

Westpac McDermott Miller Regional Economic Confidence.

25 June 2020



Shock to the system – Westpac-McDermott Miller Regional Economic Confidence, June 2020 quarter.

- Regional economic confidence has fallen sharply in most regions because of Covid-19.
- Confidence fell most in regions that rely heavily on international visitors and those where activities were deemed to be non-essential.
- Confidence in regions with an agricultural backbone held up much better.
- Households in Otago are by far the most pessimistic in the country, followed by Auckland, Nelson/Marlborough/West Coast and Wellington.
- The most optimistic households in the country are in Gisborne/Hawke's Bay.

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Regional economic confidence* (net confidence %)

Region	Latest	Previous	Change
	Jun-20	Mar-20	
Northland	-18	-3	-15
Auckland	-22	-1	-21
Waikato	-4	0	-4
Bay of Plenty	3	5	-2
Gisborne/Hawke's Bay	19	5	14
Taranaki/Manawatu-Whanganui	3	7	-4
Wellington	-15	4	-19
Nelson/Marlborough/West Coast	-16	-4	-12
Canterbury	-13	2	-15
Otago	-33	0	-33
Southland	-6	-6	0

Source: Westpac McDermott Miller

*Regional economic confidence reflects the difference between the percentage of survey respondents that expect economic conditions in their region to improve and those that expect prospects to worsen over the next 12 months. Sample sizes and margins of error vary by region. The survey was conducted over 1-10 June 2020, with a total sample size of 1556.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence fell for the second consecutive quarter in June, with most regions seeing double-digit declines. Confidence fell in nine regions, was unchanged in one, and rose in another.

The survey, which asks households how confident they are about their region's economic prospects, took place between 1 to 10 June 2020.

The decline in confidence largely reflects disruptions to economic activity caused by Covid-19, with the biggest falls occurring in regions more acutely affected by the recent



lockdown. That includes Otago, which has been heavily impacted by a ban on foreign tourists, as well as Auckland, Canterbury, and Wellington, where more activities were deemed non-essential.

By contrast, regions that produce essential items like food were less affected by the lockdown and have remained more confident. That includes the Bay of Plenty, our biggest kiwifruit producing region, Waikato, Southland, and Taranaki/Manawatu-Whanganui, all big dairy producers, and Gisborne/Hawkes' Bay, which is by far our most confident region.

Regional Discussion.

Northland: Regional confidence in Northland fell sharply in the June quarter with a net 18% of households expecting their region's economy to weaken over the coming year. Growing pessimism reflects the impact of Covid-19 on key industries, such as forestry and crude oil refining, as well as the effects of the ongoing drought, with many dairy farmers in the region forced to dry off their herds. Ditto for meat production, which although deemed essential, was affected by the flow-on-effect of meat processing restrictions under Covid-19. That said, last season's strong milk price will have given the region's dairy industry some cause for cheer.

Auckland: Regional confidence in Auckland plunged in the June quarter, with a net 22% of households now expecting New Zealand's largest regional economy to deteriorate over the coming year. Deepening pessimism in the region reflects the impact of Covid-19, which saw activity in most sectors reduced to a virtual standstill. Relatively few industries in this region were deemed essential and thus free to operate. Some firms were forced to close as a result, while many others ended up restructuring their operations to stay afloat. Resulting job losses and growing insecurities about future employment prospects are also likely to have added to the prevailing sense of pessimism.

Waikato: Confidence in this region's economic prospects tipped into the red in the June quarter with a net 4% of households feeling pessimistic about the future. This more pessimistic tone reflects the impact of Covid-19, which has severely affected activity in the region's forestry, manufacturing, construction, and non-essential retail industries. Drought conditions are also likely to have loomed large, with many dairy farmers in this major producing region forced to dry off their herds. The region's beef farmers have also brought slaughtering forward. That said, last season's strong milk price will have given the region's dairy industry some cause for cheer.

Bay of Plenty: Confidence in the Bay of Plenty's economic fortunes slipped slightly in the June quarter, although optimists still managed to outnumber pessimists, with a net 3% of households expecting economic conditions to improve over the coming year. Weakening optimism in the region reflects the impact of Covid-19 on key industries, such as forestry, ex-food manufacturing, construction, hospitality, and non-essential retail. However, the performance of the region's large kiwifruit industry, which got off to a flying start

this season with growers posting a record harvest, is likely to have buoyed spirits.

