

Eastern Bay of Plenty Economic Monitor to September Quarter 2011

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the Eastern Bay of Plenty region (comprising the Whakatane, Opotiki and Kawerau districts), trends over the past year and the economic outlook for the year ahead. The base information for the analysis is sourced from a range of economic agencies including Statistics New Zealand, the New Zealand Institute of Economic Research in Wellington, bank reports and other organisations. The actual monitoring period covered by the analysis in the report is the year ending September quarter 2011. **Appendix 1** contains individual economic indicator results for the region, for the last six years.

2.0 Report Summary

There have been some positive economic trends in the EBOP sub-region during the past year, including:

- Overall economic growth in excess of 1% with employment growing at a faster clip.
- From a sector perspective, recent growth has been driven through the rural production, energy, new construction (e.g. Whakatane Maori wananga/ education/ cultural and district hospital facilities and new DOC/i-Site offices in Opotiki), business services, public sector administration and health/ education/ welfare service industries.
- This situation reflects amongst other factors the impact of the improved rural sector/ international market situation (although this appears to be softening somewhat at the present time), new commercial and community construction projects in the region and the significantly increased public sector infrastructural expenditure of more recent years to counter the impacts of the major international economic downturn since 2007.
- Significantly increased new visitor accommodation, storage, factory, education and social/ cultural building activity consented.
- Industry GDP growth in the region has been highest over the past three years, for food processing, transport and communications, and business services.
- A 2.7% increase in regional employment and 31% fall in the number of unemployment benefit recipients.

Downside changes over the past year include:

- Nil population change along with a significant level of net population migration loss.
- Significant fall in consented new residential building activity and residential building alterations.
- Slight increase in the rate of unemployment.
- Fall in retailing and hospitality sector GDP.

Rural Sector Outlook:

- \$NZ commodity prices are expected to remain relatively high but the volatile global political and economic situation continues to pose a considerable downside risk to this scenario. Commodity prices have generally been slowly falling since mid 2011 (overall by 8%); however, the recent weakening bias in the \$NZ is providing a buffer to the impact of the falling price regime.

- Fonterra has recently announced a 20c per kg milk solid increase in its forecast dairy payout to farmers for the 2012 production season. The increase is expected to generate additional total dairying revenue in Whakatane/ Opotiki districts of an estimated \$7.6 million.
- NZ export beef production is forecast to lift 3% during the 2011/12 season. The long-term outlook for the sector remains relatively robust.
- The outlook for the kiwifruit sector continues to be somewhat pessimistic as the major Psa disease continues to affect a significant proportion of regional orchards, especially the Gold kiwifruit growing ones. The Bay of Plenty accounts for 85% of the national crop and the Opotiki district a large part of the regional crop. Currently, the national drop in production this season is estimated at 40% in volume terms and almost 60% in value terms. Potential closure of kiwifruit packhouses in the EBOP region could result in significant job loss.
- Domestic log prices have been steadily increasing over the past three years, as have export log prices. The ANZ Bank's forestry products international commodity price index has remained strong since early 2010 but has nevertheless fallen back by about 8% since mid this year.

3.0 Key Eastern Bay of Plenty Economic Indicator Levels as at September 2011

<i>Population:</i>	50,390
<i>Est Households/Dwellings:</i>	20,002
<i>Nominal Annual GDP:</i>	\$1.20 Billion
<i>Annual Economic Growth</i>	1.1%
<i>Annualised Employment:</i>	20,811
<i>Annual Employment Change:</i>	2.7%
<i>Unemployment:</i>	1513
<i>Est Unemployment Rate (%):</i>	6.9

