9,305	9,267
Commercial vehicle regos (s.a.)	1,912	1,791	1,736
Guest nights (000, s.a.)	1,442	1,408	1,280
New dwellings consented (s.a.)	1,288	1,096	1,417
House sales (s.a.)	2,636	2,581	2,127
House price change, annual (s.a.)	1.2%	1.5%	3.0%
Net number of indicators rising compared to previous quarter			4
Net number of indicators rising compared to 5 year average			2

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

Economic conditions in Canterbury remain fragile. The region continues to struggle with re-orientating itself away from construction towards manufacturing and services, the traditional drivers of economic activity.

A lack of economic momentum, reflected in part by sluggish house prices, has translated into flat spending growth. It seems that home buyers are faced with plentiful supply and are being spoilt for choice.

A rise in unemployment will not have helped matters, although admittedly the jobless rate has tended to move sideways in recent years. People also seem to be feeling a bit more optimistic about their future job prospects.

That said, demand for labour seems to be weakening, with Canterbury being the only region where the number of online vacancies has contracted.

Spending is, however likely to have benefitted from an increase in government transfers to low and middle income households in the region.

The outlook for the region

Canterbury is expected to remain in the doldrums for some time to come as the post-earthquake rebuild continues to wind down. Unemployment is likely to rise in 2019 as the local economy continues to re-orientate itself.

Consumer confidence and spending will continue to remain sluggish due to a flat housing market.

That's not to say that the economy will stall.

Consumer spending in the region should still be supported by an increase in government transfers to low and middle income families, while lower petrol prices are likely to put more cash in pockets.

Rising farm gate incomes should provide further support, with returns to farmers reflecting favourable prices for dairy products.

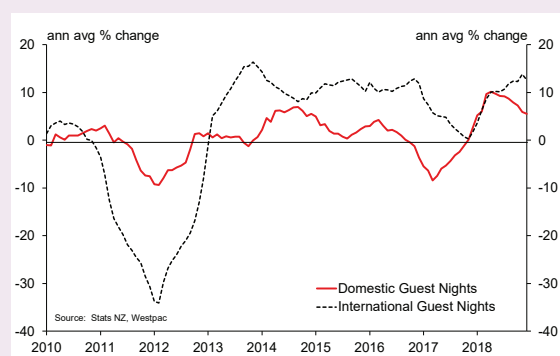
In focus: Tourism

Tourism has been a key support for the region recently.

Much like Auckland, international tourists, which account for just over 50% of guest nights, have been the key source of growth. Foreign arrivals often use Christchurch as a one-night stopover before venturing off to nearby regions.

Growth in domestic guest nights has been less remarkable, although a recovery of sorts has been evident since mid-2017. Prior to that, growth in visitors from other regions had trended downwards, in part because of capacity constraints in the region, exacerbated by strong growth in foreign arrivals checking out the rebuilt city.

Guest nights in Canterbury



Gisborne/Hawke's Bay

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

Gisborne/Hawke's Bay	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	52.3	41.0	23.1
Regional employment confidence	125.8	120.7	106.0
Unemployment rate (s.a.)	4.5%	4.2%	6.6%
Retail sales (\$m, s.a.)	927	907	843
Passenger vehicle regos (s.a.)	1,781	1,925	1,666
Commercial vehicle regos (s.a.)	717	716	551
Guest nights (000, s.a.)	380	400	347
New dwellings consented (s.a.)	166	182	136
House sales (s.a.)	916	835	704
House price change, annual (s.a.)	11.9%	9.5%	9.8%
Net number of indicators rising compared to previous quarter			1
Net number of indicators rising compared to 5 year average			10

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

The Gisborne/Hawke's Bay region has been a star performer for a number of quarters. In part, this reflects the performance of the region's agricultural sector, especially horticulture and forestry.

However, it also reflects an acceleration in population growth, elevated construction activity and rapidly rising house prices. This latter part of the boom is unsustainable.

Conditions in the labour market are buoyant, with unemployment trending downwards and job vacancies having grown strongly.

Dwelling consent issuance is starting to slow, suggesting that construction activity will soon follow suit.

