

# REGIONAL ROUNDUP

October 2023



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# OVERVIEW

Welcome to our refreshed Regional Roundup. This report summarises feedback from our teams across the country to give an ‘on the ground’ view of how households and businesses are dealing with the major changes that are occurring in New Zealand’s economic landscape, and how different regions are faring.

Our recent discussions with households and businesses have highlighted that New Zealand is now in a tougher phase of the economic cycle, with some key trends being seen right across the country. First, is that demand conditions are cooling. The softening in activity has been widespread, but it’s been especially pronounced in the construction and manufacturing sectors. Businesses in the Waikato and Northland reported a particularly sharp fall in demand in recent months.

Another key trend that we’re seeing across the country is the impact of high inflation. Increases in living costs are squeezing households’ budgets, while high operating costs are eroding businesses’ margins. Notably, rising interest costs are becoming an increasing concern. In the case of households, that pressure is set to become even more stark over the coming months as increasing numbers roll onto higher fixed mortgage rates.

Conditions are also changing in the labour market, with businesses in nearly every region telling us that it has become easier to find staff since the border had reopened and migration had picked up. Even so, at this stage were not hearing widespread reports of reduced pressure on wages.

While households and businesses in all parts of the country reported challenging economic conditions, we are seeing some notable differences across regions.

Conditions in Auckland have been more resilient than in other parts of the country. In part, that’s due to the reopening of the border and related surge in the region’s population growth. More generally, Auckland’s service oriented economy is holding up, with the recovery in international tourism one factor that is supporting demand.

We’re also seeing some more positive indications in Otago which is benefiting from the recovery in international tourist arrivals and related lift in hospitality spending. The region’s housing and construction sectors are also holding up better than in other parts of the country.

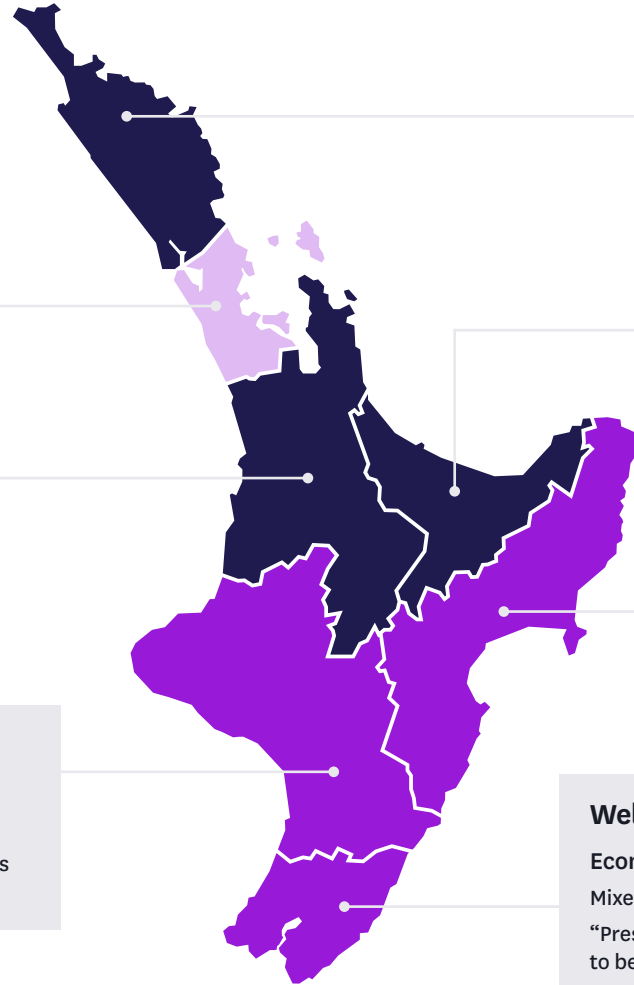
It’s a markedly different picture in many of our more rural focused regions. The downturn in commodity prices has been weighing on earnings and spending appetites. In addition, these areas have not benefitted from the recovery in international tourism or migration to the same extent as more metropolitan areas. We’re seeing particular softness in some of those regions that were heavily impacted by the severe weather earlier in the year, including the Bay of Plenty.

