

Hawke's Bay Quarterly Regional Economic Trends- October 2008

This is the first of a quarterly series of economic trend studies and commentaries on the Hawke's Bay area. The intention is to provide regional economic information for decision makers and businesses to understand what is going on in our region in the context of wider events and issues. In this quarter we are conscious of the global economic issues that are affecting business generally. Importantly with an export driven economy, Hawke's Bay has stronger fundamentals than other areas which are more dependent on consumption to drive growth. So saying this, Hawke's Bay is not isolated from these wider issues and the credit squeeze is affecting both the property market and increasingly short term finance for business especially seasonal finance.

As a number of commentators have noted, with the period of cheap credit and high consumption spending now well out of the picture export driven regions should do best and our major involvement with horticulture and agriculture is critical to our future as it always has been. This fundamental coupled with the need to increase labour productivity will put Hawke's Bay in the best position for future growth. Part of this latter opportunity will come from macro effects such as changes in the regulatory environment which is outside of Hawke's Bay' control itself and only the election will determine this.

Thus we have to work to overcome skill shortages and invest in innovation and management capability to increase productivity locally. The Chamber is taking a strong lead in these issues as we are conscious of its importance and it is an area at a regional level where we can make a difference.

The data for this report comes from a variety of sources as listed in the information and is analysed by Hawke's Bay's own Economic Solutions Ltd. Any decision taken on the basis of this information is a matter for any business to take and not for the Chamber to necessarily advise. The next *Hawke's bay Quarterly Regional Economic Trends Report* will be issued in December.

Murray Douglas
Chief Executive
October 10 2008

Recent Hawke's Bay Economic Trends

1.0 Introduction

This report provides a presentation on historical and more recent key economic indicator trends within the Hawke's Bay region. The information for the report is sourced from Statistics New Zealand and Infometrics economic consultancy in Wellington. Some growth comparisons with other regions 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 in September this year; however, recent major international economic events impacting on New Zealand mean that the outlook presented should be treated with some caution.

Current Hawke's Bay Rural Sector Situation

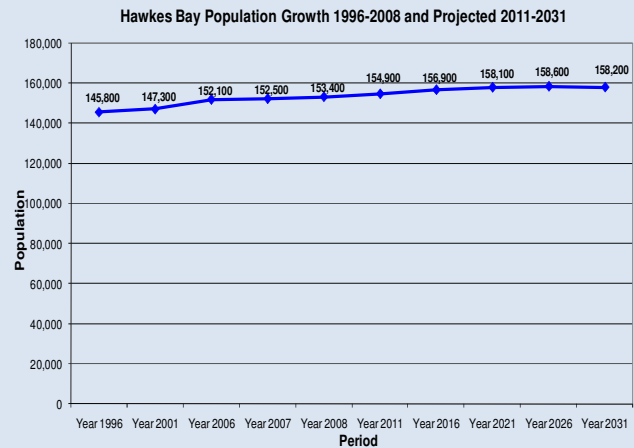
As the rural production and processing sector accounts for approximately 40% of total regional GDP, it is important to note the current performance of the different parts of this sector:

- **Sheep/Beef** – the impact of last year's major drought will continue to be felt strongly in those areas most impacted by the event, during the coming year. The consequent lack of product supply and the lower \$NZ are placing considerable upward pressure on producer prices. Wool prices have increased 20% during the last five months from very low levels; further increases (approx 10%) are expected over the coming year. Beef/cattle farmers most affected by last year's drought face a long recovery period, whilst those to the north and west of Napier-Hastings should experience normal operating conditions this coming year. Farmers have also been impacted by the significant increases in labour, fuel, fertiliser and interest costs.
- **Dairying** – dairy farming in the region has been boosted by the recent high international commodity prices and gradual weakening of the \$NZ. However, prices are forecast to ease during 2009 as the global economic slowdown takes effect. A 10% fall in the dairy payout is predicted this year.
- **Apples** – indications are that overseas demand for New Zealand apples has been relatively strong so far this year, with good prices in Asian markets and increased returns from European markets. The reduced overall production from southern hemisphere countries last season has resulted in significant upward pressure on prices. Prices for 2009 are forecast to strengthen further to around \$25.60/TCE carton, compared with \$22.40 this year. The lower \$NZ should assist grower returns from this market situation.
- **Wine** – the national wine industry faces an uncertain shorter-term outlook, given the combined impact of strong domestic production levels, international/domestic market slowdown and reduced prices.
- **Forestry** – the export component of the industry has been impacted adversely in recent years by the high \$NZ and shipping costs, and soft housing markets in importing countries. Year 2009 is expected to see some improvement though in the situation given the depreciating \$NZ, continued solid demand for logs from Asian countries particularly and the forecast reduced shipping costs. The local industry will face considerable pressure from the current and forecast ongoing decline in new building activity within NZ.
- **NZ-China Free Trade Area**-this new trade agreement, which comes into force in October 2008, eliminates tariffs on 96% of NZ's current exports to China and is expected to provide future real new trade opportunities for HB's rural producers, including apple, other fruit, pastoral product and wine exporters.