The outlook for the region

Gisborne/Hawke's Bay is currently fizzing, but it won't stay that way forever. Over 2019, we expect to see the economy lose some momentum, although it will remain one of the strongest performing regions in New Zealand. By the early 2020s we would expect activity in this region to slow.

The main reasons for a loss of momentum are expected to be moderations in house price inflation and construction activity due to slowing population growth.

However, activity in the region should be buoyed by the ongoing success of the horticulture and agriculture sectors.

In 2019, activity in the region will also be supported by increases in government transfers to low and middle income families, more people being in work, higher wages and lower petrol prices.

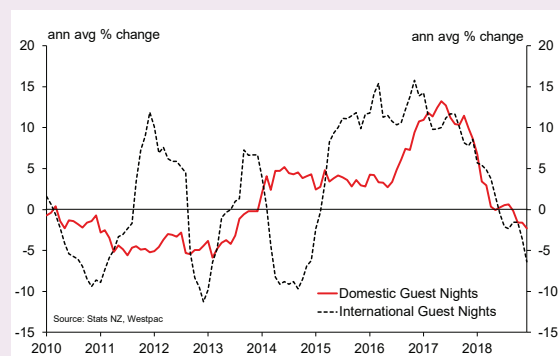
In focus: Tourism

Gisborne/Hawke's Bay generates fewer guest nights than most other regions in the North Island. The vast majority of visitors to the region come from other parts of New Zealand.

Annualised data suggests that guest nights in the region have slowed sharply over the past year, with a contraction most evident in the latter part of the 2018.

However, unlike most regions this contraction was reflected in both domestic and international guest nights, with the latter being most affected. This is likely to reflect a combination of factors, ranging from a lack of critical infrastructure in some areas of the region to an overall slowdown in the growth of foreign tourist arrivals to New Zealand.

Guest nights in Gisborne/Hawke's Bay



Nelson/Marlborough/West Coast

The balance of indicators suggest that activity in the top of the South Island has improved slightly after falling for three consecutive quarters. Activity levels remain below those of a year ago but are well up on the five year average.

Nelson/Marlborough/West Coast	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	50.7	31.2	27.8
Regional employment confidence	119.0	115.7	107.6
Unemployment rate (s.a.)	4.1%	4.6%	4.1%
Retail sales (\$m, s.a.)	925	911	859
Passenger vehicle regos (s.a.)	1,582	1,659	1,552
Tractor regos (s.a.)	44	124	55
Guest nights (000, s.a.)	953	885	873
New dwellings consented (s.a.)	258	270	226
House sales (s.a.)	878	812	668
House price change, annual (s.a.)	6.1%	7.4%	6.6%
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, REINZ

Economic activity in this region remains relatively subdued, although there are tentative signs of an improvement. This is likely to be because of supportive conditions in the agricultural sector, with prices for dairy, meat, forestry and horticultural products holding up pretty well.

In focus: Tourism

This region is a major tourism destination. Nelson and Marlborough depend more on domestic tourists rather than on foreign arrivals. The West Coast is heavily reliant on tourists from abroad.

On annualised basis, growth in guest nights has slowed markedly and recently turned negative, meaning a contraction in tourism in the region.

Unlike most regions, both domestic and international guest nights contracted in the final quarter of 2018. International guest nights were particularly badly affected, with growth in negative territory for most of 2018. It seems that New Zealand might have lost a little bit of its lustre as a tourism destination among foreign tourists. Much

Spending in the region has also been supported by rising house prices. The region has long benefitted from inward migration, particularly of older people attracted to the lifestyle possibilities on offer.

The improving economic climate in the region is also reflected in growing demand for labour. This region is one of two to go against the national trend, recording a drop in unemployment in the latest quarter. That said, growth in online job vacancies has begun to slow, suggesting that demand for labour in the region is softening.

Consumer spending might also have begun to benefit from an increase in government transfers to low and middle income households and the recent fall in petrol prices.

Building activity in the region remains at elevated levels. Although dwelling consents might have come off in the last quarter, the underlying trend is still overwhelmingly positive and should continue to underpin residential construction activity well into 2019.