Gisborne/Hawke's Bay: A net 19% of households in Gisborne/Hawke's Bay expect their region's economy to improve over the next 12 months, compared to just 5% in the previous quarter. This healthy gain comes after a large fall in the March quarter, making households in this region the most optimistic in the country. The region has benefitted from a good grape harvest, while apple growers have seen production gains and higher prices. Forestry, meanwhile, is back in business and it has been a great kiwifruit harvest. However, we expect this lift in confidence will prove temporary given the coming global economic recession and its likely impact on export returns and house prices in the region.

Taranaki/Manawatu-Whanganui: Confidence in this region's economic fortunes slipped slightly in the June quarter, with a net 3% of households expecting economic conditions to improve over the coming year. This is a surprisingly small fall given the impact of Covid-19 on the region's forestry, manufacturing, construction, and energy industries. Education providers in the Manawatu have also struggled with a sharp drop in international students. The region's saving grace is likely to be the performance of the dairy sector, which has benefitted from strong production and last season's high milk price.

Wellington: Regional confidence in Wellington plunged in the June quarter, with a net 15% of households in the region expecting their economy to deteriorate over the coming year. This big drop reflects the impact of Covid-19, which has severely affected activity in the region's construction, ICT, hospitality, and public sectors. A resulting absence of workers was acutely felt by retailers in Wellington's CBD. With little revenue coming in, some firms in the region were forced to close, while many others ended up restructuring their operations to keep afloat. Resulting job losses and growing insecurities about future employment prospects during the lockdown period may have also dampened the mood.

Nelson/Marlborough/West Coast: Regional confidence in the Top of the South and West Coast dropped further during the June quarter, with a net 16% of households now expecting their region's economy to weaken over the next 12 months. That is the second consecutive quarter where pessimists have outnumbered optimists. Sentiment is likely to have been adversely affected by hot dry weather in the Nelson district, and the impact of Covid-19 on the region's forestry and meat producing sectors. Ditto for tourism to the region. As the second most exposed region in New Zealand to tourism, the industry has been feeling the ban on international visitors. That said, the region's grape and fruit growers have benefitted from conducive weather conditions.

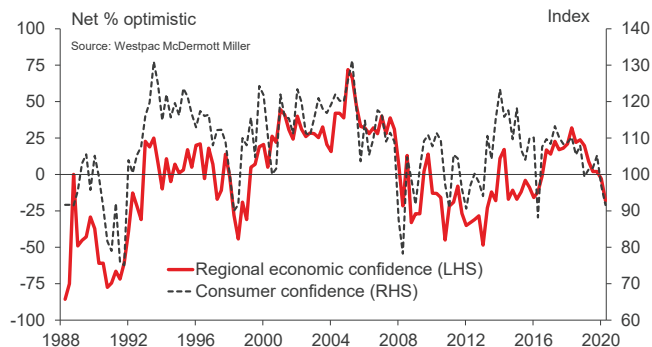
Canterbury: A net 13% of Cantabrians are feeling pessimistic about the economic prospects for their region. That compares to the net 2% that were expecting better times ahead in the March quarter. The temporary halt to activity in this region's manufacturing, construction and service industries have weighed heavily in recent months. Tourism has also been

feeling the effects of a ban on international visitors, while the region's meat sector, an essential industry, is likely to have been affected by downstream processing delays caused by Covid-19. That said, a relatively strong performance from the region's dairy industry, helped by conducive weather conditions, has provided some cause for cheer.

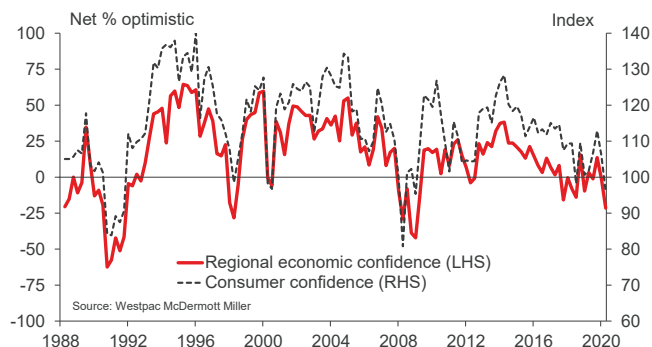
Otago: A net 33% of households in Otago feel pessimistic about the economic prospects for their region, compared to 0% in the previous quarter. Households in this region are the most pessimistic in the country, and by quite a margin. In large part that is because of the impact of Covid-19 on the all-important tourism sector, which continues to be heavily affected by the travel ban on international visitors. With job losses mounting, the impact of Covid-19 on manufacturing and construction activity in the region is also unlikely to have gone down well. That said, some respite has been provided by an increase in pip and stone fruit production, which predated the worst of Covid-19 impacts.

