

Whakatane District Economic Monitor

December 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 (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 Whakatane 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, significant increase in both the number and value of new dwellings receiving building consent, increased building consent activity in the commercial retail/hospitality and storage industry sectors, increase in the value of all new building work consented for the district, slight increase in nominal retail spending, 22% rise in new vehicle registrations and significantly increased electricity consumption. The rate of unemployment in the district was noticeably down in September this year, compared to the same quarter last year.
- The local economic indicator losses that have occurred during the past year include slight overall population decline due to net domestic and overseas migration loss, significant fall in the value of total new commercial/industrial buildings consented, 6% fall in house sales, significant drop in visitor activity and further employment decline.
- Overall economic growth in the district during the latest year was negative (-0.6%) for the first time since Year 2000; the rate of growth has been steadily falling though since 2007.
- Since the March quarter of 2010, the notable positive economic indicator movements in the district compared to the September 2009-March 2010 period, have included a 55% increase in new dwellings consented and 33% increase in the value of the consented work; more than doubling of consented dwelling alterations; a significant rise in the number of new commercial/ industrial buildings consented; almost 20% gain in the number of new farm buildings consented; and 13% increase in new vehicle registrations. Other local economic indicator levels were below both the results for both the June/September quarters in 2009 and also for the Sept 09-March 10 period.
- Overall economic activity since March this year is 3.4% behind that for the same period in 2009, whilst employment is 7.2% down.

- The leading growth sectors in the district since 2007 have been communications, the public sector, property and business services, power/gas/water services and cultural/ recreational services.
- The district will be looking to the traditional Christmas and summer period uplift in retailing, horticultural and tourism activity to strengthen overall economic activity in the area over the next six months. The Government's approval in early September this year of the \$65 million redevelopment of the Whakatane public hospital is also a major economic as well as social/ community positive for the district.

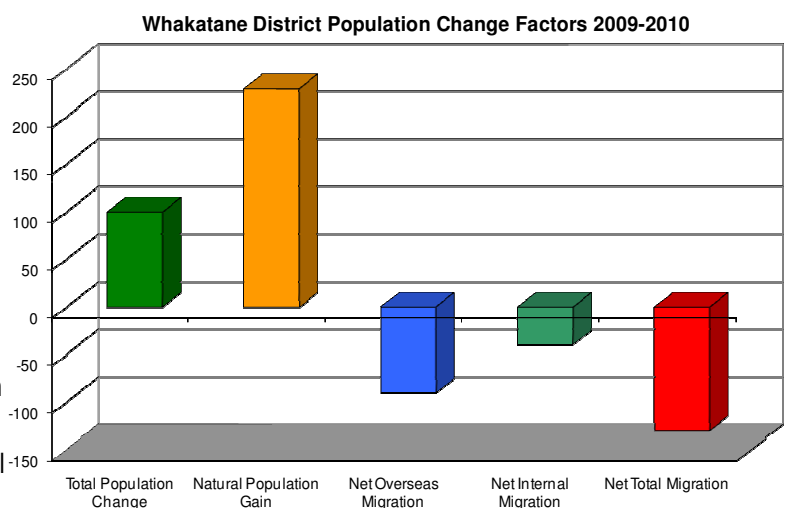
3.0 Key Whakatane District Economic Indicator Levels as at September 2010

| | |
|--|-----------------|
| <i>Population:</i> | 34,465 |
| <i>Households/Dwellings:</i> | 13,774 |
| <i>Nominal Gross Domestic Product (GDP):</i> | \$1,065 million |
| <i>Annual Economic Growth</i> | -0.6% |
| <i>Employment:</i> | 14,132 |
| <i>Annual Employment Growth:</i> | -3.7% |
| <i>Unemployment Sept Qtr 2010:</i> | 1006 |
| <i>Unemployment Rate (%):</i> | 6.6 |

4.0 Population

Figure 1:

