

Eastern Bay of Plenty Region Economic Trends Update Report

June 2010

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the total Eastern Bay of Plenty Region (comprising the territorial local authority districts of Whakatane, Opotiki and Kawerau), 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, Infometrics economic consultancy in Wellington, the New Zealand Institute of Economic Research also based in Wellington, trading bank reports and local organisations within the district. Growth comparisons with the wider Bay of Plenty region and the country as a whole are included in the analysis, where appropriate. Whilst the reference period for the local economic indicator analysis is the year ended March 2010, some comment on economic changes in the district prior to and since then is also contained in the report.

2.0 Trend Summary

- Whilst, as with the rest of New Zealand, the EBOP regional economy still continues to feel the effects of the major economic downturn over the 2007-2009 period, nevertheless, there have been a number of economic gains for the area over the past year and there is a reasonably positive outlook for the region for the coming year.
- The district recorded a noticeable population gain over the past year, driven by further natural population increase (births minus deaths). Overall population decline is currently projected for the region, over the longer-term. Additional new household growth is projected for the area though, over the medium-term.
- Economic growth in the region has generally been positive although fluctuating since 2001. Growth during the year ended March 2010 has been recorded at 1.4%, following the 1% decline for the previous year. The NZ Institute of Economic Research is presently forecasting average annual economic growth in the full Bay of Plenty region of 2.2% for the next five years, compared to 0.3% for the last five years.
- Whilst total new building activity in the region has fallen significantly since 2008, there have been a few gains over the past year such as a small increase in the total value of all new dwellings consented and the increase in building activity in the retail/hospitality and industrial sectors.
- District house sales rose 26% during the March 2010 year. Actual retail sales rose slightly during the year, whilst new motor vehicle registrations across the full Bay of Plenty region fell 13%. Electricity consumption increased 1% during the latest year.
- Visitor numbers and night-stays in the region in commercial accommodation fell about 3% over the latest March year. This trend has also occurred in many other parts of the country. Domestic visitors continue to account for the bulk of tourism to the region.

- Since the beginning of the latest major international economic downturn around 2008, economic growth has been most positive in the region for the communication services, cultural/recreation service, Government administration, health/community services and commercial business services industries. Growth has fallen most noticeably for the transport/storage and processing/manufacturing industries.
- The rural production and processing industries account for over 40% of the EBOP economy. The key industries are kiwifruit, dairying, forestry/logging, agricultural services, sawmilling, pulp/paper/paperboard manufacturing, and machinery and equipment manufacturing. Returns for green kiwifruit are forecast to increase by about 10% this year. Gold kiwifruit returns increased by over 30% during the last selling year and prices are expected to hold steady at least over the coming year. Fonterra has recently indicated a significantly increased payout this production year for its dairy farmer members. The improved rural sector situation, strong China demand and increased forestry prices are all positive for the forest products industry in the region.
- Employment in the region fell an estimated 0.6% over the March 2010 year. District-level unemployment rates in March this year were Whakatane 5.2%, Kawerau District 9.3% and Opotiki District 5.9%, compared to 8% for the full Bay of Plenty region and 6.6% nationally. The number of people in the region receiving the unemployment benefit stood at 1,090 in March this year, compared to 777 in March 2009.
- The economic growth improvement in the regional economy over the past year, improved local rural sector situation, positive medium-term growth outlook for the Bay of Plenty region as a whole and the forecast significant growth improvement for the national economy, all point to some optimism regarding the performance of the regional economy over the coming year.

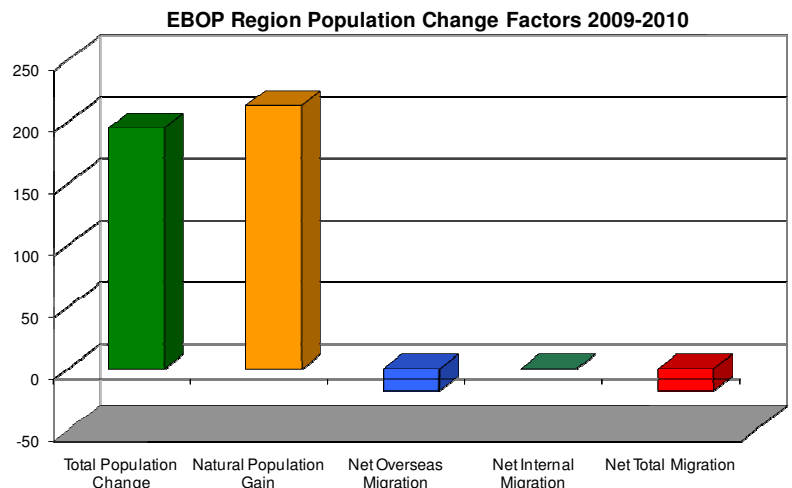
3.0 Key EBOP Economic Indicator Levels as at March 2010