Southland: Confidence in this region remained unchanged in the June quarter, with a net 6% of households still feeling pessimistic about the region's economic future. This low reading is likely to reflect the impact of Covid-19 on the region's sizeable tourism sector, which has also been affected by the travel ban on international visitors. The adverse impact of Covid-19 on construction and services sector activity, as well as aluminium production at Tiwai Point, is also likely to have darkened the mood. Ditto for meat production, which although deemed essential, was affected by the flow-on-effect of meat processing restrictions under Covid-19. That said, Southland's large dairy sector has had a good run lately, giving the region's farmers some cause for cheer.

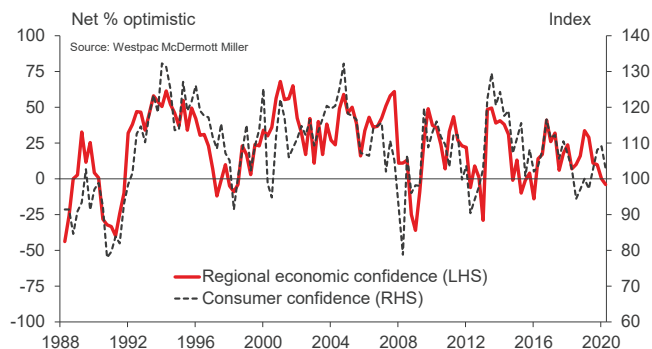
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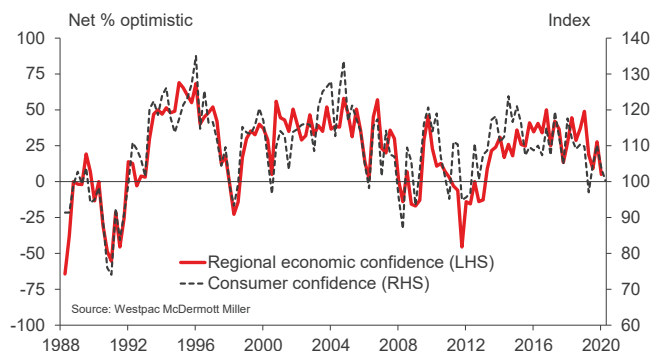
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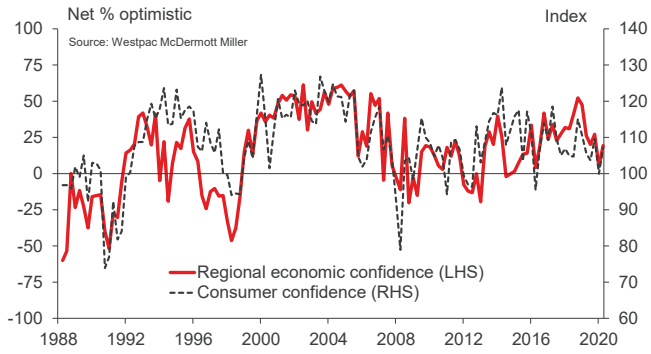
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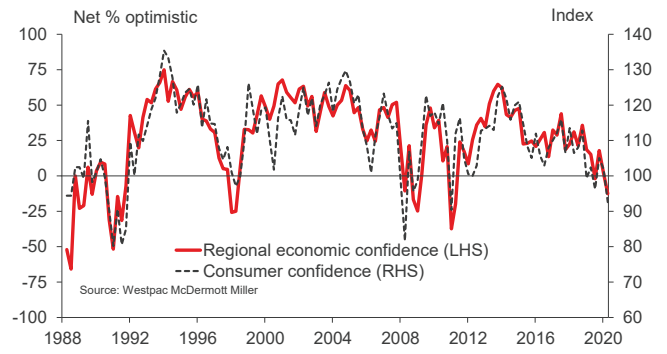
Bay of Plenty



