



## Hawke's Bay Quarterly Regional Economic Trends- January 2009

This is the second of a quarterly series of economic trend studies and commentaries on the Hawke's Bay area and appropriately starts the New Year. The intention of this report is to provide regional economic information for decision makers and businesses to understand what is going on in our region in the context of wider events and issues.

In this quarter we remain conscious of the global economic issues that are affecting business generally. Hawke's Bay is not isolated from these wider issues and the credit squeeze is affecting both the construction and some consumption areas such as car sales and tourism.

Above all this report underscores a worrying regional population trend which is also related to other risks of slowing regional growth. Section 4 of this report indicates that our population is growing at less than a third the rate of New Zealand overall and actual population is projected to decline in 2026. In policy terms this has a significant impact on investment decisions in housing and related industries let alone the workforce for the very productive horticultural industries of which the region is renowned. The upside is that this is the challenge for policy makers to ensure we have not just a job ready environment such as plenty of zoned industrial land and a seamless single district Plan, but also that we get out and attract investors to set up shop in Hawke's Bay.

The Chamber is taking a strong lead in these issues as we are conscious of its importance and it is an area at a regional level where we can make a difference.

The data for this report comes from a variety of sources as listed in the information and is analysed by Hawke's Bay's own Economic Solutions Ltd. Any decision taken on the basis of this information is a matter for any business to take and not for the Chamber to necessarily advise. The next *Hawke's Bay Quarterly Regional Economic Trends Report* will be issued in April.

Murray Douglas

Chief Executive

January 20 2009.

# Recent Hawke's Bay Economic Trends-December 2008 Report

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## **1.0 Introduction**

This report provides an analysis of historical and more recent key economic indicator trends within the Hawke's Bay region. The base information for the report is sourced from a range of economic agencies including Statistics New Zealand, Infometrics economic consultancy in Wellington, the New Zealand Institute of Economic Research also based in Wellington, trading banks and other sources. Some growth comparisons with other regions and the country as a whole are included in the analysis, where appropriate. Also included in the report is an assessment of the medium-term national economic outlook for both the region and the country as a whole.

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## 2.0 Trend Summary

- Hawke's Bay rural industries will face significant pressures over the coming year from the continuing impacts of last year's major drought and continuing dry pastoral farming conditions so far this season, the world credit crisis and economic downturn, high fertiliser costs and reduced construction sector building activity.
  - The region continues to record slow population and household growth overall, relative to the national situation.
  - Economic growth forecasts for the region have been lowered progressively since the start of this year and now stand at an average annual level of 1.8% for the next five years, compared to 2.5% nationally. Positive growth is therefore still forecast for the area over the medium-term.
  - New dwelling construction approved in the region has fallen by approximately a third over the past year. The volume of new commercial/industrial building has fallen by almost 20% but the total value has almost doubled. The value of new rural building work has risen by almost half.
  - Nominal retail sales increased almost 2% over the past year and the median house selling price in November 2008 was up 6% on the same period in 2007. Commercial accommodation visitor activity is down approximately 2% this year. Industry GDP growth has been strongest for agricultural production, processing/manufacturing and construction.
  - Employment in Hawke's Bay grew almost 4% over the September 2008 year. The rate of unemployment increased from 4% in September 2007 to 6.4% in September 2008. The number of people receiving unemployment benefit in the region in September this year was down slightly on the figure for September 2007.
  - Whilst the region faces a low growth environment over the coming year, nevertheless, the impending traditional summer holiday, tourism, events and fruit/horticultural/harvesting peak period should still provide a positive underpinning to the area's economic performance during the year.
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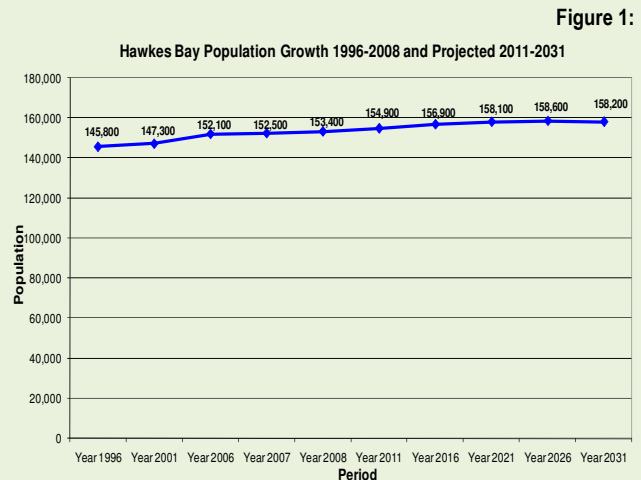
### 3.0 Current Rural Sector Situation