<i>Estimated Population:</i>	50,525
<i>Estimated Dwellings:</i>	19,889
<i>Nominal Gross Domestic Product (GDP):</i> million	\$1,606.1
<i>Annual Economic Growth</i>	1.4%
<i>Estimated Annual Employment:</i>	21,318
<i>Annual Employment Growth:</i>	-0.6%
<i># Unemployment Beneficiaries:</i>	1,090

4.0 Population

Figure 1:

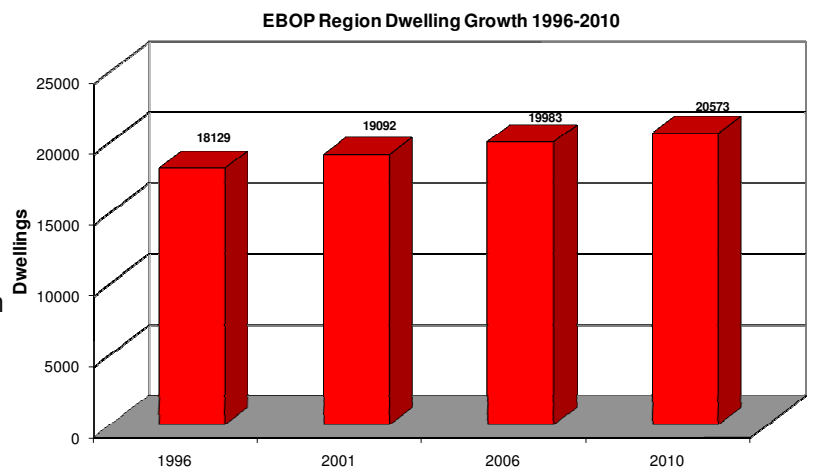
EBOP's population currently stands at an estimated 50,525 and has fallen by 325 or 0.6% since the 2006 Census year. The region's population growth track since the 2006 Census shows that this indicator is currently growing close to the Statistics NZ Medium growth projection for the area. This projection indicates that the region's population is anticipated to fall to around 50,140 in Year 2016 and 46,390 in Year 2031. Over the past year, natural population increase (births minus deaths) in the region totalled 213. Given the region's total population gain over the past year of 195, total net migration for the area was therefore -18. This comprised a net external (overseas) migration loss of -18 and a net internal (domestic) migration balance. **Figure 1** indicates the total changes over the last year in the main population growth factors for the region, together with the change in the total population of the area.



5.0 Dwellings

Figure 2:

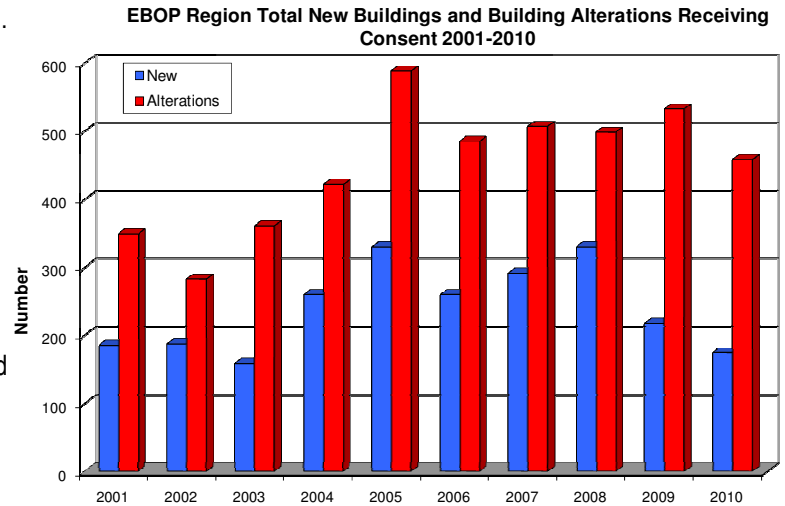
The total stock of dwellings in the EBOP region in March this year stood at an estimated 20,573. This represents an increase of 590 or 3% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 5% increase in household numbers in the region over the 2011-2016 period, under the midway Medium-High growth projection. This compares to the total Bay of Plenty region projection of +10% and the national Medium projection of +8%. The Medium projection reflects a 'middle of the road' perspective on future household growth, whilst the High projection represents an optimistic projection.



