

# Recent Hawke's Bay Economic Trends- February 2010 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 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 included in the analysis, where appropriate. Also included in the report is an assessment of the medium to longer-term economic outlook. The economic indicators analysed in the report cover up to either the September or December quarters of 2009.

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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 and about one-quarter of total regional employment. Positive aspects of the sector's current performance in the region include the good pasture growth conditions of the past half year, recent firming in some international farm commodity prices and the fillip provided to the local horticultural sector by this season's significant amounts of rainfall. However, major pressures continue to face the rural sector generally in Hawke's Bay, including the appreciating \$NZ, continuing impacts of the major 2007 drought affecting pastoral farmers and the difficult international market conditions resulting from the current major World economic downturn which have impacted all rural industries.
- Population growth in the region continues to be driven by significant natural population gain. Net migration loss has primarily been in the overseas sector; the second half of last year saw however a net external migration gain into the region for the first time since 2007. Total dwelling growth of 4% has occurred in the region since 2006 and further new household formation is projected for the area over the longer-term.
- The region has recorded negative annual economic growth during the past two years and low positive annual growth is currently forecast for the area over the medium-term. The strongest growing regional industries during the past year have been financial/insurance services, communication services, utility services (power/gas/water), health and community services, and the public administration sector.
- The volume and value of consented new dwelling construction in Hawke's Bay increased significantly last year, whilst consented new commercial/industrial building fell considerably overall. However, total new building work consented during April-December last year was significantly ahead of the level for the same period in 2008
- Positive individual regional economic indicator changes last year compared to the previous year included house sales (+26%), retail sales (+2.9%), Port of Napier international export trade volumes (+7%) and electricity consumption (+6%). New motor vehicle registrations (-34%) and commercial accommodation visitor-nights (-1.7%) activity fell over the year.
- Employment in Hawke's Bay fell 0.6% over the September 2009 year, compared to 2.1% nationally. Unemployment increased by 64% from the September quarter 2008 to the same quarter in 2009. In September last year, the rate of unemployment in Hawke's Bay stood at 9.5%, compared to 6.5% nationally. The number of people receiving unemployment benefit in Hawke's Bay in December 2009 stood at 2,526, compared to 992 in December 2008.
- Whilst regional businesses (and consumers) are optimistic of an improvement in economic conditions in New Zealand over the coming year, nevertheless, there is still some way to go before this optimism will result in significant economic gains 'on the ground' such as increased investment, employment and expenditure.

### 3.0 Latest Available Key Hawke's Bay Economic Indicator Levels (September 2009)

<i>Population:</i>	153,400
<i>Estimated Household/Dwellings:</i>	62,707
<i>Nominal Gross Domestic Product (GDP):</i>	\$5.9 Billion
<i>Annual Economic Growth (2009 Sept Yr)</i>	-1.7%
<i>Annual Employment:</i>	76,076
<i>Annual Employment Growth:</i>	-0.6%
<i>Quarterly Unemployment:</i>	7,533
<i>Quarterly Unemployment Rate (%):</i>	9.5

