

Kawerau District Economic Monitor

June 2011

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the Kawerau district, 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. **As far as the available information allows, the actual monitoring period covered in the main by the formal economic indicator data presented in the report is the year ending March 2011. Appendix 1 contains indicator results for the district, for the last five years.**

2.0 Trend Summary

- There have been some economic gains for the district over the December 2010-March 2011 quarters, as compared to the same period a year previously, including increased new dwellings consented, a more than doubling in the value of all new buildings consented, significantly increased number of building alterations consented, a rise in the number of new vehicle registrations, slightly increased employment and a reduced rate of unemployment.
- On an annualised basis, district economic indicators that have improved over the past year include overall economic activity, new dwellings and total building alterations consented, and new motor vehicle registrations. Total employment has improved a little whilst the rate of unemployment has fallen from 9.3% in March 2010 to 8.5% in March 2011.
- The Kawerau economy is dominated by its processing/ manufacturing sector which accounts for 60% of total district GDP. Wood and paper product manufacturing in turn dominates the sector, accounting for over 80% of total processing/manufacturing GDP and employment in the district. Total district employment in the processing/ manufacturing sector last year stood at 1470 or 50% of all Kawerau employment. The local wood and paper product sector is supported by a specialised and growing machinery and equipment industry which last year employed some 365 persons compared to 225 in Year 2002.
- The Kawerau District Council's Economic Development Strategy 2011-2014 emphasises the district's centre of excellence in wood processing supported by a highly skilled and internationally competitive engineering and maintenance service industry cluster. The strategy identifies the district's desired industrial specialisation in energy generation and direct heating capability, wood processing, waste disposal and utilisation, and niche manufacturing. Specific future industrial development opportunities for the district are seen in businesses requiring a direct heating facility based on geothermal power, bio-energy supply, bio/clean technology, food processing, land based aquaculture and drying operations.
- A recent MAF report (SONZAF 2011) is forecasting overall steady growth in forest product export returns for New Zealand, over the next four years.

3.0 Key Kawerau District Economic Indicator Levels as at March 2011

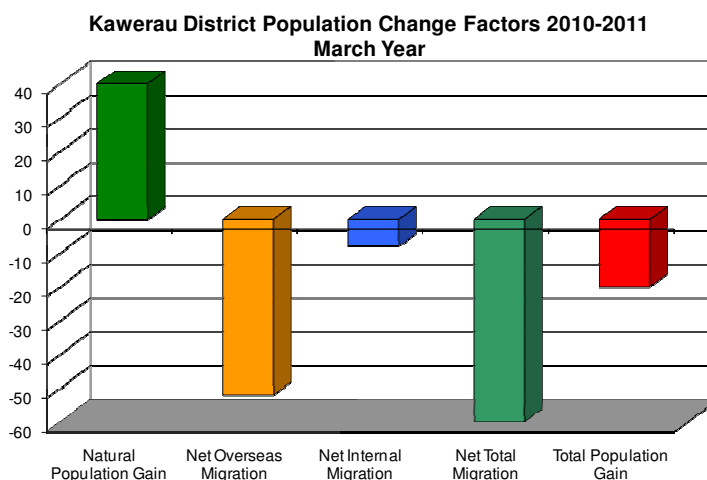
Population:	6,970
Households/Dwellings:	2,679
Nominal Gross Domestic Product (GDP):	\$324.3 million
Annual Economic Growth	3.0%
Annual Employment:	3,132
Annual Employment Growth:	2.8%
Unemployment Mar Qtr 2011:	283
Unemployment Rate (%):	8.5

4.0 Population

Figure 1:

Kawerau district's population currently stands at an estimated 6,970 and has fallen by 180 or 2% since the 2006 Census year, according to Statistics NZ figures. The district'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 district's population is anticipated to be around the 6,600 mark in Year 2016.

