

# Recent Hawke's Bay Economic Trends- November 2009 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. Traditionally, the sector's economic performance is very closely related to local climatic conditions and the international market situation, and this year is no exception. Key specific influences in this regard include the lingering effects of the major 2007 pastoral farming drought and this year's very good spring production conditions for the industry, the cold climatic conditions impacting the horticultural industry, the adverse impacts of the high \$NZ, increasing World competition in pipfruit growing and the very soft international market conditions occasioned by the major World economic downturn.
- The region continues to record relatively low population and household growth overall compared to the national situation and continuing net overseas migration loss.
- Negative economic growth of 3.4% was recorded for the region, for the year ending June 2009. This compares to -1.8% nationally. 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 +1.3% nationally.
- The volume of approved new dwelling construction in Hawke's Bay fell 23% over the year ended September 2009. The volume of new commercial/industrial building fell by 35% and 71% in dollar terms. The volume of new rural building work approved fell 15%. Total new building work approved fell 22% in volume terms and 34% in value terms.
- Actual (nominal) retail sales for Hawkes Bay rose 2.9% over the June 2009 year. Total house sales fell 1.3% over the September 2009 year, whilst the median regional house selling price in September this year was up around 1% on the October 2007 figure. Commercial accommodation visitor arrivals fell marginally over the September 2009 year, whilst total night-stays increased by around 1%. New motor vehicle registrations fell 37%.
- Surveyed employment in Hawke's Bay-Gisborne fell 1.3% over the September 2009 year, compared to 0.3% nationally. Unemployment increased by 54% from September quarter 2008 to the same quarter this year and by 45% over the full year to September 2009. In September 2009, the rate of unemployment in Hawke's Bay stood at 10%, compared to 6.3% 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 September 2009

<i>Population:</i>	153,400
<i>Estimated Household/Dwellings:</i>	60,000
<i>Nominal Gross Domestic Product (GDP):</i>	\$5.8 Billion
<i>Annual Economic Growth (2009 Mar Yr)</i>	-3.4%
<i>Annual Employment:</i>	78,300
<i>Annual Employment Growth:</i>	-1.3%
<i>Annual Unemployment:</i>	5,964
<i>Unemployment Rate (%):</i>	7.1

### 4.0 Current Rural Sector Situation

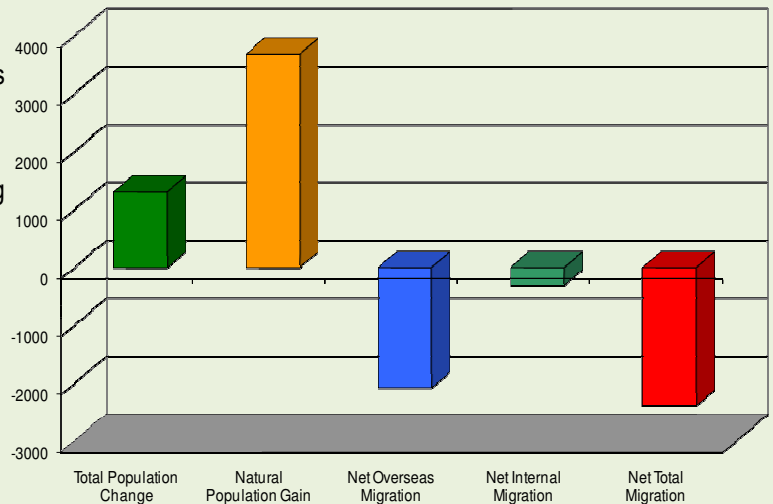
- The key rural production and processing industries in Hawke's Bay are sheep and beef cattle farming, fruit growing, vegetable production, forestry, fishing, grape growing, meat processing, fruit/wine and vegetable processing, textile product processing and wood products processing. Total GDP for these and other rural production and processing activities in the region currently stands at an estimated \$2.1 billion or nearly 40% of total regional GDP. Total regional employment for the main rural producing and processing industries in Hawke's Bay presently stands at around 19,000 persons or approximately 25% of total employment in Hawkes Bay.
- *Pastoral Farming* – the generally very good production conditions during spring this year have unfortunately been offset by the lingering impacts of the major drought period in the first half of 2007, the softer international commodity price outlook as a result of the currently high \$NZ and the significant increase in farm input prices. These changes will also adversely impact the future level of on-farm 'investment' in the region. The relatively small dairying industry in the region will benefit from the significant lift in Fonterra's announced c/kg milk solid payout from the level initially forecast.
- *Horticulture* – the generally soft international market situation, strong World competition and the high \$NZ have all contributed to a considerably lower financial outcome for the region's pipfruit sector this year. The situation has been aggravated by the hail damage in October this year which is estimated to result in a 10%-20% reduction in this year's export crop. The current situation for the region's vegetable production sector generally appears to be relatively stable, although the high \$NZ will likely impact export activity by the sector. On a positive note, major local processor McCains has recently completed a major \$6 million new cold-store facility investment.
- *Wine Industry* – Hawke's Bay grape growers experienced an overall increase in yields in 2008/09; however, prices for the yield were down 10% on the previous year due to the difficult international market situation, resulting in a small pre-tax profit. In 2009/10, the local industry will continue to face issues such as high input costs, need for increased efficiencies, soft market conditions, high exchange rate and the national capped production yield situation. Positive short-term outlook factors for the local (red) wine industry include the recent Government funding initiative for the promotion of the local red wine industry and the impending traditional summer wine tourism season. Statistics NZ information for 2009 indicates that the HB wine industry currently employs some 1210 people in grape-growing and wine processing, 15% of the national total.

