

WESTPAC MCDERMOTT MILLER REGIONAL ECONOMIC CONFIDENCE

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Can't shake the blues.

- Households' confidence in their regional economies has remained mostly in negative territory, improving only marginally over the September quarter.
- Wellington posted the largest improvement in confidence, reflecting the region's hot labour market.
- Waikato and Southland household confidence also improved largely on the back of strong agricultural sector incomes.
- Northland and Auckland remain the most negative regions in the country as the weakening housing market and cost-of-living increases bite hardest.
- From here, we expect that regional economic confidence will remain split along lines of regions who are benefitting from strong agricultural incomes and the return of overseas tourists; and, regions who are battling the worst of the weakening housing market and cost-of-living increases.

Regional economic confidence¹ (net confidence %)

Region	Sep-22	Jun-22	Change
Northland	-36	-32	-4
Auckland	-22	-37	15
Waikato	16	-7	23
Bay of Plenty	-6	-8	2
Gisborne/Hawke's Bay	-10	-5	-5
Taranaki/Manawatu-Whanganui	-16	-8	-8
Wellington	7	-17	24
Nelson/Marlborough/West Coast	-11	-12	1
Canterbury	-8	-17	9
Otago	-17	-2	-15
Southland	-1	-16	15

Source: Westpac McDermott Miller

Households' confidence in their regional economies remains mostly in negative territory. That said, regional economic confidence improved marginally over the September quarter, with the median confidence level across regions lifting two points to -10.

However, it was a patchy result by region. Seven regions posted lifts in confidence, while four regions posted falls.

Wellington posted the largest improvement, with confidence jumping 24 points over the quarter. The jump reflected the region's hot labour market.

¹ 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 1-12 September 2022, with a total sample size of 1,559.

Meanwhile, the Waikato and Southland also posted solid confidence gains. In general, those gains reflected the strength of agricultural sector incomes in the two regions.

Northland and Auckland remain the most negative regions in the country. There, the slumping housing market and cost-of-living increases continue to bite hardest.

From here, we expect that regional economic confidence will remain split along lines of regions who are benefitting from strong agricultural incomes and the return of overseas tourists; and, regions who are battling the worst of the weakening housing market and cost-of-living increases.

Regional discussion.

Northland

Northlanders remain very pessimistic on the outlook for their regional economy. Indeed, confidence levels are now the lowest in the country. No doubt, cost-of-living increases continue to be felt acutely in households across the region. Floods and generally very wet weather may account for the latest four-point dip in Northlanders' outlook for their regional economy over the quarter. Meanwhile, the outlook for region's key industries are mixed. The sheep and beef industry is benefitting from strong returns, but forestry returns remain weak. Also, confidence in the horticulture sector is likely to have dipped on the back of low avocado returns and the recent downgrade in kiwifruit grower returns. Looking forward, we do see brighter prospects for the region's tourist spots as summer approaches and overseas tourists continue to return in greater numbers.

Auckland

Aucklanders' confidence in their regional economy remains in the doldrums. Auckland confidence levels are also the second lowest in the country. The Auckland housing market is at the forefront of the nationwide house price declines, dropping 14% since November. Cost-of-living increases are also hitting Aucklanders hard with the squeeze on household budgets ongoing. The sharp fall in regional retail sales in annual change terms (and adjusted for inflation) reflects this squeeze. We expect these trends to continue over coming quarters as falling Auckland house prices will continue to weigh on households' perspectives on the outlook for the regional economy.

Waikato

Waikato household economic confidence surged over the September quarter. The 23-point jump took the region to the top of the nationwide confidence charts. The breaking of the drought was one likely catalyst for the surge in sentiment. At the same time, the record high milk price may have further boosted sentiment, particularly in the region's agricultural sector. Meanwhile, the official opening of the remaining section of the Waikato Expressway and the Ruakura Inland Port have given regional sentiment another shot in the arm. From here, we expect sentiment to remain on balance positive. On the positive side, we expect agriculture to perform strongly over the remainder of the year and for tourism (think Hobbiton and Cathedral Cove) to pick up steadily through to the summer and beyond. However, the cooling housing market and cost-of-living increases are clear negatives and will temper confidence levels.

Bay of Plenty

Bay of Plenty households remained pessimistic about the prospects for their regional economy over the September quarter. News that Zespri had cut kiwifruit grower returns may have been one factor contributing to the ongoing pessimism. In addition, forestry sector returns remain weak, although export prices have picked up a touch over recent months. Similarly, the local housing market, like the rest of the country, continues to weaken, with house prices falling by over 6% since the November peak. With this and ongoing cost-of-living increases in mind, we expect pessimists to continue to outweigh optimists in the region over coming quarters.