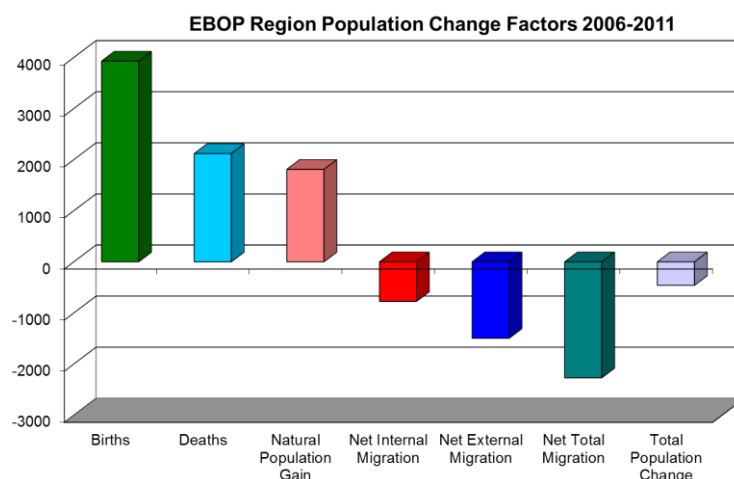
4.0 Population

The EBOP region's population currently stands at an estimated 50,390 and has fallen by 460 or -0.9% since the 2006 Census year. The region's population remained unchanged over the past June 2011 year, according to Statistics NZ figures.

Over the past five years, natural population increase (births minus deaths) in the region totalled 1,810. Given the total population loss over the period of -460 as noted above, total net migration for the area was therefore in the order of -2,270. This comprised a net external (overseas) migration loss of -1,496 and a net internal (domestic) migration loss of -774. **Figure 1** illustrates all these changes.

The fastest growing regional populations in New Zealand since 2006 have been, in order, Auckland, Canterbury,

Figure 1:

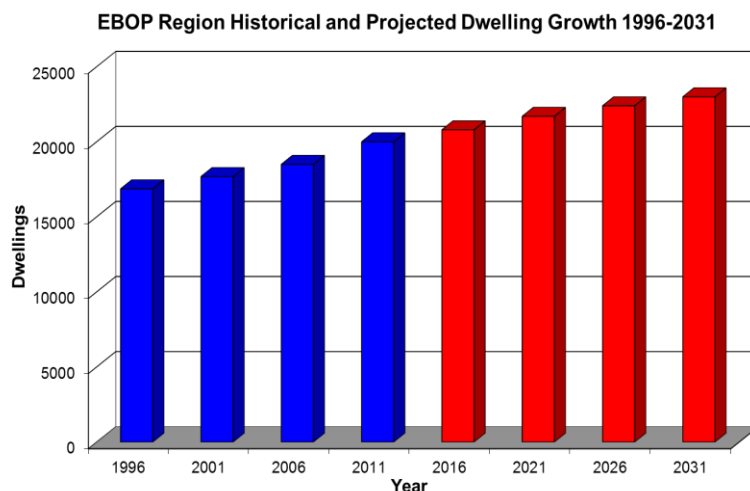


Waikato, Marlborough, Bay of Plenty, Wellington and Otago. The slowest growing have been Manawatu-Wanganui, Southland, Gisborne, Hawke's Bay and Taranaki. Population growth has been strongest during the past year in Auckland, Tasman, Nelson and Otago; and slowest in Canterbury, Gisborne, Hawke's Bay and Manawatu-Wanganui. Auckland has accounted for over half of the total population gain in NZ since 2006.

5.0 Households/Dwellings

The total stock of households/dwellings in EBOP region currently stands at an estimated 20,002, compared to 18,500 in mid 2006. Thus, the period since then has seen a 1,502 or 8.1% increase in the number of regional households or dwellings. Latest Statistics NZ projections indicate an approximate 6% further increase in occupied household/dwellings in the region over the 2011-2016 period, under the most optimistic Statistics NZ scenario, followed by 11% additional growth over 2016-2031. These figures compare to the national Medium projections of 13% and 10% respectively.

