

Whakatane District Economic Trends Update Report June 2010

1.0 Introduction

This report provides an analysis and assessment of the current economic situation within the Whakatane 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 Whakatane District economy still continues to feel the effects of the major economic downturn over the 2007-2009 period, nevertheless, there have been some localised economic gains for the district and there is a particularly positive outlook for the rural production sector in the area
- The district recorded a noticeable gain in its population base over the past year, driven primarily by further natural population increase. Additional limited population gain is currently forecast for the area over the next five years. Further new household growth has occurred since the 2006 Census and is also forecast to continue over the longer-term
- Following the ongoing economic growth decline in the district since 2005 and negative growth in 2009, provisional figures indicate a small growth rebound during the latest year. This will be confirmed or otherwise in the next economic report
- Whilst new building activity in the district overall continues to be down significantly on the pre-2008 situation, the year ending March 2010 saw a positive 2.7% gain in the number of new dwellings receiving building consent and accompanying 1% increase in the total value of these consents. At the same time, the volume of house sales rose 25% and house prices 3.5%
- District retail sales rose slightly during the year, whilst new motor vehicle registrations across the full Bay of Plenty region fell 11%. Electricity consumption increased 16%
- Visitor numbers to the combined Whakatane/Kawerau area staying in commercial accommodation continued to fall over the latest year, as they have been doing since 2007. 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
- Provisional figures (to be confirmed at the end of this month) indicate just under 1% overall economic growth for the Whakatane area over the year ended March 2010, following the fall of around 0.9% during the preceding year. Since the beginning of the latest major international

economic downturn around 2008, economic growth has been positive overall for the rural production, transport and communications, public sector administration, health and community services and cultural/ recreational services industries. Growth has fallen noticeably for the processing/manufacturing, energy/gas/water and construction industries. The NZ Institute of Economic Research is presently forecasting average annual total 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

- The rural production and processing industries account for almost a third of the Whakatane economy. These include kiwifruit, dairying, forestry and pulp/paper manufacturing. Returns for green kiwifruit are forecast to increase by about 10% this 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 fell just under 2% over the March 2010 year. The rate of unemployment in the area fell from 5.9% in March 2009 to 5.2% in March this year. The latter compares to the national rate of 6.6%. Total unemployment stood at 731. The number of people in the district receiving the unemployment benefit increased 38% between March 2009 and March 2010
- The economic growth improvement in the Whakatane economy over the past year, 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 degree of optimism regarding the performance of the local economy over the coming year.

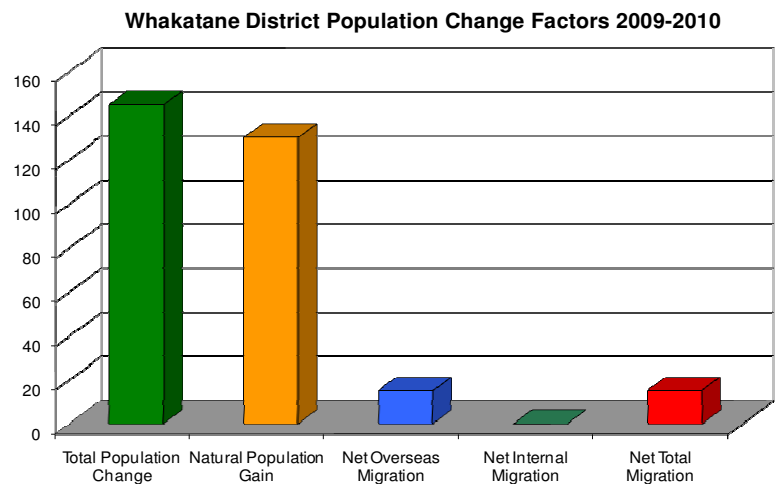
3.0 Key Whakatane District Economic Indicator Levels as at March 2010