The outlook for the region

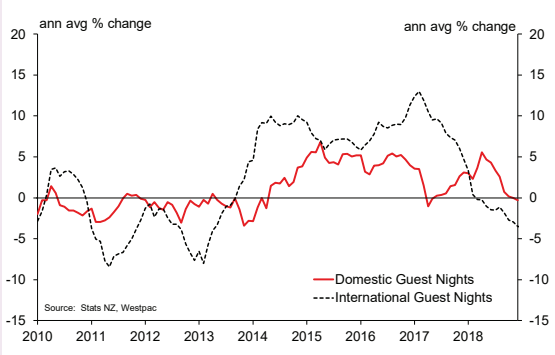
Activity in the Nelson/Marlborough/West Coast region should continue to pick up in coming quarters off the back of rising house prices.

Spending should also rise due to an increase in government transfers to low and middle income families and more people in work. Unemployment is unlikely to move much lower from these levels, while an increase in wages and lower petrol prices should put more cash in pockets.

Activity in the region should also be buoyed by rising farm gate incomes. Farmers and growers should benefit from still-favourable prices for horticultural, dairy and grapes.

publicised capacity constraints in some of the region's tourist hotspots might also have had an impact.

Guest nights in Nelson/Marlborough/West Coast



Northland

Activity levels in Northland rose markedly in the latest quarter after posting a sharp drop in the preceding quarter. They are also slightly up on the same quarter last year, and remain much higher than the five year average.

Northland	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	23.8	22.0	5.8
Regional employment confidence	112.8	110.0	105.6
Unemployment rate (s.a.)	6.2%	5.8%	7.3%
Retail sales (\$m, s.a.)	744	727	675
Passenger vehicle regos (s.a.)	1,380	1,390	1,338
Commercial vehicle regos (s.a.)	587	525	480
Guest nights (000, s.a.)	505	497	463
New dwellings consented (s.a.)	296	245	252
House sales (s.a.)	642	573	558
House price change, annual (s.a.)	8.9%	5.1%	10.2%
Net number of indicators rising compared to previous quarter			6
Net number of indicators rising compared to 5 year average			8

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

Northland's improved performance partly reflects supportive conditions in the agricultural sector, with prices for dairy, meat and forestry products holding up pretty well.

Activity in the region is also likely to have been supported by rising house prices, which are now at record highs. The region has long benefitted from a steady stream of people from other regions, especially from nearby Auckland, seeking a more laid back lifestyle.

Consumer spending might also have begun to benefit from an increase in government transfers to low and middle income households and the recent fall in petrol prices.

It will, however, have been dented by slightly weaker labour market conditions. Unemployment, which had been trending down for a period of time, has kicked up again and is now the highest in the country, especially for younger people.

Construction activity looks weak. Despite a recent pick up, residential building consents have trended downward since 2017 and are likely to continue to do so as population growth softens. This does not augur well for construction activity in the region.

The outlook for the region

Activity in Northland is expected to pick up in coming quarters off the back of rising farm gate incomes. Farmers and growers should benefit from still-favourable prices for dairy, meat, forestry and horticultural products.

Consumer spending should remain strong due to increases in government transfers to low and middle income families, rising wages and lower petrol prices. However, spending may be weighed down by a weaker housing market and a further slowdown in tourism activity.

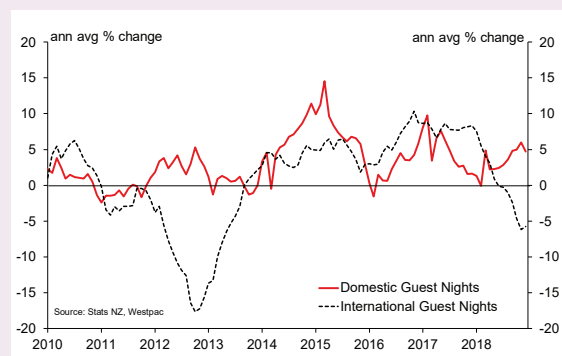
In focus: Tourism

Although small relative to other regions, tourism is still an important export earner for Northland. Like most regions, it relies heavily on visitors from other regions rather than from abroad. This dependence has grown in recent years.

On an annualised basis, recent growth in guest nights has been driven by domestic visitors.

The pronounced drop in international guest nights is likely to reflect a loss of popularity for New Zealand as a whole as a tourism destination. It might also reflect capacity constraints in the region, although this hasn't stopped locals from other regions visiting.

