

Hawke's Bay Region

Economic Monitor to December 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 2014 calendar year 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

- **Positive** economic changes over the past year (YE December 2014) include:
 - An estimated total population gain of 900 or 0.6%, including a net international migration gain for the first time in five years.
 - Increased value of consented new commercial-industrial/ farm buildings/ total building alterations and an increased number of consented new rural buildings and consented building alterations.
 - Significantly increased volume and value of retail spending and motor vehicle retailing employment.
 - An increase in commercial visitor arrivals and total visitor spending.
 - Significant increase in international export volumes handled by the Port of Napier.
 - Expectation of Increased national level of beef meat, wool, wine, pipfruit and wine export returns.
 - Reduced level and rate of unemployment, and noticeable overall fall in the number of people receiving various Government benefits including the Jobseeker benefit.
 - Strongest industry GDP growth for commercial administrative and support services, agriculture, rental and real estate services, construction and education/training services.
- A number of significant new business developments including for example a major new pipfruit handling facility in Havelock North, major HB Airport upgrade and further capital developments at the Port of Napier, new water bottling plant in Awatoto, Napier, major sheet metal manufacturing plant upgrade in Hastings, additional forestry land development by forest product processing company, new hotel development in Havelock North, Hospital Hill apartment developments in Napier, mushroom processing plant expansion, redevelopment of HNZ state housing in Napier-Hastings, Hastings Opera House seismic status related upgrade, new container business in Napier and a number of retail developments.
- **Downside** changes over the past year include a reduced volume of consented new residential, commercial-industrial and social-community building work, fall in housing affordability, reduced consumer confidence, reduced level of international freight imports handled by the Port of Napier, slight fall in employment and a continuing relatively high rate of unemployment.
- **Overall**, Statistics NZ updated regional GDP estimates indicate 2% economic growth for Hawkes Bay for the year ended March 2014, following two years of slightly negative growth prior to this. This result was slightly less than at the national level.
- ANZ Bank figures indicate that the regional economy grew in nominal terms by over 2% during the March to December last year, also slightly less than the national situation.
- Latest NZ Institute of Economic Research Consensus Forecasts point to a current expectation in New Zealand of 2.9% real GDP growth nationally over the coming year, driven mainly by strong new residential building growth in Christchurch and Auckland.

3.0 Key Hawke's Bay Region annual economic indicator levels December 2014 Year

Estimated Population (June 2014):	158,900
Households (2013 Census):	57,642
Nominal Gross Domestic Product (GDP):	\$6.4 billion
Annual economic activity growth:	2%
Annual employment:	79,812
Annual employment change:	-0.8%
Estimated unemployment:	5,937
Estimated unemployment rate (%):	6.9%

4.0 Population

Hawke's Bay's population currently stands at an estimated 158,900 and has increased by an estimated 900 or 0.6% over the past year.

Figure 1a indicates the trend in the region's estimated population since 1996, for selected years. Over the period, the population has increased overall by 12,300 or 8.4%. This compares with the national figure of approximately 21%.

Over the past year, the main components of population change in the region were a natural population gain (births minus deaths) of 660 and a total net migration gain of 240. The latter figure comprised an international net migration gain of 174 and a net internal migration gain of 66. The positive net international migration gain for the region last year was the first time during the last five-year period that this situation has been recorded.

Latest Statistics NZ Medium or 'middle of the road' population projections for Hawkes Bay based for the first time on the latest 2013 Census results, point to a total population gain over the next five years of 3,520 or 2.2%.

Over this period, the Hawke's Bay under 15 years age-group population is projected to fall by 1.2% with the 15-64 population falling by 1% and the 65+ population increasing by 5,000 or 18%.