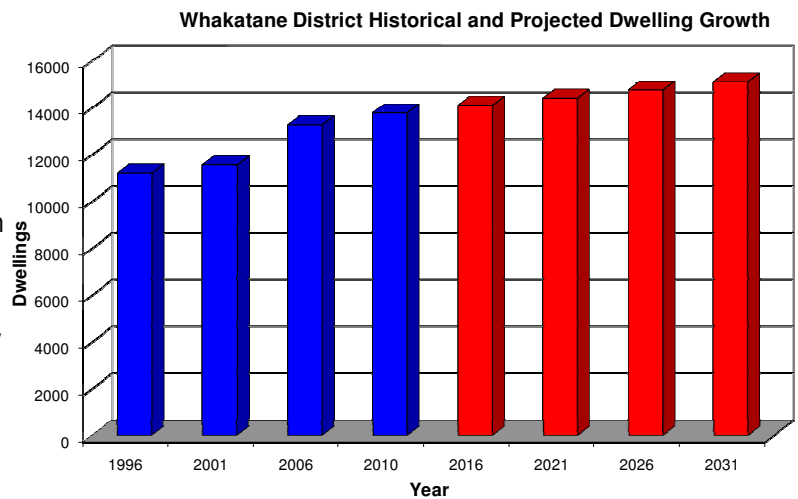
Whakatane district's population currently stands at an estimated 34,465 and has fallen slightly since the 2006 Census year. The district's population growth track since the Census shows that this indicator is currently growing approximately halfway between the Statistics NZ Low to Medium growth projection for the area. This projection indicates that the district's population is anticipated to be around the 34,000 mark by Year 2016, before gradually falling further from that point over the longer-term, down to a level of around 31,000 in Year 2031. Over the past year, natural population increase (births minus deaths) in the district totalled 229. Given the district's total population gain over the year of 100, total net migration for the district was therefore in the order of -130. This comprised a net external (overseas) migration loss of 90 and a net internal (domestic) migration loss of 40. **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.



5.0 Household/Dwellings

The total stock of houses in Whakatane District in September this year stood at an estimated 13,668. This represents an increase of 454 or 3.4% from the 2006 Census result. Latest Statistics NZ projections indicate an approximate 20% further increase in household/dwelling numbers in the district over the 2010-2031 period, under the High growth projection. This compares to the total Bay of Plenty region High projection of 40% and the national Medium projection of 27%.

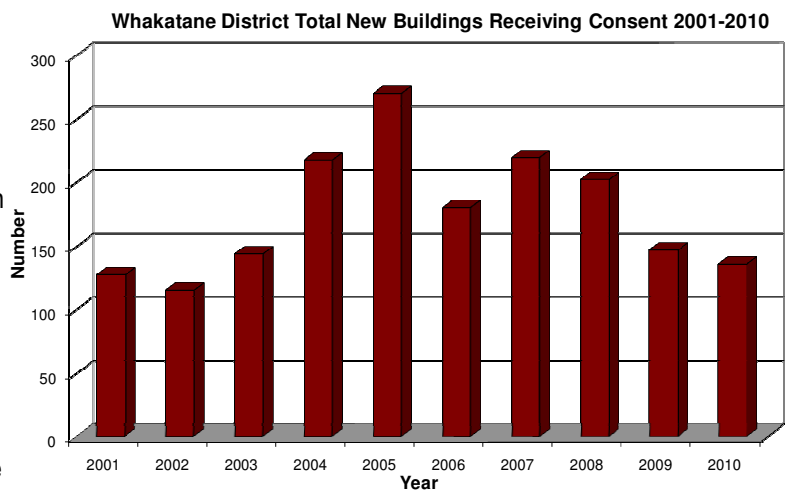
Figure 2:



6.0 New Building Activity

Over the year ended September 2010, a total of some 84 new dwellings received building consent in Whakatane District, worth a combined value of \$22M. The number of new dwellings approved during the year was up 6.3% on the previous September year, whilst their combined value was up almost 15%. Total new commercial/industrial building work approved was on par with the previous year in volume terms but down 28% in value terms over the year, with increased activity occurring only in the retail/hospitality and storage industry sectors. The volume of new rural building work approved fell about 3%, whilst the value of this work was down 26%. The total amount of new building activity in the district fell 7.5% over the year whilst the total value increased 4.2%. 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 38% and the total value of this work by 41%.

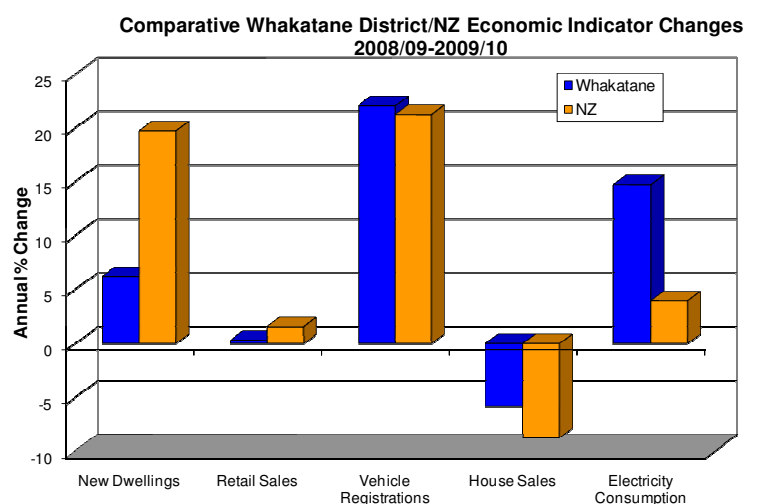
Figure 3:



7.0 Other Economic Indicators

Whakatane district house sales for the September 2010 year were down 5.8% on the previous year. Annual sales are currently still about 40% of the 2003/04 peak level. House prices fell 1.8% over the June 2010 year, compared to +0.7% in Tauranga, -2.1% in Rotorua and +5.2% nationally. Actual retail sales for the district increased marginally (0.3%) during the latest year, compared to the full Bay of Plenty region change of 5.1%; retail sales rose 1.5% nationally. New motor vehicle registrations in the district rose 22% over the year, compared to 21% nationally. Electricity consumption in the district over the September 2010 year was 14.7% up on the previous year.

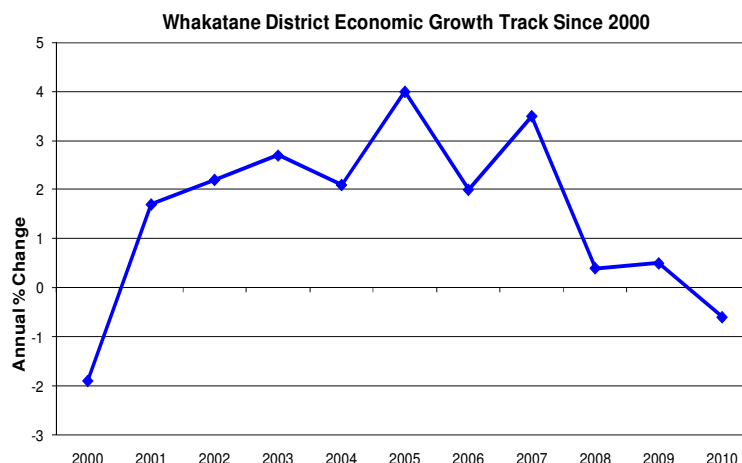
Figure 4:



8.0 Economic Growth

Figure 5:

Figure 5 indicates the longer-term trend in real terms economic/GDP growth in 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 September 2009 year, when annual economic growth of -0.6% was recorded for the district. The comparable figure for the whole Eastern Bay of Plenty sub-region was +0.8%. 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%.

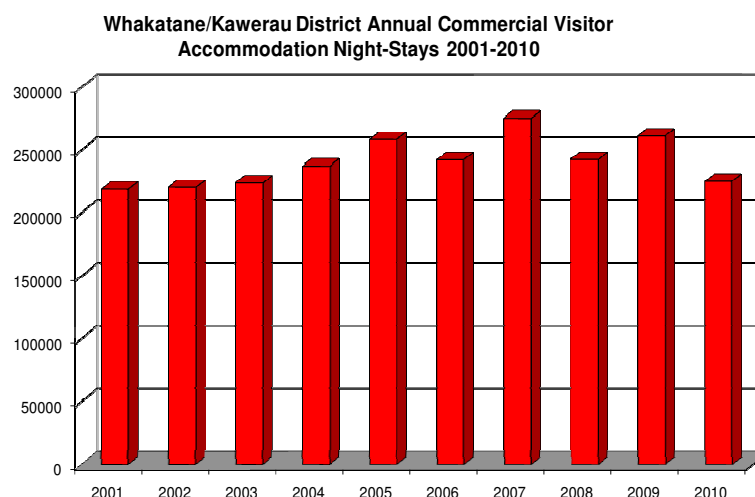


9.0 Visitor/Tourism Numbers

Figure 6:

Visitor arrival numbers into the combined Whakatane/Kawerau districts staying in commercial accommodation totalled 101,383 over the September 2010 year, down 14,380 or 12.4% on the previous year. The comparative national change was a 1.4% gain. The number of arrivals has fallen by 18% since the 2007 peak for the past decade. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 223,000 for the September 2010 year, down 15% on the previous year. Visitor nights have fallen by 19% since 2007.

