

Napier City Economic Trends and Outlook

March 2010 Update Report

1.0 Introduction

This report provides an analysis of historical and more recent key economic indicator trends within the Napier City area. The information for the report is sourced mainly from Statistics New Zealand, Infometrics economic consultancy (Wellington) and banking sector economic data. Growth comparisons with the wider Hawke's Bay region and the country as a whole are included in the analysis. Also included in the report is an assessment of the shorter-term national economic outlook as of December last year, taking into account the continuing impacts of the major international and domestic economic downturn occurring from the second half of 2008. The report has been prepared for the Napier City Council by contracted local economic consultancy Company, Economic Solutions Ltd, Napier.

2.0 Trend Summary

- An analysis of a range of key local economic indicator trends for Napier during the past year indicates that whilst the local economy has clearly been significantly impacted by the major international and domestic financial and economic downturn over the past two years, the last quarter of 2009 saw some important economic gains for the City which should increase economic confidence in the area during 2010. However, as with the rest of the country, the local economy is not 'out of the woods' yet and further significant economic gains will be required during this year in order that recovery from the downturn can be assured.
- Key economic indicator changes in the City during the latest September 2009 year included an overall economic growth decline of 1.4% following on from the 2.2% decline in the previous September year, a slight fall in total new building approvals, 7% increase in house sales, 2% gain in actual retail sales, 2% decline in commercial visitor accommodation based tourism activity, small fall in employment and a major increase in the number of people unemployed.
- Over the December 2009 quarter, the City recorded the following positive economic indicator gains compared to the December 2008 quarter- a change to an external net population migration gain, a 68% increase in the value of new residential building receiving consent, 64% increase in house sales, 3% increase in actual retail sales, and an approximate 40% increase in commercial accommodation based visitor activity.
- The next economic report for the City, timed for mid 2010, will report local economic indicator results and other economic developments for the quarter and year ending March 2010. This will provide the opportunity to review the extent to which the local economic indicator gains of the last quarter of last year have continued into the first three months of this year, examine the impact in Napier of the summer peak period for the rural production and tourism sectors, and assess the current state of business confidence in the City through the March 2010 formal survey of local business confidence.

3.0 Key Napier Indicator Levels September/December 2009

<i>Population:</i>	57,200
<i>Est. Household/Dwellings:</i>	24,275
<i>Nominal Annual GDP (Sept 09):</i>	\$1.9 Billion
<i>Annual Economic Growth (Sept 09 Yr)</i>	-1.4%
<i>Employment (Sept 09 Yr)</i>	27,356
<i>Annual Employ Growth (Sept 09 Yr)</i>	-0.1%
<i>Number Unemployed (Sept 09):</i>	2510
<i>% Unemployed (Sept 09):</i>	8.9

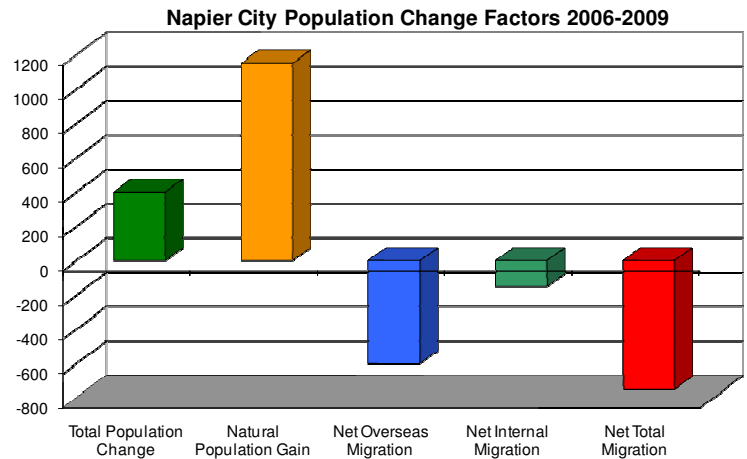
4.0 Current Hawke's Bay Rural Sector Situation

