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Disclaimer: this newsletter provides general information on the Northland economy and the views expressed are those of the author. It is not intended for any particular course of action or as a substitute for financial advice.

From the economist

Season's greetings to you all. While there has been a dip in consumer confidence, due in part to the uncertainty created by the election result, the underlying fundamentals of the economy remain strong. A number of new investment projects about to begin in the region will help support long-term growth. Population growth along with a fall in supply and rising house prices have contributed to a large rise in rental accommodation costs.

The annual statistics section reports the results of the 2016/17 season for four key primary sectors. Avocado production rose but total output fell for dairy, roundwood and kiwifruit. This was more than offset by a lift in returns per unit of output for dairy and forestry; but returns per tray for kiwifruit fell slightly. Overall, revenue earned by the avocado, dairy and forest industries is estimated to have risen by 58%, 45% and 16% respectively, but fell 10% for kiwifruit.

The spotlight section presents some data on traffic flows in Northland. This data has been calculated to support the review of the Regional Land Transport Plan 2015-2021, which will be out later this month for public feedback. Visitors are estimated to account for about 13% of the distance travelled in light vehicles on Northland roads. Since 2011, the total tonne kilometres travelled by heavy vehicles has increased by 6.5% per annum.

Darryl Jones

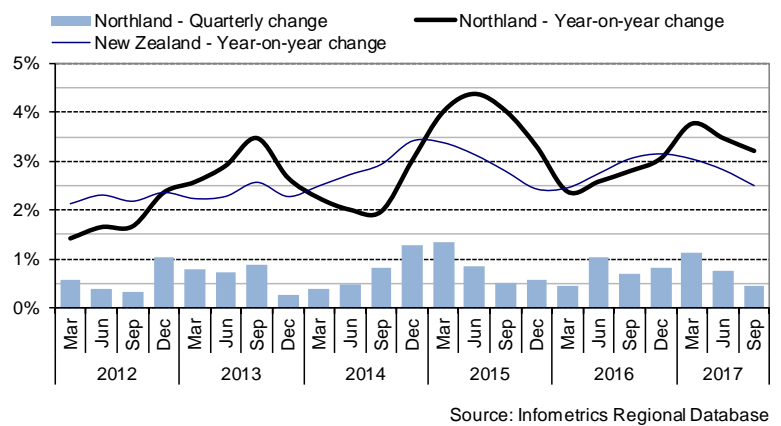
Quick quarterly statistics

- Northland's GDP is estimated to have risen 3.2% in the year ended September.
- The value of retail trade rose 6% in the 12 months to September.
- The floor area of new non-residential building consents rose by 60%.
- Net international migration fell by 15% but is still relatively high.
- Employment rose to a new record high of 70,200 in September 2017.
- The annual average unemployment rate dropped to 7.3%.
- The annual average unemployment rate for Māori (17%) is higher than for Europeans (4.4%) and the gap appears to be widening.
- Online job vacancies in September 2017 are 25% higher than a year ago.
- The average wage and salary rose 2.4% in the year ended September 2017.
- Food prices in Whangārei rose 3% in the year ended September 2017.
- The average rent rose 12% in the year ended September 2017.
- Consumer confidence in Northland fell slightly in September 2017 in line with a national trend across the regions.

Economic activity – quarterly

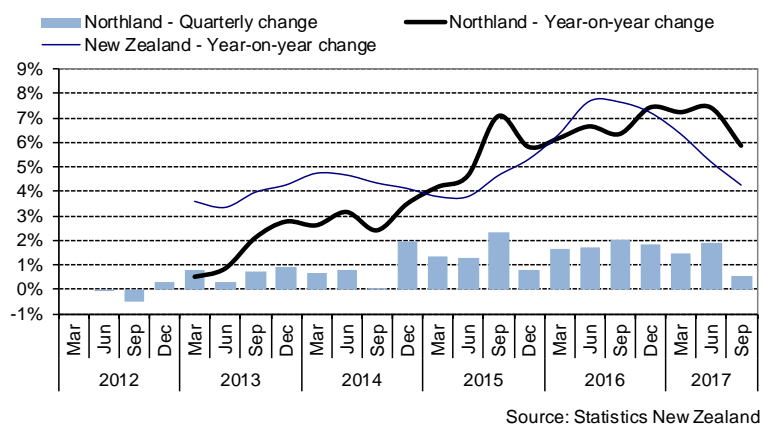
Gross domestic product (GDP) in Northland

