WESTPAC REGIONAL ROUNDUP

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Contents

Paul Clark, Industry Economist
+64 9 336 5656
paul.clark@westpac.co.nz

Summary

Nationwide economic growth is set to soften in the year ahead, although impacts will differ by region. Rising interest rates and falling house prices will weigh on consumer spending in all regions to varying degrees. But with agricultural sector incomes set to remain firm, we are picking regions with a large rural backbone to outperform all others. Meanwhile, regions with a large tourism sector are set to benefit from the recent lifting of restrictions at the border and a resulting influx of tourists over the coming year.

The move to the traffic light system was good news for economic activity, especially for those regions which had previously been subject to hard restrictions. Auckland, having seen its economy put on ice, was the key beneficiary as businesses across the region spluttered back into life. Neighbouring regions, Northland, and parts of the Waikato were similarly impacted, albeit to a much lesser degree.

For the rest of the country, which had been subject to fewer restrictions, the move to the traffic light system had less of an impact. Indeed, if anything, the arrival of the highly transmissible Omicron variant and a surge in infections made operating conditions a bit more challenging than they were before.

Regions with a large rural backbone, dominated by meat, dairy and to a lesser extent horticulture, have typically outperformed those that do not. By contrast, regions with a large manufacturing base have struggled. Homebuilding though has been a key driver of activity in many regions.

All regions have been affected by rising interest rates and an accompanying slowdown in the housing market. That's big news for Auckland and Wellington, which together with the Manawatu have had the worst performing housing markets in the country over recent months. Other regions that previously had seen big house price increases off small volumes have recently experienced sharp price corrections. That has put further pressure on household budgets, already squeezed by higher inflation.

Looking forward, we expect economic growth in New Zealand will slow over the coming year.

On balance we think that regions that have a rural backbone and are set to benefit from still firm agricultural incomes, will outperform those that are not. Not only that, but we think the performance gap between these two groups will widen over the coming year.

The big negative for growth going forward is likely to be the housing market. As interest rates rise, all regions are expected to see falling house prices over the coming year. That in turn will put a squeeze on households' willingness to spend.

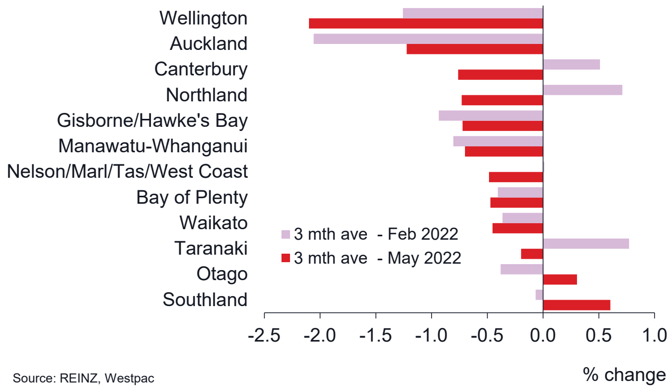
The extent of the decline in house prices will partly be a function of how much earlier price gains were driven off thin volumes as well as the specific characteristics of each region's housing market. To that end, we think that regions like Gisborne/Hawke's Bay and the Manawatu, which has outperformed all and sundry in recent years, face a possible reckoning in the months ahead.

Ditto for Auckland, which is likely to feel the impact of a lack of interest-rate-sensitive investors in the market, and for Wellington, which has benefitted significantly from sharply higher prices but now faces the prospect of a sharp correction. Others, such as the top of the South, should do a bit better given the larger proportion of lifestyle properties and retirees that live in the area.

On a more positive note, homebuilding activity is expected to remain firm for most regions over the coming year. Consents are high, and most regions have a large amount of work still in the pipeline. Shortages of materials and increasing absenteeism will merely extend that out further into the future. That in turn should support regional manufacturing, particularly in places like Auckland and Canterbury. Ditto for regional labour markets, which will remain tight for the foreseeable future.

Lastly, all regions should benefit from more visitor arrivals from abroad following the reopening of the borders to foreigners. Otago and to a lesser degree Auckland are set to benefit most from a resulting pick up in tourist spending. That should help the former close the performance gap on other regions.

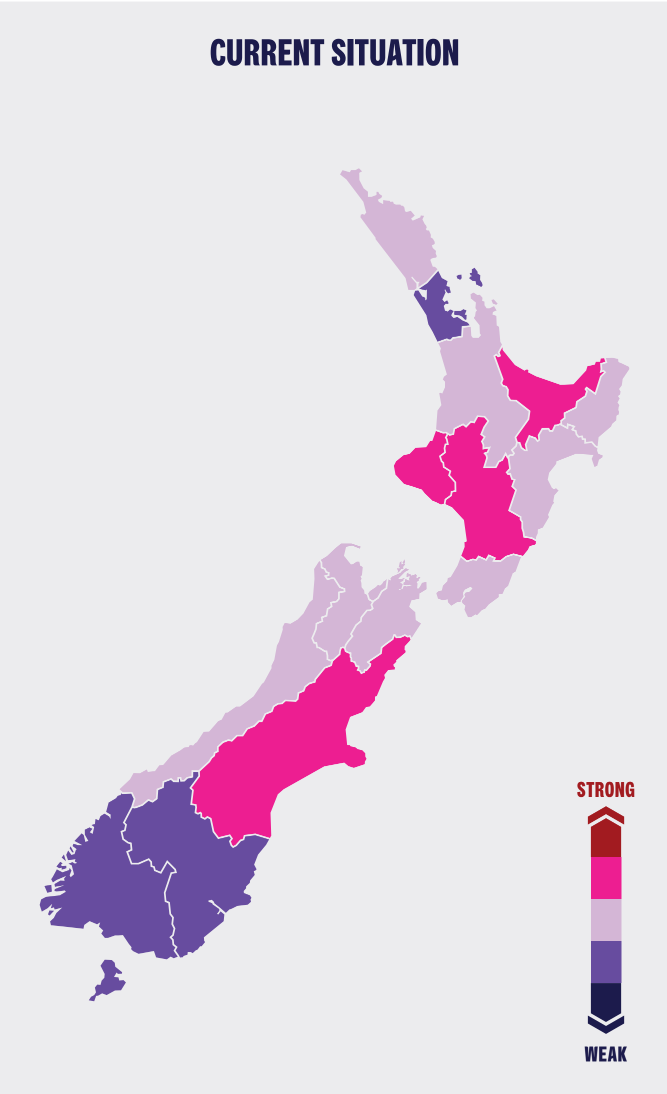
Figure 1: House Prices – average 3 monthly change

