Hawke's Bay Region
Economic Monitor to March Quarter 2014

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the Hawke's Bay region, some historical economic trends and the economic outlook for the region for the next 12 months. Most of the economic indicator results provided in the report are for the year ended March 2014 but a few later results are also included. The base information for the analysis is sourced from a range of agencies including Statistics New Zealand and other Government agencies and regional and local organisations. Growth comparisons with other regions and the country as a whole are included in the analysis where appropriate.

2.0 Trend summary

There have been a number of individual economic indicator gains in the Hawke's Bay region over the past year. These include as follows:

- **Positive** economic changes:
  - An estimated total population gain of 700 or 0.5%.
  - Increased value of consented new dwellings, farm buildings and total building alterations, and an increased number of consented new commercial/industrial buildings.
  - Increased retail spending and consumer confidence, residential property prices and new motor vehicle registrations.
  - An increase in commercial visitor arrivals and night-stays, as well as total visitor spending.
  - Significant increase in the international export volume handled by the Port of Napier.
  - Overall improved business trading performance of Napier-Hastings firms.
  - Increased meat and wool, horticultural generally, pip-fruit and forest product export returns.
  - Slightly reduced unemployment and noticeable reductions in the number of people receiving Government benefits including the Jobseeker benefit.
  - A number of major new business developments including the Kiwibank back-up head office and call centre in Hastings employing up to 100 staff, mechanical pulping and kiln facilities at Pan Pac, new commercial office space in Napier, new 21- room new waterfront hotel/conference facility redevelopment in Ahuriri, residential development work on the old Napier Hospital site, redevelopment of the former Pernot Ricard winery in Pandora into a contract winery operation, new Port of Napier office complex, new $3.6m international hockey stadium and turf at the regional sports park in Hastings; winery and grape-growing land developments in Hastings District; redevelopment and upgrading of the Lake Tutira education and outdoor adventure/ tourism centre; $1.5 million upgrade of the Flaxmere Community Centre; planned extension of Guthrie Park in Havelock North to include the development of a new BMX track; and construction of a new $22 million mental health unit at the HB regional hospital.
- **Downside** changes over the past year include further net international population migration loss, reduced new house-building activity in volume terms, lower new commercial-industrial building in value terms and slightly lower employment.

The balance of all the above factors is that the Hawke's Bay region recorded an estimated 2.5% economic growth for the March 2014 year, compared to the 1.1% decline for the 2013 year. Along with the positive export outlook for a number of the primary industries, stronger economic activity in NZ and indications of increased general business confidence, this growth improvement provides a sound base for further growth and development of the HB economy over the coming year. Consented new dwellings over the April-June period this year are on par in value terms with the same period last year whilst all other new building work is up 30% in value terms. Consented new farm buildings are up nearly 70% in volume terms and more than double in value terms.

3.0 Key Hawke's Bay Region annual economic indicator levels Mar/June 2014 Year

Estimated Population (June 2014):	155,700
Estimated households:	58,035
Nominal Gross Domestic Product (GDP):	$6.5 billion
Annual economic growth:	2.5%
Annual employment:	80,049
Annual employment change:	-1.3%
Estimated unemployment:	5,824
Estimated unemployment rate (%):	6.8%

4.0 Population

Hawke's Bay's population currently stands at an estimated 155,700 and has increased by an estimated 700 or 0.5% over the past year. It is noted that the 2013 Census population recorded for the region was 151,179 but this relates to the Census month (March 2013) whereas the above estimate is for the June 2013 period. The difference between the two figures is due to definitional and statistical factors. For the purposes of population projections, the population estimates figure is used.

Figure 1a indicates the trend in the region's estimated population since 1996, for selected years. Over the period, the population has increased by 9,100 or 6.2%. This compares with the national figure of approximately 20%.

Since 1996, the main components of total population change in the region have been natural population gain (births minus deaths) of 18,362 and a total net migration loss of 9,262. The latter figure comprises an international net migration loss of 9,419 and a net internal migration gain of 157. Net international migration loss from the region has been particularly pronounced over 1999-2001, 2009, 2011 and 2012-2013.

On the basis of the current population estimate for Hawke's Bay, as above, the region's population is projected to increase to 161,200 by June 2031, under the Statistics NZ Medium or 'middle of the road' projection scenario. This represents a gain of 5,500 or 3.5% on the current regional population.

Over the 2014-2031 period, the Hawke's Bay under 15 years age-group population is projected to fall by 7.4% and the 15-64 population by 7.6%, with the 65+ population increasing by 56%.

