

REGIONAL ROUNDUP

April 2024



Christ Church Cathedral, Nelson

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OVERVIEW

Our Regional Roundup report summarises feedback from Westpac’s teams across the country, giving an ‘on the ground’ view of the conditions that households and businesses in different regions are experiencing.

While we’ve had some mixed feedback in our latest round of talks, the comment that best summarises conditions around the country is ‘tough’.

The latest GDP figures showed that the economy slipped into recession in the latter part of last year, and the feedback we’ve received from households and businesses is that conditions have remained challenging in the early part of 2024. In the household sector, we’ve seen continued pressure on living costs and growing concern about the labour market. Those factors have contributed to a downturn in retail spending right across the country. We’ve also had many businesses in sectors like construction and manufacturing reporting a fall in forward orders. And in the agricultural sector, many farmers have been struggling with low export prices and continued increases in operating costs.

However, it’s not all bad news. The continuing recovery in international visitor arrivals has been a welcome relief for many businesses in the hospitality sector. We’re also seeing firmer conditions in parts of the horticultural sector.

On the labour front, businesses right across the country have told us that it has become easier to find staff and that staff turnover has fallen. A number of businesses also noted that there has been reduced pressure on

wages. Even so, businesses are still finding it hard to find and retain staff with more specialised skills.

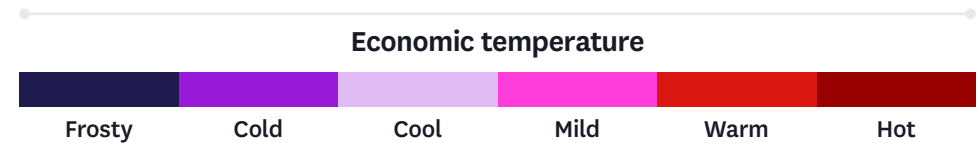
Pressure on margins remains widespread. While prices and costs aren’t rising at the same pace as they did in recent years, we’re still seeing some sizeable increases. However, with demand weakening, it’s becoming increasingly hard to pass on those increases into output prices.

Looking across regions, Auckland’s service-oriented economy has remained more resilient than other parts of the country. Booming population growth is helping to support demand in the face of other headwinds. The recovery in international tourism is also providing a welcome boost to spending in the hospitality sector.

That recovery in international tourist numbers has also been a boon for Otago with many businesses in Queenstown reporting solid demand as the number of visitors from high spending markets like the US continues to rise. However, conditions in the region have been mixed, with weaker spending by locals.

In many other parts of the country like Northland, Waikato and in regions at the top of the South Island, economic conditions have been tougher. Households have been reining in their spending. At the same time, in many of our regions with strong agricultural backbones, the combination of dry conditions and weakness in export prices is weighing on farm earnings and spending. That’s flowing through to softer demand in regional economies more generally.

NORTH ISLAND BREAKDOWN



Feedback from around the country.

Northland

Economic temperature: Frosty

“Mixed bag – some have their order book filled to the end of October, others are scrambling for work.”

Auckland

Economic temperature: Cool

“It feels as if the dynamic has shifted from an employees’ market to an employer’s market.”

“SME’s struggling to combat margin erosion as a result of cost pressures which they are experiencing across key categories such as people, fuel, imported goods, logistics, rent etc.”

Waikato

Economic temperature: Frosty

“Nobody busy...Retailers trying to liquidate stock.”

Taranaki/Manawatu-Whanganui

Economic temperature: Cool

“Some SMEs have had to let staff go, while others cannot find the quality or skills they need to win more work.”

“All clients are being hit with price increases...with not all costs able to be passed on to customers to remain competitive.”

Bay of Plenty

Economic temperature: Cool

“Cost pressures persist, becoming more difficult to pass on.”

“Availability of labour has improved significantly, no issues with labour shortage anymore.”

Gisborne/Hawke’s Bay

Economic temperature: Cool

“Export lamb prices are low and below breakeven with sheep and beef farmers struggling to get to their target weights.”

