Opotiki District Economic Monitor December 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 (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 district, covering the period since 2005.

2.0 Trend Summary

- This summary identifies the main economic indicator changes that have occurred within the Opotiki 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, noticeable increase in both the number and value of new dwellings receiving building consent, increased building consent activity in the commercial office/ administration sector, 35% rise in new vehicle registrations, 12% increase in commercial visitor arrivals into the district and slight increase in overall economic growth.
- The significant local economic indicator losses that have occurred during the past year include population decline, significant fall in the value of total new commercial/industrial buildings consented, 11% fall in house sales, fall in visitor nights spent in the district, declining employment and increasing unemployment.
- Overall economic growth in the district during the latest year was 0.5%, continuing the generally positive trend apparent in the area since 2001.
- Since the March quarter of 2010, the only positive economic indicator movement in the district compared to the October 2009-March 2010 period has been the increased level of electricity consumption. All the other local economic indicator results have been either on par with those for the earlier combined December 2009/March 2010 quarters or below them. Overall economic activity since March this year is about 1% down on the same period in 2009, whilst employment is almost 10% down.
- The leading growth sectors in the district since 2007 have been communications, property and business services, personal/ household services and finance/insurance services.
- The district will be looking to further significant progress over the coming year with the Harbour Development Project, associated Eastern Seafood Farms aquacultural development project and the joint Opotiki District Council-Whakatohea Maori Trust Board economic development initiative.

3.0 Key Opotiki District Economic Indicator Levels as at September 2010

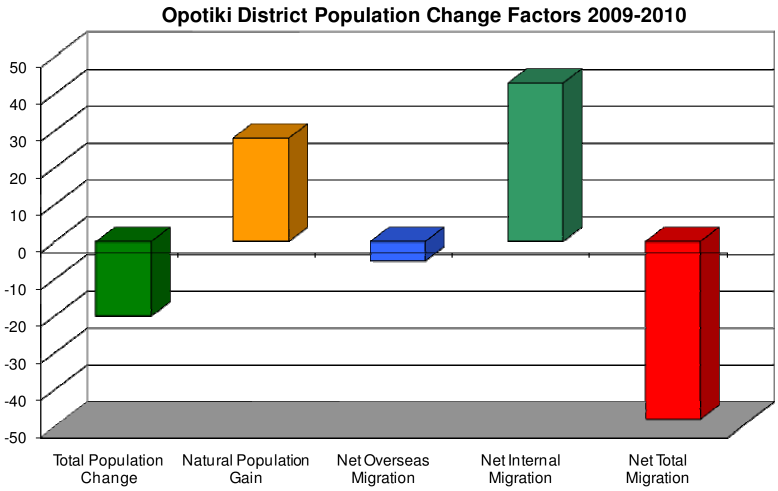
Population:	9,000
Households/Dwellings:	3,500
Nominal Gross Domestic Product (GDP):	$1,065 million
Annual Economic Growth	0.5%
Employment:	3,265
Annual Employment Growth:	-8.2%
Unemployment Sept Qtr 2010:	304
Unemployment Rate (%):	7.8

4.0 Population

Opotiki district's population currently stands at an estimated 9,000 and has fallen slightly by 200 or 2.2% since the 2006 Census year. The district's population growth track since the Census shows that this indicator is currently growing approximately halfway between the Statistics NZ Low to Medium growth projection for the area. This projection indicates that the district's population is anticipated to be around the 8,700 mark by Year 2016, before gradually falling further from that point over the longer-term, down to a level of around 7,500 in Year 2031.

Over the past year, natural population increase (births minus deaths) in the district totalled 28. Given the district's total population loss over the year of 20, total net migration for the district was therefore in the order of -48. This comprised a net external (overseas) migration loss of -5 and a net internal (domestic) migration loss of 43. **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.