Northland's GDP is estimated to have risen by 0.5% in the September 2017 quarter. This contributed to an estimated annual growth rate of 3.2% for the year ended September. All three districts in Northland are forecast to have annual growth rates of between 3-4%. Northland's annual growth rate for the latest year is above the estimated national rate of 2.5%, with Northland ranking 7th out of 16 regions. Since September 2012 the Northland economy has grown at an annual rate of 3.1%; with only Auckland growing faster (3.4%).



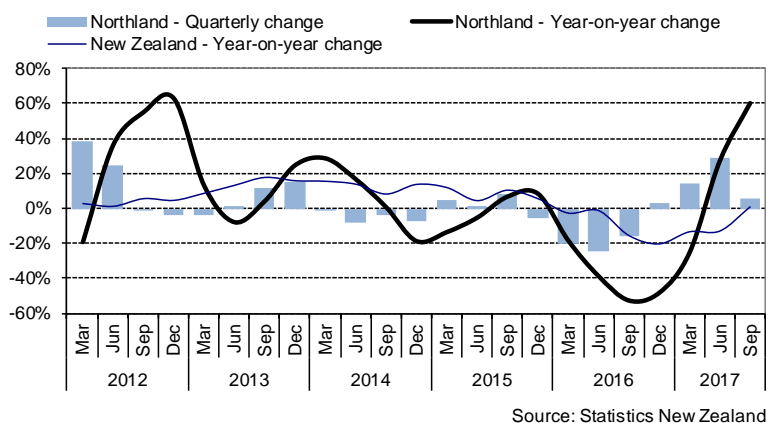
Retail trade in Northland

The annual value of retail trade spending in Northland was just over \$2.7M in the year ended September 2017. This was 6% higher than the value of spending in the year ended September 2016. There has been a steady growth in retail trade spending in Northland over the past three years driven in part by increases in population and the number of tourists. Retail spending in Northland has grown at a faster rate than the national increase over the past year, with Northland ranking 4th out of the 16 regions in terms of growth rates.



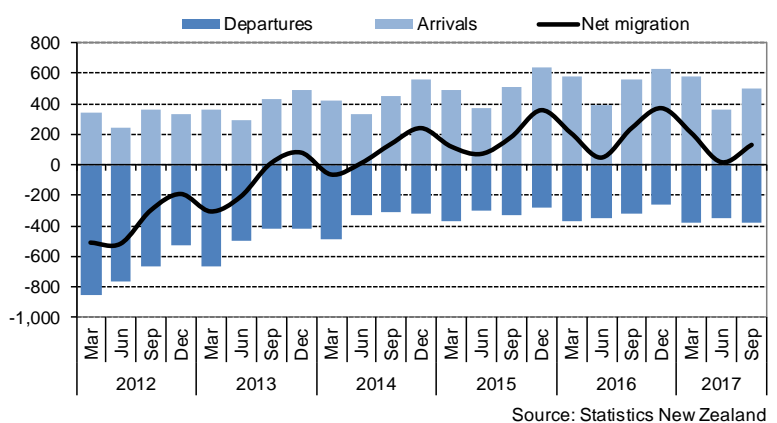
Floor area of new non-residential building consents in Northland

During the year ended September 2017, the floor area of new non-residential building consents issued totalled 66,618m². This is 60% higher than the floor area consented in the year ended September 2016, but remains well below pre-GFC levels. The major reason for the rise is an increase in the floor area for new factories and industrial buildings, and farm buildings. Nine of the 16 regions experienced a rise in non-residential floor area consented in the year to September 2017, with Northland having the third fastest increase.