2.0 Population

Figure 1:

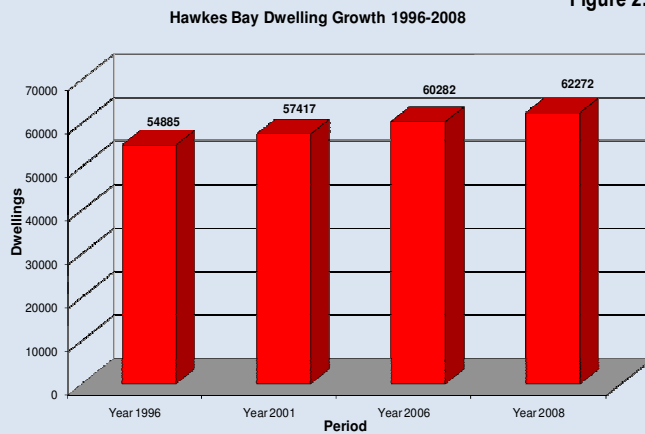
Hawke's Bay's population currently stands at an estimated 153,400 and has risen by 1,300 or 0.9% since the 2006 Census year. This compares to 2.5% nationally. The region's population growth track since the 2006 Census shows that this indicator has been growing close to the Statistics NZ Medium growth projection for Hawke's Bay. This projection indicates that the region's population growth rate is anticipated to slow from Year 2011, with the total population actually declining from Year 2026.



3.0 Household/Dwellings

Figure 2:

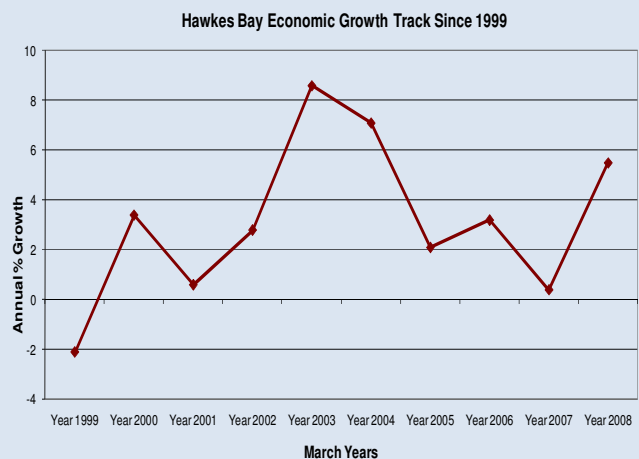
The total number of houses in Hawke's Bay in June this year stood at 62,272. This represented an increase of 1,990 or 3.3% from the 2006 Census result. Latest Statistics New Zealand projections indicate an approximate 10% further rise in dwelling numbers in the region over the 2006-2021 period, under the Statistics NZ 2001 Census based Medium growth projection. This compares to the national projection of an estimated 20%.



4.0 Economic Growth

Figure 3:

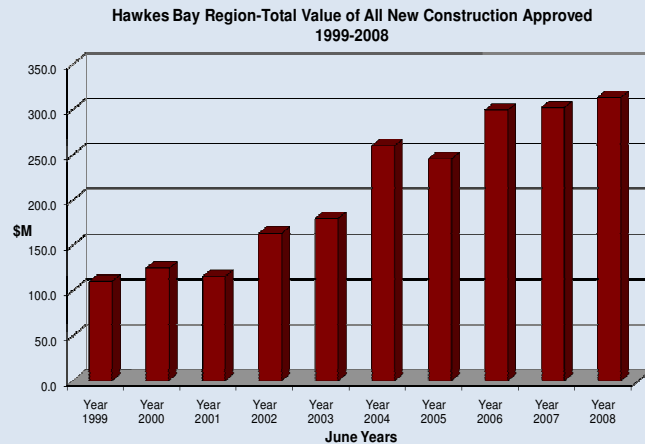
Over the March 2008 year, latest available Infometrics figures indicate that Hawke's Bay recorded 5.5% real economic growth, compared to 3% nationally. The region was ranked third in New Zealand behind Taranaki and West Coast, for this indicator. Real GDP in the region totalled \$4.6B for the year. Growth peaked at over 7% in 2003/2004 but has since dropped back fairly sharply, although it increased significantly over the year ended March 2008. National Bank regional growth figures indicate that there has been a relatively sharp reduction in annual growth in the region, since March this year. Further Infometrics growth results for the region since the March 2008 quarter are being awaited.