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 78%. 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 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 September 2010 year for the Whakatane District, total Eastern Bay of Plenty sub-region, full Bay of Plenty region and New Zealand, for the listed indicators. Whakatane out-performed the Eastern BOP area over the year for new building consents, house sales, retail sales and unemployment benefit numbers. The district out-performed the full BOP region in respect of house sales, vehicle registrations and unemployment benefit numbers. It also out-performed the country as a whole in terms of house sales, vehicle registrations and unemployment benefit numbers.

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 | Employment | Unemployment Benefit Numbers |
| Whakatane District | -7.5 | -5.8 | +0.3 | +21.6 | -14.6 | -3.7 | +29.0 |
| 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

Figure 7a:

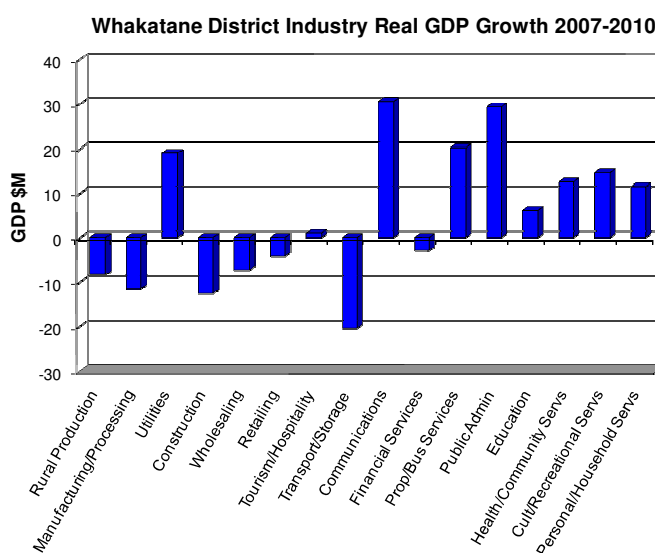
Real GDP growth for Whakatane industry sectors over the period of major international economic downturn since 2007 has been highest for the communications, Central/Local Government administration, property and business services, electricity/gas/water utility services and cultural/recreational service industries. Negative growth has occurred most for the transport/storage, construction and manufacturing industries.

The graph to the right shows real GDP growth over the last three years for the different Whakatane 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, and health/community services.

The rural production and processing/manufacturing sectors account for 31% of total industry GDP in Whakatane 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, dairying, forestry, agricultural services, dairy product processing and pulp/paper manufacturing.

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 some Whakatane orchards.

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



| Industry | Nominal GDP (\$M) |
|----------------------------------|-------------------|
| Rural Production | 220.2 |
| Processing & Manufacturing | 109.6 |
| Electricity/Gas/Water | 54.4 |
| Construction | 38.1 |
| Retailing/Wholesaling | 106.8 |
| Accom/Transport/Communications | 57.5 |
| Business Services | 129.5 |
| Government/Public Administration | 76.4 |
| Education | 57.5 |
| Health/Community Services | 72.6 |
| Cultural/Personal Services | 23.7 |
| Other ¹ | 119.1 |
| TOTAL | 1065.4 |

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 Whakatane district has fallen in real terms by 11% since 2007. Forestry GDP has fallen only slightly. Total rural processing GDP activity has also fallen by 11%.

Figure 7b:

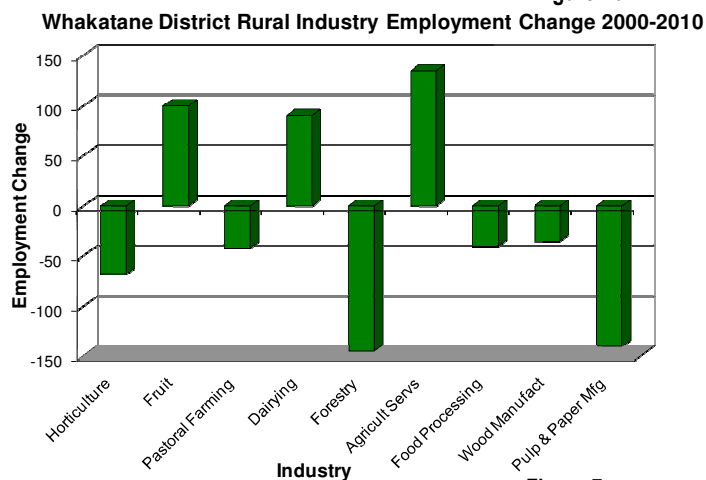
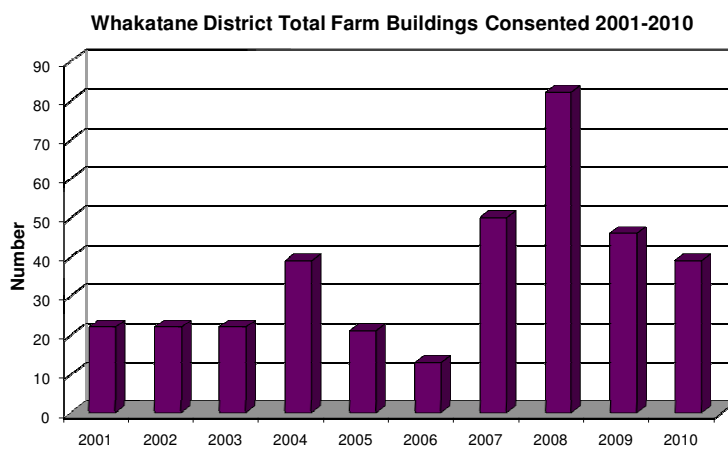


