

Recent Hawke's Bay Economic Trends- May 2009 Update Report

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.

2.0 Trend Summary

- The rural production sector is a key part of the Hawkes Bay economy, accounting for 40% of total regional GDP. Positive aspects of the sector's current performance in the region include increased lamb prices, the lower \$NZ, increased dairy milk production, increased production/ export/ employment conditions for the pip-fruit industry and increased wine exports. Continued drought conditions have significantly affected the financial position of many pastoral farmers in the area. Fonterra have recently indicated a significantly reduced payout (\$4.55/kg milk solid) for the 2009/10 season from earlier forecasts (which were looking at over \$5/kg milk solid).
- The region continues to record relatively slow 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 0.6% for the next five years, compared to 1.7% nationally. Some positive growth is therefore still forecast for the region over the medium-term.
- The volume of approved new dwelling construction in Hawke's Bay fell 46% over the year ended March 2009. The volume of new commercial/industrial building fell by 31% and 11% in value terms. The value of new rural building work approved increased by 27%. Total new building work approved fell 35% in volume terms and 30% in value terms.
- Actual nominal retail sales increased 2.2% over the year and the median regional house selling price in April this year was down around 2% on the April 2008 figure. Commercial accommodation visitor activity fell 5% over the last year. New motor vehicle registrations fell 33%.
- Surveyed employment in Hawkes Bay increased 2.1% over the March 2009 year, compared to 0.9% nationally. Unemployment increased by 35% from March 2008 to March 2009 and by 31% over the full year to March 2009. In March this year, the rate of unemployment in Hawkes Bay stood at 7%, compared to 5.3% in March 2008 and the national rate in March this year of 5.6%. The number of people receiving unemployment benefit in Hawke's Bay in March 2009 stood at 626, compared to 311 in March 2008.

3.0 Key Hawke's Bay Economic Indicator Levels March 2009

<i>Population:</i>	154,000
<i>Household/Dwellings:</i>	62,494
<i>Nominal Gross Domestic Product (GDP):</i>	\$6.3 Billion
<i>Annual Economic Growth (2008 Yr)</i>	3.0%
<i>Employment:</i>	79,000
<i>Annual Employment Growth:</i>	2.1%
<i>Unemployment:</i>	5,950
<i>Unemployment Rate (%):</i>	7.0

4.0 Current Rural Sector Situation

▪ Regional Economic Contribution

- The rural production and processing industries in Hawke's Bay currently account for almost 40% of total regional GDP. This excludes the GDP impact of the many service activities in the region with significant business linkages to these industries.
- In employment terms and also taking into account these service activities, the regional contribution of the rural sector is in the order of 35%.
- The production industries (pastoral farming, fruit, wine, horticulture, forestry and fishing) account for 53% of total employment in the rural sector related industry base of the region, processing activity 32% and service manufacturing and services (e.g. financial/transport/ wholesaling) the balance of 15%.
- Over the last five years, total rural sector related employment in Hawke's Bay has increased by 8%, compared to 15% for all industries together. Real GDP for rural production and processing alone has increased by 14%.
- The performance of the rural sector is a key influence on the overall performance of the Hawkes Bay economy.

▪ Current Rural Economic Situation

Points made by the MAF (Wellington) Director for Strategy Development at the February 2009 Hawke's Bay economic summit were as follows (with some additional comment included):

- **Meat** - Lamb prices up whilst those for beef fell at the end of 2008. Lamb numbers down. Most sheep and beef farmers back into profitability in 2008/09 (The extent to which this occurs though is heavily influenced by the individual farm impacts of the continued significant drought conditions experienced this year). Growing over-capacity in the processing sector. Demand likely to weaken but prices expected to remain firm.
- **Wool** - Prices assisted by the lower \$NZ but significant fall in volumes. Continued low returns for farmers. Further falls in prices anticipated with declining world demand.
- **Dairying** - Large price falls moderated by \$NZ/\$US exchange rate. Productions volume up

8% nationally. Significant fall in payouts (Fonterra has recently announced a forecast reduced payout down to \$4.55/kg milk solid for the 2009/10 season, compared to over \$5/kg milk solid for earlier forecasts).