Net international migration into Northland

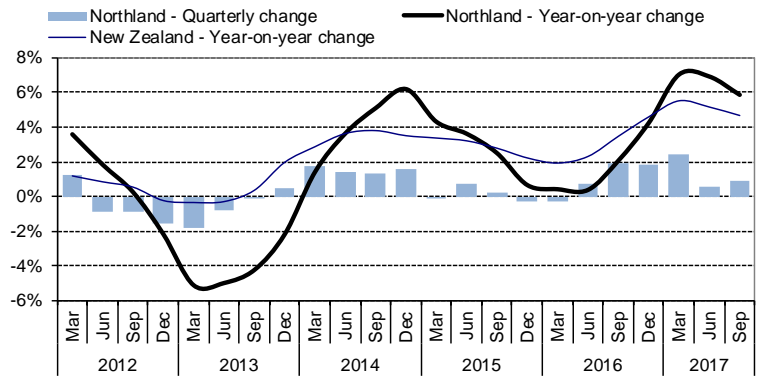
The net number of international migrants into Northland in the September 2017 quarter was 129 people, giving a total 12-month increase of 718. This is down 15% on the level of annual net international migration into Northland in the year ended September 2016. However, current net migration into the region remains at a relatively high level, well about the 10-year annual average net migration loss from the region of 300 people. Over the past year net international migration has also slowed down at the national level.



Employment activity – quarterly

Employment in Northland

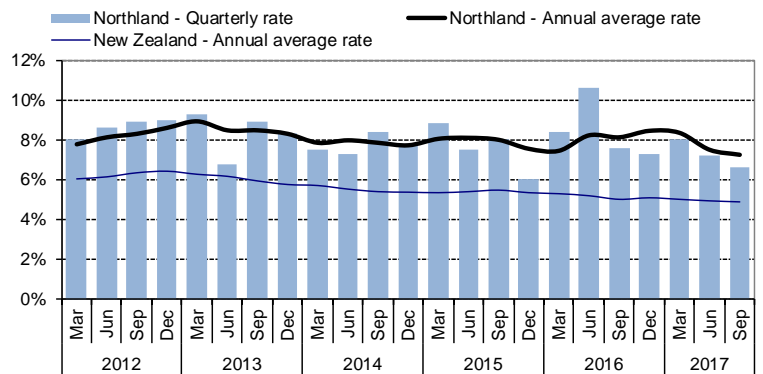
An estimated average of 80,200 people was employed in Northland (both full-time and part-time) in the year ended September 2017. This is the first time the 80,000-mark has been passed. The average number employed in Northland is 6% higher than one year ago. Nationally, the number of people employed increased by 4.7%. Only Waikato and Auckland experienced a faster rise in regional employment; employment fell by 1% in Southland. The number of people employed in Northland has increased by 11,200 (16%) since June 2013 when the fall in employment post-GFC bottomed out.



Source: Statistics New Zealand

Unemployment in Northland

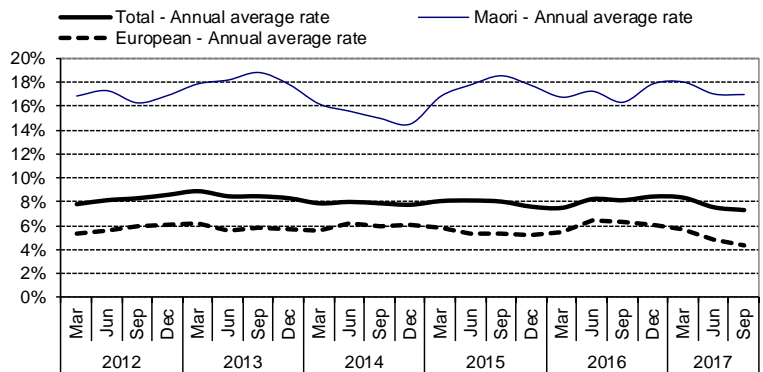
The annual average unemployment rate in Northland was 7.3% in the year ended September 2017. This is 0.9 percentage points lower than the annual average rate for September 2016. The current annual average unemployment rate is the lowest it has been since March 2009 when it was 6.5%. The fall in the unemployment rate recorded in Northland has not been mirrored across the country, with the annual average unemployment rate for September 2017 increasing in six regions and falling in six others. Northland's rate remains the highest of all regions.