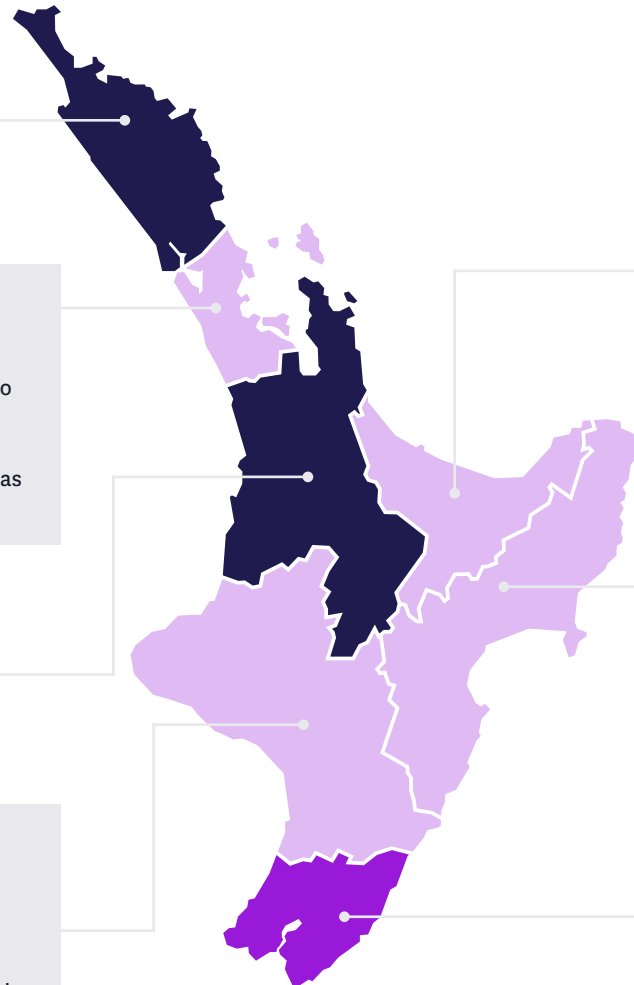
“Those providing services to the agriculture sector are seeing less work as farmers close their wallets.”

Wellington

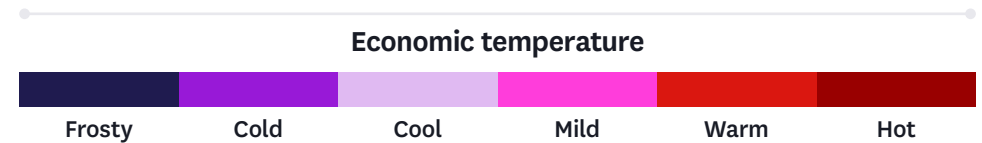
Economic temperature: Cold

“Things are resilient for now, but businesses in the region are bracing themselves for public sector cuts.”

“Businesses aren’t replacing staff that are leaving. Applicant numbers and quality up. Workers’ expectations about wage growth are dropping back.”



SOUTH ISLAND BREAKDOWN



Feedback from around the country.

Nelson/Tasman/Marlborough/West Coast

Economic temperature: Frosty

Economic conditions 'flat'.

"Clients aren't generally looking at increasing workforces and are simply looking at replacements."

"Tourism operators are enjoying the strongest summer since Covid hit with international visitor numbers up."

Southland

Economic temperature: Cool

"Customers in the trades still seeing good demand, with orders several months in advance."

