

Westpac McDermott Miller Regional Economic Confidence.

28 September 2020



Lifting off Covid-induced lows – Westpac McDermott Miller Regional Economic Confidence, September 2020 quarter.

- Regional economic confidence has lifted off its Covid-induced lows, but remains very low by historical standards.
- Confidence in regions with an agricultural backbone continues to outperform, while the main centres plus tourism-dependent regions continue to struggle.
- Households in Auckland, Otago and Southland are the most pessimistic.
- Households in Nelson/Marlborough/West Coast, Taranaki/Manawatu-Whanganui, and the Bay of Plenty are the most optimistic.

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Regional economic confidence* (net confidence %)

Region	Latest	Previous	Change
	Sep-20	Jun-20	
Northland	-1	-18	17
Auckland	-19	-22	3
Waikato	-8	-4	-4
Bay of Plenty	5	3	2
Gisborne/Hawke's Bay	-1	19	-20
Taranaki/Manawatu-Whanganui	8	3	5
Wellington	-8	-15	7
Nelson/Marlborough/West Coast	9	-16	25
Canterbury	-9	-13	4
Otago	-15	-33	18
Southland	-13	-6	-7

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 September 2020, with a total sample size of 1559.

Regional economic confidence has lifted off its lows, according to the Westpac McDermott Miller Regional Economic Confidence September quarter survey. Confidence rose in all but three regions over the quarter.

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

The lift in confidence may reflect the fact that Covid and the associated lockdowns may not have impacted the households as severely as they feared back in June. Note that, with the exception of Auckland, the regions were for the most part



at the same Alert Level 2 during the June and September survey periods.

In general, the regions that have large tourism sectors like Otago have continued to struggle. Confidence in the main urban centres, particularly Auckland, has also remained low. Southland confidence has also been rocked by the news that the Tiwai Point Aluminium Smelter will close.

By contrast, regions with large agriculture bases continue to be relatively more confident. Nelson/Marlborough/West Coast, Taranaki/Manawatu-Whanganui, and the Bay of Plenty were standouts in this regard over the quarter.

Regional Discussion.

Northland: Regional confidence in Northland jumped 17 points over September quarter. However, the region didn't quite make it into positive territory, with a net 1% of households still expecting the region's economy to worsen over the coming year. The jump reflects the resilience in the face of Covid of key Northland industries, including agriculture, horticulture and forestry. Also, the drought breaking in the north would have given the region's agriculture a further boost compared to earlier in the year. The still-low by historical standards overall reading most likely reflects the lack Auckland based visitors and the ongoing absence of international tourists in areas such as the Bay of Islands.

Auckland: Regional confidence in Auckland recovered modestly over the September quarter. Confidence lifted 3 points, with a net 19% of households now expecting New Zealand's largest regional economy to deteriorate over the coming year. The 3-point lift was below the national average as the localised Covid outbreak and the move to Alert Level 3 weighed specifically on the region. As a result, Auckland's relatively large tourism and hospitality sectors continued to feel the pinch. On top of the lockdown, Auckland's relatively small agriculture sector has not given it the same boost as some other regions.

Waikato: Confidence in this region's economic prospects slipped further into the red in the September quarter. A net 8% of households now feel pessimistic about the future. We doubt this has to do with the regionally-specific industries like dairy and manufacturing. It probably has more to do with the creation of the physical border with its northern neighbour, Auckland. With only essential traffic allowed over regional lines, some Waikato retail and hospitality outlets may have felt the pinch. Places like the Coromandel may have been hardest hit with Aucklanders unable to visit beaches and other accommodation during the period of the survey.

Bay of Plenty: Bay of Plenty's economic fortunes gained further in the September quarter. The region's households are the third-most-optimistic in the country, with a net 8% expecting the region's economy to improve over the year. The net improvement may reflect an improvement in forestry's fortunes over the quarter, while the kiwifruit industry remains very strong. That said, confidence remains at relatively low levels on a historical basis. Looking ahead, the return of

Auckland visitors may help the region's accommodation and hospitality sectors, boosting sentiment further. But the lack of international visitors, including cruise passengers, may hamstring a full return to normal confidence levels over coming quarters.