Fig 1a: HB Region Census Population Growth Since 1996

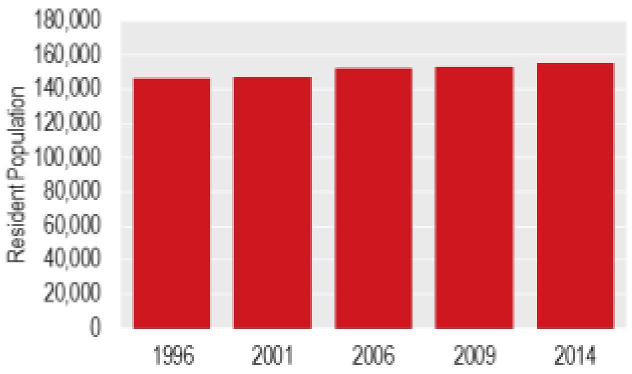
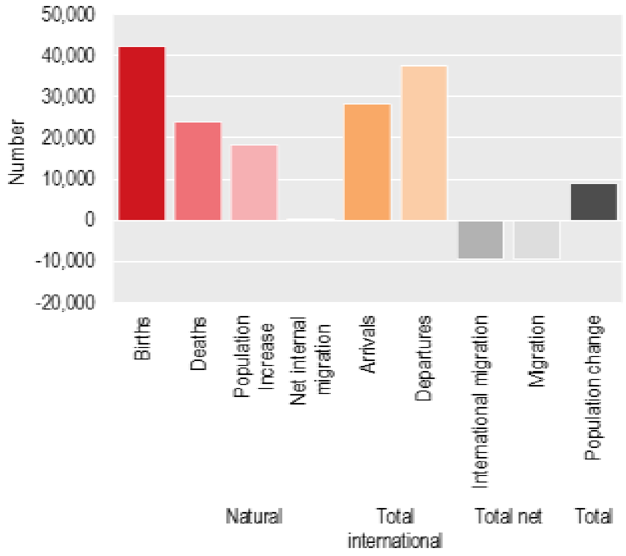


Fig 1b: Hawke's Bay Region population change factors 1996-2014



5.0 Households/dwellings

The total stock of households in Hawke's Bay in March this year stood at an estimated 58,035, compared to 54,618 in March 2006 and 52,212 in March 2001. The household increase over the full period is 5,823 or 11.2%.

The latest Statistics New Zealand Medium projections see the number of households in the region increasing by a further 6,311 or 10.3% to the 67,700 mark by Year 2031.

Figure 2 indicates the trend in the number of consented new dwellings in the region, since 2009. The figure fluctuated noticeably over 2009-2011 but has been relatively stable since then although at a significantly lower level.

6.0 New building activity

Over the year ending March 2014, a total of 393 new dwellings received building consent in the Hawke's Bay region, worth a combined value of $123.5 million. The number of new dwellings approved during the year was down 4.4% on the previous year whist their combined value was up 5.5%. Total housing alterations consented rose 12.5% in volume terms and 12.3% in dollar terms.

Figure 3a indicates the annual trend in the volume of consented new commercial/ industrial building work in the region, since 2009. Building work approved over the latest year was up 11.3% on the previous year in volume terms but down 41% in value terms. Significantly increased activity occurred over the year only in the visitor accommodation sector. As the graph indicates, the volume of building activity has fluctuated on an annual basis but on a positive note has been increasing since 2012.

The total amount of new commercial and industrial building work in the region has fallen though by approximately 7% overall since 2009. During the period, the largest sectors of new building activity (in value terms) have been, in order, industrial, retail/ hospitality, office/ administration and storage (Figure 3b).

The volume of new rural building work consented fell by 2.7% during the latest March year, whilst the total value of this work rose by 46.2%. New farm building work in the region has been falling steadily in volume terms since 2009 and overall by 57%.

The total number of new buildings, other than residential, commercial/industrial and rural, consented in the region over the year ended March 2014, was down 47% on the previous year. The total value of the building work was down 64%, with only the hostels/boarding houses and social/community sectors recording a gain over the year.

All up, the total number of new buildings consented in the region during the year was recorded at 552 with a combined value of $168.2 million. These results were down 5% and 16% respectively on the previous March year figures. The total number and value of consented building alterations were up 7.6% and 3.1% respectively.

Fig 2: Hawke's Bay Region new residential dwellings consented 2009-2014 (March years)

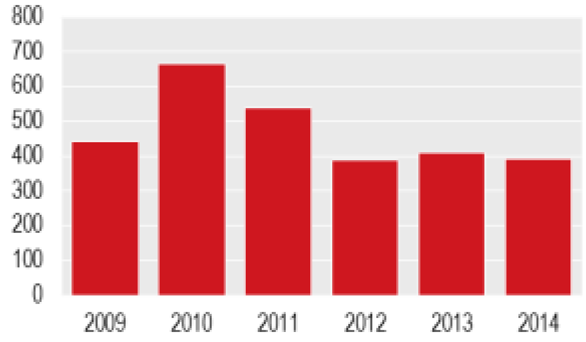


Fig 3a: Hawke's Bay Region new commercial and industrial buildings consented 2009-2014