## 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 3.1% 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 2006-2009 period, natural population increase (births minus deaths) in the region totalled 3686. Total net migration for the region was therefore in the order of -2386. This comprised a net external (overseas) migration loss of -2075 and a net internal (domestic) migration loss of -311. **Figure 1** indicates the total changes over the last three years in the main population growth factors for the Hawkes Bay region, together with the change in the total population of the area. At the local authority district level, the total population changes over the period have been Wairoa -310, Napier +400, Hastings +1,100 and Central Hawkes Bay +100.

Hawke's Bay Population Change Factors 2006-2009

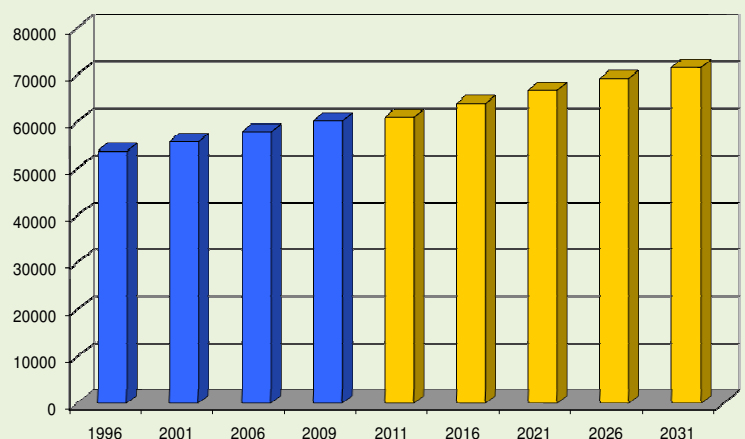


## 6.0 Household/Dwellings

Figure 2:

The total number of households in Hawke's Bay in September this year stood at an estimated 60,183. This represents an increase of 2,283 or 3.9% from the 2006 Census result. **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 Medium 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 decreases by 32%. The number of single-person households is projected to increase by 53%.

