

---

Recent Hawke's Bay Economic Trends  
June 2010 Report

---

Commissioned by:



---

Contractor: Sean Bevin, Economic Solutions Ltd

---

**Recent**  
**Hawke's Bay Economic Trends-June**  
**2010 Report**

---

## 1.0 Introduction

This report provides an analysis of key economic indicator trends within the Hawke's Bay region primarily over the year ending March 2010. Where appropriate, historical economic trend information prior to the last 12 months is also reported and also trends since March this year. The base information for the analysis is sourced from a range of economic agencies including Statistics New Zealand, Infometrics economic consultancy and the New Zealand Institute of Economic Research based in Wellington, trading banks reports and other sources. Growth comparisons with the country as a whole are also included in the analysis, where appropriate.

---

## 2.0 Trend Summary

- Whilst the Hawke's Bay region, as with the rest of New Zealand, continues to feel the impacts of the major international economic downturn over the past two years, nevertheless, there have been some positive gains over the past year which give cause for some economic optimism for the coming 12 months, particularly after the traditional winter period economic slowdown
- Positive developments impacting the region's important rural production sector include signs of international economic recovery, significant increases in international commodity prices, major demand out of China and the recent relative stability in the TWI exchange rate
- Positive regional economic indicator changes in Hawke's Bay over the past year include further albeit limited population growth, significant increase in the total number of new buildings (especially dwellings) receiving local authority consent, house sales (+29%), 15% increase in Port of Napier international export volumes handled, increased electricity consumption levels and the small gain in commercial visitor night-stays
- Total employment in the region fell 1.6% over the year ended March 2010, whilst an unemployment rate figure of 5.5% has been estimated for the area in March this year. Total unemployment was recorded then at 4362. The national rate of unemployment in March this year is estimated at 6.6%
- Annual economic growth in Hawke's Bay over the March 2010 year is provisionally calculated at around +1%, following four years of steadily slowing economic growth and negative growth in the March 2009 year.
- Regional industry groups which have experienced increased economic activity and/or employment over the past three years include communications, health and community services, business services, education and the public sector. Construction, manufacturing, wholesaling, retailing and tourism have experienced reduced levels of activity
- Whilst there have been some economic gains in the region over the past year, nevertheless, business confidence is still 'fragile' overall
- Positive economic points on the horizon for the region include a positive regional growth outlook for the medium-term, the impact of the 2010 Government Budget income taxation changes and regional developments such as the \$5.5 million HB Airport runway expansion and further infrastructural developments.

## 3.0 Latest Available Key Hawke's Bay Economic Indicator Levels (March 2010)

<i>Population:</i>	155,000
<i>Estimated Households/Dwellings:</i>	62,863
<i>Nominal Gross Domestic Product (GDP):</i>	\$5.9 Billion

<i>Annual Economic Growth (2009 Sept Yr)</i>	-2.0%
<i>Annual Employment:</i>	76,411
<i>Annual Employment Growth:</i>	-1.6%
<i>Quarterly Unemployment:</i>	4451
<i>Quarterly Unemployment Rate (%):</i>	5.5

