

WESTPAC MCDERMOTT MILLER REGIONAL ECONOMIC CONFIDENCE

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Regional economic confidence still down in the dumps.

- Regional economic confidence remained down in the dumps over the June quarter, with all regions now in pessimistic territory.
- The largest declines were seen in Auckland, reflecting both cost-of-living pressures and falling house prices, and in Southland, which has struggled with drought conditions.
- Otago was the least pessimistic region and saw the biggest improvement for the quarter, no doubt buoyed by the return of tourism.
- We expect that the ongoing rises in the cost of living and further falls in house prices will continue to weigh on regional economic confidence in most regions over coming quarters.

Regional economic confidence¹ (net confidence %)

Region	Jun-22	Mar-22	Change
Northland	-32	-22	-10
Auckland	-37	-6	-31
Waikato	-7	3	-10
Bay of Plenty	-8	-14	6
Gisborne/Hawke's Bay	-5	-17	12
Taranaki/Manawatu-Whanganui	-8	-12	4
Wellington	-17	-18	1
Nelson/Marlborough/West Coast	-12	-6	-6
Canterbury	-17	-6	-11
Otago	-2	-19	17
Southland	-16	14	-30

Source: Westpac McDermott Miller

Regional economic confidence remained down in the dumps over the June quarter, as households across the country continued to battle cost-of-living increases, while falling housing prices also weighed on sentiment. Moreover, these effects were widespread. While the direction of change was mixed over the last quarter, every region is now in pessimistic territory.

Households' economic confidence in their regional economy plummeted the most in Auckland. Indeed, Aucklanders are both facing the cost-of-living surge and are at the forefront of the correction in house prices. Meanwhile, drought conditions

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 1-14 June 2022, with a total sample size of 1,559.

hit household economic confidence in Southland and to a lesser degree the Waikato over the quarter.

Otago households bucked the downward trend and posted the largest jump in regional economic confidence over the quarter. No doubt the promise of returning international tourists, on top of the actual return of Auckland-based travellers in greater numbers, were the catalysts for the jump.

From here, we expect that the ongoing rises in the cost of living and further falls in house prices will continue to weigh on regional economic confidence in most regions over coming quarters.

Regional discussion.

Northland

Northlanders remain very pessimistic on the outlook for their regional economy. Indeed, confidence levels are the second lowest in the country, only behind Auckland. The region's sheep and beef sector battled meat processing capacity issues as worker absenteeism spiked during the Omicron outbreak. Meanwhile, activity in the region's forestry sector is at a low ebb, with some contractors downing tools on the back of low sector returns. Looking ahead, we expect the sheep and beef sector to rebound, while tourists will also gradually return over the year. On this basis and from the very low starting point, we expect Northlanders' perspectives on the outlook for their region's economy to pick up a touch over coming quarters. That said, any pickup may be tempered by the ongoing cost of living increases.

Auckland

Aucklanders' confidence in their regional economy plunged over the June quarter. Auckland confidence levels are now the lowest in the country, plus the decline in confidence over the quarter was also the steepest nationwide. The Auckland housing market is at the forefront of the price declines, dropping nearly 10% over the past six months. Cost of living increases are also hitting Aucklanders hard with the squeeze on household budgets ongoing. From here, we expect these trends to continue over the year. Indeed, we expect that further falls in Auckland house prices will continue to weigh on households' perspectives on the outlook for the regional economy.

Waikato

Waikato household economic confidence slipped over the June quarter. The 10-point drop took the region into negative territory. The autumn drought was a likely catalyst for the dip in sentiment, with a medium-scale adverse event declared by the government in May. Similarly, the cooling housing market and meat processing capacity issues may have also weighed on sentiment. From here, we expect sentiment to be mixed. 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 housing market and cost of living increases are clear negatives and will temper, if not completely offset, any lift in broader confidence.

Bay of Plenty

Bay of Plenty households became slightly less pessimistic about their regional economy over the June quarter. Confidence rose 6 points but remained in negative territory at -8. One factor in the rise may have been that the kiwifruit crop was successfully picked and packed despite labour shortages and the Omicron outbreak. However, the forestry sector remains weak and there are few signs hinting at improvement ahead. Similarly, the local housing market, like the rest of the country, has turned and house prices have fallen by over 3% this year. 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 this region's economic prospects rebounded over the June quarter. Confidence jumped 12 points over the quarter, however pessimists still outnumbered optimists in the region over June. For the region, good autumn growing conditions, including a lack of drought, have boosted sentiment in the sheep and beef sector. At the same time, the region's apple industry struggled with labour shortages and significant proportion of this year's crop was left unpicked. Meanwhile, house prices in the region have now fallen around 5% since late 2021. Looking ahead, this mixed picture is likely to continue, with households' confidence in the regional economy likely to in turn wax and wane.