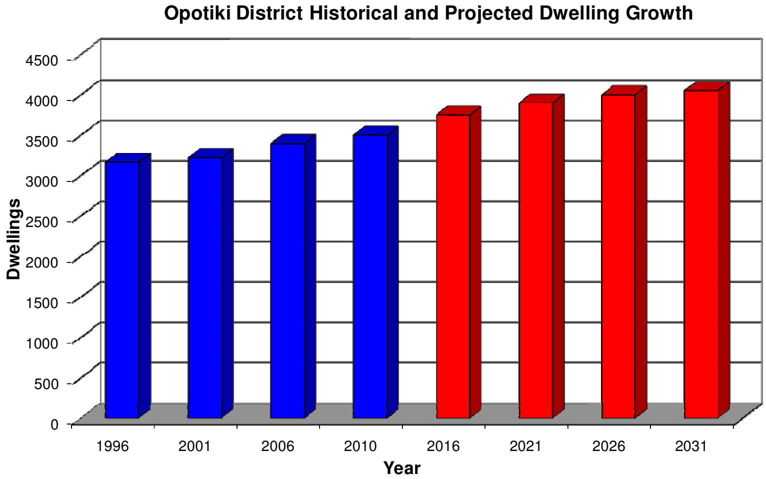
Figure 1:



5.0 Household/Dwellings

The total stock of houses in Opotiki District in September this year stood at an estimated 3,500. This represents an increase of 100 or 2.9% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 16% further increase in household/dwelling numbers in the district over the 2010-2031 period, under the halfway Medium to High growth projection. This compares to the total Bay of Plenty region projection on the same basis of 36% and nationally 27%.

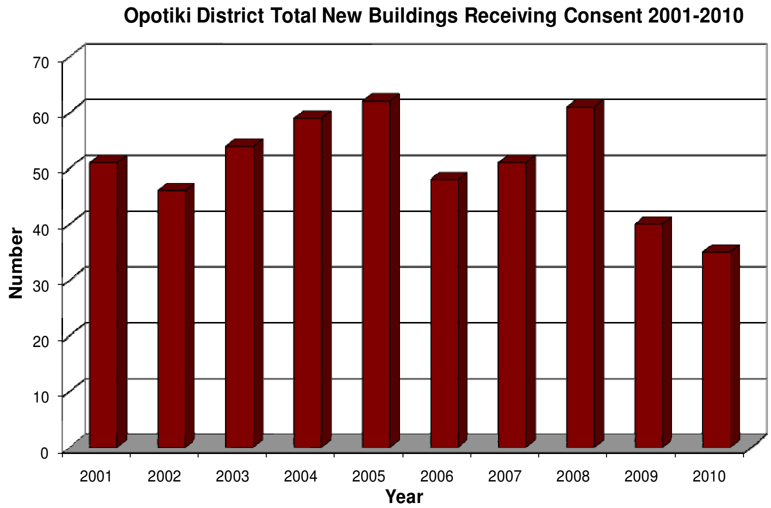
Figure 2:



6.0 New Building Activity

Over the year ended September 2010, a total of some 21 new dwellings received building consent in Opotiki district, worth a combined value of $4M. The number of new dwellings approved during the year was up 10.5% on the previous September year, whilst their combined value was up almost 7%. Total new commercial/industrial building work approved was slightly up on the previous year in volume terms but down significantly in value terms over the year, with increased activity occurring only in the office and administration building sectors. The volume of new rural building work approved also fell significantly over the year whilst the value of this work was down over 70%. The total amount of new building activity in the district fell 13% over the year and the total value approximately 20%. 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 31% and the total value of this work by 35%.

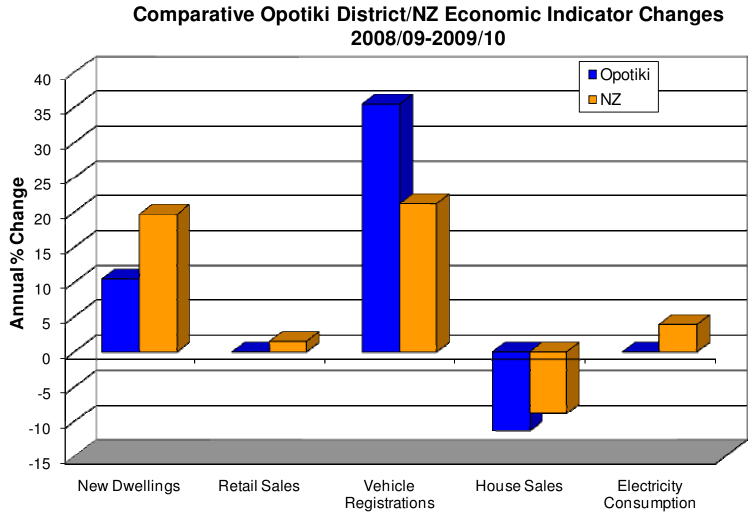
Figure 3:



7.0 Other Economic Indicators

Opotiki district house sales for the September 2010 year were down 11.3% on the previous year. Annual sales are currently still about 40% of the 2003/04 peak level. Actual retail sales for the district fell 1.2% during the latest year, compared to the 0% change for the total Eastern Bay of Plenty sub-region and 5.1% for the full Bay of Plenty region; retail sales rose 1.5% nationally. New motor vehicle registrations in the district rose 35% over the year, compared to 21% nationally. Electricity consumption over the September 2010 year was unchanged on the previous year.

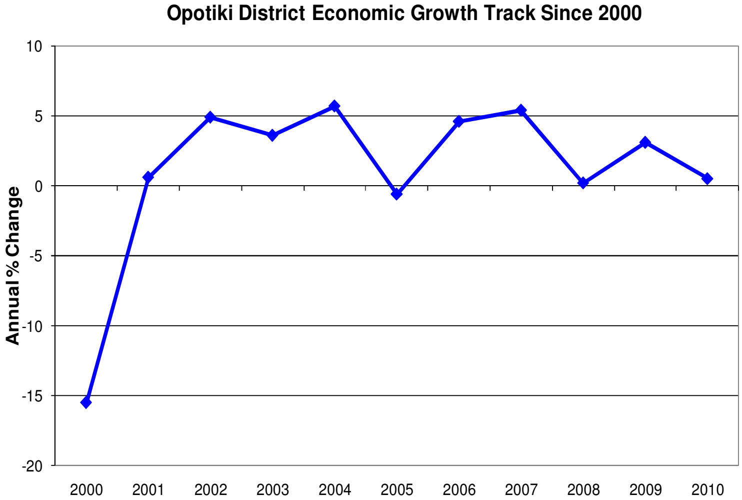
Figure 4:



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 was significantly negative over 1999/2000 but since that time has been positive except for the 2004/05 period. During the latest September 2010 year, annual economic growth of +0.5% was recorded for the district. The comparable figure for the total Eastern Bay of Plenty sub-region was +0.8% and 1.4% for the full Bay of Plenty 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%.

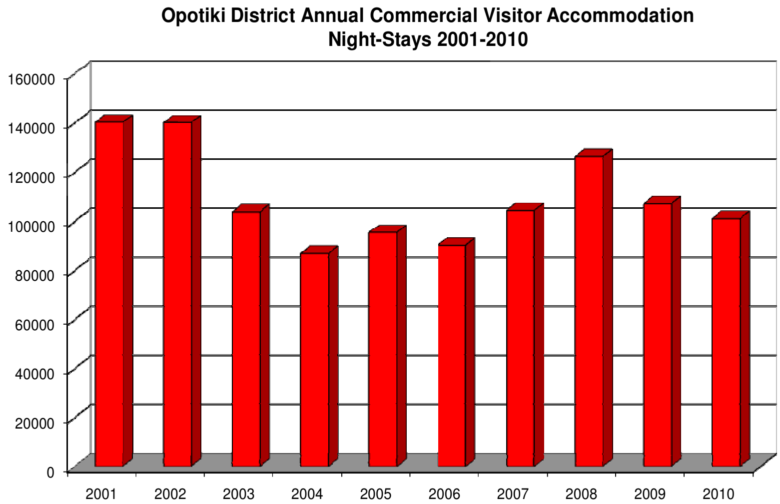


9.0 Visitor/Tourism Numbers

Figure 6:

Visitor arrival numbers into the Opotiki district staying in commercial accommodation totalled 40,464 over the September 2010 year, up 3,035 or 12.3% on the previous year. The comparative national change was a 1.4% gain. The annual number of arrivals has fallen by 29% since the 2008 peak for the past decade. The number of nights spent in the district by visitors staying in commercial accommodation totalled 102,641 for the September 2010 year, down 3.1% on the previous year. Visitor nights have fallen by 17% since the 2008 peak.

Over the latest year, domestic visitors accounted for 76% of total night-stays in commercial accommodation in the district and overseas visitors the balance of 24%. 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 Opotiki over the last year was 2.5 nights, compared to 1.9 nights nationally.