Canterbury

Economic temperature: Cool

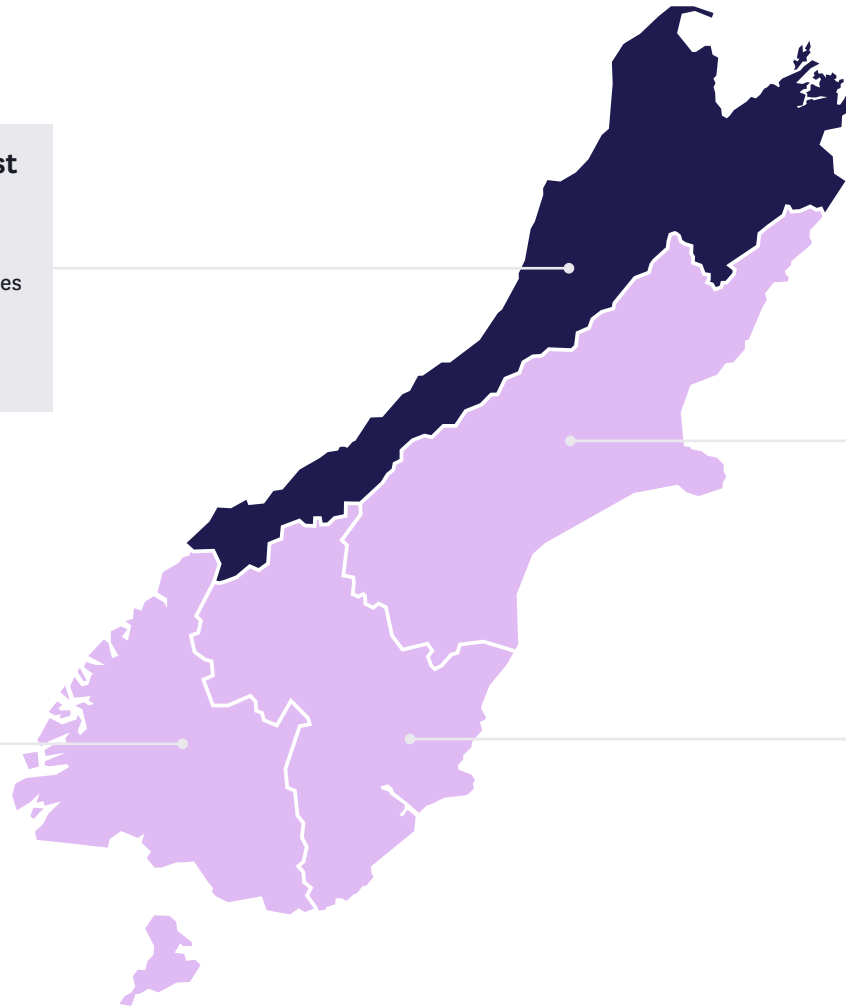
"Increased sales, but also disproportionate increase in costs, so profits are down."

"Fixed and input prices are still high, putting pressure on margins as sales decline."

Otago

Economic temperature: Cool

"If your offering is intended largely for the tourism dollar, then you are doing quite well. Businesses that are largely reliant on local dollars are finding it very difficult."

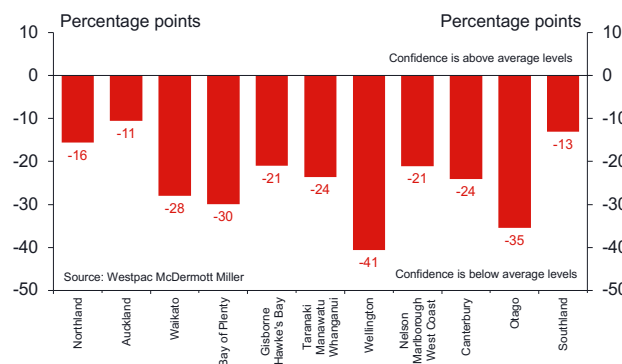


REGIONAL SUMMARIES

The following pages highlight some of the big trends Westpac's teams across the country have been seeing. 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, the economic temperature in every part of the country is on the cool side, and in some regions it's downright frosty. Households are continuing to highlight pressure on living costs, and many businesses are reporting a downturn in demand as well as pressure on margins. Consistent with those trends, our latest Westpac McDermott Miller Regional Confidence survey showed that economic confidence is below average in every region. Households are especially pessimistic in Wellington, but nervousness is widespread.

Westpac McDermott Miller Regional Confidence (compared to average)



Northland

As in other parts of the country, businesses in Northland are reporting increasingly mixed trading conditions – while some businesses have full order books, others are scrambling for work. There has been a notable downturn in the construction sector, with dwelling consent numbers dropping 34% over the past year. Similarly, retail spending levels have effectively been tracking sideways for two years.

