

Eastern Bay of Plenty Region Economic Monitor December 2010

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the Eastern Bay of Plenty (EBOP) region, trends over the past year (for data purposes, the year ended September 2010) 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 and trading bank reports. Growth comparisons with the wider Bay of Plenty region and the country as a whole are included in the analysis, where appropriate. Appendix 1 to the report presents a range of annual economic indicator results for the sub-region, covering the period since 2005.

2.0 Trend Summary

- This summary identifies the main economic indicator changes that have occurred within the EBOP economy over the past year, and also the trends that have occurred since June this year when the last economic report was prepared.
- The local economic gains that have occurred over the past year as a whole include further natural population increase of births over deaths, significant increase in the number and value of new dwellings receiving building consent, increased building consent activity in the commercial-industrial sector, 25% rise in the total number of building alterations consented, 24% rise in new vehicle registrations and significantly increased electricity consumption.
- Overall economic growth in the region of 0.8% was recorded for the September 2010 year, following very low growth over the previous two years.
- An annualised employment decline of 3.7% occurred during the latest year, whilst the rate of unemployment was recorded at 6.6% in September 2010, compared to 7% in September 2009.
- The leading growth sectors in the region since 2007 have been communications, the public sector, property and business services, power/gas/water services, health and community services, and personal/ household services and cultural/ recreational services.
- Visitor arrivals and nights spent in the region staying in commercial accommodation have fallen by approximately 15% since 2007 and by about 10% over the past year.
- Since the March quarter of 2010, the positive economic indicator movements in the region, in comparison to the prior September 2009-March 2010 period, have included the 38% increase in new dwellings consented and 26% rise in the value of this consented work; more than doubling of consented dwelling alterations work; stability in the number of new commercial/ industrial buildings consented and 8% increase in new vehicle registrations.
- Overall economic activity since March this year is 1.4% behind that for the same period in 2009, whilst employment is 6.2% down.

3.0 Key EBOP Region Economic Indicator Levels as at September 2010

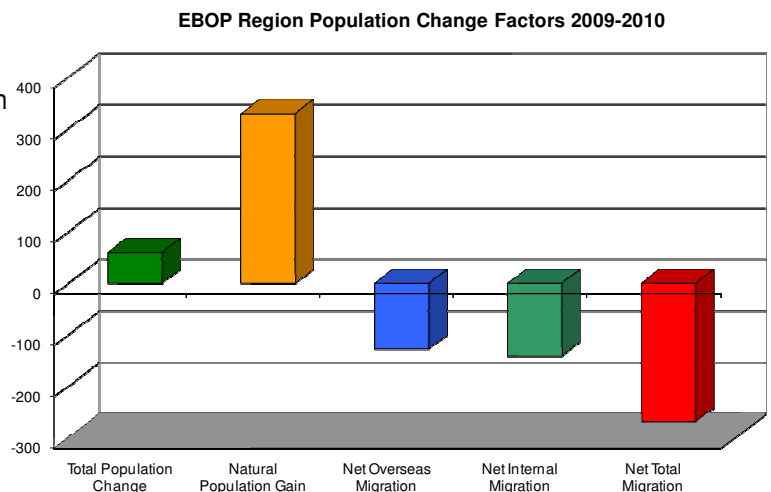
Population:	50,390
Households/Dwellings:	19,902
Nominal Gross Domestic Product (GDP):	\$1,622 million
Annual Economic Growth	0.8%
Employment (Sept Qtr):	21,094
Annual Employment Growth (Sept Qtr)	-0.6%
Unemployment Sept Qtr 2010:	1,738
Unemployment Rate (Sept Qtr %):	6.6

4.0 Population

Figure 1:

The EBOP region's population currently stands at an estimated 50,390 and has fallen by 380 or 0.7% since the 2006 Census year. The region's population growth track since the Census shows that this indicator is currently growing close to the Statistics NZ Medium growth projection for the region, which sees the area's population fall to 49,300 by Year 2021 and 46,300 in Year 2031.