As the rural production and processing sector accounts for approximately 40% of total regional GDP, it is important to note the current performance of the different parts of this important sector in Hawkes Bay. The commentary in this section is based on recent MAF advice to the new Government and feedback from local consultation:

- In its recent briefing to the new National Government, the Ministry of Agriculture and Forestry made the following comments about the rural sector economic situation and outlook in New Zealand:
  - Over the next 20 years, New Zealand's food and fibre production capability will become increasingly important. Increasing world population and economic growth should expand demand for agricultural and forestry products.
  - The current global financial crisis is likely to impact on the lending available to New Zealand industries. World economic slowdown is expected to reduce demand for the country's primary products leading to lower export revenues.
  - Demand for dairy products from oil producing countries and Asian economies is expected to fall. Demand for premium New Zealand lamb is likely to fall as international consumers switch to cheaper substitutes, however, demand for beef is anticipated to remain strong as consumers switch to lower cost ground beef. Horticultural exporters who typically rely on seasonal finance will be adversely impacted by the rising cost of credit. Pipfruit exports are largely reliant on European markets and are likely to face lower demand and a shift from premium to lower priced varieties. The fall in world demand for new housing has led to a reduction in wood panel/sawn timber exports, continuing low wool prices, and lower prices and volumes for pulp and paper exports.
  - The falling demand for New Zealand's export products generally is being softened by the depreciation of the \$NZ (29% since the beginning of 2008).
  - Generally increasing levels of farm indebtedness and the tighter credit situation will have implications such as reduced industry investment, reduced trade credit in key markets and increased financial difficulties for some enterprises.
  - **Hawke's Bay** – pastoral farmers face continuing tight production and market conditions over the coming year, primarily due to last year's drought, dry conditions this new production year, the current international economic downturn, high fertiliser costs and the significant decline in activity in construction sector (reduced need for carpets/wool). Positive factors are the falling exchange rate and reduction in fuel charges/interest rates. With regard to the pipfruit sector, whilst the export crop is expected to be up by about 20% for the 2008/09 season, overall export returns are forecast to be down around 5%. Production results for 2008 for the Hawke's Bay wine industry are a total producing area of 4,800 ha and vintage of over 34,000 tonnes compared to 4,700 ha and 42,000 tonnes in 2007. The expectations for 2009 are 4,900 ha and in excess of 40,000 tonnes. However, the difficult world economic environment will impose downward price pressures for regional wine output.

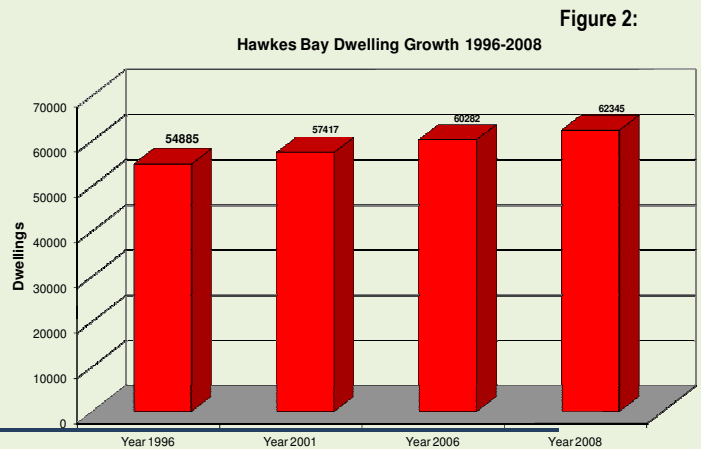
## 4.0 Population

Hawke's Bay's population currently stands at an estimated 153,400 and has risen by 1,300 or 0.9% since the 2006 Census year. This compares to 2.5% nationally. The region's population growth track since the 2006 Census shows that this indicator has been growing close to the Statistics NZ Medium growth projection for Hawke's Bay. This projection indicates that the region's population growth rate is anticipated to fall from Year 2011, with the total population actually declining from Year 2026.



