

# Hawke's Bay Region

## Economic Monitor to December Quarter 2015

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### 1.0 Introduction

This report provides an analysis and assessment of the economic performance of the Hawke's Bay region last year, the current regional economic situation and the economic outlook for the area for coming next year. The base information for the analysis is sourced from a range of agencies including Statistics New Zealand, Infometrics Economic Consultants Wellington, banking organisations, Government departments and regional/ local sources. Growth comparisons with other regions and the country as a whole are included in the analysis where appropriate.

### 2.0 Trend summary

- **Positive** economic indicator changes last year (2015 calendar year) are summarised below. The main body of the report provides further detail on the changes:
  - An estimated total population gain of 1,100 or 0.7%, including an overall net international migration gain for the second year in a row following a number of years of net migration loss. Further population growth is projected over the next five years.
  - Increased value of consented new residential and commercial-industrial building and total building alterations.
  - Increased house sales, median selling prices, overall housing affordability and residential rentals.
  - Increased retail spending, consumer confidence and new motor vehicle registrations.
  - An increase in commercial visitor arrivals and visitor night-stays in the region, average visitor 'length of stay' and total direct visitor spending.
  - Forecast increased meat and wool, horticultural, wine and forestry export returns at the national level over the 2015/16 year.
- The main **downside** economic indicator changes last year included the decline in the total value of consented new rural building and the reduced volume of international freight commodities handled by the Port of Napier.
- Significant new economic and business developments that have been publicly announced for the Hawke's Bay region over the past six months or so include:
  - Proposal to construct a new wharf at the Port of Napier facility; construction of the Company's new main office and processing of a record 16.5% increase in container volumes over the 2014/15 financial year.
  - Establishment of a new high-performance sports system in Hawke's Bay.
  - Inaugural Air New Zealand Hawke's Bay International Marathon to be held in May 2016.
  - Premium residential sections on the former Napier Hospital Hill site to go onto the market in early March 2016.
  - Further amenity and services upgrading activity at the HB Airport facility.
  - Impending completion of construction in the Wairoa District of NZ's first commercial rocket launch site.
  - Long-established HB courier business, Fastway Couriers, has been sold for in excess of \$125 million to Dubai based global logistics company Aramex.
  - Establishment of Jetstar flight operations between HB and Auckland, in early December 2015.
  - Further Government support to be provided for the ongoing operation of the Regional Business Partner Programme in HB.
  - Sileni Estates establishes new business relationship with major Chinese retail chain 'China Vanguard' (CRC).
  - Spark (formerly Telecom) has purchased a 26% holding in HB based telecommunications company 'NOW'.
- **Overall**, according to Infometrics figures, the Hawke's Bay economy grew in real inflation adjusted terms by an estimated 1.5% over the year ended March 2015, compared to 1.4% for the previous year. ANZ Bank figures indicate that the regional economy grew in nominal (current dollar) terms by 3.3% last calendar year, compared with 2.8% in 2014. The Hawke's Bay economy has grown by 3.1% in nominal terms, since the March quarter of 2015.

- Total employment increase in HB last year of 2,133 or 2.8%. Total unemployment stabilised at around the 5,770 mark whilst the annualised rate of unemployment fell from 7.1% to 6.9%. The national rate last year was 5.8%. The number of HB residents receiving the Government's Job Seeker Support benefit fell 3.8% last year.
- Latest NZ Institute of Economic Research Consensus Forecasts for the December 2015 quarter point to a current expectation in New Zealand of 2.5% real GDP growth nationally over the coming year (2016/17), compared to the 2.2% figure for the 2015/16 year.

### 3.0 Key Hawke's Bay Region annual economic indicator levels 2015

Estimated Population:	160,000
Projected Households:	62,520
Real Gross Domestic Product (GDP):	\$5.72 billion
Annual economic growth:	1.5%
Annual employment:	77,736
Annual employment change:	2.8%
Estimated unemployment:	5,767
Estimated unemployment rate (%):	6.9%

### 4.0 Population and Labour Force

Hawke's Bay's population currently stands at an estimated 160,000 and increased by 1,100 or 0.7% over the year to June 2015. The region's population is projected to increase further to around 163,300 in year 2020.

An important economic factor for the region is the trend in the formal working-age population, that is, the 15-64 age-group. This provides the primary workforce base for the area. **Figure 1a** indicates the long-term historical trend in this indicator.

There has been an overall increase of 5,100 or 5.5% in the regional working-age population since the mid-1990s. However, there was a small decline in this age-group population from 2014. Statistics NZ is currently projecting a 1,000 or 1% decline in the region's working-age population between 2015 and 2020, on the basis of the Medium or 'middle of the road' growth projection.

**Figure 1b** indicates the trend in the 65+ population age-group since 1996. Over the period, this demographic growth factor has continued to increase and overall by 8,800 or approximately 48%. Statistics New Zealand is projecting further population growth for this age-group over the 2015-2020 period of 5,000 or 18%. The projected growth rate for the following 20-year period is approximately 50%.