<i>Population:</i>	34,445
<i>Households/Dwellings:</i>	13,723
<i>Nominal Gross Domestic Product (GDP):</i>	\$1,069 million
<i>Annual Economic Growth</i>	0.9%
<i>Employment:</i>	14,507
<i>Annual Employment Growth:</i>	-1.9%
<i>Unemployment:</i>	731
<i>Unemployment Rate (%):</i>	5.2

4.0 Population

Figure 1:

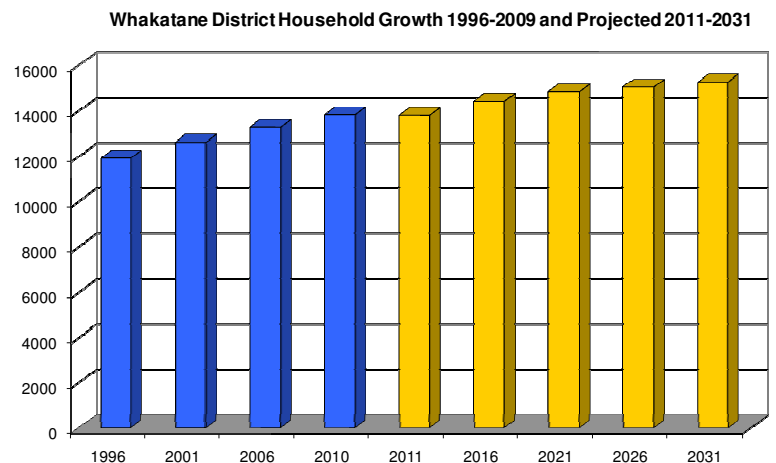
Whakatane district's population currently stands at an estimated 34,445 and has fallen slightly since the 2006 Census year. The district's population growth track since the 2006 Census shows that this indicator is currently growing close to the Statistics NZ Medium growth projection for the area. This projection indicates that the district's population is anticipated to reach around the 34,600 mark by Year 2016, before gradually falling from that point over the longer-term, down to a level of around 33,000 in Year 2031. Over the past year, natural population increase (births minus deaths) in the district totalled 130. Given the district's total population gain over the year of 145, total net migration for the district was therefore in the order of +15. This comprised a net external (overseas) migration gain of the same amount and a net internal (domestic) migration balance. **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 Household/Dwellings

Figure 2:

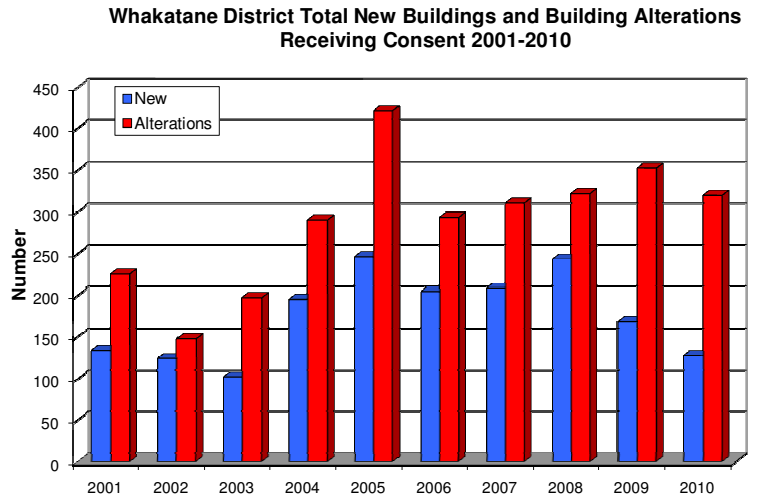
The total stock of houses in Whakatane District in March this year stood at an estimated 13,723. This represents an increase of 451 or 3.4% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 12% further increase in household/dwelling numbers in the district over the 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

Over the year ended March 2010, a total of some 76 new dwellings received building consent in Whakatane District, worth a combined value of \$19M. The number of new dwellings approved during the year was up 2.7% on the previous March year, whilst their combined value was up almost 1%. Total new commercial/industrial building work approved fell 70% in volume terms and 51% in value terms over the year, with increased activity occurring only in the industrial sector. The value of new rural building work approved fell 83%, whilst the volume of work was down 53%. The total amount of new building activity in the district fell 24% over the year and the total value 12%. Since 2008 and the beginning of the major international economic downturn, the total volume and value of all new building work in the district have both fallen by 48%.

