

# Recent Hawke's Bay Economic Trends- August 2009 Update Report

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## 1.0 Introduction

This report provides a short analysis of historical and more recent key economic indicator trends within the Hawke's Bay region. The base information for the analysis 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 reports and other sources. Growth comparisons with the country as a whole are included in the analysis, where appropriate. Also included in the report is an assessment of the medium to longer term economic outlook.

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## 2.0 Trend Summary

- The rural production sector is a key part of the Hawke's Bay economy, accounting for approximately 40% of total regional GDP. Positive aspects of the sector's current performance in the region include the forecast increase in lamb prices due to falling domestic stock numbers and international meat supplies; 16% increase in pip-fruit export volumes and 10% increase in export returns; and 14% gain in the volume of wine exports. However, major pressures continuing to face the local sector include the lingering effects of the major 2007 drought on pastoral farmers and the difficult international market conditions resulting from the current World economic downturn which are impacting all rural industries. Sheep/beef farmers face the ongoing issue of balancing the need to rebuild their capital stock following the drought against maintaining their revenue base. The financial situation over the coming year of the sector will also be importantly influenced by trends in the \$NZ.
- The region continues to record significantly lower population and household growth overall compared to the national situation and continuing net overseas migration loss.
- Economic growth forecasts for the area have been lowered progressively since the start of last year and now stand at an average annual level of 0.1% for the next five years, compared to 1.6% nationally. Therefore, only marginal growth is forecast for the region over the medium-term.
- The volume of approved new dwelling construction in Hawke's Bay fell 34% over the year ended June 2009. The volume of new commercial/industrial building fell by 42% and 63% in dollar terms. The value of new rural building work approved fell 9%. Total new building work approved fell 28% in volume terms and 39% in value terms.
- Actual (nominal) retail sales for Napier-Hastings combined fell 4.7% over the June 2009 year. The median regional house selling price in June this year was up around 7% on the June 2008 figure. Commercial accommodation visitor activity fell 4% over the year. New motor vehicle registrations fell 38%.
- Surveyed employment in Hawke's Bay-Gisborne increased 0.4% over the June 2009 year, compared to 0.5% nationally. Unemployment increased by 64% from June quarter 2008 to June quarter 2009 and by 47% over the full year to June 2009. In June this year, the rate of unemployment in Hawke's Bay stood at 6.4%, compared to 5.8% nationally. The number of people receiving unemployment benefit in Hawke's Bay in June 2009 stood at 1697, compared to 776 in June 2008.

### 3.0 Key Hawke's Bay Economic Indicator Levels June 2009

<i>Population:</i>	153,800
<i>Household/Dwellings:</i>	62,436
<i>Nominal Gross Domestic Product (GDP):</i>	\$6.1 Billion
<i>Annual Economic Growth (2009 Mar Yr)</i>	0.5%
<i>Annual Employment:</i>	78,400
<i>Annual Employment Growth:</i>	0.4%
<i>Annual Unemployment:</i>	5,325
<i>Unemployment Rate (%):</i>	6.4

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### 4.0 Current Rural Sector Situation

#### ■ Regional Economic Contribution

- The key rural production and processing industries in Hawke's Bay 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 GDP for these and other rural production and processing activities in the region currently stands at an estimated \$1.1 billion or 5% of national GDP for all these activities as a group.
- Total regional employment for the main rural producing and processing industries in Hawke's Bay currently stands at over 20,000 persons or approximately 11% of total employment in New Zealand for the agricultural, forestry, fishing, meat/horticultural processing, wine-making, wood processing and pulp/paper manufacturing industries, as a group.
- In employment terms, the leading rural production and processing industries in Hawke's Bay are presently fruit growing, pastoral farming, meat processing, fruit and vegetable processing, grape-growing and wine-making, horticultural crop growing, wood manufacturing and pulp/paper production, in this order.
- Over the last eight years, total rural sector related employment in Hawke's Bay has increased overall for the broad agricultural, forestry, rural support services, food processing and wood manufacturing industries, to varying degrees; however, the period since 2004 has seen overall employment falls for most of these industries, with the support services industry being the only one to record an overall employment gain.
- More specifically though, overall employment increase has been recorded since 2004 for the nursery production, grape-growing, berry/citrus fruit, mixed sheep/beef farming, rural support service, shearing, tanning and wood manufacturing industries.