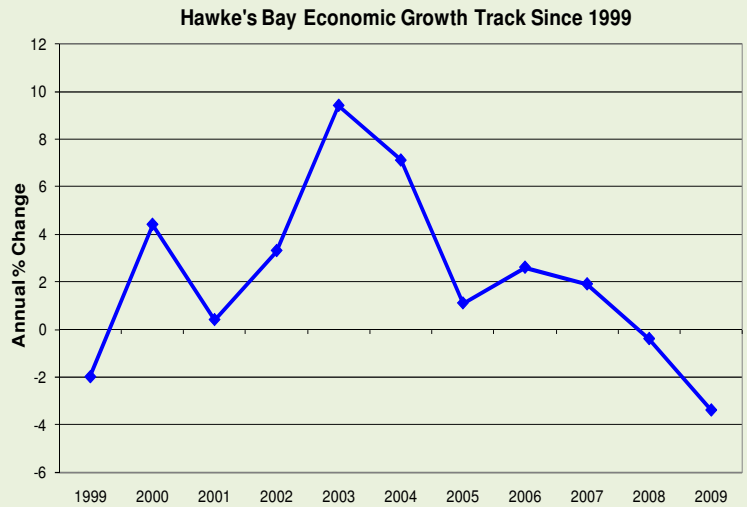
Hawke's Bay Household Growth 1996-2009 and Projected 2011-2031



## 7.0 Economic Growth

Figure 3:

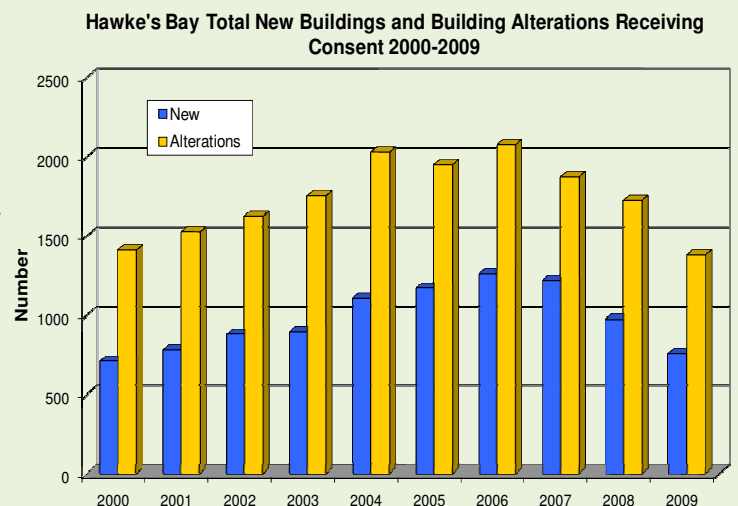
Figure 3 indicates the historical annual trend in regional economic growth in Hawkes Bay, since the late 1990s. The base growth data for the graph is sourced from Infometrics economic consultancy in Wellington. Over the past decade, the peak annual rate of growth (9.4%) was recorded in the 2002/03 year, followed by 7.1% in 2003/04; since then, growth has fallen away quite sharply, down to 1.9% for the 2006/07 year and -0.4% for the 2007/08 year. Over the latest 2008/09 June year, the region recorded an annual growth decline of -3.4%, compared to -1.8% nationally. 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 2009-2013 of 1.3%. Growth over the next five years is forecast to be strongest in New Zealand in the regions of Auckland, Wellington and Bay of Plenty. Aside from Hawkes Bay, negative average annual growth is forecast for Taranaki and Southland.



## 8.0 New Building

Figure 4:

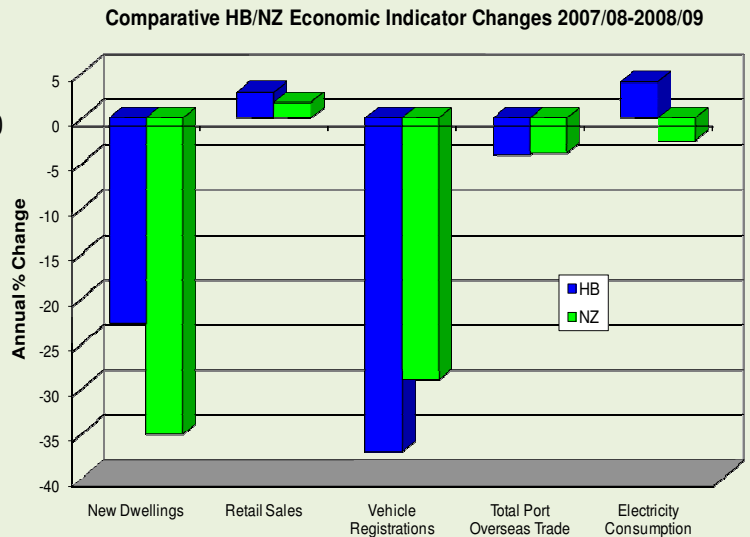
Over the September 2009 year, a total of 760 new buildings received building consent in Hawke's Bay, worth a combined value of \$185M. The number of new buildings approved was 22% down on the previous year, whilst their combined value was down 34%. The number of new dwellings approved fell 23% and their combined value 27%. Total new commercial/industrial building work approved fell 35% in volume terms and 71% in value terms over the year. The volume of new rural building work approved during the year fell 15%. Total building alterations work fell 20% in volume terms over the 12 month period, whilst the value of this work fell 10%. Since April this year, the total number of new residential, commercial/industrial and other premises receiving building consent in Hawkes Bay has been noticeably ahead (9%) of the same period last year; this indicates an element of recovery in the new build sector in the region in recent months. Time will tell, however, whether this situation is sustained into the coming months.



## 9.0 Other Economic Indicators

Hawke's Bay house sales for the September 2009 year were 1.3% down on the previous year. The median house price increased from \$262,000 in October 2007 to \$265,000 in September 2009. Actual retail sales rose 2.9% for the June 2009 year, compared to 1.7% nationally. New motor vehicle registrations in the region fell 37% over the September 2009 year, compared to the 29% fall nationally. Port of Napier total international export/ import trade fell in volume terms by 4.1% over the 2009 September year, with export trade increasing by 3.3% and import trade falling by 38%. Electricity consumption in Hawke's Bay over the year was up 4% on the September 2008 year's level.

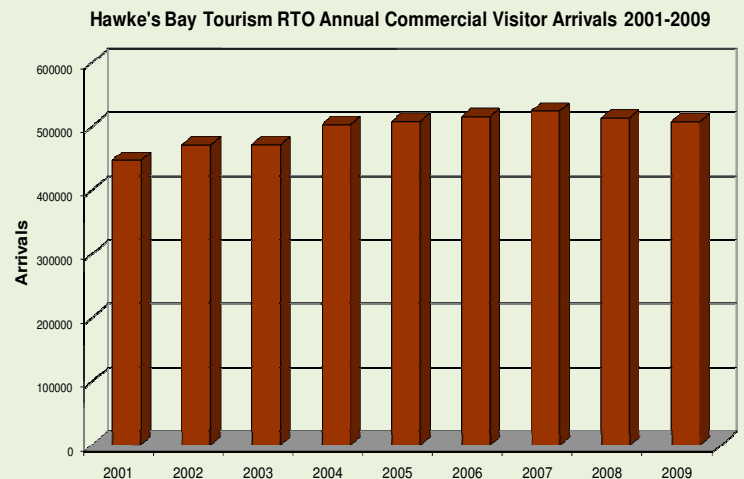
Figure 5:



## 10.0 Visitor/Tourism Numbers

Visitor arrival numbers into the Hawke's Bay region staying in commercial accommodation totalled 546,549 over the September 2009 year, down 2,201 or 0.4% on the previous year. The national change was a 3.5% decline. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 1.1 million for the year, up 0.8% on the previous year. Nationally, visitor night-stays fell 2.2% over the September 2009 year. The Ministry of Tourism is forecasting overnight visits to Hawke's Bay to increase by 4.6% overall during 2009-2015, with domestic visit numbers increasing by 2.6% and international visit numbers by 15%. Total visitor-nights spent in the region are forecast to increase by 6.6%, with domestic nights increasing by 2.6% and international nights by 14.7%. Total day visits to the region, which currently comprise 41% of total visit numbers, are forecast to increase by 3.4%.