5.0 New Building

Over the June 2008 year, a total of 1,278 new buildings and facilities received building consent in Hawke's Bay, worth a combined value of \$313.1M. The number of new buildings approved was 12% down on the previous year, whilst their combined value was up 4%. The number of new dwellings approved fell 17% and their combined value 8%. Total new commercial/industrial building work approved increased 9% in volume terms and 38% in value terms over the year, with increased activity particularly apparent in the retail and office sectors. The value of new rural building work more than doubled. The total volume of new building activity in Hawke's Bay rose steadily over 1999-2006; since then, though, it has fallen back a bit. However, **Figure 4** indicates that the overall value of this activity has risen steadily since 2001, reaching a peak of \$313M for the June 2008 year.

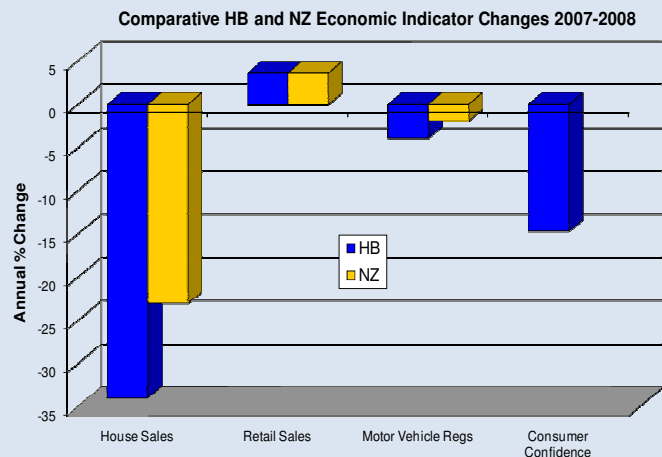
Figure 4:



6.0 Other Economic Indicators

Hawke's Bay house sales for the year ended August 2008 were 34% down on the previous year. The median house price fell from \$275,000 in August 2007 to \$265,000 in August 2008. Actual retail sales increased 3.6% for the year ended June 2008, the same result as at the national level. New motor vehicle registrations in the region fell 4% over the same period, compared to the 2% fall nationally. Port of Napier international export trade increased in volume terms by 3.6% over the year ended March 2008, compared to 5.4% nationally. Electricity consumption in Hawke's Bay was up 4.2% for the March-August 2008 six-month period, compared to the previous six-month interval (August 2007-February 2008).

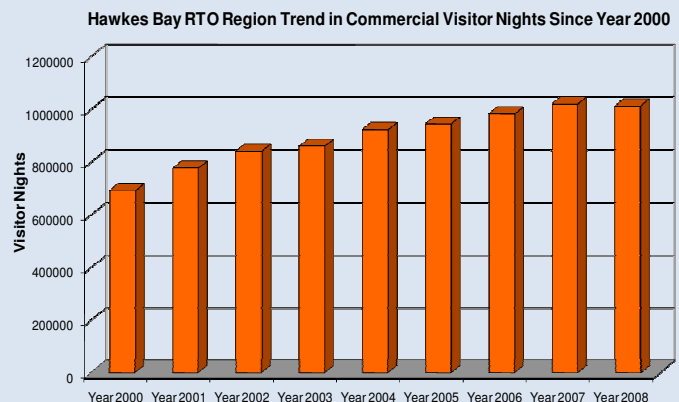
Figure 5:



7.0 Visitor/Tourism Numbers

Visitor arrival numbers into Hawke's Bay staying in commercial accommodation totalled 526,190 over the year ended August 2008, down 4,096 or 0.8% on the previous year. The national change was a 1.3% gain. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 1.1 million for the July 2008 year, down 1.1% on the July 2007 year result. Nationally, visitor night-stays rose 1.7%.