At the same time as demand has been cooling, the availability of staff has increased, and wage demands have become more moderate.

Businesses have noted that the rapid price increases in recent years have slowed down a bit, but there is still pressure on operating costs, with rising transport costs a key area of concern. Notably, with slowing demand, not all costs can be passed on, meaning ongoing pressure on many businesses' margins.

Dwelling consent numbers (annual)



Economic temperature:

Frosty



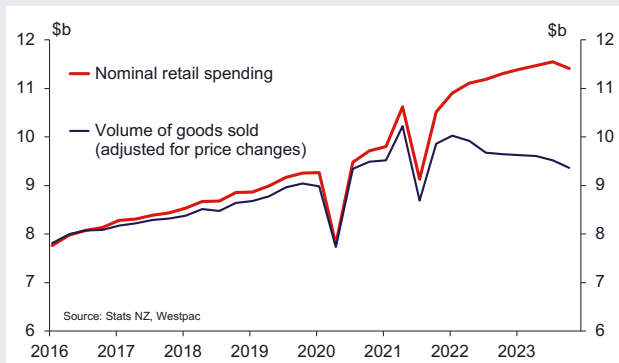
Auckland

Auckland has been one of the more resilient corners of the country, but conditions are mixed across the region. On the upside, some manufacturers and wholesalers are reporting a firming in sales, and the ongoing recovery in international tourist numbers has been welcome news for the hospitality sector. However, a number of businesses have seen soft or irregular sales, and some retailers have reported a disappointing summer season.

Auckland’s labour market has loosened, with strong population growth and unemployment rising to 4.2%. Against that backdrop, businesses have reported that it’s become easier to source staff and there’s a bit less upwards pressure on wages (though that follows sizable increases in recent years). However, there are still issues finding and retaining higher skill staff.

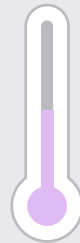
While there has been some easing in cost pressures, businesses continue to report strong increases in several key areas, including transport and rents. In addition, with softening demand they are not able to increase prices like they have previously, meaning margins are being squeezed. Supply chain disruptions are a key area of concern, with many businesses nervous about shipping costs and timelines given recent geo-political events.

Retail spending levels



Economic temperature:

Cool



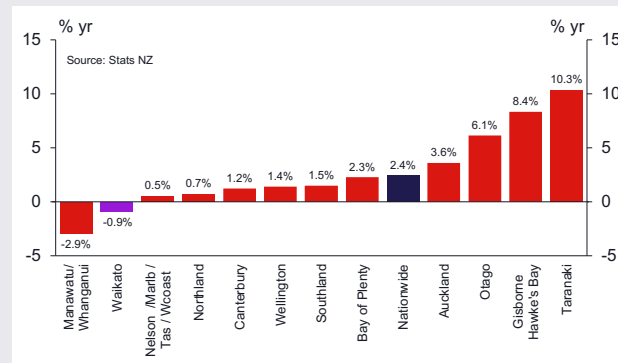
Waikato

Businesses we’ve spoken to in the Waikato have reported a sharp downturn in activity and falling profits. Despite population growth of over 2%, nominal retail spending levels have fallen 1.2% over the past year, and some retailers are now trying to liquidate stock. Similarly, the number of dwelling consents issued has fallen by more than 25% over the past year. And in the agriculture sector, returns are being eroded by increases in operating costs.

With softening activity, there’s been a fall in the number of businesses looking to recruit staff and the unemployment rate has climbed to 4.7%. There is a focus on retaining quality staff, rather than trying to increase staff numbers.

More positively, we are seeing some better conditions in the dairy sector, with conducive weather conditions and good pasture growth (although recent falls in prices have taken some of the gloss off).