Source: Statistics New Zealand

Unemployment by ethnicity

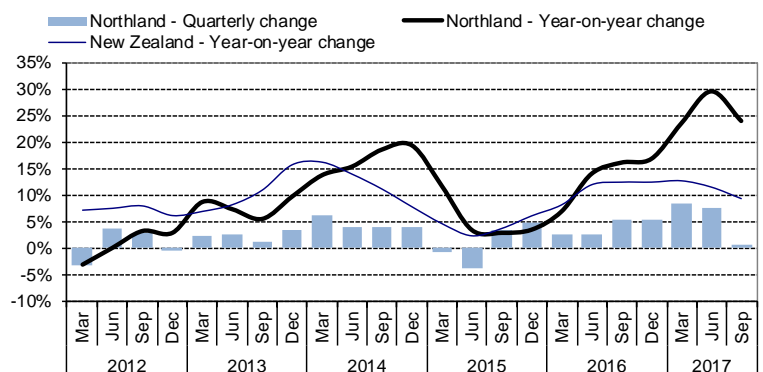
In September 2017, the annual average unemployment rate for Māori in Northland was 17% compared to 4.4% for Europeans. While the Māori unemployment rate shows greater quarterly fluctuation, the unemployment rates for both Māori and European remained relatively constant during the five years 2012-16, averaging 17% for Māori and 5.8% for European. The drop in the Northland regional average unemployment rate during 2017 appears to have been due to a fall in European unemployment. The annual average national Māori unemployment rate is currently 11%.



Source: Statistics New Zealand

Jobs online vacancies in Northland

The trend series index of online job vacancies in Northland has remained at a relatively high level in the September 2017 quarter. The number of online vacancies is 25% higher than in September 2016, and 85% higher than in September 2012. Nationally, the number of online job vacancies grew by 9% during the past year. Across the 10 regions for which data is available, online vacancy growth in Northland was the third highest behind the combined Nelson/Tasman/Marlborough/West Coast region (32%) and Otago/Southland (25%) and ahead of Auckland (4%) and Canterbury (4%).

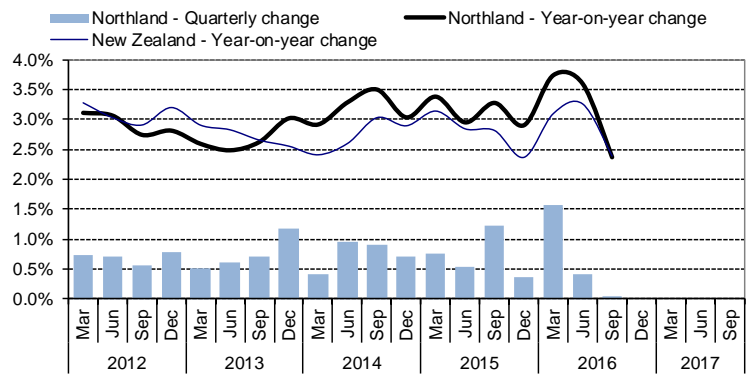


Source: Ministry of Business, Innovation & Employment

Household welfare – quarterly

Average wage and salary earnings in Northland

The average annual wage and salary in Northland, based on the sum of mean earnings of people in paid employment for the four quarters making up the year, was \$51,610 in September 2016. Average earnings rose 2.4% in the year ended September, in line with the national average increase, but is the slowest annual increase since 2010. Northland's regional average is 89% of the New Zealand average. Only Auckland and Wellington have average regional earnings above the national average, with Northland ranking eighth out of the 16 regions.

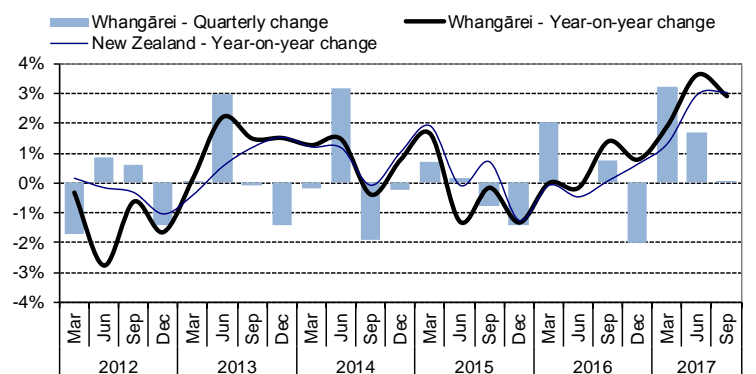


Source: Statistics New Zealand

Food prices in Whangārei

Food prices in Whangārei rose by 0.1% in the September 2017 quarter, following an increase of 1.7% in the previous quarter. On an annual basis food prices rose 2.9% in the year ended September, in line with the national average increase. The last time food prices rose so quickly in Whangārei was back in 2011.