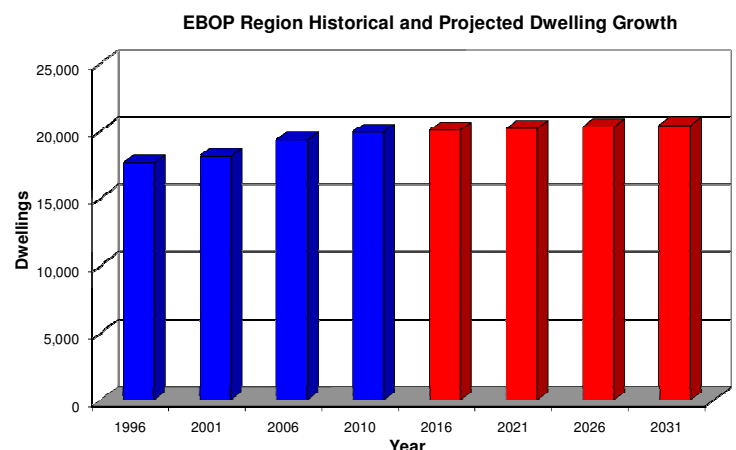
Over the past year, natural population increase (births minus deaths) in the region totalled 329. Given the total population gain over the year of 60, total net migration for the district was therefore in the order of -269. This comprised a net external (overseas) migration loss of -128 and a net internal (domestic) migration loss of -141. **Figure 1** indicates the total changes over the latest September year for the main population growth factors for the district, together with the change in the total population of the area.



5.0 Household/Dwellings

Figure 2:

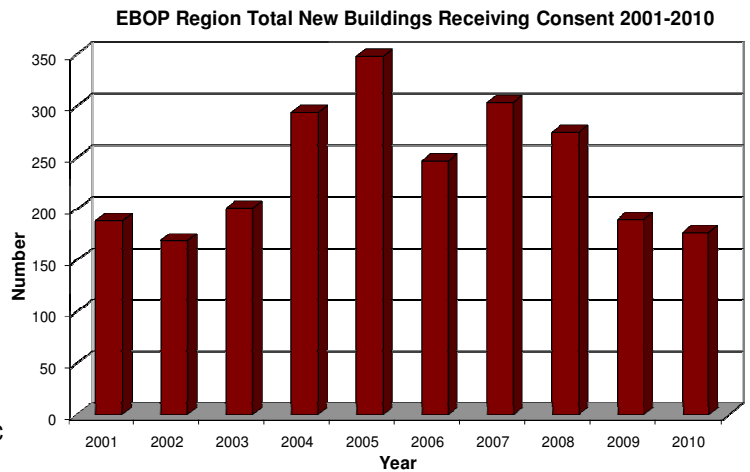
The total stock of houses in the EBOP region in September this year stood at an estimated 19,902. This represents an increase of 587 or 3% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 7% further increase in household/dwelling numbers in the region over the 2011-2031 period, under the Medium growth projection. This compares to the total Bay of Plenty region Medium projection of 40% and the national Medium projection of 27%.



6.0 New Building Activity

Figure 3:

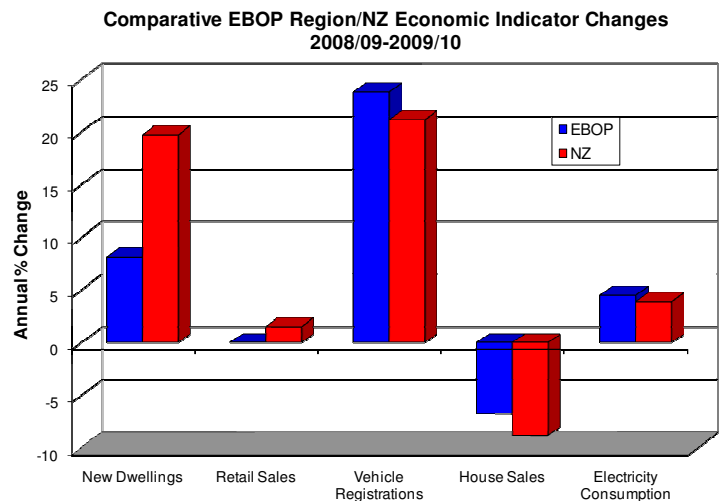
Over the year ended September 2010, a total of some 107 new dwellings received building consent in the EBOP region, worth a combined value of \$26M. The number of new dwellings approved during the year was up 8.1% on the previous September year, whilst their combined value was up 15.1%. Total new commercial/industrial building work approved was up 14.3% on the previous year in volume terms but down 42% in value terms over the year. The volume of new rural building work approved fell 22%, whilst the value of this work was down 39%. The total amount of new building activity in the region fell 26.3% over the year whilst the total value increased 0.6%. Since 2007 and the beginning of the latest major international economic downturn, the total volume of all new building work approved in the district has fallen by 42% and the total value of this work by 54%.