Employment growth – year to December



Economic temperature:

Frosty



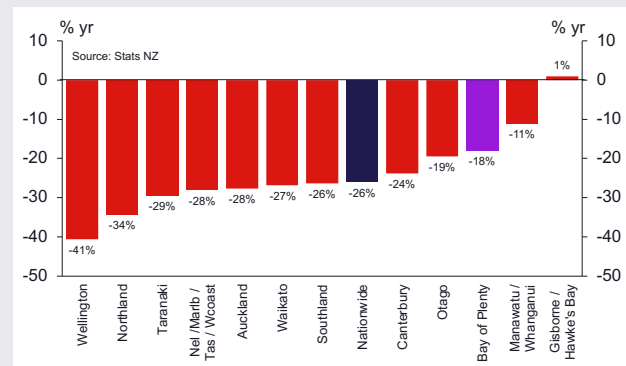
Bay of Plenty

Businesses across the Bay of Plenty are reporting a downturn in demand. Retail spending growth has stalled despite population growth of over 2%. Similarly, residential consent issuance has fallen by nearly 20%, including particular softness among group home builders (though that's still a more moderate decline than in many other parts of the country). There's also been a slowdown in government related work. That downturn in construction is flowing through to the manufacturing, engineering and wholesale sectors. And consistent with those trends, transport businesses have reported a downturn in load volumes.

While demand has been cooling, cost pressures persist. However, those increases are becoming more difficult to pass on, meaning pressure on margins. That's a particular issue for those with fixed government contracts that were negotiated a year ago, some which are no longer sustainable due to the increase in costs. Despite an increase in the availability of staff, wage costs have been a particular pressure point (including increases in the minimum wage) and some businesses are looking at reducing staff numbers.

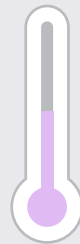
Orchardists in the region will, however, be feeling a bit better, given a bigger kiwifruit harvest and ongoing strength in demand in key export markets.

Dwelling consent issuance – year to January



Economic temperature:

Cool



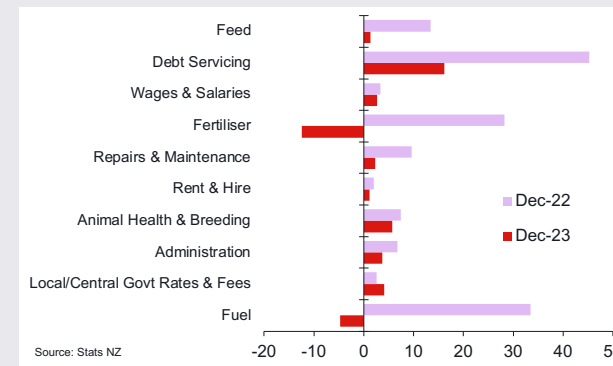
Gisborne/Hawke's Bay

Demand in Gisborne and the Hawke's Bay has been patchy, with particular softness in sales of non-necessities. Cost pressures remain high, and that's placing strain on margins. Businesses are also noting concerns about continued pressure on staffing costs related to further increases in the minimum wage.

Farmers have reported ongoing increases in operating costs (although those pressures haven't been as strong as in recent years). It's been particularly tough for sheep farmers, with export prices below breakeven levels. All sheep and beef farmers are struggling to get livestock to their target weights, and that's flowed through to slow throughput in freezing works. In the viticulture sector, harvest volumes are likely to fall well short of target levels as a flow-on from the cyclone. The sector is also facing weak export demand and subdued prices. Those conditions are resulting in reduced on farm spending and demand for related services.

Conditions have been more favourable in the horticultural sector. The apple harvest is off to a good start in terms of volumes and colour, with export prices comparable to previous seasons. Even so, overall export volumes will again be lower following the Cyclone with fewer hectares of mature trees.

Rural inflation by top 10 largest categories (annual %)



Economic temperature:

Cool



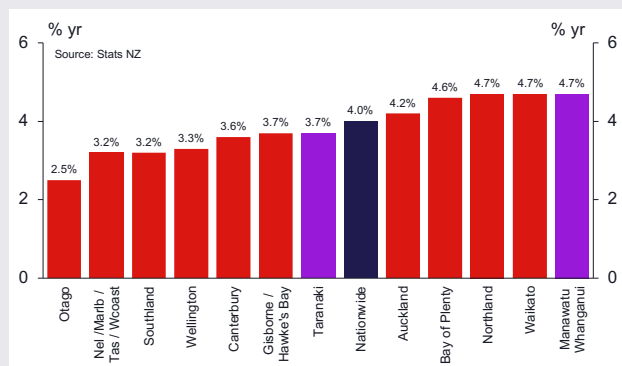
Taranaki/Manawatu-Whanganui

Businesses in the Whanganui-Manawatu and Taranaki regions have reported mixed fortunes in recent months. The number of new dwellings being consented has fallen by around 20% over the past year. Similarly, many businesses who are focused on discretionary spending, like hospitality and gyms, have seen a decline in demand. In contrast, spending in the rural sector has picked up following last year's election. We've also seen a pick-up in overseas visitor numbers, which has been welcome news for local accommodation providers.

The region's labour market has cooled (especially in Whanganui-Manawatu), with some SMEs having to let staff go. In addition, businesses are reporting that there are a greater number of better qualified applicants and an easing in wage expectations. Even so, businesses are still reporting difficulties finding more highly qualified staff.

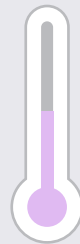
All of the businesses we spoke to are being hit with price increases. However, in many cases, those higher costs can't be passed on to customers in order to remain competitive. Some operators have had to take losses on jobs they have previously quoted on to keep the work. Many, particularly in hospitality, have increased prices, but margins have remained static.

Unemployment by region



Economic temperature:

Cool



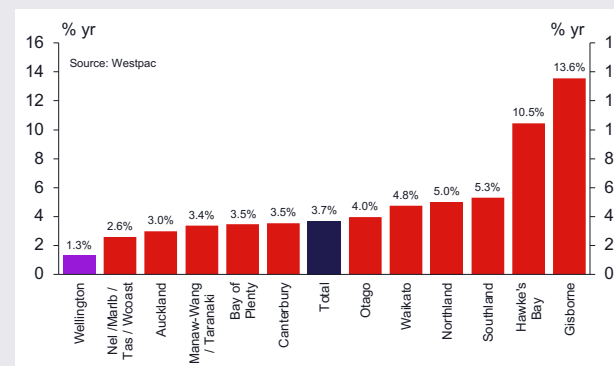
Wellington

Two things stood out in our recent discussions with businesses in Wellington. First, conditions have held up in recent months. Several of the retailers we spoke to reported resilient sales, while many bars and restaurants in the central city are still pumping.

Second, although conditions have been firm to date, businesses are bracing themselves for much tougher times ahead. Reductions in Government spending and staff numbers are expected to be a significant drag on activity throughout the region. That's seen plans for investment spending scaled back. And in sectors like construction, planned work is getting deferred and competition for projects is heating up.

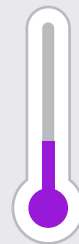
Wellington's labour market is already showing signs of softening. With mounting concerns about the outlook, a number of businesses have put their hiring on hold, and many are holding off replacing staff who leave. Among those businesses that are still hiring, they've told us that the number and quality of applicants has increased, while expectations for wages have fallen.

Spending growth by region (three months to February vs same time last year)



Economic temperature:

Cold



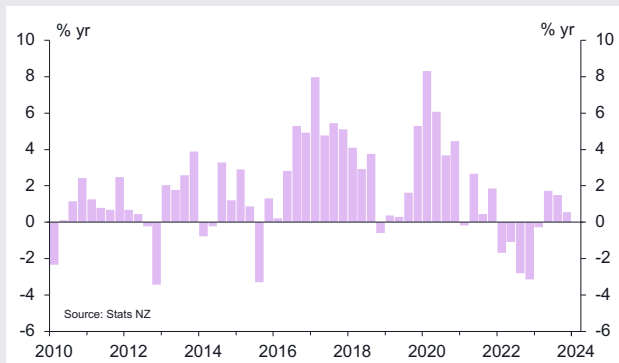
Nelson/Tasman/Marlborough/West Coast

Businesses at the top of the South Island are reporting a softening in demand, however it's a mixed picture across the region. While retail sales have dropped back in Nelson and Marlborough, spending has been more resilient in the Tasman and West Coast regions. Businesses have reported that attracting staff has become much easier. However, with demand softening, firms generally aren't looking at increasing their workforce and are simply looking at replacements.