- A key economic influence on all parts of the Hawkes Bay region is the performance of the rural sector.
- The key production and processing industries in this sector in the region are sheep and beef cattle farming, fruit growing, vegetable production, forestry, fishing, grape growing, meat processing, fruit/wine and vegetable processing, textile product processing and wood products processing.
- Total annual nominal GDP for these and other rural production and processing activities in the region currently stands at an estimated \$2.2 billion or nearly 40% of total regional GDP. Total regional employment for the main rural producing and processing industries in Hawke's Bay currently stands at around 18,000 persons or approximately 24% of total employment in Hawke's Bay.
- *Sheep/Beef Farming* – the February 2010 Meat and Wool New Zealand mid-season update for the national sheep and beef sector is forecasting a 36% reduction in average farm pre-tax profitability for the 2009/10 year, with gross farm revenue falling by 9% and expenditure by 3%. The main contributors to this outlook are the stronger \$NZ, continuing negative impacts of the major international economic downturn of the past two years, and the lingering effects on livestock numbers of adverse climatic conditions (e.g. drought) around New Zealand in recent years. Positive factors in the Hawke's Bay context currently include the very good grass growing conditions of the past six months, recent firming in some commodity prices (e.g. beef meat and wool), and some increased fertiliser and repairs/maintenance application following two years of limited spending in these areas.
- *Fruit-growing* – whilst 2009 was a challenging year generally for the pipfruit sector in New Zealand, nevertheless, the Hawke's Bay part of the sector was able to pull through quite well given the exchange rate conditions prevailing then, the region's varietal mix and also its international market focus. However, the cold spring last year followed by hail damage in late October 2009 is expected to result in the 2010 crop being about 15% down on last year's figure and similar to the 2008 result. A longer harvesting season is also anticipated this year. Recent Hawke's Bay Today newspaper reports indicate that the significant increase in summer rain this year has proved very beneficial for a number of horticultural crops grown locally, with positive flow-ons for the local food processing industry.
- *Wine Industry* – the NZ Winegrowers Annual Report for 2009 indicates a total HB vintage for that year of 41,000 tonnes, up 20% on the previous year. (The Marlborough vintage fell whilst the overall national vintage remained unchanged). This year's vintage in the HB region (currently estimated at around 35,000 tonnes) is expected to be below last year, given reduced international demand and prices for wine in face of the major World economic downturn. Some grape pullings and new plantings have also occurred in the region over the past year.

5.0 Population

Napier's population currently stands at an estimated 57,200 and has risen by 400 or 0.7% since the 2006 Census year. This compares to 3.1% nationally. Since June 2006, Napier has recorded a natural population gain of 1151 and total net migration loss of -751. The total net migration loss has comprised an external/ overseas net migration loss of -600 and an internal net migration loss of -151. Over the period, a total of 2,692 people arrived in Napier from overseas for permanent or long-term residence. The overseas departures total for the City for the period, was 3,292.

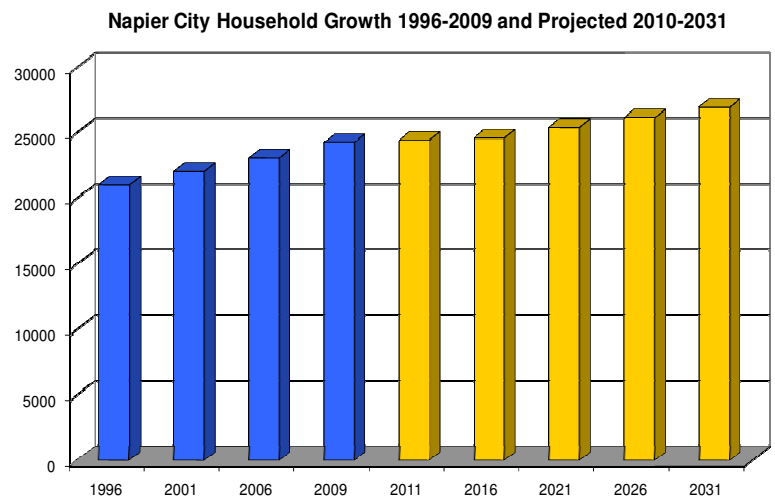
Figure 1:



6.0 Household/Dwellings

The total number of houses in Napier City presently stands at an estimated 24,275. This represents an increase of 1,193 or approximately 5.2% since the 2006 Census result, compared to 4% for the Hawke's Bay region as a whole. The total value of new houses in Napier receiving building consent since April 2006 is approximately \$278 million. Additional dwelling/household growth in Napier over the 2009-2031 period is currently projected by Statistics New Zealand at 2660 or 11.5%, based on the Department's Medium or 'middle of the road' growth scenario.

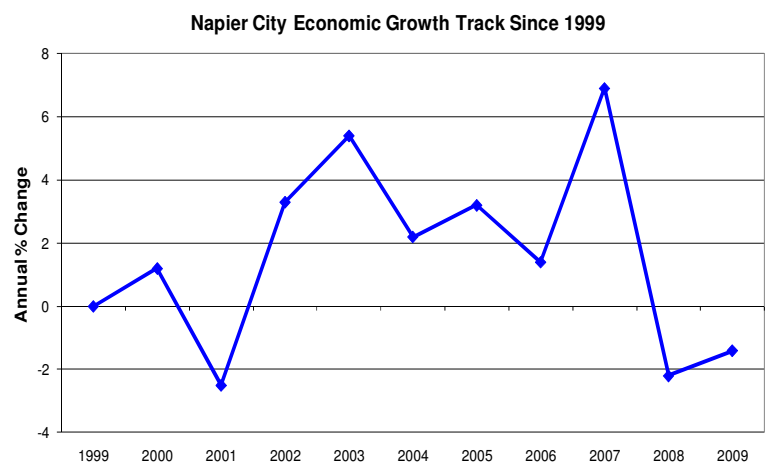
Figure 2:



7.0 Economic Growth

Over the September 2009 year, latest available Infometrics economic consultancy figures indicate that Napier City recorded -1.4% real economic growth, compared to -1.7% for the whole Hawkes Bay region. The annual growth rate for the City for the previous March year was -2.2%. Nominal (current dollar terms) GDP in Napier totalled \$1.94 Billion for the September 2009 year, approximately a third of total regional GDP. As the graph indicates, City growth peaked at over 5% in 2002/2003 and again in 2006/2007 but has since dropped back sharply into the negative region. The NZ Institute of Economic Research is currently forecasting average annual growth in the HB-Gisborne region of 0.1% for the next five years, compared to the actual annual growth result of 2.1% for the last five-year period and the national medium-term growth forecast for 2008-2013 of 1.3%.

Figure 3



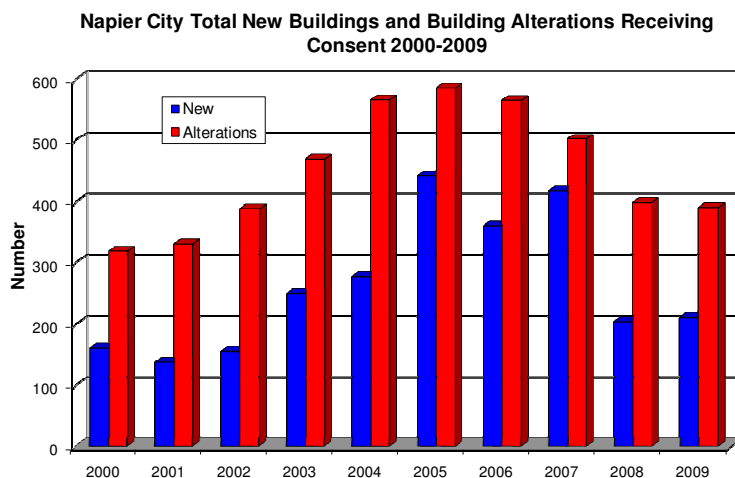
8.0 New Building

Over the September 2009 year, a total of 173 new residential dwellings received building consent in Napier, worth a combined value of \$51M. The number of new dwellings approved was down 36% on the previous year, whilst their combined value was up 29%. Total new commercial/industrial building work approved fell 48% in volume terms and 89% in value terms over the year, with increased activity occurring only in the storage sector.

