

# Recent Hawke's Bay Economic Trends- February 2009 Update 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 report 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 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-term national economic outlook.

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## 2.0 Trend Summary

- Despite the current major international economic downturn and its widespread impacts, improved growing/production conditions in Hawke's Bay, lower \$NZ, increase in some international commodity prices, fall in key operating costs (fuel, fertiliser and interest rates) and opening up of new overseas markets, have all contributed to a brighter outlook this year for the region's rural sector, in particular sheep meat, pipfruit and wine.
- The region continues to record relatively slow population and household growth overall, compared to the national situation.
- 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 1.8% for the next five years, compared to 2.5% nationally. Positive growth is therefore still forecast for the region over the medium-term.
- The volume and value of new dwelling construction approved in Hawke's Bay fell approximately 40% last year. The volume of new commercial/industrial building fell by some 20% but its total value increased over 80%. The value of new rural building work approved last year almost doubled over the previous year.
- Actual nominal retail sales increased 2.2% last year and the median regional house selling price in December 2008 was down 5% on the January 2007 figure. Commercial accommodation visitor activity fell 3% last year. New motor vehicle registrations fell over 20%.
- Surveyed employment in the HB/Gisborne region still grew 2.6% over calendar year 2008, despite the fact that employment in the December 2008 quarter was down on the level for December 2007. However, the rate of unemployment increased from 4.5% in December 2007 to 6.3% in December 2008. The number of people receiving unemployment benefit in Hawke's Bay in February 2009 was 653.
- There is anecdotal evidence of increasing numbers of businesses in the region reducing their workforce levels in the face of the current downturn in economic activity.

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### 3.0 Current Rural Sector Situation

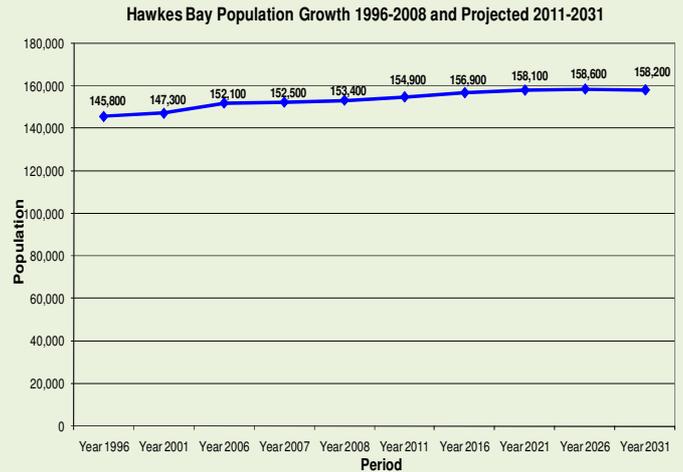
As the rural production and processing sector accounts for approximately 40% of total regional GDP, it is important to note the current performance of the different parts of this important sector in Hawke's Bay. The commentary in this section is based on MAF advice later last year to the new Government and feedback from local consultation:

- **Nationally** – In its briefing to the new National Government, the Ministry of Agriculture and Forestry made the following comments about the rural sector economic situation and outlook in New Zealand:
  - Over the next 20 years, New Zealand's food and fibre production capability will become increasingly important. Increasing world population and economic growth should expand demand for agricultural and forestry products.
  - The current global financial crisis is likely to impact on the lending available to New Zealand industries. World economic slowdown is expected to reduce demand for the country's primary products leading to lower export revenues.
  - Demand for dairy products from oil producing countries and Asian economies is expected to fall. Demand for premium New Zealand lamb is likely to fall as international consumers switch to cheaper substitutes; however, the demand for beef is anticipated to remain strong as consumers switch to lower cost ground beef. Horticultural exporters who typically rely on seasonal finance will be adversely impacted by the rising cost of credit. Pipfruit exports are largely reliant on European markets and are likely to face lower demand and a shift from premium to lower priced varieties. The fall in world demand for new housing has led to a reduction in wood panel/sawn timber exports, continuing low wool prices, and lower prices and volumes for pulp and paper exports.
  - The falling demand for New Zealand's export products generally is being softened by the depreciation of the \$NZ (23% since the beginning of 2008).
  - Generally increasing levels of farm indebtedness and the tighter credit situation will have implications such as reduced industry investment, reduced trade credit in key markets and increased financial difficulties for some enterprises.
  - **Hawke's Bay** – the outlook for the region's sheep farmers, particularly those in less drought affected areas, has brightened recently with improved prices, falling exchange/ interest rates and reduced fuel/ fertiliser costs. Trading conditions for beef farmers have softened and are expected to continue in this vein over the shorter-term. The wool industry continues to struggle, hampered by the major fall in new housing construction and declining overseas demand. The North Island sheep 'kill' so far this year is down a little on the previous year, whilst the beef figure is up slightly. This year's pipfruit export crop and returns in gross terms are forecast to be approx. 20-30% above last year's outturn. The much improved growing conditions over 2008/09 also underpin the forecast 20% increase in this year's wine vintage. The depreciating exchange rate and the opening up of new markets in Asia and northern Europe are other positive factors for the local wine industry. Increasing cost competitiveness may assist the local timber industry in the current difficult trading environment.

