

Opotiki District Economic Trends Update Report June 2010

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the Opotiki 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 Opotiki 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 positive outlook for the rural production sector in the area.
- The district recorded a small population gain over the past year, driven by further natural population increase (births minus deaths). Overall gradual population decline is projected for the district during the longer-term. Further albeit relatively limited new household growth is projected for the area, at the same time.
- Economic growth in the district has been positive although fluctuating since 2005 and has in fact strengthened over the past two years. Growth in the district during the year ended March 2010 has been provisionally recorded at 4.5%- this result will be confirmed or otherwise in the next economic report. 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 district continues to be down significantly on the pre-2008 level, there have been a few gains over the past year, such as a small increase in the total value of all new buildings consented, the 19% increase in the total value of new dwellings consented and the increased building activity in the retail/hospitality and office/administration sectors.
- District house sales rose 27% 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 almost 2%.
- Visitor numbers to the district staying in commercial accommodation continued to fall over the latest March year, as they have been doing since 2007/08. This trend has also occurred in many other parts of the country. Domestic visitors continue to account for the bulk of tourism to the district. Visitor nights spent in the district increased slightly during the latest year.

- 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, processing/manufacturing, finance/insurance, cultural/recreation service, Government administration, primary production and health/community service industries. Growth has fallen most noticeably for the transport/storage, wholesale trade, tourism/hospitality and construction industries.
- The rural production and processing industries account for half of the Opotiki economy. The key industries are kiwifruit, dairying, forestry/logging and agricultural services. 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 district.
- Employment in the district increased an estimated 3.2% over the March 2010 year. The rate of unemployment in the area fell slightly from 6% in March 2009 to 5.9% 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 65 in March this year, compared to just 13 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, net overseas population migration into the district and new dwellings consented. Commercial visitor nights were down only slightly.
- Recent positive developments in and around the district include the granting of resource consents for the major modernisation of the entrance to the local harbour, the ongoing important research into the development of the local aquacultural industry and the preliminary work being undertaken on the development of the new eastern arterial roading link to Tauranga.
- The positive economic growth situation in the Opotiki economy over the past few years, 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 a considerable degree of optimism regarding the performance of the local economy over the coming year.

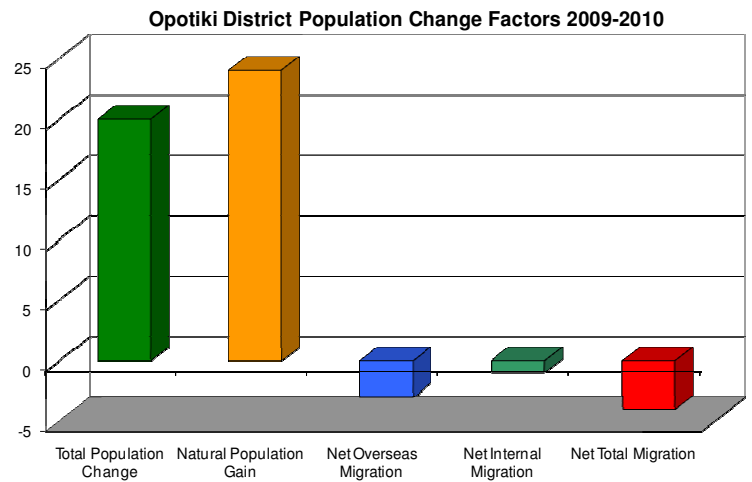
3.0 Key Opotiki District Economic Indicator Levels as at March 2010

<i>Estimated Population:</i>	9,040
<i>Estimated Households/Dwellings:</i>	3,490
<i>Nominal Gross Domestic Product (GDP):</i>	\$244.6 million
<i>Annual Economic Growth</i>	4.5%
<i>Employment:</i>	3,620
<i>Annual Employment Growth:</i>	3.2%
<i># Unemployment Beneficiaries:</i>	65
<i>Unemployment Rate (%):</i>	5.9