Fig 1a: Hawke's Bay Region Estimated Population Growth Since 1996

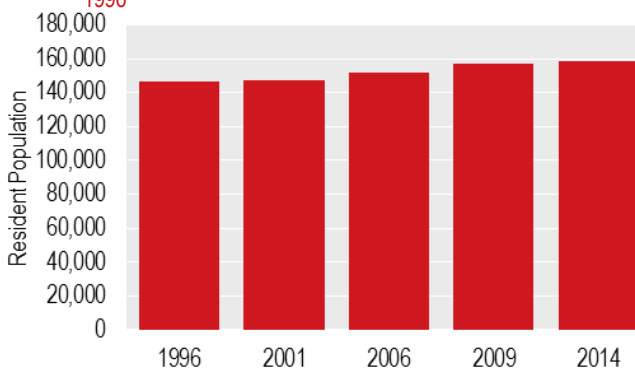
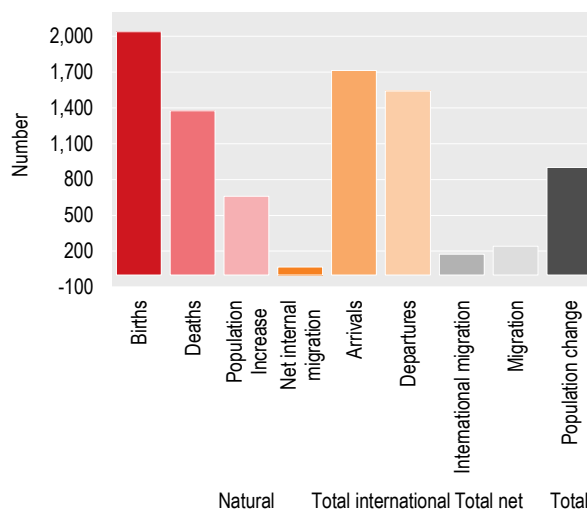


Fig 1b: Hawke's Bay Region Population Change Factors 2013-2014



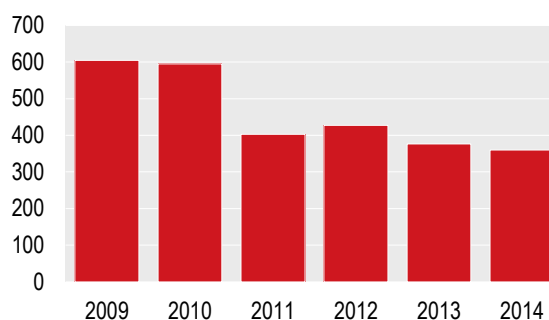
5.0 Households/dwellings

The total stock of households in Hawke's Bay at Census time 2013 stood at a recorded 57,642. Since then, an additional 665 new dwellings have been consented in the region.

The latest available Statistics New Zealand Medium household growth projections see the number of households in the region increasing by a further 1,780 or around 3%, over the next five years.

Figure 2 indicates the trend in the number of consented new dwellings in the region, since 2009. The number was stable over 2009/2010, fell sharply in 2011, increased slightly the following year and has since fallen back noticeably.

Fig 2: Hawke's Bay Region New Residential Building 2009-2014



6.0 New building activity

During 2014, a total of 360 new dwellings received building consent in the Hawke's Bay region, worth a combined value of \$119 million. The number of new dwellings approved during the year was down 4.3% on the previous year whilst their combined value was up 1.1%. Total housing alterations consented rose 1.9% in volume terms and 3.7% 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 last year was down 16.7% on the previous year in volume terms but up 28.7% in value terms. Significantly increased activity occurred over the year only in the visitor accommodation and industrial building sectors. As the graph indicates, the volume of building activity has fluctuated on an annual basis since 2009, although it generally increased over 2011-2013.

Fig 3a: Hawke's Bay Region New Commercial-Industrial Building 2009-2014

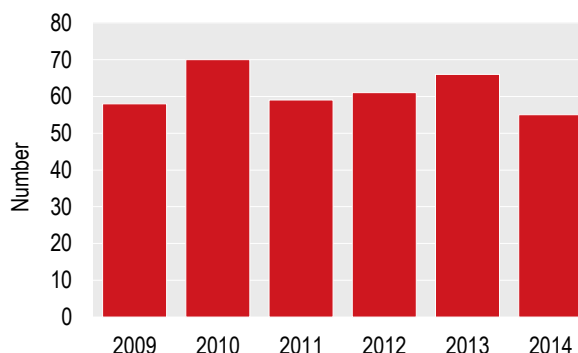
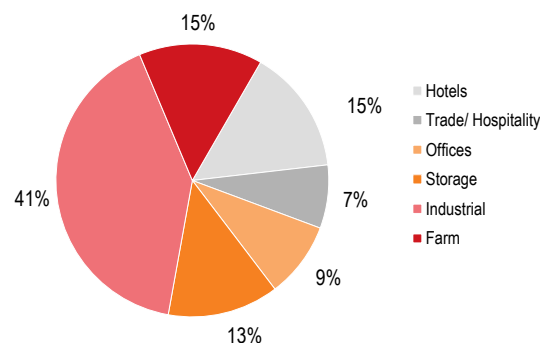


Figure 3b indicates the profile of new commercial, industrial and rural building consented during the past year. The largest sectors of new building activity (in value terms) were, in order, industrial, visitor accommodation and storage.