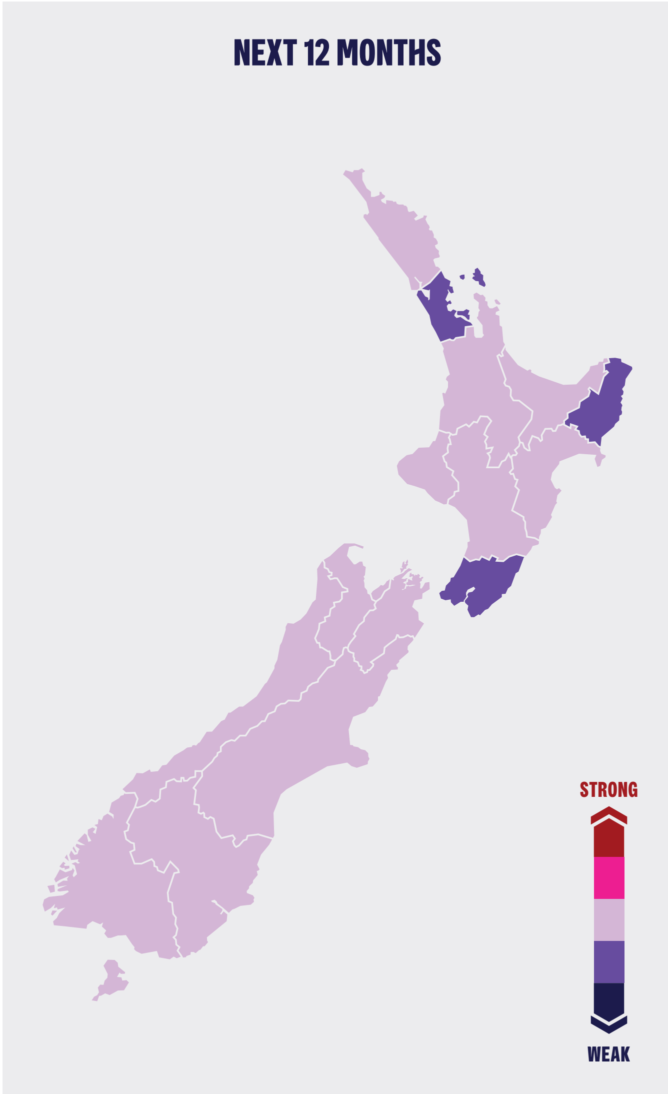


Source: REINZ, Westpac

12 month regional outlook

These shaded maps provide a summary of current and future economic growth by region over the next year.





Auckland

Current situation.

Auckland's economic performance has been mixed. The lifting of lockdown restrictions following the outbreak of Delta provided a boost to activity earlier in the year, although that was subsequently tempered by the spread of Omicron through the region.

That's been most evident in weak household spending. Indeed, electronic card spending in the region has remained well off pre-pandemic levels during the first half of 2022.

Meanwhile, a sharp increase in the cost of living, rising interest rates and a cooling housing market have dampened confidence in the region.

Looking at the housing market, prices have fallen sharply over recent months as interest rates have increased. The strength of the downward correction seen in Auckland makes this region among the worst performing in the country.

Construction activity though remains a bright spot. Building consents, mostly related to the construction of medium density townhouses and flats, are showing no sign of faltering. That said, the region's builders continue to face capacity constraints, such as difficulties finding labour, rising levels of absenteeism because of Covid and a shortage of building materials.

Meanwhile, operating conditions in the manufacturing sector remain fragile, with manufacturers in the region facing difficulties accessing material inputs, shipping constraints and rising levels of absenteeism due to the spread of Omicron. Ditto for services activity, with the region's hospitality sector in particular struggling in the face of Covid hesitancy.

Outlook.

We expect growth in economic activity in Auckland to slow over the coming year.

In large part the weak outlook is because we expect the region's slowing housing market to continue to act as a drag on spending. Indeed, we expect Auckland's housing market to underperform the national average, largely because interest-rate-sensitive investors make up a larger proportion of those that purchase property than in other regions.

With interest rates rising, higher debt servicing requirements will also limit discretionary spending over the coming year. Expected cost-of-living increases are likely to further dampen spending in the region.

On a more positive note, the construction sector should support economic activity in the region given current levels of consent issuance and a large pipeline of work. Existing capacity constraints are likely to mean some works being delayed, which will extend this pipeline further out into the future.

Returning tourists should also give the region a boost. Auckland is a big tourism region, so the arrival of foreign visitors will be warmly welcomed by retailers and hospitality providers alike.

Figure 1: Electronic card spending (latest: 5 June 2022)

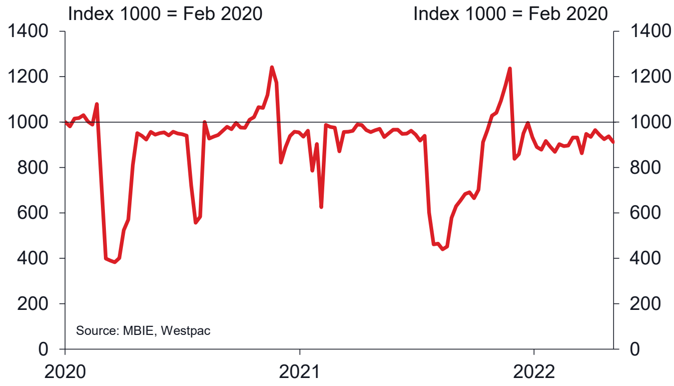


Figure 2: House prices and sales volumes

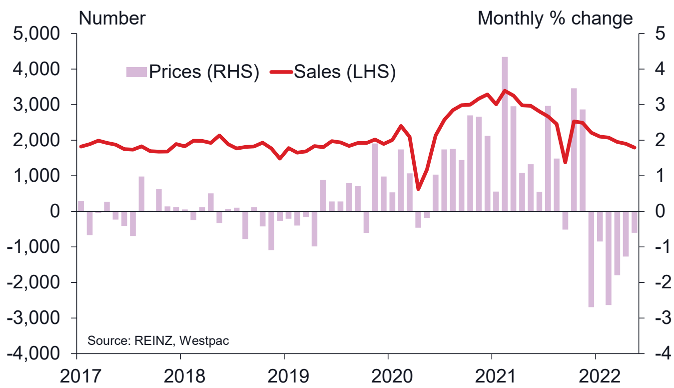
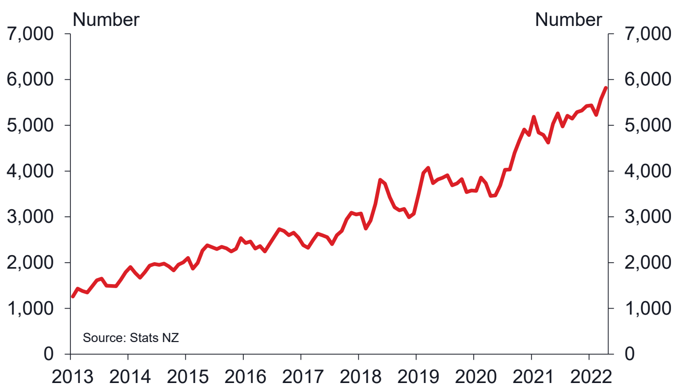


Figure 3: Residential building consents



Bay of Plenty

Current situation.

Economic activity in the Bay of Plenty reflects a mixed picture.

On a positive note, the incomes of orchardists in the region will have been boosted by a big kiwifruit harvest, which is expected to top 190 million trays.

That said, many kiwifruit growers in the region have found this season hard going, with picking and packing activity heavily affected by rising absenteeism due to the spread of Omicron and ongoing labour shortages. Shipping has also been a challenge for the industry, not just in terms of cost but also availability, while a slowdown in demand from China has already begun to weigh on prices.

The region's housing market has weakened in recent months. Tauranga and Rotorua especially have seen house prices weaken as interest rates have increased. Demand from Auckland buyers has also tailed off, and that is reflected in slowing sales volumes.

This deterioration is likely to have adversely affected spending in the region. That's reflected in retail sales volumes, which have largely moved sideways in recent quarters, while card spending is roughly back at pre-Covid levels.

The combination of weaker house prices and cost of living increases will have contributed to a sharp drop in confidence in the region. More households are pessimistic about the region's economic future.

Meanwhile, the region's labour market remains tight. Job vacancies have gone through the roof, while the unemployment rate has moved sharply lower.

Outlook.

We expect economic growth in the Bay of Plenty to slow over the coming year. Weighing on the region will be the housing market, with house prices set to contract further over the coming year as interest rates bite.

But that is not the only factor that is likely to act as a drag on spending in the region. With interest rates rising, higher debt servicing requirements will weigh on discretionary spending over the coming year. Expected cost-of-living increases are likely to further dampen spending.

That said, spending could be supported by gains elsewhere in the local economy. For example, kiwifruit growers in the region should see their incomes rise over the coming year following this year's bumper harvest.

Increased tourism should also support economic activity in this region. The lifting of border restrictions on visitors from abroad is likely to be a boon to tourist hotspots such as Rotorua, and to a lesser extent Tauranga.