In-migration is a key source of population growth for both countries and regions. From a Hawke's Bay perspective, net in-migration from other parts of New Zealand and also from overseas is important. In the latter respect, it is noted for the purposes of this report that the year ended December 2015 saw a significant net overseas migration gain into Hawke's Bay of 481, only the third year since around 1990 to record a positive result for this indicator. This figure compares with the -1,055 net migration loss result recorded for the region just three years ago (2012). Year 2014 saw an overall net international migration gain for the region of 174.

Fig 1a: Hawke's Bay Working-Age Population Growth Since 1996

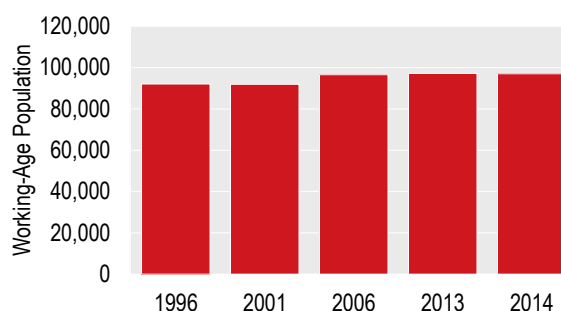
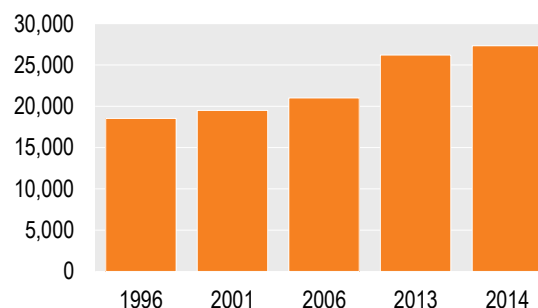


Fig 1b: Hawke's Bay Region 65+ Population Growth Since 1996



## 5.0 Households/dwellings

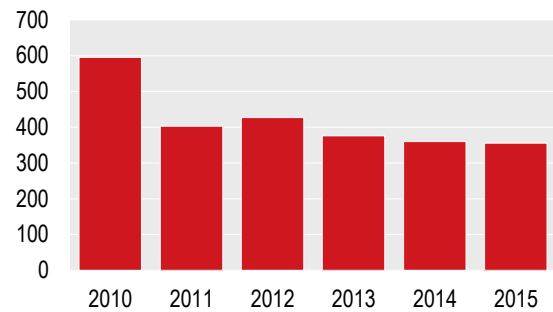
The total stock of households in Hawke's Bay in June last year is estimated at 62,520.

The latest available Statistics New Zealand Medium household growth projections see the number of households in the region increasing by 2,400 or 3.8% between 2015 and 2020.

**Figure 2** indicates the trend in the number of consented new dwellings in the region, since 2010. The number fell sharply in 2011, increased in 2012 but has since fallen further, although gradually.

At the same time, the total annual value of new houses consented has fluctuated noticeably and in fact rose 13.8% last year, despite the 1.4% drop in the number of new homes consented. The total value figure for the 2015 year was approximately \$135 million. The value of housing alterations rose 13% last year.

**Fig 2: Hawke's Bay Region Volume of Consented New Residential Building 2010-2015**



## 6.0 New building activity

Last year, a total of 355 new dwellings received building consent in the Hawke's Bay region, worth a combined value of \$135 million as mentioned earlier. The number of new dwellings approved during the year was down 1.4% on the previous year whilst their combined value was up almost 14% as noted in the previous section. Total housing alterations consented fell 11.7% in volume terms last year but increased 13% in dollar terms.

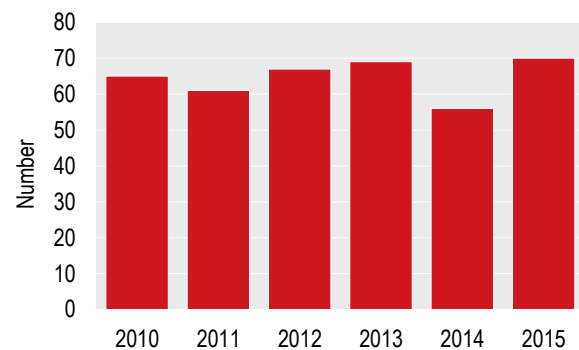
**Figure 3a** indicates the annual trend in the volume of consented new commercial/ industrial building work in the region, since 2010. Building work has fluctuated noticeably over the period. Last year, the volume of new building work rose by 25%, after falling by almost that amount in 2014. Significantly increased activity occurred last year in the office-administration sector in particular. At the same time, the total value of the new work rose 35%.

**Figure 3b** indicates the trend over the 2010-2015 period in the value of consented new rural building. This indicator has fluctuated noticeably during the period but has recovered significantly over the last two years. At the same time, the number of new farm buildings consented has risen by 29%.

