



Regional Roundup.

June 2020





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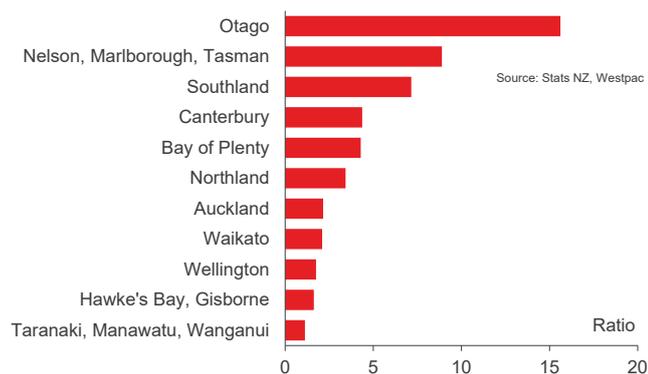
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Summary.

Over the past few years there have been stark differences in the economic fortunes of New Zealand's regions. But Covid-19 will be a great leveller. No region will be immune to the coming recession, and the economic outlook now looks more similar right across the country. We expect all regions to experience a deep recession and rising unemployment this year, followed by a recovery from late-2021 or early-2022.

That said, there are still differences between regions that are worth highlighting. The lockdown was felt most severely in urban areas, tourism and foreign-education centres, manufacturing hubs, and forestry-related areas. Overall, the more populous regions like Auckland, Wellington, Canterbury and Otago were hardest hit. The substantial parts of New Zealand that have a greater focus on food production, such as Bay of Plenty, were hurt less by the lockdown because food production was deemed essential. That said, in parts of the North Island and in Nelson the drought has had its own severe effect on the economy, so these have had their own struggles.

Figure 1: Regional guest nights relative to population - 2019



The severity of the post-lockdown recession in each region, and the pace of recovery, will depend on the industry makeup of that region. Worst affected will obviously be the places that rely most heavily on overseas tourism. That is why Otago faces the biggest economic struggle of any region, and the South Island in general will be hit much harder than the North.

Regions that are heavy on agriculture, forestry, and export manufacturing are also going to feel the effects of the global recession. Our expectation is that dairy, sheep and beef will be relatively resilient, while viticulture and forestry will struggle.

Construction usually slows more than other industries during recessions. Construction is part of all regional economies, but the upstream manufacturing, distribution and services that are associated with construction are more heavily concentrated in Auckland, Waikato and Canterbury. Meanwhile, house prices are expected to fall in all regions.

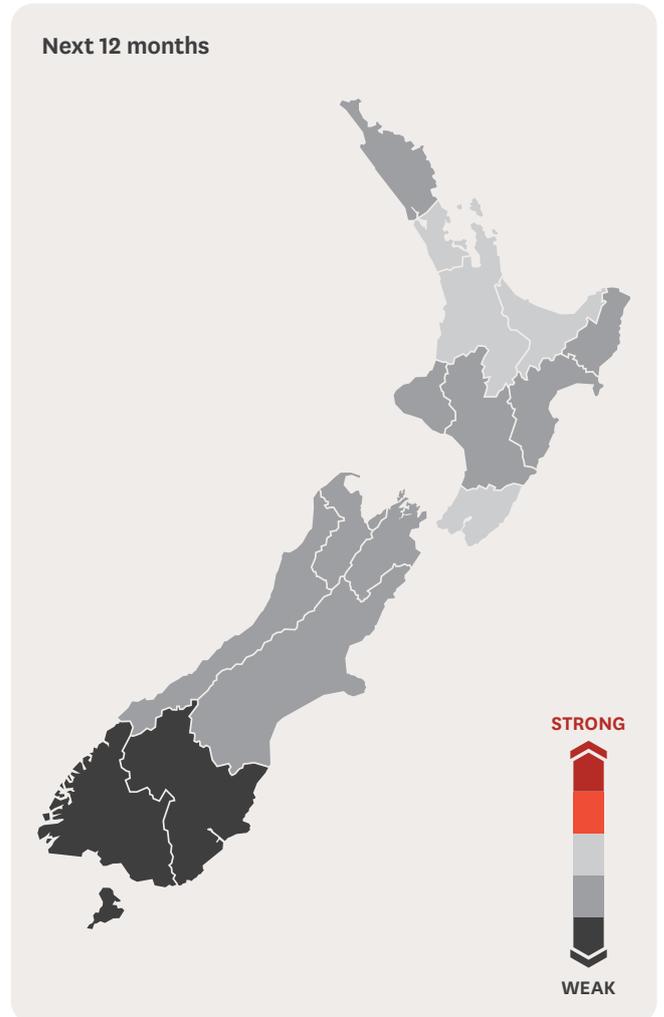
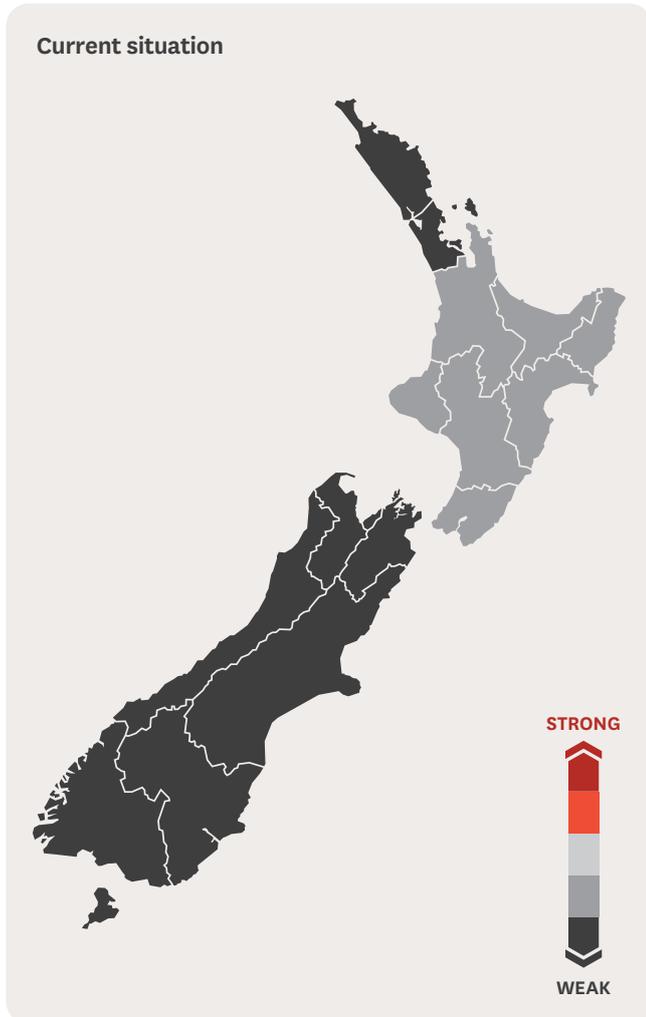
The best prospects for recovery lie in urban industries like services, distribution, and digital technology. The most obvious way that Covid-19 will change the economy is greater digitisation. ICT, software development, and online service providers have had a real leg up, and we think that bodes relatively well for Wellington and Auckland. Retailing is continuing to move from away bricks-and-mortar show rooms and towards internet sales and direct-to-consumer distribution. That will favour distribution hubs like Auckland, Hamilton, Palmerston North and Christchurch.