7.0 Other Economic Indicators

Figure 4:

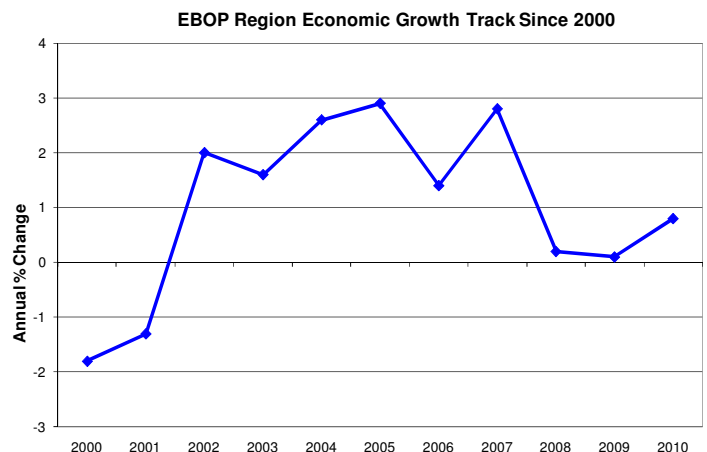
EBOP region house sales for the September 2010 year were down 6.7% on the previous year. Actual retail sales for the sub-region were unchanged from the September 2009 year, compared to the full Bay of Plenty region growth of 5.1% and 1.5% nationally. New motor vehicle registrations in the district rose 23.8% over the year, compared to 21% nationally. Electricity consumption in the region over the September 2010 year was 4.5% 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 noticeably but nevertheless generally remained positive since 2001. During the latest September year, annual economic growth of 0.8% was recorded for the region. The NZ Institute of Economic Research is currently forecasting average annual growth in the full Bay of Plenty region of 2.5% for the next five years, compared to 0.4% for the last five-year period and the national medium-term economic growth forecast of 2.2%.

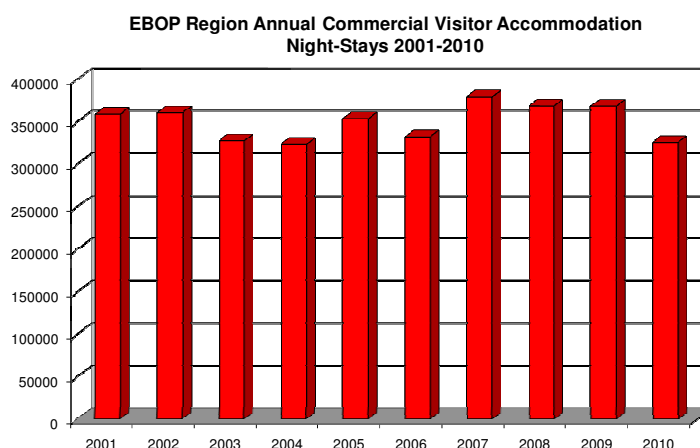


9.0 Visitor/Tourism Numbers

Figure 6:

Visitor arrival numbers into the region staying in commercial accommodation totalled 141,847 over the September 2010 year, down 12,080 or 7.8% on the previous year. The comparative national change was a 1.4% gain. The number of arrivals has fallen by 15% since the 2007 peak for the past decade. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 325,405 for the September 2010 year, down 11.6% on the previous year. Visitor nights have fallen by 14% since 2007.