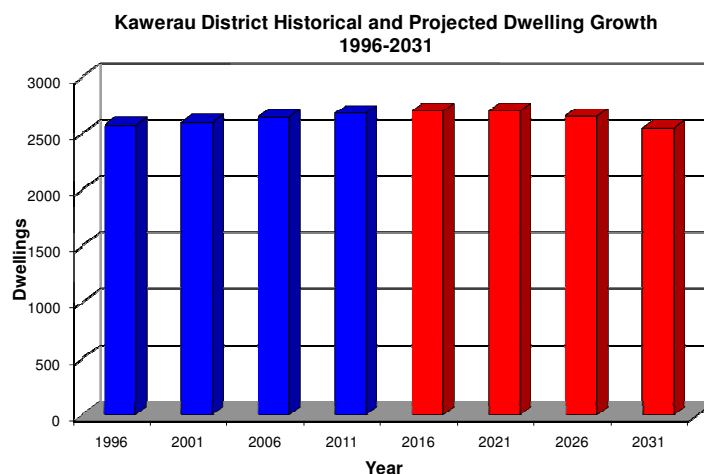
Over the past year, natural population increase (births minus deaths) in the district totalled 40. Given the district's total population loss over the year of 20, total net migration for the district was therefore in the order of -60. This comprised a net external (overseas) migration loss of -52 and a net internal (domestic) migration loss of 8. **Figure 1** indicates the total changes over the latest March year in 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 Kawerau district in March this year stood at an estimated 2,679. This represents an increase of 36 or 1.4% from the 2006 Census result. Latest Statistics NZ projections indicate a 3.8% further increase in household/dwelling numbers in the district over the 2011-2021 period, under the Statistics NZ halfway Medium to High growth projection. This compares to the total Bay of Plenty region projection of 16%, and the national Medium projection of 27%.



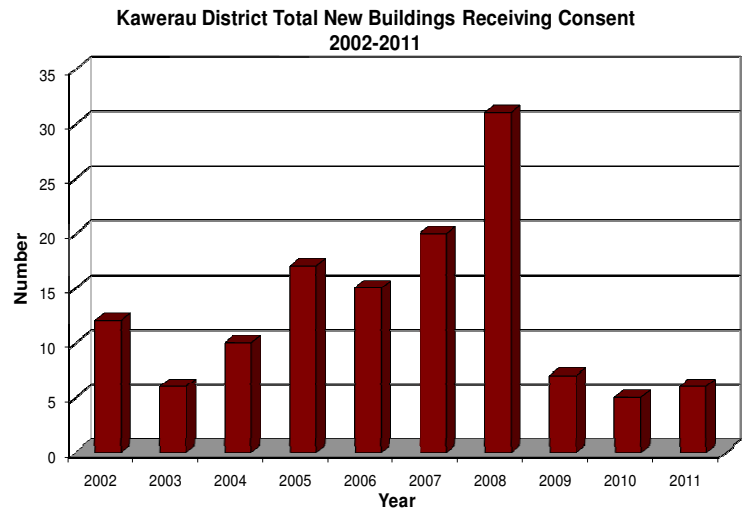
6.0 New Building Activity

Figure 3:

Over the year ended March 2011, a total of 6 new buildings of all descriptions received consent to proceed in Kawerau district, worth a combined value of \$0.9M. The total number of new buildings approved during the previous March year was also 6, with a combined value of approximately \$0.4 million.

The total number of building alterations consented during the latest March year was 56 worth \$1.2 million, compared to 44 and \$1.4 million during the March 2010 year. The number of new non-building construction projects consented in the district during the latest year was 5 worth almost \$0.2 million, compared to 4 worth approximately \$85,000 million during the 2010 March year.

Since 2008 and the initial period of the latest major international economic downturn, the total number of all new buildings approved in the district has fallen from 29 to 6 and the total value of this work from \$7.1 million to \$0.9 million.

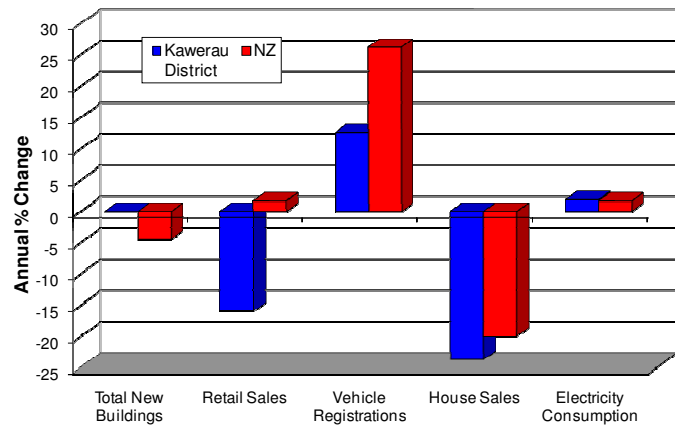


7.0 Other Economic Indicators

Kawerau district house sales for the March 2011 year were down 23.7% on the previous year. Annual sales are currently still about 40% of the 2003/04 peak level. Actual retail sales for the area fell 15.9% during the latest year, compared to the national gain of 1.6%. New motor vehicle registrations rose 12.5% over the year, compared to 26% nationally. Electricity consumption in the district during the March 2011 year was 1.8% up on the previous year, compared to the national gain of 1.6%.