Meanwhile, activity in the region's forestry sector is likely to track sideways. We expect log prices to remain modest, although a pickup in the Chinese economy as Covid restrictions ease gradually should translate into higher log export prices later in the year.

Figure 1: House prices and sales volumes

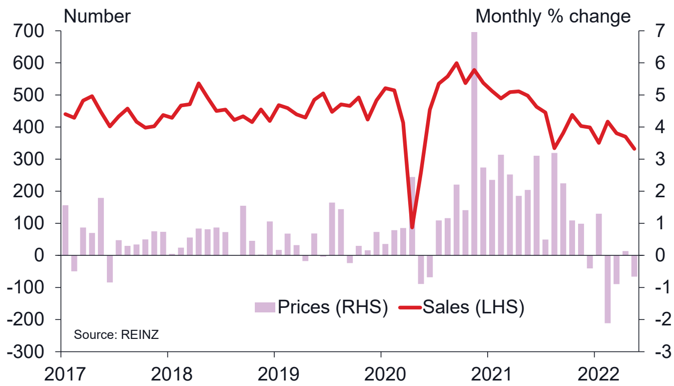


Figure 2: Electronic card spending – (latest: 5 June 2022)

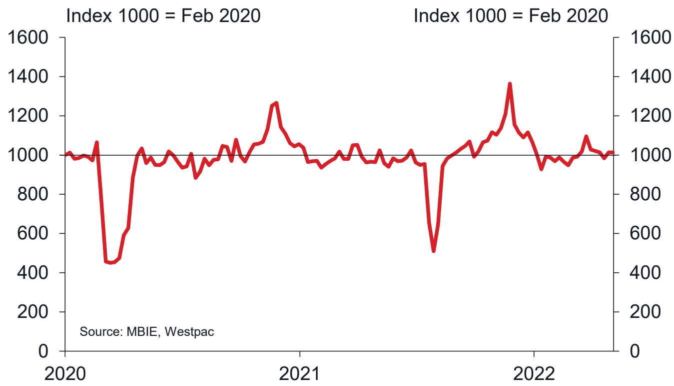
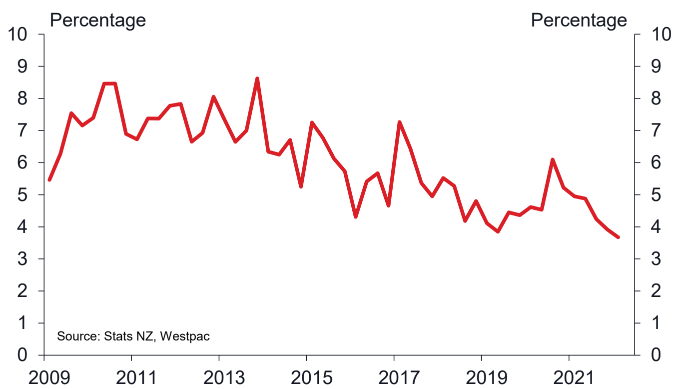


Figure 3: Unemployment rate



Canterbury

Current situation.

Canterbury's diversified economy continues to outperform its metropolitan counterparts.

On balance, the region's dairy and meat farmers are doing well, with strong incomes reflecting the impact of still high prices. Many though will have found the going tough dealing with additional Omicron related challenges, such as sharply higher input costs and processing delays.

Residential building activity in the region has also been strong. That said, builders have also found it tough going with having to deal with disruptions caused by Omicron, such as shortages of materials and increased absenteeism. Building inspection delays due to capacity constraints at council are also a key concern for many builders looking to complete projects.

Meanwhile, the region's housing market has begun to slow. However, the slowdown has been measured, reflecting relative valuations and the fact that the recent upswing in house prices came later than in other regions.

Manufacturing activity in the region has tracked lower and is now contracting. That is likely to reflect the disruptions caused by Omicron with many manufacturers continuing to struggle with ongoing supply constraints, skilled labour shortages, and increased absenteeism. Export-focused manufacturers in the region are also faced with high costs of shipping, carrying capacity issues and a slowing global economy.

Meanwhile, labour market conditions have tightened with the unemployment rate recently trending lower and online job ads increasing sharply. A strong labour market is likely to have contributed to firm household spending. That's been evidenced by an increase in retail sales volumes.

Outlook.

We expect that growth in economic activity in Canterbury will slow over the coming year but should still outperform the other big metropolitan regions.

In large part that is because we expect the housing market will slow as interest rates rise, and that will be a drag on spending in the region. That said, housing in this region has been undervalued for some time, so we expect the magnitude of the drop in house prices to be relatively small.

But that is not the only factor that is likely to act as a drag on spending. With interest rates rising, higher debt servicing requirements will weigh on discretionary spending. Expected cost-of-living increases are likely to further dampen spending.

Meanwhile, the prospects for agriculture in the region are good. Strong prices for sheep, beef and dairy should help to support farmgate incomes in the region. The region's meat producers are also likely to benefit from less constrained processing capacity, while dairy farmers should see a pickup in production volumes over the course of the next year.

Construction is also likely to be a positive, with consents issuance pointing to a healthy pipeline of work. A buoyant construction sector should boost demand for local manufacturing, although exporting manufacturers will be adversely affected by an expected global economic slowdown.

Increased tourism activity should also support the region's economy, following the removal of border restrictions.

Figure 1: Residential building consents

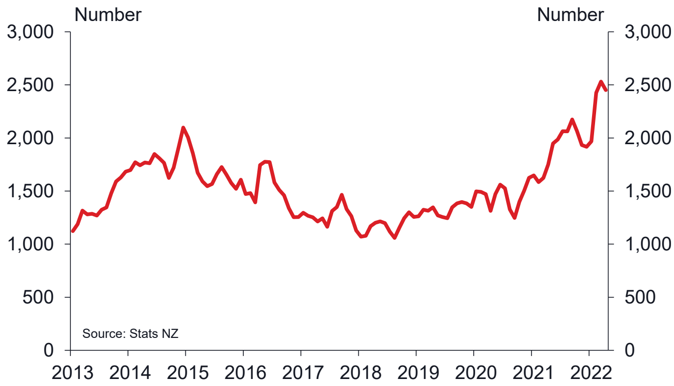


Figure 2: House prices and sales volumes

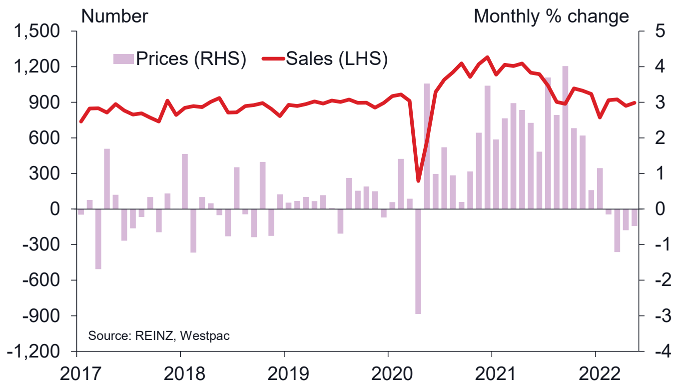
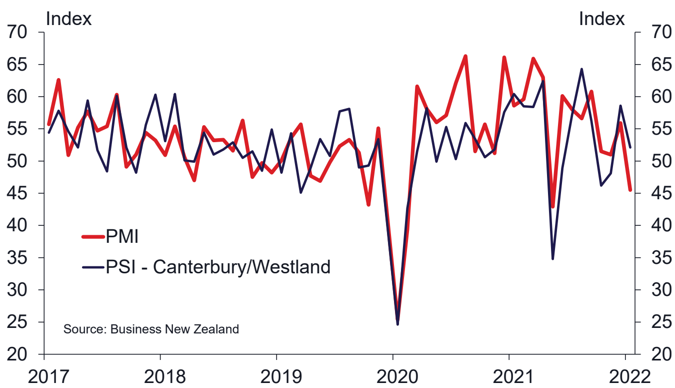


Figure 3: PMI/PSI



Gisborne/Hawke's Bay

Current situation.