#### 4.0 Current Rural Sector Situation

- 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.
- Hawke's Bay accounts for 6% of the total area of agricultural and forestry land in New Zealand. Within the region, pastoral farming accounts for 83% of this land, fruit and horticulture 2% and forestry 15%. Pastoral farms account for 56% of all agricultural and forestry enterprises in the region, fruit and horticultural 'farms' 24% and forestry land-use 20%.
- Total annual nominal GDP for these and other rural production and processing activities in the region currently stands at an estimated \$2.1 billion or 36% of total regional GDP. Total regional employment for the main rural production and processing industries in Hawke's Bay currently stands at around 18,400 persons or approximately 24% of total employment in Hawke's Bay.
- Since 2006, the number of pastoral farming enterprises in the region has fallen by 11% and employment by 24%. Horticultural enterprise numbers have fallen by 3% and employment by 12%. The number of fruit-growing enterprises has fallen by 13% whilst employment has risen by 33% (apple industry employment has increased by 34% and grape-growing employment also by 34%). Forestry and logging employment has been stable. Agricultural industry support services employment has risen by 25%. Primary industry commodity processing (food and beverages/textiles/timber) enterprise numbers have increased a little, whilst employment has fallen by 15%.
- Hawke's Bay accounts for about 60% of total national pip-fruit production. Apple exports from New Zealand have risen by 15% since 1995. The region accounted for 15% of the national grape vintage last year. Since 1999, the grape-growing area in Hawke's Bay has increased by 111% and production by 80%.
- *Current situation and outlook*-rural production levels in the region have been negatively impacted by the adverse climatic conditions prevailing in the area over the past few years and the major international economic downturn. The steadily appreciating exchange rate since early 2009 has aggravated the situation. However, on the positive side, international commodity prices continue their generally sharp rise since the beginning of last year. The ANZ Bank reports that in May this year, dairy prices rose 4% and are up over 60% since May 2009. Large monthly price increases occurred for skins and kiwifruit, whilst prices for wood pulp, wool, lamb and logs also increased. The World commodity price index has risen by 55% over the past year and \$NZ export commodity prices by 30%. The \$NZ has stabilised since later last year which has been beneficial for the rural sector.
- This year's pip-fruit crop is estimated to be about 15% down on last year's figure and similar to the 2008 result. The regional wine vintage is also estimated to be back on last year, given reduced international demand and prices for wine in face of the major World economic downturn. Some grape pullings have occurred in the region over the past year. There is concern both in the region and nationally with regard to the current financial position of some wineries in light of market over-supply and the continuing effects of the

international economic downturn. The forestry sector is also benefiting from the recently improved international market situation and demand growth out of China.

## 5.0 Population

Hawke's Bay's population currently stands at an estimated 155,000 and has risen by 2900 or 1.9% since the 2006 Census year. The region's population growth track since the 2006 Census shows that this indicator has been growing above the Statistics NZ Medium or 'middle of the road' growth projection for the area. This projection indicates that the region's population is anticipated to reach around the 159,000 mark by Year 2031.

Over the period since June 2009, the region has recorded an estimated total population gain of 600. A natural population increase (births minus deaths) of 951 was also recorded. Total net migration for the region was therefore in the order of -351. This comprised a net external (overseas) population migration gain of 187 and a net internal (domestic) population migration loss of -538.

**Figure 1a** to the right indicates the total change over the past year in the main population growth factors for the Hawke's Bay region, together with the change in the total population of the area. **Figure 1b** shows the local authority district-level population changes over the past year. In March this year, the respective estimated district populations were Wairoa 8500, Hastings 74,800, Napier 57,600 and Central Hawke's Bay 13,500.

Figure 1a:

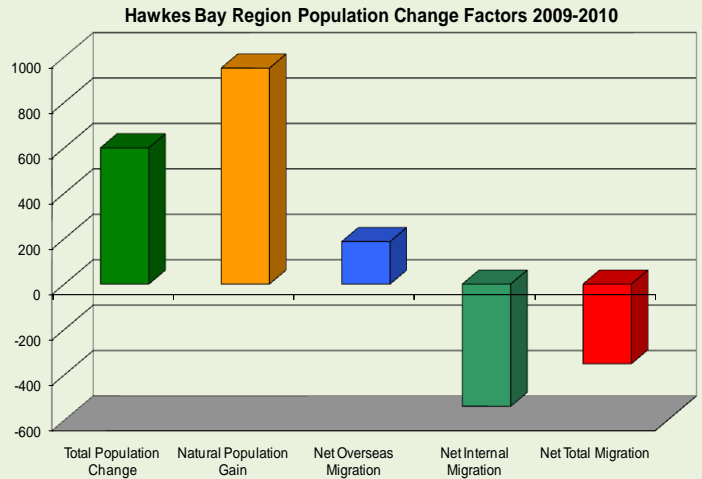
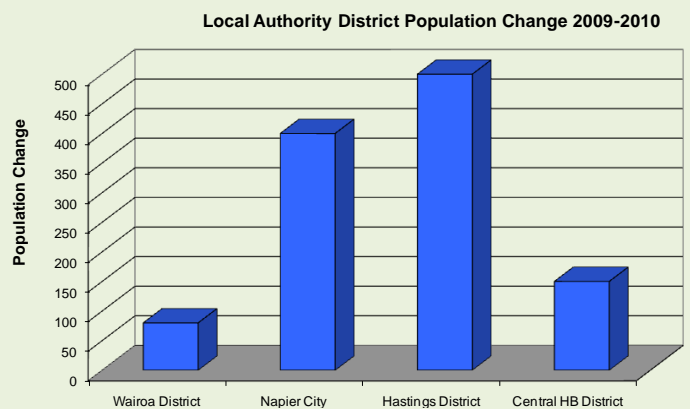