The other resilient industry will be government, which is a third of the economy and is stepping up to support the ailing private sector. While the Government provides services throughout the country, it is over-represented in Wellington. That is the key reason why we think Wellington has the strongest outlook in New Zealand.

Boiling this complicated tableau of Covid-19 impacts into a single outlook for each region gives us the picture overleaf. The outlook is generally weakest in the southern parts of the country and in regions with a lot of forestry, while Wellington and Auckland have the strongest prospects, followed by Bay of Plenty and Waikato. But we must remember that this is a relative picture – all regions of New Zealand are in for a rough recession this year.

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 economy has been harder hit by Covid-19 than most other regions in New Zealand. That is mainly because a higher proportion of activity in Auckland is regarded as non-essential when compared to other regions.

Prior to Covid-19, the region had been on a positive footing. House prices had started to rise, construction activity was strong and tourism spending had increased. Although still fragile, household confidence had also improved, and this was reflected in a pickup in consumer spending.

Much of this came to a halt towards the end of March when measures to combat the virus effectively shut down large parts of the region's manufacturing, construction, and service industries. Commercial rental activity also dropped sharply. However, with restrictions now eased, activity levels have since picked up.

Tourism was particularly hard hit, with hospitality, retail and eventing all grinding to a halt. Ditto for the region's international education industry, which continues to be adversely affected by a ban on foreign visitor arrivals.

Some firms were forced to close as a result, while many others ended up restructuring their operations to keep their heads above water. Resulting job losses contributed to a rise in unemployment, leading to an increase in the number of people on jobseeker support. It could have been a lot worse had it not been for the Government's wage subsidy scheme.

Meanwhile, Auckland's housing market has entered a downturn with house prices falling over the past two months.

Outlook.

Auckland will experience a severe recession over coming quarters before posting a recovery. We expect that the downturn will be similar to other parts of New Zealand, although the recovery will be among the fastest in the country. This mainly reflects the broad scale and scope of activities undertaken in the region as well as its comparatively low exposure to adverse global economic conditions.

One factor expected to drive the recovery will be increased digitisation, with the use of digital solutions having accelerated under lockdown. This will not only increase activity in the region's ICT sector, but also in retailing and distribution as delivery models transition towards internet-based sales and direct business-to-consumer distribution. These activities should favour Auckland's big retail and distribution hubs.

Despite this, economic activity in Auckland is unlikely to reach pre-Covid-19 levels over the coming year. For one thing, manufacturing in the region is likely to face some big challenges in the year ahead. Not least of these is tough

competition in export markets, which is likely to intensify as the global recession begins to bite. The possible extension of current water restrictions in Auckland could also undermine the competitiveness of local manufacturing.

International tourism is a big part of the Auckland economy, and the region will feel its absence acutely. Although the region is likely to attract more domestic tourists over the coming year, there is little chance that this will make up for the massive hole created by the loss of foreign visitors who are subject to a travel ban. If the mooted trans-Tasman travel bubble comes into existence, it will only take the edge off rather than save the day. The absence of international tourists will dampen recovery efforts in the region's large hospitality and retail industries.

Construction activity is likely to soften over the coming year as economic uncertainties remain, population growth slows, and developers remain reluctant to bring new projects to market.

Job losses, having been kept to a minimum because of the Government's wage subsidy, are likely to pick up once the scheme has ended. Higher unemployment, lower incomes and ongoing economic uncertainties are likely to mean softer house prices. In turn, falling house prices will dampen household spending in the region.

Figure 1: Auckland's housing market

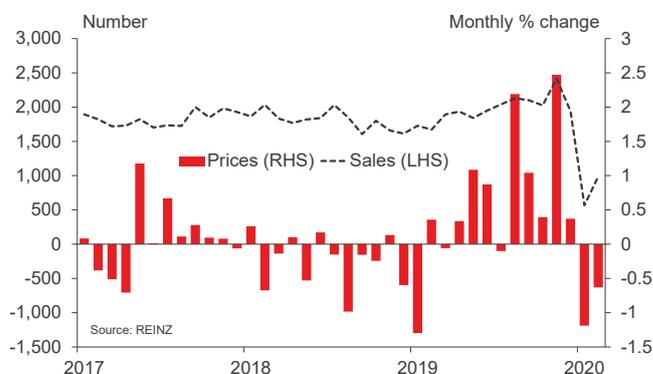
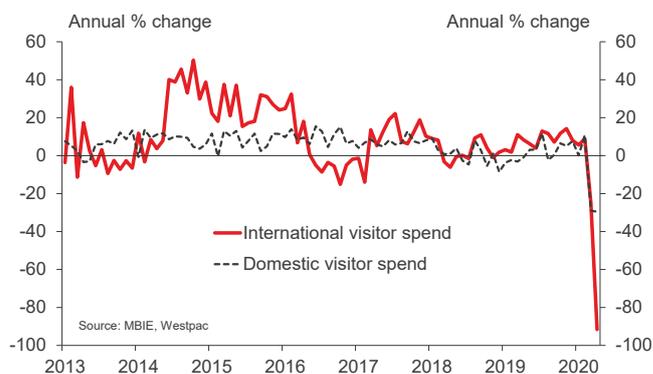


Figure 2: Spending by tourists in Auckland



Bay of Plenty.

Current situation.

Economic activity in the Bay of Plenty has fallen sharply in recent months, although the region has still outperformed most others, in large part because of favourable conditions in the horticultural sector.

Indeed, kiwifruit exports, a big earner for this region, got off to a flying start this season despite recent events, with growers posting a record harvest as new gold plantings came online.

Other sectors of the regional economy have not coped quite as well with Covid-19. That includes forestry, ex-food manufacturing, construction, hospitality, and non-essential retail, all of which were brought to a standstill when the country went into lockdown. Tourism was especially hard hit by travel restrictions and the cancellation of cruise visits. However, with many of these restrictions now eased, activity levels have since picked up.

Some firms were forced to close as a result, while many others ended up restructuring their operations to keep their heads above water. Resulting job losses have contributed to a rise in unemployment, increasing the number of people on jobseeker support. It could have been a lot worse had it not been for the kiwifruit industry reaching out to workers who had lost their jobs in other industries. Many firms in the region will also have been kept afloat by the Government's wage subsidy.

Meanwhile, house prices in Bay of Plenty have risen since March, but we don't think that will last long.

Outlook.

Like most of New Zealand, the Bay of Plenty will experience a severe recession over the coming year. However, its recovery is likely to be faster than similar regions that have a large agricultural backbone.

In large part that is likely to be because of the performance of the kiwifruit industry. Already achieved volume and price gains should ensure favourable returns to growers, even if they dip over the coming year as the global economy slows.

The portents are not quite as good for the region's forestry industry. Log prices have risen sharply in recent months, but we doubt whether these can be maintained, especially given an expected global economic downturn and the likelihood of weaker activity in China.