Gisborne/Hawke's Bay: Gisborne/Hawke's Bay's household confidence plunged 20 points over the September quarter. A net 1% of households in Gisborne/Hawke's Bay expect their region's economy to weaken over the next 12 months. This reading follows a standout result last quarter, so in a way this result brings the region back to the pack and to something more realistic. And despite the fall the region's confidence remains above the national average. The region's key industries are proving resilient as is its housing market. With that in mind, we anticipate that regional confidence may continue to prove relatively resilient over coming quarters.

Taranaki/Manawatu-Whanganui: Confidence in this region's economic fortunes jumped five points in the September quarter, with a net 8% of households expecting economic conditions to improve over the coming year. This jump left the region's households the second-most-optimistic in the country. The region is likely to have benefitted from the strength in the agriculture and forestry sectors over the quarter. Meanwhile, the region's housing market has bounced back strongly, following the slowdown in activity over the first lockdown. Indeed, house prices in the Taranaki set a record high over the quarter.

Wellington: Regional confidence in Wellington recovered some lost ground over the September quarter. Confidence lifted 7 points, with a net 8% of households in the region now expecting their economy to deteriorate over the coming year. This lift is likely to reflect that Covid and the associated lockdowns may not have impacted the households as severely as they feared back in June. In particular, the stable nature of central government work may have underpinned economic activity for the region. Also, Wellington may have gained from the increase in e-commerce activity post-Covid, given the capital's large IT industry.

Nelson/Marlborough/West Coast: The region was this quarter's biggest mover. Regional confidence in the Top of the South and West Coast jumped 25 points during the September quarter, with a net 9% of households now expecting their region's economy to strengthen over the next 12 months. The reading also makes the region's households the most optimistic in the country. Notably, since June the region's drought has broken so this is likely to have boosted confidence. More broadly, the jump in sentiment reflects the resilience of key regional industries, including agriculture, horticulture, viticulture, forestry and fishing.

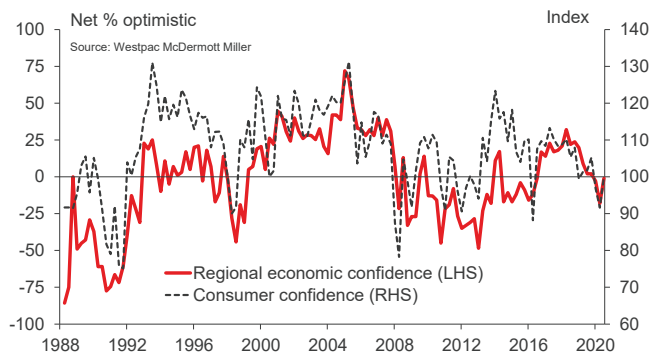
Canterbury: Regional confidence in Canterbury recovered modestly over the September quarter. Confidence lifted 4 points, with a net 9% of households now expecting the largest South Island economy to deteriorate over the coming year. This lift is a notch lower than the nationwide average lift and may reflect the region's tourism industry and manufacturing businesses continuing to struggle. However,

the region's resilient agricultural industries and strengthening housing market may point to further improvements in the quarters ahead.

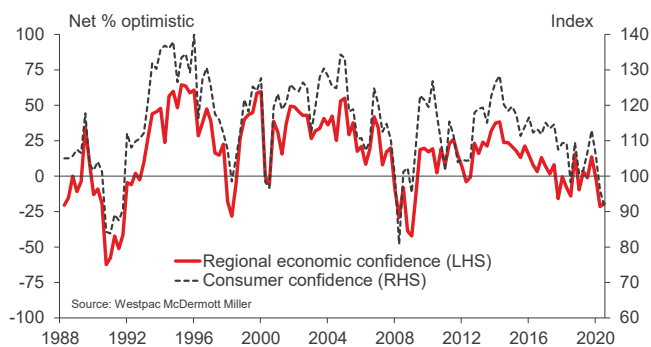
Otago: A net 15% of households in Otago felt pessimistic about the economic prospects for the region over the September quarter. This is a marked improvement from the previous quarter as net pessimism stood at a lowly 33% back in June. The opening back up of the region to domestic tourists would have boosted tourist hotspots like Queenstown and Wanaka. Resilience in the agriculture sector may have also provided some respite for otherwise weak regional incomes. However, with little sign that border restrictions will be loosened, we anticipate that the region's economic confidence will remain in negative territory well into 2021.