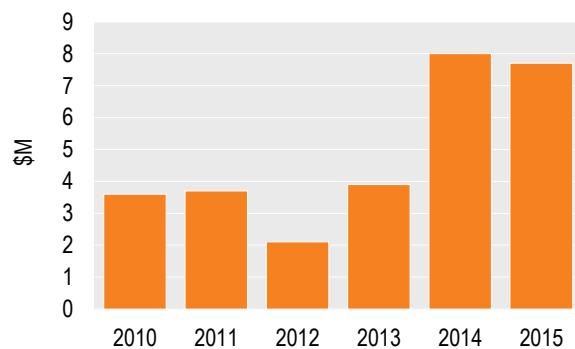
The total number of new buildings, other than residential, commercial/industrial and rural, consented in the region last year was up 33% on the previous year. The total value of the building work was however down 31%, with only the education and social/community sectors recording a significant gain over the year.

All up, the total number of new buildings consented in the region during the year was recorded at 547 with a combined value of \$219 million. These results were up 3.8% and up 14% respectively on the previous year's results. The total number of consented building alterations was down 12.3% on the previous year with their total value however being up 7%. As indicated

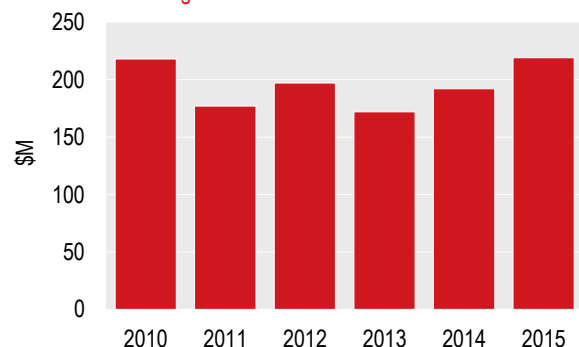
**Fig 3a: Hawke's Bay Region New Commercial-Industrial Building 2010-2015**



**Fig 3b: Hawke's Bay Region New Rural building 2010-2015**



**Fig 3c: Hawke's Bay Region Total Annual Value of All Consented New Buildings 2010-2015**



by **Figure 3c**, the annual value of all new building activity consented rose significantly last year and during the 2014 year.

## 7.0 Other economic indicators

The changes indicated in this section are for the 2015 calendar year. **Figure 4a** shows some of the economic indicator changes for the region versus NZ as a whole, over the period. New dwellings consented rose 13.8% over the year in value terms and new commercial-industrial building 35%, compared to the national gains of 9.8% and 9.2% respectively.

Hawke's Bay house sales totalled approximately 2,895 last year, compared with 2,223 in 2014, that is, a gain of 30% in 2015. House sales have been increasing in the region since early 2015. The median house selling price in December 2015 was recorded at \$310,500, compared to \$274,000 in December 2014. The median house price has been increasing since around August 2014.

The latest Massey University Home Mortgage Affordability survey undertaken in December last year indicates that housing affordability in the Hawke's Bay region improved by about 8% during 2015, compared to the approximate 9% national gain. The median weekly housing rental in Napier City in November last year was up 7% on the same month in 2014 whilst the Hastings result was a 5.5% gain.

Hawke's Bay commercial visitor-nights rose 7.5% over the latest year, compared to the 4.7% national gain. Total commercial visitor arrivals into the region increased by 3.5% compared to 5.3% nationally. The average visitor 'length of stay' in the region for the 2015 year was 2.21 nights compared to 2.13 nights for the previous calendar year.

On the basis of historical trends in Hawke's Bay region shares of national population, households and retail industry employment and the application of these shares to total annual retail spend figures for the country as a whole, total Hawke's Bay retail spend is currently estimated at approximately \$2,670 million. Last year, regional retail spend rose by 3.6% compared to the national figure of 4.4%.

According to the results of the December Quarter 2015 Westpac McDermott Miller Consumer Confidence survey, consumers' economic confidence nationally in New Zealand fell by 4.1% last year. However, consumer confidence in the Hawke's Bay-Gisborne region increased by 5.3%, the third highest regional gain in the country.

New motor vehicle registrations in Hawke's Bay totalled 4,699 for the year ending December 2015, compared to 4,406 for the previous calendar year. Thus, a gain of 6.7% over the year, compared to the national gain of 6.6%.