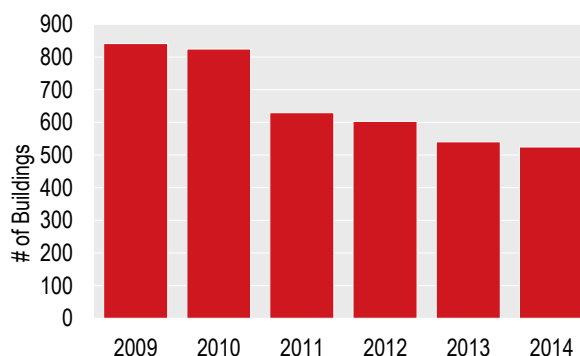
Fig 3b: Hawke's Bay Region sector shares of the total value of new commercial/industrial building work consented 2013-2014



The volume of new rural building work consented rose by 23.3% last year, whilst the total value of this work more than doubled.

The total number of new buildings, other than residential, commercial/industrial and rural, consented in the region last year was down 20% on the previous year. The total value of the building work was however up 37%, with only the hostels/boarding houses and health sectors recording a gain over the year.

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



All up, the total number of new buildings consented in the region during the year was recorded at 525 with a combined value of \$192 million. These results were down 2.8% and up 12% respectively on the previous year's results. The total number of consented building alterations was up 0.6% on the previous year with their total value being up 8%.

As indicated by **Figure 3c**, the total number of new buildings consented has been falling since 2011. The total annual value of new buildings consented has fluctuated considerably.

7.0 Other economic indicators

The changes indicated in this section are for the year ending December 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 1.1% over the year in value terms, compared to the national gain of 27%.

Hawke's Bay house sales totalled approximately 2220 for the year ended December 2014. Sales were relatively flat in the region over late 2012 to early 2014 then trended downwards until around September last year. Sales have since flattened again. The median house selling price rose over early 2013 to early 2014, then fell back a little until September 2014, rose again over the December quarter of last year and has since stabilised.

The latest Massey University Home Mortgage Affordability survey undertaken in December last year indicates that housing affordability in the Hawke's Bay region declined by 16.4% last year, compared to the 14.1% national decline. The median weekly housing rental in Napier City in November last year was on par with the same month in 2013. The Hastings result was a 1.8% decline.

Hawke's Bay commercial visitor-nights rose only marginally last year, compared to the 5.8% national gain. Total commercial visitor arrivals into the region increased by 1.3% compared to 2.7% nationally. The average visitor 'length of stay' in the region for the two years was similar at around 2.1 nights.

Paymark monitored retail spending figures (which cover 50% of all retail spending in New Zealand), indicate a 4.1% increase in the value of spending in the full Hawke's Bay region for the 2014 calendar year. The national gain was 6.7%. The total volume of retail spending in Hawke's Bay rose 4.8%, compared to 7.5% nationally. **Figure 4b** shows the trend in the volume of retail spending for the December quarters over the period 2009 to 2014. Spending activity has risen by 22% over the full period, in nominal terms.

According to the results of the December 2014 quarter Westpac McDermott Miller Consumer Confidence survey, consumers in the Hawke's Bay region as a whole were overall mildly optimistic at the time about shorter-term economic conditions in New Zealand for the coming year. However, the overall level of consumer confidence has fallen by about 4% over the past year, compared to the national decline of 4.4%.

Motor vehicle retailing employment in the region last year was up 2.6% on the previous year's level, compared to the 5.9% gain nationally.