Activity in this high-flying region has slowed in recent months, in part because of disruptions caused by flooding, which has affected Gisborne and northern Hawke's Bay.

Among those affected were the region's apple growers, already struggling with Covid related labour shortages. Heavy rainfall in growing areas has delayed harvesting in the region by about two weeks and lowered crop expectations.

Conditions for the region's grape growers have not been ideal either and the harvest is slightly down on the previous year. To a large extent that reflects the impact of heavy rains and labour shortages, which have brought harvesting forward.

On balance, the region's sheep and beef farmers are doing well, with strong incomes reflecting the impact of still high prices. Many though will have found the going tough dealing with additional Omicron related challenges, such as sharply higher input costs and processing delays.

Other areas of weakness include the region's housing market, which had previously been an outperformer. House prices in the region have slowed dramatically in recent months as interest rates have kicked higher. Sales volumes are also well off their highs and continue to track lower.

Building activity in the region though remains solid. That said, builders have found it tough going dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid. Building consents have also tumbled from last year's highs, as the housing market has cooled, and interest rates have pushed higher.

Labour market conditions remain tight. Demand for workers is high, while unemployment has plummeted to record lows.

Outlook.

We expect economic activity in Gisborne/Hawke's Bay to ease up over the coming year.

In large part that is because we expect house prices in the region will drop sharply as interest rates rise, and that will drag on spending in the region. While the region's housing market has been an outperformer in recent years, this has been based on relatively small volumes, which we think increases the chance of a bigger correction over the coming year.

But that is not the only factor that is likely to act as a drag on spending. With interest rates rising, higher debt servicing requirements will weigh on discretionary spending. Expected cost-of-living increases are likely to further dampen spending.

Activity in the region is also likely to be impacted by lower export volumes because of the smaller apple harvest. Similarly, a smaller grape harvest is expected to adversely affect wine exports from the region.

On a more positive note, still strong prices for meat should continue to support farmgate incomes in the region. The region's meat producers should also benefit from less constrained processing capacity.

Meanwhile, activity in the forestry sector is likely to track sideways. We expect log prices to remain modest, although a pickup in the Chinese economy as Covid restrictions ease is likely to translate into higher log export prices later in the year.

Figure 1: House prices and sales volumes

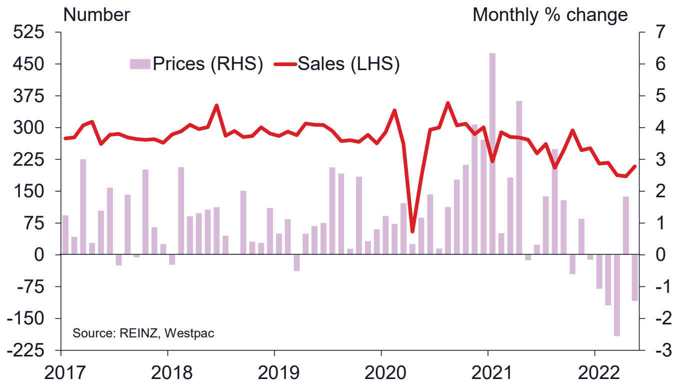


Figure 2: Unemployment rate

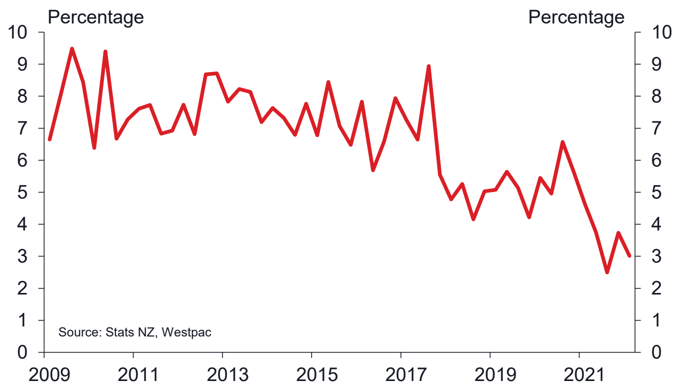
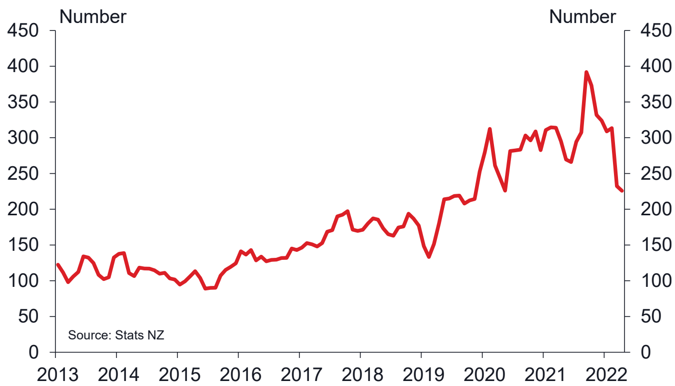


Figure 3: Residential building consents



Nelson/Marlborough/West Coast

Current situation.

Economic activity in this region has been resilient. In part that is because of a good grape harvest following a disappointing yield in 2021. That should translate into an increase in wine production and allow winemakers to fulfil growing export orders.

Orchardists are also doing okay. Apple production in the region is up mainly because of better growing conditions compared to last year, which was severely affected by hail. Growers though have had to overcome several challenges. While growing areas are likely to have missed the worst of the severe rainfall events, orchardists have still had to grapple with worker shortages exacerbated by the spread of Omicron.

On balance, the region's meat farmers are doing well, with strong incomes reflecting the impact of high prices. However, many have found this year tough going after disruptions caused by severe weather events back in February. Many have also struggled with Omicron related issues, such as sharply rising input costs, labour shortages and processing delays.

The region's housing market though has begun to slow, as interest rates have kicked higher. Sales volumes have moved sideways and are now at lower than pre-Covid levels.

Spending in the region remains fragile. Retail sales volumes have at best been flat, with the most recent quarter showing a drop. Similarly, card spending has remained below pre-Covid levels, presumably because more people have been forced to self-isolate due to the spread of Omicron.

Outlook.

We expect growth in economic activity in this region to move sideways over the coming year.

Weighing on the region will be the housing market, with house prices set to contract further over the coming year as interest rates bite. However, the region's housing market should still outperform the national average, largely because of the lifestyle nature of properties in this region and the high proportion of retirees that own property there.

With interest rates rising, higher debt servicing requirements will also weigh on discretionary spending over the coming year. Expected cost-of-living increases are likely to further dampen spending.

Balanced against this is ongoing strength in meat farming, and an expected improvement in the performance of the region's viticulture and horticulture sectors.

Still-strong meat prices are expected to support farmgate incomes and spending in the region over the coming year. The region's meat producers should also benefit from less constrained downstream processing capacity.

Meanwhile, Marlborough wineries are set to benefit from a bigger grape harvest and increased exports. In contrast to other growing regions, apple production has increased, which implies higher export proceeds and better returns to orchardists over the coming year.

Increased tourism activity should also support spending in the region. The removal of border restrictions on visitor arrivals from abroad should support retail and hospitality in Nelson and on the West Coast.