Southland: Confidence in this region took a 7-point hit over the quarter as the news of the Tiwai Point Aluminium Smelter's plan to close rocked the region. The smelter is the region's largest employer, with over 2,000 direct and indirect jobs connected to the smelter. All up, the smelter accounts for roughly 10% of the region's GDP. The drop in confidence might have been worse had it not been for the ongoing resilience in the region's agricultural industries. That said, the region's tourism industry will still be feeling the pinch. As the smelter closure plays out, we expect Southland to be the one region with a large agriculture base that underperforms.

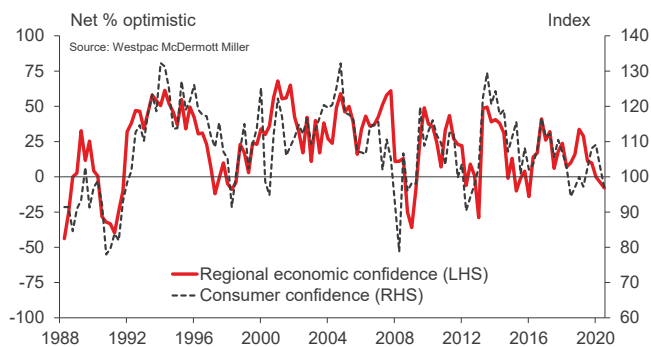
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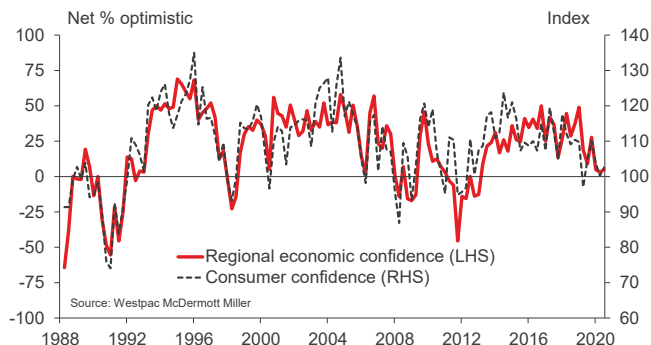
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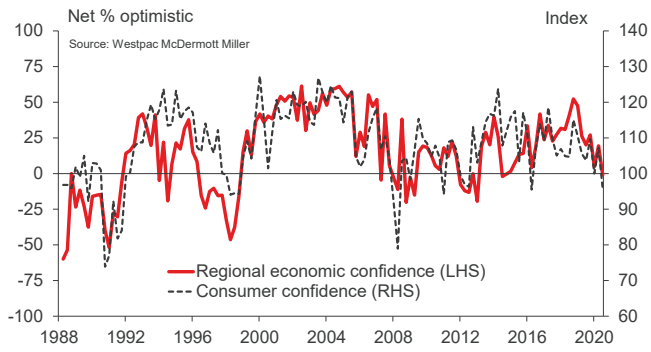
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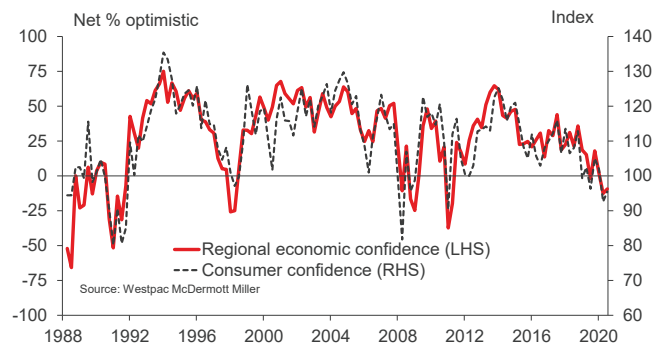
Bay of Plenty