#### ■ Current Rural Economic Situation

Points to note from MAF's latest (July 2009) SONZAF report about the medium-term outlook for the national primary production industries, are as follows below. Due care should be taken though of the recurring theme in the forecasts of the shorter-term positive impact of a lower \$NZ, given the more recent strengthening of this indicator:

- **Meat** - An optimistic outlook for lamb prices due to the combined impact of lower domestic stock numbers, reduced international meat supply and an overall lower \$NZ outweighing the fall in consumer demand due to the world recession. Beef prices are forecast to continue to fall until

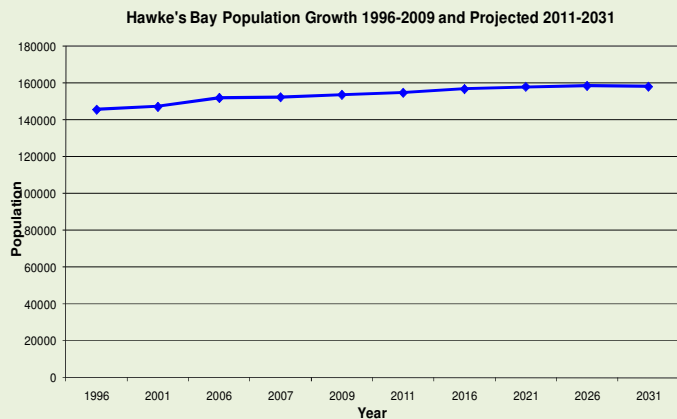
2011, due to reduced and changing/substitution in world demand. The impact of the latest major drought will continue to significantly impact the sector's production levels over the next few years.

- **Wool** - The current international recession and decline in new house building are expected to see an overall sharp fall in wool prices over the next two years, despite the positive price impacts resulting from the falling \$NZ and lower stock numbers.
- **Dairying** - International demand for dairy products is expected to remain relatively weak for the next 1-2 years. Dairy prices are also expected by MAF to remain fairly flat, although it is noted that Fonterra's recent online global milk powder auction saw a 25% increase in milk powder prices. However, prices are still half those of March 2008.
- **Forestry** - The international recession, associated falling prices and weakening demand, and very soft housing markets have combined to 'hit New Zealand's forestry industry hard'. The local industry has been cushioned to an extent though by the growth in the Chinese market, reduced shipping costs and lower \$NZ. An overall improvement is expected from 2010.
- **Pip-fruit** - This year's forecast is for a good performance, with significantly increased export volumes and values, despite an overall small price decrease. Prices are forecast to improve again from 2010, whilst export volumes stabilise (with export values thus increasing).
- **Wine** - Whilst export volumes are forecast to increase steadily over the medium-term, prices are expected to fall and stabilise from next year until the recession ends. Some supply correction is also expected.

## 5.0 Population

Figure 1:

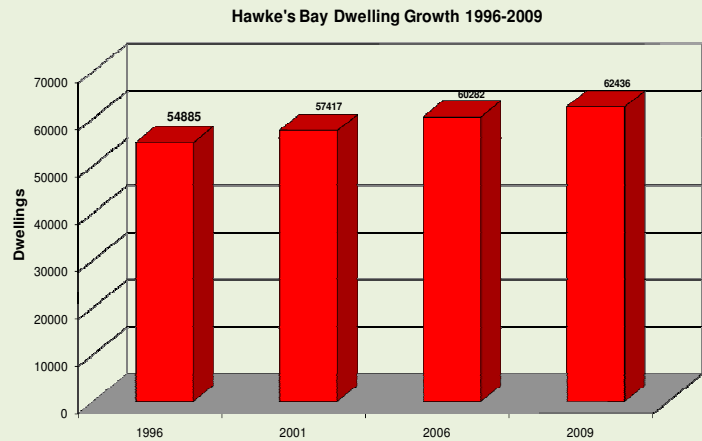
Hawke's Bay's population currently stands at an estimated 153,800 and has risen by 1,700 or 1.1% since the 2006 Census year. This compares to 3% nationally. The region's population growth track since the 2006 Census shows that this indicator has been growing close to the Statistics NZ Medium growth projection 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. During the June 2009 year, the number of permanent and long-term arrivals from overseas into the region totalled 1,640, compared to 1,624 for the previous June year. The respective numbers for overseas departures were 2,402 (June 2009 year) and 2,439 (June 2008 year). Thus, the latest June year saw a total net external migration loss of population of 762, compared to 815 for the June 2008 year.



## 6.0 Household/Dwellings

The total number of houses in Hawke's Bay in June this year stood at an estimated 62,436. This represents an increase of 2,154 or 3.6% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 12% further increase in dwelling numbers in the region over the 2006-2021 period, under the Medium growth projection. This compares to the national projection of 21%.

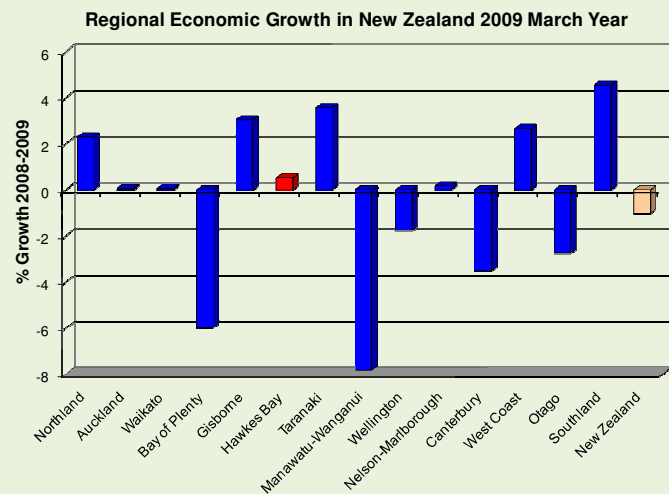
Figure 2:



## 7.0 Economic Growth

Figure 3 indicates the comparative regional rates of economic growth within New Zealand for the 2009 March year. The base growth data is sourced from Infometrics economic consultancy in Wellington. Hawke's Bay recorded the sixth highest growth rate amongst the various regions and its growth rate was in contrast to the negative national growth figure. 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 growth of 2.1% for the last five-year period and the Institute's June 2008 medium-term forecast for the region of 2%. The Institute's latest national medium-term economic growth forecast is 1.6%, noticeably above the regional result.

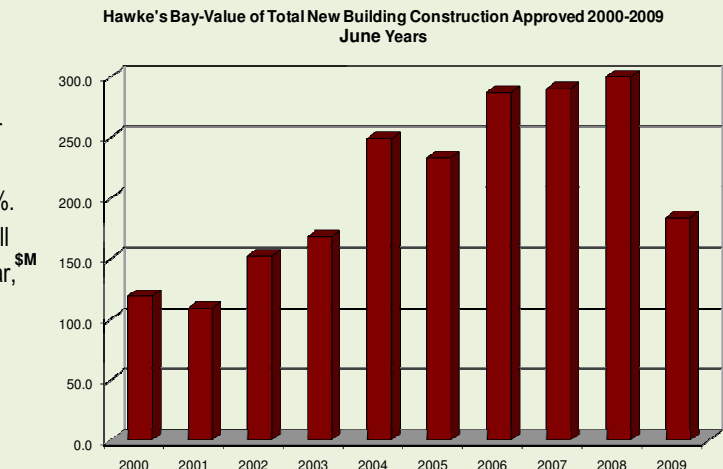
Figure 3:



## 8.0 New Building

Over the June 2009 year, a total of 758 new buildings received building consent in Hawke's Bay, worth a combined value of \$184M. The number of new buildings approved was 28% down on the previous year, whilst their combined value was down 39%. The number of new dwellings approved fell 34% and their combined value 40%. Total new commercial/industrial building work approved fell 42% in volume terms and 63% in value terms over the year, with increased activity occurring only in the visitor accommodation sector. The value of new rural building work approved fell 9% over the year. The total volume of new building activity in Hawke's Bay rose steadily over 2000-2006; since then, though, it has fallen back by 43%.

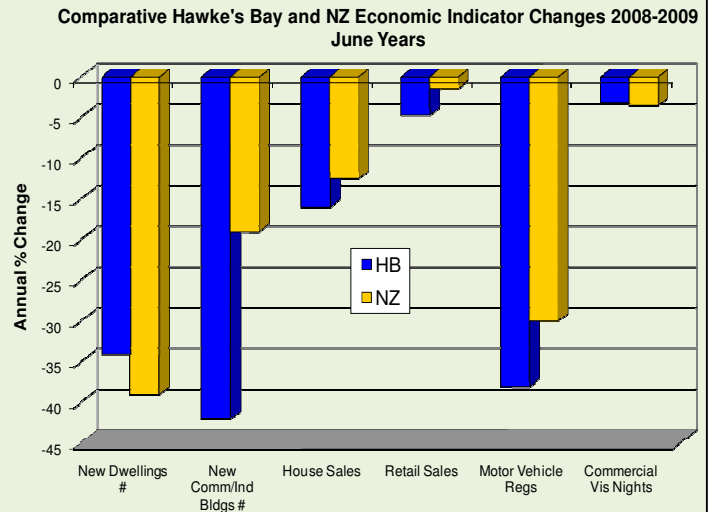
Figure 4:



## 9.0 Other Economic Indicators

Hawke's Bay house sales for the June 2009 year were 16% down on the previous year. The median house price increased from \$261,000 in June 2008 to \$280,000 in June 2009. Actual Napier-Hastings retail sales fell -4.7% for the June 2009 year, compared to -1.4% nationally. New motor vehicle registrations in the region fell 38% over the June 2009 year, compared to the 30% fall nationally. Port of Napier total international export/ import trade fell in volume terms by 1.7% over the 2009 June year, with export trade increasing slightly and import trade falling by 15%. Electricity consumption in Hawke's Bay over the year was up 13% on the June 2008 year's level.

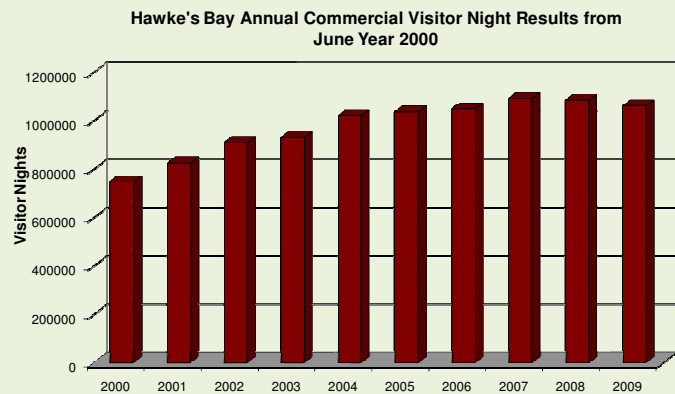
Figure 5:



## 10.0 Visitor/Tourism Numbers

Visitor arrival numbers into the Hawke's Bay region staying in commercial accommodation totalled 507,401 over the June 2009 year, down 18,315 or 3.5% on the previous year. The national change was a 5% decline. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 1,060,510 for the year, down 2.2% on the previous year. Nationally, visitor night-stays fell 3.5% over the June 2009 year.

