

Westpac McDermott Miller Regional Economic Confidence.

20 March 2020



A confluence of events – Westpac-McDermott Miller Regional Economic Confidence, March 2020 quarter.

- Regional economic confidence has fallen sharply.
- Plummeting confidence reflects concerns about the spread of Covid-19 and prevailing drought conditions in the upper North Island.
- Declines were evident across all regions, with the biggest falls posted for those that are highly export orientated and/or have large population centres.
- Southlanders are the most pessimistic about their region's future, followed by the top of the South, Northland and Auckland.
- The most optimistic households in the country are in Taranaki/Manawatu-Whanganui.

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Regional economic confidence* (net confidence %)

Region	Mar-20	Dec-19	Change
Northland	-3	2	-5
Auckland	-1	14	-15
Waikato	0	10	-10
Bay of Plenty	5	28	-23
Gisborne/Hawke's Bay	5	27	-22
Taranaki/Manawatu-Whanganui	7	15	-8
Wellington	4	17	-13
Nelson/Marlborough/West Coast	-4	16	-20
Canterbury	2	18	-16
Otago	0	14	-14
Southland	-6	10	-16

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 March 2020, with a total sample size of 1558.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence fell across the board in the March 2020 quarter, with most regions seeing double digit declines. Households in four regions posted negative results, while two were neither pessimistic nor optimistic about the future.

The survey, which asks households how confident they are about their region's economic prospects, took place between 1 to 10 March 2020.

The biggest falls were in rural based regions with a strong export orientation, that were previously riding high. Regional confidence in regions like Gisborne/Hawke's Bay and the Bay



of Plenty has been adversely affected by hot dry weather conditions and supply chain disruptions caused by the initial spread of Covid-19.

The threat of Covid-19 is also likely to have contributed to a big drop in confidence in our major tourism regions. At the time of the survey, travel restrictions had been placed on people travelling from China, and there was an increasing likelihood that these could be extended to other countries. This affected confidence in the likes of Auckland, Canterbury, Otago and Southland. We can only imagine what the subsequent virtual closure of New Zealand's borders might have done to regional confidence.

Regional confidence also fell hard in the big metropolitan centres. This was probably because Covid-19 is spreading mostly in cities with strong international connections. Cities are also the centres of the service economy, which is likely to be most affected by social distancing.

Regional Discussion.

Northland: Regional confidence in Northland dipped into the red in the March quarter, with a net 3% of households now expecting their region's economy to weaken over the next 12 months. Weak confidence is likely to reflect the impact of deepening drought conditions on agricultural production as well as the impact of Covid-19, which has stifled demand and lowered prices for many of this region's exports, including meat and logs.

Auckland: Regional confidence in Auckland fell in the March quarter, with a net 1% of households now expecting New Zealand's largest regional economy to weaken over the coming year. This compares to the net 14% of households expecting better economic times in the region last quarter. This downbeat assessment is likely to reflect increased worries about the economic cost of Covid-19 to the region. Auckland has the country's largest international airport and so is more vulnerable than most to the threats posed by the virus. It's also the location for the headquarters of many large service sector firms, who are most likely to be impacted by an expected increase in social distancing.

Waikato: Confidence in this region's economic prospects fell from 10% in December 2019 to 0% in March 2020. This lower confidence reading is likely to be because of the impact of drought conditions on dairy production in this region. Ongoing worries about how the Government's environmental policies might affect the dairy sector in general are also likely to have loomed large. Ditto the impact of Covid-19, which has not only helped to dampen dairy prices, but has also slowed the export of logs into China, with adverse knock on effects for upstream harvesting activity and regional employment.

Bay of Plenty: Confidence in this region's economic fortunes plunged from 28% in the December quarter to 5% in March 2020. The impact of dry hot weather on agricultural production will have been top of mind, especially for the region's meat and dairy farmers. While good growing conditions for kiwifruit will have given growers a bit of a lift,

worries about water availability and increasing concerns about Covid-19 and the impact it might have on being able to bring in migrant labour pickers, is likely to have affected sentiment. Meanwhile log production, already under the cosh because of lower prices, will have been further hit by disruptions to supply chains caused by Covid-19.