Tourism is also likely to struggle, although with foreign arrivals accounting for just over a third of spending by tourists, the impact of a cross-border travel ban should be less for this region than for some others. Indeed, with offshore travel effectively off limits to Kiwis for some time to come, some of the shortfall in international visitors is likely to be made up for by an increase in domestic visitors.

But that does not apply to all parts of the region. Places like Rotorua, for example, which focus heavily on foreign visitor arrivals, are likely to be more adversely affected by restrictions placed on them entering the country.

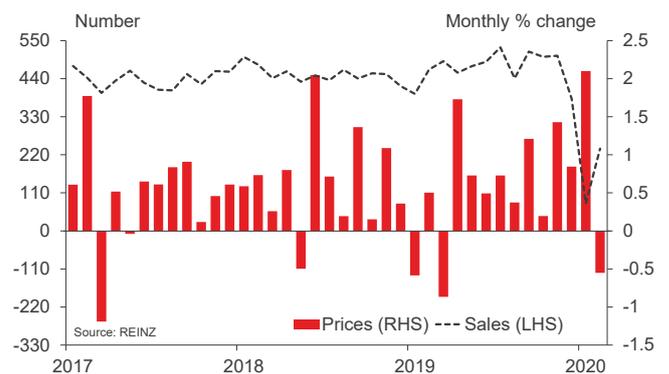
Meanwhile, the region's manufacturers, mostly Tauranga based, are likely to face some challenging times over the coming year, mainly because of weak global economic conditions. Construction activity, particularly around Tauranga, is also set to weaken because of ongoing economic uncertainties, lower returns to developers and reduced population growth.

This should translate into more unemployment, with further job losses to come when the Government's wage subsidy scheme comes to an end. That, together with lower incomes and ongoing economic uncertainties should dampen house prices in coming quarters.

Figure 1: Jobseeker support in the Bay of Plenty



Figure 2: Bay of Plenty's housing market



Canterbury.

Current situation.

Canterbury's economy has been harder hit than most by Covid-19, mainly because a higher proportion of activity in the region was deemed to be non-essential. Essential agricultural and downstream processing activities were the region's saving grace.

The region's dairy sector, for example, was largely unscathed by Covid-19, with conducive weather conditions and improved feed supply helping to support production levels. Despite a recent weakening of dairy prices due to softer demand in key export markets, milk prices have been strong, and this has had a positive impact on cashflows.

That is more than can be said for the region's meat sector, with production adversely affected by downstream processing delays caused by Covid-19.

Manufacturing in the region has been struggling for some time and a Covid-19 curtailing of activity has not helped. Many firms have gone out of business as a result, while others have been forced to restructure their operations to stay afloat. These actions have contributed to mounting job losses, although things could have been worse had it not been for the Government's wage subsidy scheme.

The same applies to services, with tourism related industries like accommodation, bars and restaurants particularly hard hit. The recent easing of restrictions will have provided some partial relief to these sectors.

Outlook.

Canterbury will experience a severe recession over the coming year and is expected to recover more slowly than other regions in New Zealand. In large part this is because of its high export propensity and exposure to adverse global economic conditions.

Tourism, a key sector for this region, will struggle over the coming year, mainly because about half of the spending by tourists to the region comes from foreign visitor arrivals. Although the region is likely to attract more domestic tourists, it seems highly unlikely that they will be able to make up for the large hole created by the loss of foreign visitors who are subject to a travel ban. This is likely to be the case even if a mooted trans-Tasman travel bubble comes into existence, allowing more visitors from Australia. The absence of international tourists will dampen activity in the region's hospitality and retail industries, with impacts felt hardest in the Christchurch CBD.

Construction activity is also likely to soften over the coming year. However, this is only partly due to the Covid-19 led recession. Commercial construction activity in Christchurch was already waning as most rebuild projects have now been completed and the commercial property market is digesting

a big increase in available stock. Having said that, residential building activity close to Christchurch's CBD should continue.

The region's manufacturers are likely to remain under the pump for the foreseeable future. In part that is because manufacturing is often related to construction, which is set to weaken. However, it is also because the region's manufacturers are going to be facing some tough competition in export markets, and this is only likely to get worse as the global recession begins to bite and "buy local" campaigns spread globally.

The region's dairy and meat farmers are also facing tougher times in light of the coming global recession, although they will be less severely affected than their urban compatriots.

Difficult operating conditions are likely to mean more job losses in Canterbury. Unemployment is likely to get a further boost once the Government's wage subsidy scheme ends.

The weak economy will be a drag on Canterbury house prices, although we expect house prices to decline less in this region than in others. Canterbury prices have been weaker than other regions for years and are now due for a bit of catchup.

Figure 1: PMI/PSI for Canterbury

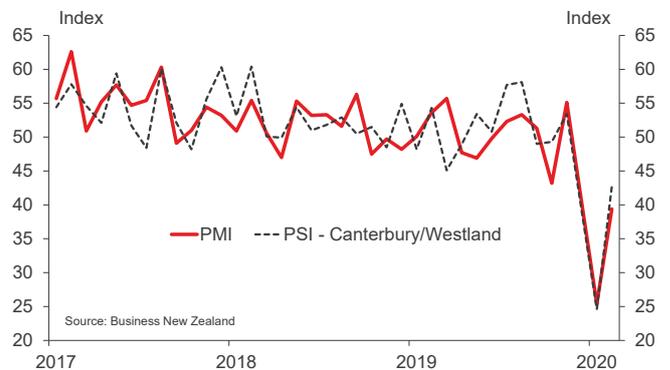
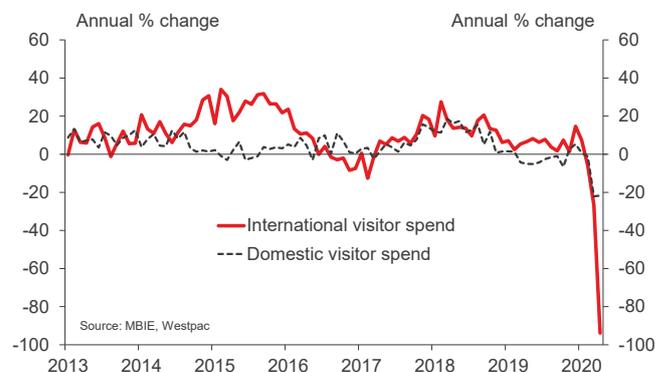


Figure 2: Spending by tourists in Canterbury



Gisborne/Hawke's Bay.

Current situation.

Economic activity in this previously fast-growing region has fallen sharply in recent months because of drought conditions and Covid-19.

Drought conditions have affected sheep and beef farming for some time, with dwindling feed supplies prompting many farmers in the region to try and bring meat deliveries forward. Production was further impacted by downstream processing delays caused by Covid-19.

Covid-19 also had a big impact on Gisborne's forestry industry. Initially this was because of a demand hit from China as that country entered lockdown. That was soon followed by similar retrictions in New Zealand, which brought local logging activity to a halt.

The extreme weather conditions did have some positive impacts. Hot and dry weather helped to boost the region's grape harvest, with favourable knock on effects for wine producers. Apple production was also up, with growers further benefitting from higher prices achieved from better quality fruit. Harvesting activity has been further bolstered by the availability of workers, some of whom had lost their jobs in other industries.