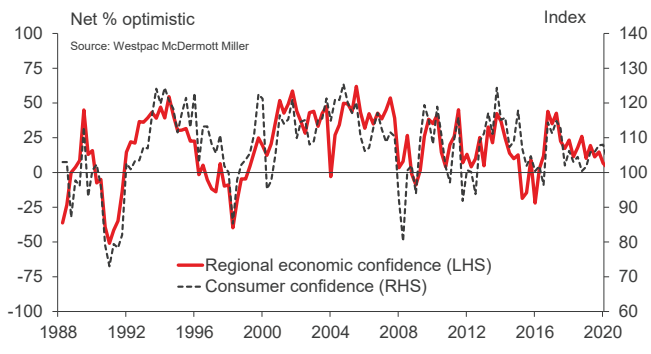
Gisborne/Hawke's Bay



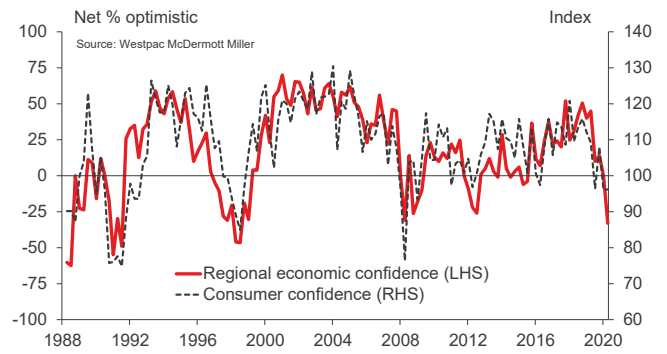
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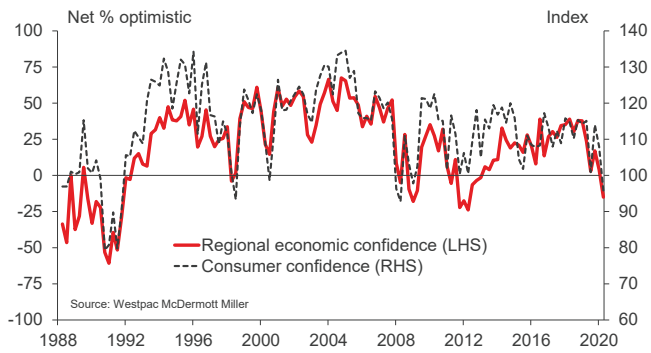
Taranaki/Manawatu-Whanganui



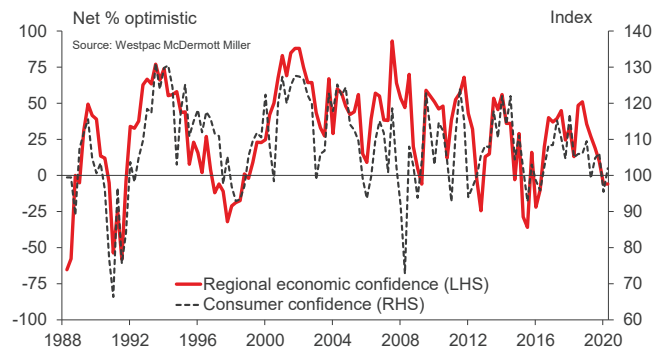
Otago



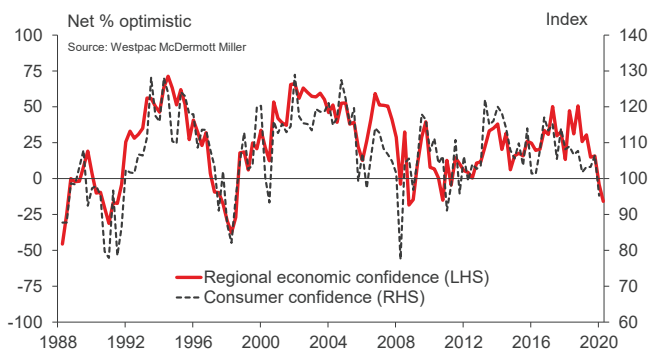
Wellington



Southland



Nelson/Marlborough/West Coast



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