Kawerau District Economic Trends Update Report June 2010

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. 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 Kawerau District economy still continues to feel the effects of the major economic downturn over the 2007-2009 period, nevertheless, there have been a number of positive economic gains for the district over the past year and there is a reasonably positive outlook for the local economy.
- The district recorded a noticeable population gain over the past year, driven by natural population increase (births minus deaths) of 59. Overall population decline is currently projected for the district during the longer-term. Further limited new household growth is projected for the area, at the same time.
- Annual economic growth in the district has fluctuated considerably over the past decade, with periods of positive and negative growth being experienced. Growth in the district during the year ended March 2010 has been recorded at 1.6%. 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.
- Total new building activity in the district over the March 2010 year was slightly up on the previous year but nevertheless still well down on the 2008 peak level. The volume of new commercial and industrial building during the latest March year was up on the previous year, although the value of the building was down a little. There was increased new construction activity in the storage and industrial building sectors. Building alterations fell further during the March 2010 year, to half the number recorded in 2006.
- District house sales rose 29% during the March 2010 year. Actual retail sales fell slightly during the year, whilst new motor vehicle registrations across the full Bay of Plenty region fell 13%. Electricity consumption in the district declined by 4.2%.
- Visitor numbers to the district staying in commercial accommodation fell almost 3% over the latest March year, as they have been gradually doing since 2006/07. This trend has also occurred in many other parts of the country. Total visitor-nights fell 1.8% during the latest year. Domestic visitors continue to account for the bulk of tourism to the district.

- Since the beginning of the latest major international economic downturn around 2008, economic growth has been most positive in the district for the communication services, health/community service, commercial business service, tourism/hospitality service and transport/storage industries. Growth has fallen most noticeably for the primary production, construction and public sector administration industries.
- The rural production and processing industries account for half of the Kawerau economy. The key industries are forestry/logging, wood and paper products processing, and machinery and equipment manufacturing. The improving rural sector situation, strong Chinese demand and increased forestry prices are all positive for the forest products industry in the district.
- Employment in the district increased an estimated 1.1% over the March 2010 year. The rate of unemployment in the area fell from 10.6% in March 2009 to 9.3% in March this year. The latter compares to the national rate of 6.6%. The number of people in the district receiving the unemployment benefit stood at 262 in March this year, compared to 211 a year ago.
- Local economic indicators for the district that were up in the March quarter of 2010 compared to the March quarter in 2009 included house sales, retail sales, new vehicle registrations and new buildings consented.
- Recent positive developments in and around the district include the new geothermal development involving the local Maori Land Trust Kawerau A8D, the recent 'opening day' for the new Waterwheel heritage park and the ongoing work being undertaken into the rezoning of a major piece of local land for future industrial development use.
- The positive economic growth result for the Kawerau economy over the past year, improved forest products 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 a significant level of optimism regarding the performance of the local economy over the coming year.

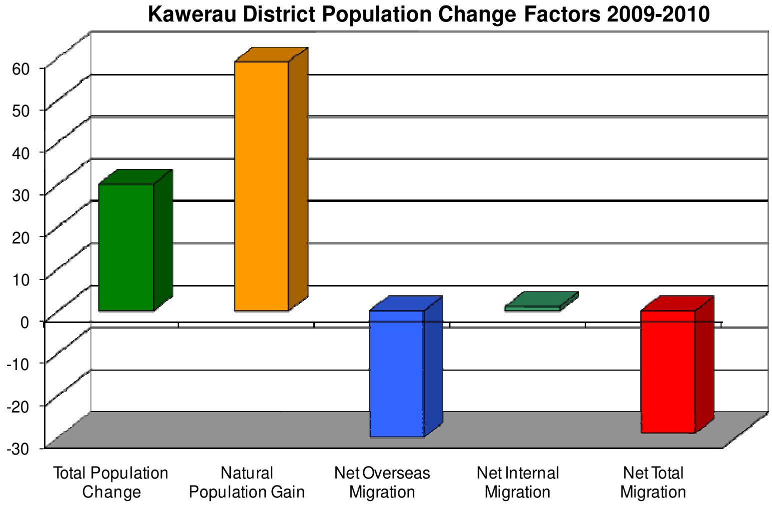
3.0 Key Kawerau District Economic Indicator Levels as at March 2010