Taranaki/Manawatu-Whanganui

Confidence in this region's economic prospects modestly improved over the June quarter. Household economic confidence lifted 4 points over the quarter but remained in negative territory (-8). The modest improvement may reflect the diminishing impact of the Omicron outbreak. But the overall negative sentiment is likely to reflect cost of living increases and the slowdown in the region's housing market. On the positive side of the ledger, the region's key industries, dairy, sheep and beef, and energy continue to perform well on the basis of strong prices. With this strong foundation, household confidence in the regional economy may outperform the rest of the country over coming quarters.

Wellington

Household economic confidence remained very weak over the June quarter. A net 17% (up 1 point from March) of households expect economic conditions to worsen in the region over the coming year. No doubt, the slumping housing market has been a key catalyst for the ongoing weakness. The Harbour Capital leads the country in terms of house price falls, with prices falling over 11% since late last year. The ongoing cost-of-living increases may have also continued to weigh on sentiment for many households in the region. From here, and as the Omicron peak passes, economic confidence may start to recover, although ongoing cost-of-living concerns may slow any recovery.

Nelson/Marlborough/West Coast

The wider region's household economic confidence dipped further into negative territory over the June quarter. Household economic confidence dipped 6 points to -12 over the quarter. With the region's housing market holding up better than most,

we put the dip down to the ongoing cost of living increases. Looking ahead, the outlook is mixed. Returning tourists should boost activity in the West Coast and in the Nelson region to a lesser degree. Meanwhile, this year's wine harvest was a bumper one so that should boost incomes in Marlborough. But the regional housing market is likely to follow the rest of the country down and cost of living increases will continue. These factors are likely to temper any boost in sentiment.

Canterbury

Canterbrians' confidence in their regional economy slid over the June quarter. Confidence fell 11 points to -17 over June. With the region's housing market holding up better than most, we put the dip down to the ongoing cost of living increases. In addition, the Omicron outbreak may have led to reduced capacity in the region's manufacturing industry as well as at retail and hospitality businesses. Looking ahead, with Canterbury's housing market more resilient than much of the rest of the country and the primary sector firing, we anticipate that the region's economy and thus household confidence will outperform over coming quarters.

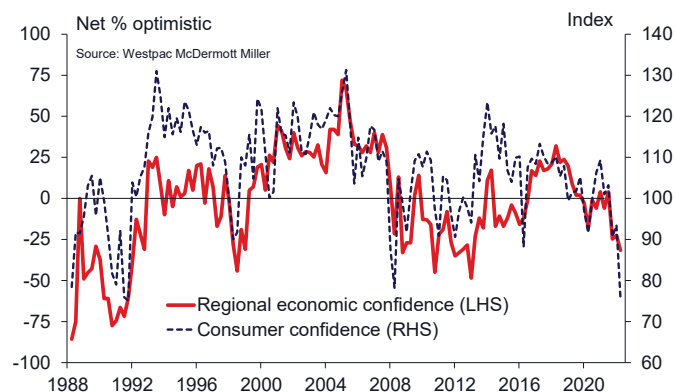
Otago

Confidence in Otago's economic prospects surged over the June quarter, jumping 17 points. Otago is now top of the pops in regional economic confidence terms, although that doesn't say much as pessimists still outnumber optimists in all regions, including Otago. No doubt the promise of returning international tourists, on top of the actual return of Auckland-based travellers in greater numbers, were the catalysts for the jump. From here, we expect further improvements in regional economic confidence as the border fully reopens and tourists gradually make their way back to the region.