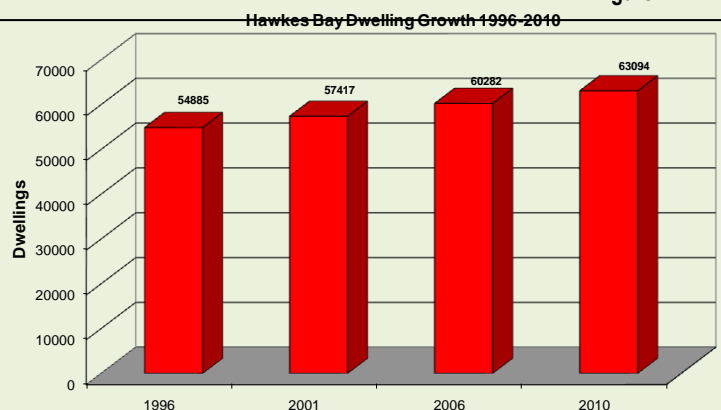
Figure 1b:



## 6.0 Households/Dwellings

The total number of households in Hawke's Bay in March this year stood at an estimated 63,094. This represents an increase of 2,812 or 4.7% from the 2006 Census result for total occupied and unoccupied dwellings. **Figure 2** indicates the trend in total household numbers in the region from 1996 onwards. Latest Statistics NZ projections indicate an approximate 17% further increase in dwelling numbers in the region over the 2006-2031 period, under the midway Medium to High growth projection. This compares to the national projection of 34%. The number of one-parent families is projected to increase by 4.3% over the period and 'couple without children' families by 37%, whilst the number of 'two parent' families is projected to fall by 32%. The number of single-person households is projected to increase by 53%.

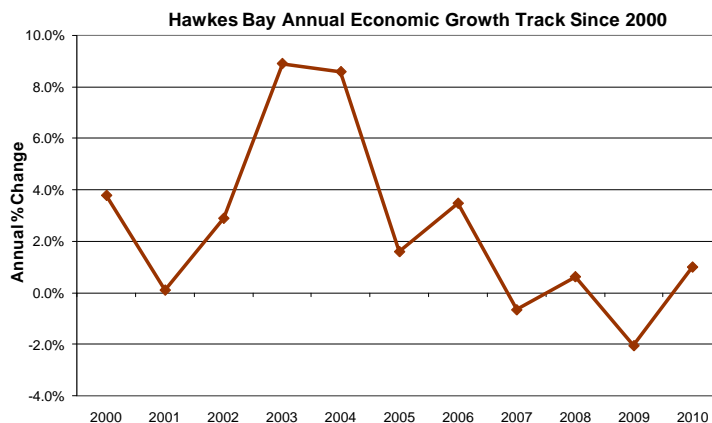
Figure 2:



## 7.0 Economic Growth

Figure 3:

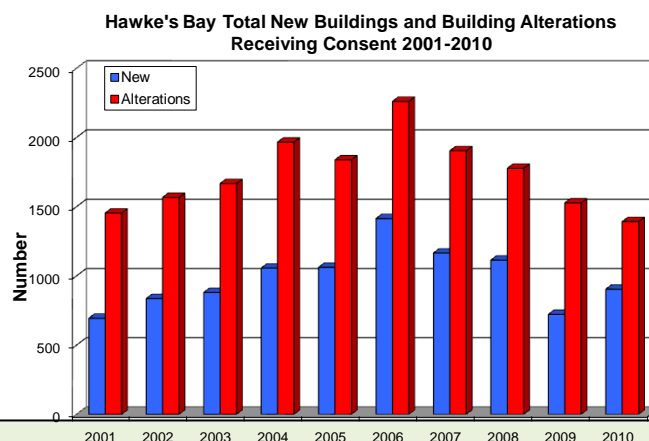
Figure 3 indicates the historical trend in annual economic growth in Hawke's Bay, since the late 1990s. The base growth data for the graph is sourced from Infometrics economic consultancy in Wellington. Over the past decade, the peak regional annual growth rates were recorded over the 2002-2004 period. Since then, growth has fallen back quite noticeably, with the 2007 and 2009 years in fact recording negative annual growth for the first time in the region since 1998/99. However, provisional figures indicate that Hawke's Bay achieved a positive economic growth rebound of 1% for the latest year ending March 2010. This outcome will be confirmed or otherwise in the next economic report. The NZ Institute of Economic Research is currently forecasting average annual growth in the HB (combined with Gisborne) region of 0.9% for the next five years, compared to the estimated annual growth result of 0.7% for the last five-year period and the national medium-term growth forecast for 2009-2014 of 1.8%. Regional growth over the next five years is forecast to be strongest in New Zealand for Auckland, Bay of Plenty and Canterbury. Lowest growth is forecast for Taranaki and Southland.



## 8.0 New Building

Figure 4:

Over the March 2010 year, a total of 904 new buildings received building consent in Hawke's Bay, worth a combined value of \$243M. The number of new buildings approved was up 25.2% on the previous year, whilst their combined value was up 16%. The number of new dwellings approved increased 51% over the year and their combined value 39%. Total new commercial/industrial building work approved fell 13% in volume terms and 33% in value terms over the period. However, within this, the number of storage buildings receiving consent increased noticeably. The volume of new rural building work consented during the year fell 21%.



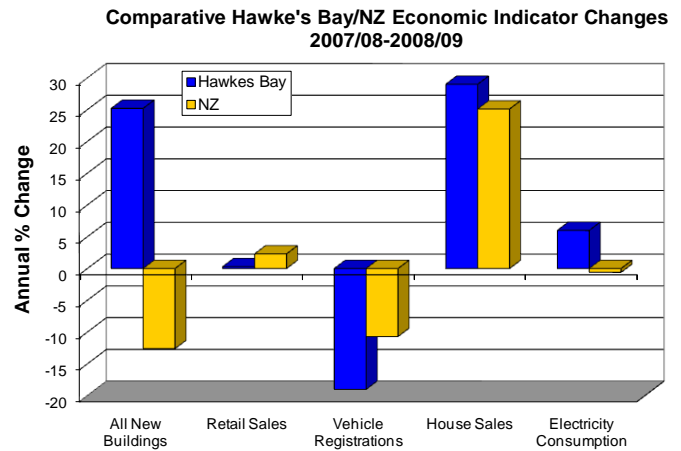
Total new building and other construction work in the region rose 13% during the past year and by 3% in value terms. Total building alterations work fell approximately 9% in volume terms over the period, whilst the value of this work fell 18%. Since the beginning of the latest major international economic downturn (from 2008), the total volume of new construction work consented in Hawke's Bay has fallen by 25% and by 19% in value terms.

## 9.0 Other Economic Indicators

Hawke's Bay house sales for the March 2010 year were up 29% on the 2009 year. Average house price changes in Hastings and Napier increased 3.7% and 5.7% respectively over the same period. Actual retail sales rose 0.3% over the year, compared to 2.3% nationally. New motor vehicle registrations in the region fell 19% last calendar year, compared to the 11% fall nationally.

Port of Napier total international export/ import trade increased in volume terms by 12.2% last year, with export trade increasing by 15% and import trade falling by 2.9%. Electricity consumption in Hawke's Bay over the 2009 calendar year was up 6% on the previous year.