Figure 1: House prices and sales volumes

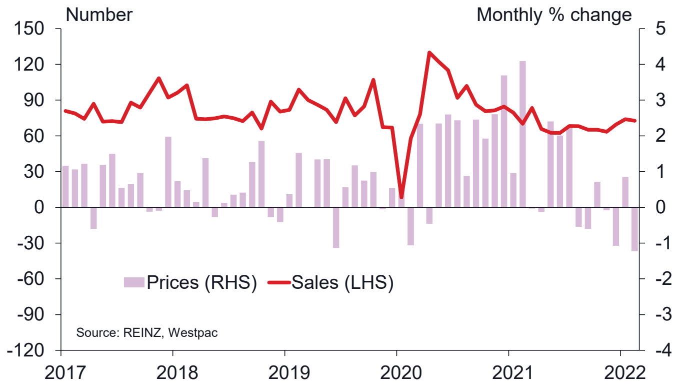


Figure 2: Electronic card spending (latest: 5 June 2022)

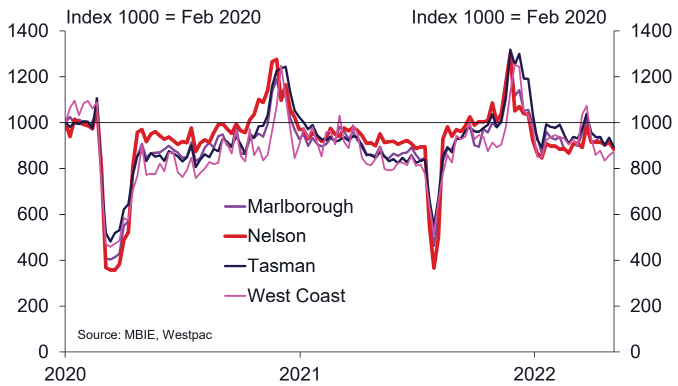
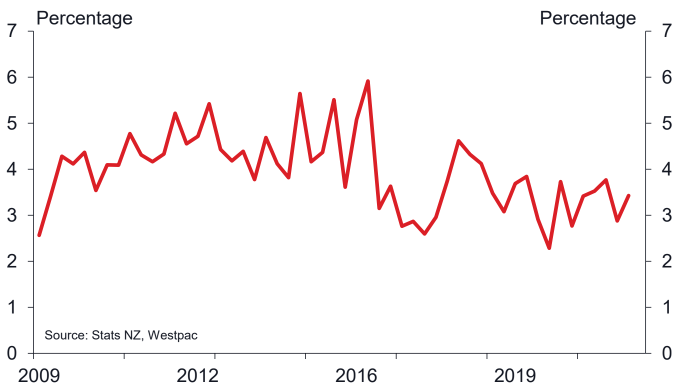


Figure 3: Unemployment rate



Northland

Current situation.

The ending of lockdown restrictions following the outbreak of Delta has given the Northland economy a modest lift, although that has been partially offset by the impact of the Omicron outbreak.

That has been evidenced by a small pickup in retail sales volumes in the region. Ditto for electronic card spending, which for a while now has been tracking slightly above pre-Covid levels.

On balance, the region's dairy and meat farmers are doing well, with strong incomes reflecting the impact of still high prices. Many though will have found the going tough dealing with additional Covid related challenges, such as sharply higher input costs and processing delays.

Construction activity has also been a bright spot. Consents have stabilied at elevated levels, reflecting ongoing efforts to address a shortage of housing in the region. That said, builders have also found it tough going dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid.

The region's housing market though has started to cool as interest rates have risen. Monthly price growth has now dipped into the red, while sales volumes have trended lower.

The region's labour market has been a standout. Job vacancies are at elevated levels and the unemployment rate has trended lower over time. That is also likely to have supported the increase in retail spending referred to above.

Outlook.

On balance, we expect growth in economic activity in Northland to improve over the coming year.

In large part that is because we expect a strong performance from meat and dairy farming. Still-strong meat and dairy prices over the coming year will support farmgate incomes in the region. The region's meat producers are set to benefit from less constrained processing capacity, while dairy farmers should also see a pickup in production volumes over the course of the year.

Construction activity should also be a positive for the region. Consent issuance has been strong, suggesting a healthy pipeline of work over the coming year. Issues with accessing material and labour shortages though will remain a challenge for many home builders in the region.

Although not a huge market for foreign visitor arrivals, the lifting of restrictions on visitors from abroad should also support the region's economy.

Balanced against this is weakness in the housing market. We expect that house prices will fall over the coming year because of higher interest rates.

With interest rates rising, higher debt servicing requirements will weigh on discretionary spending. Expected cost-of-living increases are likely to further dampen spending.

Meanwhile, activity in the region's forestry sector is likely to track sideways. We expect log prices to remain modest, although a pickup in the Chinese economy as Covid restrictions ease should mean higher log export prices later in the year.

Figure 1: Electronic card spending (latest: 5 June 2022)

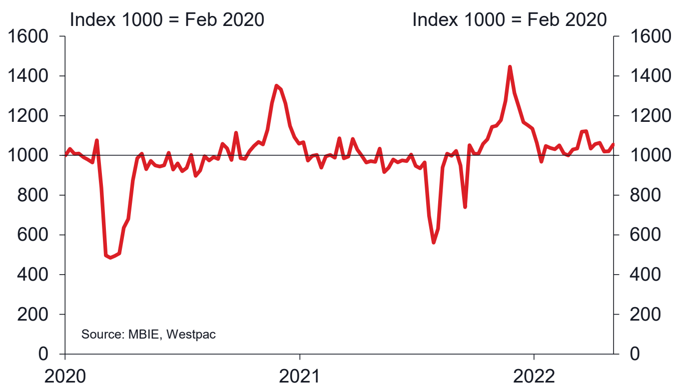


Figure 2: Residential building consents

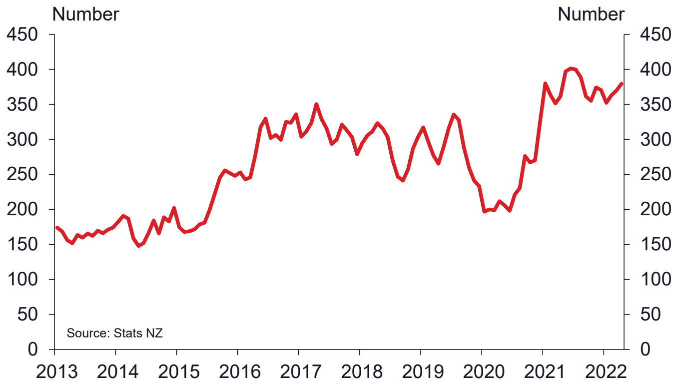
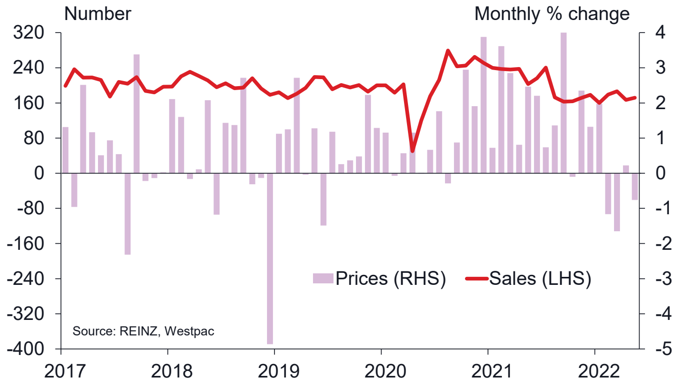


Figure 3: House prices and sales volumes



Otago

Current situation.

Economic activity in Otago remains in the doldrums.

Weak tourism activity over the past six months reflects the closure of the borders to international visitor arrivals and the lack of visitors from Auckland due first to the Delta lockdown and then the Omicron outbreak.

That in turn has adversely affected spending in the region. Retail sales volumes in the region are significantly down on previous quarters. Ditto for card spending, which remains well off pre-Covid levels despite the shift to the traffic light system which has made it easier for Aucklanders to visit the region.

Other industries though have offered some respite. The region's farmers will have been buoyed by strong meat prices. However, many have found this year tough dealing with Omicron related issues, such as sharply rising input costs, labour shortages processing delays.

Construction activity has also been a bright spot, with consents remaining at elevated levels. That said, builders have found it tough going dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid.

The region's housing market has weakened, with monthly price changes now dipping into the red. Sales volumes, which have trended lower over time, have reinforced this negative tone.

