

WESTPAC MCDERMOTT MILLER REGIONAL ECONOMIC CONFIDENCE

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Regional economic confidence takes a dive.

- Households' confidence in their regional economies took a dive over the December quarter.
- In fact, confidence is in negative territory in every region.
- Ongoing rises in interest rates and costs of living as well as falling house prices have weighed on confidence across the regions.
- Waikato posted the largest fall as record low farmer confidence may have spilled over into weak household confidence.
- Northland and Auckland remain the most negative regions in the country as rising interest rates and cost-of-living increases bite hardest.
- From here, we expect that confidence will remain under pressure as rising interest rates and costs of living plus falling house prices combine to put the squeeze on households.
- Meanwhile, regions who are benefitting from the return of tourists and agriculture-focused regions may fare better than others.

Regional economic confidence (net confidence %)

Region	Dec-22	Sep-22	Change
Northland	-35	-36	1
Auckland	-40	-22	-18
Waikato	-23	16	-39
Bay of Plenty	-26	-6	-20
Gisborne/Hawke's Bay	-18	-10	-8
Taranaki/Manawatu-Whanganui	-21	-16	-5
Wellington	-24	7	-31
Nelson/Marlborough/West Coast	-4	-11	7
Canterbury	-28	-8	-20
Otago	-13	-17	4
Southland	-28	-1	-27

Source: Westpac McDermott Miller

Note: 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 December 2022, with a total sample size of 1,559.

Regional discussion.

Northland

Northlanders remain very pessimistic on the outlook for their regional economy. No doubt, cost-of-living and interest rate increases are being felt acutely in households across the region. Meanwhile, the outlook for region's key industries is at best mixed. Sheep and beef industry returns have peaked and

are on the way down, while forestry returns remain weak. Also, confidence in the horticulture sector is likely to have dipped on the back of low and falling returns for avocado and kiwifruit growers, respectively. The one bright spot is tourism as the rebound of international visitors is underway. We expect the tourism pickup to continue into the March quarter and through 2023 and 2024 and this may spill over into confidence in the region. That said, the financial squeeze on household budgets is likely to remain the dominant theme over the year.

Auckland

Aucklanders' confidence in their regional economy plunged further over the December quarter. In fact, Auckland confidence levels are now lowest in the country. Cost-of-living and interest rate increases are hitting Aucklanders' wallets hard. And, if anything, the squeeze on household budgets is about to accelerate as more homeowners and investors roll on to higher fixed mortgage rates over coming months. The Auckland housing market is also at the forefront of the nationwide house price declines, dropping 20% since November 2021. As a result, Aucklanders' view of their local economy may get worse before it gets better.

Waikato

Waikato's spell at the top of household economic confidence charts was short-lived. Confidence plunged 39 points over the quarter, taking the region back to middle of the pack. Measures of farmer confidence were also at record lows during quarter, and this may have spilled over into lower household confidence. In general, farmer uncertainty about the future of the industry remains high as sector regulations continue to tighten. At the same time and like the rest of the country, rising interest rates, cost of living increases and the cooling housing market will have added to the downward pressure on households' view of their regional economy.

Bay of Plenty

Bay of Plenty households' confidence slid further over the December quarter. Falling kiwifruit returns and poor weather early in the growing season may have dampened the mood. Similarly, forestry sector returns remain soft. The local housing market, like the rest of the country, continues to weaken, with house prices falling by over 13% since the November peak. Moreover, with interest rates and ongoing cost-of-living increases starting to bite on more household budgets, 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 slipped further into negative territory over the December quarter. Confidence dipped 8 points over the quarter to -18. The weather was challenging over the quarter; and, the January floods mean that there has been no let-up to start 2023. Meanwhile, house prices in the region have now fallen over 14% since late 2021. Looking ahead, we expect this weakness in sentiment to continue, particularly as rising interest rates and cost-of-living increases put the squeeze on more and more households across the region.

Taranaki/Manawatu-Whanganui

Confidence in this region's economic prospects slid further into negative territory over the December quarter. Household economic confidence declined 5 points to -21 over the quarter. Much like the rest of the country, the slide may reflect the ongoing rise in interest rates and the cost of living. Meanwhile, wet weather over spring may have also dragged down sentiment in the region's agricultural sector. Looking forward, we expect the relatively high milk price and improving growing conditions may see a modest improvement in economic confidence. However, ongoing household sector weakness may temper any gains.