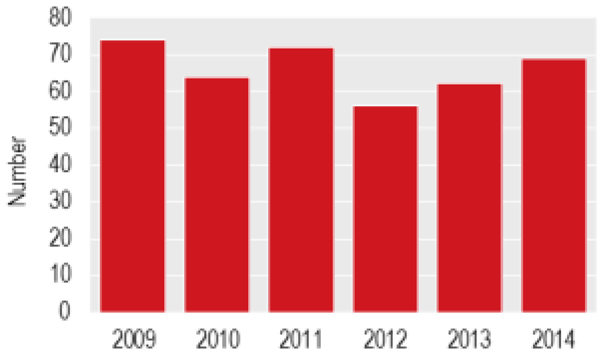


Fig 3b: Hawke's Bay Region sector shares of the total value of new commercial/industrial building work consented 2009-2014

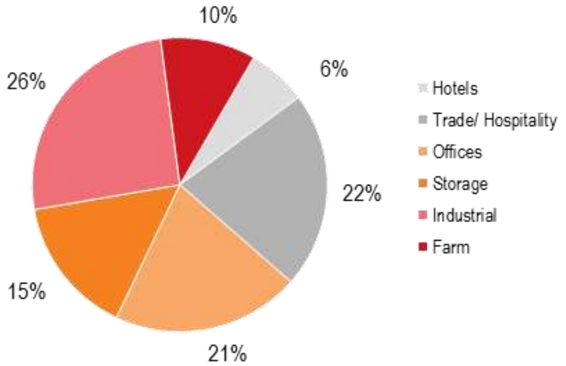
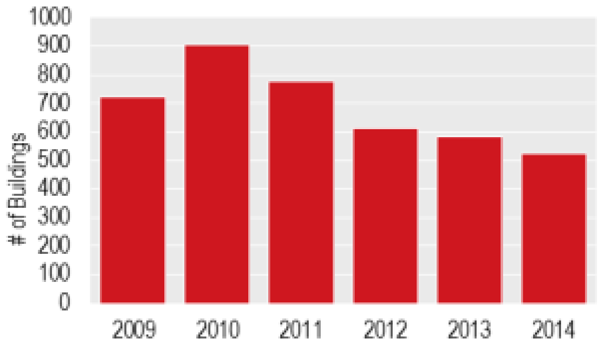


Fig 3c: Hawke's Bay Region Total Annual Consented New Buildings 2009-2014



7.0 Other economic indicators

The changes indicated in this section are for the year ending March 2014. **Figure 4a** shows some of the economic indicator changes for the region versus NZ as a whole, over the period. New dwellings consented rose 5.5% over the year in value terms, compared to the national gain of 32%.

Changes over the past year in the average residential property sale price in the different Hawke's Bay local authority district areas were Wairoa +0.7%, Hastings +0.1%, Napier +0.6% and Central Hawke's Bay +1.5%. The comparative national change was 7.2%. Hawke's Bay house sales totalled approximately 190 for the year ended March 2014 compared to approximately 210 for the previous year. Sales have been relatively flat since the beginning of 2013. The median house sale price has been trending upwards since April 2013 although it has stabilised so far this year.

The latest Massey University Home Mortgage Affordability survey undertaken in June this year indicates that housing affordability in the wider Hawke's Bay region had declined slightly (-0.7%) over the previous year, compared to -7.6% nationally. The median weekly housing rental in Napier City in May 2014 was on par with the same month in 2013 but up 1.7% in Hastings.

Hawke's Bay commercial visitor-nights rose by 0.8% over the past March year, compared to the 4.1% national gain. Total commercial visitor arrivals into the region increased by 0.9% compared to 2.8% nationally. The average visitor 'length of stay' in the region for the two years was similar at around 2.15 nights.

Paymark monitored retail spending figures (which cover 50% of all retail spending in New Zealand), indicate a 5.9% increase in the volume of spending in the full Hawke's Bay region for the year ended March 2014 compared to the same period last year. The national change was 7.5%. The total nominal value of spending in Hawke's Bay rose 3.6%, compared to 6.8% nationally. **Figure 4b** shows the trend in the volume of retail spending for the March quarters over the period 2009 to 2014. Spending activity has risen by 21% over the full period.

According to the results of the March 2014 quarter Westpac McDermott Miller Consumer Confidence survey, consumers in the Hawke's Bay region as a whole are reasonably optimistic overall about shorter-term economic conditions in New Zealand for the coming year. The overall level of consumer confidence had increased by 13.1% over the previous year, compared to the national gain of 10.9%.

New motor vehicle registrations in the region for the year ended January 2014 were up 12% on the previous year's result for the same period, compared to 13% nationally.