Gisborne and the Hawke’s Bay bucked the trend. While these regions are still recovering from February’s cyclone, recovery efforts are supporting construction activity and spending. Even so, there are still some challenging conditions ahead for these regions.

# NORTH ISLAND BREAKDOWN



## Feedback from around the country.



### Northland

**Economic temperature: Frosty**

“Increased wage costs, additional holidays, increased transport costs, funding cost increases...”

### Bay of Plenty

**Economic temperature: Frosty**

“Generally clients being cautious, not making big business decisions whether that be capex or staffing.”

### Gisborne/Hawke’s Bay

**Economic temperature: Cold**

“Businesses involved in cyclone recovery creating local strength in demand/sales.”

“Price and cost pressures remain difficult to deal with – harder to justify passing onto customers when hearing cost of living being a big issue for locals/country.”

### Wellington

**Economic temperature: Cold**

Mixed conditions across the region.

“Pressure for staff has softened a little, however customers now appear to be losing staff to Australia as they chase better prospects.”

### Auckland

**Economic temperature: Cool**

“Sales/demand holding up well.”

“Still hard to find experienced staff and having to pay more to retain them.”

### Waikato

**Economic temperature: Frosty**

“Softer demand through-out manufacturing and wholesale trade portfolio. Those with customers who have direct exposures to China, seeing significantly softer demand.”

### Taranaki/Manawatu-Whanganui

**Economic temperature: Cold**

Firmer conditions in Taranaki, softening in Manawatu-Whanganui.

“Some businesses requiring extra support in the form of overdrafts due to slowing down in receivables and customer spend.”

# SOUTH ISLAND BREAKDOWN



## Feedback from around the country.

### Tasman/Nelson/Marlborough/West Coast

Economic temperature: Cold

Economic conditions 'flat'.

"Margins are certainly being squeezed as work slows and previous inflation pressures that were handed on last year now can't be. So again margin squeeze."

### Southland

Economic temperature: Cold

"Sales are generally still at a sound level but off the highs of past couple of years."