Wellington

Wellingtonians' confidence in their local economy plunged over the December quarter. The region posted a 31-point drop, with sentiment falling to its lowest level since the early 1990s. One likely catalyst for the fall is the housing market. The Harbour Capital leads the country in terms of house price falls, with prices falling nearly 23% since the peak in late 2021. From here, we expect economic confidence to remain under pressure as the ongoing rise in interest rates and the cost of living put the squeeze on household budgets.

Nelson/Marlborough/West Coast

Household economic confidence in the region posted the largest nationwide lift over the quarter. Confidence was up 7 points to -4. We put the lift down to the ongoing benefits of the bumper 2022 grape harvest. Recall that the harvest was a record high, with Marlborough and Nelson recording 54% and 39% lifts on the previous year, respectively. Looking ahead, the outlook is mixed. Returning overseas tourists should boost activity in the West Coast and in the Nelson region to a lesser degree. However, rising interest rates and cost of living increases may offset any household confidence gains from returning tourists.

Canterbury

Canterburians' confidence in their regional economy plunged over the December quarter. Confidence dropped 20 points to -8. Measures of farmer confidence were also at record lows during quarter, and this may have spilled over into lower household confidence. In general, farmer uncertainty about the future of the industry remains high as sector regulations continue to tighten. At the same time and like the rest of the country, rising interest rates and cost-of-living increases will have added to the downward pressure on households' view of their regional economy. Looking to 2023, we anticipate that the relative strength of Canterbury's agriculture sector and housing market will help keep Canterbury households' view of their local economy higher than most other regions of the country.

Otago

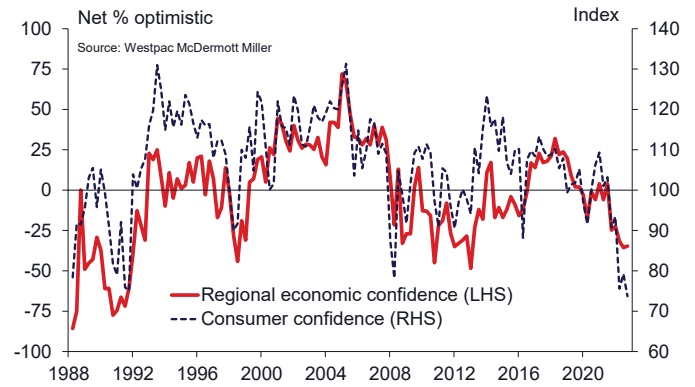
Otago's economic prospects picked up a touch over the December quarter, rising 4 points. The influx of international tourists has been boosting activity in tourist hotspots like Queenstown and Wanaka. And while worker shortages continue, the open border is allowing more migrant workers, including backpackers, to arrive into the region. The region, however, isn't immune to rising interest rates and costs of

living and this will continue to temper household economic confidence levels. On balance, we maintain a glass half full view of the region's economy as we expect that the ongoing rebound in the region's tourism industry will continue to dominate the economic landscape over 2023 and into 2024.

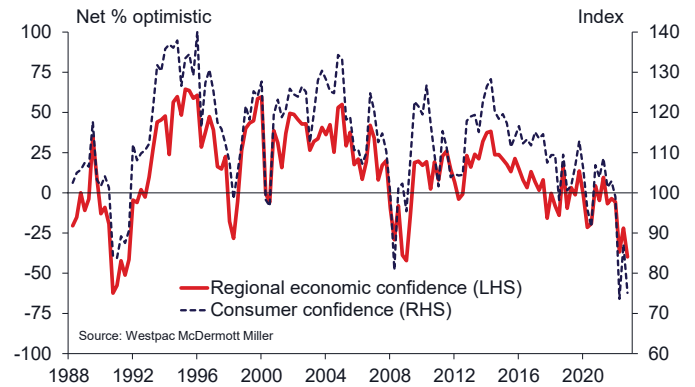
Southland

Southland household economic confidence plunged over the December quarter. Confidence slid 27 points to -28. Measures of farmer confidence were also at record lows during quarter, and this may have spilled over into lower household confidence. In general, farmer uncertainty about the future of the industry remains high as sector regulations continue to tighten. At the same time and like the rest of the country, rising interest rates and cost of living increases will have added to the downward pressure on households' view of their regional economy. Looking forward, we anticipate that the relative strength of Southland's agriculture sector will mean that Southlanders confidence in their local economy may track higher than equivalents in other regions across the country.