Fig 4a: Comparative Hawke's Bay Region and New Zealand economic indicator changes 2013-2014

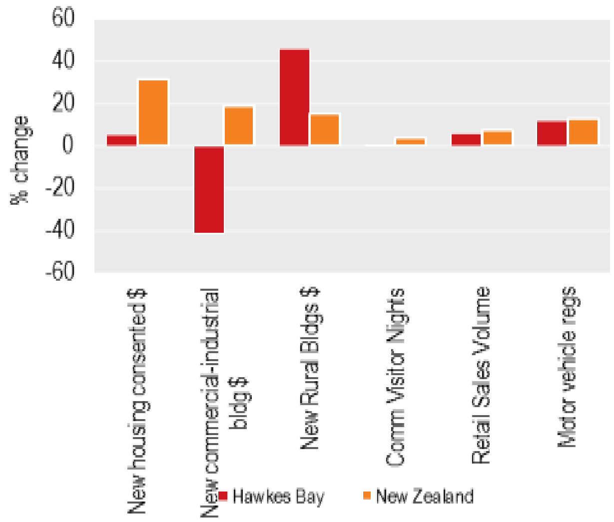


Fig 4b: Paymark Hawke's Bay Retail Spend March Quarters 2009-2014

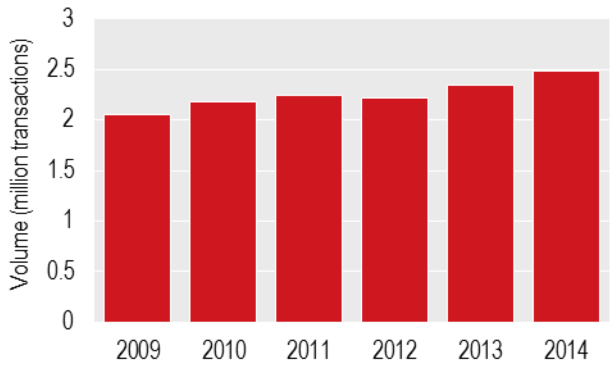
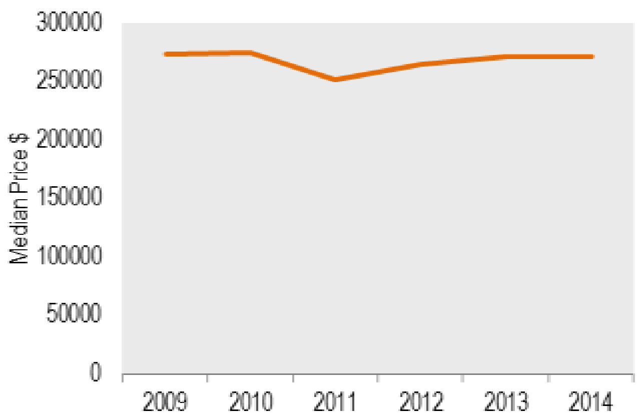


Fig 4c: Hawke's Bay Residential Property Price Index Trend 2009-2014

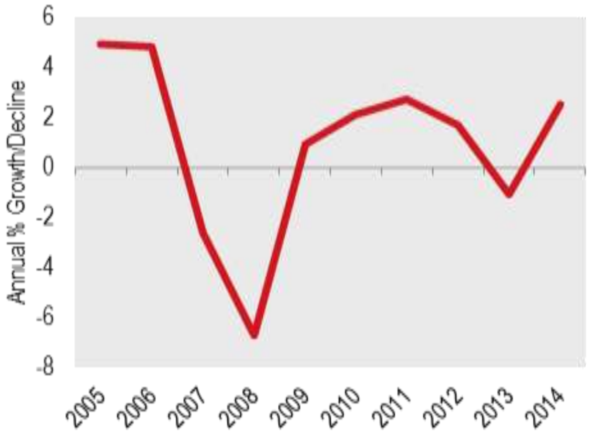


8.0 Overall economic growth

Figure 5a indicates the longer-term trend in overall real terms annual economic/GDP growth in the Hawke's Bay region since 2005. The growth estimates for the region are based on historical nominal value terms GDP estimates for the region prepared by prepared by Statistics New Zealand. These have been subsequently adjusted for inflation during the period. It is noted that where the graph lies above the zero x-axis, this indicates positive growth and economic decline where the graph line lies below the x-axis.

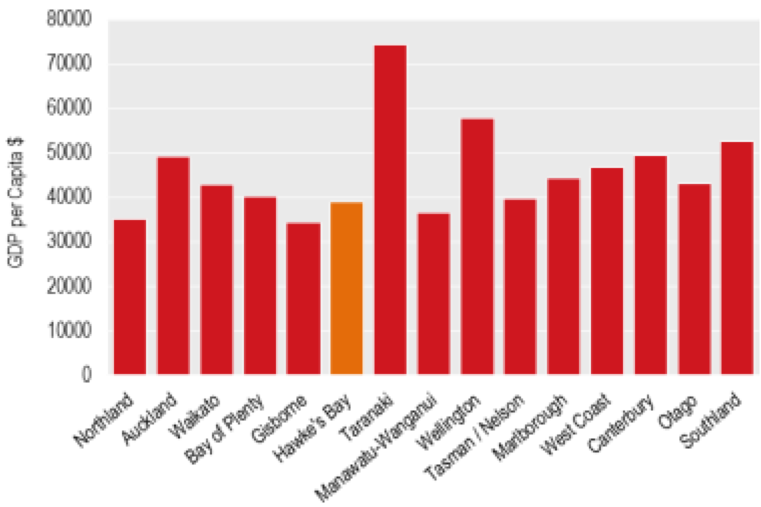
As the graph shows, annual economic growth in Hawke's Bay was relatively strong during 2005-2006. Economic decline then occurred over 2007-2008. Since then, positive growth rates have prevailed in the region other than for the 2013 March year. The regional growth rate for the March 2014 year was 2.5%, compared to an estimated 2.9% nationally.