Fig 4a: Comparative Hawke's Bay Region and New Zealand Economic Indicator Changes 2014-2015

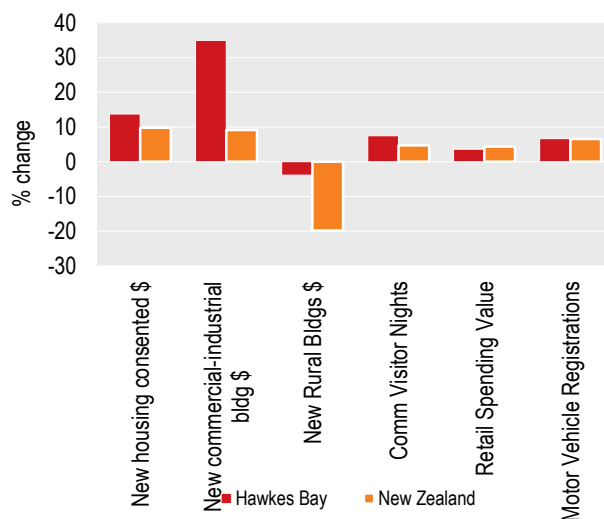


Fig 4b: Estimated Annual Hawke's Bay Retail Spend 2010-2015

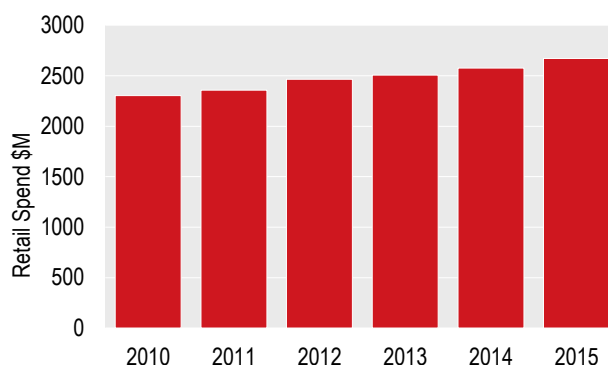
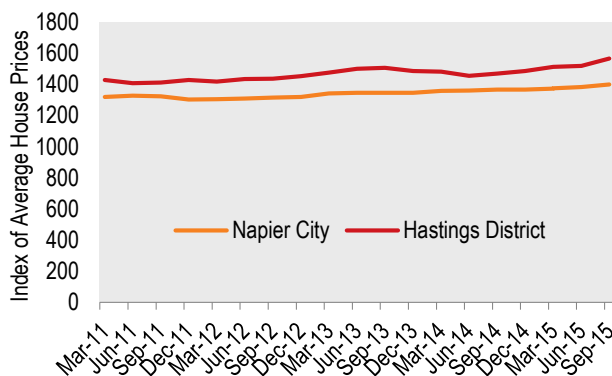


Fig 4c: Hawke's Bay Average House Price Trend 2010-2015



## 8.0 Overall economic activity

**Figure 5a** indicates the longer-term trend in annual economic growth in Hawke's Bay since 2006 and is based on Infometrics figures. 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 shown, overall economic activity growth in the region has fluctuated considerably throughout the monitoring period. Looking at the period since 2006, the rate of growth was relatively strong but weakening during 2006/2007. Annual growth was negative (economic decline) over 2008-2010. Positive growth was then recorded by the region in 2011 and more so in 2012. The year ended March 2013 saw a return to (very limited) economic decline but since then significant positive economic growth has occurred in the region at rates of 1.4% for the year ended March 2014 and 1.5% for the year ended March 2015. Throughout most of the monitoring period, the rate of annual economic growth in Hawke's Bay has been noticeably below the national level.

**Figure 5b** indicates the trend in nominal (current dollar terms) Hawkes Bay GDP, based on recently-released and updated Statistics NZ figures. GDP has increased by over 80% since Year 2000, compared to a more than doubling at the national level. Since the advent of the major international GFC financial and economic 'crisis' in 2008/2009, Hawkes Bay nominal GDP has risen by 21% compared to 27% nationally. During 2014/15, Hawkes Bay GDP lifted by 2.8% in nominal terms, compared to 3.7% nationally. Last year, the region accounted for 2.7% of national GDP.

The ANZ Bank's nominal economic activity growth indicator, which is a different economic growth indicator from the Infometrics one, points to annual average growth of 3.3% for Hawke's Bay for the year ended December 2015, compared to 2.8% for the previous December year. Since March 2015, overall economic activity in the region has lifted by 3.1%.

Fig 5a: Hawke's Bay Real Economic Growth Track 2006-2015

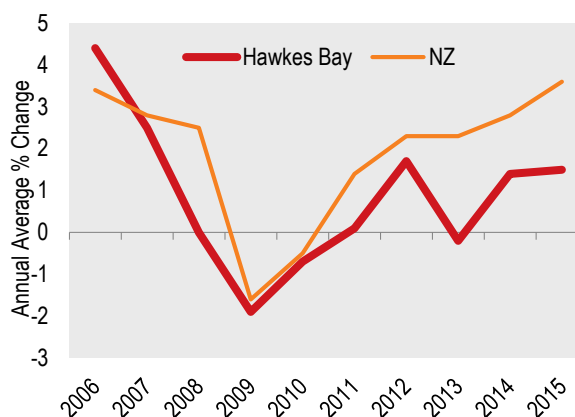
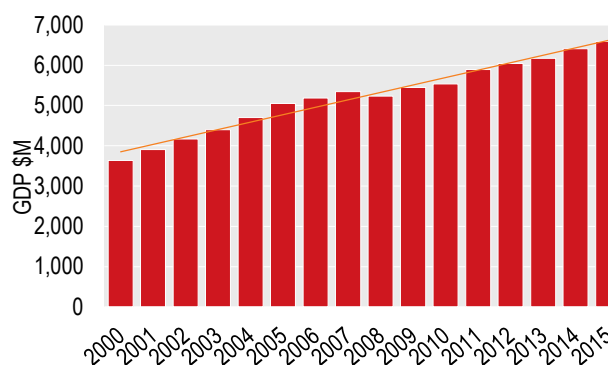