### Canterbury

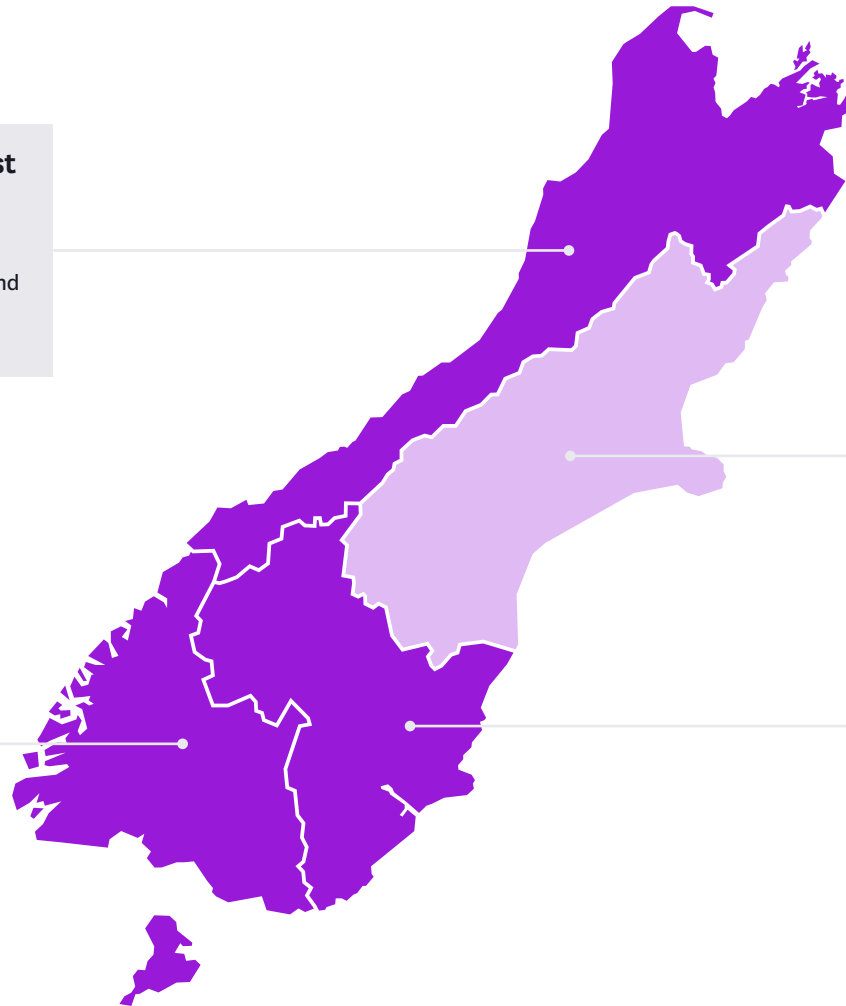
Economic temperature: Cool

"Definitely softening demand across a number of businesses (e.g., Manufacturing, Retail), but tourism continues to recover."

### Otago

Economic temperature: Cold

"Demand over winter has been really good."  
"Chinese group visits have still not returned to pre covid levels but appear to be increasing."

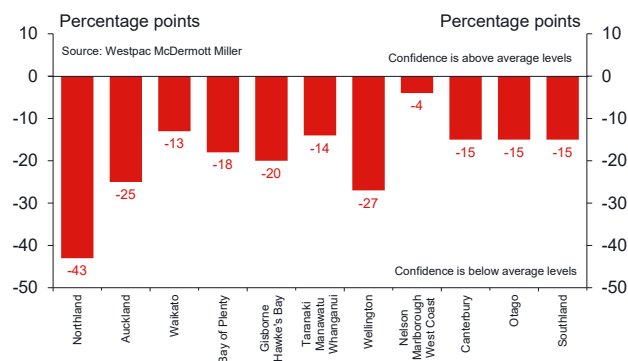


# REGIONAL SUMMARIES

The following pages highlight some of the big trends Westpac's teams across the country have been seeing in their respective regions. We've summarised the strength of conditions with our "Regional Economic Temperature Gauge," which measures how hot or cold economic activity is compared to average on a number of key fronts (like the labour market, retail spending and the housing market).

Right now, with large increases in living costs and related increases interest rates, it's unsurprising that the economic temperature is on the cool side in every part of the country. That's also consistent with our recent Westpac McDermott Miller Regional Confidence survey which showed that households in every region are pessimistic about the economic outlook. However, there are some parts of the country – like Northland and Waikato – where economic conditions are downright frosty.

## Westpac McDermott Miller Regional Confidence



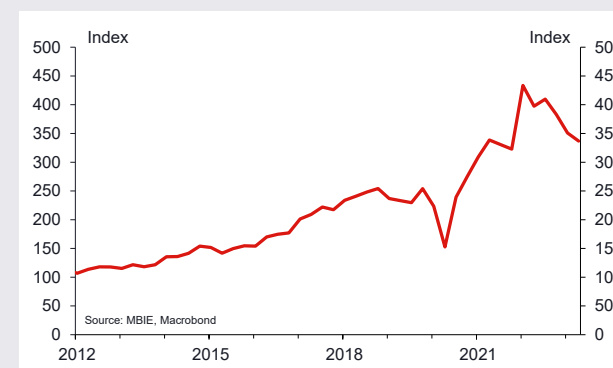
## Northland

Businesses in Northland have been reporting tough trading conditions. The horticulture sector saw significant damage to crops following poor weather earlier in the year, and that's flowed through to reduced supply and sales. Similarly, those in the dairy and forestry sectors have been struggling with softer demand in key offshore markets like China. Those in the construction and property sectors are also reporting a sharp downturn in activity, with lower house sales, prices and building work.

Conditions in Northland's labour market have eased slightly. Some manufacturers have brought in migrants to fill labour shortages. In contrast, some retailers have chosen to lay off staff to reduce wage costs in response to weaker demand.

Pressure on margins has been mounting. Businesses in both the primary and transport sectors reported that they had been unable to pass on higher operating costs. The combination of reduced sales and increasing costs has seen growing concern about credit risk and slower debtor collections.