4.0 Population

Figure 1:

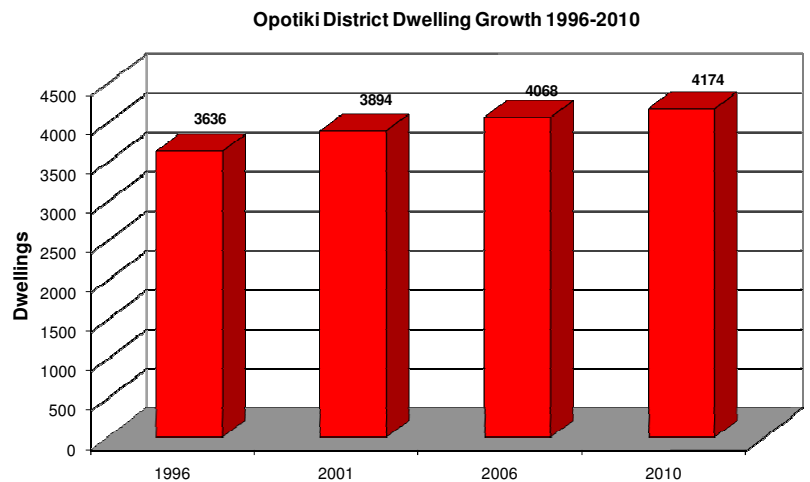
Opotiki district's population currently stands at an estimated 9,040 and has fallen by 160 or 1.7% since the 2006 Census year. The district's population growth track since the 2006 Census shows that this indicator is currently growing close to the Statistics NZ Medium growth projection for the area. This projection indicates that the district's population is anticipated to be around the 8,900 mark in Year 2016 and around the 8,100 mark in Year 2031. Over the past year, natural population increase (births minus deaths) in the district totalled 24. Given the district's total population gain over the past year of about 20, total net migration for the district was therefore -4. This comprised a net external (overseas) migration loss of 3 and a net internal (domestic) migration loss 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.



5.0 Dwellings

Figure 2:

The total stock of dwellings in Opotiki District in March this year stood at an estimated 4,174. This represents an increase of 106 or 2.6% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 6% further increase in household numbers in the district over the 2010-2031 period, under the Medium growth projection. This compares to the total Bay of Plenty region projection of 27% and the national projection of 25%.

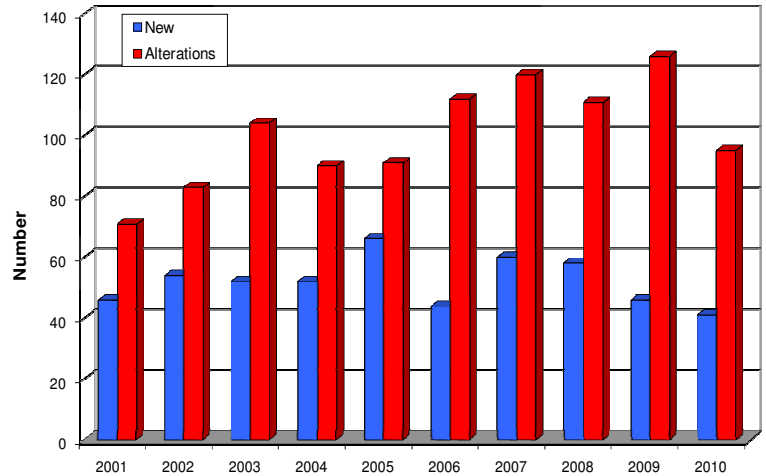


6.0 New Building Activity

Figure 3:

Over the year ended March 2010, a total of some 21 new dwellings received building consent in Opotiki District, worth a combined value of \$4.7M. The number of new dwellings approved during the year was 4.5% down on the previous March year, whilst their combined value was up approximately 19%. Total new commercial/industrial building work approved fell 17% in volume terms and 3.4% in value terms over the year, with increased construction activity occurring in the retail/hospitality and office/administration sectors. The value of new rural building work approved fell 54%, whilst the volume of work was down 35%. The total amount of all new building activity in the district fell 11% over the year whilst the total value increased 7%. Since 2008 and the beginning of the major international economic downturn, the total volume of all new building work in the district has fallen by 29% and the total value by 19%. In April this year, there were no buildings consented in the district, whereas in April 2009, two new buildings were consented in the area.