Gisborne/Hawke's Bay

Household confidence in the Hawke's Bay and Gisborne's economic prospects remained in negative territory over the September quarter. Confidence dipped 5 points over the quarter to -10. Weather has been wet (and cold) in the region, and this may be one factor weighing on confidence within the region's sheep and beef sector. In addition, this year's grape harvest (in the Hawke's Bay) was down on the prior year, so this may also be adding to the downbeat mood. Low forestry returns may also be having a similar impact. Meanwhile, house prices in the region have now fallen nearly 5% since late 2021. Looking ahead, we expect this weakness in sentiment to continue, although very healthy farmgate meat prices will boost the sheep and beef sector over coming quarters.

Taranaki/Manawatu-Whanganui

Confidence in this region's economic prospects slid further into negative territory over the September quarter. Household economic confidence declined 8 points to -16 over the quarter. The slide may reflect the weakening housing market and its flow on to household spending. Inflation-adjusted retail spending, a key economic barometer, is down significantly in annual change terms in the region. Meanwhile, wet and cold weather over the winter months may have also dragged down sentiment in the region's agricultural sector. Looking forward, we expect the record high milk price and ongoing dairy sector strength may see a modest improvement in economic confidence. However, household sector weakness may temper any gains.

Wellington

Wellingtonians' confidence in their local economy surged over the September quarter. The region posted the largest quarterly jump, notching a 24-point gain and sentiment ticked over into positive territory (+7). We put the gain down to the hot labour market in the Capital. Our upcoming employment confidence report will delve into this trend in more detail. The jump is despite the weakening housing market. The Harbour Capital leads the country in terms of house price falls, with prices falling over 15% since late last year. From here, we expect economic confidence to prove patchy as the ongoing cost-of-living concerns and weak housing market butt up against the strong labour market.

Nelson/Marlborough/West Coast

Household economic confidence in the region was largely unchanged over the quarter. That was despite the severe flooding that hit the region. One factor that may have tempered any flood-induced confidence fall was the bumper grape

harvest numbers that were published over the quarter. The harvest was a record high, with Marlborough and Nelson recording 54% and 39% lifts on the previous year, respectively. Nevertheless, sentiment remains in negative territory. Looking ahead, the outlook is somewhat mixed. Returning overseas tourists should boost activity in the West Coast and in the Nelson region to a lesser degree. But the regional housing market is likely to weaken further, and cost-of-living increases will continue. These factors are likely to temper any boost in sentiment.

Canterbury

Canterbrians' confidence in their regional economy lifted over the September quarter. Confidence jumped 9 points to -8. The region's housing market continues to hold up better than most. Ongoing strength in the region's primary industries may have also helped to boost confidence. Nevertheless, confidence remains in negative territory, with ongoing cost-of-living increases weighing on household sentiment. Indeed, inflation-adjusted retail spending in the region is down in annual change terms. Looking ahead, we maintain our glass-half-full view on Canterbury's likely economic performance. The housing market is likely to continue its relative resilience and agricultural sector incomes will also remain firm. On this basis, we anticipate that the region's economy will continue to be one of the best-performing over coming quarters.

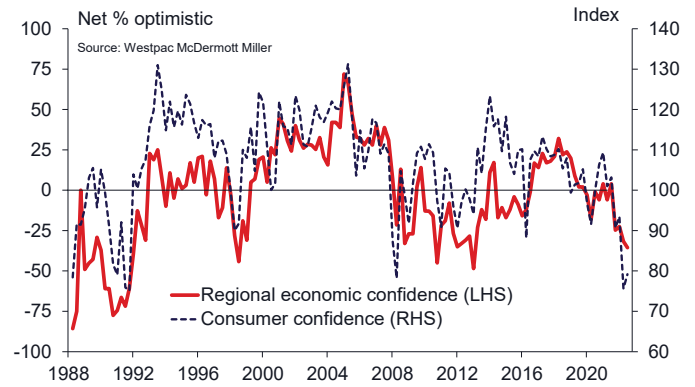
Otago

Surprisingly, confidence in Otago's economic prospects plunged over the September quarter, sliding 15 points. We put this down to growing pains. The rapid influx of international tourists may be overwhelming tourist hotspots like Queenstown. Indeed, we've heard many reports of severe worker shortages, particularly in the hospitality sector, over recent months. From here, we expect some relief from the open border and the lifting of Covid restrictions as migrant workers arrive in greater numbers and less workers require time off. If we are right, then household confidence in the region's economy should at least partially recover.