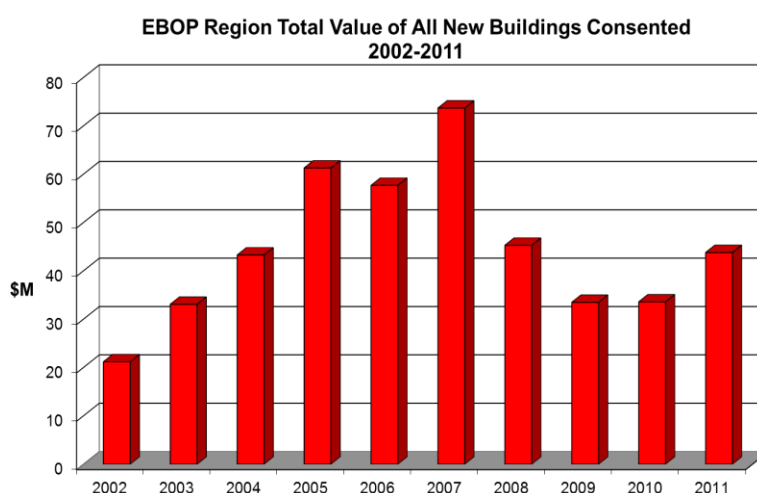
Figure 2:



6.0 New Building Activity

Over the year ended September 2011, a total of some 53 new dwellings received building consent in EBOP region, worth a combined value of \$13.5M. The number of new dwellings approved during the year was down 50% on the previous year, whilst their combined value was down 48%. Total housing alterations consented decreased 37% in volume terms and -16.6% in value terms.

Figure 3:



Total new commercial/industrial building work approved in the region rose 56% on the previous year in volume terms and more than doubled in value terms, with increased activity occurring in the visitor accommodation, storage and factory building sectors. The volume of new rural building work approved fell only slightly over the September 2011 year, whilst the value of this work rose approximately 3.5%.

The total number of all (residential, commercial-industrial, rural, community, cultural and other) new buildings consented in the region fell 22% over the year, with the associated total value of the buildings increasing though by 30%. The total number of all consented alterations to buildings fell by 34% over the year, whilst the total value of all the alterations fell by 12.4%.

7.0 Other Economic Indicators

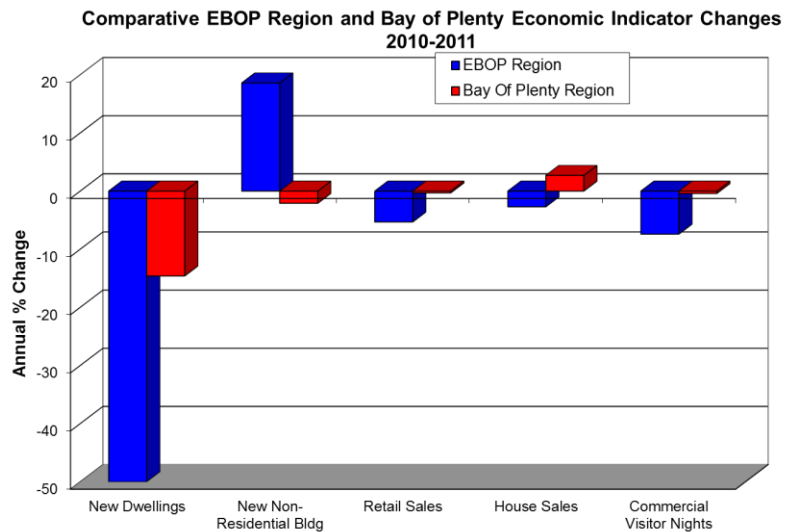
As mentioned in the previous section, total new dwellings consented in the region fell 50% over the latest year. This compares to the full Bay of Plenty region fall of -14.6%.

EBOP house sales fell 2.7% over the September 2011 year, compared to the 2.7% gain regionally and 2.8% fall nationally. The latest AMP Home Mortgage Affordability survey undertaken in September this year indicates that housing affordability in the wider Waikato/Bay of Plenty area has improved by 11% over the past year, compared to the 8.4% gain nationally.

EBOP core retail sales (excluding automotive retail sales) fell an estimated 5.3% over the year ending September 2011, compared to -0.3% for the full Bay of Plenty region, on the basis of Statistics NZ supplied information.