Fig 5b: Total Hawke's Bay Nominal GDP 2000-2015

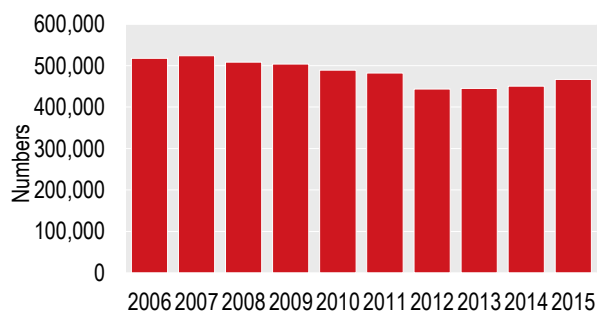


## 9.0 Visitor/tourism numbers

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 466,762 for the 2015 calendar year, up 3.5% 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 1,030,112 for the year, up 71,942 nights or 7.5% on the year 2014 total.

As **Figure 6a** indicates, the number of commercial visitors to the region was relatively stable over 2006-2008, then fell back until 2012 but has since increased overall noticeably. Arrival numbers for the latest year were still some 57,190 or 11% 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

Fig 6a: Total Hawke's Bay Region commercial visitor arrival numbers 2006-2015



arrivals. However, the total of night-stays for the latest year was down only 5% on the 2007 peak year figure.

The number of visitors to Hawke’s Bay staying with friends and relatives (VFR visitors) currently accounts for 62% of total overnight visitor numbers and 74% of total visitor nights spent in the region. Last year, VFR numbers increased 9% whilst VFR night-stays rose approximately 4.6%.

Central Government tourism figures indicate a total direct visitor spend in the region over the March 2015 year of \$691 million, comprising \$581 million or 84% for domestic visitors and \$110 million or 16% for international visitors. Total visitor spend in the region has been consistently increasing since 2010 and overall by 30% in nominal ‘dollars of the day’ terms, compared to the national growth figure of approximately 17%. The HB visitor spending gain over the latest year was 1.5%. These spending figures are based on recorded electronic card transactions.

Fig 6b: Total Hawke’s Bay Region commercial visitor nights 2006-2015

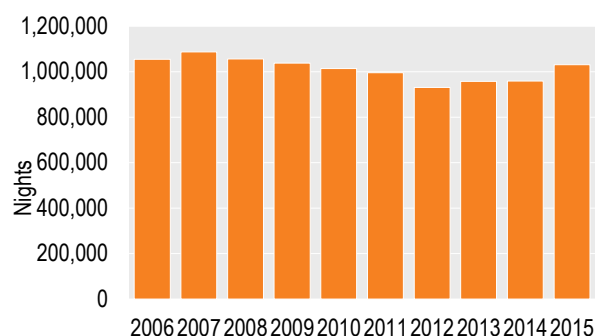
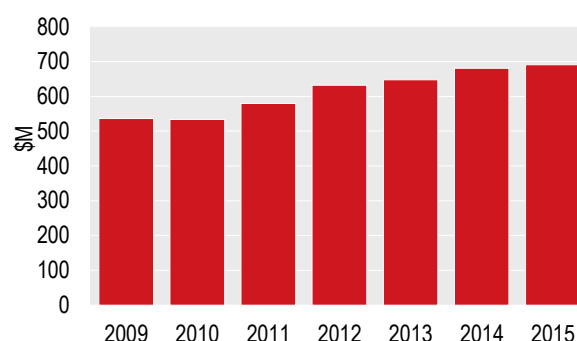


Fig 6c: Hawke’s Bay Direct Visitor Spending 2009-2015



## 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 2015 calendar year. The indicators comprise population, value of consented new building, house prices and commercial accommodation visitor-nights.

All districts other than Wairoa recorded positive growth in population last year. Wairoa and Central HB recorded falls in the value of consented new dwellings over the year. Napier City was the only part of the region to record a fall in the value of consented new industrial-commercial building. Napier City and Central HB District recorded significantly increased new rural building activity. All districts other than Napier recorded an increased value of consented new building alterations work. All parts of the region recorded increased residential property prices last year. Central Hawke’s Bay district was the only part of the region to record a decline in total commercial visitor-nights last year.