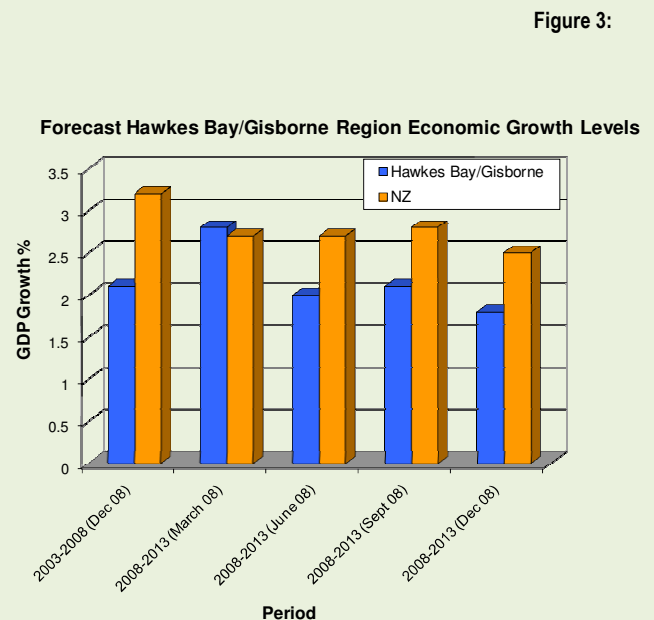
## 5.0 Household/Dwellings

The total number of houses in Hawke's Bay in September this year stood at 62,345. This represents an increase of 2,063 or 3.4% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 10% further rise in dwelling numbers in the region over the 2006-2021 period, under the Medium growth projection. This compares to the national projection of an estimated 20%.



## 6.0 Economic Growth

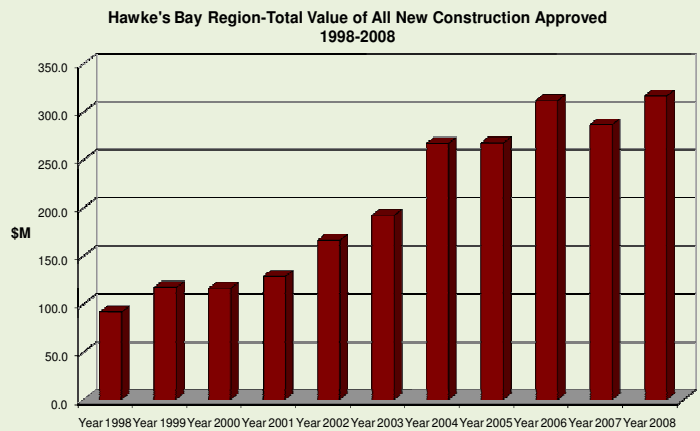
**Figure 3** indicates the average annual economic growth rate in the combined Hawke's Bay-Gisborne area over the five-year period 2003-2008, as calculated most recently by the New Zealand Institute of Economic Research. The comparative national figure is also provided. The graph also indicates the Institute's regional and national growth forecasts for the 2008-2013 period, as at March, June and September this year. As the graph indicates, the Institute's growth forecasts for Hawke's Bay-Gisborne have dropped sharply since earlier this year and also noticeably since September 2008. Average annual growth in the region is now forecast at 1.8% for the next five years, compared to the forecast of 2.8% in March 2008. The latest national average annual growth forecast is 2.5%, significantly above the regional result. Regional growth over the next five years is forecast to be strongest for Auckland and the Bay of Plenty.



## 7.0 New Building

Over the September 2008 year, a total of 1,139 new buildings and facilities received building consent in Hawke's Bay, worth a combined value of \$300M. The number of new buildings approved was 22% down on the previous year, whilst their combined value was up 1%. The number of new dwellings approved fell 33% and their combined value 30%. Total new commercial/industrial building work approved fell 18% in volume terms but almost doubled in value terms over the year, with increased activity particularly apparent in the visitor accommodation, retail, restaurants, office and factories sectors. The value of new rural building work rose by 46%. The total volume of new building activity in Hawke's Bay rose steadily over 1999-2006; since then, though, it has fallen back by some 20%. However, **Figure 4** indicates that the overall value of this activity has generally risen steadily since 2000, reaching a peak of \$316M for the June 2008 year.