Fig 4a: Comparative Hawke's Bay Region and New Zealand Economic Indicator Changes 2013-2014

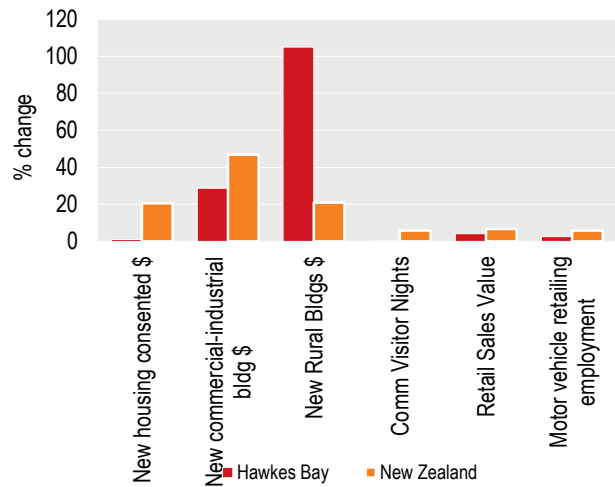


Fig 4b: Paymark Hawke's Bay Retail Spend Dec Quarters 2009-2014

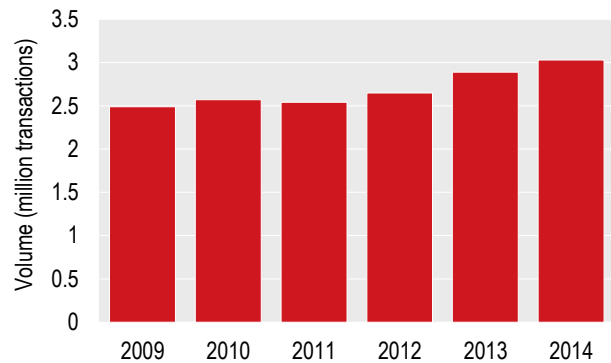
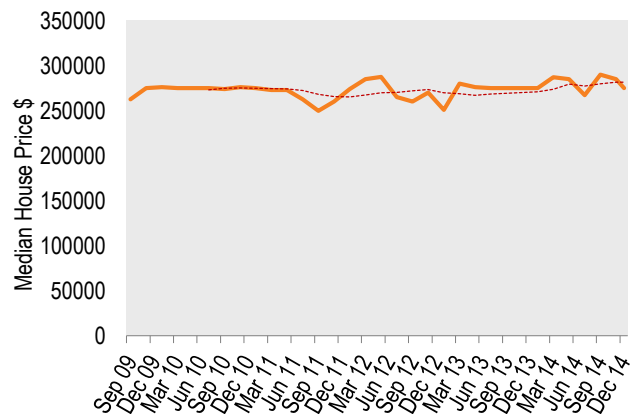


Fig 4c: Hawke's Bay Median House Price Trend 2009-2014



8.0 Overall economic activity

Figure 5a indicates the longer-term trend in economic growth in Hawke's Bay since 2005 and is based on recently released Statistics NZ updated regional area GDP estimates for New Zealand. Where the graph lines lie above the zero horizontal axis, this indicates positive economic growth and vice versa where the lines lie below this axis.

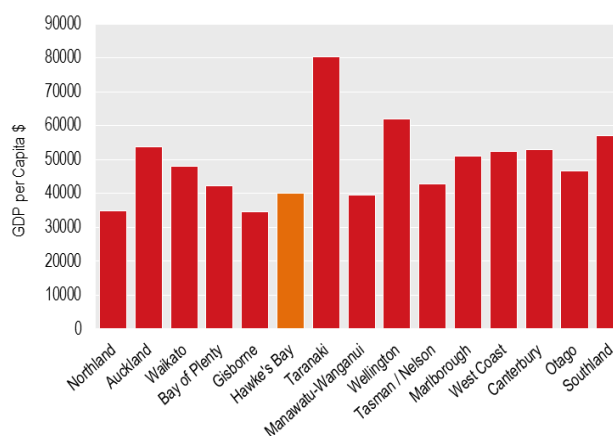
As the graph shows, annual economic growth in the region was positive although falling over 2005-2007. The region then slipped into significant economic decline in 2008. Positive economic growth was however recorded for the following three years. Further economic decline occurred during 2012/2013. However, significant positive growth of 2% was recorded for the latest March 2014 year. This compares with the national growth figure of 2.3%. ANZ Bank figures indicate that the regional economy grew in nominal terms by over 2% during the March to December last year, slightly less than the national situation.

Latest NZ Institute of Economic Research Consensus Forecasts point to a current expectation in New Zealand of 2.9% real GDP growth nationally over the coming year, driven mainly by strong new residential building growth in Christchurch and Auckland. **Figure 5b** indicates nominal regional GDP per capita levels in NZ in March 2014. The national figure was \$51,091 and Hawkes Bay at 78% of this figure \$40,091 (12th out of the 15 regions). HB GDP per capita rose almost 6% over 2013/14, compared to the national gain of 5.5%. The largest gains were recorded by Waikato, Marlborough and Southland.