Despite this, unemployment in this forestry-heavy region is still likely to have increased, with many having to apply for jobseeker support. It could have been worse had it not been for the Government's wage subsidy scheme.

The region's housing market, previously a standout performer, looks like it might be turning, although prices have not yet started falling as they have in many other parts of the country.

Outlook.

Gisborne/Hawke's Bay will experience a severe recession over the coming year. Although a recovery is in the offing, we think that this will be slower than in most other regions, mainly because of this region's exposure to agriculture and forestry.

Indeed, the outlook for Gisborne's forestry industry is not particularly good. Log prices have risen sharply in recent months, but we doubt whether this can be maintained, especially given an expected global economic downturn and the likelihood of weaker activity in China.

The region's sheep and beef farmers are also likely to face more challenging times, with prices set to fall in the coming year because of weak global economic conditions. That said, most farmers in the region should remain profitable.

Ditto for the region's apple and grape growers, with the latter likely to be affected by weaker demand for wine in the key US and UK markets.

Less favourable economic conditions for these export orientated industries should mean more job losses, with unemployment set to rise further once the Government's wage subsidy scheme ends. That, together with lower incomes and ongoing economic uncertainties is likely to cause house prices to decline over the coming year.

Figure 1: Gisborne/Hawke's Bay housing market

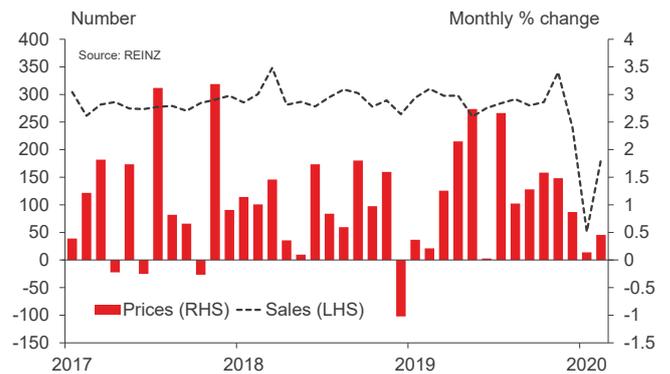


Figure 2: Vehicle registrations in Gisborne/Hawke's Bay

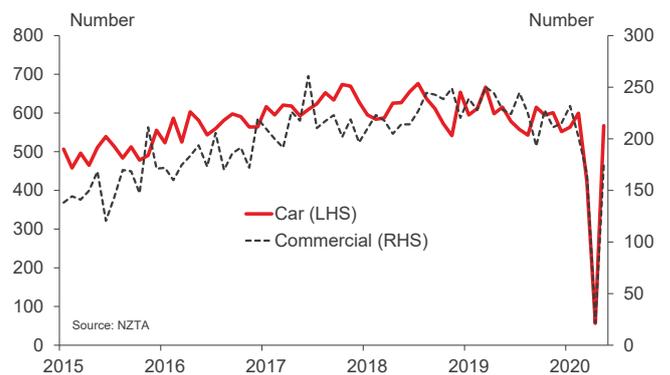
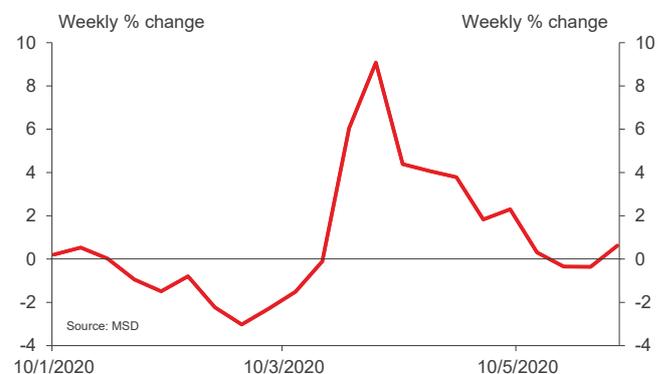


Figure 3: Jobseeker support in Gisborne/Hawke's Bay



Nelson/Marlborough/West Coast.

Current situation.

Economic activity at Top of the South has been adversely affected by hot and dry weather conditions, particularly in the Nelson region, and more recently, Covid-19. Because most agricultural activity was deemed essential during lockdown, this region was less affected than many others.

The region's grape and fruit growers have benefitted from conducive weather conditions. The quality of the grapes harvested recently has been judged top notch, which augurs well for the quality of wine produced in the region.

Meat farmers will also have benefitted from being essential businesses, although production in the region was hampered by processing delays caused by Covid-19.

Covid-19 also had a big impact on the region's forestry sector. Initially this was because of a demand hit from China as that country entered lockdown. That was soon followed by similar restrictions in New Zealand, which brought local logging activity to a halt.

Regional tourism was heavily affected by Covid-19, particularly on the West Coast. Spending by tourists dropped sharply as New Zealand entered lockdown, with the region's transport, hospitality and retail sectors being among the hardest hit.

Unemployment is likely to have risen sharply as a result, albeit from a low level, with a concomitant rise seen in those on jobseeker support. Early data suggests that house prices in the region have begun to fall.

Outlook.

This region will experience a severe recession over the coming year. Although a recovery is in the offing, we think that this will be slower than in most other regions, mainly because of this region's exposure to agriculture, forestry and tourism.

Indeed, the outlook for the region's forestry industry is not particularly good. Log prices have risen sharply in recent months, but we doubt whether this can be maintained, especially given an expected global economic downturn and the likelihood of weaker activity in China.

Marlborough's grape growers are also likely to face lower prices from winemakers as weak global economic conditions dampen demand for quality wines in key US and UK markets.

Meanwhile, the region's meat farmers are also likely to be affected by global headwinds, with farmgate prices expected to be down on 2019 levels. That said, most farms in the region should remain profitable over the coming year.

Tourism, a key sector for this region, especially on the West Coast, will struggle over the coming year, mainly because just under half of spending by tourists to the region comes from

foreign visitor arrivals. Although the region should still attract more domestic tourists, it is highly unlikely that they will be able to make up for the large hole created by the loss of foreign visitors who are subject to a travel ban. This is likely to be the case even if a trans-Tasman travel bubble comes into existence.

Less favourable economic conditions are likely to mean more job losses, with unemployment set to get a further boost once the Government's wage subsidy scheme ends. That, together with lower incomes and ongoing economic uncertainties will cause house prices to fall over the remainder of this year.