Table 1: Comparative Hawke’s Bay Region TLA District and New Zealand Economic Indicator Changes 2015 vs 2014 December Years

Area	% Change 2014–2015 years						
	Economic indicators						
	Population	\$ New Dwellings Consented	\$ New Commercial-Industrial Bldgs	\$ New Rural Buildings	\$Total Building Alterations	Average Residential Property Prices	Commercial Visitor Nights
Napier City	0.7	12.6	-43.0	130.6	-10.2	2.5	9.1
Wairoa District	-0.2	-54.1	n.a.	-18.5	52.0	7.1	0.5
Hastings District	0.6	19.2	69.3	-25.0	10.6	6.6	6.9
Central HB District	1.5	-2.3	11.9	41.6	73.3	6.9	-4.5
<b>HB Region</b>	<b>0.7</b>	<b>13.8</b>	<b>35.2</b>	<b>-3.8</b>	<b>7.0</b>	<b>-</b>	<b>7.5</b>
<b>New Zealand</b>	<b>1.9</b>	<b>12.1</b>	<b>9.5</b>	<b>-17.2</b>	<b>6.0</b>	<b>15.0</b>	<b>4.7</b>



## 11.0 Industry profile and growth

**Table 2** indicates estimated Hawke's Bay industry real inflation adjusted GDP levels for the 2015 year. The results are sourced from Infometrics. The total primary production sector accounts for, in round terms, 11% of total GDP in the region, secondary industry (processing-manufacturing, utility services and construction) 24%, commercial services 34%, public & community services 16% and other items (other industries, owner-occupied dwellings and GST) 15%.

**Figure 7a** further illustrates the current broad industry profile of the Hawke's Bay economy. The largest industries are, in order, business services; public (health, education and welfare) and community services, processing/manufacturing and rural production.

Real industry GDP growth last year was strongest in Hawke's Bay for, in order:

- Information media & telecommunications.
- Mining & Quarrying.
- Visitor accommodation & Food Services.
- Construction.
- Wholesaling.
- Public Administration.
- Primary production.

Forecast trends in the level of **national** export returns for Hawke's Bay's key pastoral farming industries for the year to June 2016 (versus the previous June 2015 year) are as indicated below. The base information for the identified trends is sourced primarily from the MPI December 2015 update report on the situation and outlook for the national primary sector:

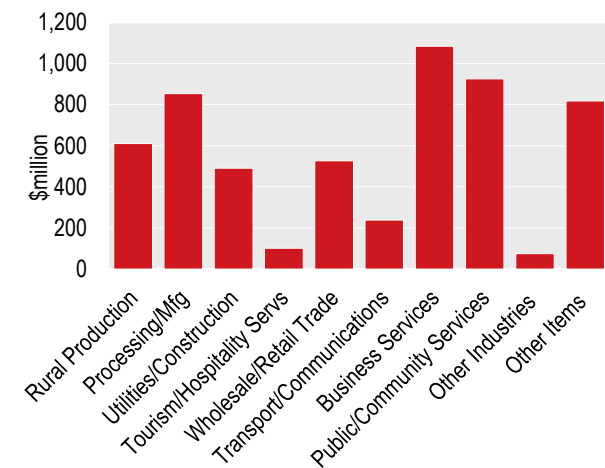
- Total meat and wool export returns up 10% in \$fob terms, driven mainly by a forecast depreciation of the \$NZ which should boost exports. Reduced lamb production is expected to be offset by increased beef exports this current season. Total sector returns are currently forecast to increase a further approximate 6% over the year to June 2017. After increasing slightly last year, overall East Coast sheep/beef farming profitability is forecast by the 'Beef and Lamb New Zealand' organisation to be down approximately 16% this year.
- Total horticultural sector export returns for New Zealand are currently forecast to be up 15.8% for the 2015/16 year due to the improved performance of the kiwifruit and wine industries in particular and significant increases in apple exports. The forecast exchange rate depreciation should benefit all these industries. Further growth in total returns in the order of 7% is forecast for the June 2017 year. Total wine export returns this year are forecast to be up 12% on last year, with kiwifruit returns being up 27% and fresh/processed export returns +11%. As of early March 2016, the HB Winegrowers organisation is forecasting a very good vintage this season due to the recent warm