10.0 Results Comparison

Table 1 over-page indicates the comparative local economic indicator changes over the past September 2010 year for the Opotiki District, total Eastern Bay of Plenty sub-region, full Bay of Plenty region and New Zealand, for the listed indicators. Opotiki out-performed the Eastern BOP area over the year for new building consents, vehicle registrations and commercial visitor nights. The district out-performed the full BOP region and the country as a whole in respect of only vehicle registrations.

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	Employ-ment	Unemploy-ment Benefit Numbers
Opotiki District	-12.5	-11.3	-1.2	+35.5	-3.1	-7.3	+124.1
Eastern Bay of Plenty Sub-Region	-26.3	-6.7	0.0	+23.8	-11.2	-3.7	+33.0
Bay of Plenty Region	+13.9	-10.5	+5.1	+10.1	+4.1	-1.6	+42.8
New Zealand	+9.2	-8.8	+1.5	+21.2	+1.3	-0.5	+41.7

11.0 Industry Growth

Real GDP growth for Opotiki industry sectors over the period of major international economic downturn since 2007 has been highest for the communications, property and business services, personal/household services, primary production and finance/insurance industries. Negative growth has occurred most for the transport/storage, cultural/recreational services, wholesaling and construction industries. The graph to the right shows real GDP growth over the last three years for the different Opotiki industry sectors.

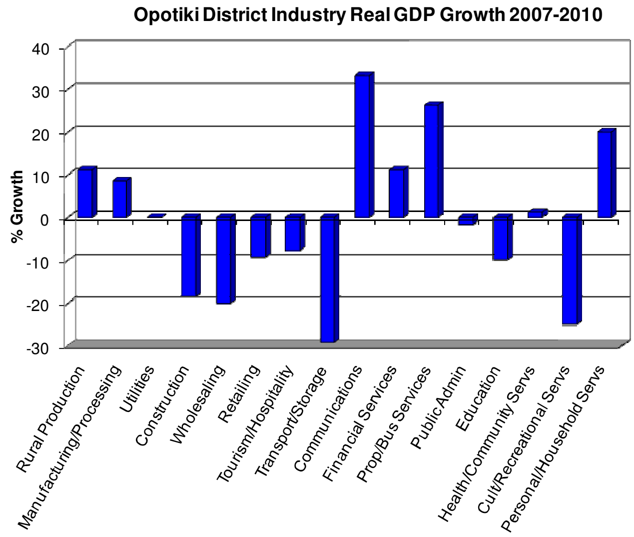
The table below the graph indicates the current economic size of the different industry groups in the district. The district's largest industries in GDP terms, as indicated in the table, are agricultural production, business services, rural processing and manufacturing, retailing and wholesaling, education services and health/community services.

The rural production and processing/manufacturing sectors account for 51% of total industry GDP in Opotiki district. The performance of these directly productive sectors is thus critical to the overall performance of the district economy. The main production industries in the district are kiwifruit growing, agricultural services, dairying, forestry/logging, agricultural services, pastoral farming and fishing.

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 the general Bay of Plenty area.

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

Figure 7a:



Industry	Nominal GDP ($M)
Rural Production	118.2
Processing & Manufacturing	5.2
Electricity/Gas/Water	0.0
Construction	7.2
Retailing/Wholesaling	17.8
Accom/Transport/Communications	9.0
Business Services	21.1
Government/Public Administration	8.2
Education	13.6
Health/Community Services	11.8
Cultural/Personal Services	3.3
Other[1]	27.5
TOTAL	**242.9**

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

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%.

Total agricultural production GDP in the Opotiki district has increased in real terms by 11% since 2007. Forestry GDP has increased by 6%. Total rural processing GDP activity has fallen by 12%.