### 4.0 Current Rural Sector Situation

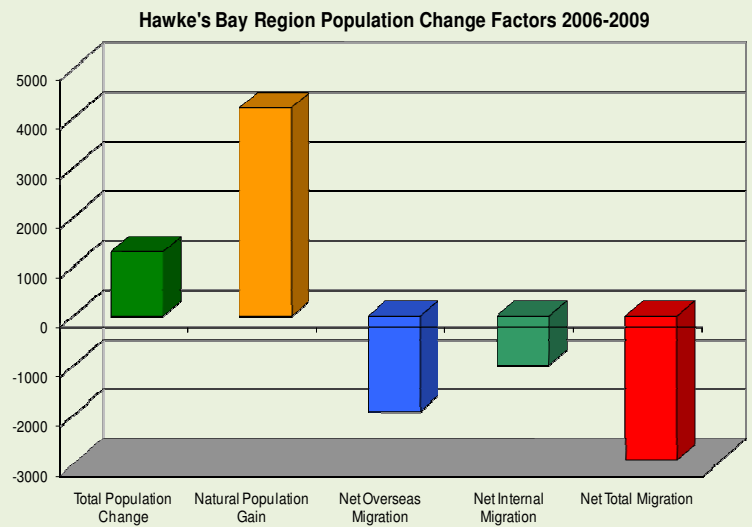
- The key rural production and processing industries in Hawke's Bay are sheep and beef cattle farming, fruit growing, vegetable production, forestry, fishing, grape growing, meat processing, fruit/wine and vegetable processing, textile product processing and wood products processing.
- Total annual nominal GDP for these and other rural production and processing activities in the region currently stands at an estimated \$2.2 billion or nearly 40% of total regional GDP. Total regional employment for the main rural producing and processing industries in Hawke's Bay currently stands at around 18,000 persons or approximately 24% of total employment in Hawke's Bay.
- *Sheep/Beef Farming* – the February 2010 Meat and Wool New Zealand mid-season update for the national sheep and beef sector is forecasting a 36% reduction in average farm pre-tax profitability for the 2009/10 year, with gross farm revenue falling by 9% and expenditure by 3%. The main contributors to this outlook are the stronger \$NZ, continuing negative impacts of the major international economic downturn of the past two years, and the lingering effects on livestock numbers of adverse climatic conditions (e.g. drought) around New Zealand in recent years. Positive factors in the Hawke's Bay context currently include the very good grass growing conditions of the past six months, recent firming in some commodity prices (e.g. beef meat and wool), and some increased fertiliser and repairs/maintenance application following two years of limited spending in these areas.
- *Fruit-growing* – whilst 2009 was a challenging year generally for the pipfruit sector in New Zealand, nevertheless, the Hawke's Bay part of the sector was able to pull through quite well given the exchange rate conditions prevailing then, the region's varietal mix and also its international market focus. However, the cold spring last year followed by hail damage in late October 2009 is expected to result in the 2010 crop being about 15% down on last year's figure and similar to the 2008 result. A longer harvesting season is also anticipated this year. Recent Hawke's Bay Today newspaper reports indicate that the significant increase in summer rain this year has proved very beneficial for a number of horticultural crops grown locally with positive flow-ons for the local food processing industry.
- *Wine Industry* – the NZ Winegrowers Annual Report for 2009 indicates a total HB vintage for that year of 41,000 tonnes, up 20% on the previous year. (The Marlborough vintage fell whilst the NZ vintage remained unchanged). This year's vintage in the region is expected to be back (currently estimated at around 35,000 tonnes) on last year, given reduced international demand and prices for wine in face of the major World economic downturn. Some grape pullings and new plantings have occurred in the region over the past year.

## 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 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. Recently updated population projections from Statistics NZ indicate annual average population growth for Hawkes Bay of 0.2% over the 2006-2031 period, compared to 0.8% nationally.

During the full 2006-2009 calendar year period, natural population increase (births minus deaths) in the region totalled 4205. Total net migration for the region was in the order of -2905. This comprised a net external (overseas) migration loss of 1917 and a net internal (domestic) migration loss of 988. **Figure 1** indicates the total changes over the last three years in the main population growth factors for the Hawke's 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 -300, Napier +400, Hastings +1,100 and Central Hawke's Bay +100.

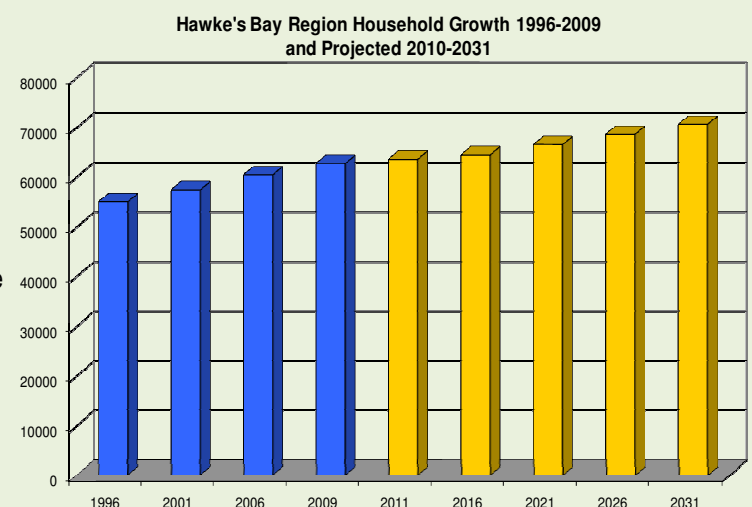


## 6.0 Household/Dwellings

Figure 2:

The total number of households in Hawke's Bay at the end of 2009 stood at an estimated 62,707. This represents an increase of 2,425 or 4% from the 2006 Census result.