According to the results of the September 2011 Westpac McDermott Miller Consumer Confidence Survey, consumers in the Bay of Plenty region are currently fairly optimistic overall about shorter-term economic conditions, as are most regions in New Zealand. Consumer confidence in the region was 3.6% up on the September quarter in 2010, compared to the national fall of 2.1%.

Figure 4:



8.0 Overall Economic Growth

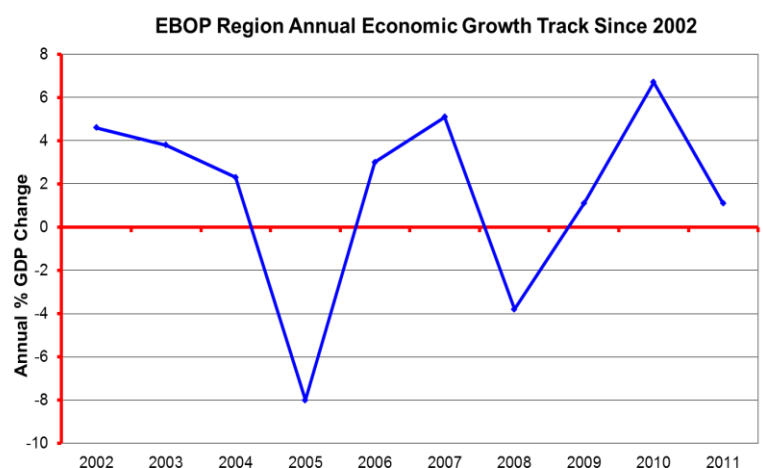
Figure 5 indicates the longer-term trend in real terms economic/GDP growth in EBOP region, since 2002. The base growth data is sourced from NZIER economic consultancy in Wellington.

As the graph shows, annual economic growth in the region has fluctuated markedly over the period. However, growth has generally been positive, with negative annual growth only being recorded in 2004/05 and 2007/08. The peak growth result for the period was the 6.7% result in 2009/10.

Growth for the latest September year was an estimated 1.1%, compared to the above figure for the previous year. The national growth result was 1.5%.

The National bank's latest regional economic review indicates that the leading annual growth regions in NZ over the September 2011 year were, in order, Auckland, the West Coast, Gisborne and Hawke's Bay. The negative growth regions were Northland, Taranaki and Manawatu-Wanganui.

Figure 5:



Over the coming year, the NZ Institute of Economic Research is forecasting a 2.8% fall in economic activity in the wider Bay of Plenty region, followed though by 2.4% growth for 2012/13 and 2.1% for 2013/14. No growth forecasts are available for the EBOP region.

9.0 Visitor/Tourism Numbers

Total visitor arrival numbers into the EBOP region staying in commercial accommodation totalled 135,260 for the latest September year, down 4.7% from the previous year's figure. The annual number of arrivals has fallen steadily and overall by about 19% since 2006/07.

The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 303,000 for the September 2011 year, down 7.2% on the previous September year. Visitor nights spent in the area have fallen by 20% since 2006/07.

Recently provided Ministry of Tourism data indicates a total annual direct visitor spend figure in 2010 for the Bay of Plenty regional tourism organisation area of \$474 million or 3.3% of the national total. This is an increase of 9.2% on the Year 2005 'low' figure for the past five years, of \$434 million. The EBOP share of the total direct visitor spend last year in the full Bay of Plenty region, is currently estimated at about \$95 million.

Last year, domestic visitors accounted for 69% of total night-stays in the Bay of Plenty tourism region and overseas visitors the balance of 31%. Over the 2005-2010 period, the total NZ domestic visitor market for the region declined by 2%, whilst the total overseas visitor market grew by 5.3%. The region's largest domestic markets are Auckland, Waikato and Wellington, whilst its largest international markets are the UK and Australia.

The average commercial accommodation 'length of stay' of all visitors to the region over the latest year was 2.24 nights, compared to 2.30 nights last year and 2.26 nights in 2005.