Fig 5a: Hawke's Bay Region annual economic growth track since 2005



Statistics NZ information indicates a GDP per capita figure of $39,035 for the Hawke's Bay region in 2013 compared to the top regional figure of $74,341 for the Taranaki region and $47,532 nationally. The region is currently placed 12th of the 15 regional areas in the country, for this indicator. GDP per capita is a formal economic measure of the average standard of living in an area.

Fig 5b: Regional Per Capita GDP Levels in NZ 2013

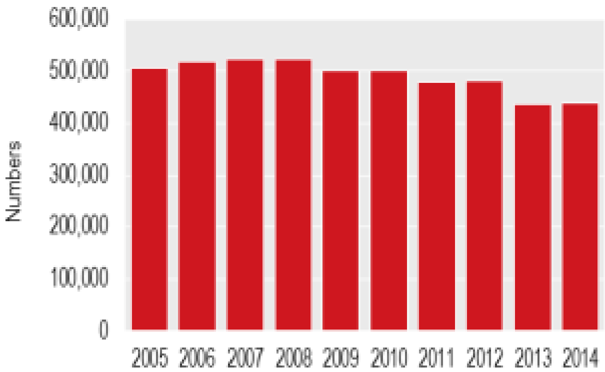


9.0 Visitor/tourism numbers

Visitor arrival numbers into the Hawke's Bay region staying in commercial accommodation (which accounts for an estimated 40% of all regional overnight visitors) totalled 439,990 for the year ended March 2014, up 0.9% on the previous year. The number of nights spent in the area by visitors staying in commercial accommodation (representing only 27% of all annual regional night-stays; the rest relate to the VFR accommodation sector) totalled 943,298 for the year, up 0.8% on the previous year.

As **Figure 6a** indicates, the number of visitors to the region rose gradually over 2005-2007, fell back until 2013 and then increased slightly over the latest year. Arrival numbers for the year ended March 2014 were 16% down on the 2008 peak level. As shown in **Figure 6b**, annual commercial accommodation visitor-nights spent in the region have followed a very similar trend to that for commercial visitor arrivals except that the number rose last year for the first time since 2010.

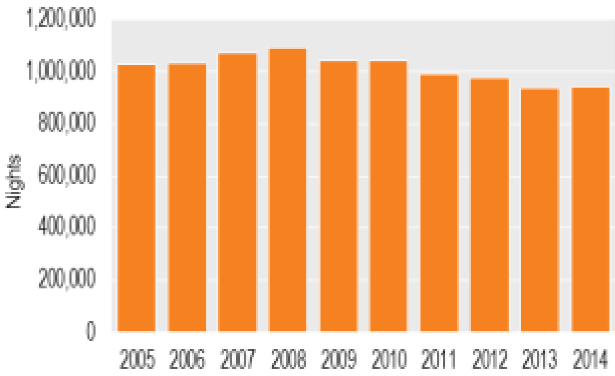
Fig 6a: Total Hawke's Bay Region commercial visitor arrival numbers 2005-2014



The number of visitors to Hawke's Bay staying with friends and relatives (VFR visitors) currently accounts for 60% of total overnight visitor numbers and 74% of total visitor nights spent in the region. Over the year ended April 2014, VFR numbers increased 9.7% whilst VFR night-stays rose 4%.

Central Government tourism figures indicate a total direct visitor spend in the region over the March 2014 year of $604 million, comprising $509 million or 84% for domestic visitors and $95 million or 16% for international visitors. Total visitor spend in the region has been consistently increasing since 2009 and overall by 26% in nominal 'dollars of the day' terms. The gain over the latest year was 6.3%. These spending figures are based on recorded electronic card transactions.

Fig 6b: Total Hawke's Bay Region commercial visitor nights 2005-2014



10.0 Results comparison

Table 1 indicates the latest comparative annual local economic changes for the Hawke's Bay region as a whole, its constituent local authority districts and New Zealand for the listed indicators, for the year ended March 2014. The indicators comprise population, value of consented new building and commercial accommodation visitor-nights. The population results cover the 2012 and 2013 years as later information is not available as yet for all districts. All districts and therefore the region recorded positive growth in the value of consented new dwellings over the year. The opposite was the case for new commercial-industrial building. All the main agricultural districts recorded positive growth in consented new rural building values. Hastings District was the only area to record positive growth in the total value of consented building alterations over the year. Positive albeit limited growth was recorded for property prices. All districts other than Hastings recorded positive growth over the year in commercial accommodation sector based visitor night-stays. Hawke's Bay out-performed the country as a whole in terms of the value of consented new rural buildings.