## 4.0 Population

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.

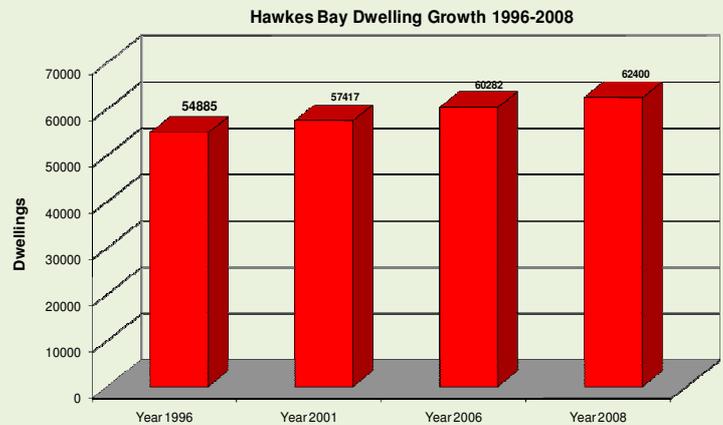
Figure 1:



## 5.0 Household/Dwellings

The total number of houses in Hawke's Bay in December last year stood at 62,400. This represents an increase of 2,117 or 3.5% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 10% further rise in dwelling numbers in the region over the 2006-2021 period, under the Medium growth projection. This compares to the national projection of an estimated 20%.

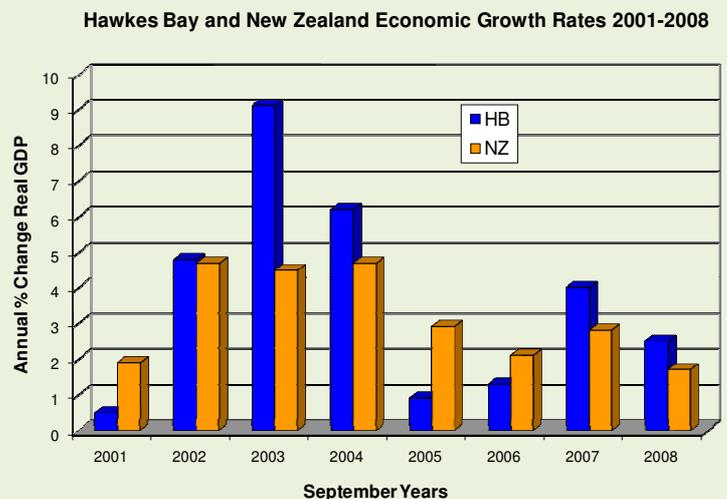
Figure 2:



## 6.0 Economic Growth

Figure 3 indicates the long-term trend in average annual rates of economic growth in Hawke's Bay and nationally, since the beginning of Year 2000. The graph is based on growth results provided by Infometrics economic consultancy based in Wellington. As the graph indicates, economic growth in the region peaked in the September 2003 quarter and has since fallen sharply overall, although fluctuating noticeably along the way. Growth in the region fell significantly over the latest year but was still above the national rate, as it has been for a number of the monitoring years. The NZ Institute of Economic Research is currently forecasting average annual growth in the region of 1.8% for the next five years, compared to 2.1% for the last five-year period and the Institute's March 2008 forecast for the region of 2.8%. The Institute's latest national medium-term economic growth forecast is 2.5%, noticeably above the regional result.