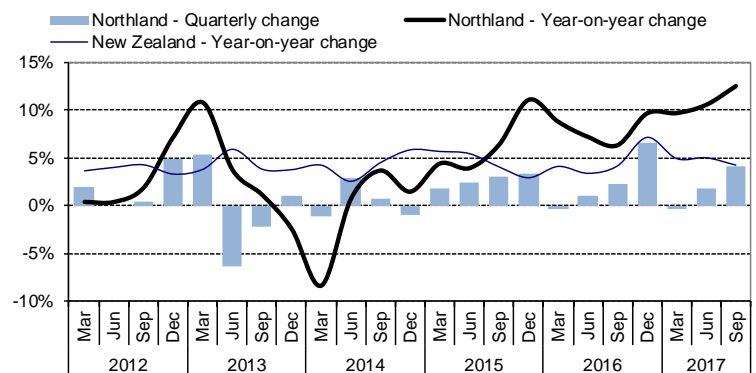
The cost of the standard basket of commodities used for measuring food prices in Whangārei is 5% higher today than it was five years ago in September 2012.



Source: Statistics New Zealand

Mean rents in Northland

The mean average rent in Northland was \$361 per week in the September 2017 quarter. This is the highest level recorded in Northland, 12% higher than in September 2016, and the largest annual increase across all 16 regions, more than double the national average. Since September 2014, the average rent in Northland has risen by 27%, well above the 13% increase in the national average. The average rent in Northland is now about 85% of the national average compared to 75% in 2014. The average rent in Auckland is 24% higher than the national average while it is almost 50% lower in Southland.

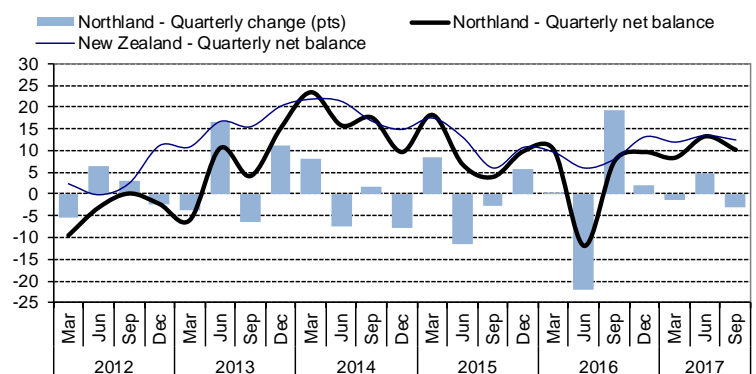


Source: Ministry of Business, Innovation & Employment

Consumer confidence in Northland

The Westpac-McDermott Miller Consumer Confidence Index for Northland fell three points to 10 in September 2017. This mirrored the slight fall in the national level of consumer confidence, which Northland sits just below. An index number above zero indicates that optimists outnumber pessimists.

All regions outside Auckland, Wellington and Canterbury had a slight fall in consumer confidence in the September quarter where it rose by 1, 4 and 4 points respectively. All regions remain positive and in the narrow band of 6-16.