## Job vacancies



## Economic temperature:

**Frosty**





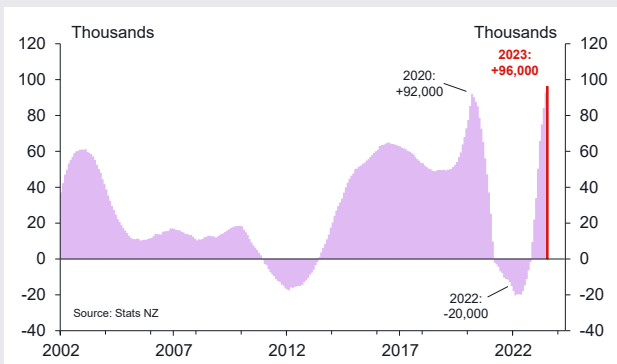
# Auckland

Auckland's service-focused economy is proving to be more resilient than many other regions. Businesses providing professional services, like accounting and legal services, are still reporting firm levels of demand. Many tourism operators are also seeing good levels of trading activity. However, as in other parts of the country, retailers are reporting softening sales, and we've also seen dwelling consent issuance dropping back.

Businesses we spoke to in Auckland told us that, while the labour market is not as tight as it was at the start of the year, sourcing and retaining staff remains a major challenge. There has been related pressure on wages and prices, with cost of living pressures front of mind for employees. Some professional service firms have reported that they were now seeing increasing numbers of junior staff looking to do their OEs.

Continued cost pressures, especially for staff, are adding to pressure on margins. In addition, rising interest rates are becoming an increasing concern for many businesses.

## Net migration



## Economic temperature:

Cool



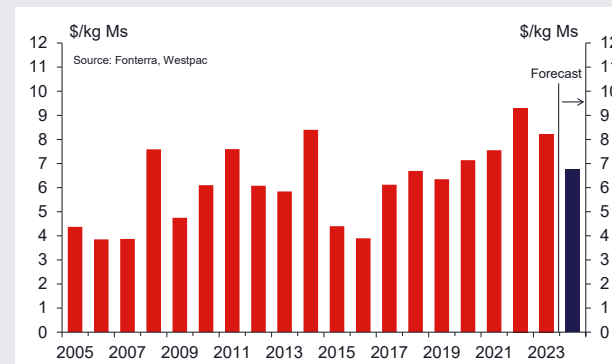
# Waikato

Businesses we spoke to in the Waikato highlighted a sharp downturn in demand. Manufacturers and wholesalers reported falling sales, with those who are exposed to China seeing significantly softer demand and customers deferring projects. The property sector reported very low demand in both the commercial and residential sectors. At the same time, lower commodity prices are placing pressure on farmers' operating margins.

Businesses have found it a little easier to source staff, though finding skilled workers remains challenging. Some business noted that they aren't looking to take on new staff until after the General Election or until there's a clear recovery in economic conditions. Those in the medical sector mentioned they are struggling to retain staff as employees relocate to Australia for higher paying opportunities.

Interest, labour, and transportation costs have all been key drivers of cost inflation, but pressures are widespread. Some of those we spoke to in the building sector reported that the margins on new houses are being significantly squeezed, and many were hesitant to sign up pre-sales too far down the track for fear of losing money due to rising material costs.

## Dairy prices



## Economic temperature:

Frosty



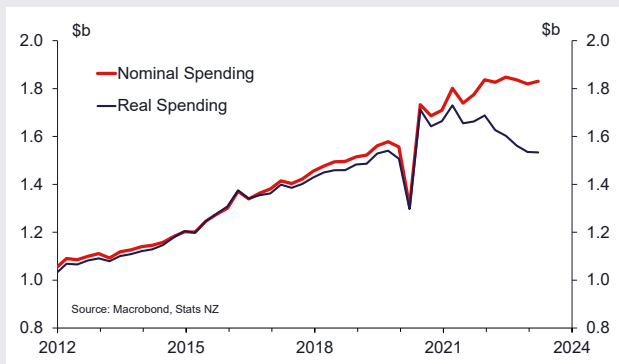
## Bay of Plenty

Economic conditions in the Bay of Plenty have been cooling. In addition to the significant disruptions following the storms earlier in the year, businesses in primary industries have reported softer demand from offshore markets and related weakness in commodity prices (especially in the forestry sector). That's flowing through to slowing demand in the manufacturing and wholesale industries. Similarly, the construction sector has seen slowing building activity and sales, with customers delaying new builds due to increased costs.