Figure 5:



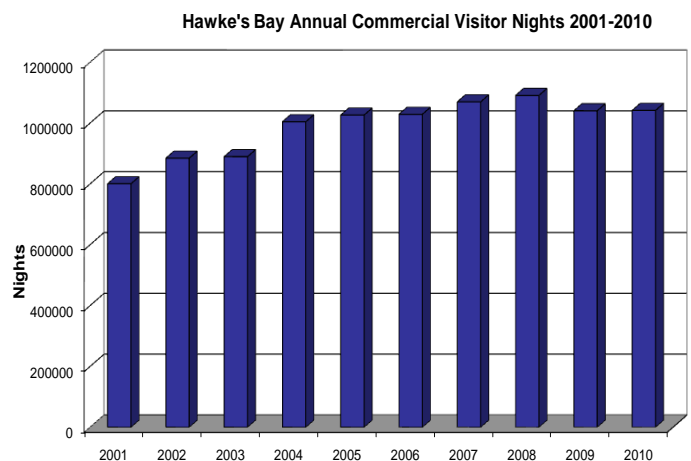
## 10.0 Visitor/Tourism Numbers

Visitor arrival numbers into the Hawke's Bay RTO (regional tourism organisation) region staying in commercial visitor accommodation totalled 501,438 over the March 2010 year, down 304 or 0.06% on the previous year. The national change was a 2% gain. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 1 million for the latest year, up 0.1% on the previous year. Nationally, visitor night-stays increased 2%.

The number of arrivals into Hawke's Bay has fallen by 4.3% since the 2007/08 peak for the past decade and the number of night-stays by 4.5%. At the same time, the average length of stay of commercial accommodation visitors has remain unchanged at 2.08 nights. The total accommodation sector occupancy rate has fallen from 35.1% to 32.8%.

Over the latest year, domestic visitors accounted for 76% of total night-stays in commercial accommodation in the region and overseas visitors the balance of 24%. During the March 2010 year, the comparable national proportions were domestic visitors 58% and overseas visitors 42%. Hawke's Bay thus has a significantly higher proportion of domestic visitors than at the national level.

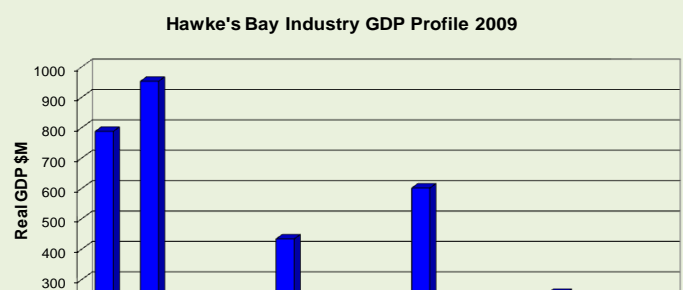
Figure 6:



## 11.0 Industry Growth

Real GDP growth for Hawke's Bay industry sectors over the 2007-2009 period of major world economic downturn has been highest for, in order, communication services, cultural and recreational services, health and community services,

Figure 7:



and financial, insurance and business services.

Negative growth has occurred most for construction, manufacturing/processing, wholesaling, tourism/hospitality services, transport/storage services and retailing. Primary industries sector growth fell by approximately 1% over the two-year interval.

The region's largest industries in GDP terms, as indicated in **Figure 7**, are processing and manufacturing, agricultural production, commercial business services, retailing and wholesaling, health and community services, and transport and communications.

## 12.0 Employment

Total employment in Hawke's Bay for the March 2010 year was down 1.6% on the previous March year. At the national level, the fall was in the order of 1.8%. Employment in the region in the March quarter this year was down 5.6% on the March 2009 result.

On an industry basis, employment grew most in Hawke's Bay over the 2007-2009 period for, in order, the public sector administration, cultural/recreational services, education, and health/community services industries. Employment fell the most in the tourism/hospitality services, construction and retailing industries.

In the March 2010 quarter, the rate of unemployment in Hawke's Bay was recorded at 5.5%. The total number unemployed stood at an estimated 4362. At the same time, the national rate of unemployment stood at 6.6%. The Hawke's Bay figure for March 2009 was 7.8%.