6.0 New Building Activity

Figure 3:

Over the year ended March 2010, Statistics NZ information indicates 98 new dwellings received building consent in the EBOP region, compared to 99 for the previous March year, that is, a fall of 1% over the year. The total value of new houses receiving consent during the latest year increased 2%. Thirteen new commercial/industrial buildings with a combined value of \$3.3 million were consented during the latest March year, compared to 24 buildings worth \$4.9 million during the March 2009 year. Increased construction activity occurred in the shops and cafes, and industrial sectors. The total volume of new rural building work consented in the region during the year ended March 2010 was down 49% on the previous March year, whilst the total value was down by over three-quarters. The total amount of all new building work consented in the region during the year ended March 2010 was down 20.1% on the previous March year, whilst the total value of the new building work approved was down 9.4%.

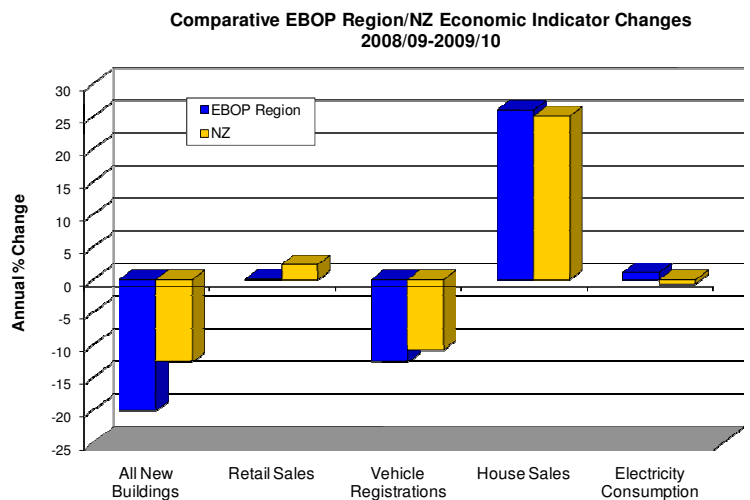


Since 2007 and the beginning of the latest major international economic downturn, the total volume of all new construction work consented in the region has fallen from 406 for the March 2008 year to 283 for the March 2009 year and 227 for the March 2010 year. The value of all new construction work has fallen from \$76.6 million for the March 2008 year to \$38.1 million for the March 2009 year and \$34.6 million for the March 2010 year. The number of building alterations consented has fallen from 498 during the year ended March 2008 to 458 for the year ended March 2010.

Figure 4:

7.0 Other Economic Indicators

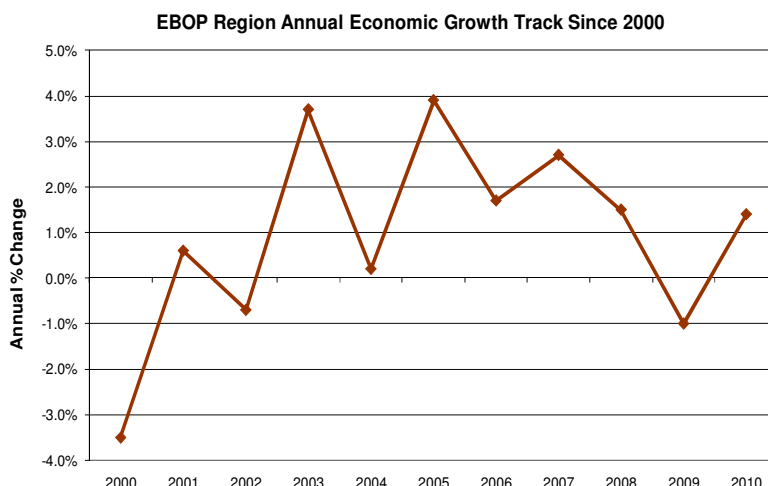
EBOP region house sales for the March 2010 year were up 26.0% on the previous March year. Actual retail sales for the region for the March 2010 year were marginally (0.1%) up on the previous year, compared to the slight gain at the full Eastern Bay of Plenty region level; retail sales rose 2.3% nationally. New motor vehicle registrations in the Bay of Plenty region fell 13% over the year, compared to the 11% fall nationally. Electricity consumption in the region over the latest year was 1.1% up on the previous year.