Table 1: Comparative Hawke's Bay Region TLA District and New Zealand Economic Indicator Changes 2014 March Year vs 2013 March Year

	% Change 2013–2014 years Economic indicators						
Area	**Population**	**$ New Dwellings Consented**	**$ New Commercial-Industrial Bldg**	**$ New Rural Buildings**	**$Total Building Alterations**	**Average Residential Property Prices**	**Commercial Visitor Nights**
Napier City	0.0	4.7	-37.1	-47.1	-0.9	0.6	1.3
Wairoa District	-1.1	43.6	-58.5	40.4	-41.8	0.7	2.4
Hastings District	0.3	1.1	-42.6	76.1	8.8	0.1	-0.7
Central HB District	-0.4	56.1	-87.8	50.2	-1.0	1.5	8.6
HB Region	**0.0**	**5.5**	**-41.3**	**46.2**	**3.1**	**0.5**	**0.8**
New Zealand	**0.9**	**31.7**	**18.8**	**15.4**	**16.1**	**10.0**	**4.1**

11.0 Industry profile and growth

Table 2 indicates Hawke's Bay estimated industry nominal (current dollar terms) GDP levels for the year ended March 2014. The total primary production sector accounts for, in round terms, 13% of total GDP in the region, secondary industry (processing-manufacturing, utility services and construction) 25%, commercial services 31%, public & community services 15% and other items (other industries, owner-occupied dwellings and GST) 16%.

Figure 7a further illustrates the current broad industry profile of the Hawke's Bay economy. The largest industries are, in order, processing and manufacturing; business services; rural production; health, education and community services, and retailing, wholesaling and hospitality services.

Table 2: Hawke's Bay Region industry GDP Profile 2014

Industry	**Nominal GDP ($m)**	**% of total**
Fruit Growing	340	5.3
Pastoral Farming	190	2.9
Forestry and Fishing	120	1.9
Other Primary Production & Rural Support Services	180	2.8
Rural Commodity Processing & Manufacturing	710	11.0
Other Manufacturing	305	4.7
Utility Services & Construction	570	8.8
Accommodation & Food Services	120	1.9
Wholesale & Retail Trade	550	8.5
Transport Storage Communications	320	4.9
Business Services	1,010	15.6
Public & Community Services	990	15.3
Other[1]	1,070	16.5
Total	**6,475**	**-**

Note: 1 Owner-occupied dwellings (imputed rental), other industries and GST.

Industry employment growth during the latest (2006-2013) Census period was highest in Hawke's Bay for, in order:

- Utility services
- Health care and social assistance services
- Public administration
- Education and training services, and
- Arts and recreation services.

Industries recording the highest employment falls over the period were construction, retailing, primary production, manufacturing, information media/ telecommunications and visitor accommodation/ food services.

Total international trade volumes handled at the Port of Napier during the latest June year, at 3.6 million tonnes, were up 12.9% on the previous year. The total volume handled during the latest year was also up 27% on the 2009 level. The total overseas export tonnage which currently accounts for 87% of the total international trade volume handled by the Port, increased 17.7% over the latest year and 32.5% between 2010 and 2014. Meanwhile, international imports which account for 13% of total international tonnages currently handled by the Port fell 11% over the latest June year.

The medium-term outlook for NZ's rural production industries which have a significant presence in Hawke's Bay, is briefly as indicated below. The information is sourced from the Ministry of Primary Industries 2014 'Situation and Outlook for Primary Industries' publication:

- Total export returns rose 16.3% over the past year in New Zealand and have increased by 18.1% since 2011.
- Dairy exports have increased by 33.7% since 2011, meat and wool exports by 4%, horticultural exports by 8.7% and forestry exports by 13.3%.
- Over the coming year, dairy exports are forecast to fall by 10% and forestry exports by 8.5%. Meanwhile, meat and wool exports increase by 1.8% and horticultural exports by 4.8%.
- The increasing importance of the Chinese/ Asian markets underpins the growing demand and prices for many of the country's primary sector exports.
- Pip-fruit export volumes (of which Hawke's Bay currently accounts for over 60%) have risen by 6.3% since 2012 and by 15% in value terms. The forecast respective increases for the coming year are 8.8% and 8.7%.