The number of people receiving the unemployment benefit in Hawke's Bay in March this year stood at 1805, compared to 626 in March 2009 and 311 in March 2008. There has thus been a major increase in the number of regional residents receiving the benefit, over the past two years. Also in March this year, the total number of people in Hawke's Bay receiving income tested benefits of various types was recorded at 13,122, compared to 10,758 two years ago. The leading benefit categories were domestic purposes and sickness, followed by unemployment.

Figure 8a:

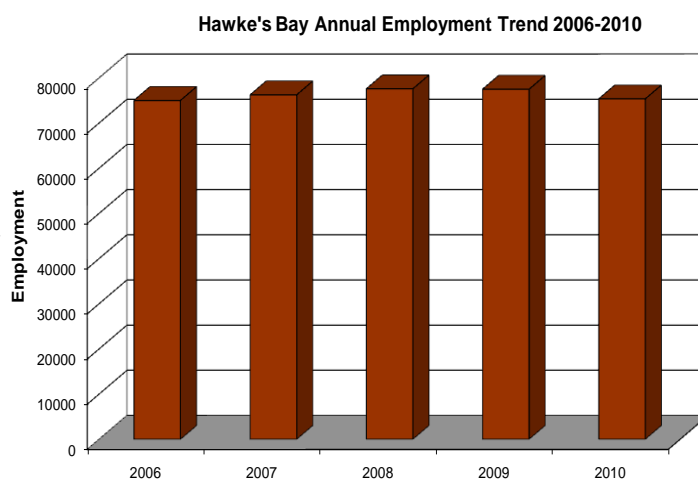
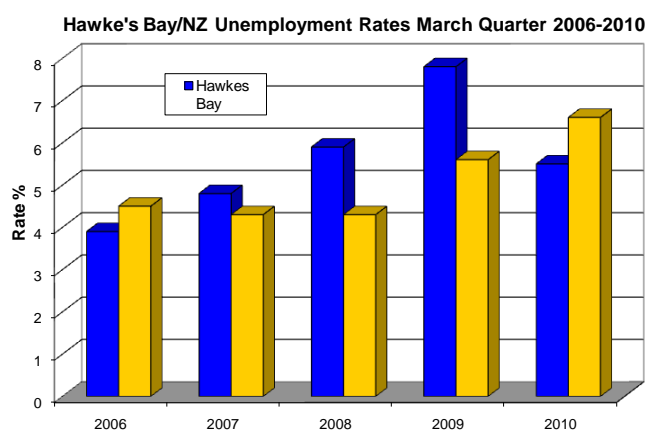


Figure 8b:



### 13.0 Regional Business Confidence

Key points to note from the results for the Hawke's Bay region from the latest (March 2010) Quarterly Survey of Business Opinion run by the NZ Institute of Economic Research, are as listed below. The surveys cover some 190-200 businesses comprising manufacturers, builders, architects, wholesalers, retailers and other service firms:

- For the third quarter in a row, Hawke's Bay firms in March this year were, on balance, optimistic overall about the general business outlook in New Zealand during the rest of this year. They were also more optimistic than at the national level. However, the degree of optimism has fallen back a bit since the September quarter last year
- As had generally been the case since mid 2007, on balance Hawke's Bay firms continue to face difficult domestic trading conditions, although to a lesser degree than prior to September last year. The overall outlook for this factor in the shorter-term is for continuing fairly difficult trading conditions, with the main causal factor being a lack of sales
- Employment levels within the surveyed businesses had fallen back during the March quarter this year for the 7<sup>th</sup> consecutive quarter since September 2008; however, on balance, regional firms were anticipating overall increased labour hiring (during the June 2010 quarter). The level of overtime worked continues to fall and firms continue to find it easier to recruit particularly unskilled labour. Labour turnover again fell significantly overall during the March quarter this year, as it has done consistently since mid 2008; more of the same is anticipated for the June quarter this year
- Over the coming year, business investment in new buildings is expected to fall slightly overall, whilst investment in plant and machinery is expected to increase a little on balance
- A further overall fall in business profitability was reported by Hawke's Bay firms for the March 2010 quarter, along with an expectation of this situation continuing during the June quarter this year.