- **Forestry** - Falling prices offset by lower \$NZ and shipping costs. Weak demand for timber and panels. Logs and pulp/paper holding at late 2008 levels. Continued low prices anticipated this year.
- **Pipfruit** - Prices above recent year lows. Production up around 24%. Returns this year looking good. (National export volume expected to be up around 16% on last year, with HB supplying 63% of the volume). Increased employment in the industry (12,000 seasonal staff required in the region this year and specialist accommodation being built for some of them). Increased profitability.
- **Wine** - Some price softening with reduced World demand. Increased exports (National increase of almost 20% this year). Some grower and winery volume restrictions. Outlook is for slower volume growth and some price erosion.
- **Vegetables** - Production volumes expected to remain fairly static. Anticipated improvement in export returns though.

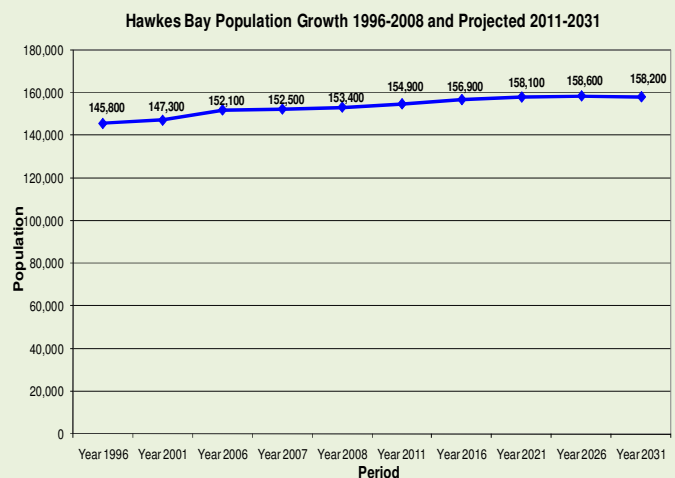
▪ **Wine Industry**

The NZ Institute of Economic Research has recently completed a report for the NZ Winegrowers Association on the national and regional economic impacts of the wine industry. Given Hawke's Bay's 16% share of the national total of grape-growers and 12% share of the number of wineries in New Zealand/ total national wine exports, the regional economic impacts of the local wine industry are a total annual GDP impact of \$106 million or 2% of total Hawke's Bay GDP and a total fulltime equivalent employment impact of 1,600 or 2% of total regional employment. The impacts include the industry and household consumption linkages of the wine industry.

5.0 Population

Figure 1:

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. During the March 2009 year, the number of permanent and long-term arrivals from overseas into the region totalled 1,644, compared to 1,632 for the previous March year. The respective numbers for overseas departures were 2,710 (March 2009 year) and 2,258 (March 2008 year). Thus, the latest March year saw a total net external migration loss of population of 1,066, compared to 626 for the March 2008 year.

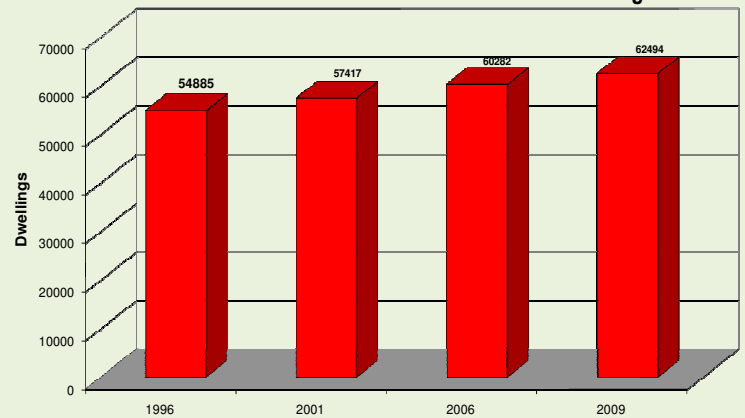


6.0 Household/Dwellings

The total number of houses in Hawke's Bay in March this year stood at an estimated 62,494. This represents an increase of 2,211 or 3.7% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 10% 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 20%.