Figure 6a:

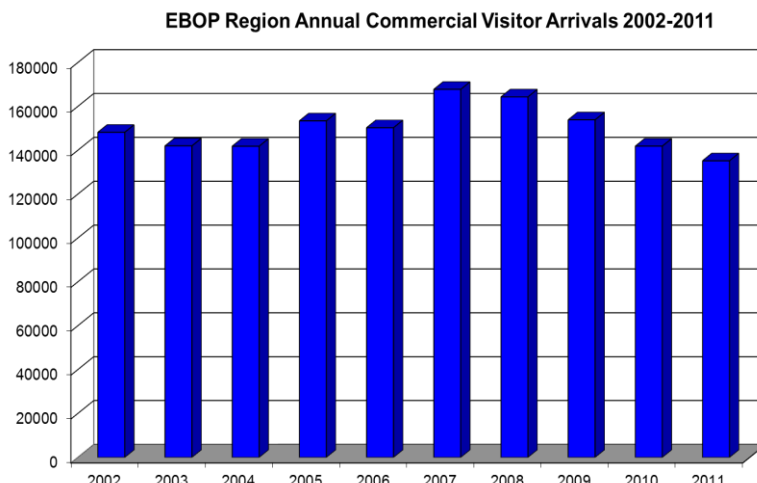
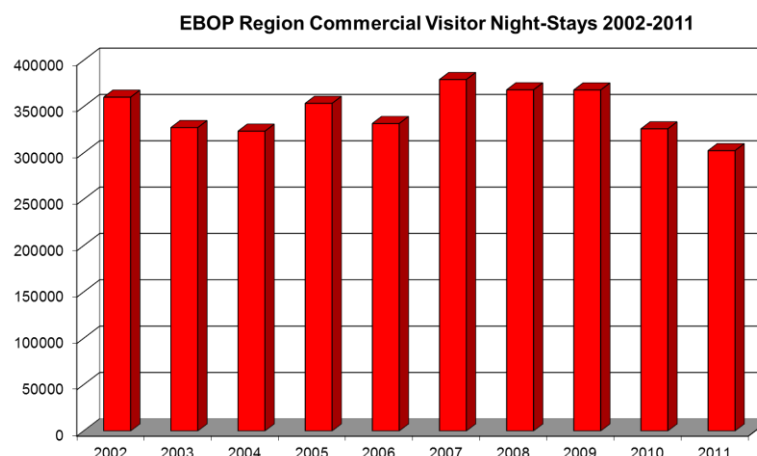


Figure 6b:



10.0 Results Comparison

Table 1 indicates the comparative local economic indicator changes during the 2011 September year for EBOP region, the wider Bay of Plenty area and NZ as a whole, for the listed indicators. The unemployment benefit figures refer to the change between the September quarters of 2010 and 2011.

EBOP out-performed the Bay of Plenty region as a whole over the year only in respect of the decline in the number of people on the unemployment benefit. The region out-performed the country as a whole in respect of new non-residential buildings consented, employment and the decline in unemployment benefit numbers.

Table 1: Comparative EBOP Region Economic Indicator Changes 2010 Year vs 2011 September Years

Area	% Change 2010 – 2011 September Years						
	Economic Indicators						
	Population	New Housing Consented	New Non-Residential Buildings Consented	House Sales	Commercial Visitor Nights	Employment	Unemployment Benefit Numbers
EBOP Region	0.0	-50.5	0.0	-2.7	-7.2	+2.7	-31.1
BOP Region	+0.7	-14.6	+21.4	+2.7	+5.9	+1.9	-25.9
New Zealand	+0.9	-16.9	-5.3	-2.8	-0.9	+1.6	-14.7

11.0 Industry Growth

Table 2:

The table to the right shows current annual nominal terms GDP levels for the different EBOP broad industry sectors.

The area's largest industries in GDP terms are in order non-food processing and manufacturing; rural production; health, education, community services; business services and retailing and hospitality services.