The volume of new rural building work consented was on par with the 2008 September year total, in both volume and value terms. The total volume of all new residential and other buildings consented during the year was down 34% on the previous year whilst the value was down 49%. The total volume of building alterations approved during the year was 14% down on the 2008 September year, whilst their combined value was down 16%.

On a more positive note, the December 2009 quarter results for Napier for new residential buildings receiving consent, total all new building construction approved and the volume of residential and retail/hospitality building alterations consented to, were up significantly on the December 2008 quarter results.

Figure 4:



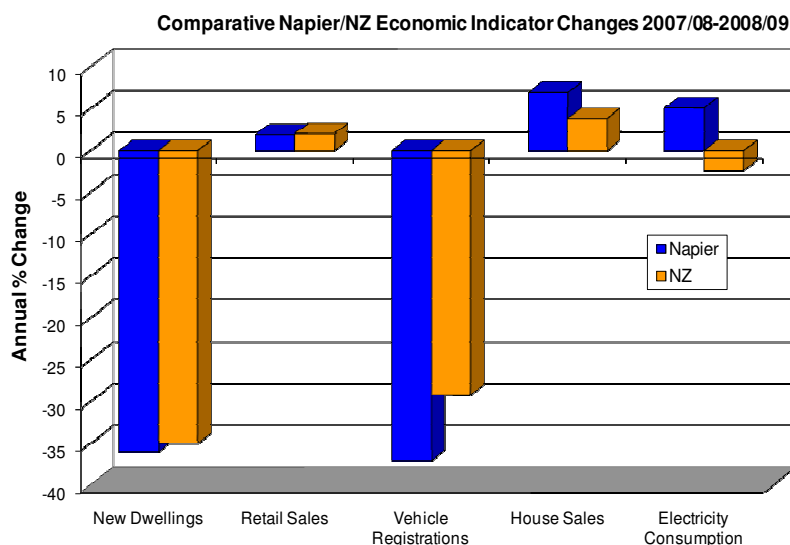
9.0 Other Economic Indicators

The graph to the right indicates the changes during the year ended September 2009 for a number of different local economic indicators for Napier. This monitoring year is used in the graph, for consistency with the overall City economic growth monitoring period used in Section 7.

The number of new dwellings receiving consent fell by 36%, as indicated in the previous section. Napier house sales for the September 2009 year were 6.9% up on the previous year. Sales for the December 2009 quarter were up 64% on the same quarter in 2008. The average house price in the City increased 2.1% last year, compared to 2.8% nationally.

Actual retail sales in the City increased 1.9% for the year ended September 2009; December 2009 quarter sales in the City were also up 3% on the same period in 2008. The Westpac McDermott Miller Consumer Confidence Index results for the December quarter 2009 indicated that HB-Gisborne consumers were reasonably optimistic overall about economic conditions in New Zealand during the coming year. New motor vehicle registrations in the

Figure 5:



Hawke's Bay region fell 37% over the September 2009 year; December 2009 quarter registrations were also down 16% on the December 2008 quarter's figure.

Electricity consumption in Napier City for the September 2009 year was up 5.1% on the September 2008 year. Actual new residential building work put in place in Napier City over the March 2009 year was down 17% in value terms on the previous March year.

10.0 Port of Napier

The graphs to the right indicate the long-term trends in Port of Napier annual international export and import trade volumes since Year 2000. The base data for the graph is sourced from Statistics NZ. Export cargo volumes increased slightly last year, whilst import volumes continued to fall.