**Table 2: Hawke's Bay Region industry GDP Profile 2015**

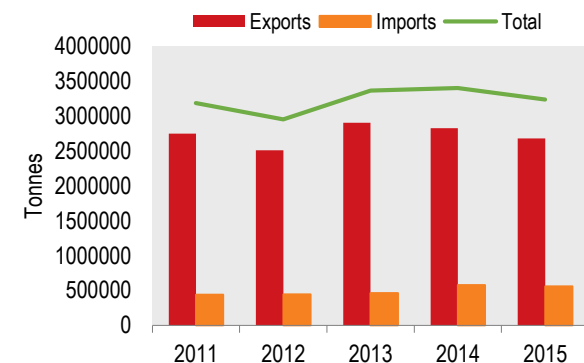
Industry	Nominal GDP (\$m)	% of total
Primary Production	611	10.7
Manufacturing	853	14.9
Utility Services	160	2.8
Construction	331	5.8
Accommodation & Food Services	102	1.8
Wholesale & Retail Trade	527	9.2
Transport & Storage	238	4.2
Business Services	1,083	18.9
Public & Community Services	925	16.2
Other <sup>1</sup>	887	15.5
<b>Total</b>	<b>5,717</b>	<b>-</b>

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

**Fig 7a: Hawke's Bay Industry GDP Profile 2015**



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



climatic and growing conditions. An early harvest is also forecast.

- Pipfruit New Zealand advises that total national production this season (at 19.5 million cartons) is expected to be up 5.5% on last season, with total export returns (at \$700 million) being up 11%. The current production estimate for HB is 381,000 tonnes, of which approximately 60% will be packed for export, 30% will go to local processing and the balanced of apples sold on the local market. The flow-on economic impacts of the significantly improving production trend include increased employment, training and career opportunities within the industry; increased business for horticultural servicing firms; and increased activity for the pack-house, cool storage, transport logistics and freight transport industries. In February this year, Bostock NZ and Mr Apple opened their jointly owned new 8,600m2 coolstore near Flaxmere, Hastings which is planned to be supplemented by a further major coolstore development in the future.
- The volume of wine exports this year is forecast to be up almost 4% on last year and to increase further by 2.3% in the coming year. The total export value nationally is forecast to be up 11.5% this year and 2.9% next year.
- Forestry export returns as a whole are expected to be up around 13% for the year to June 2016, with further growth of around 9% forecast for the following year. This forecast trend is expected to be driven by exchange rate depreciation and increased timber/pulp/panel exports.

Total international trade volumes handled at the Port of Napier during the 2015 calendar year, at approximately 3.2 million tonnes, were down 5% on the previous year. Export volumes fell 4.9% during the year whilst import volumes fell 3.1%. However, exports through the Port are still more than 50% up on the level they were ten years ago (**Figure 7b**).

**Figure 7c** indicates the actual and underlying annualised international commodity price index trend in \$NZ for the period since late 2004. The Index has fluctuated in a cyclical manner over the period within a generally increasing trend. The Index has more recently been falling since early 2014 but has flattened out since mid-2015.

**Figures 7d and 7e** indicate the trends in total HB primary production industries and related manufacturing GDP and employment since 2000 and 2003 respectively. The base data is provided by Statistics NZ. After falling sharply over 2005-2008, GDP for the sector recovered gradually over 2009-2010, increased significantly in 2011, increased further in 2012 and then stabilised in 2013. This is the latest period for which this information is available. Sector employment increased overall over 2003-2007 then continued to fall until 2012. Employment recovered during 2013 and 2014 but fell back a little last year.

Fig 7c: ANZ Bank Commodity Price Index Trend \$NZ 2004-2015

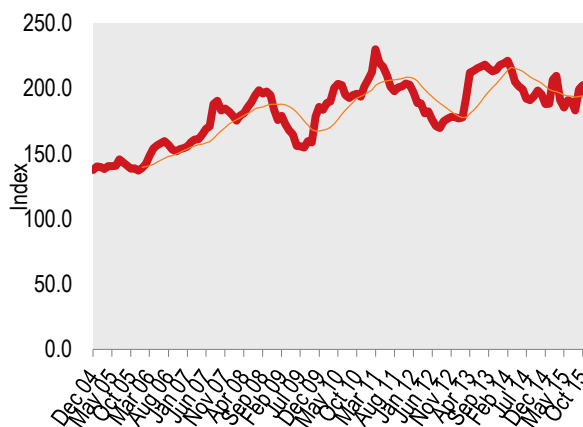


Fig 7d: Total Hawkes Bay Primary Production and Manufacturing Nominal GDP 2000-2015

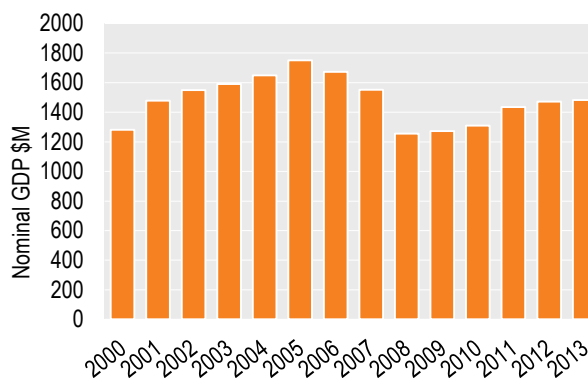
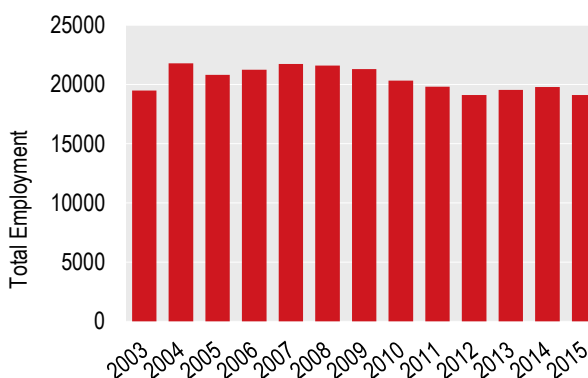