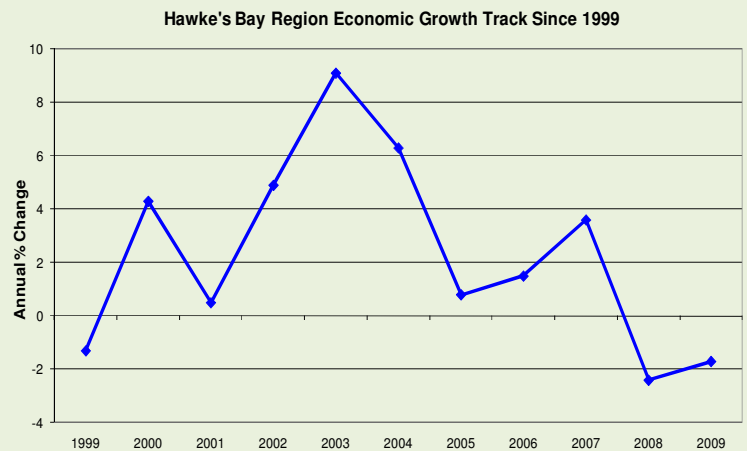
**Figure 2** indicates the trend in total household numbers in the region from 1996 onwards, including projections for the period from Year 2011. Latest Statistics NZ projections indicate an approximate 17% further increase in dwelling numbers in the region over the 2006-2031 period, under the Medium 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 is projected to fall by 32%. The number of single-person households is projected to increase by 53%.



## 7.0 Economic Growth

Figure 3:

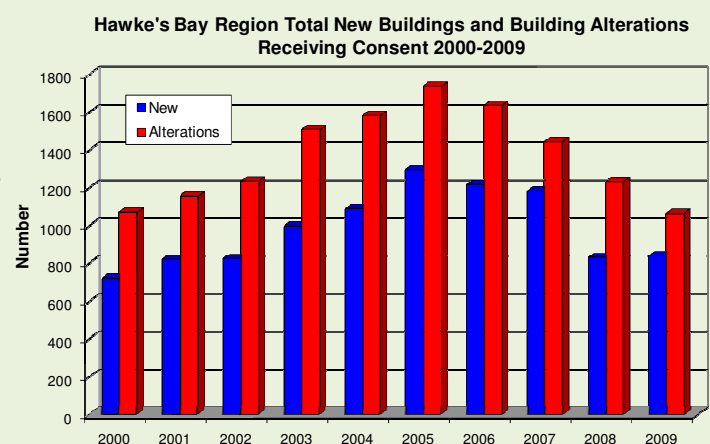
Figure 3 indicates the historical trend in annual economic growth in Hawke's Bay, since the late 1990s. The base growth data for the graph is sourced from Infometrics economic consultancy in Wellington. Over the past decade, the peak regional annual rate of growth (9.1%) was recorded in the 2002/03 year followed by 6.3% in 2003/04; since then, growth has fallen noticeably overall and also fluctuated considerably. The last two years in the region have seen negative annual growth, for the first time since the 1998/99 year. Over the latest 2008/09 September year, the region recorded an annual growth decline of -1.7%, compared to -2% 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 2008-2013 of 1.3%. Regional growth over the next five years is forecast to be strongest in New Zealand in Auckland, Wellington and Bay of Plenty. Slightly negative average annual growth is forecast for Taranaki and Southland.



## 8.0 New Building

Figure 4:

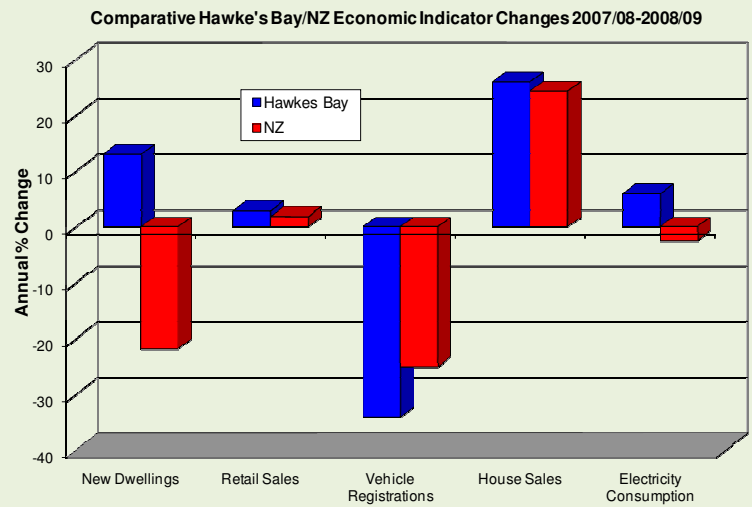
Over the 2009 calendar year, a total of 841 new buildings received building consent in Hawke's Bay, worth a combined value of \$203M. The number of new buildings approved was up 1.2% on the previous year, whilst their combined value was down 18%. The number of new dwellings approved increased 13% and their combined value 8.7%. Total new commercial/industrial building work consented fell 32% in volume terms and 74% in value terms over the year. The volume of new rural building work approved during the year fell 18% and by 58% in value terms. Total new building and other construction work in the region fell 6% last year and by 25% in value terms. Total building alterations work fell 15% in volume terms over the 12 month period, whilst the value of this work fell 20%. Since April last year, the total number of new residential, commercial/industrial and other premises receiving building consent in Hawke's Bay has been noticeably ahead (20%) of the same period in 2008.



## 9.0 Other Economic Indicators

Figure 5:

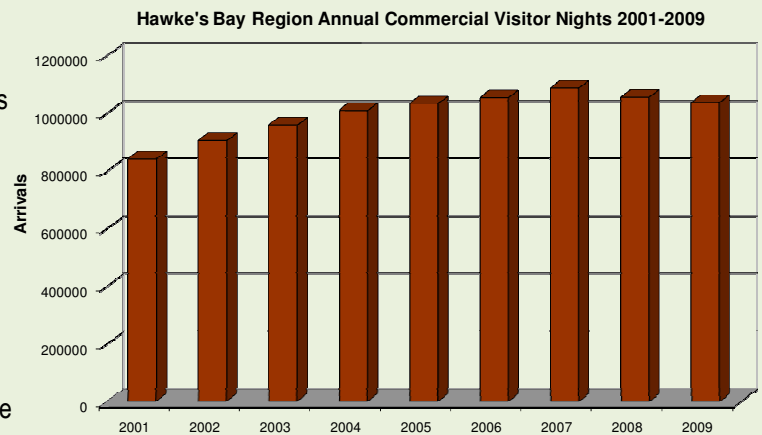
Hawke's Bay house sales for the 2009 calendar year were up 26% on the 2008 annual figure. Average house price changes in the region last year were Hastings area -0.2%, Napier area +2.1% and Central Hawke's Bay district -3.5%. Actual retail sales rose 2.9% for the September 2009 year, compared to 1.9% nationally. New motor vehicle registrations in the region fell 34% last calendar year, compared to the 25% fall nationally. Port of Napier total international export/ import trade increased in volume terms by 5.8% last year, with export trade increasing by 7% and import trade falling by 3%. Electricity consumption in Hawke's Bay over the September 2009 year was up 6% on the September 2008 year's level. The total number of nights spent by visitors staying in commercial accommodation in the region last year was down 1.7% on the 2008 calendar year, compared to the national fall of 1.4%.



## 10.0 Visitor/Tourism Numbers

Figure 6:

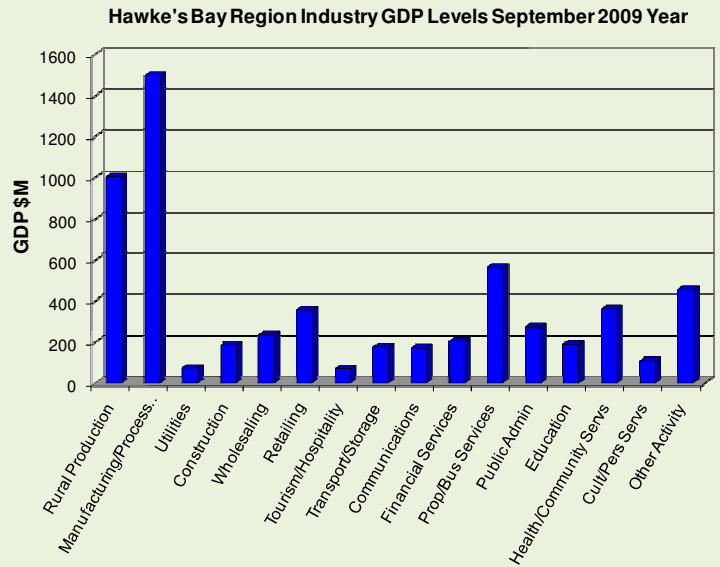
Visitor arrival numbers into the Hawke's Bay RTO (regional tourism organisation) region staying in commercial visitor accommodation totalled 504,153 over the December 2009 year, down 4,550 or 0.9% on the previous year. The national change was a 2.3% decline. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately one million for the year, down 1.7% on the previous year. Nationally, visitor night-stays fell 1.4% last year. The Ministry of Tourism is currently 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%.



## 11.0 Industry Growth

Real GDP growth for Hawke's Bay industry sectors over the latest (September) 2009 year was highest for financial /insurance services, communications, utility services (power/ gas/water), health/community services and the public administration sector. Negative growth was recorded most by the construction, wholesale trade and agricultural industries. The region's largest industries in GDP terms are as indicated in **Figure 7** processing and manufacturing, agricultural production, property/business services, retailing and health/ community services. GDP has grown most over the last five years for the retailing, communications, business services, retailing, public sector administration and health/community service industries in the region, and has declined most for the manufacturing/processing, wholesaling and construction industries.

Figure 7:



## 12.0 Employment

Total employment in Hawke's Bay for the September 2009 year was down 0.6% on the previous September year. At the national level the fall was in the order of 2.1%. Employment in the region in the September quarter last year was down 2.5% on September 2008. On an industry basis, employment grew most in Hawke's Bay over the September 2009 year in the cultural/recreational services, education, personal and household services, property and business services, and public sector administration industries; employment declined the most in the manufacturing/processing, tourism/hospitality service and construction industries.

Figure 8a:

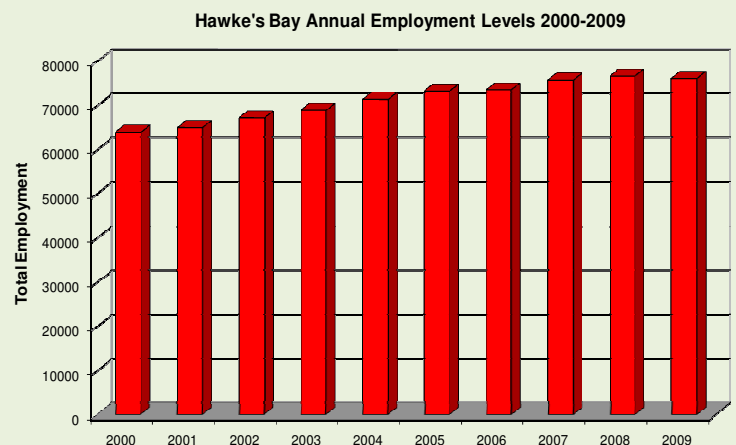
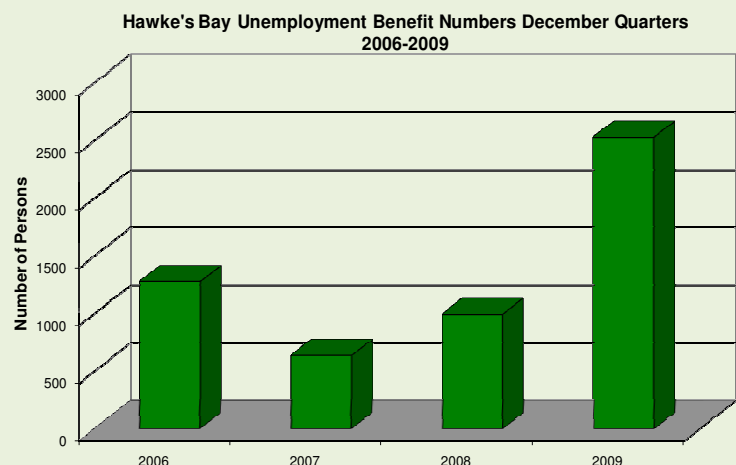


Figure 8b:



In the September 2009 quarter, unemployment in Hawke's Bay stood at 7533 and was up 2928 or 64% on the September 2008 quarter figure. In September last year, the regional rate of unemployment stood at 9.5%, compared to 5.9% in September 2008 and the September 2009 national unemployment rate of 6.5%.