Fig 5a: Hawke's Bay Region annual economic activity trend since 2005



Fig 5b: Regional GDP per capita in New Zealand 2014



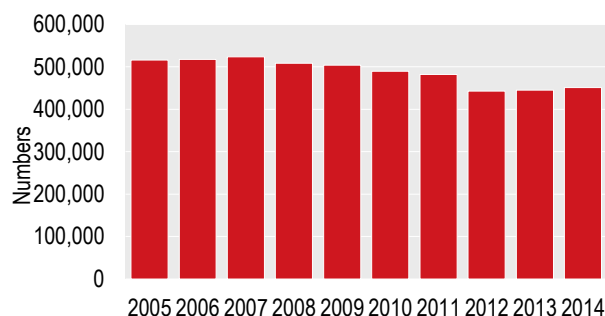
9.0 Visitor/tourism numbers

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 450,840 for the 2014 calendar year, up 1.3% on the previous year. The number of nights spent in the area by visitors staying in commercial accommodation (representing only 25% of all annual regional night-stays; the rest relate to the VFR accommodation sector) totalled 958,171 for the year, down slightly on the previous year.

As **Figure 6a** indicates, the number of commercial visitors to the region rose gradually over 2005-2007, fell back until 2012 but have since levelled out and in fact increased slightly particularly last year. Arrival numbers last year were still 14% down on the 2007 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.

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 75% of total visitor nights spent

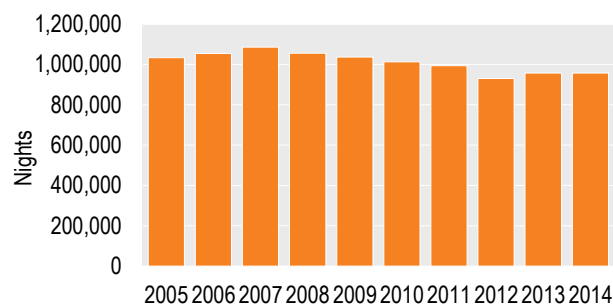
Fig 6a: Total Hawke's Bay Region commercial visitor arrival numbers 2005-2014



in the region. Over the year ended June 2014, VFR numbers increased 6% whilst VFR night-stays rose approximately 3%.

Central Government tourism figures indicate a total direct visitor spend in the region over the March 2014 year of \$554 million, comprising \$450 million or 81% for domestic visitors and \$104 million or 19% for international visitors. Total visitor spend in the region has been consistently increasing since 2010 and overall by 27% in nominal 'dollars of the day' terms, compared to the national growth figure of 10%. The gain over the latest year was 6.7%. 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 2014 year. The indicators comprise population, value of consented new building, house prices and commercial accommodation visitor-nights.

All districts other than Hastings recorded positive growth in the value of consented new dwellings over the year. Only Hastings and Central HB District recorded growth in the new commercial building sector. All districts other than Wairoa recorded growth in consented new rural building values. Napier and Hastings districts were the only areas to record growth in the total value of consented building alterations over the year. Napier and Central Hawke's Bay recorded positive property price changes over the year whilst prices fell in Wairoa and Hastings. Central Hawke's Bay District commercial visitor nights rose sharply last year.

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

Area	% Change 2013–2014 years						
	Economic indicators						
	Population	\$ New Dwellings Consented	\$ New Commercial-Industrial Bldg	\$ New Rural Buildings	\$Total Building Alterations	Average Residential Property Prices	Commercial Visitor Nights
Napier City	1.7	7.2	-34.9	316.4	20.2	1.6	0.0
Wairoa District	-1.2	15.7	-100.0	-15.3	-11.5	-2.4	-1.5
Hastings District	0.9	-8.3	120.0	148.9	4.0	-2.5	-0.7
Central HB District	0.0	55.1	152.7	24.0	-11.5	3.8	26.1
HB Region	0.6	1.1	28.5	108.4	8.0	-	0.1
New Zealand	1.5	20.5	46.8	21.0	14.3	4.5	5.8

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 results are sourced from Statistics NZ's latest regional GDP estimates for the country. The total primary production sector accounts for, in round terms, 14% of total GDP in the region, secondary industry (processing-manufacturing, utility services and construction) 22%, commercial services 31%, public & community services 15% and other items (other industries, owner-occupied dwellings and GST) 18%.