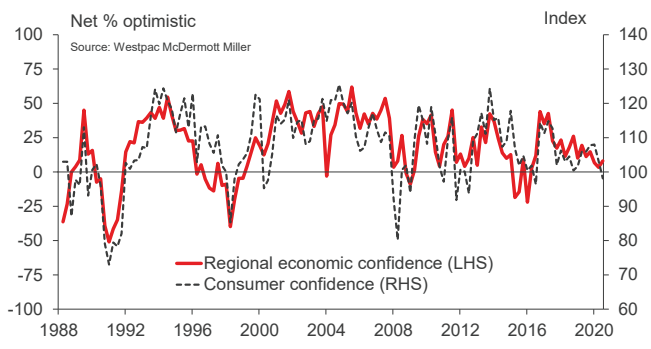
Gisborne/Hawke's Bay



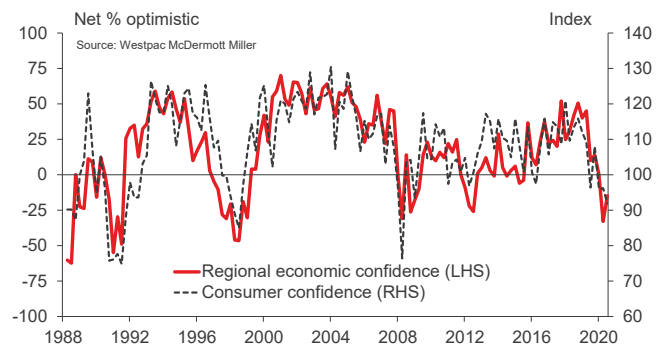
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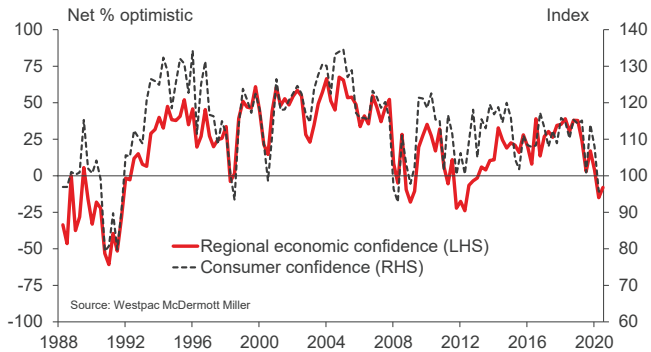
Taranaki/Manawatu-Whanganui



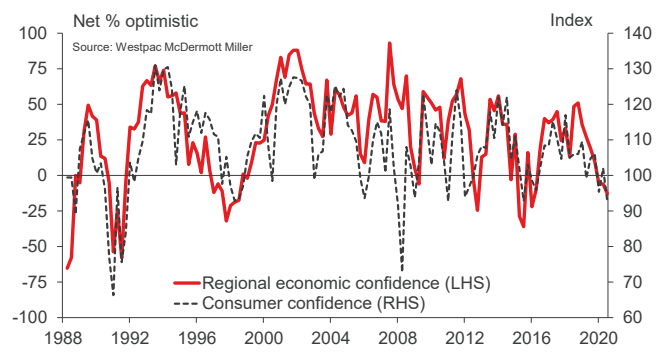
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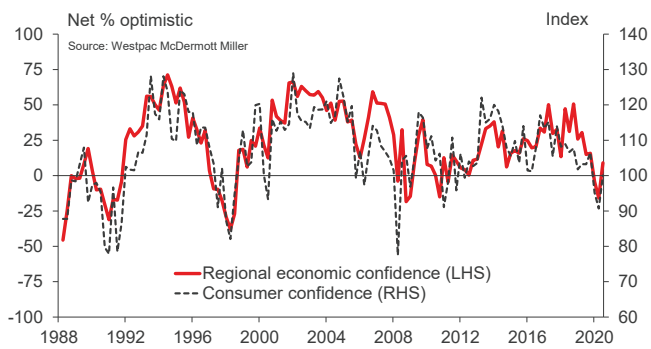
Wellington



Southland



Nelson/Marlborough/West Coast



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