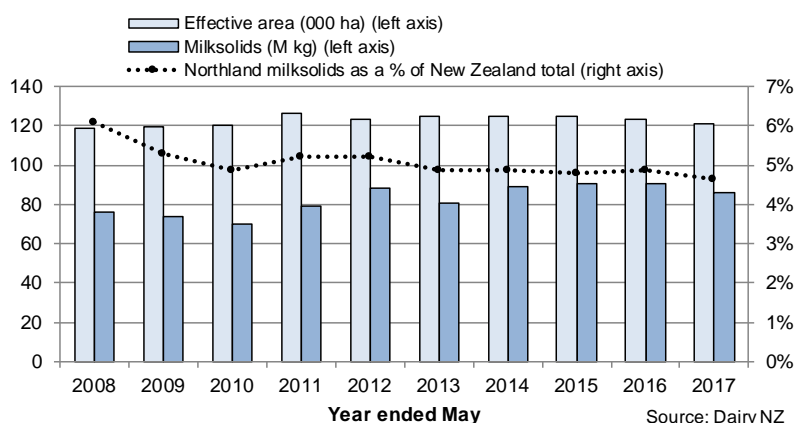


Source: Westpac McDermott Miller

Selected primary industries – annual

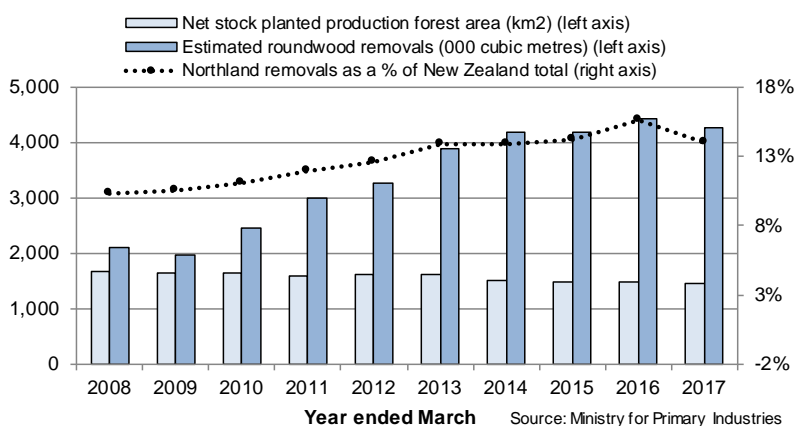
Milk production in Northland

Just over 86.2M kg of milk solids was produced in Northland in the 2016/17 season, down 4.6% on the record level set the previous season. The decrease was the result of slight reductions in both average milk solid production per cow (-2.7%) and the effective area in dairying (-2.0%). Northland's share of national production fell from 4.9% to 4.7%. While production has fallen, a 50% lift in the total payout price to \$6.52/kg milk solids saw the dairy industry in Northland earn \$562M in 2016/17, 45% more than in 2015/16.



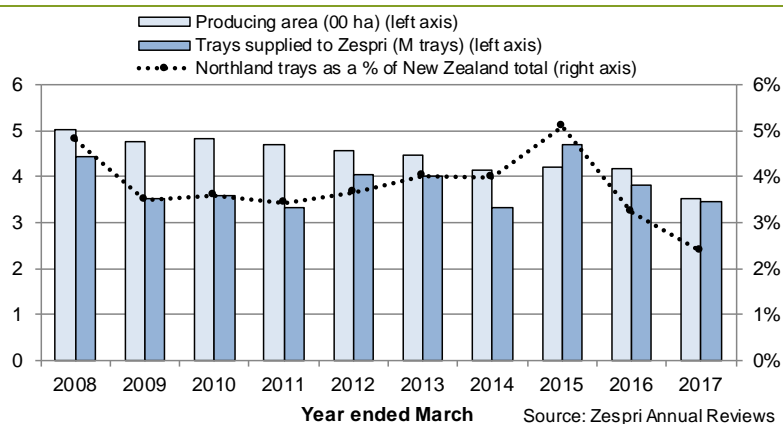
Forest production in Northland

It is estimated that 4.56Mm³ of roundwood was harvested from the Northland wood supply region in 2016/17.¹ This is 3.6% lower than the record harvest volume recorded the previous year. Consequently, Northland's share of the national harvest fell to just under 15%. Since the mid-2000s, the plantation forest area in Northland has fallen from 172,000ha to around 146,000ha.² Using an average log price of \$144m³ (up 20%), Northland forest owners earned around \$656M in 2016/17, up 16% on 2015/16.