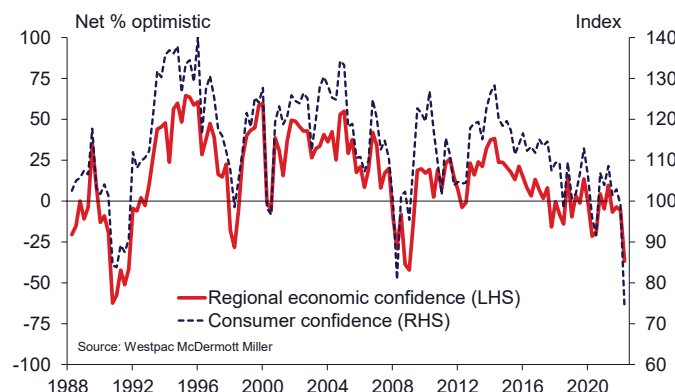
Southland

Southland regional economic confidence plunged over the June quarter. The 30-point fall was the second-largest nationwide, after Auckland. We put the plunge down to the autumn drought hitting the region, with a medium scale adverse event declared at the end of March. A lack of processing capacity in the region's meat processing facilities is likely to have also weighed on sentiment. Looking through the drought and the meat processing issues; the underlying picture of the region's agriculture sector remains very healthy. On this basis, we expect Southlanders' outlook for their regional economy to improve over the remainder of the year.