8.0 Economic Growth

Figure 5:

Figure 5 indicates the longer-term trend in real terms economic/GDP growth in the EBOP region, since 1999. The base growth data is sourced from Infometrics economic consultancy in Wellington. Economic growth in the region has fluctuated considerably during the period. During 2009/10 (March year), annual economic growth of +1.4% was recorded for the area. This followed the -1% growth decline in the previous March year. The comparable growth figure for the whole Eastern Bay of Plenty sub-region for the March 2010 year was also +1.4%. The NZ Institute of Economic Research is currently forecasting average annual growth in the full Bay of Plenty region of 2.2% for the next five years, compared to 0.3% for the last five-year period and the national medium-term economic growth forecast of 1.8%.

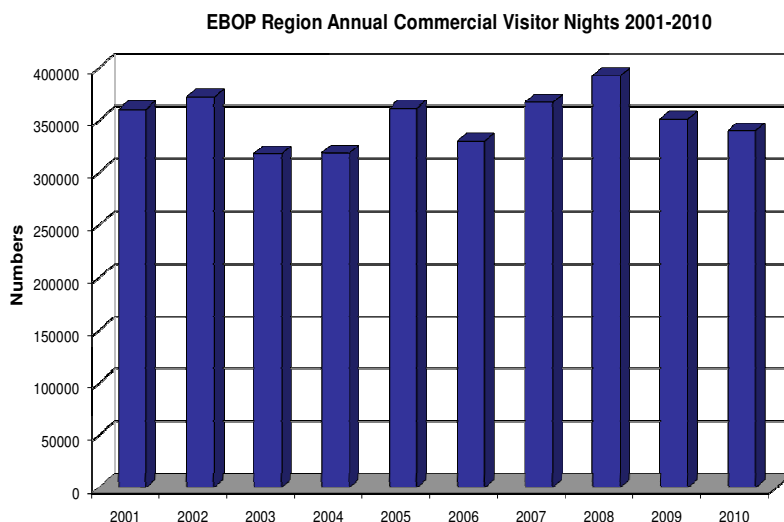


9.0 Visitor/Tourism Numbers

Figure 6:

Visitor arrival numbers into the EBOP region staying in commercial accommodation totalled an estimated 146,544 over the March 2010 year, down 4,385 or 2.9% on the previous year. The comparative national change was a 2% increase. The number of arrivals has fallen by 9.2% since the 2006/07 peak for the past decade. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 340,000 for the March 2010 year, down 3.2% on the previous year. Visitor nights have fallen by 7.2% since 2007. Commercial accommodation arrival numbers and night-stays in April this year were both down noticeably on the same month last year.

Over the latest March year, domestic visitors accounted for 86% of total night-stays in commercial accommodation in the full Bay of Plenty tourism region and overseas visitors the balance of 14%. The comparative domestic figure for the March 2008 year was 84%. During the March 2010 year, the comparable national proportions were domestic visitors 58% and overseas visitors 42%. The average length of stay of commercial visitors to the EBOP region over the latest year was 2.3 nights, compared to 1.9 nights nationally.



10.0 Results Comparison

Table 1 indicates the comparative local economic indicator changes over the past year for the Eastern Bay of Plenty sub-region, total Bay of Plenty Region and New Zealand, for the listed indicators. EBOP out-performed the full BOP region over the latest year for the house sales, employment and unemployment benefit indicators.