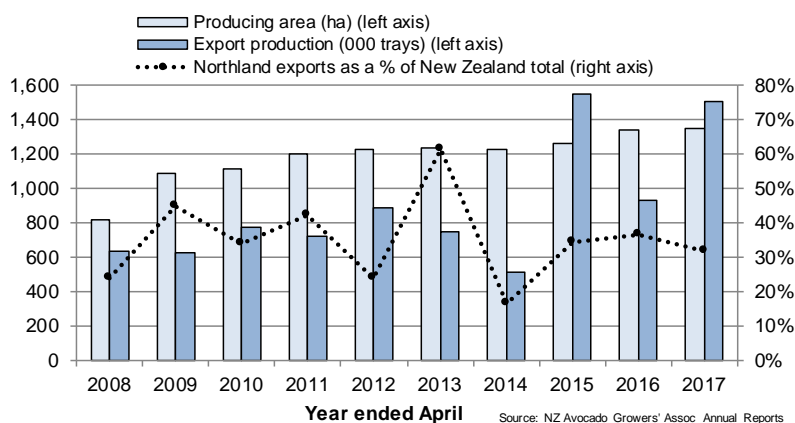
Kiwifruit production in Northland

In the 2016/17 season, Northland kiwifruit growers supplied Zespri with just under 3.5M trays of fruit. This is 9% less than the 2015/16 harvest and 27% below the record harvest of 4.7M trays in 2014/15. Northland's share of the national crop has fallen to 2.4%. The reduction in 2016/17 crop production was due to a fall in producing area (-16%) as average production per hectare rose 7% to the second highest level on record. Grower returns fell by 10% from \$43M to \$38M as the average price received fell 1% to just over \$11/tray.



Avocado production in Northland

Northland avocado growers supplied 1.51M trays of fruit for export in 2016/17; 60% more than the previous year and almost back to the record harvest of 1.55M achieved in 2014/15. Production was significantly higher in the mid-North producing area. However, Northland's share of total exports fell slightly to 32% due to a rise in production in the Bay of Plenty. Assuming the national average orchard gate return was received, Northland growers earned more than \$52M in 2016/17, up from \$33M in 2015/16.

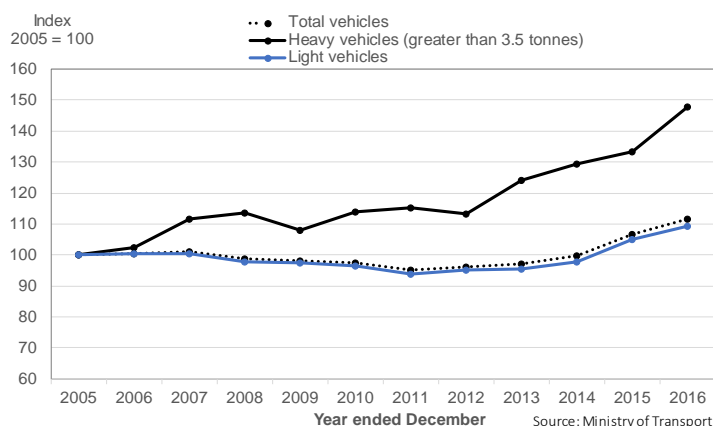


1. The Northland Wood Supply region as defined by the Ministry for Primary Industries includes the former Rodney district.
2. The planted production forest area only includes forest holdings greater than 40 hectares.

Spotlight – Traffic flows in Northland

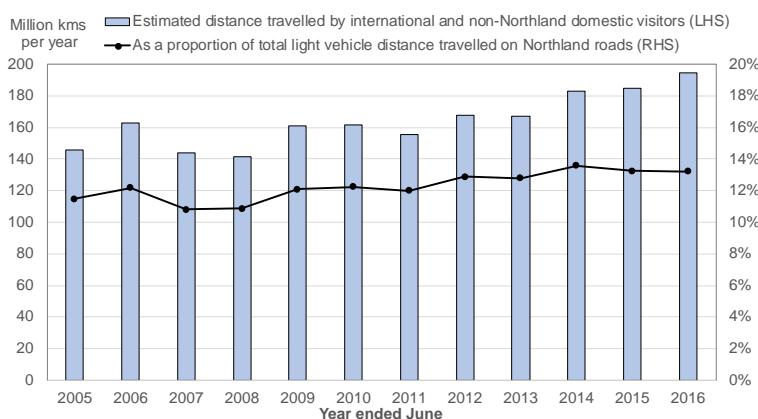
Traffic growth on State Highways

The annual average daily traffic AADT flow of vehicles travelling on State Highways in Northland was 12% higher in 2016 than in 2005.¹ Since reaching a low point in 2011, the number of light vehicle traffic on Northland State Highways has increased by 17% over the past five years. The number of heavy vehicles on State Highways in Northland has grown far more rapidly than light traffic volumes. The heavy traffic index shows that the number of heavy vehicles on Northland roads is almost 50% higher in 2016 than in 2005.