Figure 9a:

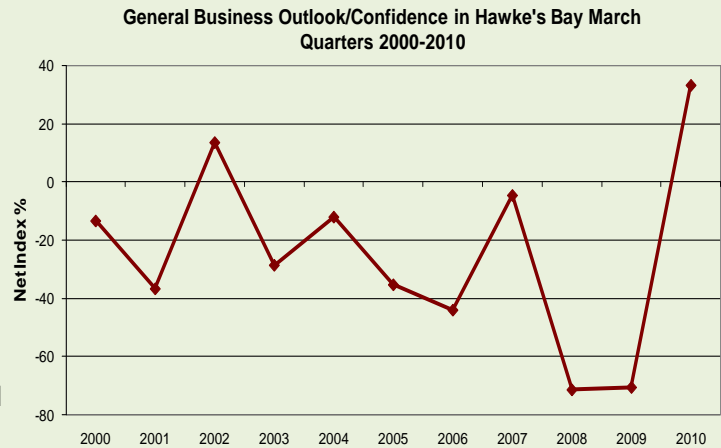


Figure 9b:

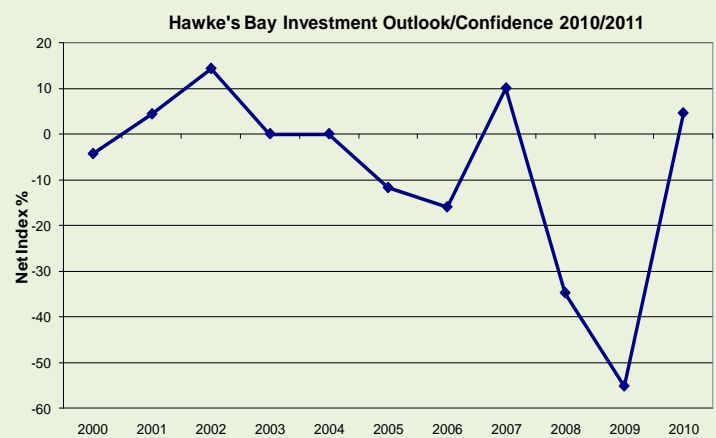
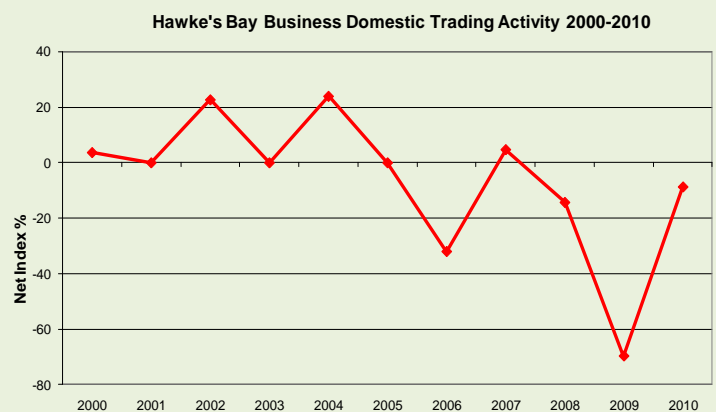


Figure 9c:



## 14.0 National Economic Outlook

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 the different main economic forecasting agencies in the country.

The latest March 2010 forecasts are for:

- Noticeable GDP and consumption growth over the coming year
- Limited Government spending growth over the next two years
- Significant construction sector growth recovery
- Improving business investment growth over the coming two years
- Further but limited exchange rate appreciation
- Increasing interest rates
- Some employment growth (and reduced unemployment); and falling private sector wage growth.

Table 1: NZIER Consensus Forecasts March 2009

Indicator	March Years		
	2009/10	2010/11	2011/12
GDP	-0.4	3.1	3.2
Private Consumption	0.3	2.2	1.8
Govt Spending	0.7	1.9	1.9
Residential Investment	-13.3	16.8	11.3
Other Investment	-11.5	3.7	7.9
NZ TWI Exchange Rate	61.8	63.6	63.1
90 Day Bank Bill Rate	2.8	3.7	5.1
Employment	-1.4	1.6	2.3
Private Sector Wages	3.3	1.9	2.6

**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.