Fig 7a: Hawke's Bay Industry GDP Profile 2014

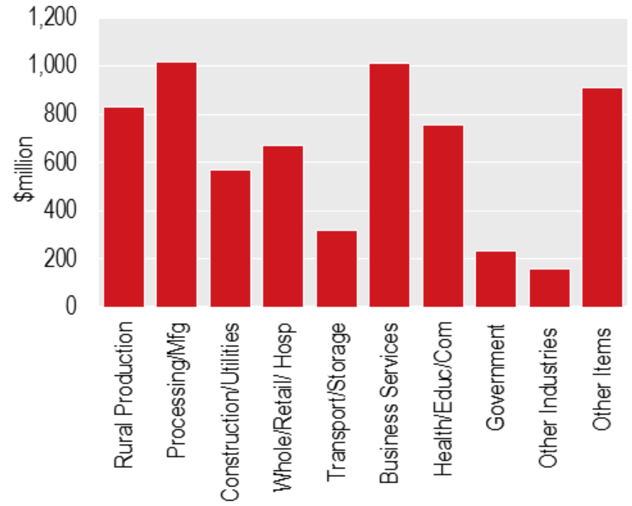
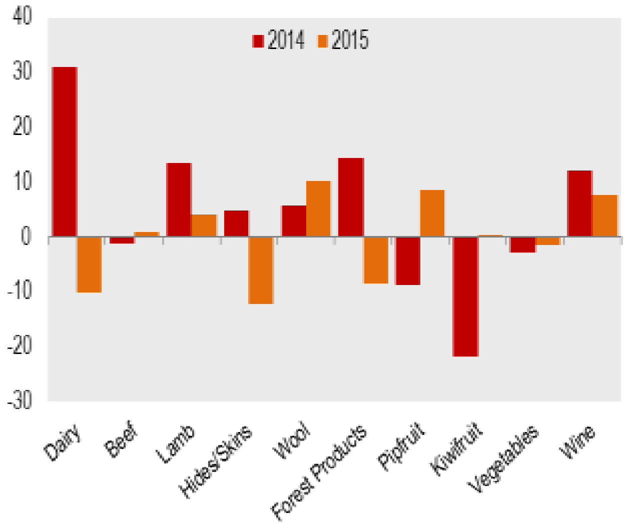


Fig 7b: Total Port of Napier Annual International Trade Volumes Since 2010

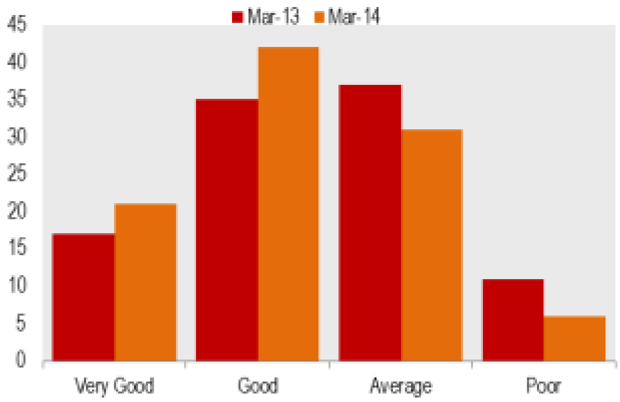
Fig 7c: NZ Primary Commodity Export Returns 2014/2015



12.0 Business confidence

The Napier and Hastings Council's latest (March 2014) formal surveys of local business confidence (some 200 local businesses across all industry groups are surveyed in each district on a range of confidence factors) indicated that, as shown in **Figure 8**, the current trading performance of the firms surveyed was primarily either 'good' or 'average'. In addition, the proportion of firms reporting 'very good' and 'good' trading performance had increased significantly since March 2013, whilst the proportion reporting 'average' and 'poor' trading had fallen noticeably. The key positive influences on business performance around the time of the survey included business reputation quality, quality of staff, the improving national economy, increased marketing and advertising, seasonal upturn in business, improved customer service, rural and construction sector growth and assistance from Government policy changes and programmes.

Fig 8: Napier City and Hastings District Current Business Trading Performance March 2014



13.0 Employment

Total employment in Hawke's Bay for the March 2014 year is estimated at an annualised 80,049 and was down 1.3% on the previous March year. Employment has increased overall by 1,977 or 2.5% since 2008. The trend since that year is indicated in **Figure 9a**. Employment in the region was relatively stable over 2008-2012 but then jumped up in 2013 before falling back over the latest March year.

Figure 9b shows the trend in industry employment in Hawke's Bay over the latest Census period 2006-2013. Significant positive growth was recorded by the utility services (power, gas, water and waste services), community services (health, education and social assistance services) and public administration (Central and Local Government).

In 2013, the largest industry employers in Hawke's Bay were, in order, processing and manufacturing, primary industries production, health care and social services, retailing, education and training, and the construction industry.

Statistics NZ's LEED (Linked Employer-Employee Database) dataset provides quarterly information on median earnings at the local authority level. Over the year ended March 2013 (the latest available information for this indicator), total median earnings for continuing jobs in Hawke's Bay were recorded at $42,860. The comparative national figure for the same period was $47,100, 9.9% up on the regional earnings level. Hawke's Bay has a national ranking of 12/16 regions for this indicator.