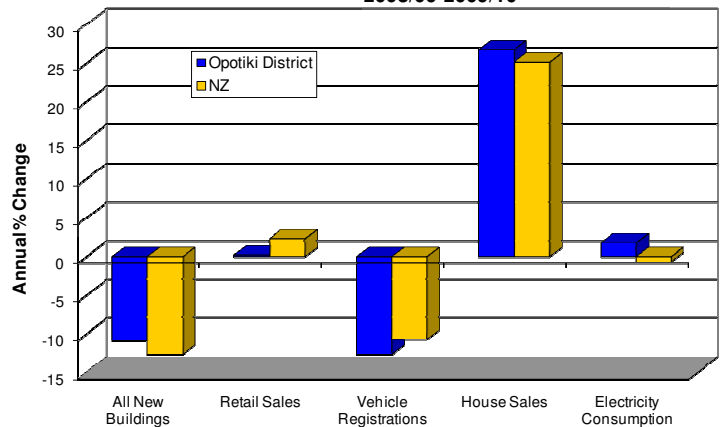
Opotiki District Total New Buildings and Building Alterations Receiving Consent 2001-2010



7.0 Other Economic Indicators

Opotiki District house sales for the March 2010 year were up 26.7% on the previous March year. However, annual sales are currently still about 45% of the 2003/04 peak level. Actual retail sales for the district increased marginally during the latest year, similar to the full Eastern Bay of Plenty region change; 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 1.8% up on the previous year.

Figure 4:
Comparative Opotiki/NZ Economic Indicator Changes 2008/09-2009/10

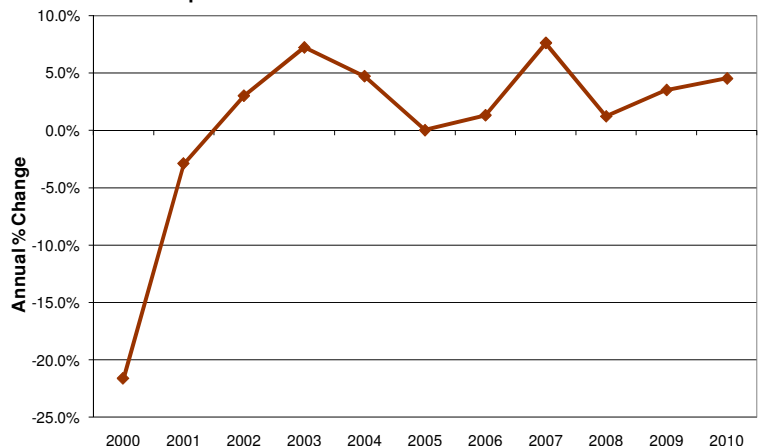


8.0 Economic Growth

Figure 5:

Figure 5 indicates the longer-term trend in real terms economic/GDP growth in Opotiki District, since 1999. The base growth data is sourced from Infometrics economic consultancy in Wellington. Economic growth in the district has been positive (apart from the 2005 calendar year) but fluctuating since Year 2001. During 2009/10 (March year), annual economic growth of +4.5% was recorded for the district. The comparable figure for the whole Eastern Bay of Plenty sub-region was +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%.