Gisborne/Hawke's Bay: A net 5% of households in Gisborne and the Hawke's Bay expect their region's economy to improve over the next 12 months, down a whopping 22% from the previous quarter. Despite this big drop, households on the east coast continue to benefit from strongly rising house prices, while unemployment sits way below the historical norm. That said, dry hot weather conditions are likely to have affected sheep and beef farming, while concerns over water availability will have been front of mind for many of the region's kiwifruit and apple growers. Sentiment is likely to have been further dampened by the impact of Covid-19 on agricultural and log exports.

Taranaki/Manawatu-Whanganui: A net 7% of households expect their region's economic prospects to improve over the coming year compared to 15% in the December quarter. Despite this sizable drop, people in the region are the most confident in the country. Manawatu and South Taranaki have benefitted from strong house price growth, while residential building activity has been buoyant. Weather conditions in the region have been dry, but less so than other parts of the North Island. However, disruptions caused by Covid-19 are likely to affect exports of agricultural produce. The region's fossil fuel sector is also facing some challenges, with export prices having fallen sharply recently in response to the spread of Covid-19 globally and an ongoing price war between Saudi Arabia and Russia.

Wellington: Confidence in Wellington's economic prospects fell to just 4% in the March quarter compared to 17% in December. Despite this sharp fall, Wellingtonians remain more confident than those in the other big metropolitan centres. Some of this will have to do with government largesse and the number of public sector jobs that are being added in the region. The big plunge in regional confidence is likely to reflect growing anxieties about the economic impact of Covid-19 and likely disruptions to daily life. Increased social distancing is already evident and is being felt by an increasing number of small service orientated business that operate in the region.

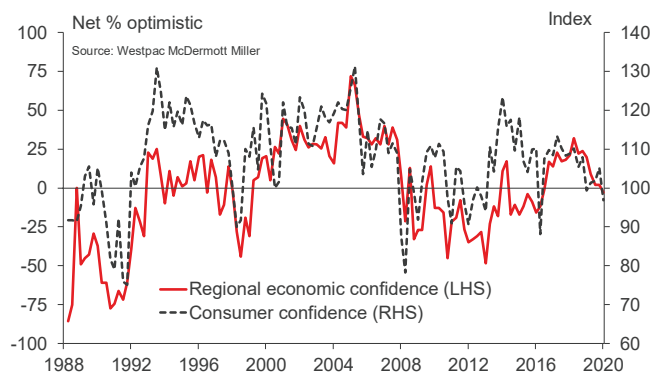
Nelson/Marlborough/West Coast: Regional confidence at the top of the South dipped into the red during the March quarter, with a net 4% of households now expecting their region's economy to weaken over the next 12 months. Sentiment is likely to have been adversely affected by dry hot weather in the Nelson district, as well as the impacts of Covid-19, which has disrupted log and meat exports from the region. The impact of flooding on tourism in the West Coast is also unlikely to have gone down well. The big drop in confidence might also reflect the worries of many older people living in the region, who are more vulnerable to the spread of Covid-19.

Canterbury: A net 2% of Cantabrians are expecting better times ahead for the region, compared to a net 18% in the December quarter. This much lower reading is likely to reflect growing anxieties about the economic impact of Covid-19, especially given the already fragile nature of the economic recovery underway in the region. Meat production has also been affected, while visitor arrivals have dropped, in large part because of restrictions placed on foreign arrivals. Meanwhile disruptions to manufacturing have been relatively small and limited to firms relying on just-in-time delivery, although there are worries these might spread once inventories are wound down.

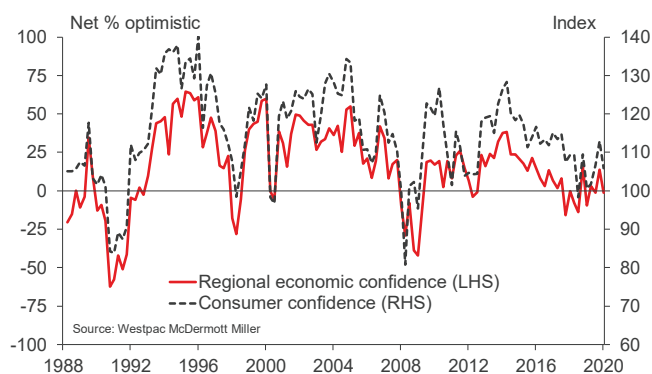
Otago: Confidence in this region's economic prospects fell from 14% in December 2019 to 0% in March 2020. This low reading is likely to reflect the impact of Covid-19 on visitor arrivals to this major tourism region as well as virus-related disruptions to meat and log exports. Of specific concern at the time of surveying will have been the restrictions placed on people travelling from China and growing worries that these could be extended to other countries. Confidence may also have been adversely affected by flooding in the region, although reports suggest only limited impacts on agricultural production.