Over the latest year, domestic visitors accounted for 86% of total night-stays in commercial accommodation in the region and overseas visitors the balance of 14%. The comparative domestic market figure for the September 2009 year was also 86%. During the September 2010 year, the comparative national proportions were domestic visitors 58% and overseas visitors 42%. The average length of stay of commercial visitors to the region over the last 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 September 2010 year for the total Eastern Bay of Plenty sub-region, full Bay of Plenty region and New Zealand, for the listed indicators. The Eastern BOP area out-performed the total Bay of Plenty region the year for house sales, new vehicle registrations and unemployment benefit numbers. The EBOP region out-performed the country as a whole in terms of house sales, vehicle registrations and unemployment benefit numbers.

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

Area	% Change 2008/09 – 2009/10 September Years						
	Economic Indicators						
	Total New Buildings	House Sales	Retail Sales	Vehicle Registrations	Comm Visitor Nights	Employment	Unemployment Benefit Numbers
<i>Eastern Bay of Plenty Sub-Region</i>	-6.3	-6.7	0.0	+23.8	-11.2	-3.7	+33.0
<i>Bay of Plenty Region</i>	+13.9	-10.5	+5.1	+10.1	+4.1	-1.6	+42.8
<i>New Zealand</i>	+9.2	-8.8	+1.5	+21.2	+1.3	-0.5	+41.7

11.0 Industry Growth

Figure 7a:

Real GDP growth for EBOP industry sectors over the period of major international economic downturn since 2007 has been highest for the communications, Central/Local Government administration, property and business services, electricity/gas/water utility services, health and community services and personal/ household services industries. Negative growth has occurred most for the transport/storage, construction and wholesale/retail trade industries.

The graph to the right shows real GDP growth over the last three years for the different EBOP industry sectors. The table below the graph indicates the current economic size of the different industry groups in the district. The region's largest industries in GDP terms, as indicated in the table, are rural production, processing and manufacturing, business services and retailing/ wholesaling.

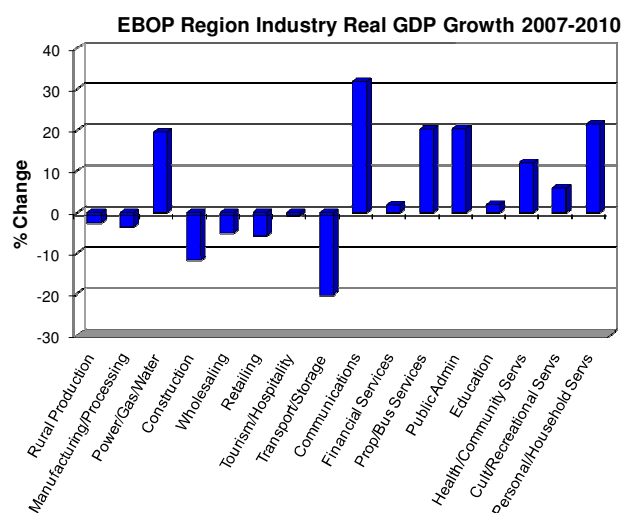
The rural production and processing/manufacturing sectors account for 41% of total industry GDP in the region. The performance of these directly productive sectors is thus critical to the overall performance of the district economy. The main production industries in the region are kiwifruit growing, dairying, forestry, agricultural services, dairying/ processing and pulp/paper manufacturing.

Kiwifruit returns this year are expected to be about 3% up on last year due to stable or growing demand across all overseas markets and the high-quality product resulting from the good growing conditions during the latest production season. However, the industry is currently having to deal with the potentially major adverse impact of the PSA disease which has already affected some EBOP orchards.

Fonterra advised on 10 December this year that its forecast milk price for the 2010/11 season is now \$6.90 per kg milk solid, up from \$6.60 in early November this year. This change is due to the continuation of high international dairy prices further into the 2010/11 season. A current concern with the industry is the increasing threat of drought conditions and the potential adverse business impacts of this.