Guest nights in Northland



Otago

The balance of indicators suggest that activity in Otago has weakened slightly in the latest quarter, after nudging higher in the previous quarter. Activity levels are also a touch lower than the same period last year, but are significantly better than the five year average.

Otago	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	50.5	42.0	20.7
Regional employment confidence	120.4	122.7	106.5
Unemployment rate (s.a.)	3.7%	4.1%	4.0%
Retail sales (\$m, s.a.)	1,338	1,288	1,252
Passenger vehicle regos (s.a.)	1,890	2,065	1,938
Commercial vehicle regos (s.a.)	713	717	610
Guest nights (000, s.a.)	1,654	1,536	1,449
New dwellings consented (s.a.)	503	512	428
House sales (s.a.)	1,132	1,162	976
House price change, annual (s.a.)	9.4%	10.4%	11.1%
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, REINZ

Otago is still one of the strongest performing regions in New Zealand, although it has begun to lose momentum. The region continues to benefit from conducive conditions in the agricultural sector, with returns on meat and dairy products holding up relatively well.

In focus: Tourism

Despite reporting fewer guest nights than Auckland, Otago is New Zealand's premier tourist destination. It is especially popular with foreign tourists, which make up about 60% of guest nights.

Growth in guest nights has slowed in recent years with domestic tourism in particular having come under pressure. Despite additional capacity coming on stream, it's very likely that accommodation constraints in the Queenstown-Lakes and Central Otago districts at peak times will have put locals off from visiting the region.

Much like the rest of the country, annualised growth in international guest nights has tracked lower, although they are still growing by a fair rate in comparison. This reflects the region's established reputation as a world

class tourism destination and comes after a prolonged period of substantial growth.

Good spring and early summer weather conditions have also resulted in good growing conditions. Grape growers, in particular, are doing well, buoyed by the possibility of an early grape harvest.

Consumer spending in the region is also likely to have been supported by rising house prices and lower unemployment. Online job vacancies have also been growing at a healthy rate, reflecting buoyant activity in the region's manufacturing and service sectors.

Spending is also likely to have benefitted from an increase in government transfers to low and middle income households and the recent fall in petrol prices.

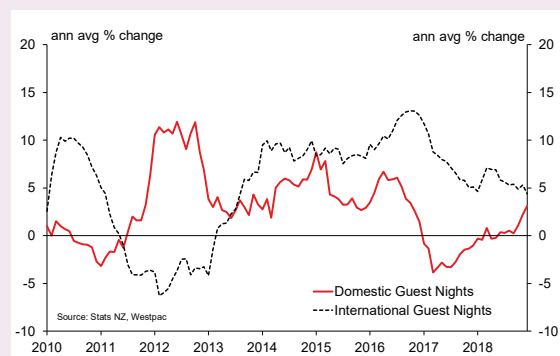
The outlook for the region

Residential building activity has started to soften as dwelling consents have eased. That said, new dwelling consents in the region remain well above the long-term average and the construction sector is being kept busy by the large volume of commercial work consented in 2018, particularly in Dunedin.

Otago has been fizzing in recent years, but that is not likely to last forever. For now, activity in the region will continue to be buoyed by rising house prices, strong construction activity, tourism, and the success of its agricultural sector.

However, some of the current boom has been due to rapid population growth, which is unlikely to last. As population growth in the region slows, we expect to see a moderation in construction activity. By the early 2020s we also expect to see house prices declining, which will affect consumer spending.

Guest nights in Otago



Southland

The balance of indicators suggest that activity levels in Southland have taken a breather in the latest quarter. Activity still remains stronger than this time last year and is much higher than the five year average.

Southland	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	51.0	48.5	21.2
Regional employment confidence	124.7	120.7	109.7
Unemployment rate (s.a.)	4.3%	3.8%	4.2%
Retail sales (\$m, s.a.)	475	469	456
Passenger vehicle regos (s.a.)	907	1,019	816
Tractor regos (s.a.)	82	93	76
Guest nights (000, s.a.)	315	307	263
New dwellings consented (s.a.)	73	69	60
House sales (s.a.)	491	566	415
House price change, annual (s.a.)	9.2%	10.1%	6.9%
Net number of indicators rising compared to previous quarter	0		
Net number of indicators rising compared to 5 year average	8		

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

Although a strongly performing region, activity in Southland seems to have plateaued.