Southland: Confidence in this region has slumped dramatically with a net 6% of households now feeling pessimistic about the region's economic future compared to 10% that were optimistic in the December quarter. This is the fifth consecutive quarter where household confidence has tumbled, and Southlanders are now the least positive in the country. This low reading is likely to reflect the impact of Covid-19 and widespread flooding in the region on visitor arrivals, as well as disruptions to meat exports and slightly weaker dairy prices. Ongoing worries about how Government's environmental policies might affect the region's large dairy sector will not have lightened the mood.

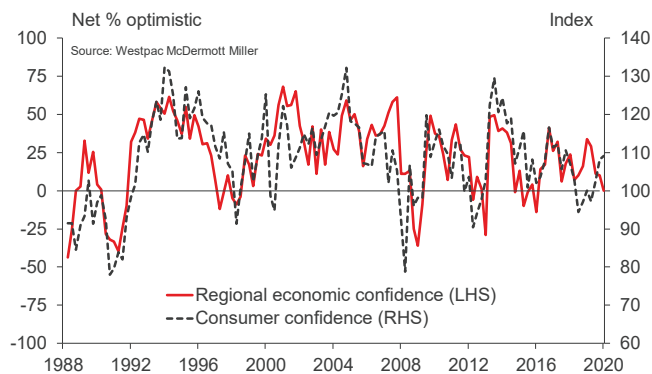
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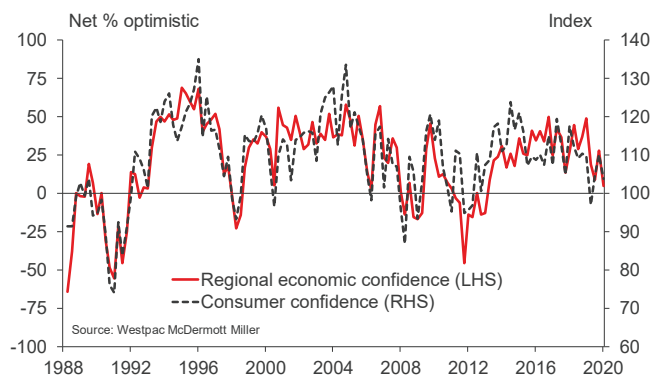
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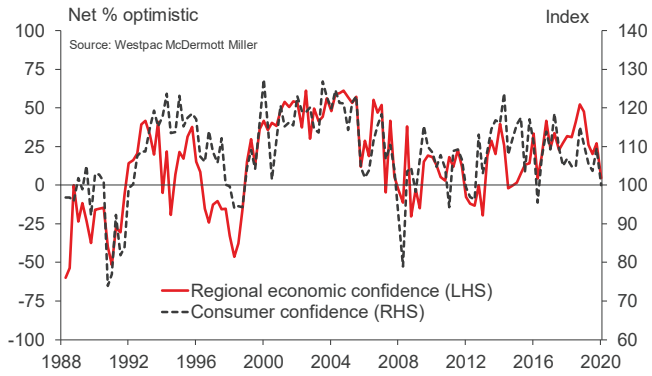
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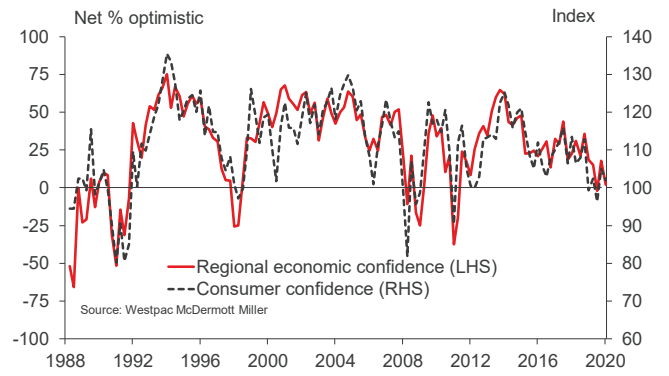
Bay of Plenty



