Northland Economic Quarterly

Issue 9 | September 2015

In this issue

Darryl Jones – Economist
darrylj@nrc.govt.nz
09 470 1247

To receive an email notification as new editions are published, sign up to our subscription service: visit www.nrc.govt.nz/subscriptions. Previous editions can be found at www.nrc.govt.nz/economicdevelopment.

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

Welcome to the ninth issue of the Northland Economic Quarterly. A number of indicators suggest a levelling out of economic activity in Northland over the past six months or so. This, along with the fall in dairy payout, has been translated into a drop in both business and consumer confidence.

In comparison, the four tourism related indicators covered in the Annual section show a positive development. Guest nights have increased by 7% in the year ended June 2015, following a 5% increase the previous year. This is one possible factor supporting the rise in regional employment. There have been increases in both domestic and international visitors and across the different accommodation types. Electronic transaction counts reveal the importance of Australian tourists and show a broader range of domestic visitors are coming to Northland.

The Spotlight section provides some analysis on the dairy industry in Northland given the recent drop in the milk solids payout price. Northland milk solids production has risen by 21% over the past ten years as a result of per cow productivity. While this is less than half the 46% increase in national milk solids production, dairy farming and dairy product processing is twice as important to the Northland economy as it is nationally. It is particularly important to Kaipara. The forecast drop in dairy farm payout in 2015/16 is estimated to reduce regional GDP by 2%, and employment and household income by 1%.

Darryl Jones

Quick quarterly stats

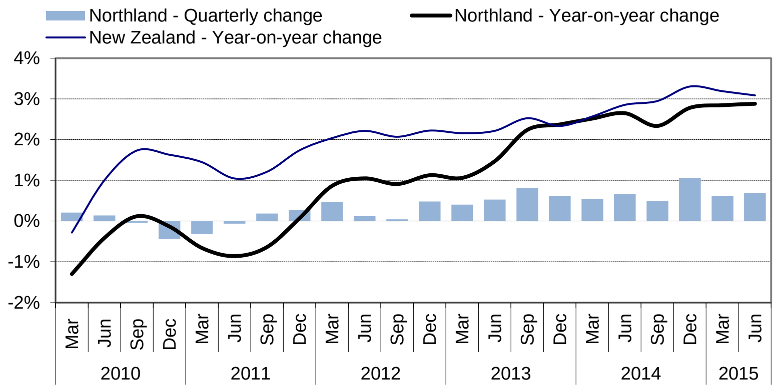
- GDP is forecast to have risen by 2.9% in the year ended June 2015.
- The floor area of new non-residential building consents rose 1%.
- Log export volumes remain constant but have fallen 15% in value terms.
- Business confidence has dropped again and is at a six-year low.
- Employment in Northland has finally risen above 2007 levels.
- The annual average unemployment rate rose to 8.9% in June 2015.
- The youth NEET rate remains steady at around 18%.
- Northland vacancies on Trade Me Jobs are 10% higher than a year ago.
- The average wage and salary rose 3.3% in the year ended June 2014.
- Home affordability has deteriorated due to rising house prices.
- Domestic power prices rose 1.9% in the year ended May 2015.
- Consumer confidence has fallen but remains positive.

Economic activity – quarterly

Gross domestic product (GDP) in Northland

Northland's GDP is provisionally estimated to have risen 0.7% in the June 2015 quarter. This contributed to an annual GDP growth rate of 2.9% for the year ended June, just below the national estimate of 3.1%.

This growth is spread fairly evenly across the region, with estimated annual growth rates of 2.3% in the Far North, 3.2% in Whāngārei and 2.7% in Kaipara. Northland was the seventh (out of 16) fastest growing region in the June 2015 year.

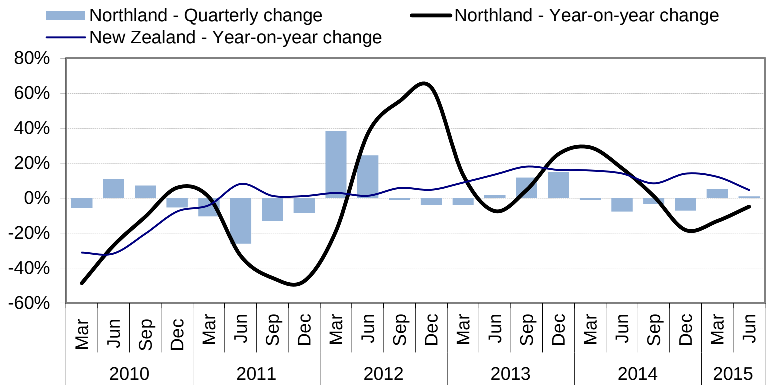


Source: Infometrics Regional Database

Floor area of new non-residential building consents in Northland

During the year ended June 2015, the floor area of new non-residential building consents issued totalled 80,000m^2. This is 1% higher than the total floor area consented in the year ended March 2015 but 5% lower than the floor area consented in the year ended June 2014.

There is a large regional variation around the 5% national annual increase in floor area consented in June 2015, ranging from -23% in Nelson to 94% in Manawatu-Wanganui. Northland ranked 10th of 16.

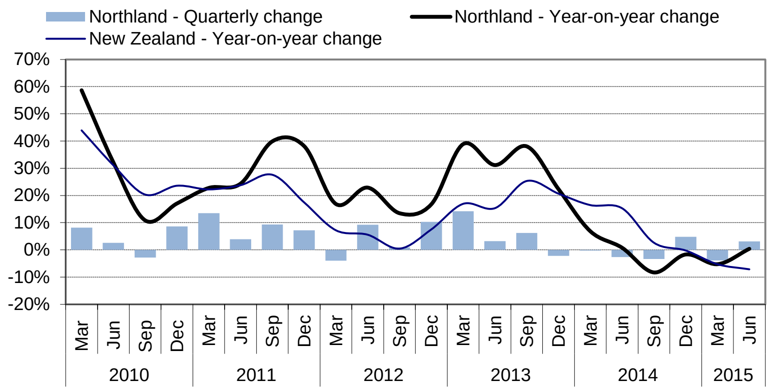


Source: Statistics New Zealand

Log exports from Whāngārei

Just over 2.56 million cubic metres of logs were exported from Whāngārei in the year ended June 2015. This is very similar to the volume exported in the year ended June 2014 but is 5% below the peak of 2.7 million m^3 recorded in the year ended September 2013. While annual volumes are similar, the total value of logs shipped from Whāngārei has fallen by 15% to $328 million in the June year 2015.

Whāngārei accounted for 16% of all logs exported from New Zealand in the year ended June 2015. This is an increase from 9% in 2006.

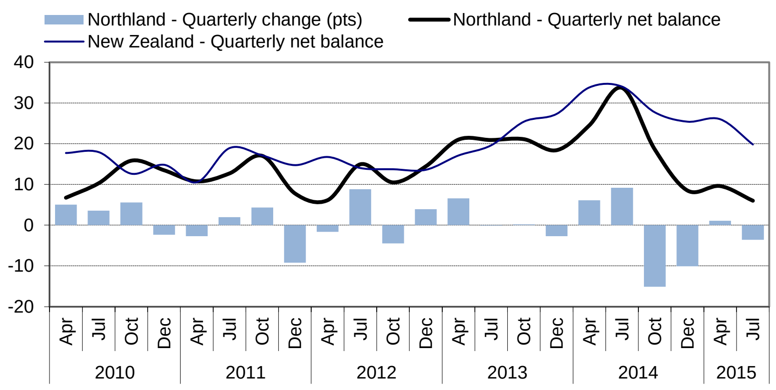


Source: Ministry for Primary Industries

Business confidence in Northland

The composite index of business confidence measures the difference between those expecting an improvement and those expecting conditions to deteriorate. The Northland index fell by four points in the June 2015 quarter and at six points is now at its lowest level since 2009.

All regions with the exception of Gisborne experienced a drop in business confidence during the June quarter. Business confidence ranges from -15 in the West Coast to 27 in Auckland. The gap between Northland and the New Zealand average remains large.



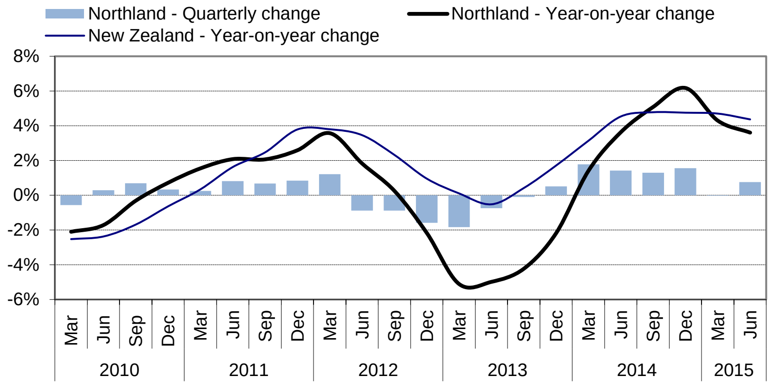
Source: ANZ

Employment activity – quarterly

Employment in Northland

It is estimated that an average of 74,100 people were employed in Northland (both full-time and part-time) in the year ended June 2015. The number of people employed in Northland has increased by 2600 (3.6%) since June 2014.

The annual average number of people employed in June 2015 is the highest level recorded, slightly above the previous record of 74,000 estimated for the year ended June 2007. Only three regions – Auckland, Bay of Plenty and Canterbury – had a faster increase in employment in the June year.

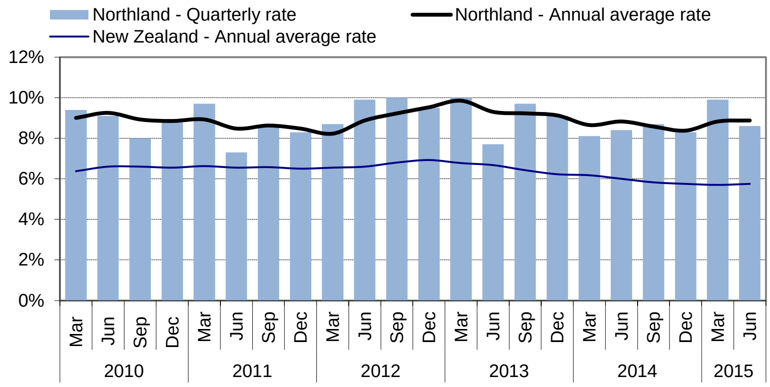


Source: Statistics New Zealand

Unemployment in Northland

The annual average unemployment rate in Northland was 8.9% in the year ended June 2015. This was up from the annual average rate of 8.8% recorded in March 2015. Since June 2010, the region's unemployment rate has averaged 8.9%.

Northland's unemployment rate is 55% higher than the national average of 5.8% and is the highest among the 12 regions for which it is calculated. Manawatu-Wanganui and Gisborne/Hawkes Bay have the next highest unemployment rates of 7.7% and 7.5% respectively.

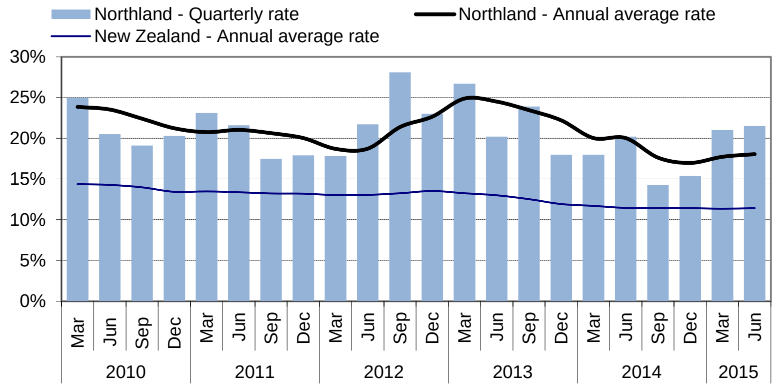


Source: Statistics New Zealand

Youth (aged 15-24) not in education, employment or training in Northland

The annual average youth NEET rate in Northland was 18.1% in the year ended June 2015. This is down from the annual average of 20% recorded in June 2014 and the peak of 25% in 2013. However, it remains well above the national youth NEET rate and the lowest recorded Northland youth NEET rate of 16.3% in June 2007.

Northland's NEET rate is the highest among the 12 regions for which it is calculated. Gisborne/Hawkes Bay and Bay of Plenty have the next highest NEET rates of 18.0% and 14.8% respectively.

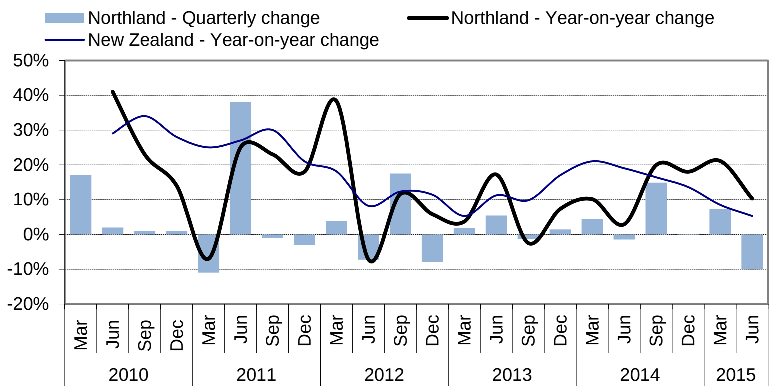


Source: Statistics New Zealand

Online job advertisements in Northland

The number of vacancies in Northland listed on Trade Me Jobs during the June 2015 quarter was 10.3% higher than in June 2014 but 10% lower than in the March quarter. Trade Me Jobs listings in Northland are 53% higher than in June 2010.

Nationally, the number of vacancies has grown by 5.3% over the past year. Only three regions – Bay of Plenty, Hawke's Bay and Otago – recorded a higher year-on-year increase in job listings than Northland. Six (out of 15) regions have seen a drop in job vacancies over the past year.



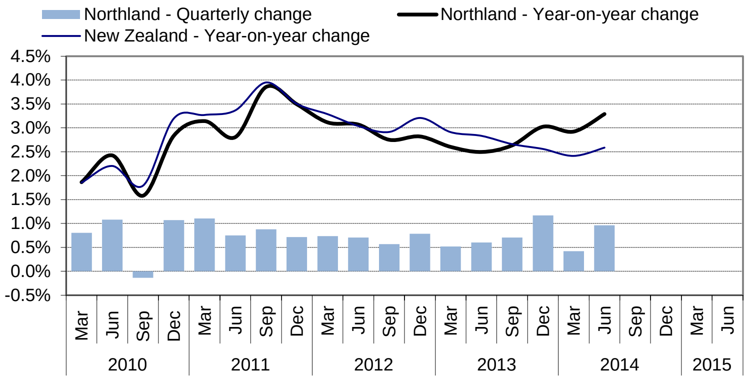
Source: Trade Me Jobs

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 $48,370 in June 2014. This represents an annual increase of 3.3%, higher than the national increase of 2.6%.

Northland's average is 12% below the national average of $54,750. Only three regions (Auckland, Taranaki and Wellington) have average earnings above the national average. Northland's average is similar to that in Bay of Plenty, Otago and Southland.

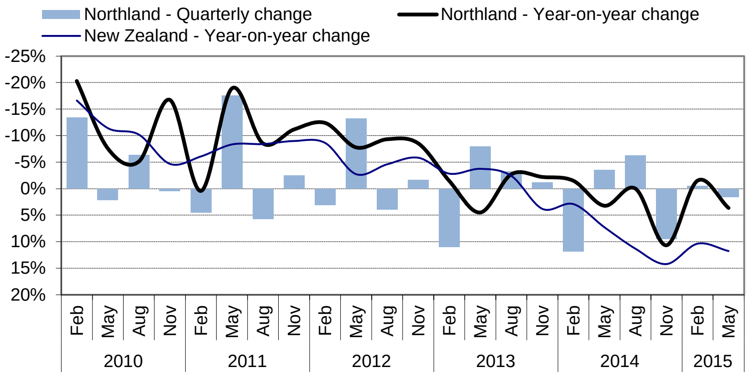


Source: Statistics New Zealand

Home affordability in Northland

The Northland Home Affordability Index rose by 1.5% during the quarter ended May 2015 indicating a deterioration in affordability. This increase is the result of higher median house prices offsetting the rise in average earnings.

The Northland HAI stood at 19.9 in May 2015, 4% higher than in May 2014. All regions except Canterbury/Westland have experienced a decline in affordability over the past year. The latest HAI score for Northland remains well below the peak of 36.7 in May 2008.

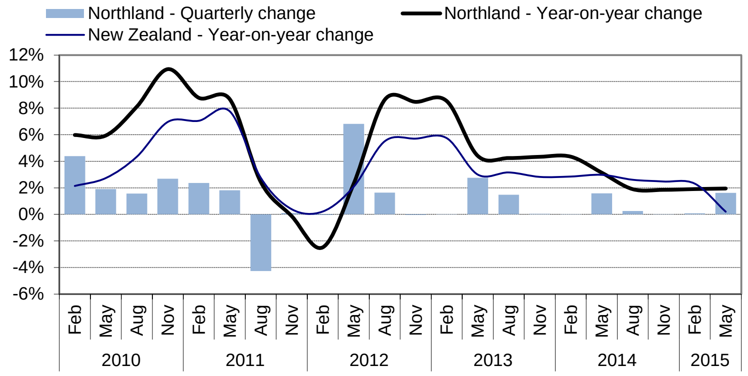


Source: Massey University

Domestic electricity price in Northland

The weighted average domestic electricity price in Northland was 32.1 c/kW in May 2015. This was 1.6% higher than in February and 1.9% higher than in May 2014. Over the past five years since May 2010, domestic electricity prices in Northland have risen by 4.1% per annum. This is slightly faster than the national annual average increase of 3.2%.

Assuming 8000 kW of power is used per year, this price equates to an annual household power bill of $2570. This is 14% higher than the national average of $2260, equivalent to an additional $6 per week.

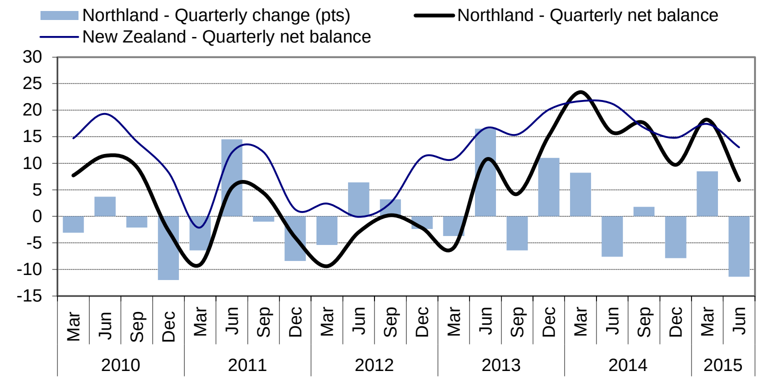


Source: Ministry of Business, Innovation and Employment

Consumer confidence in Northland

The Westpac-McDermott Miller Consumer Confidence Index for Northland fell 11 points to seven in June 2015. An index number above zero indicates that optimists outnumber pessimists. While this is down from the post-GFC high of 23 recorded in March 2014, this was the ninth consecutive quarter showing a positive number.

Northland was one of eight (out of 11) regions that recorded a fall in consumer confidence in June. In all regions consumer confidence remains above zero but is at a lower level than 9-12 months ago.

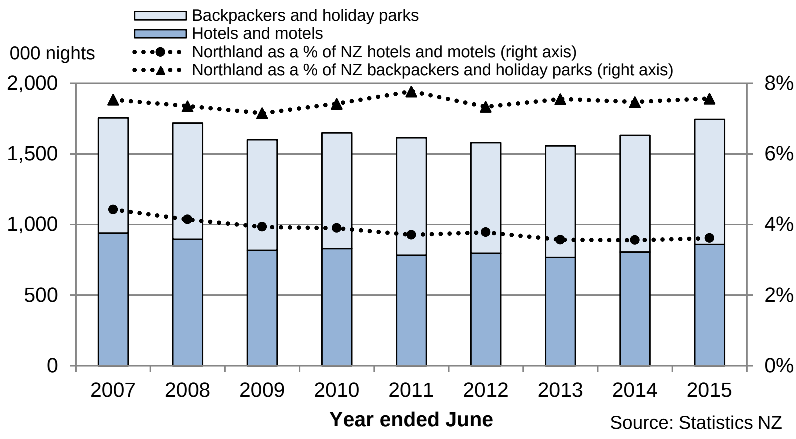


Source: Westpac McDermott Miller

Tourism activity – annual

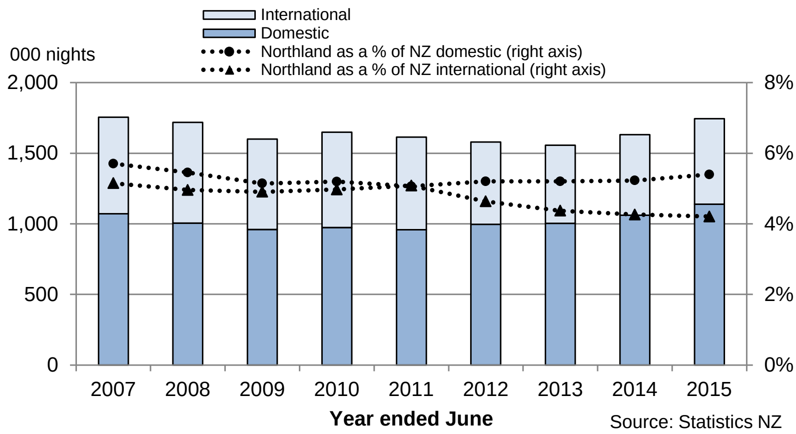
Guest nights by accommodation type

A total of 1.745 million guest nights were spent in Northland commercial accommodation in the year ended June 2015. This represents a 7% annual increase and follows a 4.8% increase in 2013/14. The 2014/15 total remains 1% below the record 1.756 million guest nights set in 2006/07. Guest nights rose for both hotels and motels (6.7%) and backpackers and camp grounds (7.1%) during the year ended June 2015. While guest nights at backpackers and camp grounds are now higher than pre-GFC levels, guest nights in hotels and motels remain 8% below their 2006/07 peak.



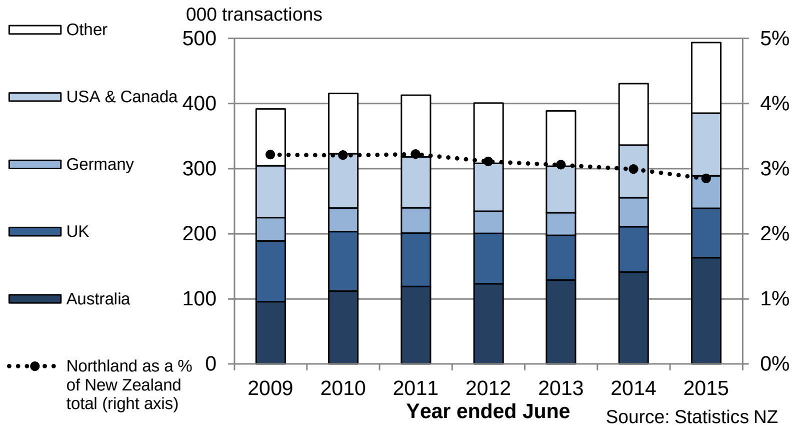
Guest nights by origin

Over the past year there has been an increase in both domestic (7.4%) and international (6.0%) visitors. Domestic guest nights now exceed pre-GFC levels. However, the number of international guest nights is still 15% below its 2007/08 peak. International visitors made up just 35% of guest nights in 2014 compared to 41% in 2007/08. Northland's share of total international guest nights spent in New Zealand has fallen from 5.1% in 2007 to 4.2% in 2015. Northland has yet to cash in on the growing number of visitors from China who visit other regions of the country.



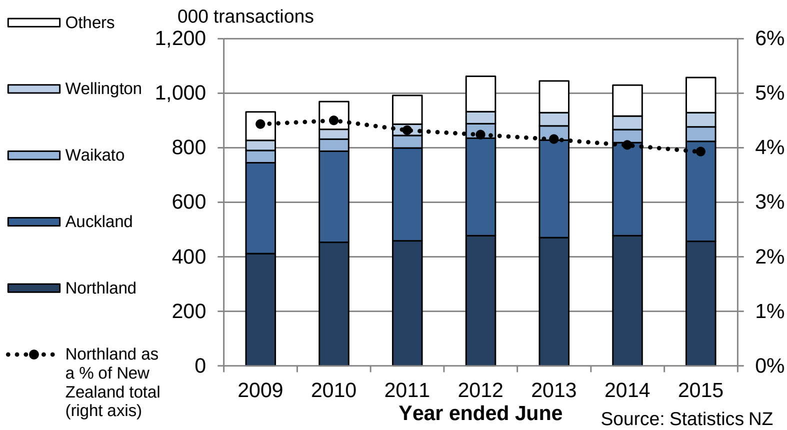
Number of electronic card transactions by international visitor

Transaction counts provide an estimate of the volume of tourism activity. In the year ended June 2015, there were 494,000 electronic transactions undertaken by overseas visitors to the Northland region. This is almost 15% higher than the number recorded the previous year. Over the past five years there has been a steady increase in the number of transactions conducted by visitor from Australia, whose share has increased from 24% to 33%. In contrast there has been an 18% decline in the number of transactions by visitors from the UK.



Number of electronic card transactions by domestic visitor

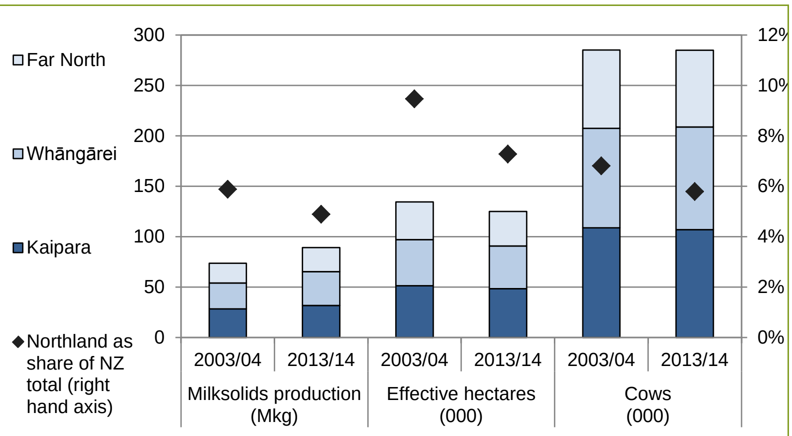
There were 1.06 million domestic electronic transactions on tourism related industries in Northland during the year ended June 2015. This is slightly up (2.8%) on the number that occurred in 2013/14. The number of transactions undertaken by Aucklanders, the outside region most important to Northland, increased by 7.4% while the count by visitors from elsewhere rose by 11%. These increases more than offset the decrease in the number of transactions done by Northlanders within the region.



Spotlight – Dairying in Northland

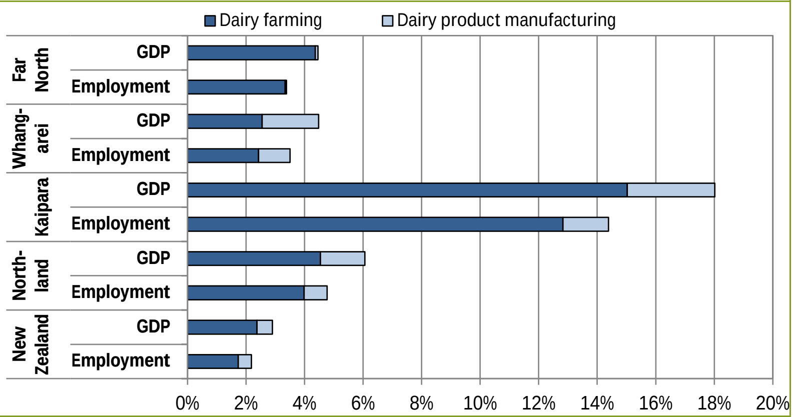
Dairy farming in Northland

In the season ended May 2014, 89.1 million kg of milk solids was produced in Northland, a 21% increase over the volume produced in 2003/04. As national production has increased by 46% over the ten-year period, Northland's share of total production has fallen from 5.9% to 4.9%. The increase in production is a result of a rise in milk solid production per cow. The effective area in dairying has fallen by 7% to 125,000 ha, with a similar number of cows in milk (285,000). Dairying is spread fairly evenly across the three districts.



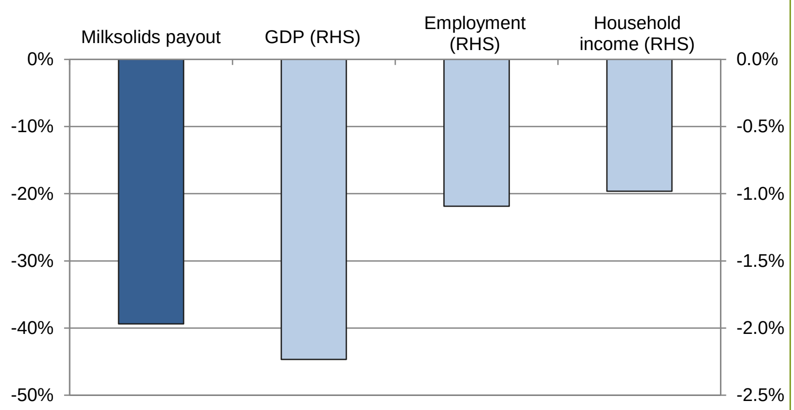
Contribution to the economy

The dairy industry is twice as important to the Northland economy as it is nationally. Together, dairy farming and dairy product processing accounted for 6% of Northland's GDP in the year ended March 2014 and employed a total of 3,000 persons (FTE basis), 5% of employment. The industry is particularly important to Kaipara, accounting for 14% of employment and 18% of GDP. It contributes around 4.5% of GDP and 3% of employment in both the Far North and Whāngārei.



Impact of the fall in dairy payout in 2015/16

Fonterra has announced a forecast payout of \$3.85 kg milk solids for the current 2015/16 season. This represents a \$2.50 kg (39%) decrease from the eight-year average milk solids payout of \$6.35 kg. Assuming 89 million kg of milk solids is produced, this would result in a drop in Northland dairy farm revenue of \$223 million. Using an input-output table of the region to estimate the impact of this on the Northland economy, a fall in the dairy payout of this magnitude will cause a 2% fall in GDP, and a 1% fall in regional employment and household income.



Impact of Māori land development

In late 2014 MPI released a report which estimated 4000 ha of Māori freehold land in Northland was capable of being converted into dairying. Using the same methodology, it is estimated 1900 ha of land in the Office of Treaty Settlement Tai Tokerau landbank could be converted into dairying. If this additional 5900 ha produces 714 kg/MS/ha and receives a \$6.35 kg MS payout, this would result in a 4.7% lift in dairy farm revenue. This creates a 0.25% lift in regional GDP and a 0.1% increase in employment and household income.