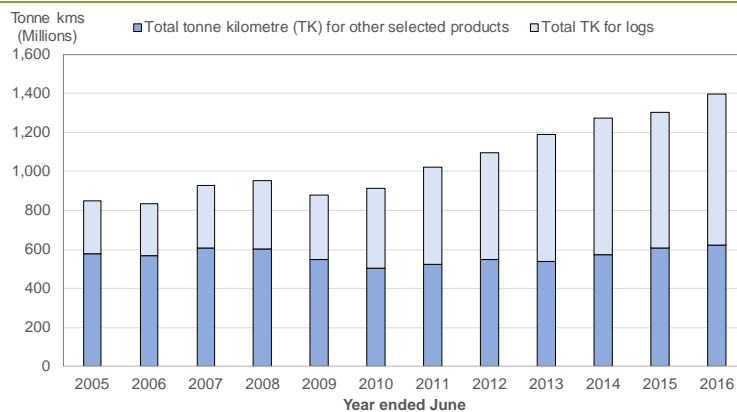
Tourism light vehicle travel on Northland roads

It is estimated that visitors to the region travelled almost 200 million kilometres on Northland roads during the year ended June 2016; 33% higher than the distance travelled in 2004/05. This equates to around 13% of the total distance travelled by light vehicles on Northland roads, slightly up on the 11% estimated for 2004/05. The distance travelled by visitors on Northland roads is forecast to increase in line with visitor numbers, rising to more than 234 million kilometres in the year ended June 2023 and accounting for 15% of total distance travelled.



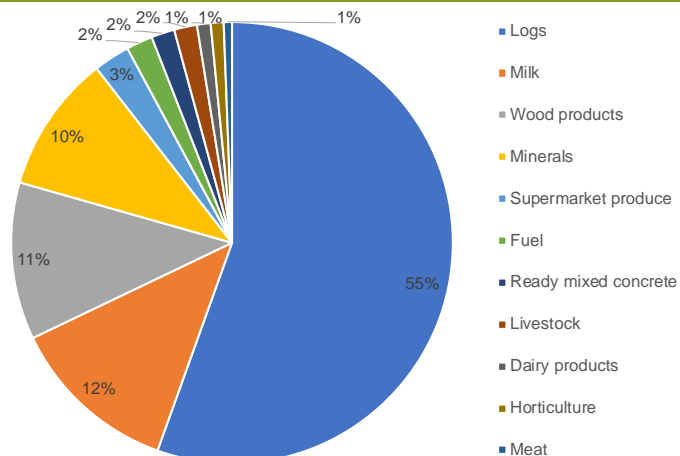
Volume of road freight in Northland

Between 2005 and 2016, it is estimated that the total tonne kilometre (TK) travelled by heavy vehicles on Northland roads increased by 65%, an average annual increase of 4.6%.² Since 2011, the total TK estimate has increased by 6.5% per annum. A major cause has been the growth in TK travelled by heavy vehicles transporting logs. This has increased by 187% between 2005 and 2016, from 270 to 775 million tonne kilometres, equivalent to an annual increase of 10% during the eleven years.



Proportion of road freight by selected commodities

The majority of TK travelled by heavy vehicles on Northland roads in 2016 is associated with the transportation of logs, which totalled 775 million tonne kilometres or 55% of the total TK estimated for 11 selected commodities. The transportation of milk, wood products and minerals, such as aggregates for road construction, together made up another one-third of total heavy vehicle road TK in Northland. None of the other remaining seven commodities for which an estimated was made contributed more than 3% to the total.



1. The index is based on data collected from 14 sites that have more than 250 accepted days of recording over each of the past five years.
 2. Tonne kilometre = tonnes carried x km moved.