Figure 4:

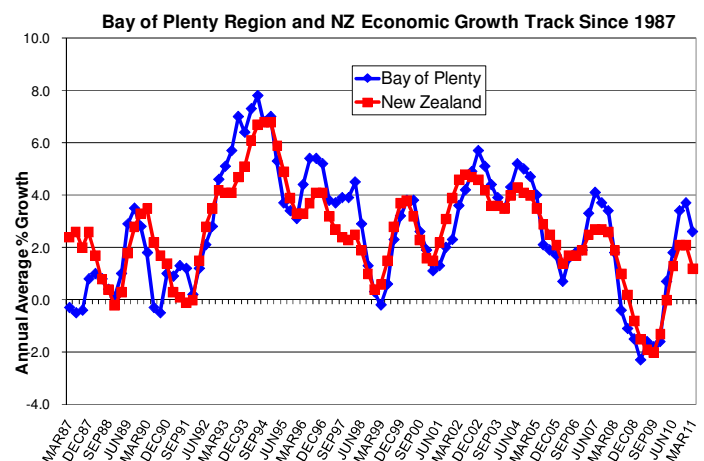
Comparative Kawerau District/NZ Economic Indicator Changes 2009/10-2010/11



8.0 Economic Growth

Figure 5:

Figure 5 indicates the longer-term trend in economic/GDP growth in the wider Bay of Plenty region and nationally, since 1987. The base growth data for the graph is sourced from the National Bank and has been used in this report due to the unavailability at this time of district growth data beyond the end of 2010. The growth track regionally and nationally has historically been similar. Annual economic growth has been positive in the region since mid last year but fell back in March this year to just above 2%.



9.0 Visitor/Tourism Numbers

Figure 6a:

Statistics NZ commercial visitor arrival numbers covering the Kawerau area are only provided for the combined Whakatane/Kawerau districts.

Arrivals staying in commercial accommodation totalled 96,880 for the combined area over the March 2011 year, down 11,287 or 10.4% on the previous year. The comparative national change was a 2.1% loss. The number of arrivals has fallen by 19% since the 2007 peak for the past decade. The number of nights spent in the area by visitors staying in commercial accommodation totalled approximately 211,000 for the March 2011 year, down 11.2% on the previous year. Visitor nights have fallen by 21% since 2007.

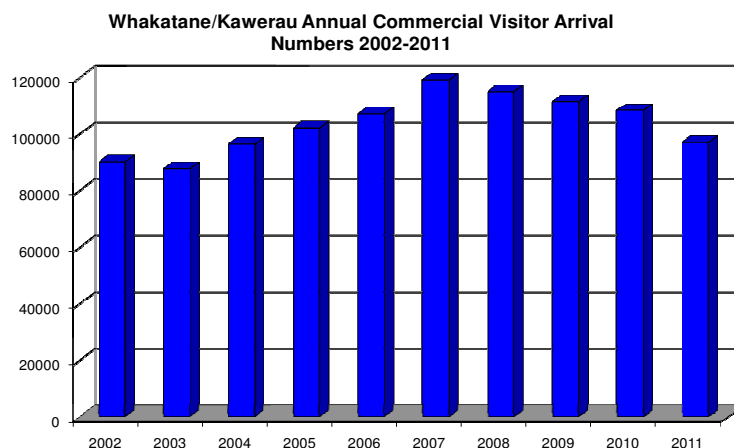
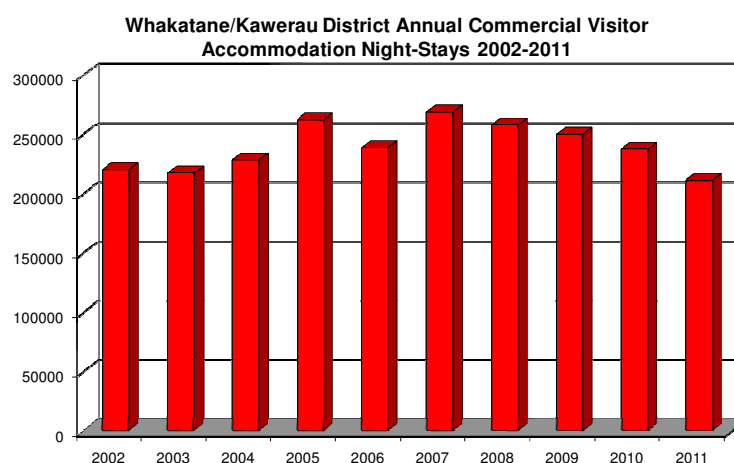