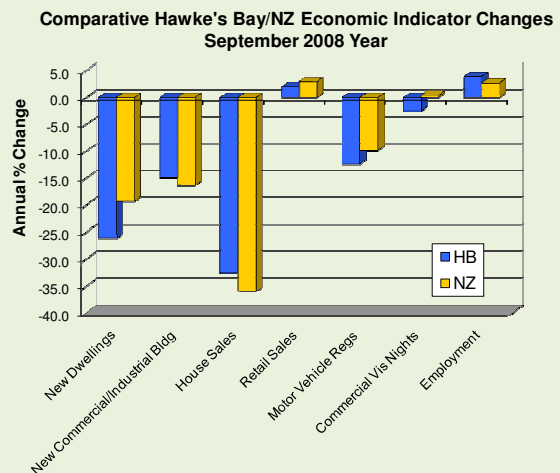
Figure 4:



## 8.0 Other Economic Indicators

Hawke's Bay house sales for the year ended November 2008 were 36% down on the previous year. The median house price increased from \$275,000 in November 2007 to \$293,500 in November 2008. Actual retail sales increased 1.9% for the year ended September 2008, compared to 2.8% at the national level. New motor vehicle registrations in the region fell 15% over the November 2008 year, compared to the 12% fall nationally. Port of Napier international export trade fell in volume terms by 4.3% over the year ended June 2008. Electricity consumption in Hawke's Bay over the September 2008 year was only marginally down on the September 2007 year result.

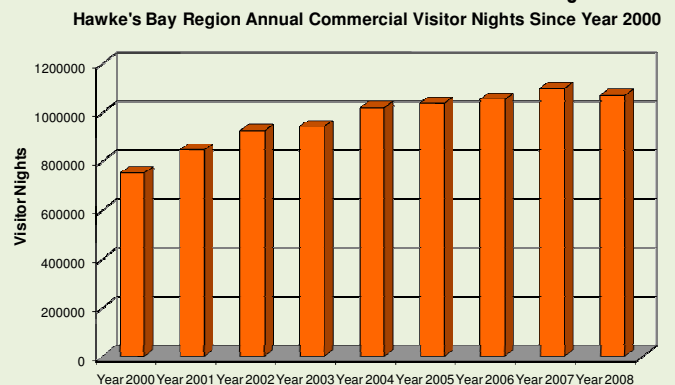
Figure 5:



## 9.0 Visitor/Tourism Numbers

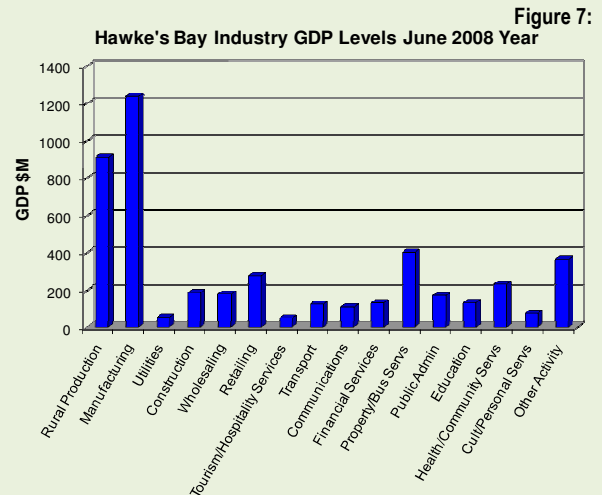
Visitor arrival numbers into Hawke's Bay staying in commercial accommodation totalled 518,693 over the year ended October 2008, down 12,520 or 2.4% on the previous year. The national change was a 0.4% gain. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 1.1M for the October 2008 year, down 2.8% on the October 2007 year result. Nationally, visitor night-stays rose 0.8%.

Figure 6:



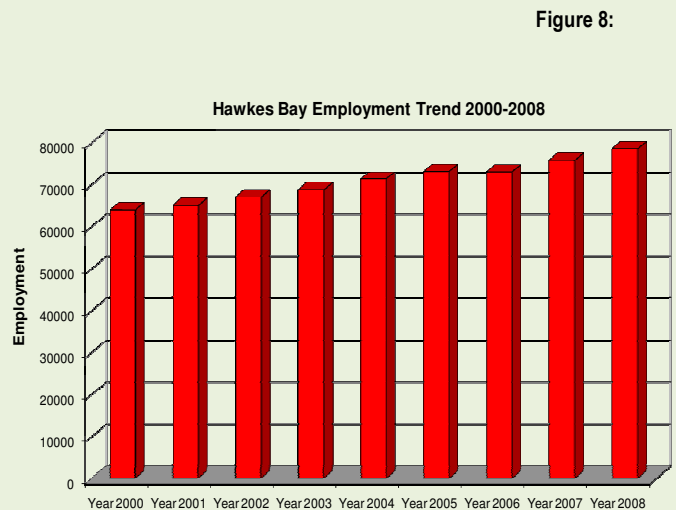
## 10.0 Industry Growth

Real GDP growth for Hawke's Bay's larger industry sectors over the June 2008 year was agriculture 15.4%, manufacturing/processing 8.7%, construction 12.7%, wholesaling/retailing -1.2%, transport -2.9%, communications -4.0%, business services -1.8%, public sector administration -4.1%, education services -7.9% and health services -1.9%. GDP growth of 1.1% was recorded by the region's tourism and hospitality sector. The region's largest industries in GDP terms, as indicated in **Figure 7**, are processing and manufacturing, agricultural production, property/business services, wholesaling and retailing, and health services.



## 11.0 Employment

Total employment in Hawke's Bay during the year ended September 2008 was up 3.8% on the previous September 2007 year. From an industry perspective, employment growth was strongest during the year for power, gas, water; construction, primary industries, manufacturing/processing and tourism/hospitality services. Noticeable employment decline was recorded by education, public administration and communications. The region's largest employing industries are agricultural production, processing/ manufacturing, retailing, business services and construction. The rate of unemployment in Hawke's Bay/Gisborne stood at 6.4% in September 2008, compared with 4.3% in September 2007 and the national rate of unemployment in September this year of 4.2%. The number of people receiving the unemployment benefit in September 2008 stood at 1,224 and was down 1.4% on the September 2007 figure.



## 12.0 National and Regional Economic Outlook

Each quarter, the NZ Institute of Economic Research produces updated Consensus Forecasts for shorter-term economic activity in New Zealand. The forecasts are a consensus/average of the views of a number of the different economic forecasting agencies in the country. The latest December 2008 forecasts are for low economic/GDP growth over the coming year; weak private consumption spending growth; solid Government spending growth; negative new residential building growth; negative business investment growth; reduced inflation; further exchange rate depreciation; lower interest rates; stable employment; an increased rate of unemployment; and reduced private sector hourly wage growth. The Institute is forecasting average annual economic growth for Hawke's Bay of 1.8% over the next five years.

Table 1: NZIER Consensus Forecasts December 2008

| Indicator              | March Years |         |         |
|------------------------|-------------|---------|---------|
|                        | 2008/09     | 2009/10 | 2010/11 |
| GDP                    | -0.2        | 0.9     | 3.0     |
| Private Consumption    | -0.3        | 0.5     | 1.8     |
| Govt Spending          | 3.9         | 3.4     | 3.0     |
| Residential Investment | -19.9       | -6.8    | 7.4     |
| Other Investment       | 2.8         | -3.5    | 4.7     |
| NZ TWI Exchange Rate   | 61.9        | 56.2    | 59.3    |
| 90 Day Bank Bill Rate  | 6.9         | 4.8     | 5.8     |
| Employment             | 0.1         | -0.4    | 1.4     |
| Private Sector Wages   | 4.9         | 3.6     | 3.0     |

**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.

## 13.0 Major Developments

- Port of Napier** – The Port of Napier's latest Annual Report indicates the Company's intention to further develop the Port operation as a key distribution point in the supply chain for its shipping line and cargo containers. Net profit for the year increased almost 18% over the previous year. New asset investment of \$15 million was undertaken, including the early stages of the inner harbour redevelopment project and of the construction of a new replacement tug. Total Port throughput during the year rose 4.5%. The number of containers handled at the Port grew almost 9% over the year and the container tonnage 11%. Vessel numbers at the Port were on par with the previous year. Cruise ships berthing at the Port continued their long-term growth trend. The completion of the new 12,500 tonne bitumen tank positions the Port's role as the bitumen hub for the lower North Island. Work on the Port's new \$47 million multipurpose wharf, which will also be a backup container berth, is well on track for completion by the first quarter of 2010.
- The former Rothman's operating site in Ahuriri, Napier is being redeveloped into a business park, at an estimated all-up cost of \$30 million. The redevelopment is being led by the owner and base tenant for the site, Big Save Furniture. The facility will eventually comprise a wide mix of business operations and employ an estimated 1,000 people when all the space at the site is fully occupied.