Hawkes Bay Dwelling Growth 1996-2008

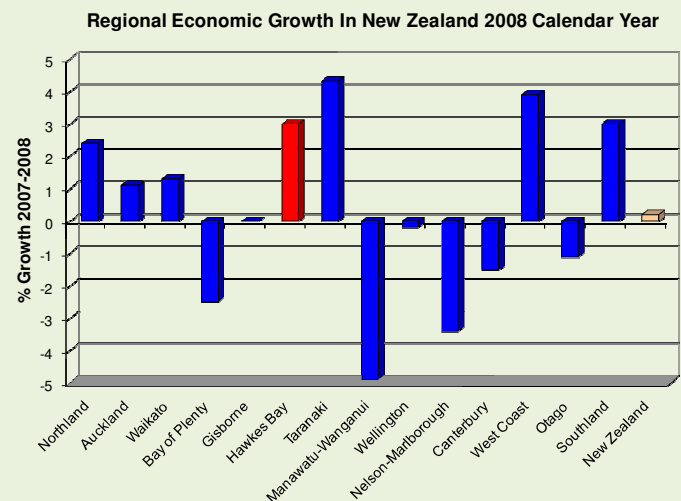
Figure 2:



7.0 Economic Growth

Figure 3 indicates the comparative regional rates of economic growth within New Zealand for the 2008 calendar year. The base growth data is sourced from Infometrics economic consultancy in Wellington. Hawke's Bay recorded the third highest growth rate amongst the various regions and its growth rate was also well above the national figure. The NZ Institute of Economic Research is currently forecasting average annual growth in the region of 0.6% for the next five years, compared to 2.1% for the last five-year period and the Institute's December 2008 forecast for the region of 1.8%. The Institute's latest national medium-term economic growth forecast is 1.7%, noticeably above the regional result.

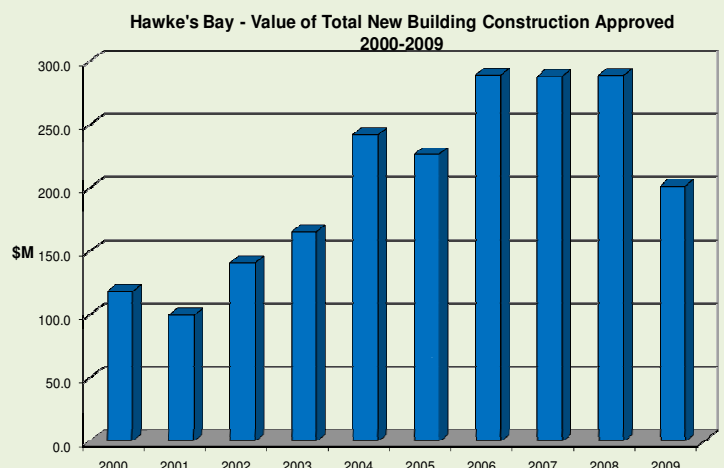
Figure 3:



8.0 New Building

Over the March 2009 year, a total of 722 new buildings received building consent in Hawke's Bay, worth a combined value of \$201M. The number of new buildings approved was 35% down on the previous year, whilst their combined value was down 30%. The number of new dwellings approved fell 46% and their combined value 44%. Total new commercial/industrial building work approved fell 31% in volume terms and 11% in value terms over the year, with increased activity particularly apparent in the visitor accommodation, office and storage sectors. The value of new rural building work approved rose 27% 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 49%.

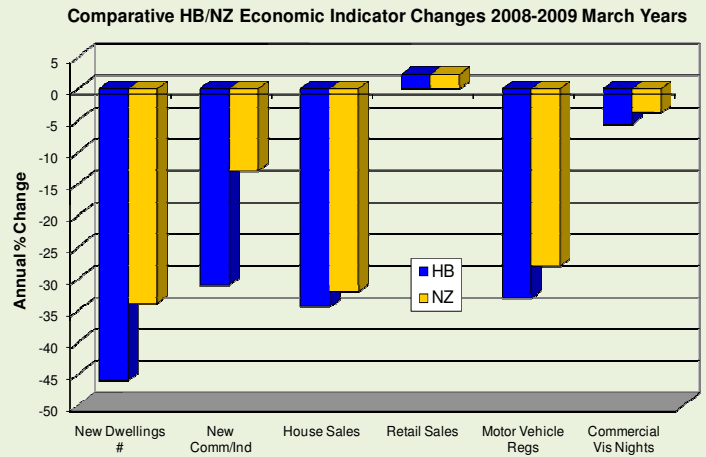
Figure 4:



9.0 Other Economic Indicators

Hawke's Bay house sales for the March 2009 year were 34% down on the previous year. The median house price fell from \$275,000 in April 2008 to \$270,000 in April 2009. Actual retail sales increased 2.2% for the March 2009 year, the same result as for the national level. New motor vehicle registrations in the region fell 33% over the year, compared to the 28% fall nationally. Port of Napier total international export/ import trade fell in volume terms by 4.4% over the 2009 March year. Electricity consumption in Hawke's Bay over the same year was on par with March 2008 year's level.

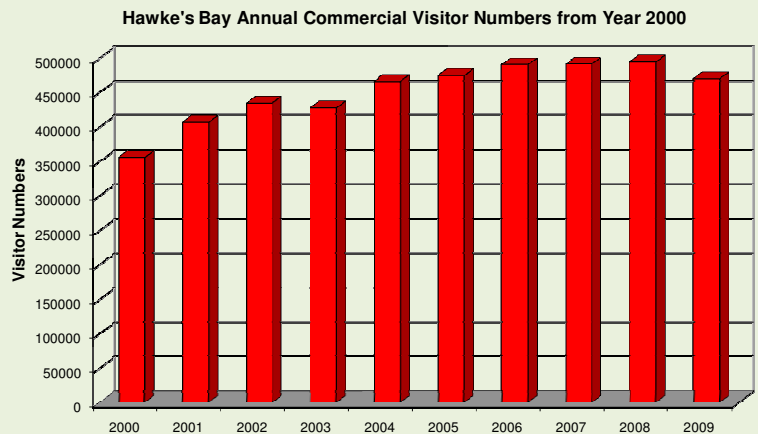
Figure 5:



10.0 Visitor/Tourism Numbers

Visitor arrival numbers into the Hawke's Bay Tourism catchment region staying in commercial accommodation totalled 469,029 over the March 2009 year, down 25,069 or 5.1% 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 972,000 for the year, down 5.6% on the previous year. Nationally, visitor night-stays fell 3.8% over the March 2009 year.

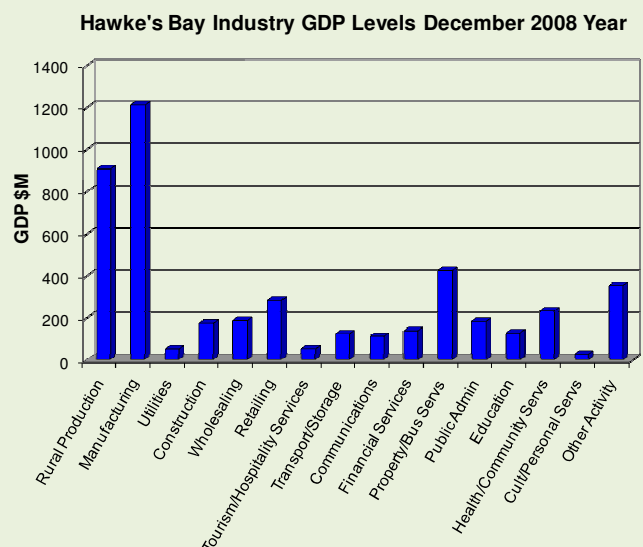
Figure 6:



11.0 Industry Growth

Real GDP growth for Hawke's Bay industry sectors over the latest 2008 calendar year was highest for the primary industries, electricity/gas/water, manufacturing, tourism/hospitality, personal services, construction and retailing. Negative growth was recorded by the wholesale trade, transport/storage, Government administration, education, and health/community service 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, business services, public administration, communication, service, construction and health/community service industries.