The region continues to benefit from conducive conditions in the agricultural sector, with prices for meat and dairy products holding up pretty well.

Activity in the region has also been boosted by still-strong house price growth, but that is starting to moderate. Sales volumes are also down, which suggests the possibility of further price weakness ahead.

Meanwhile, unemployment has moved higher and now sits in line with the national average. That said, online job vacancies are still growing strongly, suggesting that there is demand for labour, particularly in manufacturing, tourism and construction, where activity continues to be robust.

The outlook for the region

Southland has been an outperforming region in recent years, but it won't stay that way forever. Over 2019, we expect to see the local economy lose some momentum, although it will remain one of the strongest performing regions in New Zealand. By the early 2020s we would expect activity in this region to slow.

The main reasons for a loss of momentum are expected to be slowing house price growth and weaker construction activity as a result of slower population growth.

However, activity should still be buoyed by ongoing success in the region's dairy and meat producing industries.

Consumer spending in the region is also likely to be supported by increased government transfers to low and middle income families, more people being in work, higher wages and lower petrol prices.

In focus: Tourism

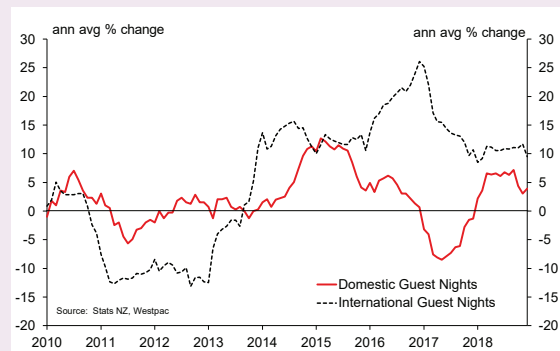
The number of tourists that visit Southland is considerably less than in neighbouring Otago. However, much like its larger neighbour, it is popular with foreign tourists who make up about 60% of guest nights in the region.

Annualised growth in foreign arrivals has tracked lower over time, although they are still growing at a fair clip when compared to other regions.

To a large extent this reflects the region's well-earned reputation as a world class tourism destination. However, it could also be that the region benefits from the large number of foreign tourists that visit its close neighbour. By contrast, growth in domestic guest nights seems to reflect well documented capacity issues in the area, which

have been exacerbated by the growth in international guest nights and have resulted in higher prices.

Guest nights 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	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	26.0	17.9	15.3
Regional employment confidence	114.8	111.9	104.4
Unemployment rate (s.a.)	5.2%	4.4%	5.8%
Retail sales (\$m, s.a.)	1,537	1,522	1,465
Passenger vehicle regos (s.a.)	3,455	3,398	3,114
Tractor regos (s.a.)	91	114	95
Guest nights (000, s.a.)	532	518	471
New dwellings consented (s.a.)	459	362	315
House sales (s.a.)	1,659	1,623	1,336
House price change, annual (s.a.)	11.5%	10.0%	7.8%
Net number of indicators rising compared to previous quarter			6
Net number of indicators rising compared to 5 year average			8

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

This region is a strong performer. In part this is because of supportive conditions in the agricultural sector, with prices for dairy and meat products holding up pretty well.

Still relatively high crude oil prices and a resumption of the summer drilling campaign are likely to have led to a ramp up in activity in the region's oil and gas industry.

The region's housing market has been a real standout, achieving double digit price growth for the second consecutive quarter. Not only that, but they have actually been growing at an increasing rate, only one of two regions to do so.

Consumer spending is also likely to have benefitted from an increase in government transfers to low and middle income households and the recent fall in petrol prices.

The outlook for the region

Activity in this region is likely to remain strong. Rising house prices are likely to remain a key support, although the strong growth seen recently won't continue indefinitely.

Increased government transfers to low and middle income families, lower petrol prices and rising wages are also likely to provide a boost to household spending.

Meanwhile, construction activity is likely to remain elevated, but only in some areas. Consenting activity has been trending higher for some time, with most of this centred in the Manawatu, specifically Palmerston North. Construction activity elsewhere in the region is likely to slow.