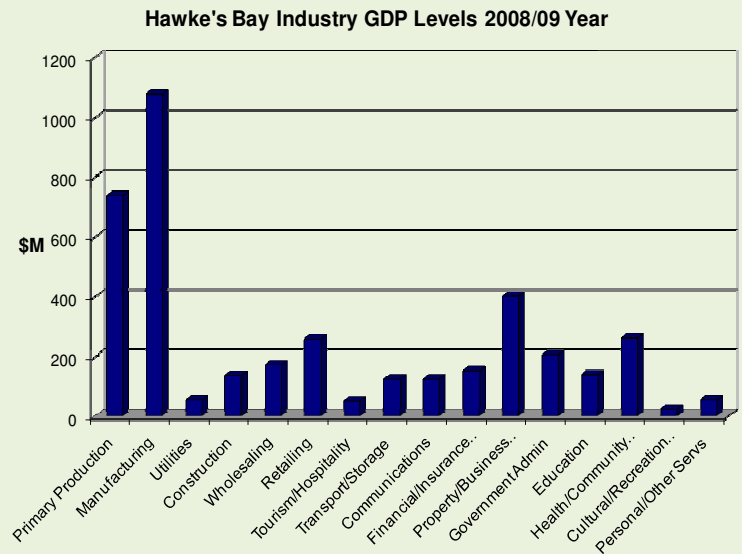
Figure 6:



## 11.0 Industry Growth

Real GDP growth for Hawke's Bay industry sectors over the latest (June) 2009 year was highest for the financial/insurance services, Government administration, communications and health/community service industries. Negative growth was recorded most by the construction, wholesale trade, property and business service, agricultural and transport/storage 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 finance/insurance, Government administration, health/community service, communications and retailing/personal service industries in the region, and has declined most for the manufacturing/processing, wholesaling and construction industries.

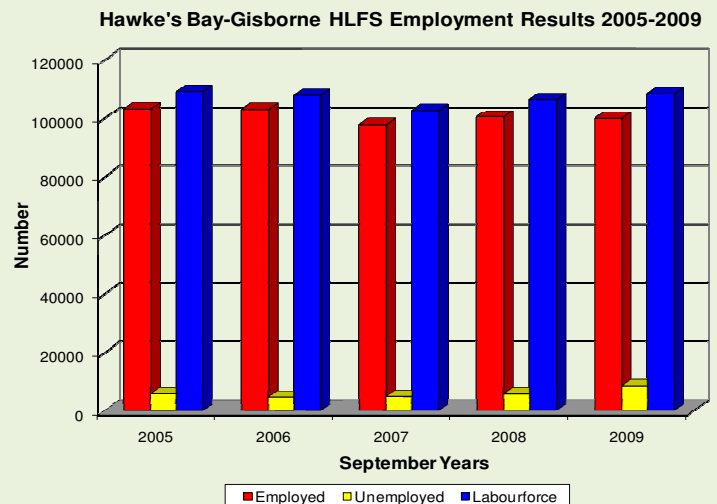
Figure 7:



## 12.0 Employment

Total surveyed employment in Hawke's Bay/Gisborne for the September 2009 year was down 1.3% on the previous September year. At the national level the fall was in the order of 0.3%. Employment in the region in the September month this year was down 0.9% on September 2008. At the same time though, unemployment was up 3,900 or 54%, and 45% on an annualised basis. In September 2009, the regional rate of unemployment stood at 10%, compared to 6.7% in September 2008 and the September 2009 national unemployment rate of 6.3%. 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 12 month period.

Figure 8:

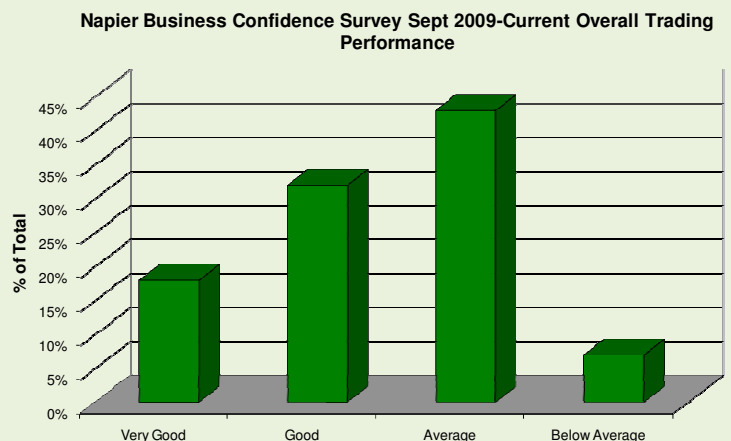


## 13.0 Local Business Confidence

Key points to note from the Napier City Council's latest September 2009 survey of the business confidence situation of some 200 Napier businesses across all sectors, are as follows:

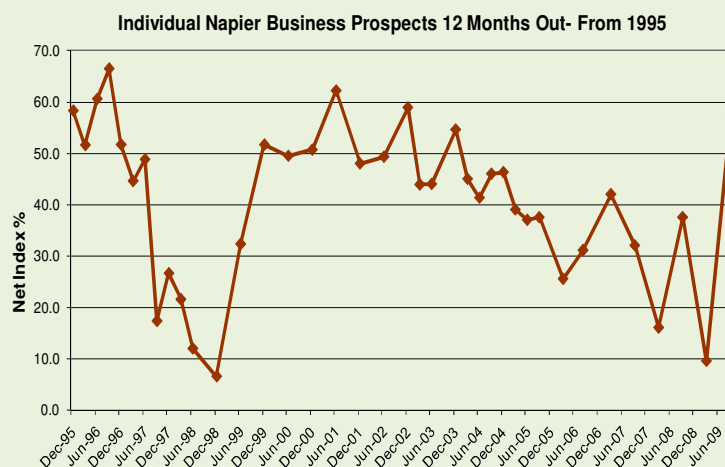
- The majority of the firms surveyed are anticipating local economic and business conditions improving over the coming year.
- Individual business activity levels and prospects are also expected to improve.
- Business sector employment levels are expected to improve slightly overall over the year ahead.

Figure 9a:



- Most businesses reported 'average' trading conditions for their operations at the time of the surveyed, followed by those reporting 'good' conditions and then 'very good'.
- The main adverse business influences in recent times had been the international economic slowdown, lack of consumer confidence, building industry decline and the high \$NZ.
- Half the 200 firms surveyed reported having been significantly impacted by the slowdown in economic activity around the world, with the impacts been felt via the flow-ons from the building industry decline, weaker export markets, reduced consumer confidence, increasing bad debts and falling tourism activity.
- The responses of the firms surveyed to the economic downturn over the past year had included spending reductions, lower staffing numbers, increased marketing, seeking of new business opportunities, business restructuring, innovation and greater debt control.
- Only a relatively small number of the firms surveyed had specific skilled labour recruitment issues.
- Positive new business and economic related recent developments in the region include the recently announced dividend payments to electricity consumers, opening of the Port of Napier's major new \$47m wharf extension, \$6 million extension of the HB Airport runway, opening of the new air ambulance facility at HB Airport and the beginning of the construction of the southern extension to the Napier-Hastings Expressway.

Figure 9b:



## 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 in the country. The latest September 2009 forecasts are for negative GDP and consumption growth over the current March year, followed by a return to positive growth from Year 2010/11; fairly solid Government spending growth over the next few years (including major infrastructural spending brought forward to help counter the recession); significant new residential construction decline this year; falling business investment in 2009/10; some inflation this year; at best, relative exchange rate stability over the next three years; increasing interest rates; employment decline and increased unemployment over the year ahead; and lower private sector wage growth.

Table 1: NZIER Consensus Forecasts September 2009

Indicator	March Years		
	2009/10	2010/11	2011/12
GDP	-1.3	2.7	3.4
Private Consumption	-0.6	1.6	1.8
Govt Spending	2.9	2.2	2.0
Residential Investment	-16.9	17.9	15.9
Other Investment	-14.7	3.9	8.2
NZ TWI Exchange Rate	60.1	60.4	60.5
90 Day Bank Bill Rate	2.8	3.9	5.4
Employment	-1.8	0.8	2.2
Private Sector Wages	2.7	1.7	2.2

**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.