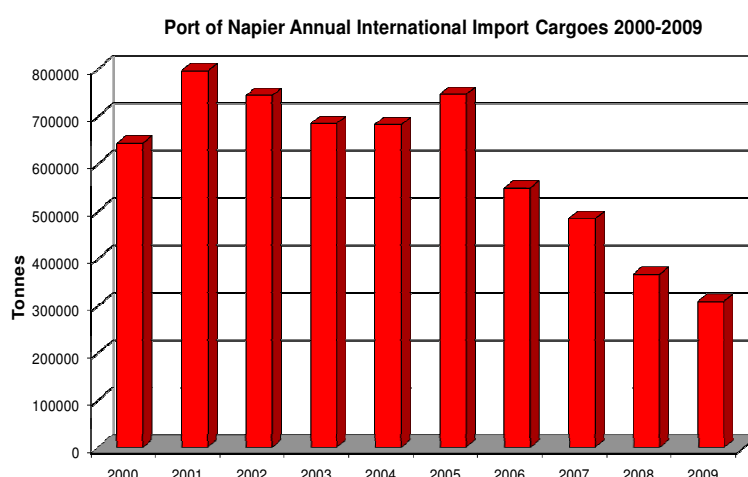
Key points to note from the Port of Napier's latest Annual Report (Sept 2009 year) are as follows:

- A total domestic and international cargo throughput of 2.9 million tonnes, down 9.1% on the previous year.
- A 1.5% increase in total export volumes, lead by a 16% increase in log tonnages, pipfruit (+30%), fresh produce (+21%) and a dairy product gain. With regard to the latter, the Port will benefit from Fonterra's decision to channel increased commodity volumes through major container ports such as Napier which also offer a wide range of direct international shipping services.
- A fall in import volumes of 34%, including a 59% reduction in bulk fertiliser imports due to soft demand and adverse local climatic conditions.
- Opening of a new bitumen handling facility which will lead to increased bitumen imports in the future
- Total container movements at the Port over the September 2009 year were very much on par with the previous year.
- The Port hosted 42 cruise ship visits during the year, with a total passenger impact of 50,000.
- The latest year saw the completion of the \$45 million inner harbour development at the Port.

Figure 6(a):



Figure 6(b):



11.0 Visitor/Tourism Numbers

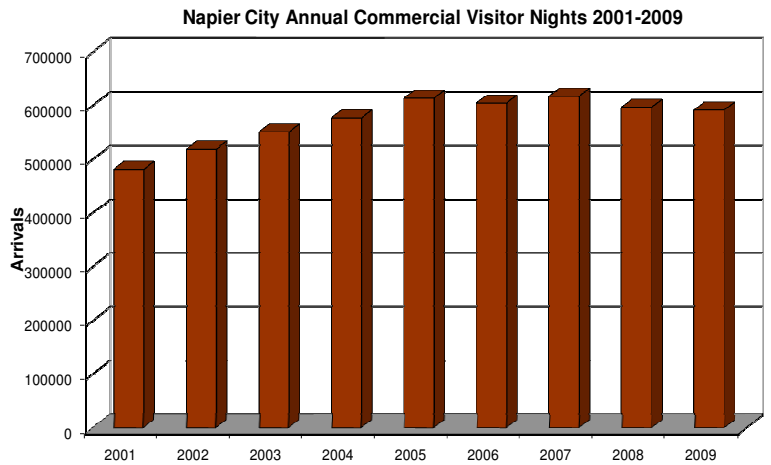
Visitor arrival numbers into Napier staying in commercial visitor accommodation totalled 310,522 over the year ended September 2009, down 2.8% on the previous year. The regional change was a 2.3% fall and a similar decline nationally. However, the number of arrivals into the City during the December quarter last year was up 45% on the December 2008 quarter result.