Estimated Population:	7,040
Estimated Dwellings:	2,676
Nominal Gross Domestic Product (GDP):	$292.5 million
Annual Economic Growth	1.6%
Estimated Annual Employment:	3,191
Annual Employment Growth:	1.1%
# Unemployment Beneficiaries:	262
Unemployment Rate (%):	9.3

4.0 Population

Kawerau District's population currently stands at an estimated 7,040 and has fallen by 110 or 1.5% since the 2006 Census year. 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 6,640 in Year 2016 and 5,290 in Year 2031. Over the past year, natural population increase (births minus deaths) in the district totalled 59. Given the district's total population gain over the past year of about 30, total net migration for the district was therefore -29. This comprised a net external (overseas) migration loss of 30 and a net internal (domestic) migration gain of just 1. **Figure 1** indicates the total changes over the last year in the main population growth factors for the district, together with the change in the total population of the area.

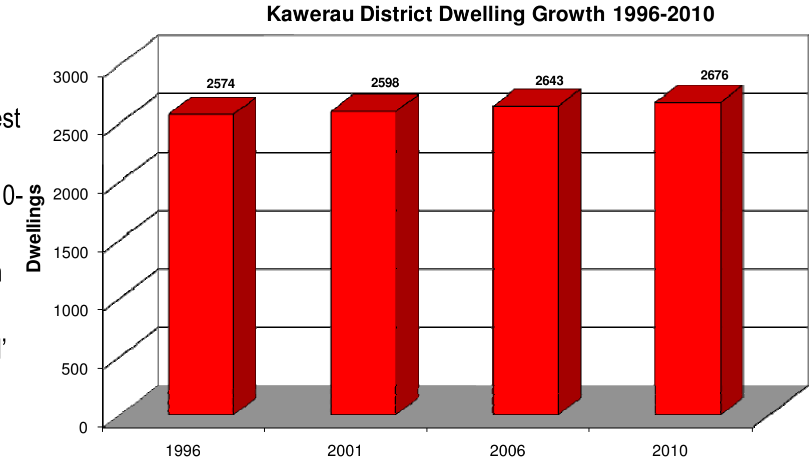
Figure 1:



5.0 Dwellings

The total stock of dwellings in Kawerau District in March this year stood at an estimated 2,676. This represents an increase of 33 or 1.2% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 2% increase in household numbers in the district over the 2010-2016 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.

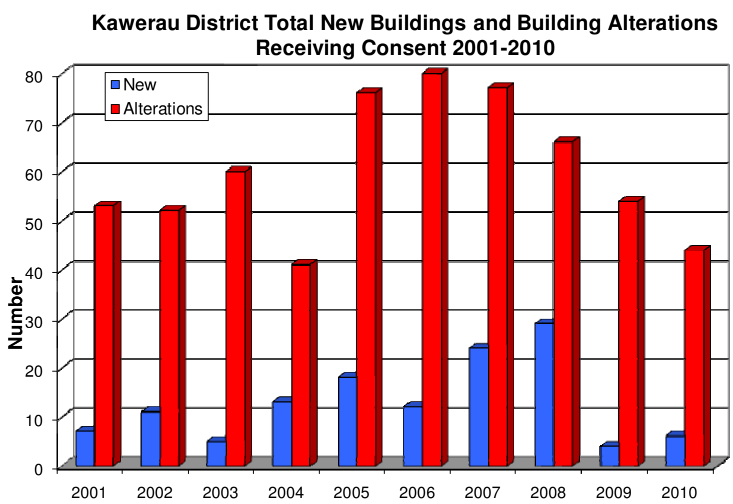
Figure 2:



6.0 New Building Activity

Over the year ended March 2010, Statistics NZ information indicates one new dwelling received building consent in Kawerau District, compared to 3 for the previous March year. Three new commercial/industrial buildings with a combined value of $355,000 were consented during the latest March year, compared to one building worth $400,000 during the March 2009 year. Increased construction activity occurred in the storage and industrial sectors. No new rural building work was consented in the district either this year or last year. The total amount of all new building work consented in the district during the year ended March 2010 was up 50% on the previous March year, whilst the total value of the new building work approved was down 55%.