Figure 7c:

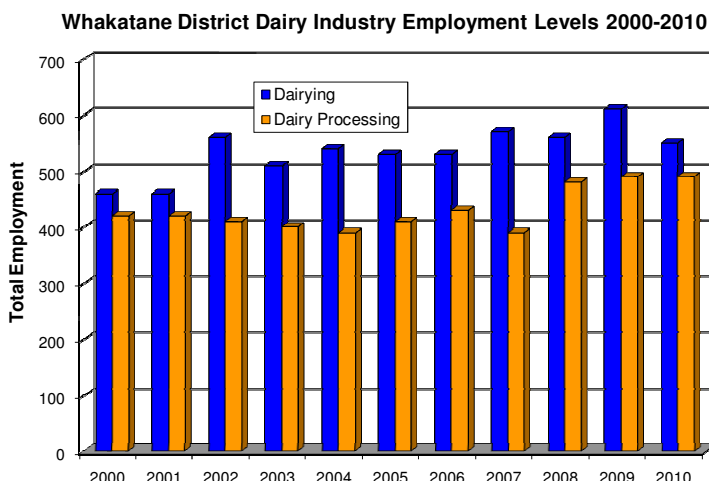


12.0 Dairy Industry

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 and related processing to the Whakatane economy (almost 40% of total district employment in all primary production and processing industries), it is useful to note some of the results of the NZIER report, which included 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 Whakatane district for the September 2010 year was down 3.7% on the previous year and stood at an annualised 14,132 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, the public sector, power/gas/water services, communications, personal and household services, health/community services and education services. Employment decline has occurred most for primary production, transport and storage, and processing and manufacturing.

The leading employing industries in the district are currently primary production, manufacturing, retailing, education, health/community services and business services.

In September 2010, the rate of unemployment in the district was recorded at 6.6%, compared to 7% 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 1006. The number of people receiving the unemployment benefit in the district in September this year stood at 935, compared to 803 a year ago, that is, an increase of 16% over the year. The total number of working-age income tested beneficiaries in the district stood at 3737 in September 2010, compared to 3608 a year earlier.

Figure 9a:

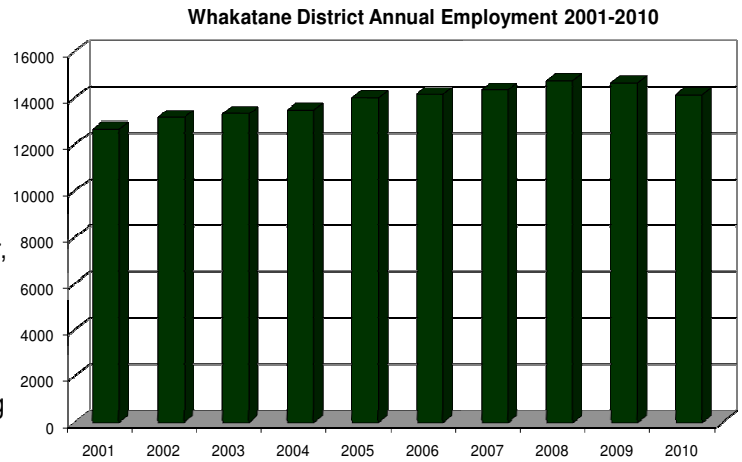
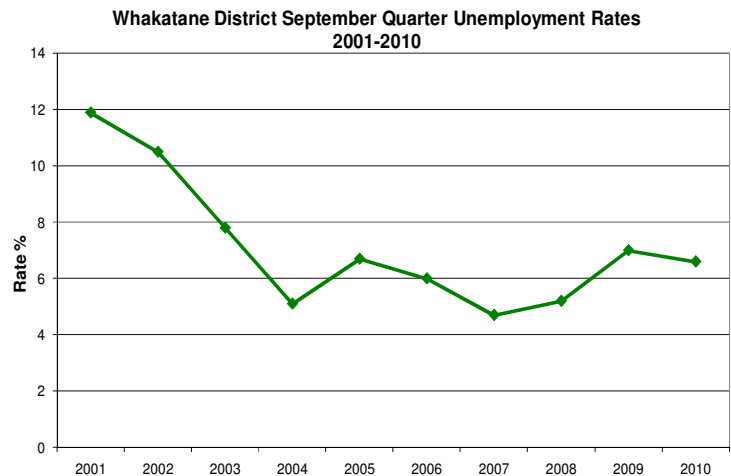


Figure 9b:



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
- Stable inflation over the next two years following the

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 |

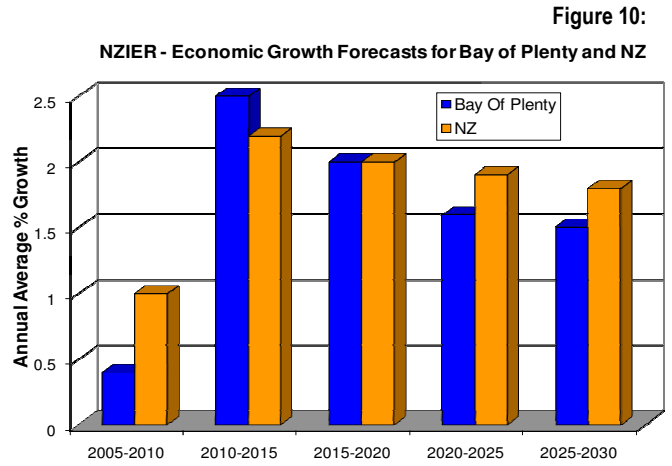
Note:

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.

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.



APPENDIX 1

Annual Whakatane District Economic Indicator Results Last Five September Years

| INDICATOR | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|---------|---------|---------|---------|---------|---------|
| <i>Population June Qtr</i> | 34,300 | 34,500 | 34,400 | 34,400 | 34,300 | 34,400 |
| <i>Households/Dwellings</i> | 13,138 | 13,272 | 13,414 | 13,552 | 13,647 | 13,726 |
| <i>Real GDP (\$M)</i> | 740 | 754 | 781 | 784 | 788 | 783 |
| <i>New Dwellings Consented</i> | 218 | 142 | 138 | 95 | 79 | 84 |
| <i>New Commercial/Industrial Buildings Consented</i> | 19 | 15 | 25 | 20 | 8 | 8 |
| <i>New Farm Buildings Consented</i> | 18 | 13 | 43 | 74 | 36 | 35 |
| <i>Total Building Alterations</i> | 348 | 251 | 331 | 370 | 340 | 459 |
| <i>House Sales</i> | 689 | 577 | 615 | 405 | 343 | 323 |
| <i>Retail Sales (\$M)</i> | 260 | 272 | 285 | 301 | 297 | 298 |
| <i>New Motor Vehicle Registrations</i> | 1,463 | 1,122 | 1,004 | 1,008 | 643 | 782 |
| <i>Commercial Visitor Arrivals-Whakatane/Kawerau</i> | 103,525 | 109,189 | 123,128 | 106,654 | 115,763 | 101,383 |
| <i>Commercial Visitor Nights Whakatane/Kawerau</i> | 258,198 | 241,754 | 274,927 | 241,886 | 260,972 | 222,764 |
| <i>Total Employment Sept Qtr</i> | 13,949 | 14,829 | 14,447 | 14,747 | 14,513 | 14,234 |
| <i>Total Unemployment Sept Qtr</i> | 1,002 | 947 | 712 | 809 | 1,092 | 1,006 |
| <i>Number of People on Unemployment Benefit Sept Qtr</i> | - | 839 | 512 | 492 | 803 | 935 |
| <i>Unemployment Rate (%) Sept Qtr</i> | 6.7 | 6.0 | 4.7 | 5.2 | 7.0 | 6.6 |