Opotiki District Annual Economic Growth Track Since 2000

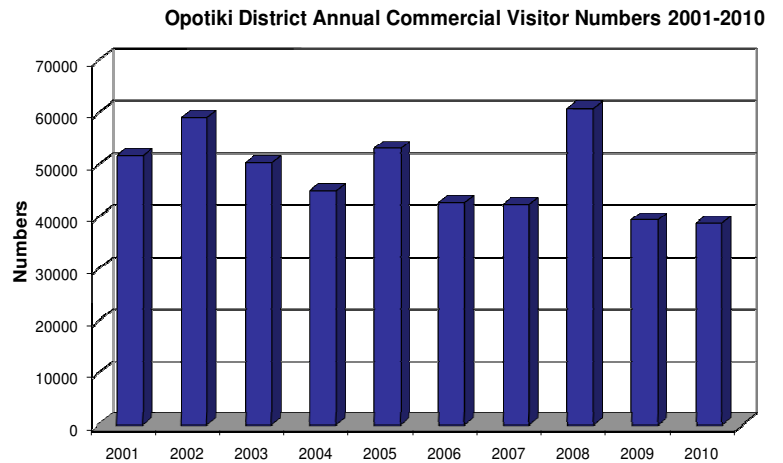


9.0 Visitor/Tourism Numbers

Figure 6:

Visitor arrival numbers into the Opotiki District staying in commercial accommodation totalled 38,377 over the March 2010 year, down 1,157 or 2.9% on the previous year. The comparative national change was a 2% decline. The number of arrivals has fallen by 37% since the 2007/08 peak for the past decade. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 102,000 for the March 2010 year, up 0.6% on the previous year. Visitor nights have fallen by 23.7% 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 year, domestic visitors accounted for 86% of total night-stays in commercial accommodation in the district 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 Opotiki District over the last year was 2.7 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 Opotiki District, Eastern Bay of Plenty sub-region, total Bay of Plenty Region and New Zealand, for the listed indicators. Opotiki out-performed the country as a whole over the latest year for total new buildings consented.

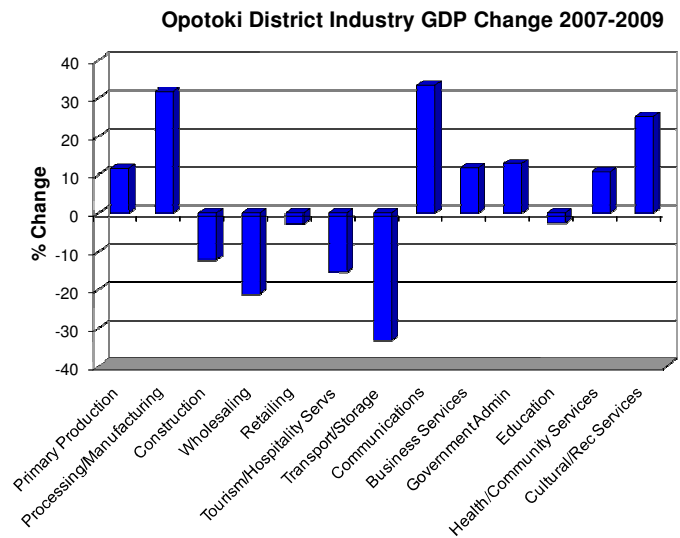
Table 1: Eastern Bay of Plenty Area Comparative Local Economic Indicator Changes March 2010 Year vs March 2009 Year

Area	% Change 2008/09 – 2009/10 March Years						
	<i>Economic Indicators</i>						
	Total New Buildings	House Sales	Retail Sales	Vehicle Registrations	Comm Visitor Nights	Employment	Unemployment Benefit Numbers
<i>Opotiki District</i>	-10.9	+26.7	+0.2	-	+0.6	+3.2	+400.0
<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

Figure 7:

Real GDP growth for Opotiki industry sectors over the period of major international economic downturn since 2007 has been highest for the communications, processing/manufacturing, finance/insurance, cultural and recreational service, Government administration, primary production and health/community service industries. Negative growth has been highest for the transport/storage, wholesale trade, tourism/hospitality and construction industries. **Figure 7** shows real GDP growth over the last two years for the different Opotiki 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 agricultural production, business services, retailing/wholesaling, education and health/community services.