Figure 3:



## 7.0 New Building

Figure 4:

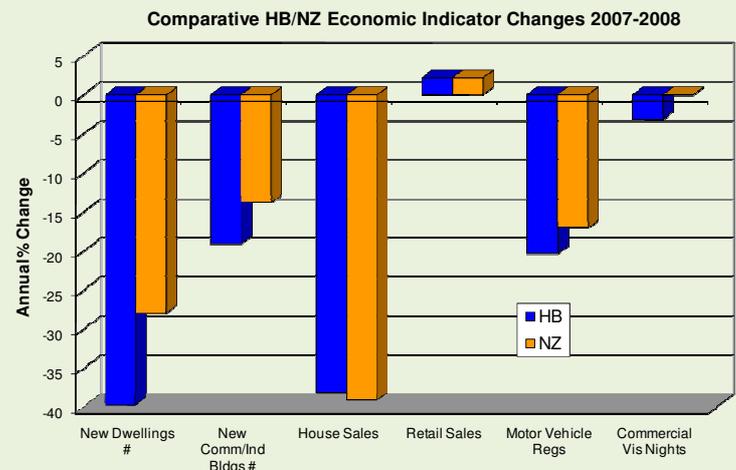
Over the 2008 calendar year, a total of 831 new buildings received building consent in Hawke's Bay, worth a combined value of \$249M. The number of new buildings approved was 30% down on the previous year, whilst their combined value was down 10%. The number of new dwellings approved fell 40% and their combined value 37%. Total new commercial/industrial building work approved fell 19% in volume terms but increased 83% in value terms over the year, with increased activity particularly apparent in the visitor accommodation, retail, restaurants, office and factory sectors. The value of new rural building work almost doubled. The total volume of new building activity in Hawke's Bay rose steadily over 1999-2005; since then, though, it has fallen back by 35%. **Figure 4** indicates that the overall value of this activity increased steadily over 2000-2006 but has since dropped back by some 15%. The total number of buildings receiving consent in January 2009 was down 65% on January 2008 and 55% in dollar terms.



## 8.0 Other Economic Indicators

Figure 5:

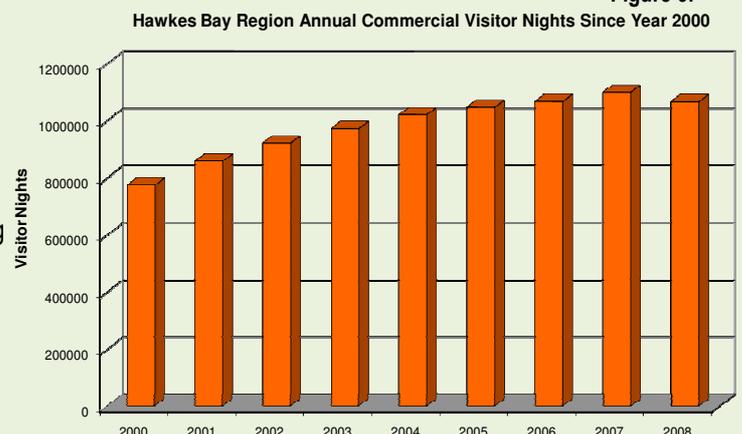
Hawke's Bay house sales for the 2008 calendar year were 38% down on the previous year. The median house price fell from \$280,000 in January 2007 to \$265,000 in December 2008. Actual retail sales increased 2.2% for the 2008 year, the same result as for the national level. New motor vehicle registrations in the region fell 20% over the year, compared to the 17% fall nationally. Port of Napier total international export/ import trade fell in volume terms by 5.8% over the 2008 year. Electricity consumption in Hawke's Bay last year was down 1% on the 2007 calendar year.