Figure 7b:

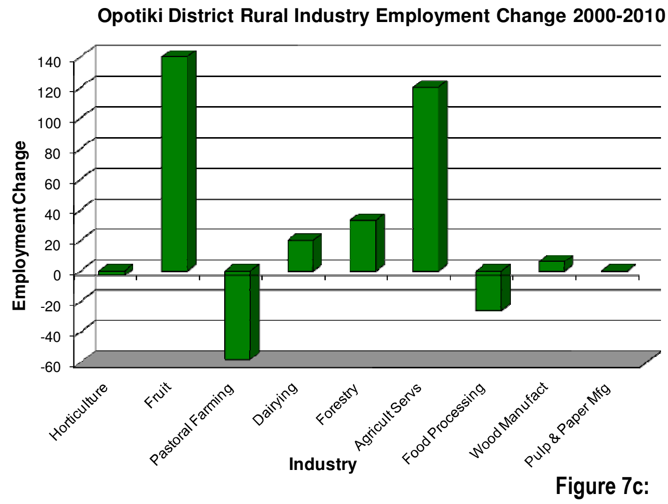
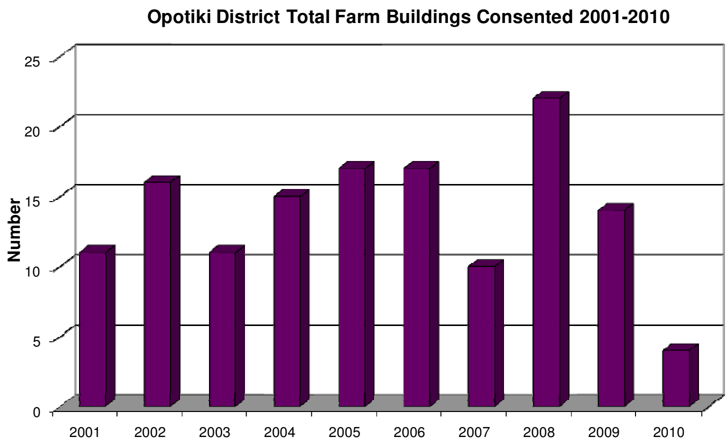


Figure 7c:

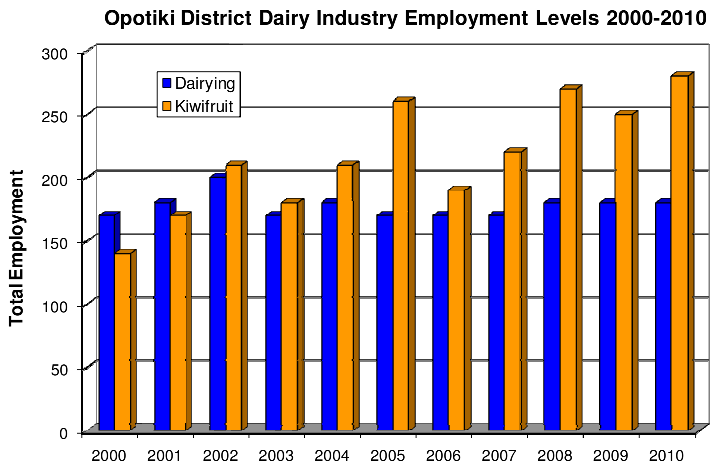


12.0 Dairy Industry

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 to the Opotiki economy (over 20% of total district employment in all primary production industries), it is useful to note some of the results of the NZIER report which include 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

Figure 8:



- 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 Opotiki district for the September 2010 year was down 8.2% on the previous year and stood at an annualised 3,235 in September 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 personal and household services, property/business services and wholesaling. Employment decline has occurred most for cultural and recreational services, construction and Government administration.

The leading employing industries in the district are currently primary production (40% of total industry employment in the district), retailing and health/community services.

In September 2010, the rate of unemployment in the district was recorded at 7.8%, compared to 7.3% in September 2009 and the national rate of 6.2% in September this year. At the same time, total unemployment in the district stood at 304. The number of people receiving the unemployment benefit in the district in September this year stood at 160, compared to 148 a year ago, that is, an increase of 8% over the year. The total number of working-age income tested beneficiaries in the district stood at 1,177 in September 2010, compared to 1,129 a year earlier.