The number of nights spent in the City by visitors staying in commercial accommodation totalled approximately 599,000 for the September 2009 year, down 1.3% on the previous year's result. Nationally, visitor night-stays fell 1.4%. Regionally, they fell 1.7%. However, the number of commercial visitor accommodation night-stays in Napier for the December 2009 quarter was up 42% on the same period for the previous year.

The graph to the right shows the long-term annual trend in total visitor nights spent in the City, in relation to commercial accommodation. There has been a small fall in this indicator from 2007 onwards.

Napier i-Site visitor numbers for the December 2009 year totalled 274,541, down 13% on the 2008 result.

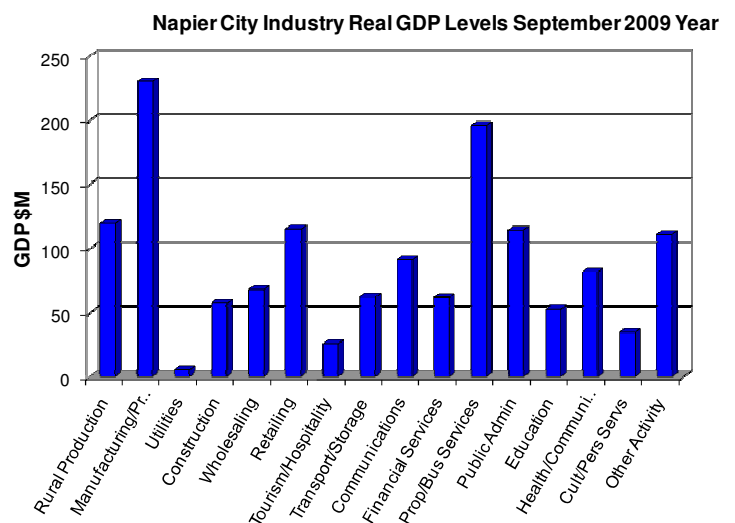
Figure 7



12.0 Industry Growth

Figure 8

Real GDP growth for Napier's larger industry sectors over the September 2009 year included rural production and services -7%, manufacturing/processing -4%, construction -14%, wholesaling/retailing -5%, transport and communications +4%, business services +2%, public sector administration +5%, education services 0% and health/community services +7%. A GDP decline of 2% was recorded by the City's tourism and hospitality sector. The City's largest industries in GDP terms are as indicated in **Figure 8**- processing/manufacturing, property/business services, rural production and rural services, retailing, public sector administration, communications and health/community services.



13.0 Employment

Total employment in Napier during the year ended September 2009 was down only marginally on the previous September year's result. From an industry perspective, employment growth was strongest in the City over the latest year for rural production, property and business services, Government administration, education, cultural and recreational services, and personal/household services. Noticeable employment decline was recorded by the manufacturing/processing, power/gas/water utility services, construction, wholesaling, tourism/hospitality services and health/community service sectors. Napier's largest employing industries are retailing and wholesaling, business services, construction and processing/manufacturing.

The number of people unemployed in Napier in September 2009 was 2510 or 8.9% of the local labour-force (employed plus unemployed). The corresponding figures in September 2008 were 1580 and 5.5%. Thus, over the 12-month interval, unemployment in the City rose by 59%. The national unemployment rate in September last year was 6.5%. In December last year, the number of Napier residents receiving the unemployment benefit in Napier stood at 814, compared to 319 in September 2008.

The December 2009 national household labour-force survey results for the combined HB-Gisborne region indicate that unemployment in the region at that time was up 35% on the December 2008 figure. The rate of unemployment in the region stood at 8.6%. Employment in the region was down 1.4% on the December 2008 figure.