## 9.0 Visitor/Tourism Numbers

Figure 6:

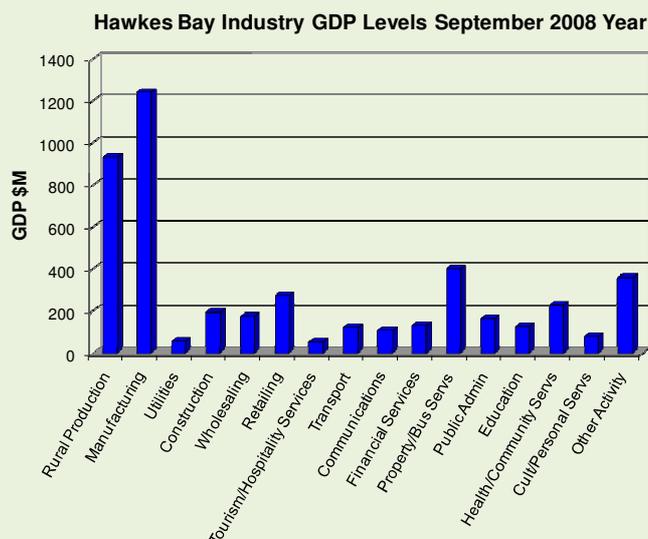
Visitor arrival numbers into the Hawke's Bay Tourism catchment region staying in commercial accommodation totalled 477,536 in 2008, down 15,872 or 3.2% on the previous year. The national change was a -0.4% decline. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 1M for the year, down 3.3% on the 2007 figure. Nationally, visitor night-stays remained unchanged.



## 10.0 Industry Growth

Figure 7:

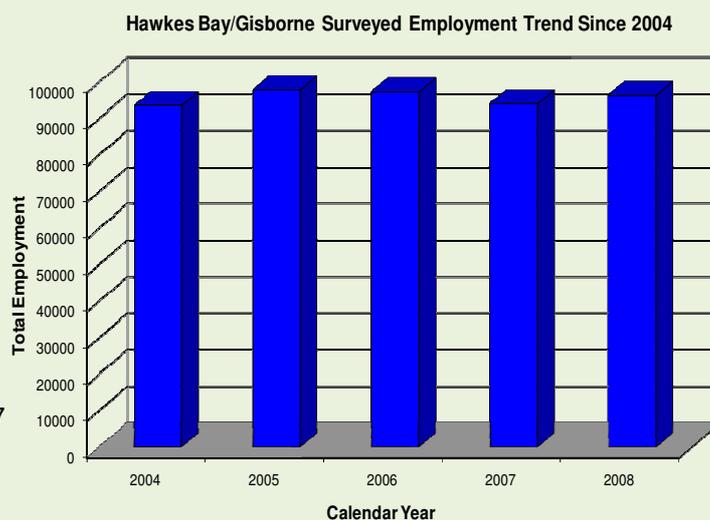
Real GDP growth for Hawke's Bay industry sectors over the five years to September 2008 was highest for the primary industries, construction, finance and insurance, retailing, public sector administration, health and community services, and hospitality/tourism services. Processing and manufacturing sector GDP grew overall by a relatively small amount. Negative growth was recorded by the wholesale trade and education services 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 grew most over the latest September 2008 year for the primary production, processing/manufacturing, public utility and construction industries. GDP growth was negative over the year for most of the region's service industries.



## 11.0 Employment

Figure 8:

Total employment in Hawke's Bay/Gisborne for the 2008 calendar year was up 2.6% on the 2007 year, despite employment in the December 2008 quarter being down on the same quarter in 2007. The region's largest employing industries are agricultural production, processing/manufacturing, retailing, construction, health/community services, business services and education. Statistics New Zealand surveyed unemployment stood at 6400 or 6.3% (NZ 4.4%) of the labour-force, compared to 4500 or 4.5% in December 2007. The number of people receiving the unemployment benefit in Hawke's Bay alone in December 2008 stood at 992, which was 56% up on the December 2007 figure. Latest unemployment benefit numbers for Hawke's Bay (as at the end of February 2009) indicate 653 people receiving unemployment benefit.



## 12.0 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 December 2008 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	-0.2	0.9	3.0
Private Consumption	-0.3	0.5	1.8
Govt Spending	3.9	3.4	3.0
Residential Investment	-19.9	-6.8	7.4
Other Investment	2.8	-3.5	4.7
NZ TWI Exchange Rate	61.9	56.2	59.3
90 Day Bank Bill Rate	6.9	4.8	5.8
Employment	0.1	-0.4	1.4
Private Sector Wages	4.9	3.6	3.0

**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.