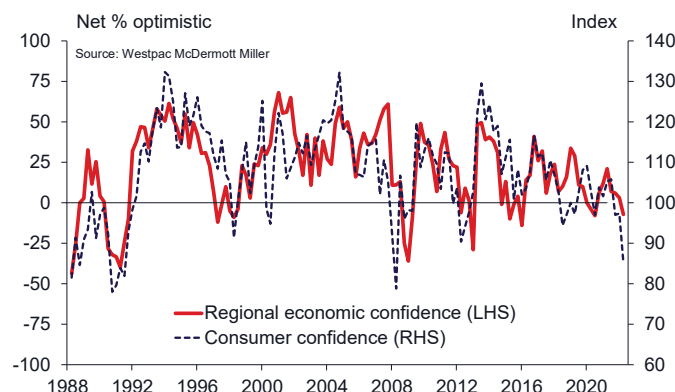
Northland



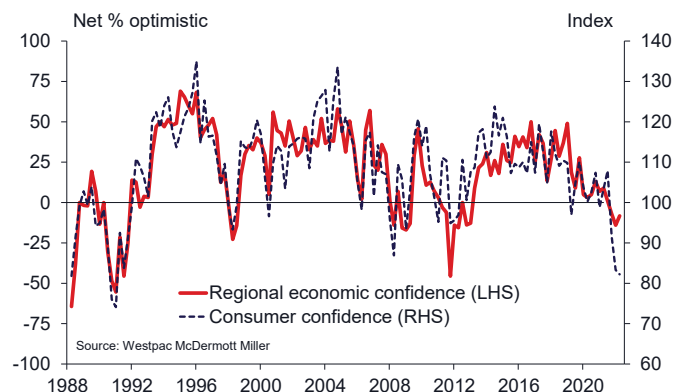
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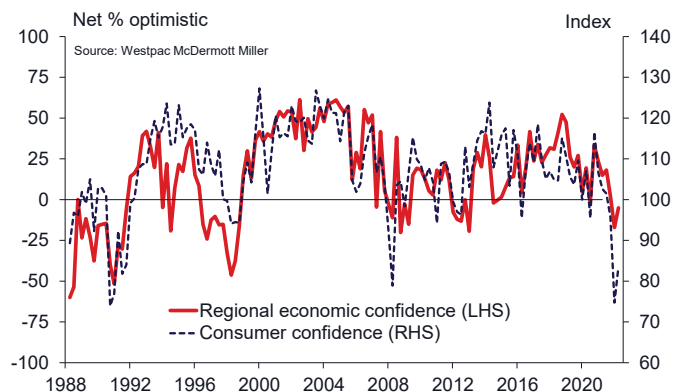
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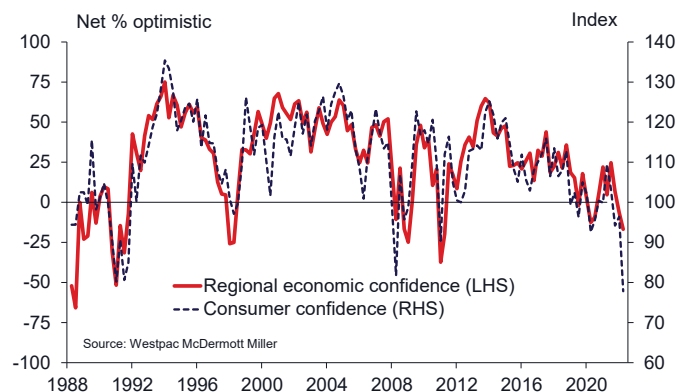
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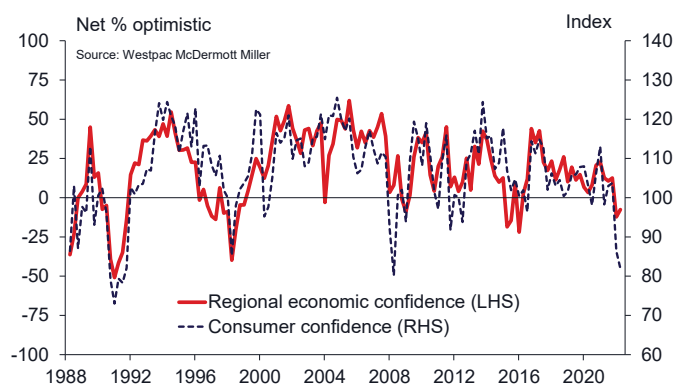
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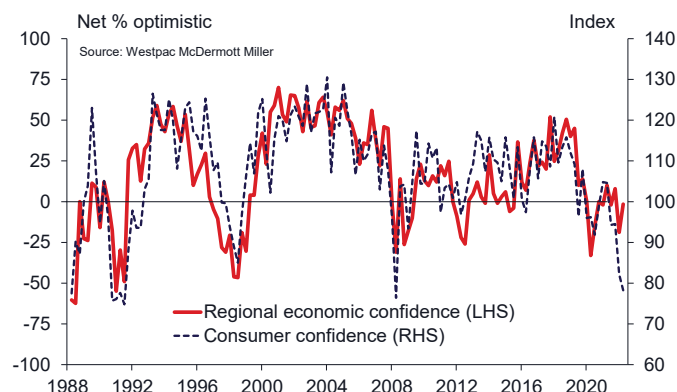
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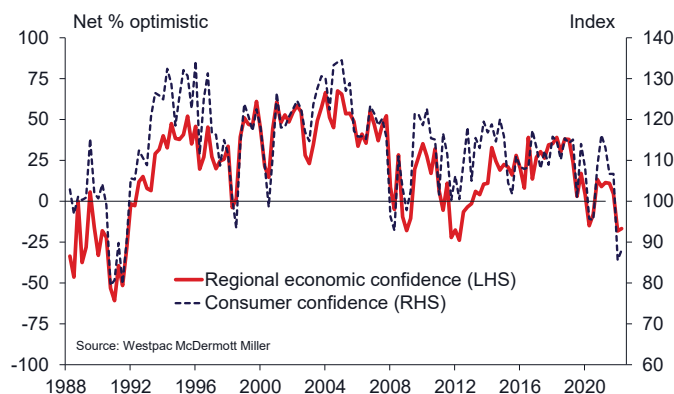
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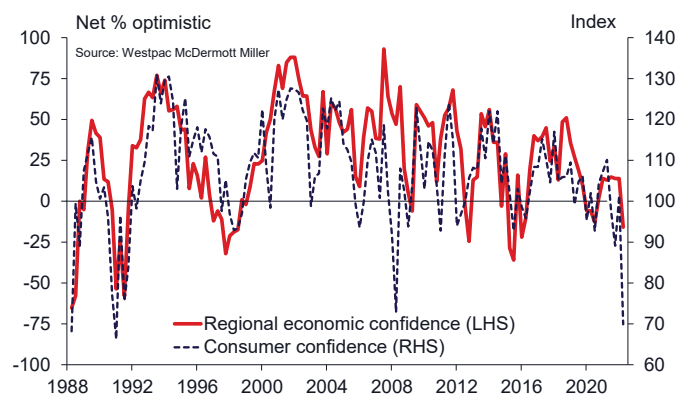
Otago



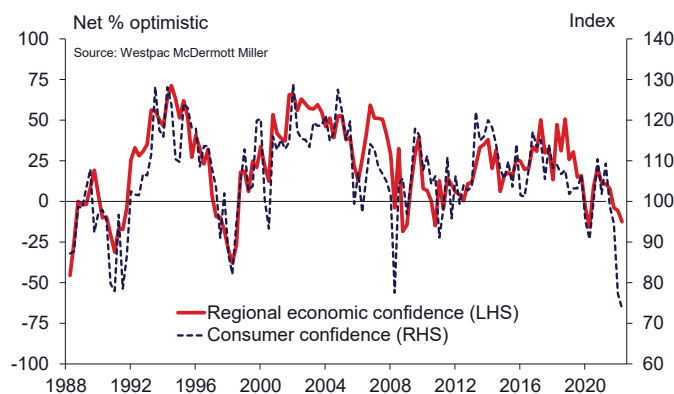
Wellington



Southland



Nelson/Marlborough/West Coast



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