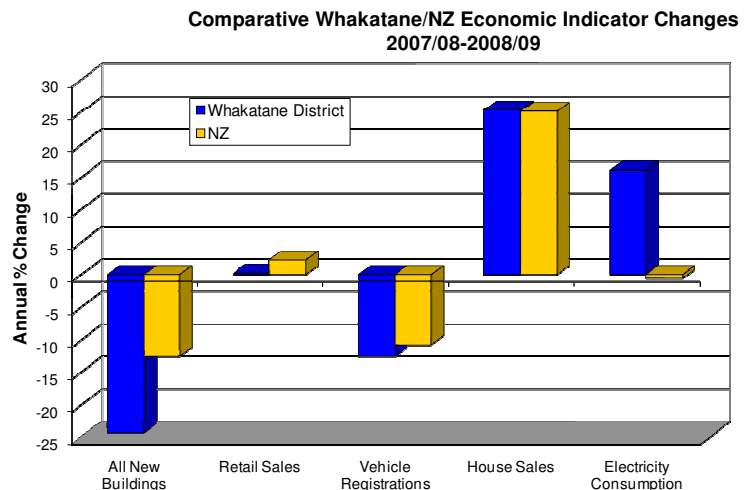
Figure 3:



7.0 Other Economic Indicators

Whakatane district house sales for the March 2010 year were up 25.3% on the previous March year. However, annual sales are currently still about one half of the 2003/04 peak level. House prices rose 3.5% over the March 2010 year, compared to 0.1% in Tauranga, 2.7% in Rotorua and 6.1% nationally. Actual retail sales for the district increased marginally during the latest year, similar to the full 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 over the March 2010 year was 16.1% up on the previous year.

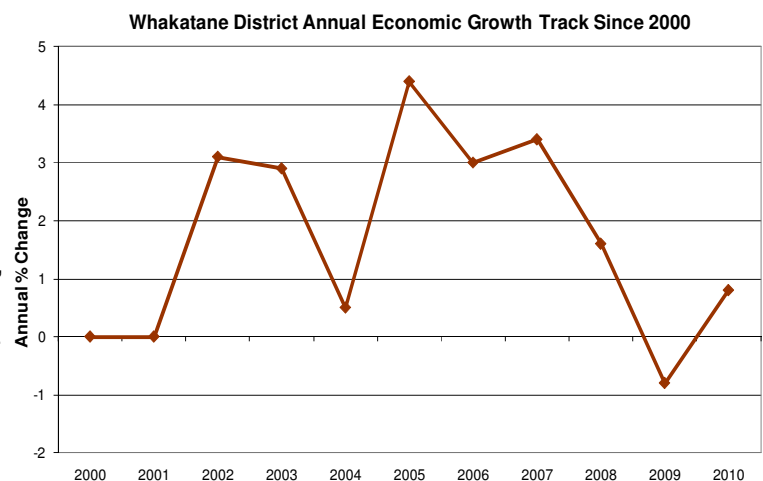
Figure 4:



8.0 Economic Growth

Figure 5 indicates the longer-term trend in real terms economic/GDP growth in Whakatane District, since 1999. The base growth data is sourced from Infometrics economic consultancy in Wellington. Economic growth in the district fluctuated noticeably but nevertheless generally remained positive until the March 2008 year. Growth then moved into the negative region during the following year but has recovered back to the positive region over the latest year. During this year, annual economic growth of 0.9% 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%.