Figure 9(a):

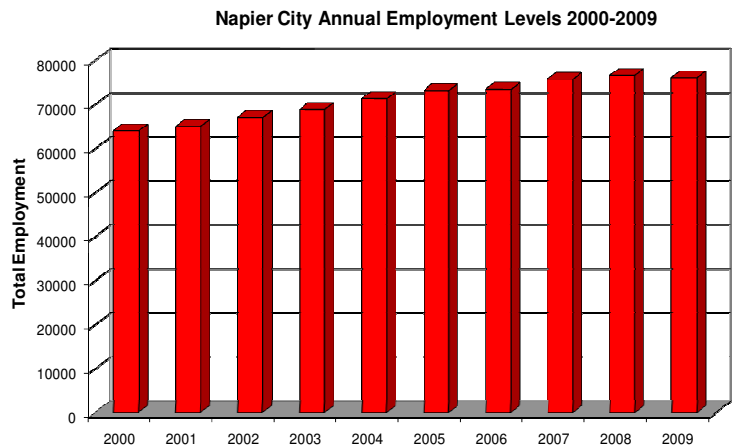
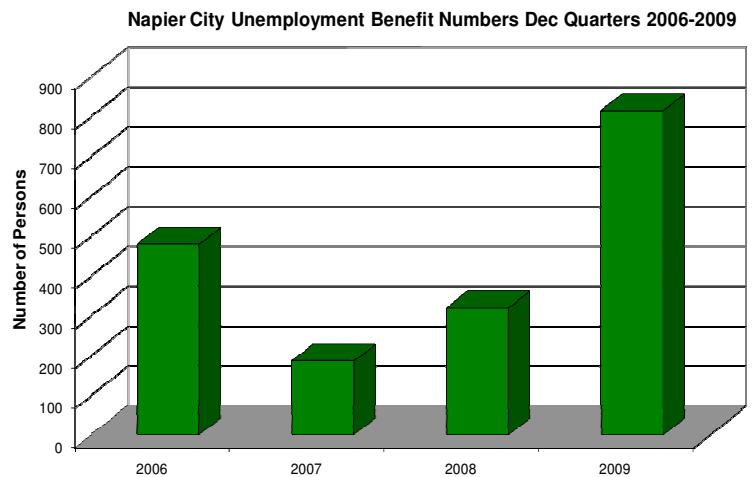


Figure 9(b):

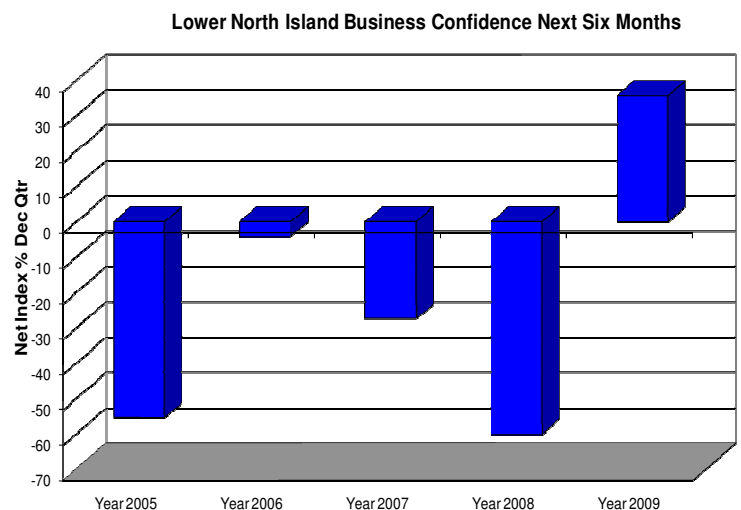


14.0 Business and Consumer Confidence

Figures 10

The key points to note from the NZ Institute of Economic Research's latest December 2009 survey of Lower North Island business opinion are as follows:

- On balance, almost half of the 185 businesses surveyed were anticipating general business conditions in NZ improving over the first half of 2010, with most of the other firms expecting no change in conditions.
- On balance, firms were still finding it easier to find skilled labour but the degree of ease had lessened considerably since the start of 2009. Firms were still finding it relatively easy to source unskilled labour.
- The factor most constraining business activity continues to be the lack of sales/demand.