Figure 1: Spending by tourists in the Top of the South

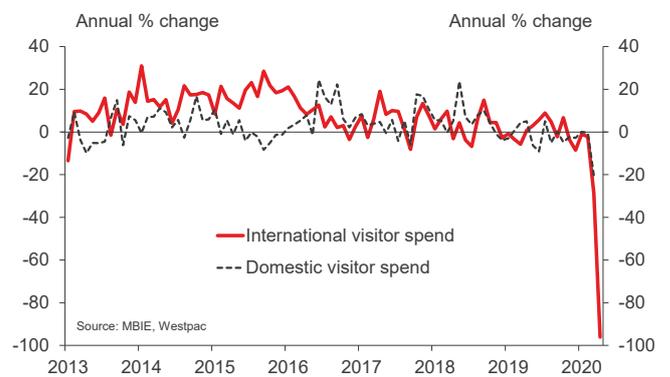


Figure 2: Jobseeker support in the Top of the South

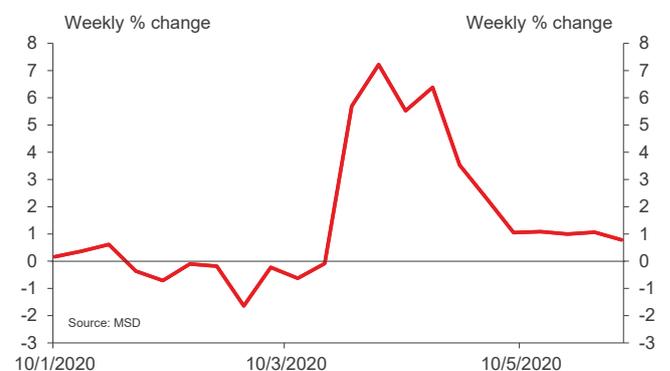
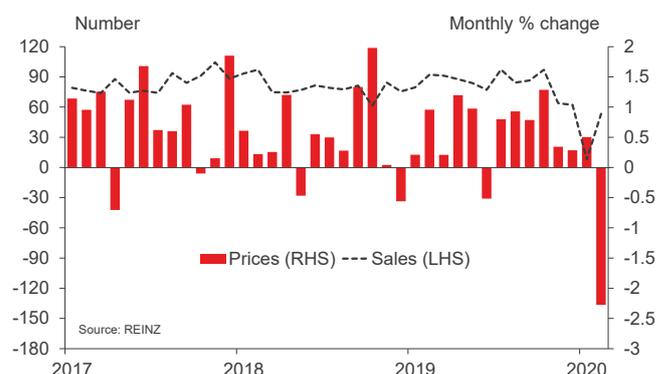


Figure 3: Top of the South's housing market



Northland.

Current situation.

Northland has been particularly hard hit by ongoing drought conditions, which have been compounded recently by the effects of Covid-19. While impacts have not all been bad, the region has been more adversely affected than most in New Zealand.

The impact of the drought has been significant, forcing many of the region's beef farmers, faced with dwindling feed supplies, to try and bring meat deliveries forward. Production was further affected by processing delays caused by Covid-19.

Northland's sizeable forestry sector was also affected by Covid-19. Initially this was because of a demand hit from China as that country entered lockdown. That was soon followed by similar restrictions in New Zealand, which brought local logging activity to a halt.

By contrast, the region's dairy sector was largely unaffected by Covid-19. Despite a recent softening of dairy prices due to weakened demand in key export markets, the milk price has remained strong, which has supported cashflows. Production levels were, however, affected by the drought, with many farmers opting to dry off their dairy herds early.

Marsden Point also felt the impact of Covid-19, with refining activity declining sharply because of a reduction in demand from domestic transport. Although travel has since picked up as restrictions have lifted, production levels are likely to remain sub-par for a while yet. Ditto for tourism, with spending on hospitality, retail and recreational services, having fallen sharply.

Unemployment, which had been tracking lower, is likely to have risen over the past quarter, prompting the big pickup in jobseeker support seen recently.

Outlook.

Northland will experience a severe recession in coming quarters. That said, if drought conditions end soon, then this region could start recovering earlier than many other regions in New Zealand. Growth, however, is still likely to be dampened by weaker prices for logs, dairy and meat.

Unlike most other regions, the outlook for the Northland's dairy and meat farmers is mixed. While weak global economic conditions are expected to push prices lower over the coming year, farmers could still see output gains should drought conditions start to recede.

The region may get a bit of boost from increased refining activity at Marsden point, although weak global economic conditions are likely to dampen oil prices and earnings generated from crude oil exports.

The outlook for the region's forestry industry is also not particularly good. Log prices have risen sharply in recent months, but we doubt whether these can be maintained, especially given an expected global economic downturn and the likelihood of weaker activity in China. This is likely to see harvesting activity and employment in the industry drop away.

Tourism is also likely to struggle over the coming year, although with foreign arrivals accounting for about a third of spending by tourists, the impact of a cross-border travel ban should be less for Northland than for some other regions. Indeed, with offshore travel effectively off limits to Kiwis for some time to come, some of the shortfall in international visitors will be made up for by an increase in domestic visitors.

Job losses, having been kept to a minimum because of the Government's wage subsidy, are expected to pick up again once the scheme has ended. That, together with lower incomes and ongoing economic uncertainties should mean subdued house prices.

Figure 1: Spending by tourists in Northland

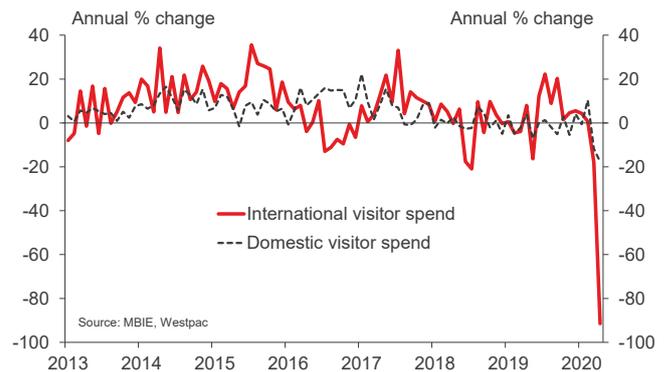
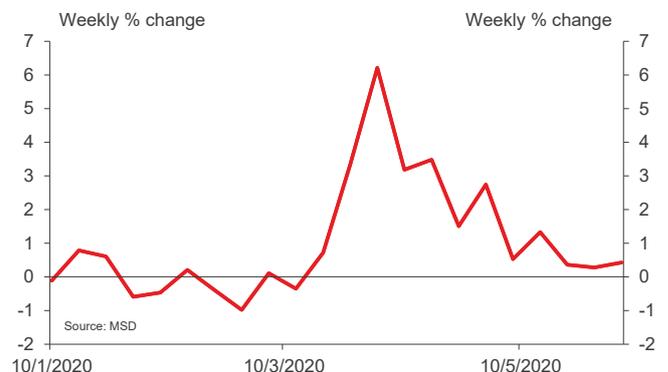


Figure 2: Jobseeker support in Northland



Otago.

Current situation.

Economic activity in this tourism dependent region has been badly affected by border closures and restrictions on domestic travel introduced to combat Covid-19. Normally a top performer, Otago has been among the hardest hit regions in New Zealand.

The loss of international tourists has been particularly disruptive for the region's many accommodation, hospitality, and recreational service providers. Ditto for the region's education providers, which have missed out on international students barred from entering the country.

Covid-19 has also affected sheep and beef production in the region due to physical distancing protocols for domestic processors. As a result, Otago farms are carrying higher stock numbers than normal. By contrast, pip and stone fruit production has emerged largely unscathed because it predated the worst of Covid-19 impacts.

Most manufacturing and construction activity in the region came to a standstill because of Covid-19. Many firms have gone out of business as a result, while others have been forced to restructure their operations to stay afloat. These actions have contributed to the job losses already mounting in the tourism industry, although things could have been worse had it not been for the Government's wage subsidy scheme.