Figure 6b:

Over the latest year, domestic visitors accounted for 76% of total night-stays in commercial accommodation in the Bay of Plenty region and overseas visitors the balance of 24%. The comparative figures for the March 2010 year were 77% domestic and 23% international. During the March 2011 year, the national proportions were domestic visitors 59% and overseas visitors 41%. The average length of stay of commercial visitors to Whakatane/Kawerau over the last year was 2.2 nights, compared to 1.9 nights nationally.



10.0 Results Comparison

Table 1 overpage indicates the comparative local economic indicator changes over the March 2011 year for the Kawerau district, total Eastern Bay of Plenty sub-region, total Bay of Plenty region and New Zealand, for the listed indicators.

The unemployment benefit results relate to the comparison between the March quarters of 2010 and 2011. The other indicator results relate to the annualised trend over these years.

Kawerau out-performed the full Eastern BOP region over the latest year for new buildings consented and employment. The district out-performed the full BOP region in respect of vehicle registrations and employment. It also out-performed the country as a whole in terms of employment.

Table 1: Eastern Bay of Plenty Area Comparative Local Economic Indicator Changes March 2011 Year vs March 2010 Year

Area	% Change 2009/10 – 2010/11 March Years						
	Economic Indicators						
	Total New Buildings	House Sales	Retail Sales	Vehicle Registrations	Comm Visitor Nights	Employment	Unemployment Benefit Numbers
<i>Kawerau District</i>	0.0	-23.7	-15.9	+12.5	-11.2	+2.8	+28.2
<i>Eastern Bay of Plenty Sub-Region</i>	-9.2	-21.0	-15.8	+18.2	-10.6	0.3	+18.1
<i>Bay of Plenty Region</i>	+4.2	-18.3	-4.8	+6.9	+0.4	-0.6	+3.7
<i>New Zealand</i>	-4.5	-20.0	+1.6	+26.2	-1.3	0.8	-0.5

11.0 Industry Growth

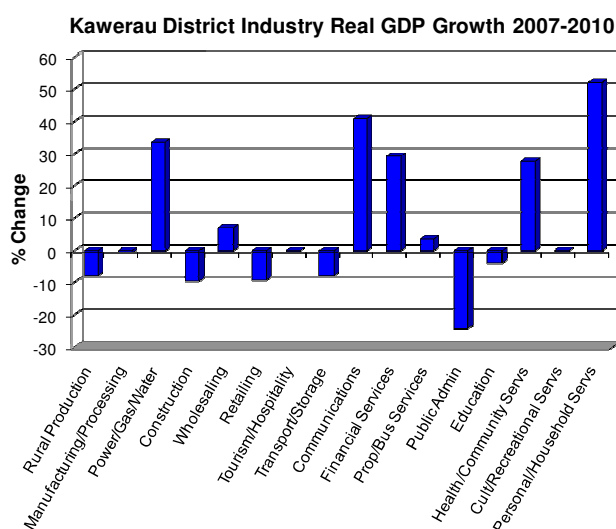
Figure 7a:

Real GDP growth for Kawerau industry sectors over the period of major international economic downturn since 2007 has been highest for the personal/household services, communications, power/gas/water, finance and insurance, health and community services, and wholesale trade services industries. Negative growth has been most pronounced for the public administration, construction, retailing and transport/storage service industries.

The graph to the right shows real GDP growth over the last three years for the different Kawerau industry sectors. 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, as indicated in the table, are rural commodity processing and manufacturing, retailing and wholesaling, business services and education.