Rising farm gate incomes should support spending in the region with farmers and growers set to benefit from still-favourable prices for dairy products.

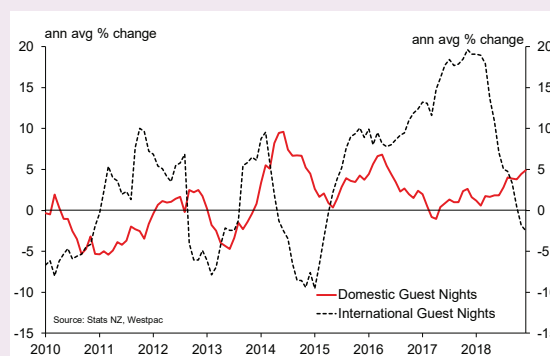
In focus: Tourism

Although tourism in this region is relatively small when compared to other regions, it is still an important export earner. Like most regions, it relies more heavily on visitors from other parts of New Zealand than from abroad.

That said, it did receive a big increase in foreign arrivals when Taranaki was singled out by Lonely Planet as one of the world's best regions to visit in 2017.

Since then, growth in international guest nights has fallen sharply, more than offsetting a rise in domestic guest nights. The pronounced drop in international guest nights is likely to reflect a loss of popularity for New Zealand as a whole as a tourism destination. It might also reflect capacity constraints in the region, although this hasn't stopped locals from other regions visiting.

Guest nights in Taranaki/Manawatu-Whanganui



Waikato

The balance of indicators suggest that activity in the Waikato has accelerated in the latest quarter, building on a big jump in the previous quarter. Activity in the region is higher than this time last year and significantly up on the five year average.

Waikato	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	16.0	10.0	15.6
Regional employment confidence	122.0	97.2	107.2
Unemployment rate (s.a.)	3.0%	3.9%	4.9%
Retail sales (\$m, s.a.)	2,201	2,174	1,999
Passenger vehicle regos (s.a.)	4,386	4,875	4,468
Commercial vehicle regos (s.a.)	1,590	1,569	1,358
Guest nights (000, s.a.)	902	899	832
New dwellings consented (s.a.)	1,018	949	790
House sales (s.a.)	2,095	2,013	1,828
House price change, annual (s.a.)	6.1%	5.2%	10.2%
Net number of indicators rising compared to previous quarter			7
Net number of indicators rising compared to 5 year average			6

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

Waikato is buzzing, in part because of supportive conditions in the agricultural sector, with returns on dairy, meat and forestry having held up relatively well.

Hamilton in particular seems to be on a roll with many new firms setting up shop in recently completed industrial parks close to the city or in surrounding areas. An increasing

number of manufacturing, transport and logistic concerns has in turn given rise to an increase in demand for labour, which has helped to drive unemployment much lower and spending higher.

The region's housing market has also performed well. House prices kicked up again, while the number of houses exchanging hands rose sharply. This is not just occurring in Hamilton, but also in smaller centres such as Cambridge, Morrinsville and Ngaruawhia, where property is still relatively affordable. Being in commutable distance to Auckland is also likely to have been a key factor.

Spending is also likely to have benefitted from an increase in government transfers to low and middle income households and a recent fall in petrol prices.

The outlook for the region

The Waikato is likely to perform strongly over the coming year as firms continue to establish themselves in the area. This is likely to support construction activity in the region. It should also lead to an increase in demand for labour, which may help to keep unemployment low.

Rising farm gate incomes are likely to help. Farmers and growers should benefit from still-favourable prices for dairy products.

House prices are likely to remain buoyant, while spending is likely to be further supported by an increase in government transfers to low and middle income families. More people in work, higher wages and lower petrol prices are likely to put more cash in pockets.