House prices in this region have plunged over the past two months, with particularly sharp falls recorded in the Queenstown Lakes district.

Outlook.

Economic activity in Otago will continue to be severely impacted by a ban on international tourists, making it the hardest hit region in the coming recession, and possibly the slowest to recover.

Otago should get more domestic visitors and is likely to see an increase in Australian arrivals should a trans-Tasman travel bubble come into existence. However, numbers are still unlikely to get close to pre-Covid-19 levels over the coming year and this will weigh heavily on hospitality and retail activity in the region, particularly in the traditional tourist hotspots of Queenstown and Wanaka.

The region is also likely to feel the effects of a continued ban on international students over the coming year, which will affect retail spending, particularly in Dunedin.

At the same time, Otago's grape growers are likely to face lower prices as weak global economic conditions dampen demand for quality wines in key US and UK markets.

Meanwhile, the region's meat farmers are also likely to be affected by global headwinds, with farmgate prices expected

to be down on 2019 levels. That said, most farms in the region should remain profitable over the coming year.

Job losses, having been kept to a minimum because of Government's wage subsidy, are expected to pick up again once the scheme has ended. That, together with lower incomes and ongoing economic uncertainties will likely cause house prices in the region to fall further.

Figure 1: Spending by tourists in Otago

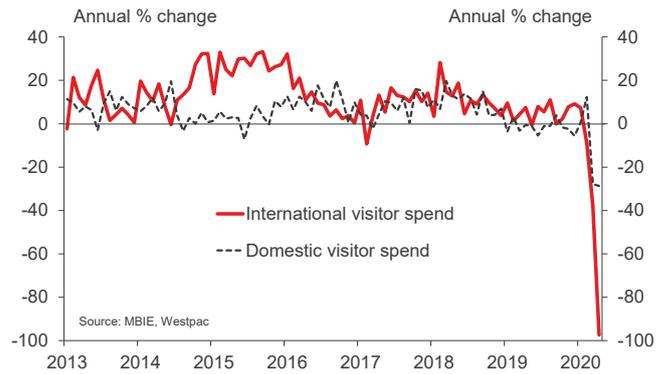


Figure 2: PMI/PSI for Otago

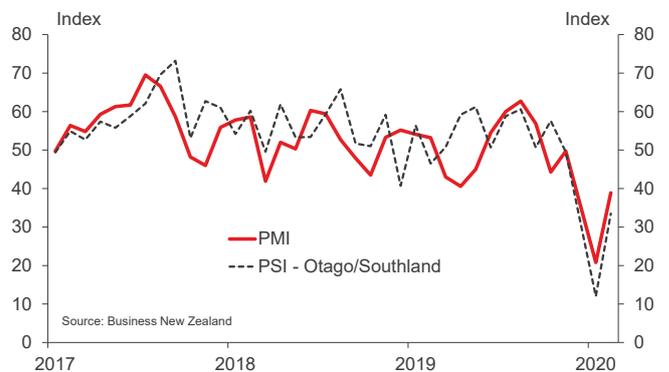
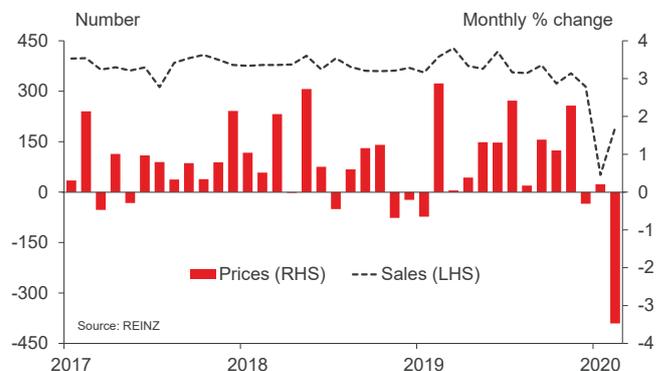


Figure 3: Housing market



Southland.

Current situation.

Economic activity in Southland has been hit hard by a loss of tourism due to Covid-19. However, with the region's agricultural sector for the most part having benefited from conducive weather conditions, it is likely that this region has performed slightly better than most of its peers.

The loss of tourists because of Covid-19 will, however, have been particularly disruptive for this tourism heavy region, with accommodation providers, cafés, restaurants and recreational service providers all being forced to close their doors in late March.

Construction and service sector activity in the region also ground to a halt because of Covid-19 restrictions. Even firms that were able to operate had to do so under physical distancing protocols, which in turn affected production levels. That includes the Tiwai Point aluminium smelter, which has closed one of its production lines.

However, dairy production in this major milk producing region has had a good run lately. In large part that is because of conducive weather conditions and improved pasture growth. Despite a recent weakening in dairy prices due to weakened demand in key export markets, this year's high milk price means farmer cashflows will remain strong for a while yet.

Not all farmers have done well. Meat farmers in some areas continue to struggle with the aftermath of floods earlier in the year and the more recent flow-on effects of meat processing reductions under Covid-19.

Unemployment, which had been tracking lower, is likely to have risen over the past quarter, prompting the big pickup in jobseeker support seen recently.

Like most of New Zealand, house prices in Southland have started to fall.

Outlook.

Southland will experience a severe recession in coming quarters and is set for a slow recovery because of the region's heavy exposure to tourism. The region is also likely to feel the effects of weaker prices for dairy, meat and aluminium.

International tourism is important to Southland, and the region will really struggle without it. Although the region should attract more domestic tourists over the coming year, it's highly unlikely that they will be able to make up for the large hole created by the loss of foreign visitors, because New Zealanders make up only half of the visitors to Southland each year. The lack of international tourism will dampen growth in the region's hospitality and retail industries, especially in traditional tourist hotspots.

Meanwhile, the region's meat and dairy farmers are also likely to be affected by global headwinds, with farmgate prices expected to be down on 2019 levels. That said, most farms in the region should remain profitable over the coming year.

Manufacturing in the region will be heavily impacted by the global recession. Tiwai Point is likely to face challenging times with aluminium prices predicted to remain weak over the coming year.

At the same time, residential construction activity is set to slow because of economic uncertainties and developers reluctant to bring new projects to market. Commercial construction activity, which has resumed as restrictions have been lifted, particularly in Invercargill's CBD, is likely to soften for the same reasons.

Less favourable economic conditions are likely to mean more job losses, with unemployment set to get a further boost once the Government's wage subsidy scheme ends. That, together with lower incomes and ongoing economic uncertainties should mean that house prices remain subdued over the coming year.