The combined rural production and processing/manufacturing sectors account for 63% of total industry GDP in Kawerau district, with the latter accounting for 95% of this. The main broad production industries in the district are forestry/logging, log sawmilling/ timber dressing and pulp/paper manufacturing. The relevant main points to note from the latest MAF report (SONZAF 2011) on the medium-term outlook for the NZ agricultural and forestry sector are as follows:

- Log export prices are forecast to increase steadily over the next four years and overall by about a third, driven by strong demand out of China, Australia, the US, India and Japan (post earthquake). Export volumes are forecast to increase by almost 6%.
- Sawn timber prices are forecast to rise by 23% and export volumes by 15%. Demand will come from both the domestic and export sectors (including China).
- Wood panel prices are forecast to rise by 33% and export volumes by about 5%, driven out of Australia and Japan.



Industry	Nominal GDP (\$M)
Rural Production	10.2
Processing & Manufacturing	193.7
Electricity/Gas/Water	1.1
Construction	9.4
Retailing/Wholesaling	18.3
Accom/Transport/Communications	8.9
Business Services	16.9
Government/Public Administration	6.7
Education	10.0
Health/Community Services	7.2
Cultural/Personal Services	5.7
Other ¹	36.2
TOTAL	324.3

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

- Pulp prices are forecast to increase by 36% and export volumes by 5%. Australia is expected to be a significant future market for NZ pulp and paper production.

12.0 Employment

Total employment in Kawerau district for the March 2011 year was up 2.8% on the previous year and stood at an annualised 3,132 in March this year.

Since 2007 and the onset of the latest major international and domestic economic downturn, industry employment growth in the district has been strongest for the personal/household services, power/gas/water services, communications, health and community services, and finance/ insurance services industries. Employment decline has been most pronounced for property and business services, Government administration, primary production, wholesaling and retailing.

The largest employing industries in the district are currently processing and manufacturing, education, construction, retailing, education, health and community services, and personal/household services.

In March this year, the rate of unemployment in the district was recorded at 8.5%, compared to 9.3% in March 2010 and the national rate of 6.6% in March 2011. Whilst, as the graph to the right shows, the rate of unemployment in the district has fallen significantly overall since 2003, it has increased noticeably since 2007.

In March this year, total unemployment in the district stood at 283. The number of people receiving the unemployment benefit in the district stood at 336, compared to 262 a year ago, that is, an increase of 28% over the year. The total number of working-age income tested beneficiaries stood at 1,229 in March 2011, compared to 1,124 a year earlier.

Figure 8a:

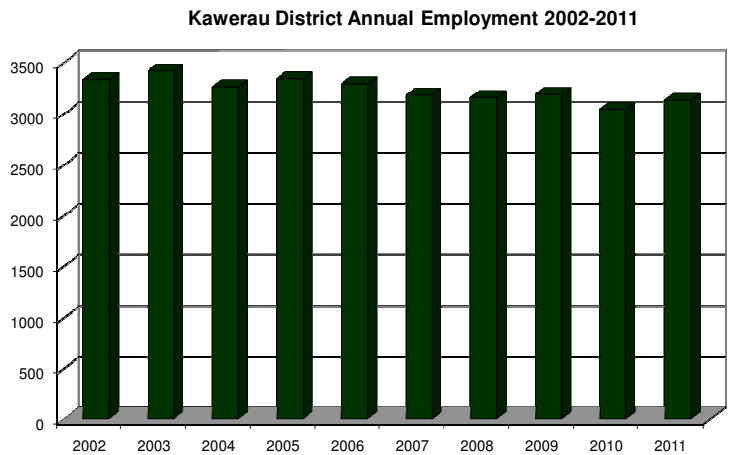
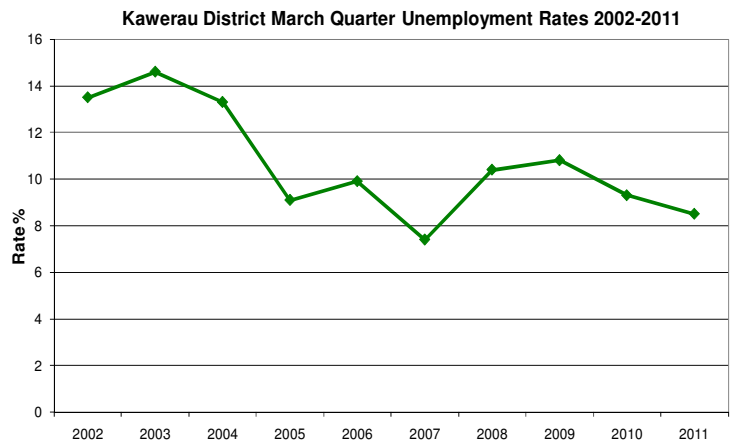