Figure 7a further illustrates the current broad industry profile of the Hawke's Bay economy. The largest industries are, in order, business services; processing and manufacturing, 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
Agriculture	670	10.5
Fishing/Forestry/Mining	220	3.5
Primary Product Manufacturing & Processing	655	10.3
Other Manufacturing	245	3.9
Utility Services	155	2.4
Construction	345	5.4
Accommodation & Food Services	115	1.8
Wholesale & Retail Trade	510	8.0
Transport & Storage	280	4.4
Business Services	1050	16.5
Public & Community Services	930	14.6
Other ¹	1,180	18.6
Total	6,355	-

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

Nominal industry GDP growth over the past five years has been strongest for, in order:

- Commercial administrative/support services
- Agriculture
- Rental/hiring/real estate services
- Construction, and
- Education & training services.

Trends in the level of **national** export returns for Hawke's Bay's key pastoral farming industries for the year to June 2015 (versus the previous June 2014 year) are as indicated below. The base information for the identified trends is sourced primarily from the MPI December 2014 update to the report released earlier last year regarding the situation and outlook for NZ's primary industries:

- Total meat and wool export returns up 6.4% in \$fob terms, with further growth of 2.3% currently forecast for the next year to June 2016. Increased beef industry export returns, reduced lamb and mutton production, and increased wool export returns anticipated for the latest year.
- Total horticultural sector export returns are currently forecast to be up 4.2% due to the improved performance of the kiwifruit and wine industries. Further growth in total returns is also forecast for the June 2016 year.
- Lower pip-fruit returns due to the currently estimated (Pipfruit NZ) 6% drop in production nationally, primarily due to the cool start to spring in 2014 in the key apple-growing regions. Pipfruit NZ is however anticipating strong export demand for this season's crop. MPI is anticipating export volumes increasing next season due to additional and replacement plantings becoming productive.
- Grape supply from the 2014 vintage is forecast to increase 7.6% this year compared to last year. Softer export prices at the present time are expected to strengthen over the longer-term though.
- Forest product export returns are expected to be down around 6% for the year to June 2015, with returns however recovering the following year due to increased China demand, new housing construction in Auckland and Christchurch, and increased demand for processed timber products due to improving economic conditions in higher-value overseas export markets.

Total international trade volumes handled at the Port of Napier during the June 2014 year, at approximately 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 17.8% over the June 2014 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% last year.

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

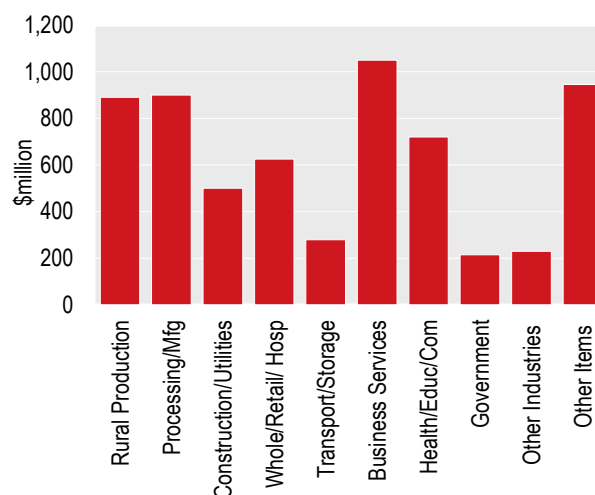
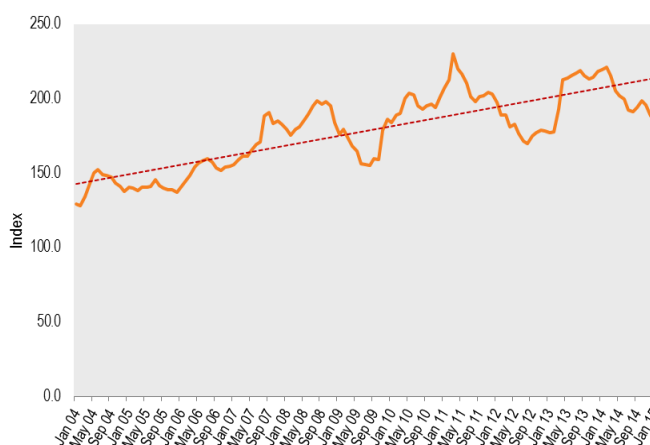