Figure 1: Spending by tourists in Southland

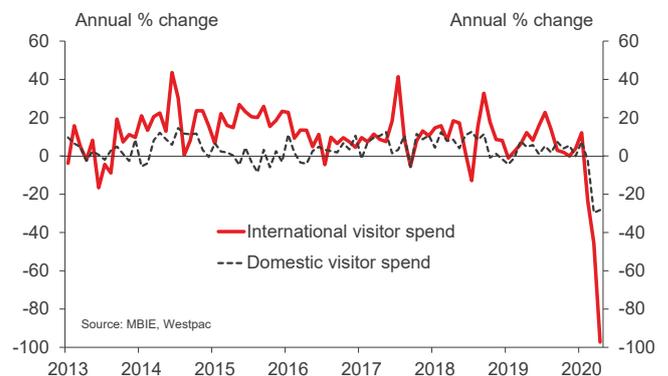
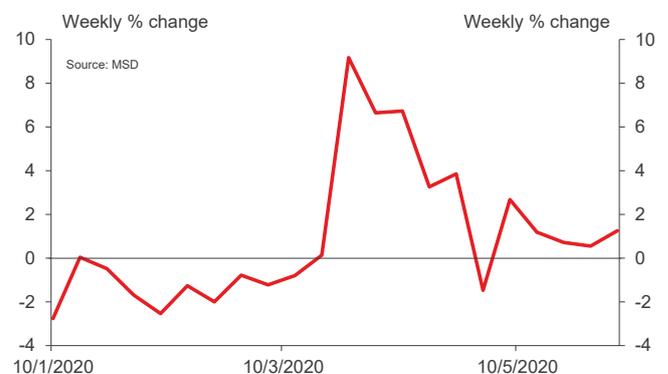


Figure 2: Jobseeker support in Southland



Taranaki/Manawatu-Whanganui.

Current situation.

Economic activity in this region has been hard hit by the impact of Covid-19, although with dairying deemed to be an essential activity, this big milk producing region was less affected than many others.

That said, the region's forestry sector was heavily impacted by Covid-19. Initially this was because of a demand hit from China as that country entered lockdown. That was soon followed by similar restrictions in New Zealand, which brought local logging activity to a halt.

The region's small hospitality sector also felt the effect of fewer tourists, while education providers in the Manawatu have struggled with a sharp drop in international students.

Most manufacturing and construction activity in the region came to a standstill because of Covid-19. Many firms have gone out of business as a result, while others have been forced to restructure their operations to stay afloat. These actions have contributed to the job losses already mounting in the tourism industry, although things could have been worse had it not been for the Government's wage subsidy scheme.

The impact of Covid-19 on energy markets has been a big deal for Taranaki's oil and gas sector, with a global oversupply pushing prices for crude oil and methanol sharply lower.

By contrast, the region's dairy industry has performed relatively well. Despite a recent softening of dairy prices due to weakened demand in key export markets, milk prices have remained strong, which in turn has supported cashflows.

House prices in Manawatu-Whanganui have fallen sharply during the Covid-19 crisis. Prices in Taranaki have defied the odds and have risen slightly, but we suspect it is only a matter of time before prices start falling here too.

Outlook.

This region will experience a severe recession in coming quarters. Although a recovery is in the offing, we think that this will be relatively slow because this region is so heavily dependent on exports that will be impacted by the global recession.

The outlook for the region's forestry industry is not particularly good. Log prices have risen sharply in recent months, but we doubt whether these can be maintained, especially given an expected global economic slowdown and the likelihood of weaker activity in China. This is likely to see harvesting activity and employment in the industry drop away.

The region's dairy farmers are also likely to be affected by global headwinds, with farmgate prices expected to be down on 2019 levels. That said, most farms in the region should remain profitable over the coming year.

The region is also likely to feel the effects of a continued ban on international students over the coming year, affecting activity levels in Palmerston North.

Taranaki is also likely to feel the impact of an expected global economic downturn, with energy prices set to weaken over the coming year. That could negatively impact on crude oil and gas production in the region, which has been declining in recent years, and result in a further postponement of planned exploration projects.

The trend toward digitisation, which accelerated under lockdown, is expected to continue over the coming year. This will not only increase activity in the region's ICT sector, but also in retailing and distribution as delivery models transition towards internet-based sales and direct business-to-consumer distribution. These activities will favour Palmerston North's big retail and distribution hub.

Less favourable economic conditions are likely to mean more job losses, with unemployment set to get a further boost once the Government's wage subsidy scheme ends. That, together with lower incomes and ongoing economic uncertainties should mean that house prices remain subdued over the coming year.

Figure 1: Taranaki/Manawatu-Whanganui's housing market

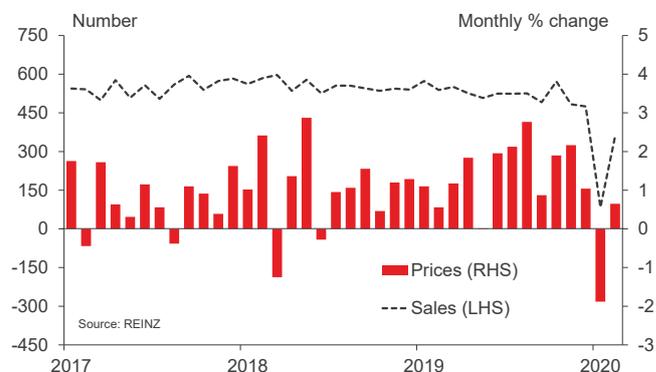
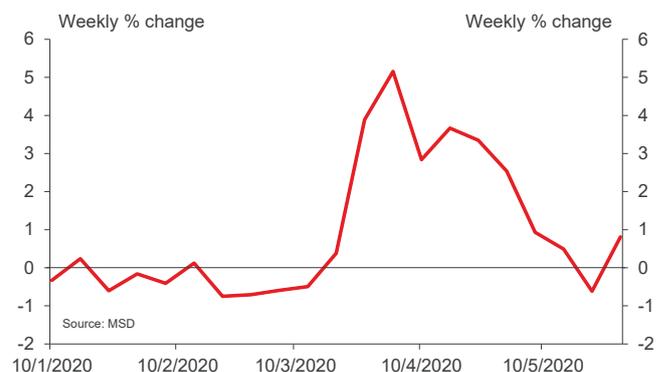


Figure 2: Jobseekers support in Taranaki/Manawatu-Whanganui



Waikato.

Current situation.

Economic activity in the Waikato has been curtailed by a combination of severe drought conditions and Covid-19, making it one of the hardest hit regions in New Zealand.

The drought is likely to have weighed heavily on New Zealand's largest dairy producing region, with many dairy farmers having to dry off their herds early. Despite a recent weakening in dairy prices due to softer demand in key export markets, the milk price has ended the season at a healthy level.

Drought conditions have also prompted many of the region's beef farmers, faced with dwindling feed supplies, to try and bring meat deliveries forward. Production was further affected by downstream processing delays caused by Covid-19.

At the same time, forestry, ex-food manufacturing, construction, and non-essential retail activity was brought to a halt. Tourism and international education, both big earners for the region, were similarly affected by a ban visitor on arrivals from abroad and restrictions on domestic travel.

Some firms in the region were forced to close as a result, while many others ended up restructuring their operations to keep their heads above water. Resulting job losses have contributed to a rise in unemployment, increasing the number of people on jobseeker support. It could have been a lot worse had it not been for the Government's wage subsidy scheme.

Finally, house prices in Waikato have fallen 1.4% since the March market peak.

Outlook.

Waikato will experience a severe recession over the coming year and is set for a slow recovery because of difficult operating conditions in the manufacturing sector as well as weaker global prices for logs and dairy. However, if drought conditions end soon, we think that this region could end up performing better than most, in part because of its relatively low exposure to international tourism.