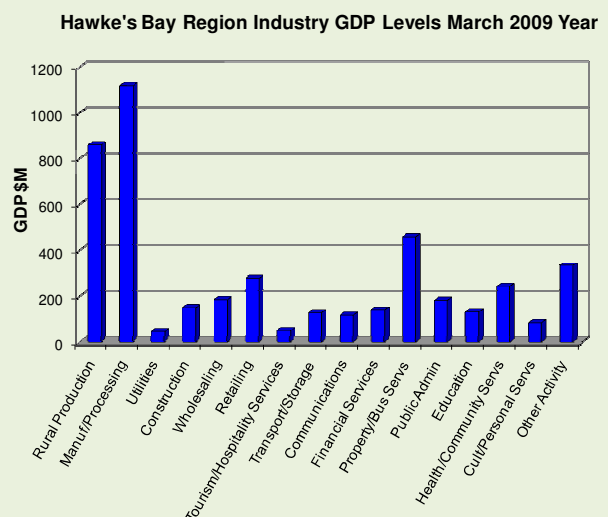
Figure 6:



## 11.0 Industry Growth

Real GDP growth for Hawke's Bay industry sectors over the latest March 2009 year was highest for the primary industries, communications, tourism/hospitality, financial/insurance services, property/business services, cultural/recreational services and personal/household services. Negative growth was recorded most by the construction, wholesale trade, education, transport/storage and Government administration industries. The region's largest industries in GDP terms, as indicated in **Figure 7**, are processing and manufacturing, agricultural production, property/business services, retailing and health/community services. GDP has grown most over the last five years for the primary production, retailing, tourism/hospitality, communication service, business service, public administration, health/community service and personal/household service industries.

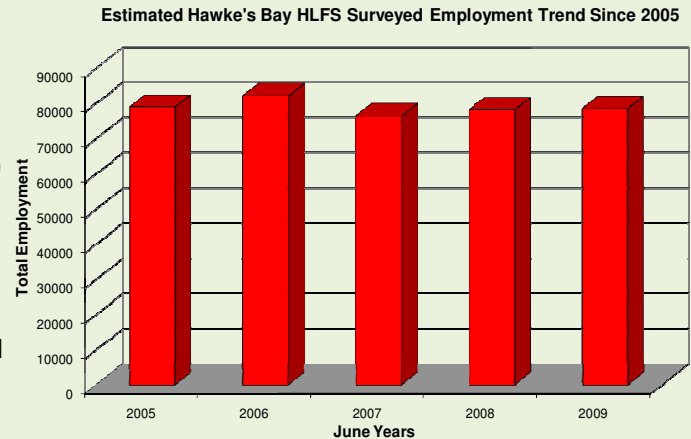
Figure 7:



## 12.0 Employment

Total surveyed employment in Hawke's Bay-Gisborne for the June 2009 year was up 0.4% on the previous June year. At the national level the gain was 0.5%. Employment in the region in the June month this year was down 2.6% on June 2008. At the same time though, unemployment was up 3,000 or 64%, and 47% on an annualised basis. In June 2009, the regional rate of unemployment stood at 7.3%, compared to 4.5% in June 2008 and the June 2009 national unemployment rate of 5.8%. The number of people receiving the unemployment benefit in Hawke's Bay in June 2009 stood at 1697, compared to 776 in June 2008, that is, an increase of almost 120% over the past year.