Many of the region's agricultural businesses have faced tough conditions. Dry conditions have meant sheep farmers have been forced to either bring in feed (particularly in Marlborough) or send their livestock off for processing. That in turn has resulted in processors adjusting their pricing downwards. At the same time, increased volumes from Australia and still sluggish demand in the Chinese market are weighing on export prices. Similarly, yields are likely to be down sharply in the viticulture sector due to frost issues in November and low prices.

On the positive side, the region's apple growers will be in good cheer, with favourable growing conditions and firm pricing in export markets. Similarly, tourism operators are enjoying their strongest summer since Covid-19 first hit with international visitor numbers up.

Employment growth



Economic temperature:

Frosty



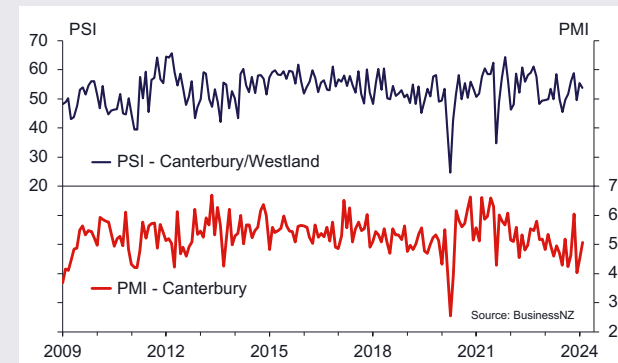
Canterbury

While the Canterbury economy is holding up better than many other parts of the economy, the overall tone of the feedback we received from businesses is that conditions are 'tough.' Many businesses are reporting sharp falls in sales, including those in the retail, manufacturing, and wholesale industries. In the construction sector some firms still have several projects on their books, but the level of new enquiries has slowed. However, there are still some areas of strength. Most notably the ongoing recovery in international visitor arrivals is providing a welcome boost to the region's hospitality providers.

On the staffing front, businesses have reported that it's become easier to fill less specialised roles. However, it's still hard to get those with specialised skills sets, and that's meant ongoing pressure on wages. In addition, professional firms are noting that a number of younger staff who have been trained up in recent years are now looking to travel abroad.

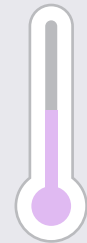
Businesses have seen continued increases in operating costs and pressure on margins, especially among those businesses who have seen softening sales. That's resulting in increased pressure on working capital.

PMI and PSI



Economic temperature:

Cool



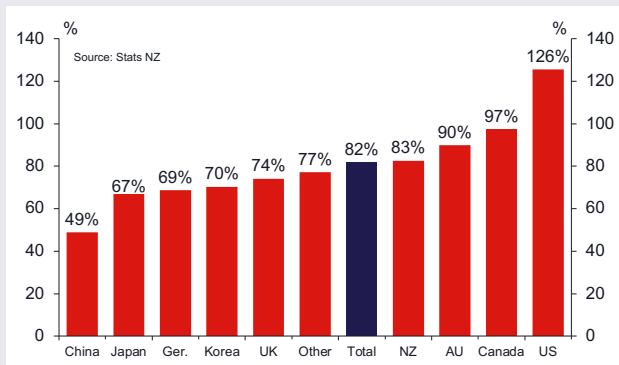
Otago

Bucking the trend seen in other regions, spending in Otago and the Central Lakes region has continued to rise at a solid pace. However, under the surface, demand conditions are very mixed. Those businesses catering to international tourists, especially those from higher spending markets like the US, are seeing solid demand as international visitor numbers continue to rise. However, retailers and other businesses who are more reliant on domestic custom are finding it very difficult.

Although there has been some loosening of the labour market, demand for workers in some industries is still outstripping supply. That's kept the pressure on employers to offer incentives such as accommodation to attract and retain staff. Businesses have also reported challenges navigating the rules around hiring workers from overseas. In addition, the need to pay workers from overseas higher wage rates has also pushed up wage rates for local workers.