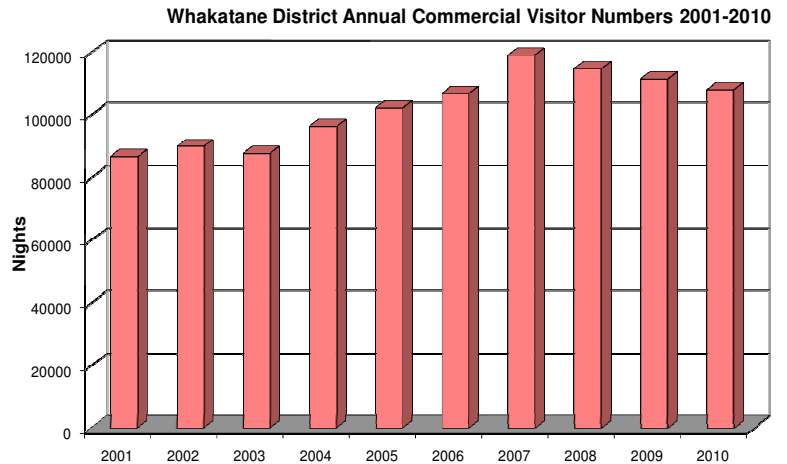
Figure 5:



9.0 Visitor/Tourism Numbers

Figure 6:

Visitor arrival numbers into the combined Whakatane/Kawerau districts staying in commercial accommodation totalled 108,167 over the March 2010 year, down 3,228 or 2.9% on the previous year. The comparative national change was a 2% decline. The number of arrivals has fallen by 9.2% since the 2007 peak for the past decade. The number of nights spent in the combined area by visitors staying in commercial accommodation totalled approximately 238,000 for the March 2010 year, down 4.8% on the previous year. Visitor nights have fallen by 11.5% since 2007. 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 Whakatane/Kawerau over the last year was 2.2 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 Whakatane District, Eastern Bay of Plenty sub-region, total Bay of Plenty Region and New Zealand, for the listed indicators. Whakatane out-performed the country as a whole over the latest year for 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	Employment	Unemployment Benefit Numbers
Whakatane District	-24.4	+25.3	+0.2	-	-4.8	-1.9 ¹	+47.6
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	+2.6	-12.6	+3.3	-1.8	+110.1
New Zealand	-12.6	+25.1	+2.3	-10.7	+2.0	-1.5	+119.1

Note: 1. All results in this column are for the 2008 and 2009 calendar years.

11.0 Industry Growth

Real GDP growth for Whakatane industry sectors over the period of major international economic downturn since 2007 has been highest for the communications, health and community, Central/Local Government and cultural/recreational industries. Negative growth has been highest for the transport/storage, utilities, construction and manufacturing industries. The graph to the right shows real GDP growth over the last two years for the different Whakatane 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 and wholesaling, rural processing and health/community services.

The rural production and processing sectors account for one-third of total industry GDP in Whakatane 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, agricultural services, dairy product processing and pulp/paper manufacturing.

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 by 5.7% since 2007. Rural processing activity has fallen by 2.4%.

Figure 7:

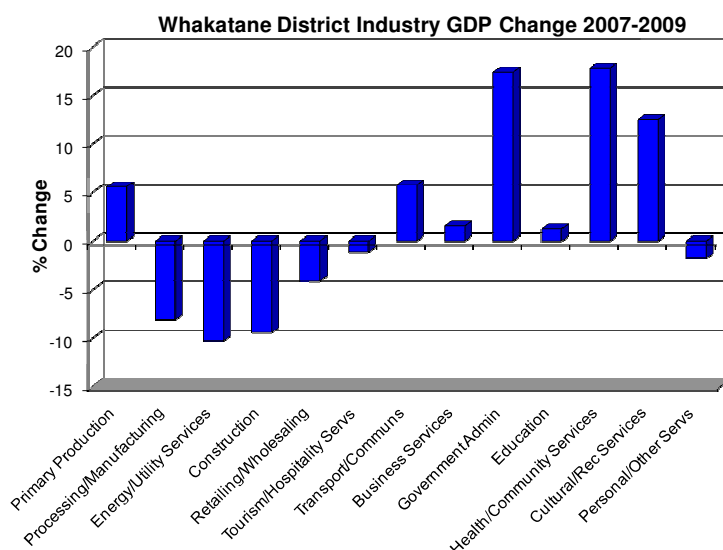


Table 2:
Whakatane District Industry GDP Results for Year Ending March 2010 (In Constant 1995/96 Prices)