Fig 7e: Total Hawkes Bay Primary Production and Processing Employment 2003-2015





## 12.0 Employment

Total employment in Hawke's Bay in December last year is estimated at an annualised 77,736 and was up 2.8% on the previous calendar year. Employment has increased overall by 2,765 or 3.7% since 2009. The trend since that year is indicated in **Figure 8a**. Employment in the region was relatively stable over 2009-2011, increased a little the following year but then fell noticeably in 2013. However, it has risen gradually since then.

Statistics NZ's LEED (Linked Employer-Employee Database) dataset provides quarterly information on median earnings at the local/ regional level. Over the 2014 calendar year (the latest available information for this indicator), total median earnings for continuing jobs in Hawke's Bay were recorded at \$44,890. The comparative national figure for the same period was \$49,400, 10% up on the regional earnings level. Over 2013 to 2014, total Hawke's Bay median earnings rose by 2.4%, compared to 2.8% at the national level.

In December last year, the annualised rate of unemployment in Hawke's Bay was recorded at 6.9%, compared to 5.8% nationally. At the same time, total unemployment in the region stood at an estimated 5,767, the same result as the previous year. The number of people receiving the job-seeker benefit in the Hawke's Bay region in December 2015 stood at 4,793, compared to 4,982 in December 2014; that is, a fall of 3.8% over the year.

The total number of Hawke's Bay working-age recipients of the different Government welfare benefits available was recorded at 13,298 in December last year, representing 4.4% of the national total. The December 2014 figure was 13,527.

Fig 8a: Annualised Hawke's Bay Region Employment Trend 2009-2015

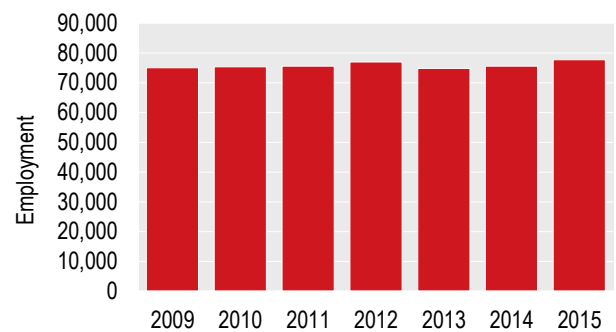
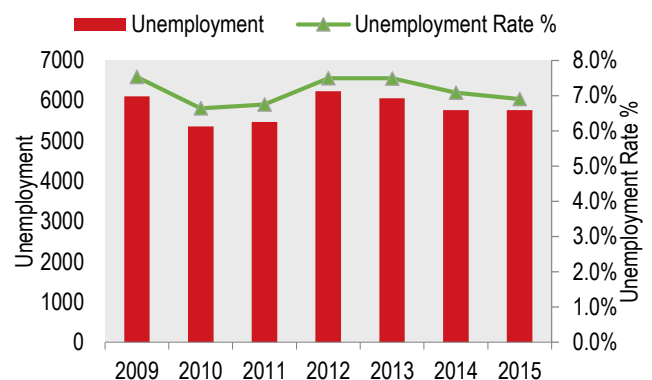


Fig 8b: Hawke's Bay Region Annualised Unemployment 2009-2015



## 13.0 National economic outlook

This final section provides an indication of the forecast national economic environment over the next three 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 December 2015 forecasts point to:

- Noticeably positive overall economic and consumption growth in New Zealand during the next three years.
- Positive but fluctuating Government spending growth over the period.
- Significant but falling residential construction sector growth.
- Strengthening business investment growth.
- Overall exchange rate depreciation for the forecast period.
- Low and fluctuating interest rates during the period.
- Stronger employment growth over the forecast period.
- Relatively stable private sector wage growth over the period.

Table 3: NZIER Consensus forecasts December 2015

Indicator	March years		
	2015/16	2016/17	2017/18
GDP	2.2	2.5	2.7
Private Consumption	2.7	2.3	2.2
Government Spending	2.1	0.9	1.6
Residential Investment	6.2	4.6	2.4
Other Investment	1.4	3.1	4.7
NZ TWI Exchange Rate	71.3	67.8	67.8
90 Day Bank Bill Rate	3.0	2.7	3.1
Employment	1.5	1.8	1.8
Private Sector Wages	2.9	2.7	2.8

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.