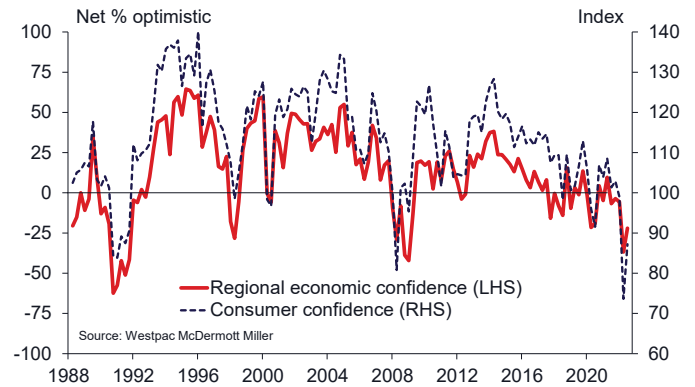
Southland

Southland household economic confidence surged over the September quarter. The 15-point jump took the region to third in the nationwide confidence charts. The breaking of the drought and favourable growing conditions over winter were one likely catalyst for the surge in sentiment. At the same time, the record high milk price may have further boosted sentiment. Meat prices are also near or at record highs. With the agricultural outlook still firm and tourists returning to popular spots like Te Anau, we expect that Southlanders confidence in their local economy may receive a further boost over coming quarters.