Industry	Nominal GDP (\$M)
Rural Production	250.6
Rural Processing	89.1
Manufacturing (Machinery and Equipment)	22.1
Construction	40.5
Retailing/Wholesaling	110.3
Accom/Transport/Communications	62.3
Business Services	118.5
Government/Public Administration	69.6
Education	54.9
Health/Community Services	74.8
Cultural/Personal Services	21.2
Other ¹	155.4
TOTAL	1069.3

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

12.0 Employment

Total employment in Whakatane district for the March 2010 year was down 1.9% on the previous March year and stood at an annualised 14,507 in March this year.

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

In March 2010, the rate of unemployment in the district was recorded at 5.2%, compared to 5.9% 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 763, compared to 553 in March 2009, that is, an increase of 38% over the year. The total number of working-age income tested beneficiaries in the district stood at 3450 in March this year, compared to 3190 a year earlier.

Figure 8a:

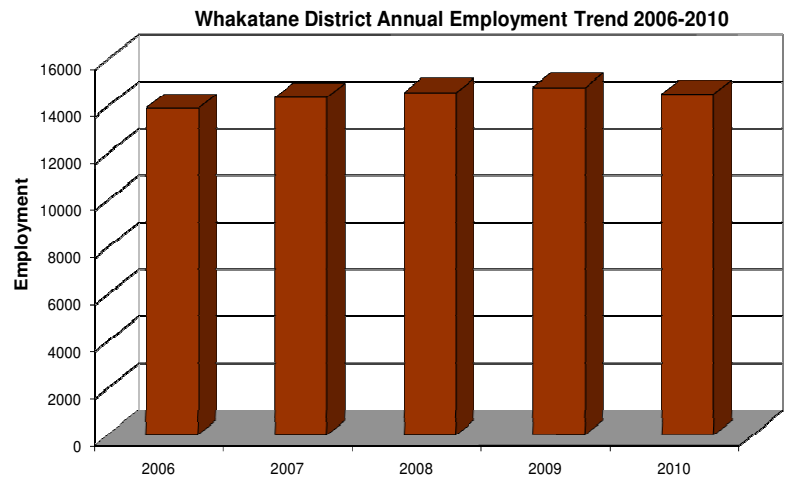
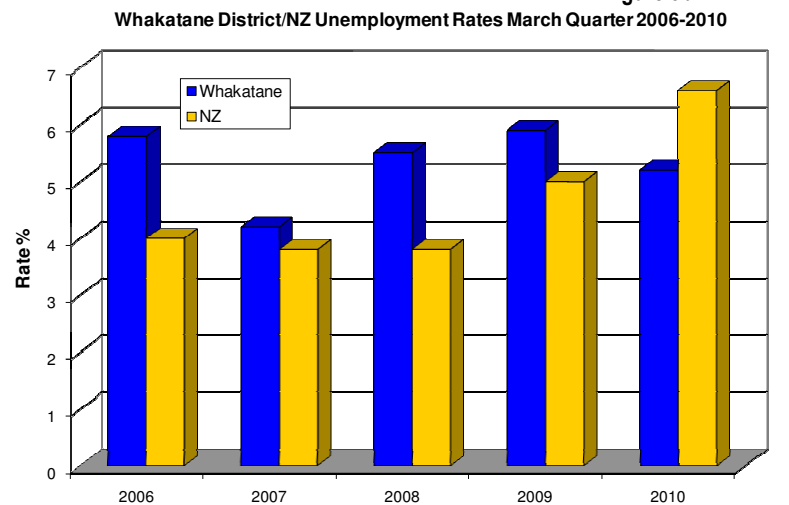


Figure 8b:



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 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.