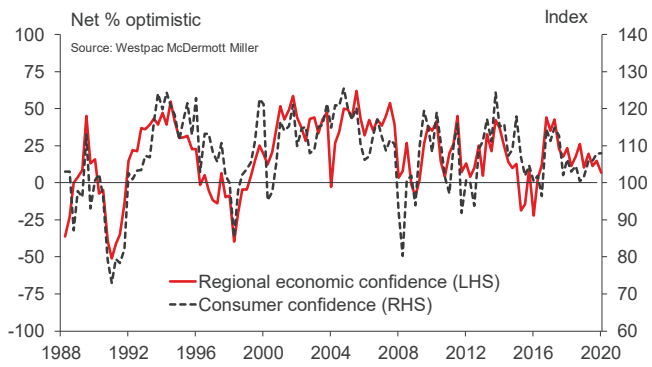
Gisborne/Hawke's Bay



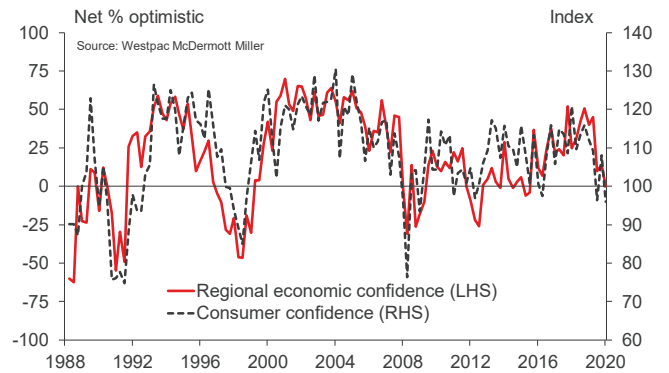
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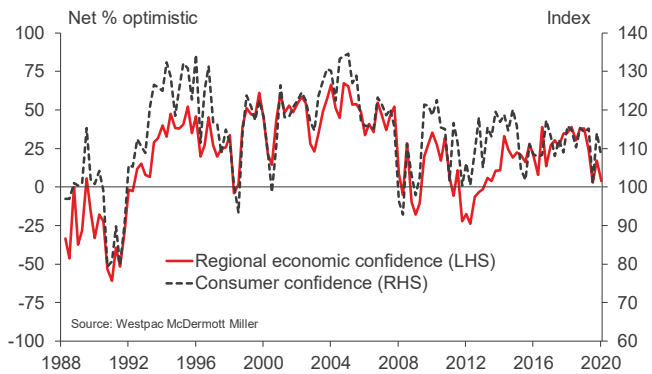
Taranaki/Manawatu-Whanganui



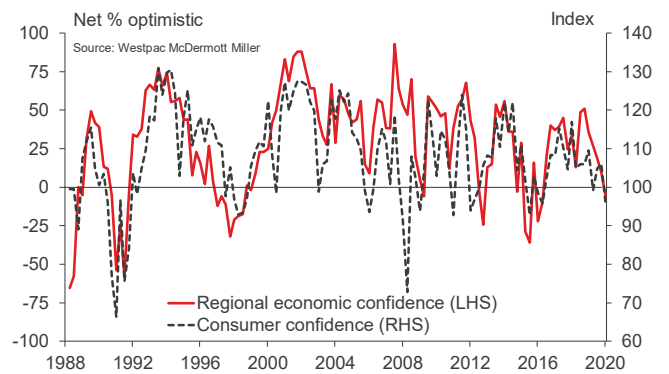
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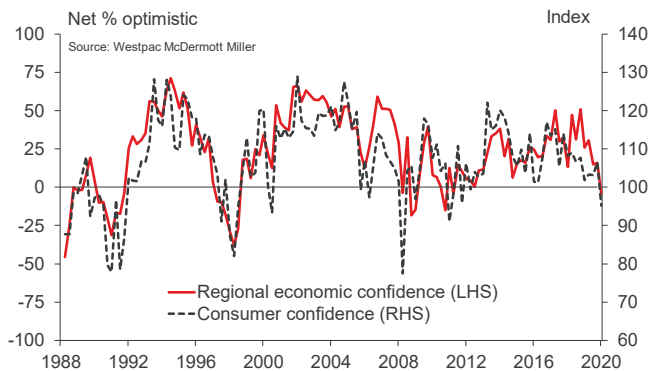
Wellington



Southland



Nelson/Marlborough/West Coast



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