Prices for NZ logs in China, the country's largest log market, have recently slowed from the rapid price gains in Sept/Oct this year. However, the market there remains very strong, as does log demand in India. The Korean and Japanese markets have recorded strong in-market price rises, partly due to the recent appreciation of the \$NZ.

In October 2010, the ANZ Bank's Commodity World Price Index was 31% above the October 2009 level, whilst the Index result for forestry products was up 12%. The gain for dairy products in general was 20% whilst the Index level for apples/kiwifruit combined was down 22%.



Industry	Nominal GDP (\$M)
Rural Production	348.7
Processing & Manufacturing	302.2
Electricity/Gas/Water	55.8
Construction	54.3
Retailing/Wholesaling	142.3
Accom/Transport/Communications	75.1
Business Services	167.2
Government/Public Administration	91.0
Education	80.9
Health/Community Services	91.4
Cultural/Personal Services	32.9
Other ¹	160.1
TOTAL	1601.9

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

Figure 7b:

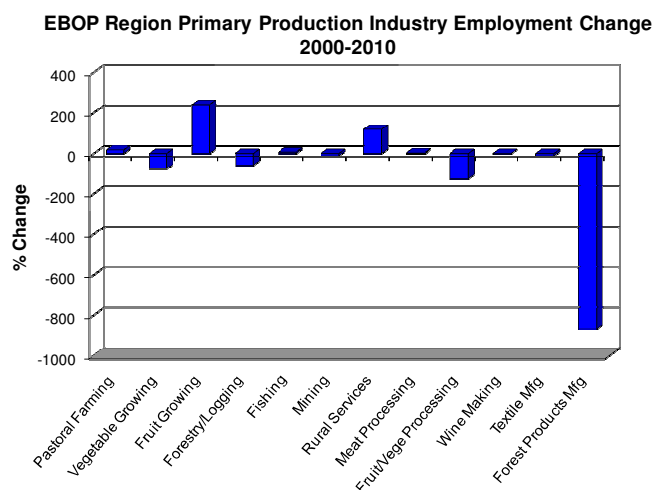


Figure 7c:

Total agricultural production GDP in the EBOP region has fallen in real terms by 4% since 2007. Forestry GDP has fallen only marginally. Total rural processing GDP activity has fallen by 2.3%.

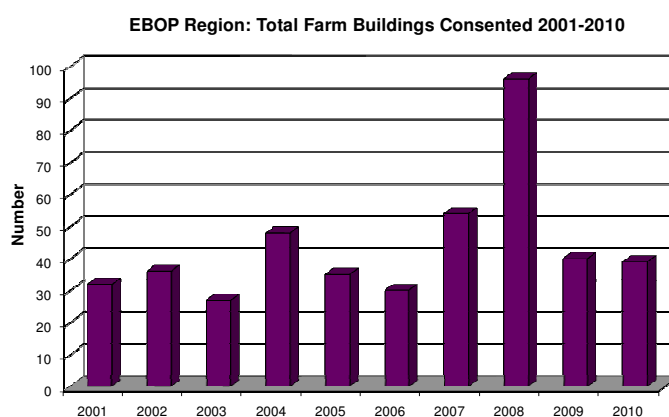
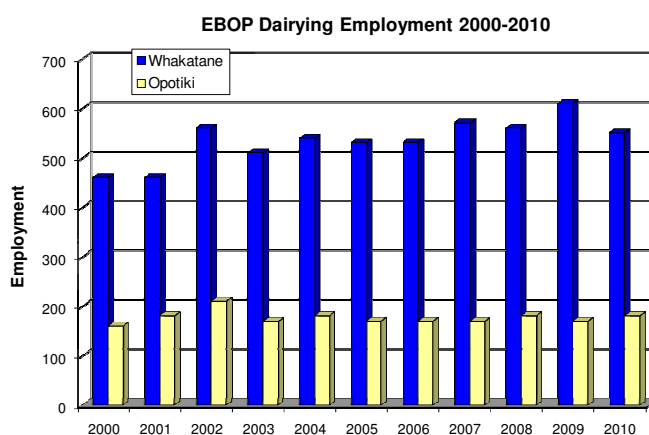