With economic conditions cooling, demand for staff has also softened with some businesses looking at reducing staff levels by not replacing those who leave. At the same time, businesses in sectors like manufacturing and wholesaling have reported an increase in applicants since the reopening of the international border. We've also heard that staff aren't chasing the large salary increases they had previously (though we're still hearing about upward pressure on wages).

While operating costs are continuing to rise, some of the pressures seen over the past year have eased. However, businesses are also reporting that it's harder to pass on cost increases. Interest rate increases are a particular pressure point.

### Retail spending



### Economic temperature:

**Frosty**



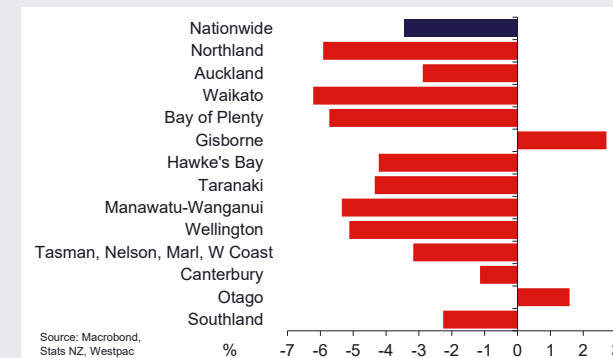
## Gisborne/Hawke's Bay

Gisborne and Hawke's Bay's economies are continuing their recovery from the severe weather events earlier in the year. Businesses involved in cyclone recovery and construction have seen strong sales levels. However, many households are struggling with cost-of-living pressures as they repair and replace damaged items.

Businesses across the regions, including small-to medium-size firms and those in the trades, are still finding it difficult to source skilled staff. Professional service firms have noted that it's difficult to compete with the higher salaries on offer from employers in larger centres, especially given the rise in remote working.

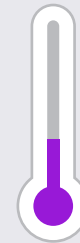
Businesses in Gisborne and the Hawke's Bay are finding it harder to pass on costs increases to customers given the aftermath of the cyclone and broader cost of living pressures that many customers are dealing with.

### Real retail spending annual growth



### Economic temperature:

**Cold**



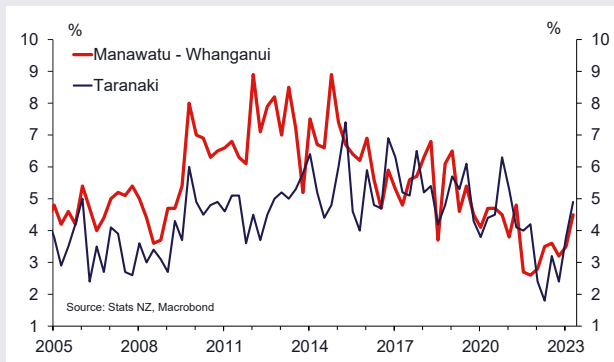
## Taranaki/Manawatu-Whanganui

Corporates in Taranaki have reported strong profits and remained positive on the outlook. That's in part due to resilient demand from Iwi businesses. We've also seen greater resilience in the housing market and household spending than in many other regions.

In contrast, conditions have been softer in Manawatu-Whanganui. Businesses have faced mounting financial pressures as customer spending has slowed. There was also a sharp 19% fall in house prices over the past year, though prices have started to recover in recent months.

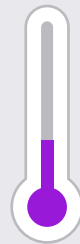
Right across the region, the labour market has been softening with unemployment rising to 4.9% in Taranaki and 4.5% in Manawatu-Whanganui.