Real GDP growth for EBOP industry sectors over the past decade has been highest for energy/ construction; business services, Government administration; and health, education and community services.

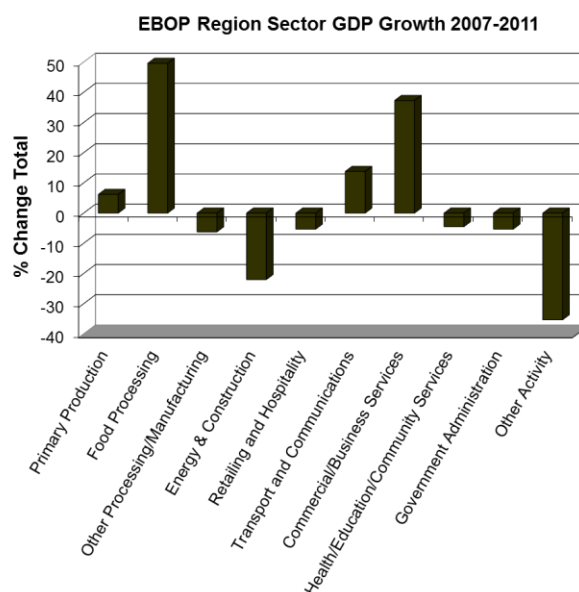
Growth over the period of major economic downturn since 2007 has also been strongest for these industries (**see Figure 7**). Negative growth has been most pronounced for food processing, and retailing and hospitality services.

Over the past year, growth in the region was highest for energy/ construction services as a group, health and community services, rural production and non-food processing and manufacturing. Economic decline occurred most for retailing/hospitality services, transport/storage services and business services.

Industry	Nominal GDP (\$M)	% of Total
Rural production	185.0	15.3
Food Processing	17.0	1.4
Other Processing/ Manufacturing	188.0	15.6
Energy/Water/Construction	81.0	6.7
Retailing/Wholesaling/Hospitality	131.0	10.9
Transport/Storage/Communications	58.0	4.8
Commercial/Business Services	161.0	13.3
Health/Education/Community Servs	168.0	13.9
Public Sector Administration	39.0	3.2
Other Industries	35.0	2.9
Other ¹	143.0	11.9
TOTAL	1,205.0	-

Note: 1. Includes owner-occupied dwellings (imputed rental).

Figure 7:



Statistics NZ business information indicates that over the past year, noticeable industry employment growth in the region occurred in the rural production sector, transport and storage services, administrative and support services, Government administration and health care and social assistance services.

12.0 Employment

Total employment in the EBOP region for the September 2011 year was up 2.7% on the previous year and stood at an annualised 20,811 in September this year.

The leading employing industries in the district are currently health, education and community services; rural production; retailing and hospitality services; non-food processing and manufacturing; and energy/ construction services.

The NZ Institute of Economic Research is forecasting a small fall in employment in the region over the coming year, due to a forecast softening of international economic conditions arising from continuing global economic uncertainty (e.g. the current European financial crisis). However, the annual level of employment in the region is expected to pick up from later next year and increase overall by 2.6% over the ensuing two years.

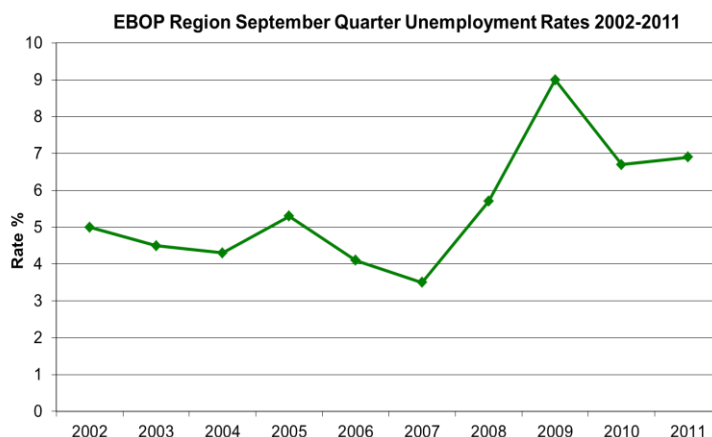
In September this year, the rate of unemployment in the region was recorded at an estimated 6.9%, compared to the national rate of 6.4%. At the same time, total unemployment in the area stood at 1,542.