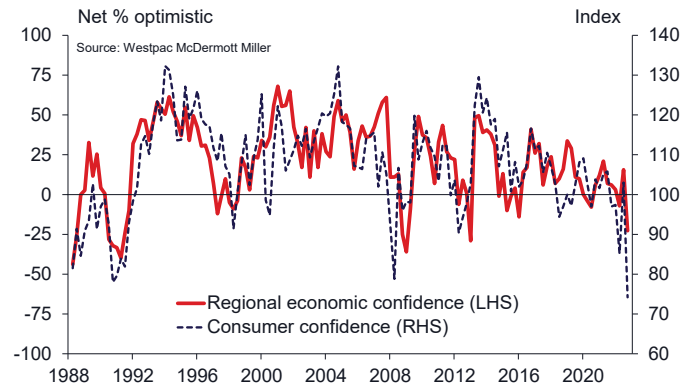
Northland



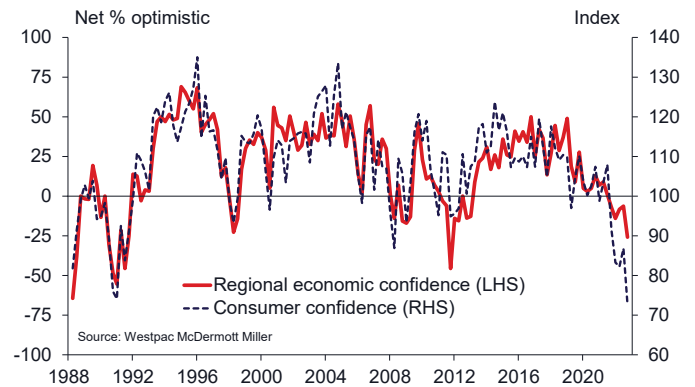
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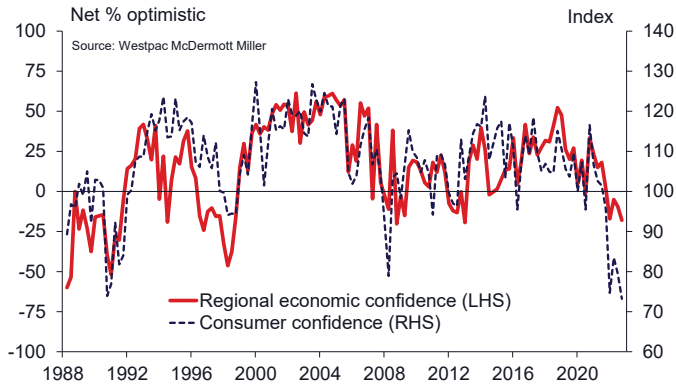
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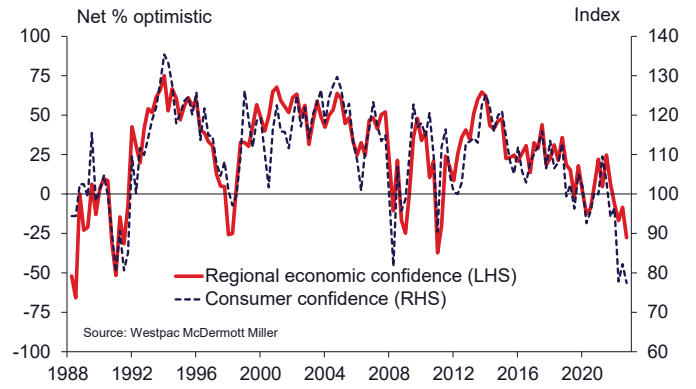
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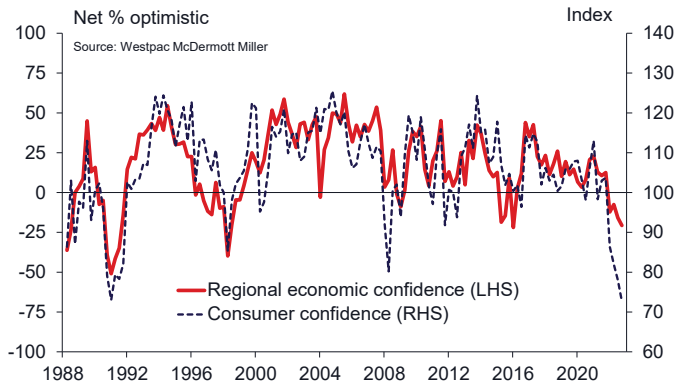
Gisborne/Hawke's Bay