The outlook for the region's large forestry industry is not particularly good. Log prices have risen sharply in recent months, but we doubt whether these can be maintained, especially given an expected global economic downturn and the likelihood of weaker activity in China.

The same applies for the dairy sector, which is expected to see lower prices over the coming year. An improvement in drought conditions should, however, help production to recover.

Although tourism is a big earner for the region, about two-thirds of revenues generated comes from New Zealanders. That means the impact of a cross-border travel ban is a lot less for this region than others of similar size. With offshore

travel effectively off limits to Kiwis for some time to come, we think there is a good chance that a lot of this this shortfall will be made up by an increase domestic travel.

That said, there are other activities that will continue to struggle. For example, the region's manufacturers, who mostly operate out of Hamilton, are likely to face an increasingly difficult competitive environment over the coming year, mainly because of weak global economic conditions.

Construction activity too should soften further as economic uncertainties abound, and developers become increasingly reluctant to bring new projects to market.

Job losses, having been kept to a minimum because of the Government's wage subsidy, are expected to pick up again once the scheme has ended. That, together with lower incomes and ongoing economic uncertainties is likely to see house prices fall further.

Figure 1: Waikato's housing market

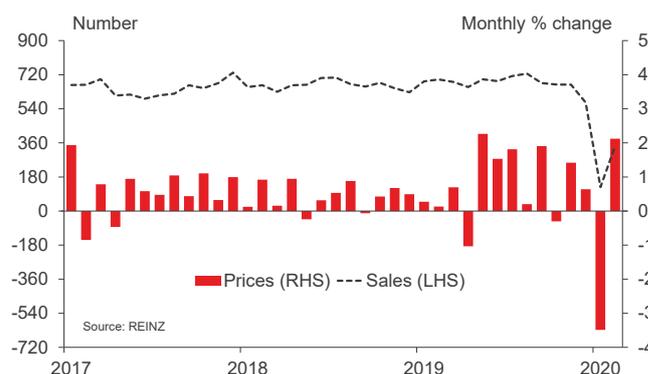
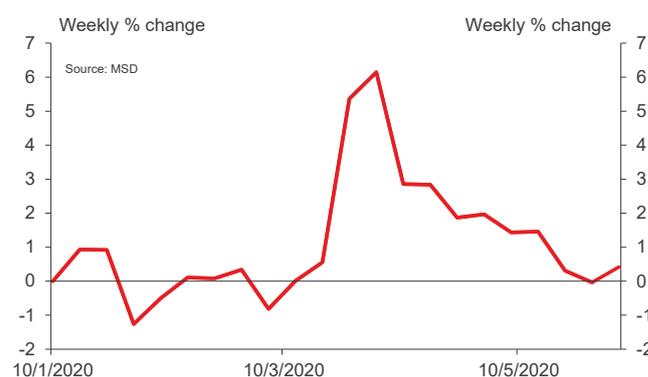


Figure 2: Jobseeker support



Wellington.

Current situation.

Wellington was heavily affected by Covid-19, with its extensive service sector forced to close over the lockdown.

Even those firms that were able to operate could only do so under strict adherence to physical distancing protocols, which included working from home. The resulting absence of workers was acutely felt, especially by retailers and cafés operating in Wellington's CBD.

Several other industries in the region were also adversely affected by Covid-19. Indeed, construction, ICT, tourism (ranging from hospitality and food to transport services), international education, and non-essential retail all came to a standstill because of the lockdown.

Some firms were forced to close as a result, while many others ended up restructuring their operations to keep their heads above water. Resulting job losses contributed to a rise in unemployment, although still low because of capacity building in the public sector, increasing the number of people on jobseeker support. It could have been a lot worse had it not been for the Government's wage subsidy scheme.

Meanwhile, Wellington's housing market has begun to turn, registering a small price decline since the March market peak.

Outlook.

Although Wellington will still experience a severe recession in coming quarters, the downturn is likely to be less severe than most other regions. We think this region will bounce back relatively quickly because of the resilience of government departments and a lower exposure to the looming global recession.

Much of its recovery will be driven by the Government, which is expected to ramp up public sector capacity in the post Covid-19 period. This should help to partially offset a rise in job losses following the end of the Government's wage subsidy scheme. The opening of public offices previously closed during the lockdown period and the return of public sector workers to their workplaces should also support retail spending, particularly in Wellington's CBD.

The trend toward digitisation, which accelerated under lockdown, is expected to continue over the coming year. This will not only increase activity in the region's ICT sector, but also in retailing and distribution as delivery models transition towards internet-based sales and direct business-to-consumer distribution. These activities will favour Wellington's big retail and distribution hub.

That said, economic activity is still unlikely to reach pre-Covid-19 levels over the coming year.

Tourism in the region is likely to struggle, although less so than other regions more affected by the travel ban on foreign visitor arrivals. Some of the shortfall left by the absence of foreign visitors to this region could be partially offset by an increase domestic travel.

Construction activity in the capital is also expected to soften further as economic uncertainties abound, and developers becoming increasingly reluctant to bring new projects to market. However, unlike other in other regions, commercial construction activity in Wellington could get a boost from Government looking for extra space to accommodate additional workers.

House prices are likely to fall, and that may come as a shock to Wellington, which has been riding high on capital gains for years. This will further exacerbate the downturn in consumer spending.

Figure 1: Jobseeker support in Wellington

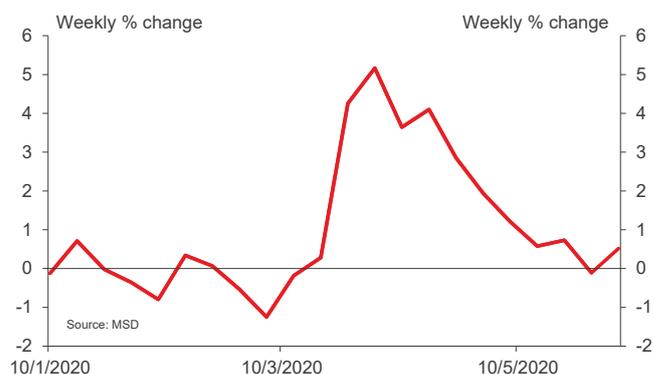
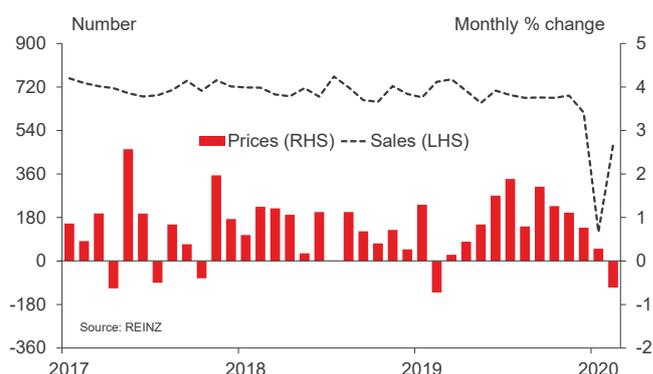


Figure 2: Wellington's housing market



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