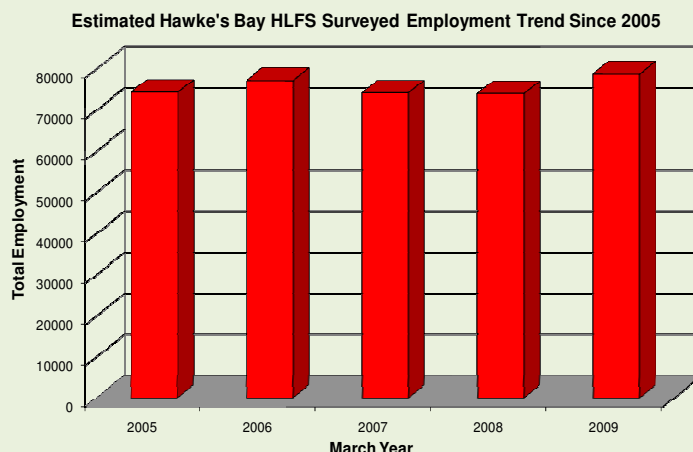
Figure 7:



12.0 Employment

Total surveyed employment in Hawke's Bay for the March 2009 year was up 2.1% on the previous March year. At the national level the gain was 0.9%. Employment in the region in the March month this year was up 1.7% on March 2008. At the same time though unemployment was up 1,120 or 35% and 31% on an annualised basis. In March 2009, the regional rate of unemployment stood at 7%, compared to 5.3% in March 2008 and the March 2009 national unemployment rate of 5.6%. The number of people receiving the unemployment benefit in Hawke's Bay in March 2009 stood at 626, compared to 311 in March 2008.

Figure 8:

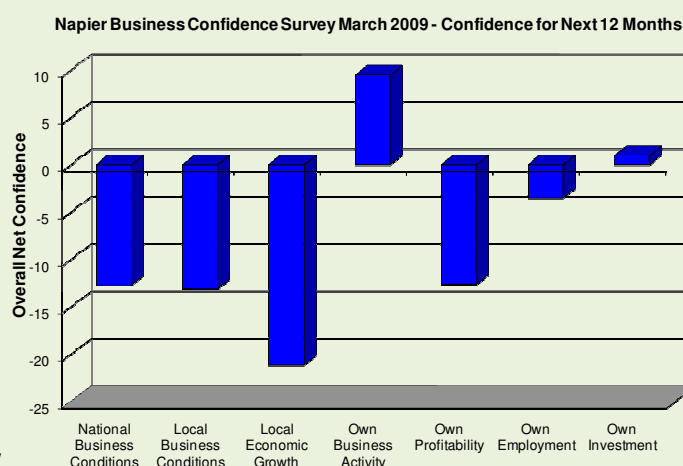


13.0 Local Business Confidence

The Napier City Council's formal half-yearly survey of the current state of business confidence in the City, undertaken in March 2009, indicated the following key points:

- There has been a significant fall in overall business confidence in the City since the last confidence survey undertaken in September 2008.
- Whilst local businesses overall were still confident in March this year with respect to their own activity levels, investment (marginally) and exporting, nevertheless, the level of confidence had also fallen significantly for these factors.
- 55% of the 200 local firms surveyed were still experiencing above-average business trading conditions, with 37% experiencing average trading conditions.
- 30% of the surveyed businesses indicated being significantly impacted by the current economic downturn.
- Approximately 20% of the firms surveyed indicated continuing difficulty in recruiting suitable skilled staff for their operations.

Figure 9:



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 March 2009 forecasts are for weak 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); negative new construction growth; decline in business investment over the year ahead; lower inflation; further exchange rate depreciation; lower interest rates; employment decline and increased unemployment; and lower private sector wage growth.

Table 1: NZIER Consensus Forecasts December 2008

Indicator	March Years		
	2008/09	2009/10	2010/11
GDP	-0.9	-0.6	2.7
Private Consumption	-0.4	0.1	1.4
Govt Spending	3.4	3.7	3.4
Residential Investment	-22.8	-15.1	7.9
Other Investment	-2.8	-9.5	4.4
NZ TWI Exchange Rate	60.5	51.9	55.9
90 Day Bank Bill Rate	6.7	3.0	4.1
Employment	0.8	-1.7	1.0
Private Sector Wages	5.0	3.1	2.3

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.