The rural production and processing sectors account for one-half of total industry GDP in Opotiki District. The performance of these sectors is thus critical to the overall performance of the district economy. The main production industries in the district are kiwifruit growing, dairying, forestry/logging and agricultural services.

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.

Total rural production GDP in the district has increased in real terms from an annual \$78 million in 2007 to \$87 million in 2009. Rural processing GDP has increased from an annual \$0.8 million in 2007 to \$2.4 million in 2009.

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

Industry	Nominal GDP (\$M)
Rural Production	118.3
Rural Processing	3.3
Manufacturing (Machinery and Equipment)	3.5
Construction	7.8
Retailing/Wholesaling	18.0
Accom/Transport/Communications	8.4
Business Services	19.4
Government/Public Administration	9.5
Education	14.6
Health/Community Services	12.8
Cultural/Personal Services	3.4
Other ¹	25.6
TOTAL	244.6

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

12.0 Employment

Figure 8a:

Total employment in Opotiki District for the March 2010 year was up 3.2% on the previous March year and stood at 3,620 in March this year.

Since 2007, industry employment growth in the district has been strongest for primary production, processing and manufacturing, communications, business services, the public sector and cultural/recreational services. The leading employing industries in the district are currently primary production, construction, retailing, education and health/community services.

In March 2010, the rate of unemployment in the district was recorded at 5.9%, compared to 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 65, compared to just 13 in March 2009.

The total number of working-age income tested beneficiaries in the district stood at 984 in March this year, compared to 905 a year earlier. The main benefit categories in the area are, in order, domestic purposes, invalids and sickness.

Opotiki District Annual Employment Trend 2006-2010

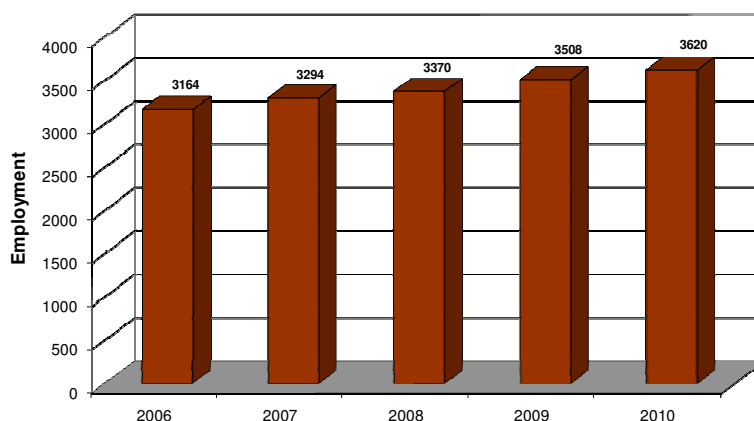
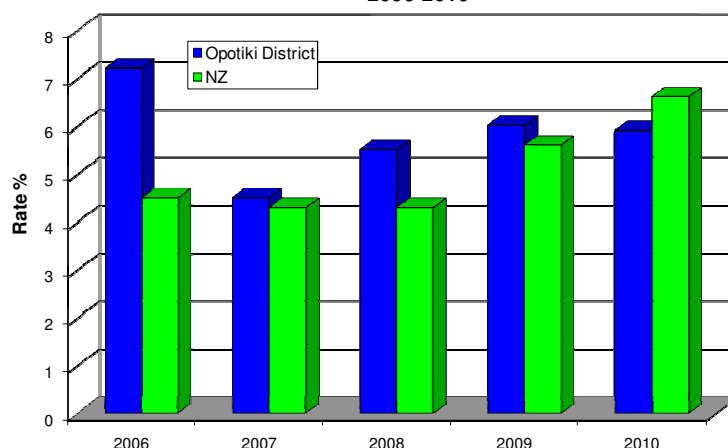


Figure 8b:

Opotiki 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.