Table 1: Eastern Bay of Plenty Area Comparative Local Economic Indicator Changes March 2010 Year vs March 2009 Year

	<i>Economic Indicators</i>						
	Total New Buildings	House Sales	Retail Sales	Vehicle Registrations	Comm Visitor Nights	Employment	Unemployment Benefit Numbers
<i>Eastern Bay of Plenty Sub-Region</i>	-20.1	+26.0	+0.1	-	-3.2	-0.6	+40.3
<i>Bay of Plenty Region</i>	-13.5	+24.1	+2.3	-12.6	+3.3	-1.8	+110.1
<i>New Zealand</i>	-12.6	+25.1	+2.3	-10.7	+2.0	-1.5	+119.1

11.0 Industry Growth

Real GDP growth for EBOP industry sectors over the period of major international economic downturn since 2007 has been highest for the communications, cultural and recreational service, Government administration, health and community service, and business service industries. **Figure 7** shows real GDP growth over the last two years for the different EBOP industries. The table below the graph indicates the current economic size of the different industry groups in the district. The district's largest industries in GDP terms, are primary production, processing and manufacturing, commercial business services, retailing, health and community services, and education services.

The primary production and processing sectors together account for over 40% of total industry GDP in the EBOP region. The performance of these sectors is thus critical to the overall performance of the regional economy. The significant production industries in the region include dairying; kiwifruit growing; forestry/logging, sawmilling and pulp/paper/paperboard manufacturing; agricultural services; and machinery and equipment manufacturing.

Returns for 'green' kiwifruit this year are expected to be about 10% up on last year due to an improved exchange rate, high production volumes, premium prices, increased fruit size and reduced onshore fruit loss. Fonterra has recently announced an increased forecast payout for the 2010/11 season of \$6.60 which may well improve further to in excess of \$8 per kg milk solid given appropriate trading conditions. The local wood sector has been assisted this year by the very significant increase in demand out of China, sharp increase in world timber and related commodity processing prices and the more recent relative New Zealand exchange rate stabilisation.

The NZ Institute of Economic Research is currently forecasting annual average real terms GDP growth of 4% for the national agricultural sector for the next five years, compared to 0.6% for the last five years; and forestry and logging industry growth of 3.5% over the next five years, compared to the figure of -1.3% for the last five years. The Institute is also forecasting annual average growth of 0.8% for wood and paper products manufacturing over the next five years, compared to -1.2% for the last five years. Machinery and equipment manufacturing industry annual average growth nationally of 2.4% is also forecast, compared to the -0.7% result for the 2004-2009 interval.

Figure 7:

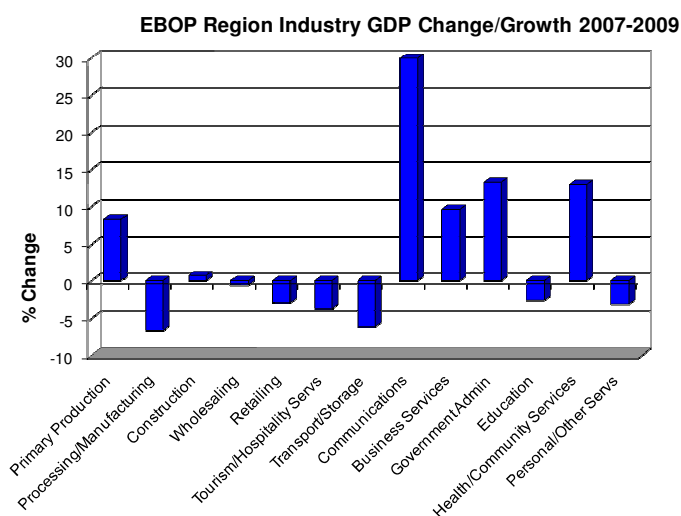


Table 2:
EBOP Region Industry GDP Results for Year Ending March 2010

Industry	Nominal GDP (\$M)
Rural Production	386.1
Processing and Manufacturing	284.5
Power/Gas/Water Services	42.2
Construction	60.1
Retailing/Wholesaling	143.9
Accom/Transport/Communications	78.5
Business Services	153.3
Government/Public Administration	85.7
Education	77.7
Health/Community Services	94.5
Cultural/Personal Services	29.5
Other ¹	170.1
TOTAL	1,606.1

Note: 1. Includes utility services, owner-occupied dwellings (imputed rental) and unallocated GDP activity.

12.0 Employment

Total employment in the EBOP region for the March 2010 year was down 0.6% on the previous March year and stood at 21,318 in March this year.

The leading employing sectors in the region are, in order, processing and manufacturing, primary industries production, retailing, education and training services, health and community services, and commercial business services. Over the past five years, EBOP sectors that have increased their employment levels overall include primary industries production as a group, public utility services, construction, wholesaling, tourism and hospitality services, commercial business services, Government administration, and education and training services.