Fig 7b: Port of Napier Annual International Trade Volumes Since 2010



Fig 7c: ANZ Bank Annual Average Commodity Price Trend \$NZ



12.0 Employment

Total employment in Hawke's Bay in December last year is estimated at an annualised 79,812 and was down approximately 1% on the previous year. Employment has increased overall by just 237 or 0.3% since 2008. The trend since that year is indicated in **Figure 8a**. Employment in the region was relatively stable over 2008-2011, jumped up a little in 2012 and has since remained fairly flat.

Statistics NZ's LEED (Linked Employer-Employee Database) dataset provides quarterly information on median earnings at the local/ regional level. Over the 2013 calendar year (the latest available information for this indicator), total median earnings for continuing jobs in Hawke's Bay were recorded at \$43,830. The comparative national figure for the same period was \$48,050, 9.6% up on the regional earnings level. Hawke's Bay has a national ranking of 11th out of 16 regions for this indicator.

In December last year, the annualised rate of unemployment in Hawke's Bay was recorded at 6.9%, compared to 5.7% nationally. At the same time, total unemployment in the region stood at an estimated 5,937, down 8% on the previous year. The number of people receiving the job-seeker benefit in the Hawke's Bay region in December 2014 stood at 4,982, compared to 5,166 in December 2013; that is, a fall of 3.6% since the end of 2013.

The total number of working-age recipients in the Hawke's Bay region of the different Government welfare benefits available was recorded at 13,527 in December last year, representing 4.4% of the national total and about 14% of the Hawke's Bay 15-64 population.

Fig 8a: Annualised Hawke's Bay Region Employment Trend 2008-2014

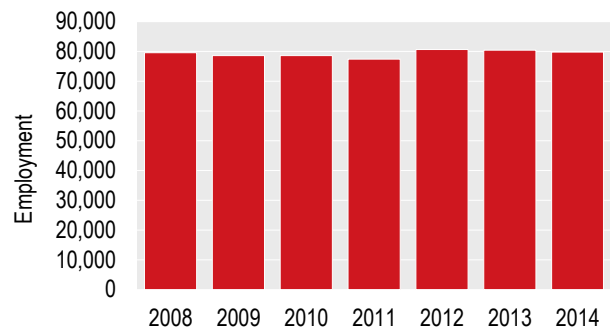
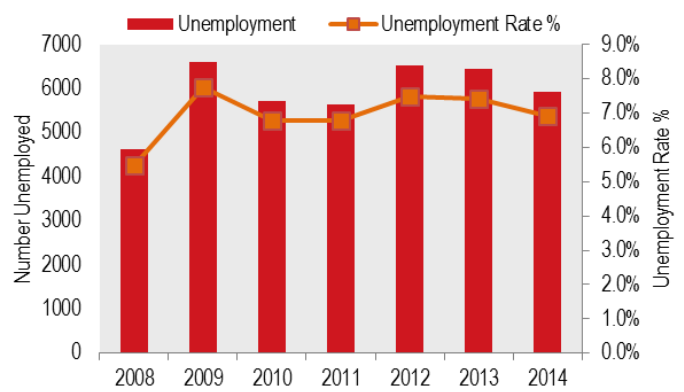


Fig 8b: Hawke's Bay Region Annualised Unemployment 2008-2014



13.0 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 March 2015 forecasts are for:

- Noticeably positive overall economic and consumption growth in New Zealand over the next three years.
- Relatively limited and falling stable Government spending growth 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 exchange rate depreciation over the forecast period.
- Increasing interest rates over the period.
- Noticeable although falling employment growth over the forecast period.
- Noticeable private sector wage growth over the period.

Table 3: NZIER Consensus forecasts March 2015

Indicator	March years		
	2014/15	2015/16	2016/17
GDP	3.3	2.9	2.8
Private Consumption	3.8	3.5	2.7
Govt Spending	2.7	0.3	0.4
Residential Investment	14.0	11.4	5.6
Other Investment	6.8	5.4	5.1
NZ TWI Exchange Rate	78.4	74.9	73.5
90 Day Bank Bill Rate	3.6	3.7	4.0
Employment	2.9	2.1	1.4
Private Sector Wages	3.0	3.3	3.4

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.