Figure 3:



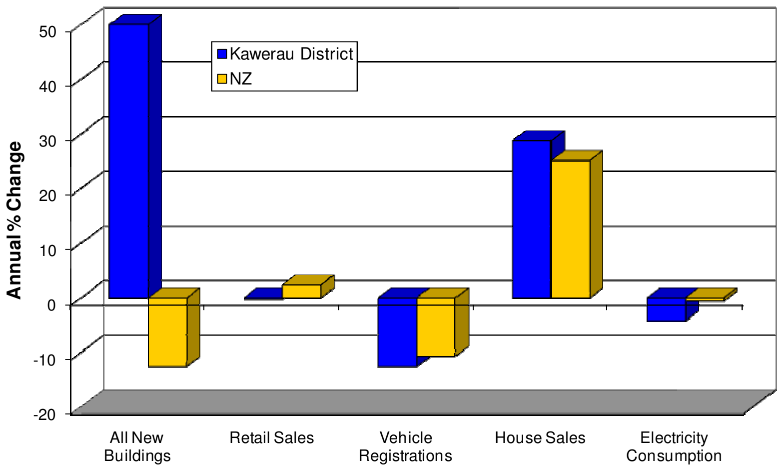
Since 2007 and the beginning of the latest major international economic downturn, the total volume of all new construction work consented in the district has fallen from 29 for the March 2008 year to 4 for the March 2009 year and 6 for the March 2010 year. The value of all new construction work has fallen from $16.8 million for the March 2008 year to $0.9 million for the March 2009 year and $0.4 million for the March 2010 year. The number of building alterations consented has fallen from 66 during the year ended March 2008 to 44 for the year ended March 2010.

7.0 Other Economic Indicators

Kawerau District house sales for the March 2010 year were up 28.8% on the previous March year. However, annual sales are currently still about 48% of the 2003/04 peak level. Actual retail sales for the district for the March 2010 year were marginally down 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 district over the latest year was 4.2% down on the previous year.

Figure 4:

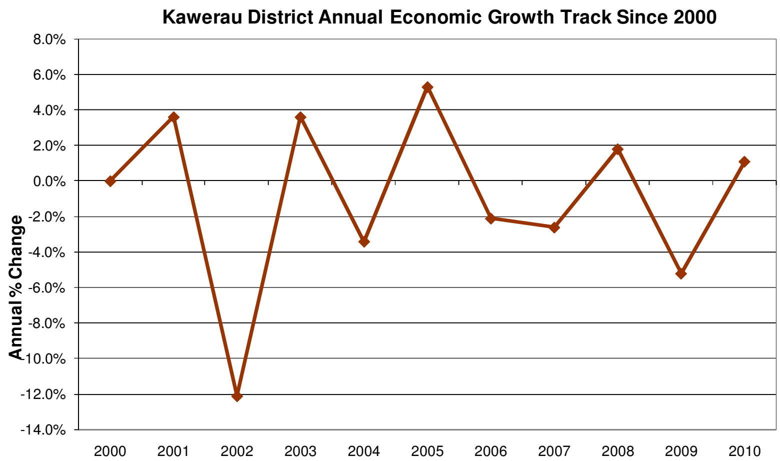
Comparative Kawerau/NZ Economic Indicator Changes 2008/09-2009/10



8.0 Economic Growth

Figure 5:

Figure 5 indicates the longer-term trend in real terms economic/GDP growth in Kawerau District, since 1999. The base growth data is sourced from Infometrics economic consultancy in Wellington. Economic growth in the district has fluctuated considerably during the period. During 2009/10 (March year), annual economic growth of +1.6% was recorded for the district. This followed the -5.3% 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 +1%. 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%.

