

Kawerau District Economic Monitor

December 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.

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 period since 2007, nevertheless, there have still been some localised economic gains for the district over the past year.
- These include further natural population increase in the district, increased number and value of new buildings consented, significant 30% rise in new motor vehicle registrations and increased electricity consumption.
- Following four years of annual economic growth decline, the district recorded a significant growth improvement of almost 6% during the latest September 2010 year. This compares to 0.8% for the total Eastern Bay of Plenty region and 1.4% for the whole Bay of Plenty area.
- Total employment in the district rose 0.8% over the last year whilst the rate of unemployment fell from 12.5% to 11.6%.
- Industry GDP and employment growth has been highest in the district since 2007 in the power/water supply, wholesaling, communications, health/community service and personal/household services industries.
- Positive economic indicator gains in the district over the past six months have included overall economic growth, some employment growth and also a decrease in the rate of unemployment, increase in the value of new houses receiving building consent and a rise in both new motor vehicle registrations and electricity consumption levels.
- With regard to employment, it is understood that the Carter Holt Harvey Wood Products Sawmill in Kawerau will be making 30 of its staff redundant from 10 January 2011, due to the soft domestic market within NZ, increased overseas competition and the stronger \$NZ.
- Kawerau Enterprise Agency has taken over a local apprenticeship training facility and formed partnerships with some regional apprenticeship and training providers, with the objective of ensuring local availability of sufficiently skilled staff to meet local industry needs in the future.

3.0 Key Kawerau District Economic Indicator Levels as at September 2010

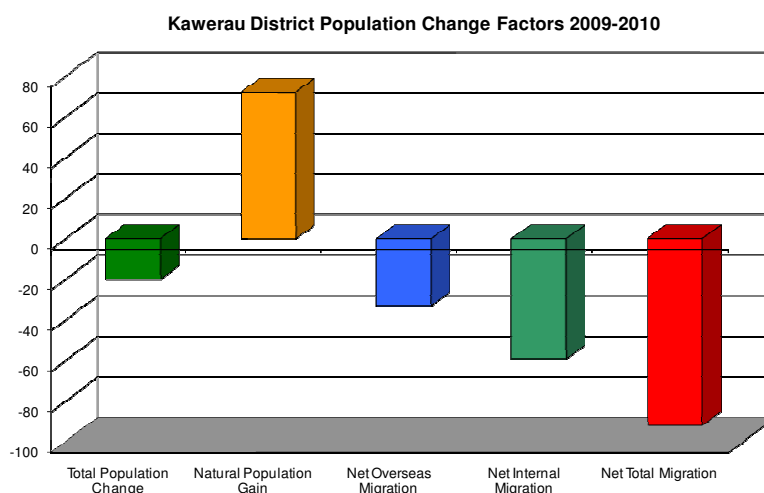
Population:	6,990
Households/Dwellings:	2,676
Nominal Gross Domestic Product (GDP):	\$315 million
Annual Economic Growth	5.9%
Employment:	3,169
Annual Employment Growth:	0.8%
Unemployment Sept Qtr 2010:	428
Unemployment Rate (%):	11.6

4.0 Population

Figure 1:

Kawerau district's population currently stands at an estimated 6,990 and has fallen by 160 or 2.2% since the 2006 Census year, according to Statistics NZ figures. 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 6,600 mark in Year 2016.

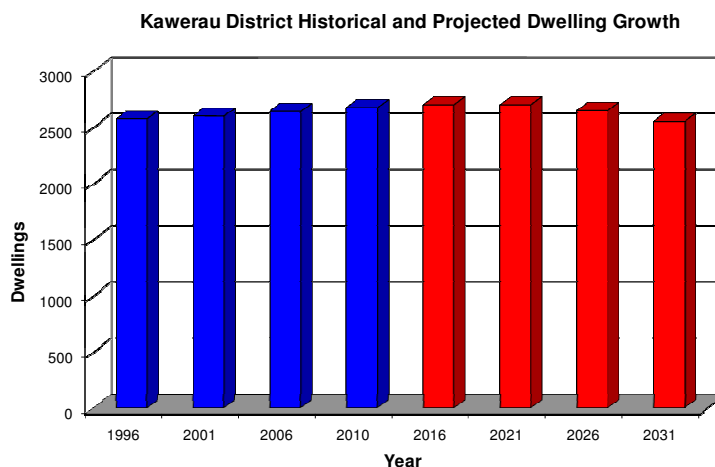
Over the past year, natural population increase (births minus deaths) in the district totalled 72. Given the district's total population loss over the year of 20, total net migration for the district was therefore in the order of -92. This comprised a net external (overseas) migration loss of -33 and a net internal (domestic) migration loss of -59. **Figure 1** indicates the total changes over the latest September 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 Kawerau district in September 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 a 0.9% further increase in household/dwelling numbers in the district over the 2010-2021 period, under the Statistics NZ halfway Medium to High growth projection. This compares to the total Bay of Plenty region projection of 20% and the national Medium projection of 27%.



6.0 New Building Activity

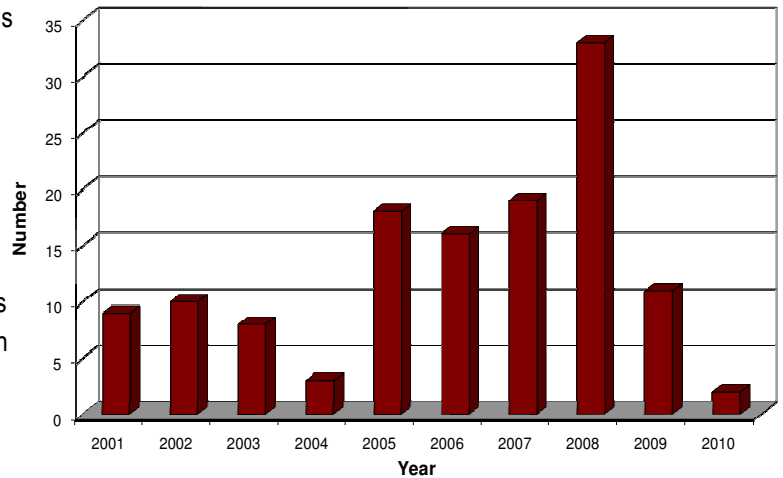
Figure 3:

Over the year ended September 2010, a total of 6 new buildings of all descriptions received consent to proceed in Kawerau district, worth a combined value of \$0.6M. The total number of new buildings approved during the previous September year was just 2, with a combined value of approximately \$0.2 million.

The total number of building alterations consented during the latest September year was 51 worth \$1.25 million, compared to 39 and \$1.4 million during the September 2009 year. The number of other non-building construction projects consented in the district during the latest year was 5 worth almost \$1 million, compared to 4 worth \$0.2 million during the 2009 September year.

Since 2007 and the beginning of the major international economic downturn, the total number of all new buildings approved in the district has fallen from 33 to 6 and the total value of this work from \$18.3 million to \$0.6 million.

Kawerau District Total New Buildings Receiving Consent 2001-2010

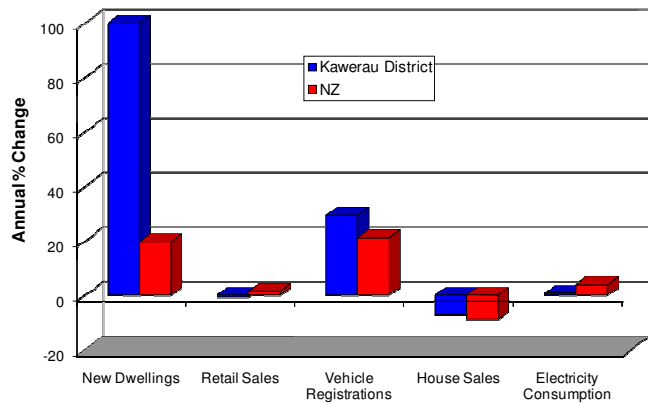


7.0 Other Economic Indicators

Figure 4:

Kawerau district house sales for the September 2010 year were down 7.2% on the previous year. However, annual sales are currently still about 40% of the 2003/04 peak level. Actual retail sales for the area fell slightly (-0.7%) 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 rose 29.5% over the year, compared to 21% nationally. Electricity consumption in the district during the September 2010 year was 0.7% up on the previous year.

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

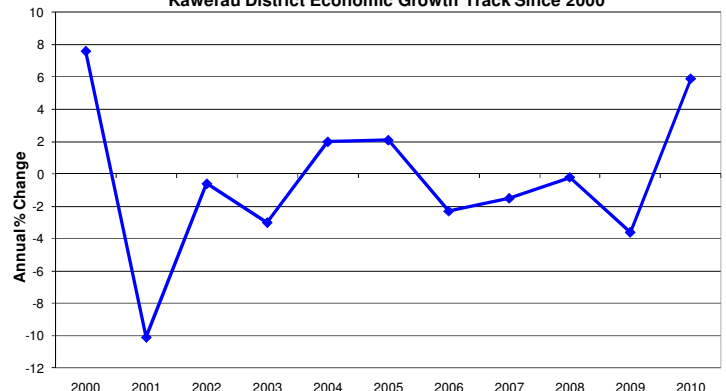


8.0 Economic Growth

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. Annual economic growth in the district has fluctuated considerably over the period. Over the latest September 2010 year, annual economic growth of 5.9% was recorded, this following four years of negative growth. The latest comparable annual growth figure for the whole Eastern Bay of Plenty sub-region was +0.8%. The NZ Institute of Economic Research is currently forecasting

Kawerau District Economic Growth Track Since 2000



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

Statistics NZ commercial visitor arrival numbers covering the Kawerau area are only provided for the combined Whakatane/Kawerau districts.

Arrivals staying in commercial accommodation totalled 102,089 for this area over the September 2010 year, down 13,674 or 11.8% on the previous year. The comparative national change was a 1.4% gain. The number of arrivals has fallen by 17% since the 2007 peak for the past decade. The number of nights spent in the region by visitors staying in commercial accommodation totalled approximately 225,000 for the September 2010 year, down 13.8% on the previous year. Visitor nights have fallen by 18% since 2007.

Over the latest year, domestic visitors accounted for 86% of total night-stays in commercial accommodation in the combined districts and overseas visitors the balance of 14%. The comparative figure for the September 2009 year was also 86%. During the September 2010 year, the 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.

Figure 6a:

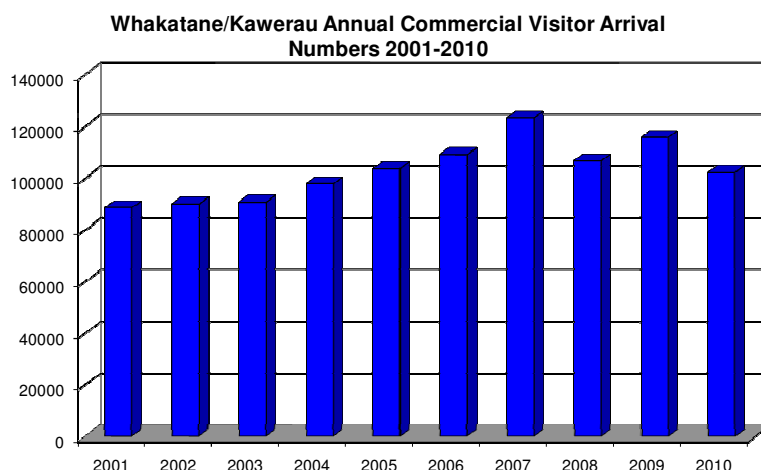
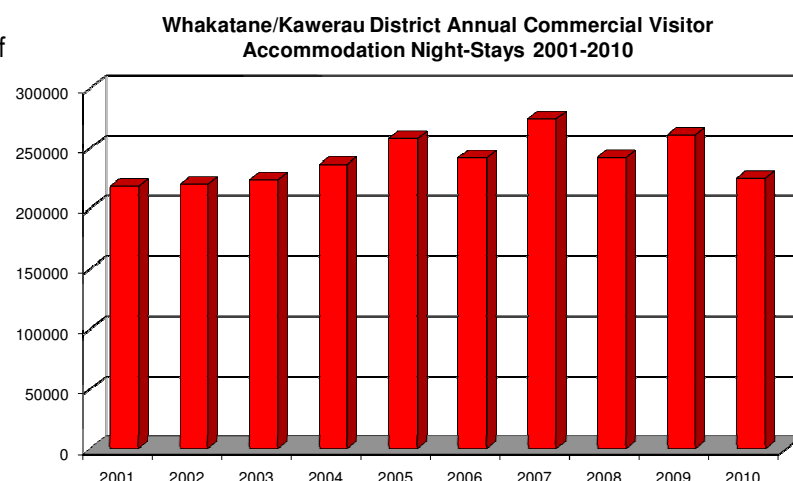


Figure 6b:



10.0 Results Comparison

Table 1 overpage indicates the comparative local economic indicator changes over the past September 2010 year for the Kawerau district, total Eastern Bay of Plenty sub-region, total Bay of Plenty region and New Zealand, for the listed indicators. Kawerau out-performed the full Eastern BOP region over the latest year for new buildings consented, vehicle registrations, employment and unemployment benefit numbers. The district out-performed the full BOP region in respect of new buildings consented, house sales, vehicle registrations, employment and unemployment benefit numbers. It also out-performed the country as a whole in terms of new building consents, house sales, vehicle registrations, employment 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
<i>Kawerau District</i>	200.0	-7.2	-0.7	+29.5	-13.8	+0.8	+24.4
<i>Eastern Bay of Plenty Sub-Region</i>	-26.3	-6.7	0.0	+23.8	-11.2	-3.7	+33.0
<i>Bay of Plenty Region</i>	+13.9	-10.5	+5.1	+10.1	+4.1	-1.6	+42.8
<i>New Zealand</i>	+9.2	-8.8	+1.5	+21.2	+1.3	-0.5	+41.7

11.0 Industry Growth

Figure 7a:

Real GDP growth for Kawerau industry sectors over the period of major international economic downturn since 2007 has been highest for the power/gas/water, wholesaling, communications, finance and insurance, health and community services, and personal/household services industries. Negative growth has been most pronounced for primary production, retailing, the public sector and cultural/recreational service industries.

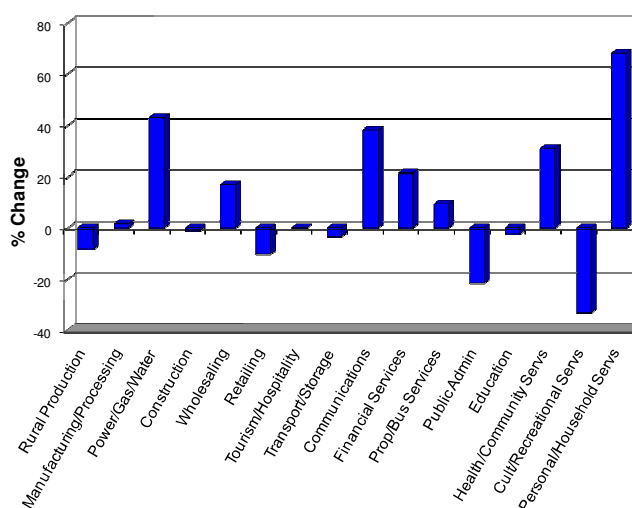
The graph to the right shows real GDP growth over the last three years for the different Kawerau industry sectors. The table below the graph indicates the current economic size of the different industry groups in the district. The district's largest industries in GDP terms, as indicated in the table, are rural commodity processing and manufacturing, retailing and wholesaling, and commercial business services.

The combined forestry/logging and processing/manufacturing sectors account for 63% of total industry GDP in Kawerau district, with the latter accounting for 95% of this. The main production industries in the district are forestry/logging, log sawmilling and timber dressing, and pulp/paper manufacturing.

Over the past decade, Statistics NZ figures indicate that employment in forestry/logging has fallen from 140 to 45, log sawmilling and timber dressing from 320 to 270 and pulp/paper/paperboard from 1,270 to 800.

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%.

Kawerau District Industry Real GDP Growth 2007-2010



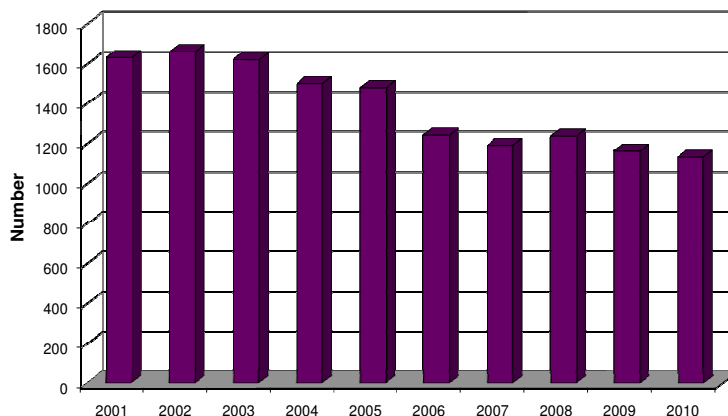
Industry	Nominal GDP (\$M)
Rural Production	10.3
Processing & Manufacturing	187.4
Electricity/Gas/Water	1.4
Construction	9.0
Retailing/Wholesaling	17.7
Accom/Transport/Communications	8.5
Business Services	16.6
Government/Public Administration	6.4
Education	9.8
Health/Community Services	6.9
Cultural/Personal Services	7.0
Other ¹	33.9
TOTAL	314.9

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

Total forestry/logging GDP in Kawerau has fallen by 7.3% since 2007, whilst wood and paper product manufacturing GDP has risen by 4.5%.

Figure 7b:

Kawerau District: Total Forest Products Industry Employment 2001-2010



12.0 Employment

Total employment in Kawerau district for the September 2010 year was up 0.8% on the previous year and stood at an annualised 3,169 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 power/gas/water services, wholesaling, communications, personal and household services and health/community services industries. Employment decline has been most pronounced for primary production, retailing, tourism/hospitality services, property/business services, public administration and cultural and recreational services.

The largest employing industries in the district are currently processing/ manufacturing, construction, retailing, education, health/community services and personal/other services.

In September 2010, the rate of unemployment in the district was recorded at 11.6%, compared to 12.5% 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 428. The number of people receiving the unemployment benefit in the district in September this year stood at 331, compared to 293 a year ago, that is, an increase of 13% over the year. The total number of working-age income tested beneficiaries stood at 1,242 in September 2010, compared to 1,175 a year earlier.

Figure 8a:

Kawerau District Annual Employment 2001-2010

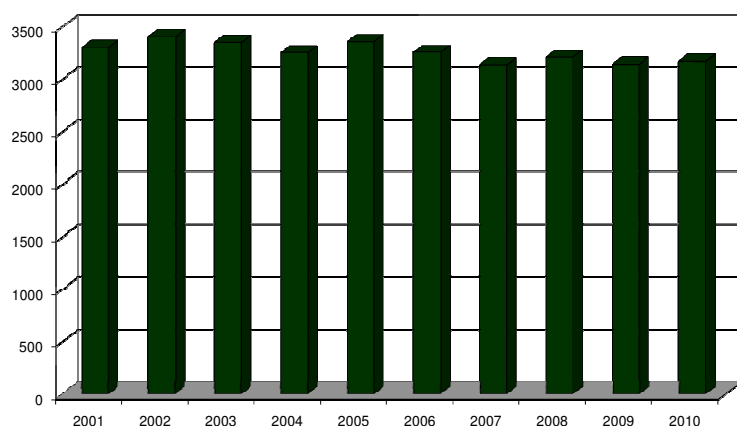
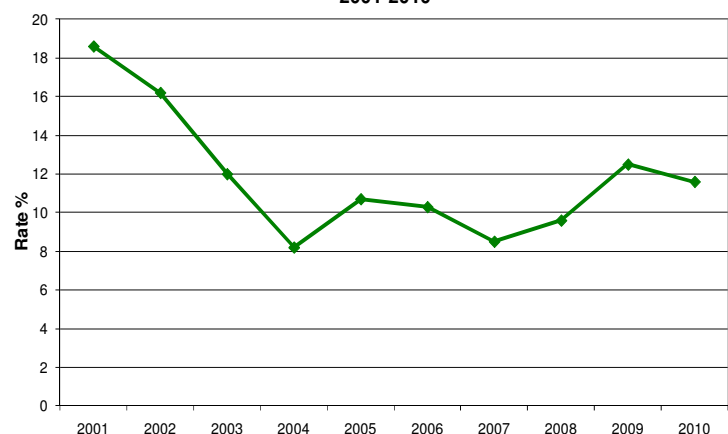


Figure 8b:

Kawerau District September Quarter Unemployment Rates 2001-2010



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 September 2010 forecasts are for:

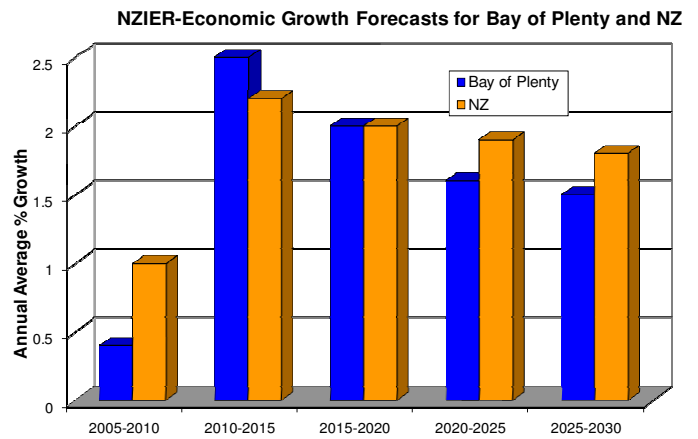
- Significant GDP and consumption growth over the year ahead
- Falling Government spending growth over the next few years
- Declining construction sector growth
- Improving business investment growth
- Stable inflation following the spike this year due to the GST increase in October 2010
- Relative exchange rate stability next two years
- Increasing interest rates
- Limited employment growth and slowly falling unemployment
- Increasing private sector wage 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.

Figure 9:



APPENDIX 1

**Annual Kawerau District Economic Indicator Results
Last Five September Years**

INDICATOR	2005	2006	2007	2008	2009	2010
<i>Population June Qtr</i>	7,150	7,070	7,050	7,050	7,010	6,990
<i>Households/Dwellings</i>	2,643	2,643	2,649	2,655	2661	2,676
<i>Real GDP (\$M)</i>	236	230	227	226	218	231
<i>New Dwellings Consented</i>	5	13	15	7	1	2
<i>New Commercial/Industrial Buildings Consented</i>	9	6	16	4	1	2
<i>New Farm Buildings Consented</i>	0	0	1	0	0	0
<i>Total Building Alterations</i>	79	72	84	66	39	51
<i>House Sales</i>	136	112	121	80	69	64
<i>Retail Sales (\$M)</i>	37	38	40	42	42	42
<i>New Motor Vehicle Registrations</i>	213	176	128	122	61	79
<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>	3,309	3,226	3,154	3,247	3,236	3,264
<i>Total Unemployment Sept Qtr</i>	396	370	293	385	462	428
<i>Number of People on Unemployment Benefit Sept Qtr</i>	-	252	157	177	293	331
<i>Unemployment Rate (%) Sept Qtr</i>	10.7	10.3	8.5	9.6	12.5	11.6