Labour market conditions are tight. With the return of international tourists imminent, firms are crying out for skills that have since transferred to other industries. The rate of unemployment in the province is low, demand for labour is strong and employment confidence is on the rise.

Outlook.

We expect growth in economic activity in Otago to improve significantly over the coming year. That will help it close the performance gap with other regions.

Tourism will lead the region's economic recovery. We think that the arrival of tourists over the coming year will revitalise spending in the region, boosting the coffers of retailers and hospitality venues alike.

Similarly, returning international students will boost spending in Dunedin.

We also expect agriculture to support economic activity over the coming year. Indeed, we expect that still strong meat and dairy prices over the coming year will support farmgate incomes in the region. The region's meat producers are also set to benefit from less constrained processing capacity, while dairy farmers should see a pickup in production volumes over the course of the year.

On balance, construction is also likely to be a positive for the region over the coming year, with consents issuance and delays in processing at council pointing to an extended pipeline of work. Issues with accessing material and labour shortages though will remain a challenge for many home builders in the region.

Balanced against this is weakness in the housing market. We expect that house prices will fall further over the coming year because of higher interest rates. That said, Otago's housing market should still do better than that national average because of lower relative price gains over the past year or so.

Figure 1: Electronic card spending (lasts: 5 June 2022)

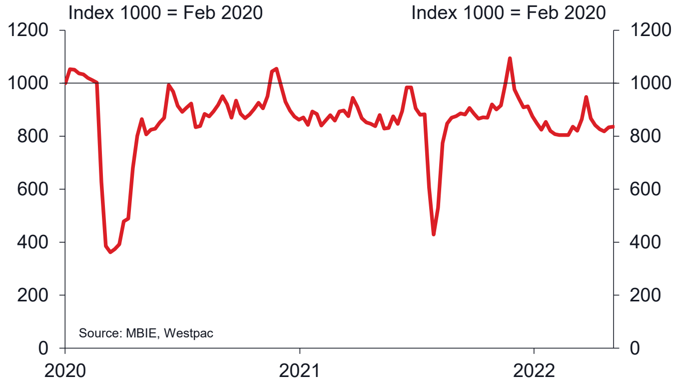


Figure 2: Residential building consents

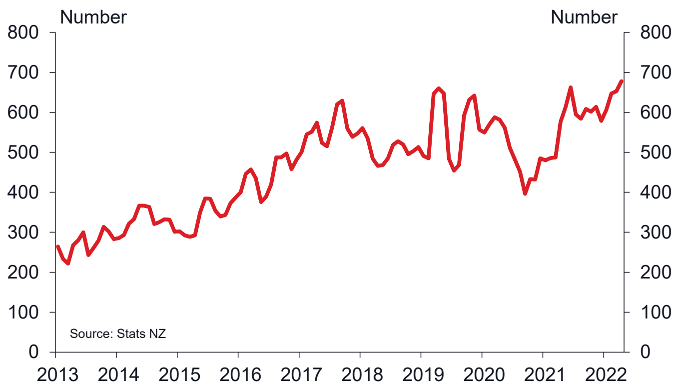
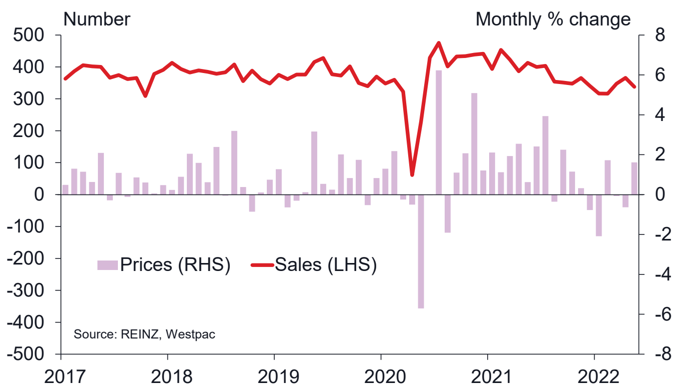


Figure 3: House prices and sales volumes



Southland

Current situation.

Economic activity in Southland has weakened over the past six months.

On a positive note, farmers in the region will have been buoyed by strong dairy and meat prices. Many though will have found the going tough dealing with drought conditions as well as Omicron related challenges, such as sharply higher input costs and downstream processing delays caused by increased absenteeism.

Manufacturing activity will have been impacted by the drought related loss of hydroelectric generation capacity, which temporarily reduced production at the Tiwai Point aluminium smelter. The smelter is also likely to have been affected by weaker aluminium prices, with slower demand from Omicron-hit China initially offsetting the impact of the Russia/Ukraine conflict on global production.

Meanwhile, the region's housing market has slowed markedly. Prices have dropped as interest rates have climbed. Sales volumes have also trended lower, reinforcing a negative tone.

Construction activity in the region remains strong, with consents remaining at elevated levels. That said, builders have found it tough going dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid.

Spending in the region remains fragile. Retail sales volumes, which exclude the impact of inflation, have basically been flat for the last year. Ditto for card spending, which remains below pre-Covid levels, presumably because of the spread of Omicron, which has forced more people to self-isolate.

Outlook.

On balance, we expect growth in economic activity in Southland to improve over the coming year.

In large part that is because we expect a strong performance from meat and dairy farming. Indeed, we expect that still strong meat and dairy prices over the coming year will support farmgate incomes in the region.

With the drought now broken, the region's dairy farmers are expected to increase production volumes over the course of the next year. Meat producers in the region should also benefit from less constrained processing capacity.

The region should also benefit from higher global aluminium prices, which in the near term is expected to reflect ongoing supply concerns from Russia, and in the longer term a recovery in demand from China. With the drought now broken, and hydroelectric generating capacity restored, economic activity in the region should also be boosted by a return to maximum aluminium production.

Tourism to the region should also get a boost from the lifting of restrictions on foreign visitor arrivals entering the country.

We think that house prices will fall because of higher interest rates, and that will dampen spending. That said, Southland's housing market may do better than the national average because of relatively small price gains in previous years.

But that is not the only factor that is likely to affect spending. With interest rates rising, higher debt servicing requirements will also weigh on discretionary spending. Expected cost-of-living increases are likely to further dampen spending.

Figure 1: House prices and sales volumes

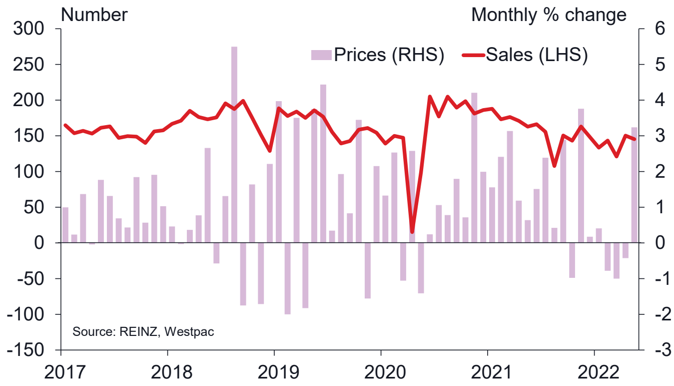


Figure 2: Residential building consents

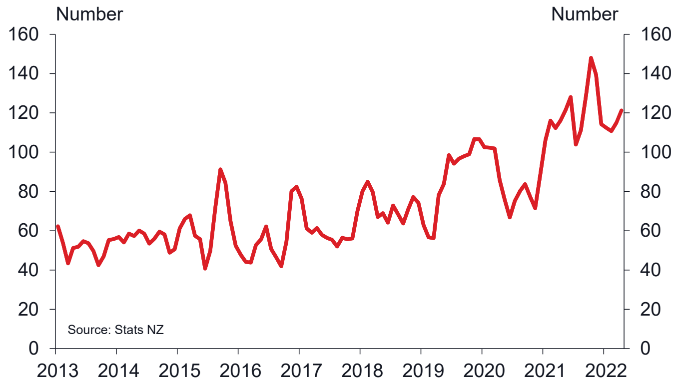
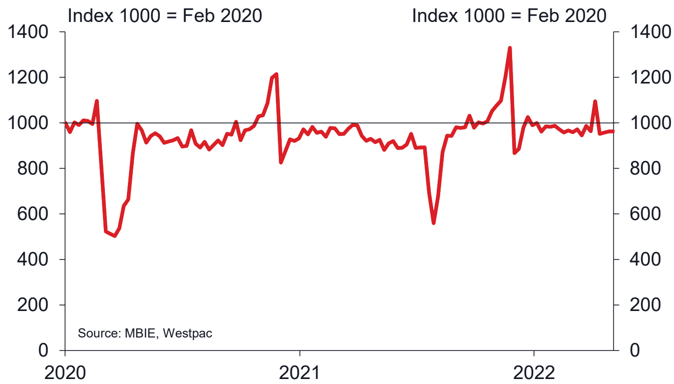