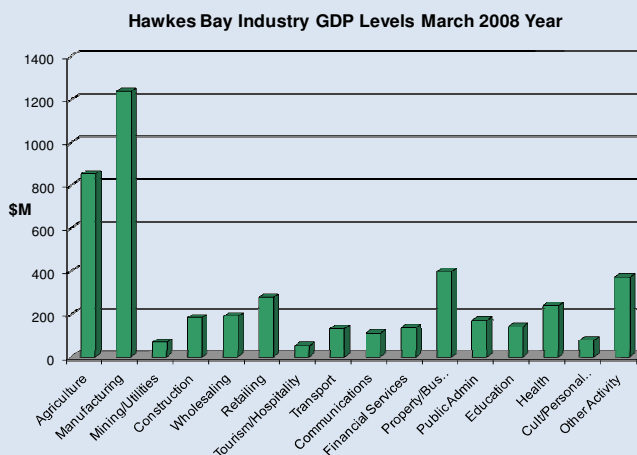
Figure 6:



8.0 Industry Growth

Real GDP growth for Hawke's Bay's larger industry sectors over the March 2008 year was agriculture 12.4%, manufacturing/processing 7.3%, construction 12.2%, wholesaling/ retailing 2.3%, transport 2.1%, communications 1.8%, business services 2.4%, public sector administration 2.1%, education services 2.4% and health services 2.4%. GDP growth of 1.9% was recorded by the region's tourism and hospitality sector. The region's largest industries in GDP terms, as indicated in **Figure 7**, are processing/manufacturing, agricultural production, property/business services, wholesaling and retailing, and health services.

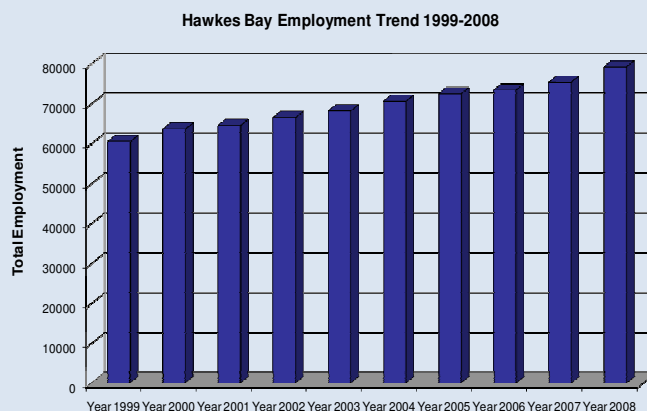
Figure 7:



9.0 Employment

Total employment in Hawke's Bay during the year ended June 2008 was up 5.1% on the previous June 2007 year. From an industry perspective, employment growth was strongest during the year for agricultural production, construction and manufacturing. Noticeable employment decline was recorded by public administration, communications, transport and education. The region's largest employing industries are agricultural production, processing/manufacturing, retailing, business services and construction. The rate of unemployment in Hawke's Bay/Gisborne stood at 4.2% in June 2008, compared with 4.6% in June 2007 and the national rate of unemployment in June this year of 3.8%. The number of people receiving the unemployment benefit in June 2008 stood at 776 and was up 15% on the June 2007 figure.

Figure 8:



10.0 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 of the views of a number of the different economic forecasting agencies in the country. The latest September 2008 forecasts are for reduced economic/GDP growth over the coming year; significantly negative private consumption spending growth; reduced Government spending; negative new residential building growth; further but reduced business investment growth; higher inflation; exchange rate depreciation; lower interest rates; marginal employment growth; an increased rate of unemployment; and increased private sector hourly wage growth. The Institute is forecasting average annual economic growth for Hawke's Bay of 2.1% over the next five years.

Table 1: NZIER Consensus Forecasts Sept 2008

| Indicator | March Years | | |
|------------------------|-------------|---------|---------|
| | 2007/08 | 2008/09 | 2009/10 |
| GDP | 2.9 | 0.2 | 2.1 |
| Private Consumption | 3.1 | -0.1 | 1.5 |
| Govt Spending | 4.4 | 4.0 | 3.2 |
| Residential Investment | 2.6 | -14.3 | -2.8 |
| Other Investment | 4.8 | 2.3 | 1.0 |
| NZ TWI Exchange Rate | 71.6 | 65.1 | 62.0 |
| 90 Day Bank Bill Rate | 8.6 | 7.9 | 6.9 |
| Employment | -0.2 | 0.4 | 0.6 |
| Private Sector Wages | 4.1 | 5.1 | 4.0 |

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.