Figure 9a:

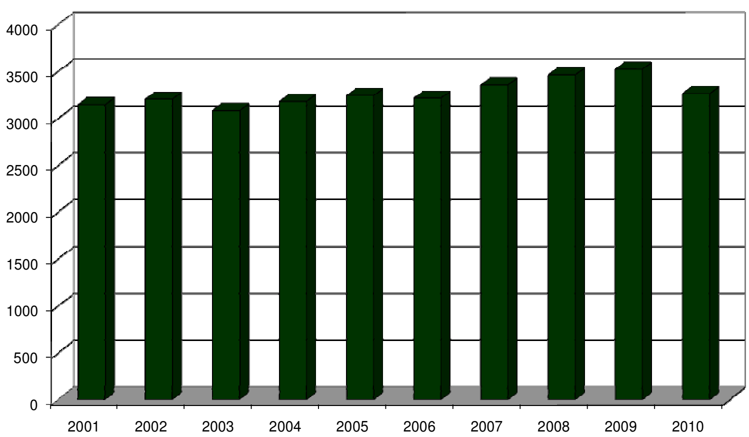
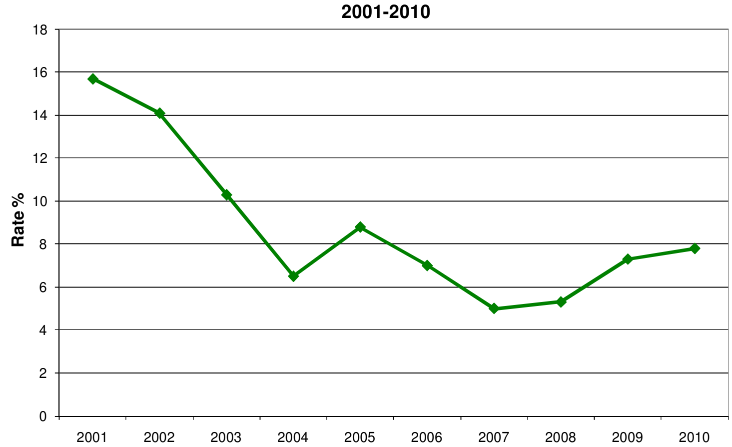


Figure 9b:



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

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

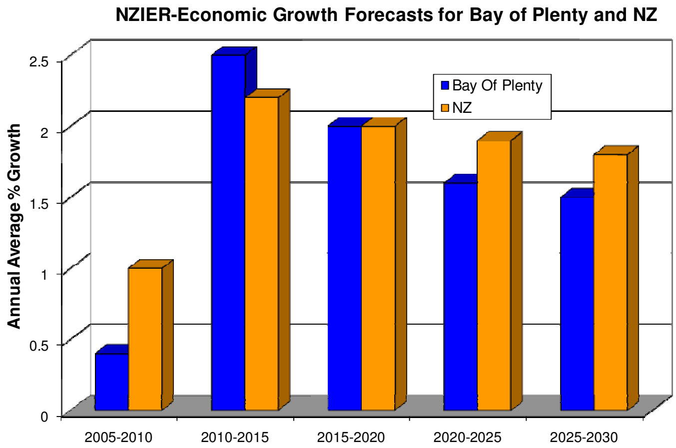
Note:

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.

- 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, by the NZ Institute of Economic Research.

Figure 10:



APPENDIX 1

Annual Opotiki District Economic Indicator Results Last Five September Years

INDICATOR	2005	2006	2007	2008	2009	2010
Population June Qtr	9,330	9,200	9,140	9,060	9,020	9,000
Households/Dwellings	3,364	3,400	3,425	3,450	3,475	3,500
Real GDP ($M)	156	163	172	172	178	179
New Dwellings Consented	30	21	28	30	19	21
New Commercial/Industrial Buildings Consented	10	4	8	6	5	6
New Farm Buildings Consented	17	17	10	22	14	4
Total Building Alterations	99	113	134	105	112	102
House Sales	107	88	95	61	53	47
Retail Sales ($M)	52	55	57	61	60	59
New Motor Vehicle Registrations	336	221	196	159	93	126
Commercial Visitor Arrivals	49,940	41,154	44,695	57,713	38,164	40,464
Commercial Visitor Nights	95,332	90,081	104,322	126,267	107,022	102,641
Total Employment Sept Qtr	3,126	3,332	3,398	3,572	3,474	3,596
Total Unemployment Sept Qtr	302	251	179	200	274	304
Number of People on Unemployment Benefit Sept Qtr	-	125	27	37	148	160
Unemployment Rate (%) Sept Qtr	8.8	7.0	5.0	5.3	7.3	7.8