Figure 8:

12.0 Dairy Industry

The New Zealand Institute of Economic Research has just recently released a report prepared for Fonterra and Dairy NZ on the economic contribution of the dairying industry to the national and local economies. In light of the significant contribution of dairy farming and related processing to the EBOP economy (over 30% of total regional employment in all primary production industries), it is useful to note some of the results of the NZIER report, which included as follows:

- The dairy industry accounts directly for almost 3% of total NZ Gross Domestic Product
- The industry accounts for 15% of the total national GDP contribution of the goods producing industries
- The industry also accounts for approximately 26% of NZ's total goods exports by value; dairy exports have grown by over 8% per annum during the past decade
- A \$1 dairy payout increase generates additional per capita spending throughout New Zealand of \$270 annually
- The industry also generates a substantial level of tax revenue for the Government
- As many as one in four jobs in some rural areas are based in the dairy farming and processing sectors
- Firms benefit from selling goods and services to the dairy sector; the average dairy farmer spends well over half of his/her business income on goods and services needed to support on-farm operations.



13.0 Employment

Total employment in EBOP region for the September 2010 year was down 3.7% on the previous year and stood at an annualised 20,566 in September this year.

The leading employing industries in the region are currently primary production, processing/ manufacturing, retailing, education/training, health/community services and business services.

Employment change over the past 10 years for these industries has been primary production 11.2%, processing/ manufacturing -21.5, retailing 0.5%, education/ training 24.7%, health/ community services 18.8% and business services 70.8%.

In September 2010, the rate of unemployment in the region was recorded at 7.6%, compared to 7.9% in September 2009 and the national rate of 6.2% in September this year. At the same time, total unemployment in the region stood at 1,738. The number of people receiving the unemployment benefit in the area in September this year stood at 1,426, compared to 1,244 a year ago, that is, an increase of 15% over the year.

Figure 9a:

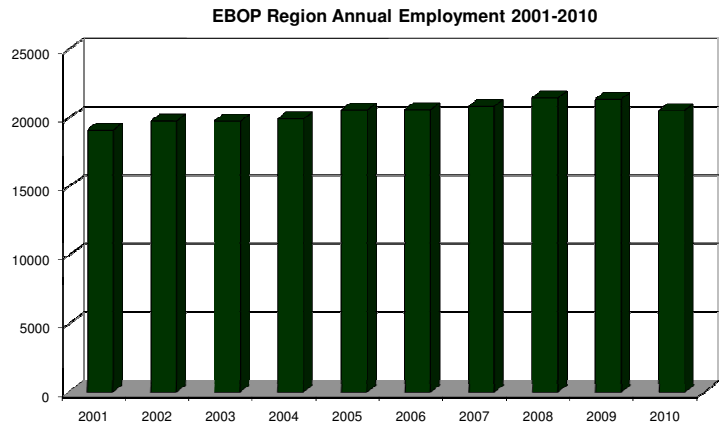
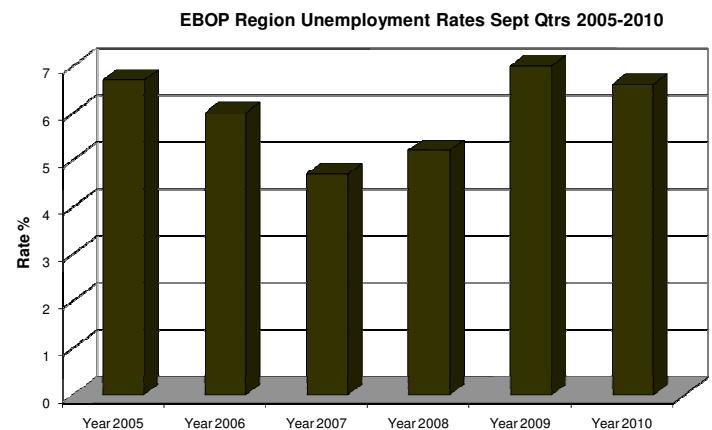