Unemployment rates



Economic temperature:

Cold



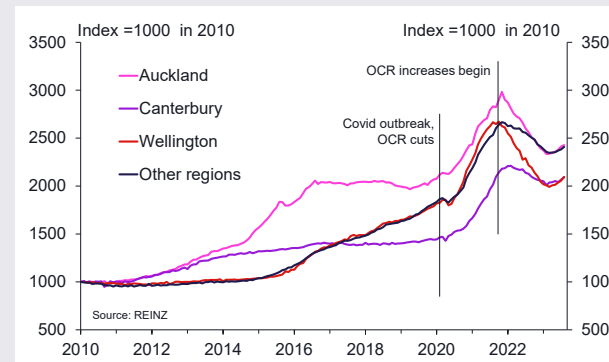
## Wellington

Conditions in the Capital have been mixed. At the firmer end, some manufacturing businesses are seeing steady demand with long standing contracts in place. Similarly, those in the commercial construction space mentioned having a solid pipeline of work (thanks in part due to Government projects). In contrast, residential construction firms reported muted demand following the sharp downturn in the housing market. In addition, demand in parts of the hospitality sector was described as “crumbling,” which is likely related to the large numbers of people who now regularly work from home.

Finding and retaining higher skilled staff remains a battle, and several businesses reported employees were moving to Australia for better prospects. Cost of living pressures are continuing to weigh on workers' minds.

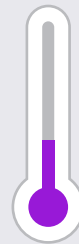
A number of businesses in Wellington noted that operating cost pressures, especially shipping costs, had eased in recent months. However, there was continued upward pressure on wages, and some businesses were also dealing with large increases in interest costs. Margins squeeze meant that many businesses have had to pass on cost increases onto customers. Importers also noted the fall in the exchange rate was adding to the pressure on their margins.

House prices



Economic temperature:

Cold





## Tasman/Nelson/Marlborough/West Coast

Conditions at the top of the South Island were described as “pretty flat”. Increases in living costs are weighing on spending appetites, and the related softness in demand is being felt in the retail, hospitality and service sectors. Adding to the challenges for the regions are weaker commodity prices in the primary sector, with some forestry businesses reducing crews.

Businesses across the regions told us they are still having difficulty finding staff. In the professional services sector those staffing shortages were impacting the type of work they are doing.

With the slowdown in activity, businesses told us that their margins are being squeezed. Notably, and in contrast to last year, businesses also noted they are now unable to pass on those increases.

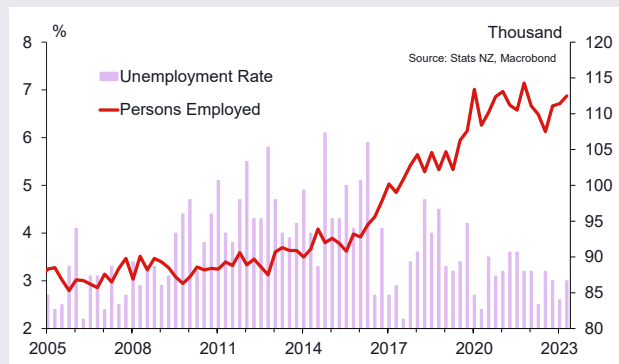
## Canterbury

Businesses in Canterbury told us that demand is definitely softening, especially in the manufacturing and retail sectors. We’re also seeing those in the farming sector casting a closer eye over their finances and reining back both discretionary spending and capex. However, on the positive side we are seeing a continued recovery in the tourism sector.

Businesses reported that there are still challenges sourcing staff with specialised skills. More generally, however, it’s becoming easier to find staff, in part due to the reopening of the borders. There continues to be upward pressure on wages related to ongoing increases in the cost of living.

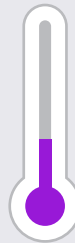
‘Margin squeeze’ is front of mind for businesses. Cost pressures are continuing to rise, especially in relation to raw materials and fuel. High Interest rates are also starting to bite along with wage cost increases. Most businesses are looking at expenses line by line with a view to trimming. However, there is a feeling that, given weakening demand, more of this needs to be absorbed rather than passed on. International freight has improved, nearing pre-Covid levels, but domestic freight remains expensive.