Figure 8:



## 13.0 Regional Business Situation

Consultation with a range of regional/ local business sector organisations and public identification of new development projects occurring in the Hawke's Bay area, indicate the following points about the current state of business and economic confidence in the Hawke's Bay area:

- The ongoing adverse impacts of the major international and national economic downturn, in concert with the present seasonal low in economic activity, continue to significantly restrain overall business activity and confidence. Enterprises in the region have been impacted to varying degrees by the downturn. The visitor accommodation, construction/trades, business service and motor vehicle sales industries are specific examples of activities particularly 'hit' by the downturn. The small business sector generally has also been under considerable pressure. The business sector in the region continues to adopt a 'waiting game' stance with respect to the timing and extent of any upturn in regional economic activity.
- In the meantime, regional businesses and organisations continue to deal with the workforce pressures resulting from the downturn in a number of different ways, such as reducing staff numbers/hours of work/part-time employment, non-replacement of staff retiring/resigning from employment and redundancies (e.g. Government agencies).
- There are a number of positive 'infrastructural' developments occurring in the region, including further road/footpath upgrading projects, the new \$8 million trades training facility at EIT Hawke's Bay, Environment Court endorsement of the existing location of the new regional sports park in Hastings which will allow its ongoing development to proceed, extensions to the main Hastings District Council administration building in Lyndon Road, and opening of the new grandstand at McLean Park in Napier and revamped Taradale library.

Figure 9:

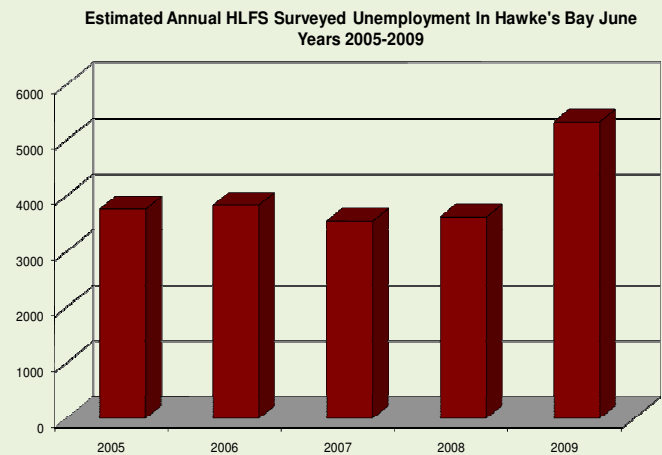
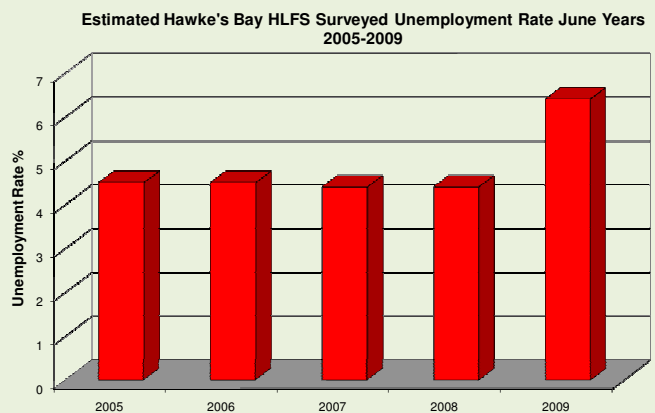


Figure 10:



## 14.0 National 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. The latest June 2009 forecasts are for negative GDP and consumption growth over the year ahead; solid Government spending growth over the next few years (including major infrastructural spending brought forward to help counter the recession); significant new construction decline; falling business investment; lower inflation; further overall exchange rate depreciation; lower interest rates; employment decline and increased unemployment; and lower private sector wage growth.

Table 1: NZIER Consensus Forecasts June 2009

Indicator	March Years		
	2008/09	2009/10	2010/11
GDP	-1.0	-1.6	2.8
Private Consumption	-0.5	-0.7	1.1
Govt Spending	3.6	3.2	2.2
Residential Investment	-25.2	-22.8	14.5
Other Investment	-4.1	-13.2	3.9
NZ TWI Exchange Rate	61.5	57.8	59.5
90 Day Bank Bill Rate	6.7	2.6	3.3
Employment	0.8	-2.7	0.8
Private Sector Wages	5.2	2.6	1.7

**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.