- New building investment by firms is in the main expected to remain unchanged over the coming half-year, whilst new plant and machinery investment is anticipated to increase slightly overall.
- On balance, employee numbers fell overall during the December 2009 quarter. However, this indicator is expected to improve overall during the March 2010 quarter. Labour turnover has been falling overall in the lower North Island since late 2008 and is expected to continue in this vein over the March 2010 quarter.
- Business profitability continued to fall overall during the last quarter of 2009 but an overall small improvement is anticipated for the first quarter of 2010.

The Westpac McDermott Miller Consumer Confidence Index results for the December quarter 2009 indicates that HB-Gisborne consumers are optimistic overall about economic conditions in New Zealand over the coming year.

15.0 Positive City Developments

A number of positive economic and business developments have been publicly indicated for the City during the last six months including as follows:

- There should be additional business opportunities for Napier accommodation outlets with the extra 11,000 staff required in the Napier-Hastings area for this year's fruit and horticultural harvesting season
- Preliminary building work associated with the \$18 million redevelopment of the HB Museum and Art Gallery is expected to begin by the end of this year.
- A number of local social service agencies have been successful in their applications for funding provision under the Government's new Community Response Fund, which provides financial support to agencies under financial pressure due to the impact of the current economic downturn.
- Napier is one of 7 ports in New Zealand which will maintain offices and be a prime port of call for the newly established Swire Shipping Company, to be headquartered in Auckland.
- The Kennedy Park Top 10 Resort has replaced its old kitchen cabins with 16 new modern eco-friendly cabins, at a total cost of \$1.2 million.
- KiwiRail has indicated that it wishes to investigate more closely the opportunities to increase usage of the Napier-Gisborne rail line for export trade development purposes. (However, there is concern now that the Government may be considering 'mothballing' the line in the shorter-term).
- Napier based advertising agency, Adplus has picked up the agricultural side of the John Deere Australasian business. John Deere is the world's largest farm machinery manufacturer. Adplus has also picked up the advertising account of leading furniture retailer Big Save.
- HB powerlines company, Unison Ltd, has begun work on the installation of its new fibre optic network in the Napier-Hastings urban area.
- Telecom's network service, Chorus, has begun installing its portfolio of 56 new telephone exchange cabinets throughout Napier, which will significantly increase broadband speeds in the City.
- EIT Hawke's Bay, based in Taradale, Napier, later last year gained a one-off funding allocation from the Government of some \$1 million in order to be able to boost its EFTS student numbers in Year 2010 to 2718, from 2564 in 2009.

- In November last year, the HB Regional Council announced a total funding allocation of some \$5.8 million towards four major community projects, including the redevelopment of the HB Museum and Art Gallery in Napier and the Museum's Earthquake Display, and the preparations for the 2011 Rugby World Cup games to be staged at McLean Park in Napier.
- Work on the \$6 million extension to the HB Airport runway is anticipated to begin in May this year.

16.0 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 or average of the views of the different main economic forecasting agencies in the country. The latest December 2009 forecasts point to:

- Slightly negative GDP and consumption growth over the current year, followed by a return to positive growth from Year 2010/2011
- Some Government spending growth over the next few years
- A significant recovery in new residential construction activity from 2010/2011
- Falling business investment in the current 2009/2010 year
- Average 2% annual inflation over the next few years
- Relative exchange rate stability over the next two years
- Increasing interest rates
- Employment growth from the 2010/2011 year and unemployment rate stability
- Lower private sector wage rate growth.

Table 1: NZIER Consensus Forecasts December 2009

Indicator	March Years		
	2009/10	2010/11	2011/12
GDP	-0.4	2.8	3.0
Private Consumption	-0.2	1.7	1.8
Govt Spending	1.3	2.1	1.9
Residential Investment	-11.4	17.4	12.3
Other Investment	-11.1	4.1	7.2
NZ TWI Exchange Rate	62.3	64.0	62.3
90 Day Bank Bill Rate	2.8	3.9	5.3
Employment	-1.8	1.3	2.1
Private Sector Wages	3.5	2.2	2.4

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.

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