While inflationary pressures have been easing, businesses are still facing cost increases, and the ability to pass those on is diminishing quickly. The pressure on margins has been more pronounced for those businesses focused on the lower to middle end of the discretionary spending market.

Tourist arrivals – January 2024 vs January 2019



Economic temperature:

Cool

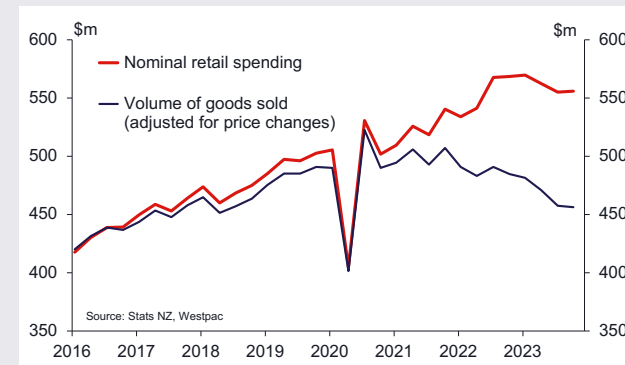


Southland

As in other regions, some of the heat has come out of Southland's economy in recent months. However, the softening in activity has been more modest than in many other regions. Unemployment in Southland remains low at just 3.2%. In addition, builders, engineers and those supplying the trades are still seeing good demand and forward orders.

Dairy farmers also remain chipper, with recent rains and strong pasture growth supporting milk production in the region. Good rains have also alleviated some of the pressure on the region's sheep farmers, allowing them to bulk up their livestock before sending them to the works. Those higher weights have helped to soften the impact of low lamb prices due to increased supply coming out of Australia and still sluggish consumer demand in China. That said, we are seeing some caution creeping into farmers' spending appetites, with discretionary spending starting to ease off.

Retail spending levels



Economic temperature:

Cool



REGIONAL CONFIDENCE SURVEY

Each quarter, our Westpac McDermott Miller confidence surveys ask New Zealand households about their personal financial situation and their expectations for economic activity.

Consumer confidence by region.

Our **Consumer Confidence** survey looks at whether households are feeling optimistic or pessimistic about their personal finances and the state of the economy more generally. A result over 100 indicates that the number of households who are optimistic outweighs the number who are pessimistic.

	Jun-23	Sep-23	Dec-23	Mar-24	Average
Northland	74.5	74.7	82.4	99.1	105.5
Auckland	84.0	82.9	91.5	105.7	112.3
Waikato	82.5	78.0	90.7	88.1	106.5
Bay of Plenty	86.1	77.2	97.1	86.7	107.4
Gisborne/Hawke's Bay	83.2	84.7	87.6	83.3	106.3
Taranaki/Manawatu-Whanganui	83.8	83.5	80.6	83.8	105.4
Wellington	92.8	79.0	89.1	90.1	111.6
Nelson/Marlborough/West Coast	69.4	77.0	86.1	83.9	105.1
Canterbury	78.9	79.2	89.9	86.2	109.1
Otago	82.3	78.3	79.0	77.3	106.0
Southland	77.4	69.5	77.8	100.4	105.7
Nationwide	83.1	80.2	88.9	93.2	108.9

Regional economic confidence.

Our **Regional Economic Confidence** survey asks households how they feel about the outlook for economic conditions in the specific region they live in. A result over 100 indicates that the number of households who are optimistic about the outlook for their region outweighs the number who are pessimistic.

	Jun-23	Sep-23	Dec-23	Mar-24	Average
Northland	-36	-43	-35	-19	-3
Auckland	-27	-25	-14	2	13
Waikato	-8	-13	2	-8	20
Bay of Plenty	-9	-18	-3	-12	18
Gisborne/Hawke's Bay	-35	-20	-8	-8	13
Taranaki/Manawatu-Whanganui	-8	-14	-2	-7	17
Wellington	-9	-27	-18	-23	18
Nelson/Marlborough/West Coast	-7	-4	-2	0	21
Canterbury	-20	-15	1	1	25
Otago	-10	-15	-12	-20	15
Southland	-6	-15	-10	13	26

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