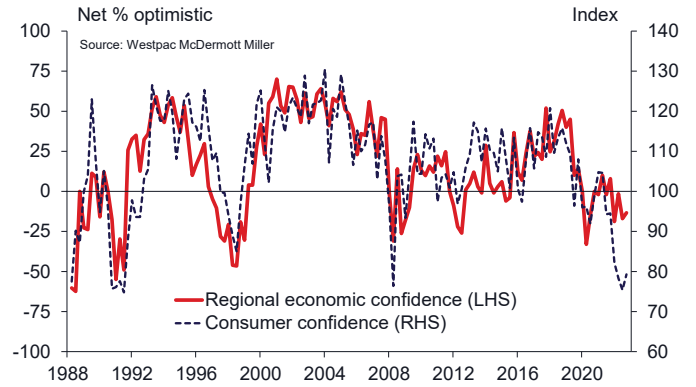
Canterbury



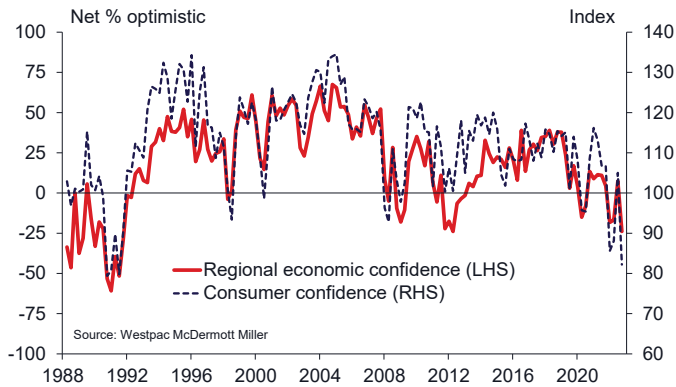
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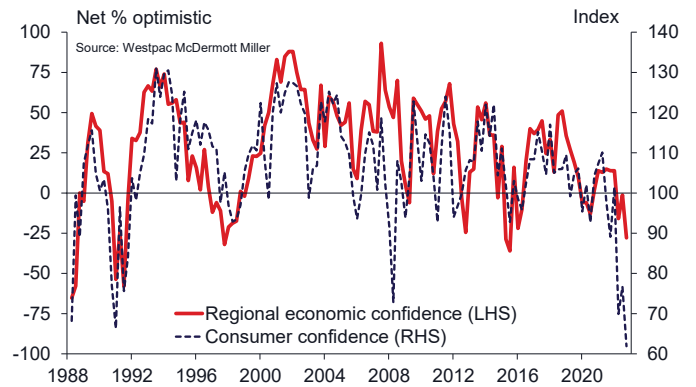
Otago



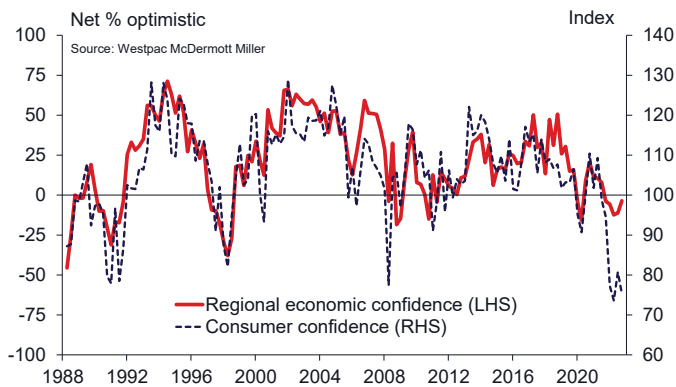
Wellington



Southland



Nelson/Marlborough/West Coast



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