Figure 9b:



14.0 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 September 2010 forecasts are for:

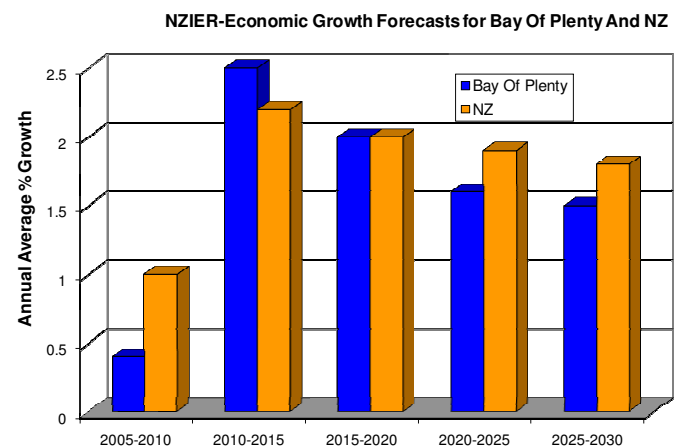
- Significant GDP and consumption growth over the year ahead
- Falling Government spending growth over the next few years
- Declining construction sector growth
- Improving business investment growth
- Stable inflation over the next two years following the spike this year due to the GST increase in October 2010
- Relative exchange rate stability over the coming year
- Increasing interest rates
- Limited employment growth and slowly falling unemployment
- Increasing private sector wage growth.
- Annual average economic growth in the full Bay of Plenty region of about 2.5% is currently forecast for the 2010-2015 period.

Table 3: NZIER Consensus Forecasts September 2010

Indicator	March Years		
	2010/11	2011/12	2012/13
GDP	2.8	3.1	2.6
Private Consumption	2.6	2.0	2.1
Govt Spending	2.7	1.8	1.5
Residential Investment	12.7	9.9	5.0
Other Investment	3.9	7.7	5.6
NZ TWI Exchange Rate	66.7	66.3	63.7
90 Day Bank Bill Rate	3.4	4.8	5.4
Employment	1.2	2.1	1.8
Private Sector Wages	1.5	2.9	3.3

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

Figure 10:



APPENDIX 1

Annual EBOP Region Economic Indicator Results Last Five September Years

INDICATOR	2005	2006	2007	2008	2009	2010
<i>Population June Qtr</i>	50,780	50,770	50,590	50,510	50,330	50,390
<i>Households/Dwellings</i>	19,145	19,315	19,488	19,657	19,783	19,902
<i>Real GDP (\$M)</i>	1132	1147	1180	1182	1184	1193
<i>New Dwellings Consented</i>	253	176	181	132	99	107
<i>New Commercial/Industrial Buildings Consented</i>	38	25	49	30	14	16
<i>New Farm Buildings Consented</i>	35	30	54	96	50	39
<i>Total Building Alterations</i>	526	436	549	541	491	612
<i>House Sales</i>	932	777	831	546	465	434
<i>Retail Sales (\$M)</i>	349	365	382	404	399	399
<i>New Motor Vehicle Registrations</i>	2,012	1,517	1,328	1,289	797	987
<i>Commercial Visitor Arrivals</i>	153,465	150,343	167,823	164,367	153,927	141,847
<i>Commercial Visitor Nights</i>	353,530	331,835	379,249	368,153	367,994	325,405
<i>Total Employment Sept Qtr</i>	20,384	21,387	20,999	21,566	21,223	21,094
<i>Total Unemployment Sept Qtr</i>	1,700	1,568	1,184	1,394	1,828	1,738
<i>Number of People on Unemployment Benefit Sept Qtr</i>	-	1,216	696	706	1,244	1,426
<i>Unemployment Rate (%) Sept Qtr</i>	7.7	6.8	3.1	6.1	7.9	7.6