### Labour market

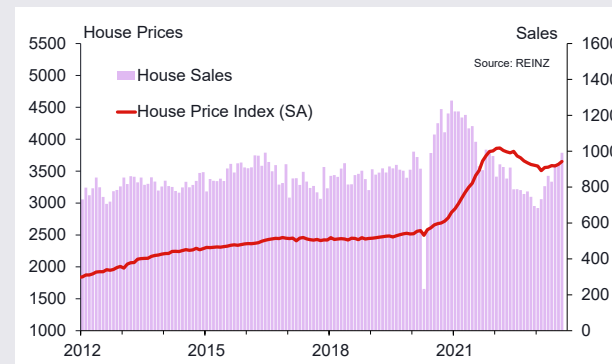


### Economic temperature:

Cold



### Housing market conditions



### Economic temperature:

Cool



# Otago

The continuing recovery in international tourism has been a boon for Queenstown. Visitor numbers have continued to rise, including a boost from the Women’s Football World Cup. Pre-bookings for summer appear good. That’s despite Chinese group visits having not yet returned to pre-pandemic levels.

The region’s housing market has also had a strong run, with prices up 4% over the past year (in contrast to falls in other parts of the country). Builders remain very busy with work still booked well in advance, although some clients have been withdrawing or pushing back plans as increased interest rates and the cost of building make it unaffordable.

Businesses are seeing more applicants for jobs. Even so, there continues to be upward pressure on wages and good staff continue to jump between jobs to get better conditions or pay.

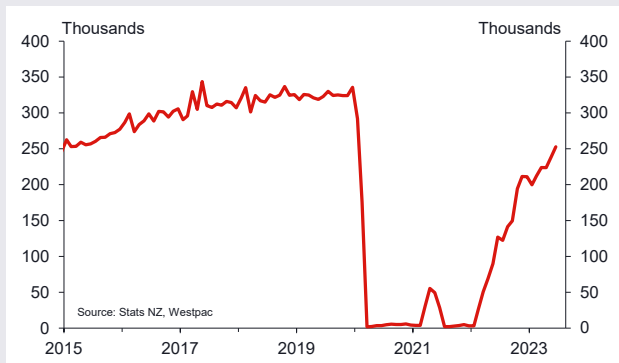
# Southland

Businesses in Southland reported that sales are generally still at sound levels, but are off the earlier highs. They are still seeing firm levels of activity in sectors like health, education, and IT. The recovery in tourism is also helping to support demand. However, conditions are softening in some areas, with businesses noting they are placing more attention on debtors’ collection.

As in other regions, the opening of the borders to migrants has helped boost the pool of potential employees. Even so, businesses are still facing upwards pressure on wages and difficulties when it comes to finding suitable staff. Some business owners reported having to return to work or increase their hours to cover for missing staff.

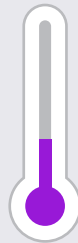
Businesses told us that cost pressures remain difficult to manage, with wage pressures and domestic freight charges being key areas of concern. Some businesses reported having to “suck up” increases in costs, while those who haven’t been able to absorb costs are reporting some push back from customers in response to the related price rises.

International visitor arrivals

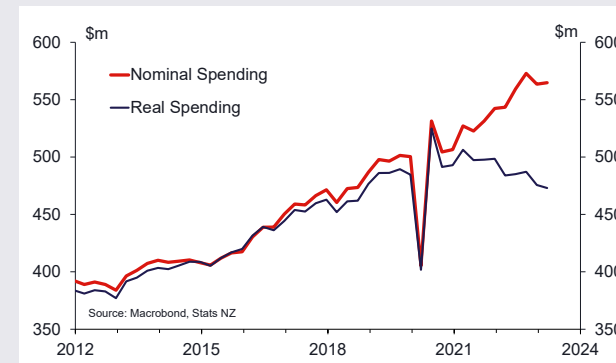


Economic temperature:

Cold

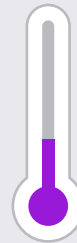


Retail spending



Economic temperature:

Cold



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- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

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