The number of people receiving the unemployment benefit in the EBOP region in September this year stood at 983, compared to 1,426 a year ago. This represents a decrease of 31.1% over the year. The total number of working-age income-tested beneficiaries stood at 5,693 in September 2011, compared to 6,156 a year earlier. This represents a fall of 7.5% over the year.

Table 3:

Industry	Total Employment	% of Total
Rural production	3,617	17.4
Food Processing	379	1.8
Other Processing/ Manufacturing	2,645	12.7
Energy/Water/Construction	2,292	11.0
Retailing/Wholesaling/Hospitality	2,856	13.7
Transport/Storage/Communications	506	2.4
Commercial/Business Services	1,892	9.1
Health/Education/Community Servs	5,690	27.3
Public Sector Administration	885	4.3
Other Industries	49	0.2
TOTAL	20,811	-

Figure 8:



13.0 National Economic Outlook

Each quarter, the NZ Institute of Economic Research produces updated Consensus Forecasts for shorter-term economic activity at the national level. The forecasts are a consensus or average of the views of the different main economic forecasting agencies in NZ. The latest September 2011 forecasts are for:

- Noticeable GDP and consumption growth over the next three years.
- Reducing Government spending growth over the next few years.
- Negative construction sector growth this year but a sharp rebound over the next two years.
- Significant and improving business investment growth.
- Relative exchange rate stability over the next two years.
- Increasing interest rates over the forecast period.
- Some employment growth over the next two years.
- Increasing private sector wage growth.

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Table 4: NZIER Consensus Forecasts September 2011

Indicator	March Years		
	2011/12	2012/13	2013/14
GDP	2.6	3.7	2.9
Private Consumption	2.0	2.3	2.6
Govt Spending	2.5	0.5	0.3
Residential Investment	-5.6	39.8	9.8
Other Investment	8.3	10.2	6.4
NZ TWI Exchange Rate	71.1	71.1	68.8
90 Day Bank Bill Rate	3.0	4.1	4.8
Employment	1.7	2.5	1.7
Private Sector Wages	3.2	3.5	3.8

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.

**Annual EBOP Region Economic Indicator Results
Last Six Years**

INDICATOR	2006	2007	2008	2009	2010	2011
<i>Population June Qtr</i>	50,850	50,610	50,510	50,330	50,390	50,390
<i>Households/Dwellings</i>	18,543	18,724	18,856	18,955	19,062	19,115
<i>Est. Real GDP (\$M)</i>	769	808	778	786	839	848
<i>New Dwellings Consented</i>	176	181	132	99	107	53
<i>New Commercial/Industrial Buildings Consented</i>	25	49	30	14	16	25
<i>New Farm Buildings Consented</i>	30	54	96	50	39	38
<i>Total Building Alterations</i>	436	549	541	491	612	404
<i>House Sales</i>	777	831	546	465	434	422
<i>Retail Sales (\$M)</i>	404	436	459	458	433	410
<i>New Motor Vehicle Registrations</i>	1,815	1,326	1,373	1,043	846	1,000
<i>Total Commercial Visitor Arrivals</i>	150,343	167,823	164,367	153,927	141,932	135,260
<i>Total Commercial Visitor Nights</i>	331,835	379,249	368,153	367,994	326,070	302,5270
<i>Total Employment Sept Qtr</i>	20,131	19,179	19,143	19,108	21,045	20,424
<i>Total Unemployment Sept Qtr</i>	861	762	1,157	1,841	1,511	1,513
<i>Number of People on Unemployment Benefit Sept Qtr</i>	1216	696	706	1,244	1,426	983
<i>Unemployment Rate (%) Sept Qtr</i>	4.1	3.5	5.7	9.0	6.7	6.9