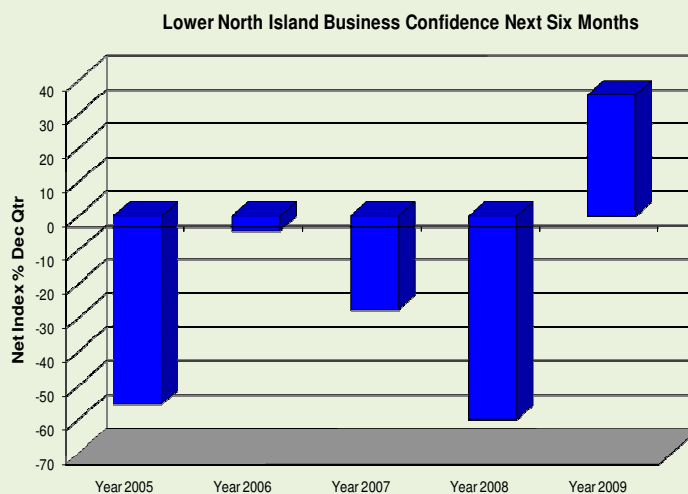
The number of people receiving the unemployment benefit in Hawke's Bay in December 2009 stood at 2,526, compared to 992 in December 2008, that is, an increase of 1534 or almost 155% over the 12 month period. Males accounted for 64% of those receiving the unemployment benefit in December last year, the Maori ethnic group 59%, people aged 18-24 years 28% and people aged 25-39 years 32%.

### 13.0 Business and Consumer Confidence

Figure 9:

The key points to note from the NZ Institute of Economic Research's latest December 2009 survey of Lower North Island business opinion are as follows:

- On balance, almost half of the 185 businesses surveyed were anticipating general business conditions in NZ improving over the first half of 2010, with most of the other firms expecting no change in conditions.
- On balance, firms were still finding it easier to source skilled labour but the degree of ease had lessened considerably since the start of 2009. Firms were still finding it relatively easy to find unskilled labour.
- The factor most constraining business activity continued to be the lack of sales/demand.
- New building investment by firms was in the main expected to remain unchanged over the coming half-year, whilst new plant and machinery investment is anticipated to increase slightly overall.
- On balance, employee numbers had fallen overall during the December 2009 quarter. However, this indicator is expected to improve overall during the March 2010 quarter. Labour turnover has been falling overall in the lower North Island since late 2008 and is expected to continue to do so over the March 2010 quarter.
- Business profitability had continued to fall overall during the last quarter of 2009 but an overall small improvement is anticipated for the first quarter of 2010.



The Westpac McDermott Miller Consumer Confidence Index results for the December quarter 2009 indicated that HB-Gisborne consumers are reasonably optimistic overall about economic conditions in New Zealand during the coming year.

### 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 December 2009 forecasts point to:

- Slightly negative GDP and consumption growth over the current year ending March 2010, followed by a return to positive growth from Year 2010/2011
- Further Government spending growth over the next few years
- A significant recovery in new residential construction activity from the 2010/2011 year
- Some recovery in business investment from the 2010/2011 year
- Average 2% annual inflation over the next few years
- At best, relative exchange rate stability over the next two years
- Gradually increasing interest rates
- Employment growth from the 2010/2011 year and relative unemployment rate stability
- Reducing private sector wage rate growth.

Table 1: NZIER Consensus Forecasts December 2009

Indicator	March Years		
	2009/10	2010/11	2011/12
GDP	-0.4	2.8	3.0
Private Consumption	-0.2	1.7	1.8
Govt Spending	1.3	2.1	1.9
Residential Investment	-11.4	17.4	12.3
Other Investment	-11.1	4.1	7.2
NZ TWI Exchange Rate	62.3	64.0	62.3
90 Day Bank Bill Rate	2.8	3.9	5.3
Employment	-1.8	1.3	2.1
Private Sector Wages	3.5	2.2	2.4

**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.