In March 2010, the respective district-level rates of unemployment were recorded at Whakatane District 5.2%, Kawerau District 9.3%, Opotiki District 5.9%, the full Bay of Plenty region 8% and nationally 6.6%.

The number of people receiving the unemployment benefit in the EBOP region in March 2010 stood at 1,090, an increase of 40% on the March 2009 figure of 777.

The total number of working-age income tested beneficiaries in the region stood at 5,558 in March this year, compared to 5104 a year earlier. The main benefit categories in the area are, in order, domestic purposes, invalids and sickness.

Figure 8a:

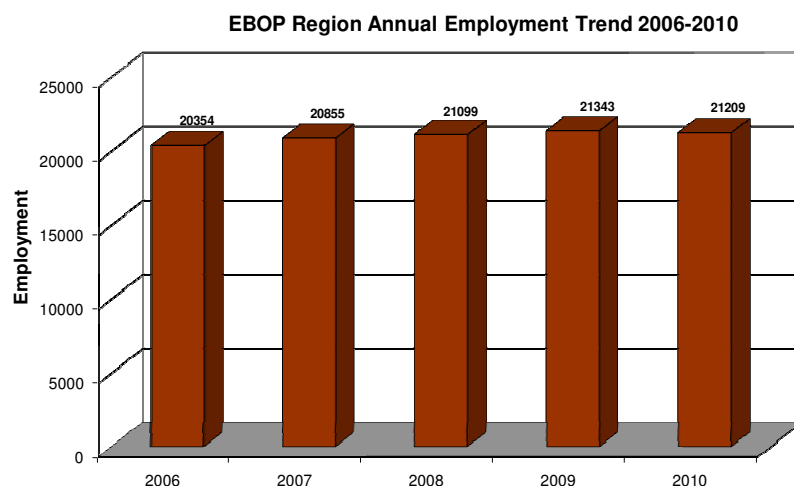
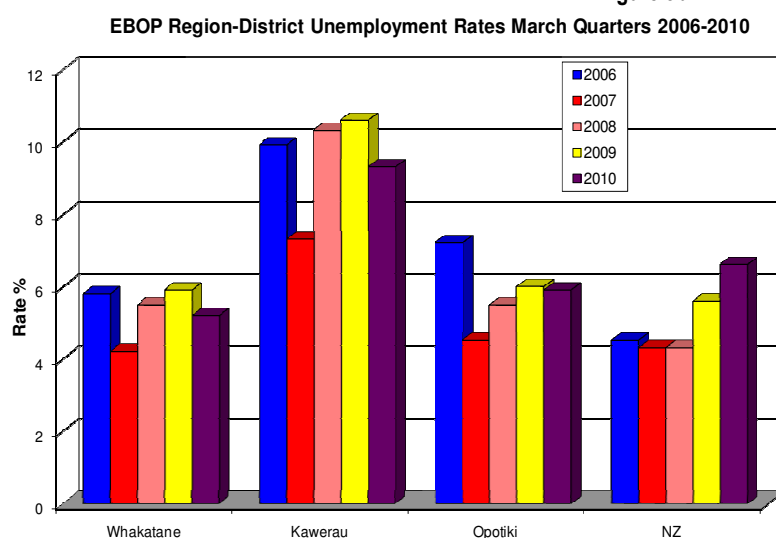


Figure 8b:



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.

The latest March 2010 forecasts are for:

- Noticeable GDP and consumption growth over the coming year
- Limited Government spending growth over the next two years
- Significant construction sector growth recovery
- Improving business investment growth over the coming two years
- Further exchange rate appreciation
- Increasing interest rates
- Some employment growth (and reduced unemployment); and falling private sector wage growth.

Table 3: NZIER Consensus Forecasts March 2010

Indicator	March Years		
	2009/10	2010/11	2011/12
GDP	-0.4	3.1	3.2
Private Consumption	0.3	2.2	1.8
Govt Spending	0.7	1.9	1.9
Residential Investment	-13.3	16.8	11.3
Other Investment	-11.5	3.7	7.9
NZ TWI Exchange Rate	61.8	63.6	63.1
90 Day Bank Bill Rate	2.8	3.7	5.1
Employment	-1.4	1.6	2.3
Private Sector Wages	3.3	1.9	2.6

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.