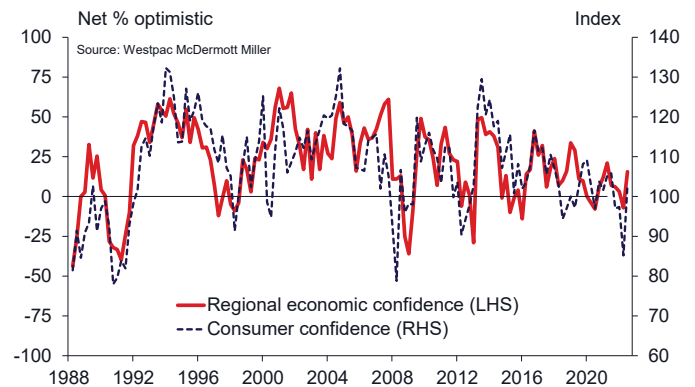
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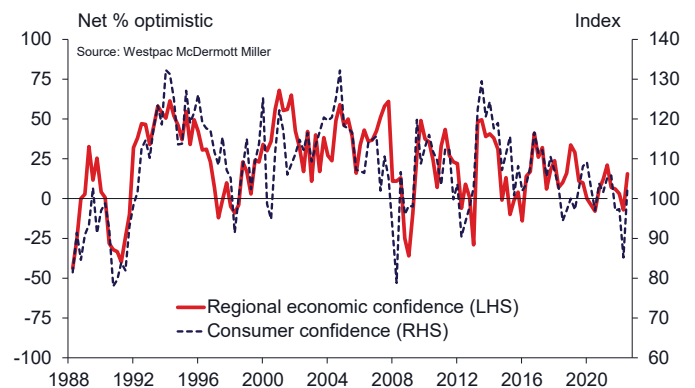
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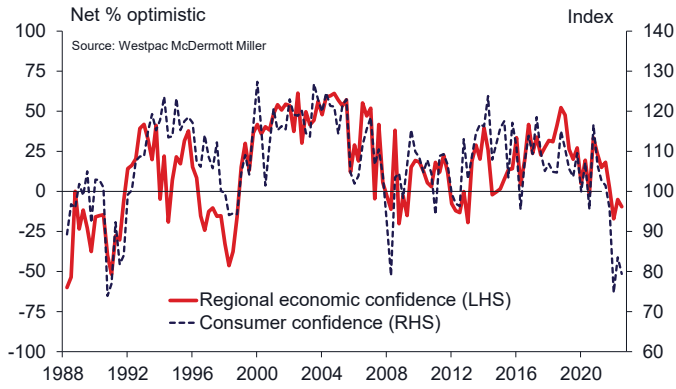
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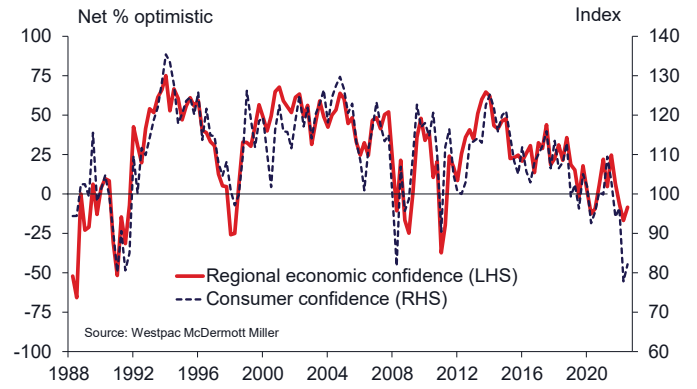
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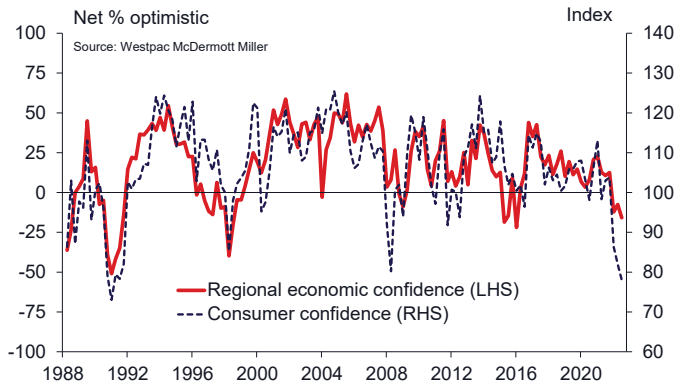
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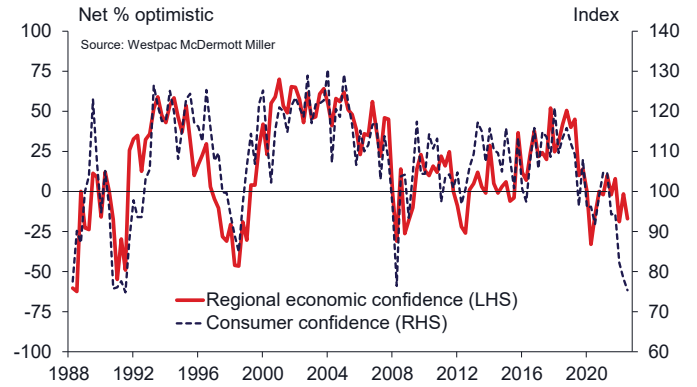
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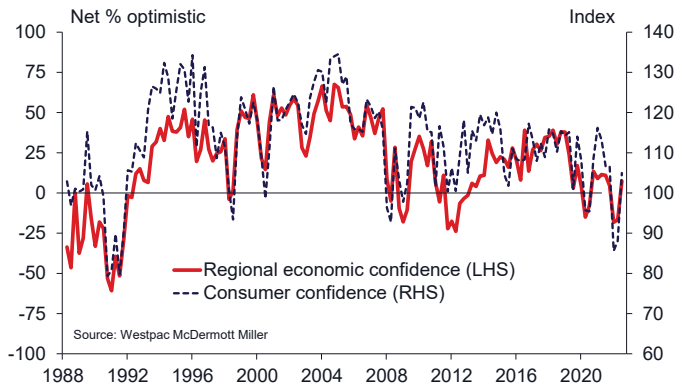
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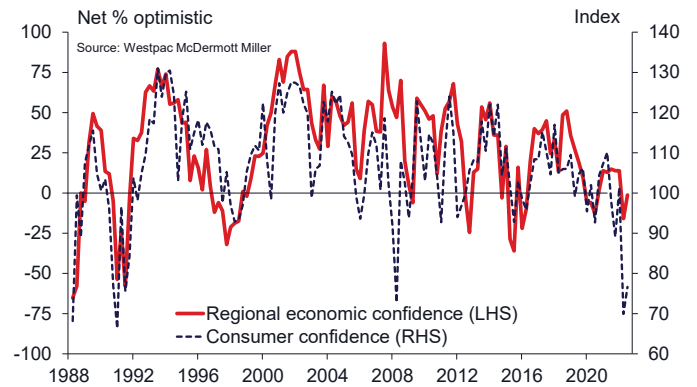
Otago



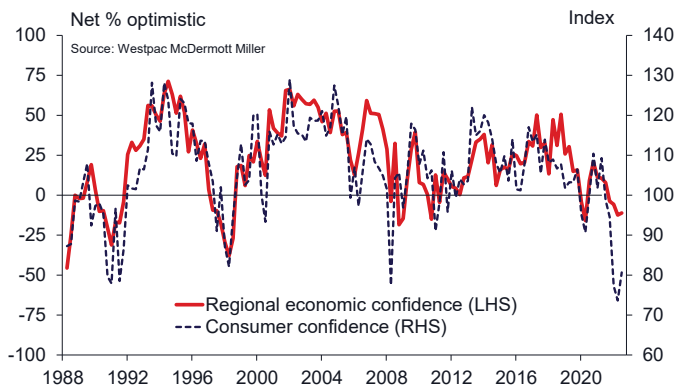
Wellington



Southland



Nelson/Marlborough/West Coast



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