Fig 9a: Annualised Hawke's Bay Region Employment Trend 2008-2013

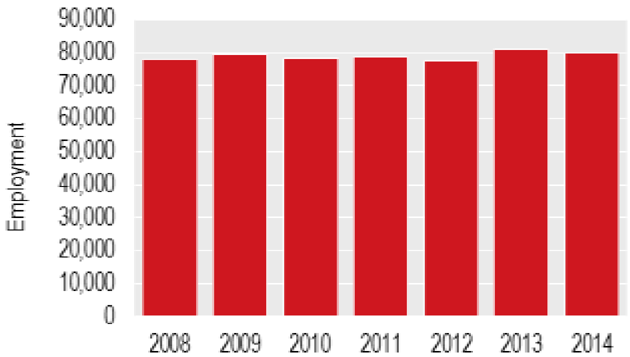
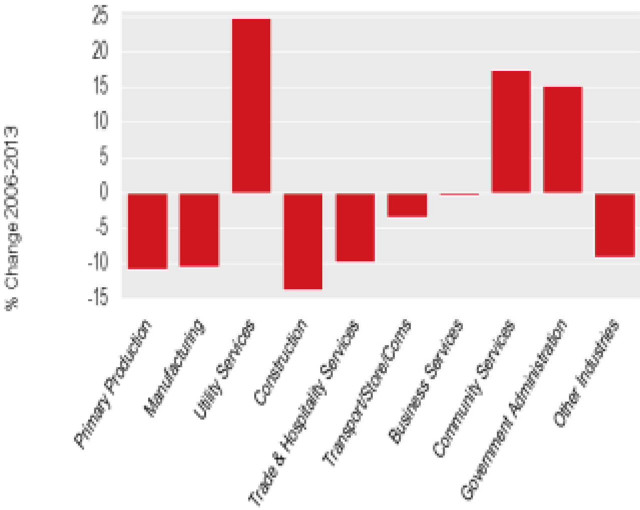
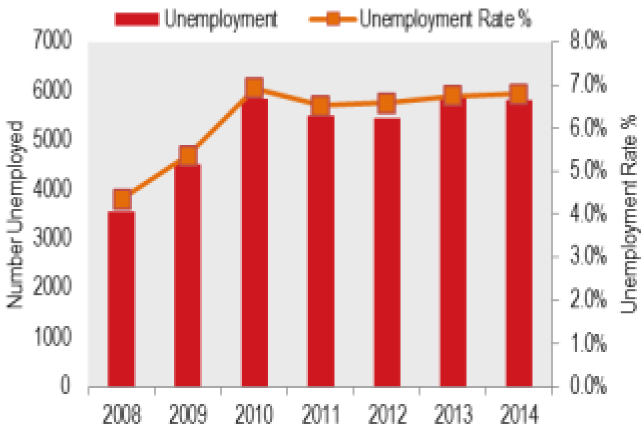


Fig 9b: Hawke's Bay Region Industry Employment 2006-2013



In March this year, the annualised rate of unemployment in Hawke's Bay was recorded at 6.8%, compared to 6.1% nationally. At the same time, total unemployment in the region stood at an estimated 5,824, down 0.7% on the previous year. The number of people receiving the job-seeker benefit in the Hawke's Bay region in June 2014 stood at 4,700, compared to 5,449 in September 2013; however, the number in June this year was up 11.4% on the March 2014 figure reflecting the seasonal impact with the winding down of the horticultural harvesting period.

Fig 9c: Hawke's Bay Region Annualised Unemployment 2008-2014



14.0 National economic outlook

This final section provides an indication of the forecast national economic environment over the next two years, on the basis of trends in key economic indicators.

Each quarter, the NZ Institute of Economic Research produces updated Consensus Forecasts for shorter-term economic activity at the **national** level. The forecasts are a consensus or average of the views of a number of the different economic forecasting agencies. The latest June 2014 forecasts are for:

- Noticeably positive overall economic and consumption growth in New Zealand over the next three years.
- Minimal and falling stable Government spending over the period.
- Major construction sector growth over the next two years, particularly with the Christchurch rebuild and new housing development in Auckland.
- Significant although falling business investment growth.
- Overall slight exchange rate depreciation over the forecast period.
- Increasing interest rates over the coming year.
- Significant although reducing employment growth over the forecast period.
- Noticeable private sector wage growth over the period.

Table 3: NZIER Consensus forecasts June 2014

	March years		
Indicator	**2013/14**	**2014/15**	**2015/16**
GDP	3.1	3.8	2.8
Private Consumption	3.6	3.6	2.9
Govt Spending	1.4	0.3	0.8
Residential Investment	16.1	19.2	10.1
Other Investment	10.1	9.8	5.4
NZ TWI Exchange Rate	77.1	79.2	76.2
90 Day Bank Bill Rate	2.9	3.9	4.7
Employment	3.5	2.3	1.6
Private Sector Wages	2.8	3.1	3.5

Note: All figures in the table other than for the TWI and 90-Day Bank Bill rate refer to the 'annual average % change' in the relevant indicators.