In focus: Tourism

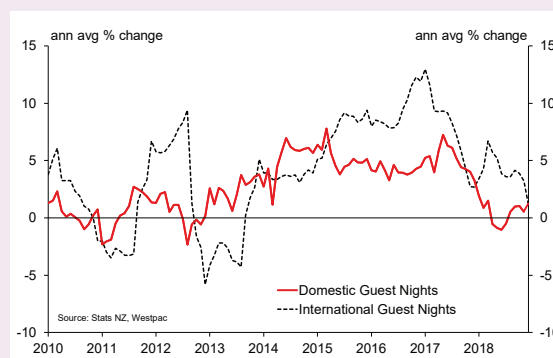
Although typically not regarded as such, Waikato is a major tourism destination that depends much more on domestic tourists rather than on foreign arrivals.

Much like the rest of the country, growth in domestic and international guest nights has moderated in recent years, but has in the most part remained positive.

One of the main factors supporting growth has been an increase in the number of big events hosted in the region, including the Rugby Sevens. Tourism in the Waikato has also benefitted from its close proximity to Auckland and in particular Auckland International Airport. Not only is it able to provide cheaper accommodation of similar quality than its northern neighbour, it has the added advantage

of being a gateway to other tourist regions across the North Island.

Guest nights in Waikato



Wellington

The balance of indicators suggest that activity levels in Wellington have improved in the latest quarter, after pulling back a touch in the previous quarter. Activity in the region seems to be consolidating with the local economy performing slightly better than last year.

Wellington	Compared to		
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	38.0	30.3	25.8
Regional employment confidence	119.3	119.0	106.8
Unemployment rate (s.a.)	4.6%	4.6%	5.1%
Retail sales (\$m, s.a.)	2,315	2,275	2,199
Passenger vehicle regos (s.a.)	5,090	5,756	5,258
Commercial vehicle regos (s.a.)	1,469	1,491	1,096
Guest nights (000, s.a.)	804	795	758
New dwellings consented (s.a.)	666	553	499
House sales (s.a.)	2,163	1,994	1,832
House price change, annual (s.a.)	8.0%	7.6%	9.1%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			6

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

Economic activity in the region remains upbeat partly because of rapidly rising house prices and growing sales volumes. Rents in the region are also at elevated levels.

Unemployment in the region has been trending down, although the jobless rate remains stubbornly above the

national average. Growth in online job vacancies suggest strong demand for labour as the Government ramps up its spending and hiring in the region.

Spending is also likely to have benefitted from an increase in government transfers to low and middle income households and the recent fall in petrol prices.

After peaking at record levels in April 2018, residential building consents have slowed, effectively stifling construction activity in the province and possibly adding to regional unemployment. However, in the most recent quarter, dwelling consents, especially for medium density housing, picked up again, which augurs well for construction activity in the near future.

The outlook for the region

Economic activity is likely to remain elevated, mainly because of government stimulus in the region. Government hiring and spending is expected to pick up significantly over the course of the next year, with flow-on effects to the wider economy.

Rising house prices in the capital should also provide further support, while well-publicised housing shortages and rising consent activity should translate into raised construction activity.

Spending in the region can also be expected to increase because of increased government transfers to low and middle income families, more jobs, both in the public sector and associated industries, and higher wages. Lower petrol prices should also add to spending.

In focus: Tourism

The Wellington region is an emerging tourist destination, which is increasingly being included on touring itineraries of foreign tourists.

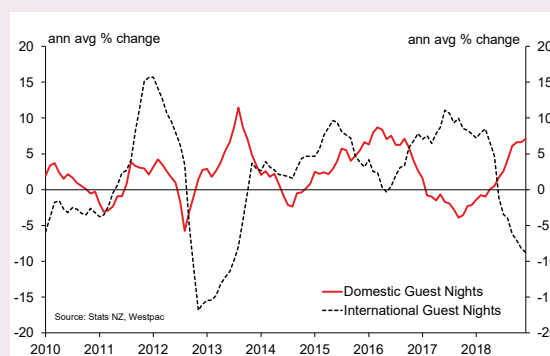
Despite this, the region still depends more on locals than foreign arrivals to fill beds. About 70% of guest nights in Wellington are sold to domestic tourists.

This is likely to have remained the case given that the growth in international guest nights has slowed markedly in recent years.

In part this is because New Zealand seems to have lost some of its appeal as a tourist destination. However, it could also be that growth had been distorted by major one-off sporting events, such as the Lions rugby tour

in 2017. Reports that the region is short of quality hotel space at the best of times could also have contributed.

Guest nights in Wellington



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