Figure 3: Electronic card spending (latest: 5 June 2022)



Taranaki/Manawatu-Whanganui

Current situation.

Activity in this region has improved slightly over the past six months.

On a positive note, the region's dairy and meat producers are likely to have benefitted from strong incomes due to still high prices. Many though will have found the going tough dealing with drought conditions as well as Omicron related challenges, such as sharply higher input costs and downstream processing delays caused by increased absenteeism.

Construction activity in the region though remains strong, with consents still at elevated levels. That said, builders in the region will have found it challenging dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid.

Oil and gas production in the region is also up, mainly because of in-fill drilling at the Māui A gas field. The region's big oil and gas producers are likely to have benefitted from skyrocketing energy prices following Russia's invasion of Ukraine.

On a less positive note, the region's housing market has turned down in response to rising interest rates. That has been particularly evident in Manawatu, and more specifically Palmerston North, which also saw a big decline in sales volumes. House prices in Taranaki have been a tad more resilient.

Consumer spending in the region has also disappointed. Retail sales volumes in the Manawatu have largely moved sideways in recent quarters while those for Taranaki have edged higher. Electronic card spending in the region though has been resilient and sits above pre-Covid levels. A tight regional labour market, evidenced by falling unemployment and still strong demand for labour, will have further supported this trend.

Outlook.

On balance, we expect growth in economic activity in this region to trend sideways over the coming year.

Weighing on the region will be the housing market. House prices are expected to fall because of higher interest rates, and that will drag on spending in the region. While the region's housing market has been an outperformer in recent years, this has been based on relatively small volumes, which we think increases the chance of a bigger correction over the coming year.

With interest rates rising, higher debt servicing requirements will also weigh on discretionary spending in this region. Expected cost-of-living increases are likely to further dampen spending.

On a more positive note, we expect that still strong meat and dairy prices over the coming year will support farmgate incomes. The region's dairy farmers are expected to increase production volumes over the course of the next year. Meat producers should also benefit from less constrained processing capacity.

Meanwhile, oil and gas production could very well get a boost now that border restrictions have been eased, allowing access to highly specialised skills from offshore. With energy prices likely to remain high for the foreseeable future, we could well see an expansion of onshore exploration activities over the coming year.

Figure 1: Residential building consents

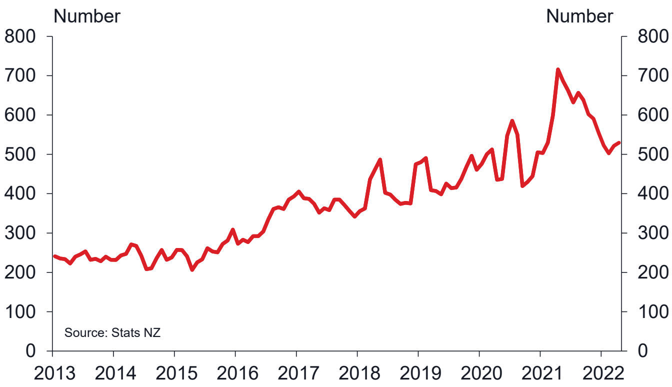


Figure 2: PMI/PSI - Central

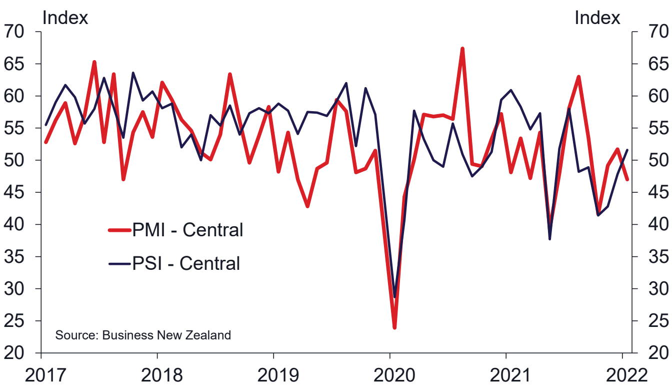
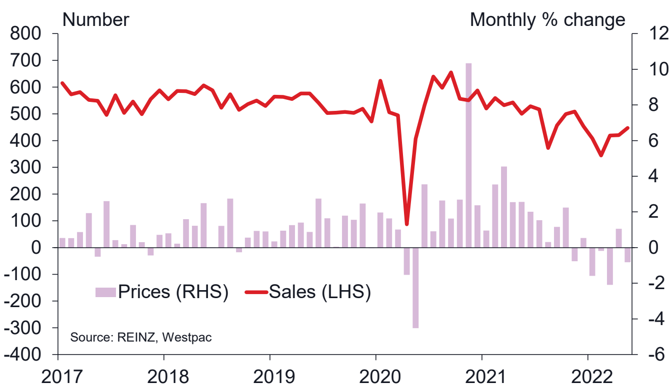


Figure 3: House prices and sales volumes



Waikato

Current situation.

Economic activity in the Waikato has been mixed.

On a positive note, the region's dairy and meat producers are likely to have benefitted from strong incomes due to still high prices. Many though will have found the going tough dealing with drought conditions as well as Omicron related challenges, such as sharply higher input costs and processing delays caused by increased absenteeism. For dairy producers, weaker demand from China due to the outbreak of Omicron remains a near-term concern.

The strong performance of dairy is likely to be a key reason why this is one of only two regions where households are feeling confident about the regional economy's future.

Residential building activity also continues at pace with consents still at very high levels. Non-residential building activity remains robust, with several big industrial parks, such as the Ruakura inland port, under construction. That said, builders in the region will have found it a challenge dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid.

Meanwhile, the region's housing market has begun to slow as interest rates have risen. Prices have fallen in four of the past five months. Sales volumes have also tracked lower over time.

That may help expain why spending in the region has been sluggish. Retail sales volumes have effectively moved sideways over the past year. Card spending, which has been edging higher and is now tracking close to pre-pandemic levels.

Regional labour market conditions remain strong. Online job vacancies are close to record highs, while unemployment in the province has continued to ratchet down.

Outlook.

We expect economic activity in the Waikato to be mixed over the coming year.

Weighing on the region will be the housing market. House prices are expected to fall because of higher interest rates, and that will be a drag on spending in the region.

With interest rates rising, higher debt servicing requirements will also weigh on discretionary spending. Expected cost-of-living increases are likely to further dampen spending.

On a more positive note, we expect strong meat and dairy prices will support farmgate incomes in the region over the coming year. With the drought now broken, the region's dairy farmers should be able to increase production volumes over the course of the next year.

Residential building activity should remain elevated. Levels of consent issuance suggest still firm activity over the coming year. Add to that the continued expansion of industrial space. The opening of the Ruakura inland port later this year should support the economic vibrancy of the region.

Although not a huge market for foreign visitor arrivals, which often acts as a gateway to other provinces, the lifting of restrictions on foreign visitors is expected to lift the region's hospitality sector.