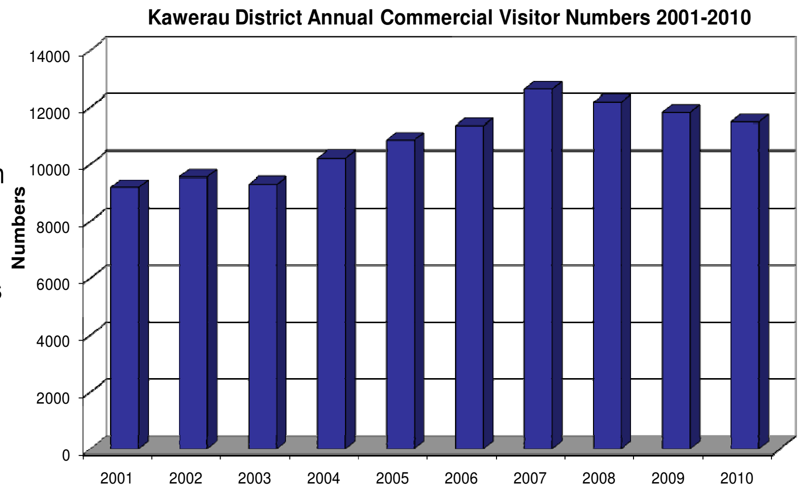


9.0 Visitor/Tourism Numbers

Visitor arrival numbers into the Kawerau District staying in commercial accommodation totalled an estimated 11,466 over the March 2010 year, down 342 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 district by visitors staying in commercial accommodation totalled approximately 25,200 for the March 2010 year, down 1.8% on the previous year. Visitor nights have fallen by 12% 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 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 Kawerau District over the latest year was 2.2 nights, compared to 1.9 nights nationally.

Figure 6:



10.0 Results Comparison

Table 1 indicates the comparative local economic indicator changes over the past year for the Kawerau District, Eastern Bay of Plenty sub-region, total Bay of Plenty Region and New Zealand, for the listed indicators. Kawerau out-performed the national economy over the year for total new buildings consented, house sales, employment. and unemployment benefit numbers.

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

Area	% Change 2008/09 – 2009/10 March Years						
	Economic Indicators						
	Total New Buildings	House Sales	Retail Sales	Vehicle Registrations	Comm Visitor Nights	Employ-ment	Unemploy-ment Benefit Numbers
Kawerau District	+50.0	+28.8	-0.3	-	-1.8	+1.1	+24.2
Eastern Bay of Plenty Sub-Region	-20.1	+26.0	+0.1	-	-3.2	-0.6	+40.3
Bay of Plenty Region	-13.5	+24.1	+2.3	-12.6	+3.3	-1.8	+110.1
New Zealand	-12.6	+25.1	+2.3	-10.7	+2.0	-1.5	+119.1

11.0 Industry Growth

Real GDP growth for Kawerau industry sectors over the period of major international economic downturn since 2007 has been highest for the health and community service, commercial business services, tourism and hospitality service, communications services, and transport and storage industries. **Figure 7** shows real GDP growth over the last two years for the different Kawerau 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 forest products (wood and paper product) manufacturing, machinery and equipment manufacturing, commercial business services, retailing and wholesaling, and construction industry activity and services.

The rural production and processing sectors together account for one-half of total industry GDP in Kawerau District. The performance of these sectors is thus critical to the overall performance of the district economy. The significant production industries in the district are forestry/logging, sawmilling and pulp/paper/paperboard manufacturing. The New Zealand 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.

Total primary commodities processing and machinery and equipment manufacturing GDP in the district has fallen overall by about 7% since 2007. However, the last quarter of 2009 recorded an increase in wood and paper product manufacturing industry GDP in real inflation-adjusted terms, from the results for the same quarter in 2007 and 2008.

The NZ Institute of Economic Research is currently forecasting annual average real terms GDP growth for the national forestry and logging industry of 3.5% over the next five years, compared to the figure of -1.3% for the last five years. The Institute is 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:

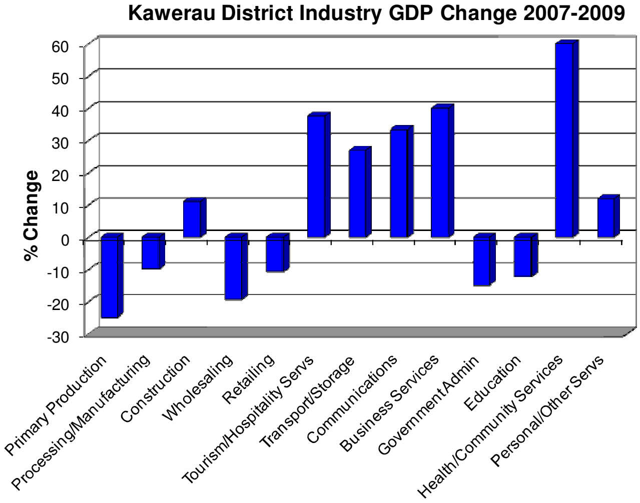


Table 2:
Kawerau District Industry GDP Results for Year Ending March 2010

Industry	Nominal GDP ($M)
Rural Production (Forestry and Logging)	7.9
Rural Processing (Wood & Paper Product)	139.5
Manufacturing (Machinery and Equipment)	28.3
Construction	10.9
Retailing/Wholesaling	15.4
Accom/Transport/Communications	9.8
Business Services	19.0
Government/Public Administration	7.1
Education	8.8
Health/Community Services	8.7
Cultural/Personal Services	4.9
Other[1]	32.2
TOTAL	**292.5**

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

12.0 Employment

Total employment in Kawerau District for the March 2010 year was up 1.1% on the previous March year and stood at 3,191 in March this year.

Since 2007, industry employment growth in the district has been strongest for cultural and recreational services, health and community services, tourism and hospitality services, and business services. Employment has declined most for the primary industries, Government administration, retailing and wholesaling, and processing/manufacturing sectors.

In March 2010, the rate of unemployment in the district was recorded at 9.3%, compared to 10.6% in March 2009 and the national rate of 6.6% in March this year.

The number of people receiving the unemployment benefit in the district in March 2010 stood at 262, compared to 211 in March 2009.

The total number of working-age income tested beneficiaries in the district stood at 1,124 in March this year, compared to 1,009 a year earlier. The main benefit categories in the area are, in order, domestic purposes, invalids and sickness.

Figure 8a:

Kawerau District Annual Employment Trend 2006-2010

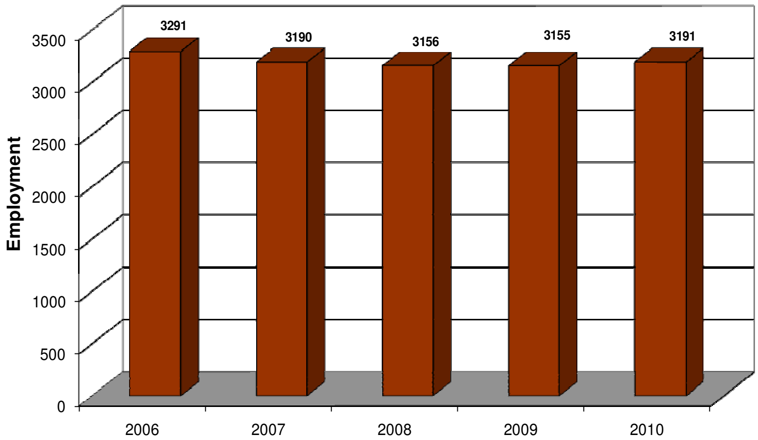
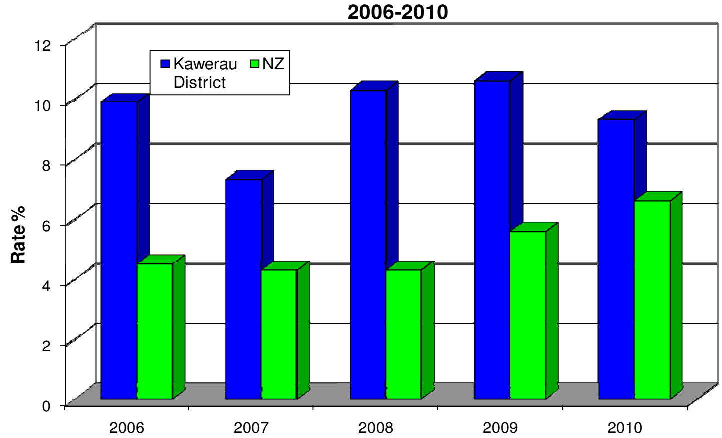


Figure 8b:

Kawerau District/NZ Unemployment Rates March Quarter 2006-2010



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.