Figure 8b:



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 June 2011 forecasts are for:

- Relatively limited GDP and consumption growth over the next two years.
- Falling Government spending growth over the next few years.
- Limited construction sector growth over the next two years, followed by a sharp increase over 2012/13.
- Significant and improving business investment growth.
- Reducing inflation over the next two years.
- Relative exchange rate stability over the next two years.
- Reduced interest rates over the coming year, followed by another rise during 2012/13
- Limited employment growth over the next two years
- Increasing private sector wage growth.

Over the next five-year period, the Institute itself is forecasting annual average economic growth of 0.8% for the wider Bay of Plenty region, compared to 2.2% at the national level. The region's growth figure for the 2005-2010 period was an annual average 1.5%.

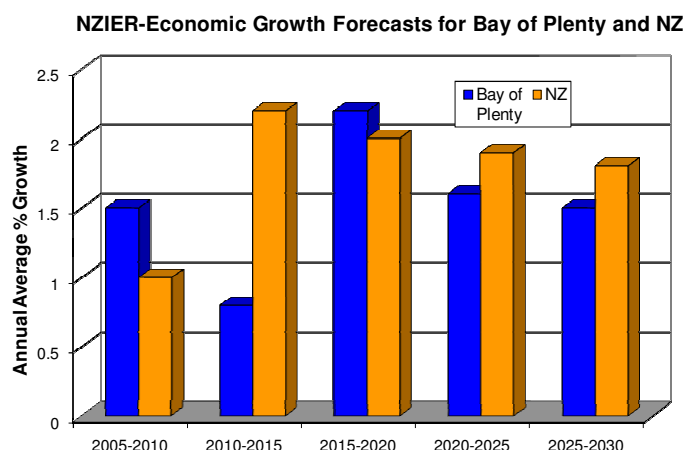
Over the next five years, strongest growth nationally is forecast by the Institute for the fishing, construction, personal/household service, agricultural, health/community service industries, forestry/logging, transport/storage and communications industries.

Table 3: NZIER Consensus Forecasts June 2011

Indicator	March Years		
	2010/11	2011/12	2012/13
GDP	1.1	2.1	4.0
Private Consumption	1.7	1.9	2.4
Govt Spending	2.3	2.1	0.6
Residential Investment	1.8	2.0	37.9
Other Investment	6.8	8.6	10.9
NZ TWI Exchange Rate	67.2	67.6	66.9
90 Day Bank Bill Rate	3.1	2.9	4.2
Employment	1.7	1.3	2.5
Private Sector Wages	1.5	2.9	3.5

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 9:



**Annual Kawerau District Economic Indicator Results
Last Five March Years**

INDICATOR	2006	2007	2008	2009	2010	2011
<i>Population June Qtr</i>	7,150	7,070	7,050	7,010	6,990	6,970
<i>Households/Dwellings</i>	2,643	2,650	2,657	2664	2,672	2,679
<i>Real GDP (\$M)</i>	233	228	232	219	226	233
<i>New Dwellings Consented</i>	7	14	14	3	1	5
<i>New Commercial/Industrial Buildings Consented</i>	4	9	14	1	3	1
<i>New Farm Buildings Consented</i>	0	1	0	0	0	0
<i>Total Building Alterations</i>	80	77	66	54	44	56
<i>House Sales</i>	122	116	106	59	76	58
<i>Retail Sales (\$M)</i>	38	44	45	45	44	37
<i>New Motor Vehicle Registrations</i>	204	161	124	86	72	81
<i>Commercial Visitor Arrivals (Whakatane/Kawerau)</i>	106,952	119,091	114,769	111,395	108,167	96,880
<i>Commercial Visitor Nights (Whakatane/Kawerau)</i>	238,803	268,405	257,960	249,420	237,495	210,995
<i>Total Employment Mar Qtr</i>	3,267	3,152	3,210	3,048	3,037	3,049
<i>Total Unemployment Mar Qtr</i>	327	252	373	369	311	283
<i>Number of People on Unemployment Benefit Mar Qtr</i>	-	211	158	211	262	336
<i>Unemployment Rate (%) Mar Qtr</i>	9.9	7.4	10.4	10.8	9.3	8.5