Figure 1: Residential building consents

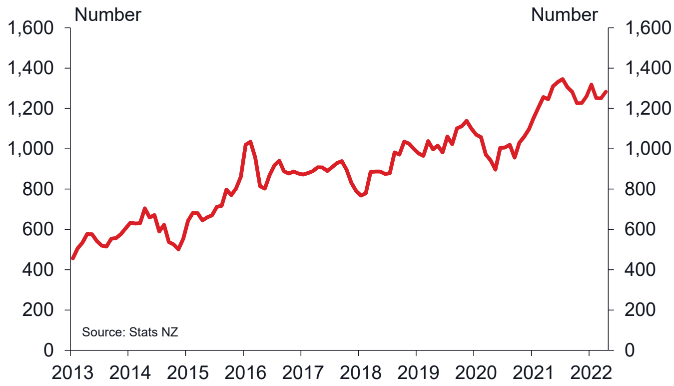


Figure 2: House prices and sales volumes

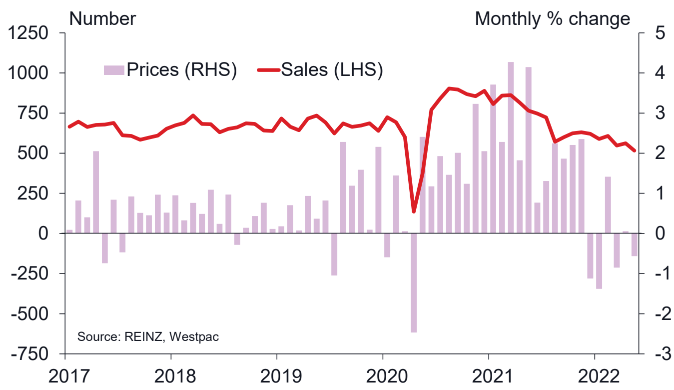
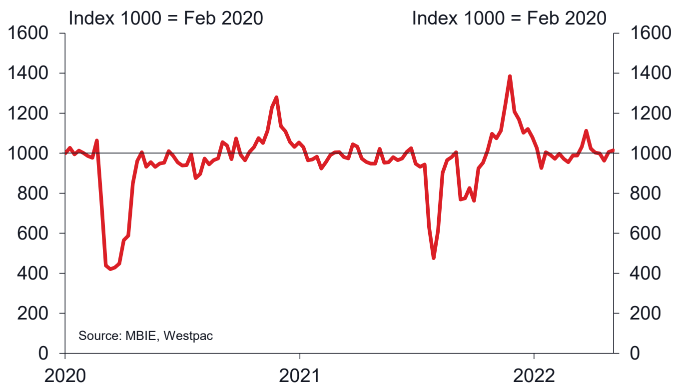


Figure 3: Electronic card spending (latest: 5 June 2022)



Wellington

Current situation.

The economic performance of Wellington has been mixed.

On the negative side of the ledger, there has been a sharp correction in the region's housing market. Indeed, after previously shooting the lights out, house prices in the capital have turned decidedly negative and are now back to where they were a year ago. That makes it one of the worst performing regions in the country.

However, there have also been positives.

Residential building activity in Wellington, underpinned by very strong consent issuance, mostly for medium density housing following the relaxation of housing intensification rules, continues to power ahead. That said, builders will have found it tough going dealing with delays caused by a shortage of materials as well as increased absenteeism due to Covid.

Also positive for the region has been the opening of the much-delayed Transmission Gully motorway, which has improved connectivity as well as the resilience of region's transport network.

An expanding public sector is also likely to have supported activity in the region. Unemployment has trended sharply lower over the past year while employment continues to rise.

That should translate into more spending, especially in the suburbs given that many public servants are still working from home. However, with the housing market having slowed, spending has at best been sluggish with sales volumes having moved sideways in recent quarters. Ditto for card spending, which remains below pre-pandemic levels, despite a pickup over the Easter holidays.

Outlook.

We expect growth in economic activity in Wellington will ease over the coming year.

In large part the softer outlook is because we expect the housing market to slow and become a big drag on spending in the region. Indeed, we think there is every chance that house prices will fall sharply over the coming year as interest rates rise.

But that is not the only factor that will exert a drag on spending. With interest rates rising, higher debt servicing requirements will weigh on discretionary spending in this region. Expected cost-of-living increases are likely to further dampen spending.

We expect home building in Wellington will offset this weakness to some degree. Consents are still rising, and there is a big pipeline of work. Civil construction should also support activity as the authorities focus on tackling well publicised infrastructure issues in the capital.

Activity levels in the capital are likely to be further supported by the Government's legislative programme. That will support further employment in the public sector and mean more work for industries that service it.

The lifting of border restrictions should also provide a timely boost. Although not a big tourist region, Wellington stands to benefit more than most from an increase in business travel between Australia and New Zealand.

Figure 1: House prices and sales volumes

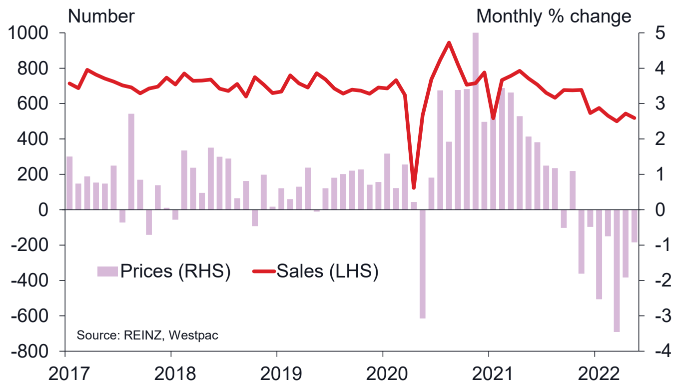


Figure 2: Residential building consents

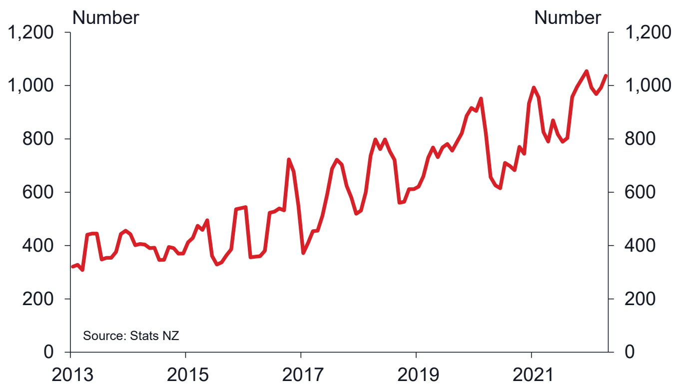
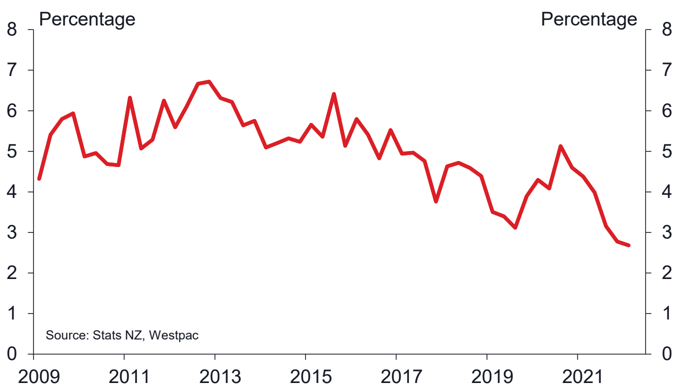


Figure 3: Unemployment rate



Contact the Westpac economics team

Michael Gordon, Acting Chief Economist
+64 9 336 5670

Satish Ranchhod, Senior Economist
+64 9 336 5668

Nathan Penny, Senior Agri Economist
+64 9 348 9114

Paul Clark, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz