

Overview of Rotorua District

Rotorua's economy continued to perform strongly in the second quarter of 2016. According to Infometrics' provisional estimate of GDP, Rotorua Lakes' economy grew by 3.6% over the 12 months to June 2016, compared to 2.7%pa growth in the New Zealand economy. Growth in annual GDP in Rotorua has now been above the national average for four consecutive quarters.

All indicators of spending and investment behaviour remain firmly in growth mode, with activity driven up by high levels of population growth and a busy shoulder season for the tourism sector. Against this backdrop, we are continuing to see signs of improvements to labour market conditions, as evident by ongoing declines to the number of Jobseeker Support recipients.

Last Quarterly Economic Monitor, we suggested that the tourism sector would continue enjoying a roaring trade through the June quarter, and the numbers did not disappoint. Commercial accommodation providers had a record autumn, taking guest nights over the past 12 months to a record 2.1 million. Over the same period spending by visitors rose 4.8% to \$711 million, according to MBIE's Monthly Regional Tourism Estimates.

We anticipate that tourism sector activity will keep growing into 2017. However, we continue to caution that growth may be constrained by capacity constraints at peak times. These capacity constraints are putting upward pressure on accommodation and activity prices, at a time when a slight appreciation of the New Zealand dollar is already meaning tourists' budgets don't stretch as far as they did earlier in the year.

The upturn is also continuing for Rotorua's construction sector, which has spillover benefits for industries that support the sector, such as engineering, joinery and timber processing. Over the past year, the value of non-residential consents has risen by 22%, while there have been 57% more consents for new residential dwellings over the same period. With housing having become out of reach for many in Auckland, and even in nearby Hamilton and Tauranga, there has been significant interest in home buying in Rotorua.

Indicator	Rotorua District	Bay of Plenty Region	New Zealand
<i>Annual average % change</i>			
Gross domestic product	↑ 3.6%	↑ 4.0%	↑ 2.7%
Traffic flow	↑ 6.7%	↑ 8.4%	↑ 4.6%
Residential consents	↑ 57%	↑ 55%	↑ 16%
Non-residential consents	↑ 22%	↑ 8.8%	↑ 15%
House prices*	↑ 24%	↑ 18%	↑ 13%
House sales	↑ 79%	↑ 40%	↑ 16%
Guest nights	↑ 6.3%	↑ 7.6%	↑ 5.8%
Retail trade	↑ 5.9%	↑ 6.3%	↑ 2.8%
Car registrations	↑ 9.4%	↑ 9.7%	↑ 3.7%
Commercial vehicle registrations	↑ 24%	↑ 27%	↑ 6.2%
Jobseeker Support recipients	↓ -3.0%	↓ -4.5%	↓ -0.8%
<i>Level</i>			
Unemployment rate	6.3%	5.4%	5.2%
International net migration	917	2,452	69,087

* Annual percentage change (latest quarter compared to a year earlier)

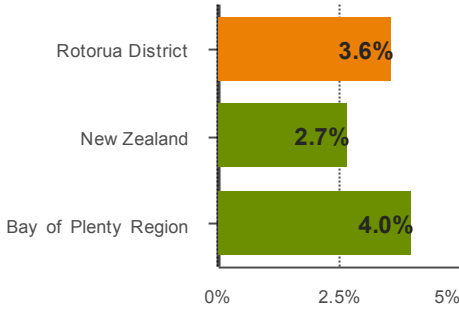
Overview of national economy

The unemployment rate edged down to 5.1% in the June quarter. Employment growth is being driven by strength in the construction, tourism, and broader service sector, a trend which is expected to continue over the coming 12-18 months and flow through into other parts of the economy. Most parts of the primary sector also performed well in the first half of the year, but conditions for dairy farmers remained subdued. Nevertheless, a surge in dairy prices since the June quarter ended has raised hopes of a slightly better 2016/17 dairy season. Despite strength in the labour market across New Zealand, there has still not yet been a broad-based increase to wages, which reflects an environment of low inflation. This situation is forcing the Reserve Bank to keep interest rates at a low level – good news for mortgage holders and businesses with credit lines.

Gross domestic product

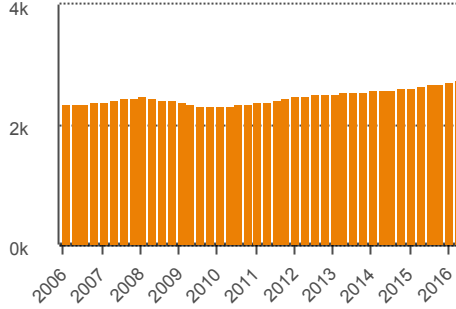
Gross domestic product growth

Annual average % change Jun 15 - Jun 16



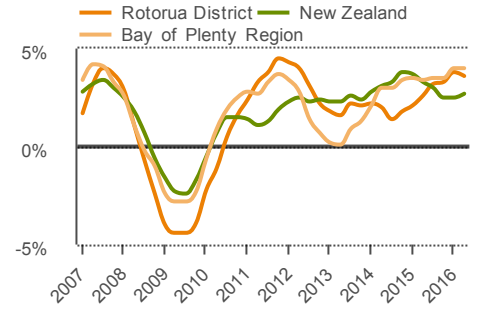
Gross domestic product (\$m)

Annual level, Rotorua District



Gross domestic product growth

Annual average % change



Highlights for Rotorua District

- GDP in Rotorua District was up 3.6% for the year to June 2016 compared to a year earlier. Growth was higher than in New Zealand (2.7%) and lower than in Bay of Plenty Region (4.0%).
- GDP was \$2,770 million in Rotorua District for the year to June 2016 (2010 prices).
- Annual GDP growth in Rotorua District peaked at 4.5% in the year to December 2011.

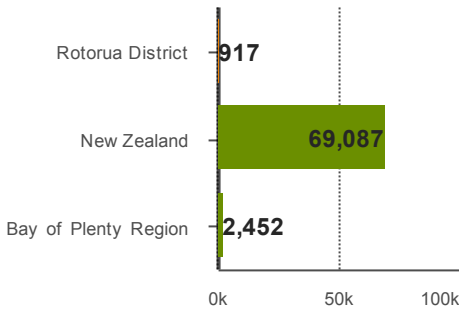
National overview

The New Zealand economy has performed strongly in the first half of 2016. A key driver of growth has been a migration-fuelled population increase, which has pushed up consumer demand and is forcing higher levels of homebuilding and commercial construction activity. Aside from these factors, record numbers of international visitors are pushing up tourism sector activity, while most parts of the primary sector, other than dairying, have seen healthy growth. These sentiments were echoed in NZIER's Quarterly Survey of Business Opinion. The QSBO showed that profitability in the June quarter was at its highest level since December 2003 and trading activity at its highest since March 2014. Firms are also noting capacity constraints as a limit to activity, particularly in the construction sector.

International net migration

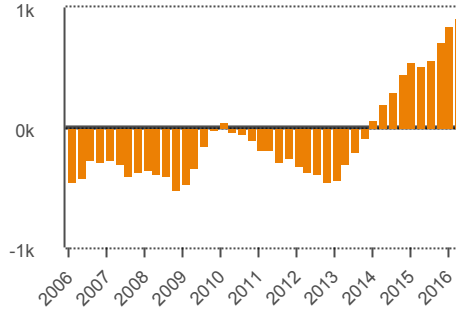
Net migration

Number of persons, year to June 2016



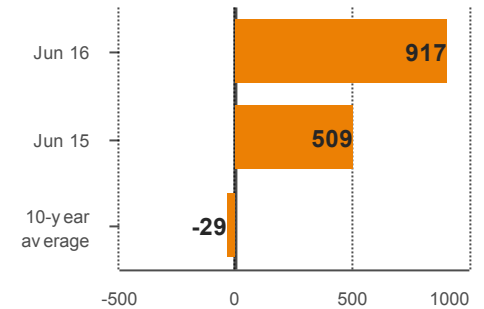
Net migration

Annual number of persons, Rotorua District



Net migration

Annual number of persons, Rotorua District



Highlights for Rotorua District

- Rotorua District experienced a permanent and long-term net migration gain of 917 persons in the year to June 2016. This compares with a gain of 509 a year ago, and a ten year average of 29 (loss).
- New Zealand's annual net migration increased to 69,087 from 58,256 a year ago.

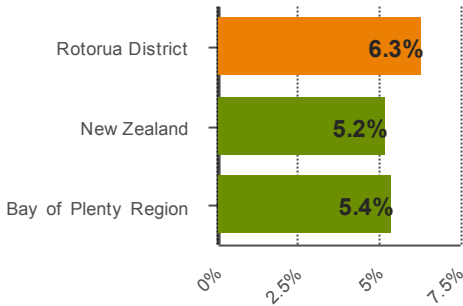
National overview

Annual net migration climbed to 69,090 in June, with permanent departure numbers dropping another 2.4% compared with May (seasonally adjusted). Over the June quarter, the most significant reductions in departure numbers compared with the same period in 2015 were to the UK (down 355 people, or 11%), Asia (down 157 people, or 7.7%), and Australia (down 135 people, or 2.4%). But with the gross inflow of permanent migrants having eased a little from the very high levels recorded in the second half of 2015, we might still be at a turning point for net migration. Nevertheless, any reductions to net migration are expected to be small over the near-term, given that labour market conditions in New Zealand still remain relatively attractive compared to other countries.

Unemployment rate

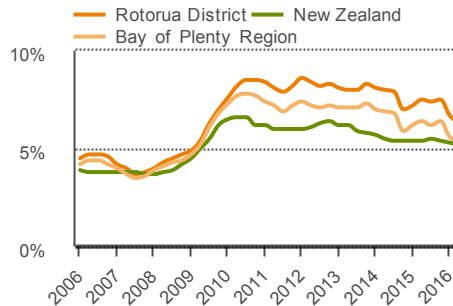
Unemployment rate

Average annual rate, year to June 2016



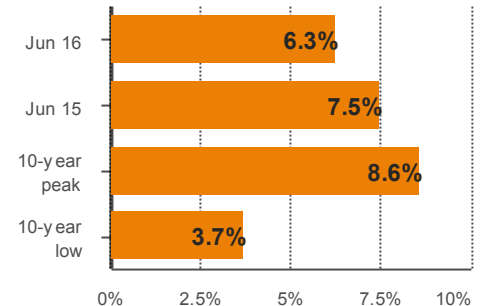
Unemployment rate

Average annual rate



Unemployment rate

Annual average, Rotorua District



Highlights for Rotorua District

- The annual average unemployment rate in Rotorua District was 6.3% in June 2016, down from 7.5% a year earlier.
- The unemployment rate in Rotorua District was higher than in New Zealand, where the unemployment rate averaged 5.2% over the year to June 2016.
- Over the last ten years the unemployment rate reached a peak of 8.6% in March 2012;

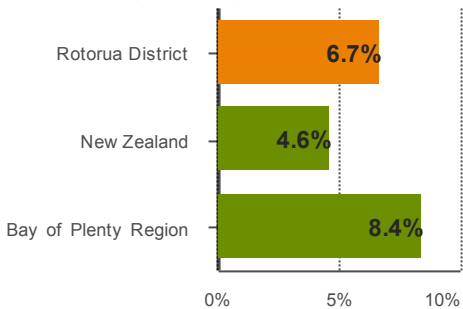
National overview

Methodological changes by Statistics NZ to the Household Labour Force Survey have made it difficult to interpret changes in unemployment over recent quarters. Nevertheless, the underlying theme from the data is that unemployment nationally is at a relatively low level and employment growth is strong. But despite good employment conditions, labour cost pressures remain relatively subdued. The general lack of consumer price inflation means that most employers are able to offer minimal wage increases yet still provide their workers with a lift in their real purchasing power. Industries where labour cost pressures are particularly weak include: rental, hiring, and real estate services; education and training; printing; and information media and telecommunications. Nevertheless, there are some industries where labour costs are rising above average, including: the forestry and fishing, wood and paper manufacturing, construction, and retail trade and accommodation sectors.

Traffic flow

Annual change in traffic flows

Annual average % change Jun 15 - Jun 16



Highlights for Rotorua District

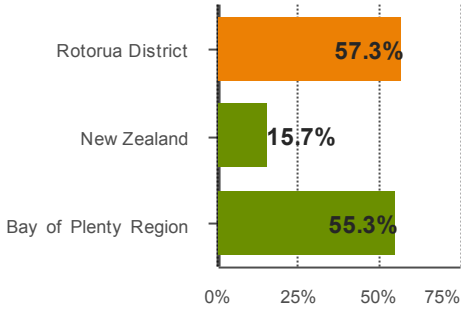
- Traffic flows in Rotorua District increased by 6.7% over the year to June 2016. This compares with an increase of 4.6% in New Zealand.

National overview

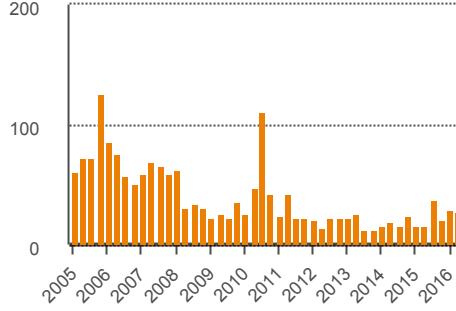
Growth in traffic flows continued to accelerate through the June quarter, with traffic flows nationally increasing by 4.6% over the 12 months to June, compared to the 4.2%pa growth seen over the March year. This lift in traffic flows is consistent with the healthy growth we have seen in economic activity over recent times, at a time when petrol prices remain relatively low. The increase in traffic flows is most evident in tourism meccas, particularly those that have relatively small populations, but have seen a surge in visitor activity. Areas in the upper North Island surrounding Auckland, that have seen sharp population growth, are also experiencing increases in traffic flows above the national average.

Residential consents

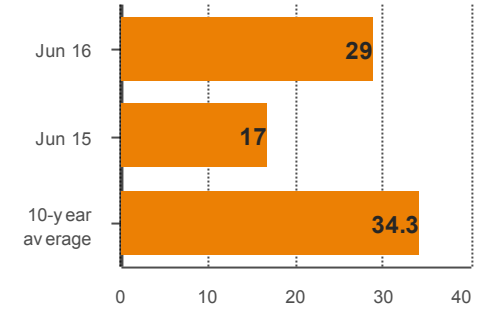
Growth in no. of new dwelling consents
Annual average % change Jun 15 - Jun 16



Residential consents
Quarterly number, Rotorua District



Number of new dwelling consents
Quarterly number, Rotorua District



Highlights for Rotorua District

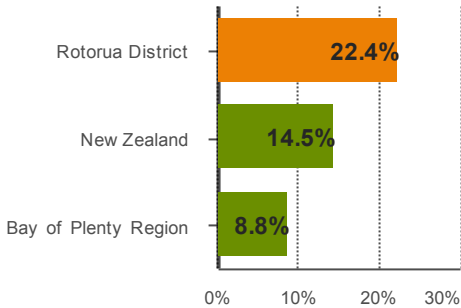
- A total of 29 new residential building consents were issued in Rotorua District in the June 2016 quarter, compared with 17 in the same quarter last year.
- On an annual basis the number of consents in Rotorua District increased by 57% compared with the same 12-month period a year ago. The number of consents in New Zealand increased by 16% over the same period.

National overview

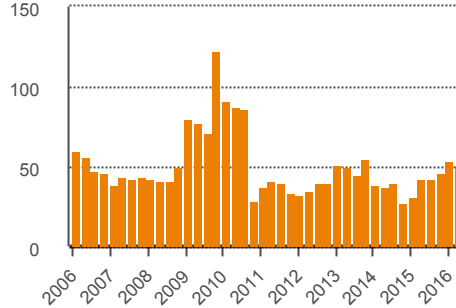
The lift in residential building consents has become increasingly broad-based over recent months, both regionally and by building type. No region can be singled out as the primary driver of this lift, which is why we consider this result a “team effort”. Regions such as Northland, Bay of Plenty, and Waikato in the “halo” surrounding Auckland continue to experience sharp growth in dwelling consents as increasingly unaffordable housing in Auckland pushes up interest in surrounding regions. Consents growth in Auckland has also shown signs of coming out of the lull apparent in earlier months this year. The number of new dwelling consents in Canterbury is also rising, with the effects of low interest rates and a solid labour market encouraging building activity, even as earthquake rebuild consents in Canterbury have come off their peak.

Non-residential consents

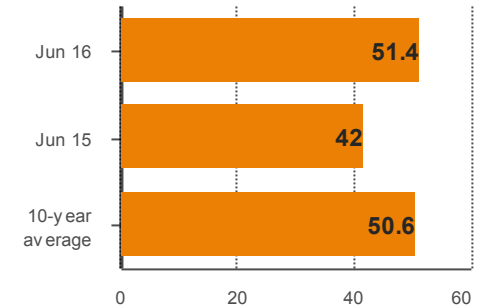
Growth in value of consents
Annual average % change Jun 15 - Jun 16



Non-residential consents, Rotorua District
\$m, annual running total, Rotorua District



Value of non-residential consents
Annual value (\$m), Rotorua District



Highlights for Rotorua District

- Non-residential building consents to the value of \$51 million were issued in Rotorua District during the year to June 2016.
- The value of consents increased by 22% over the year to June 2016. By comparison the value of consents in New Zealand increased by 15% over the same period.
- Over the last 10 years, consents in Rotorua District reached a peak of \$122 million in the year to December 2009.

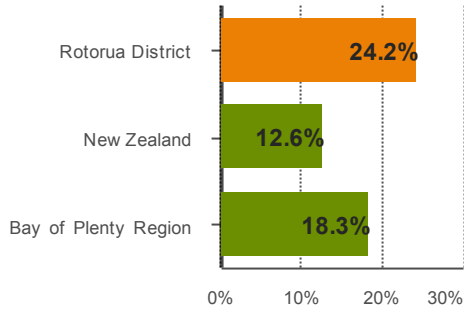
National overview

Non-residential building consents were up sharply over the June quarter, with a record \$739m of non-residential consents in the month of June alone. Canterbury and Auckland provided the main impetus for the lift in consents in June. The increase in Auckland has been broad-based across warehousing, prison work, hospitals, education, and offices, while a key driver of the lift in Canterbury was a \$180m consent for the new acute services building at Christchurch hospital. We expect consents to remain relatively strong throughout the second half of this year, although the September quarter result will be lower than in 2015 due to last August’s extraordinarily strong number.

House prices

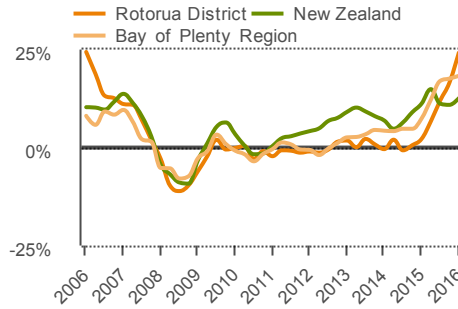
Annual change in house prices

Annual % change Jun 15 - Jun 16



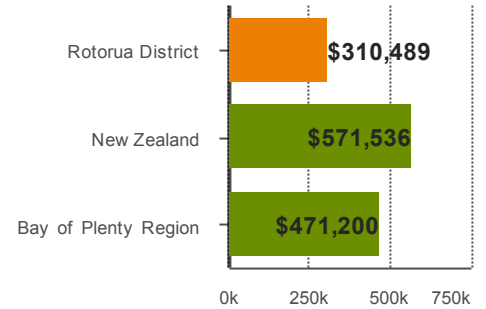
House price growth

Annual % change



Average current house value

Average for 12 months to Jun 2016



Highlights for Rotorua District

- The average current house value in Rotorua District was up 24% in June 2016 compared with a year earlier. Growth outperformed relative to New Zealand, where prices increased by 13%.
- The average current house value was \$310,489 in Rotorua District over the June 2016 year. This compares with \$571,536 in New Zealand.

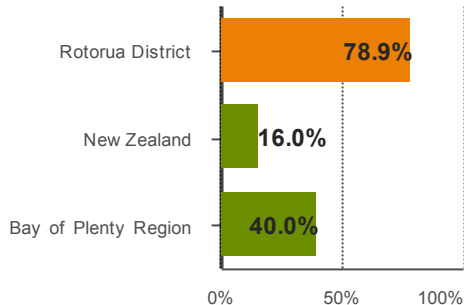
National overview

House price inflation around New Zealand in June was 13%pa, with prices in Auckland and surrounding regions climbing at rates of 15-30%pa! House prices in Queenstown rose 25% over the year to June, while prices in Wellington and Dunedin cities are still heating up, climbing 18% and 10% respectively from a year earlier. But the recent announcement of a severe tightening of loan-to-value restrictions by the Reserve Bank is expected to see these rates of house price growth moderate by about 4-5% outside Auckland in the year following the rule change. The effects are likely to be slightly more muted in Auckland as restrictions were already relatively tighter there. However, as with previous LVR tightening, the effects on house price growth will be temporary and more efforts to shore up housing supply are needed before any real lasting material improvements to home affordability occur.

House sales

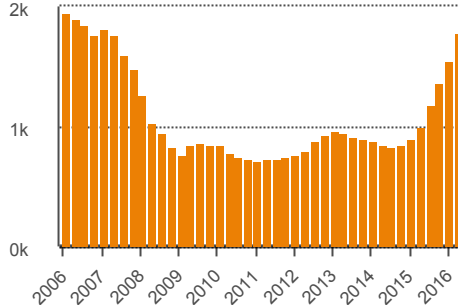
Annual change in house sales

Annual average % change Jun 15 - Jun 16



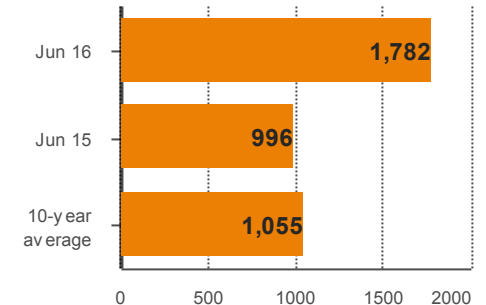
House sales

Annual number, Rotorua District



House sales

Annual number, Rotorua District



Highlights for Rotorua District

- House sales in Rotorua District in the year to June 2016 increased by 79% compared with the previous year. Growth outperformed relative to New Zealand, where sales increased by 16%.
- A total of 1,782 houses were sold in Rotorua District in the 12 months ended June 2016. This compares with the ten year average of 1,055.

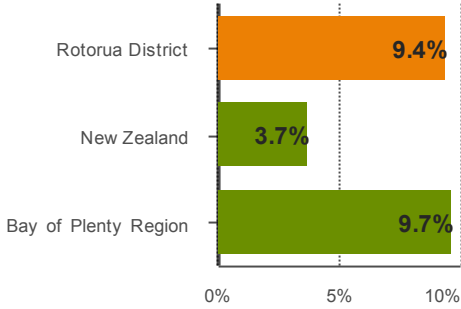
National overview

House sales have expanded right throughout the country over the past year, with sales in Northland up 44% from a year earlier, and sales in Southland up 30% over the same period. Other considerable increases in sales took place in Waikato (up 34%), Bay of Plenty (up 40%), Hawke's Bay (up 35%), and Otago (up 23%). Although sales activity in Auckland continued to recover from its November 2015 slump, growth was well behind that of the rest of the country with the June year result barely up (1.1%) from last year. The Reserve Bank's recent tightening of loan-to-value restrictions are expected to soften house sales activity in the second half of 2016 by limiting access to financing, particularly for investors.

Car registrations

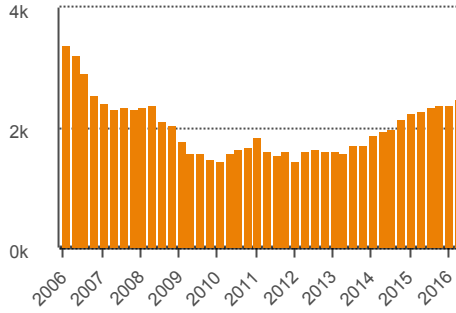
Car registrations

Annual average % change Jun 15 - Jun 16



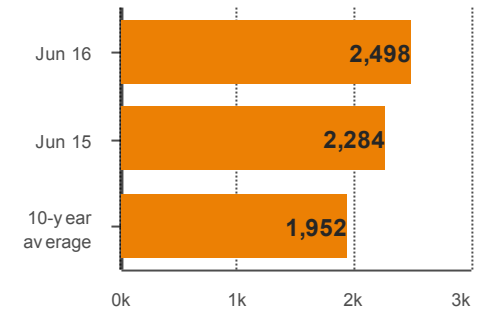
Car registrations

Annual number, Rotorua District



Car registrations

Annual number, Rotorua District



Highlights for Rotorua District

- The number of cars registered in Rotorua District increased by 9.4% in the year to June 2016 compared with the previous 12 months. Growth was higher than in New Zealand, where car sales increased by 3.7%.
- A total of 2,498 cars were registered in Rotorua District in the year to June 2016. This compares with the ten year average of 1,952.

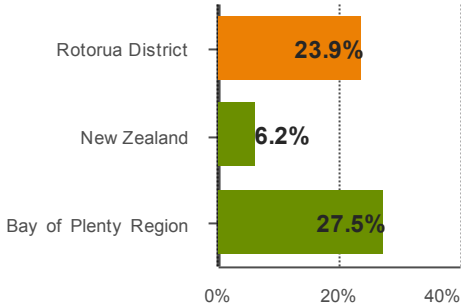
National overview

Car sales grew by 3.7% over the year to June, with new car sales continuing to grow, while used car sales have cooled slightly as the New Zealand dollar has weakened against the Japanese yen. However, demand indicators suggest further significant slides to used car demand are unlikely. According to the ANZ-Roy Morgan consumer confidence survey, consumers view of their current financial situation was at its highest in almost two years. This strength in consumer confidence also bodes well for new cars sales, which are likely to receive an additional boost from stronger business confidence which, in the June quarter, stood at its highest since March 2015, according to the NZIER's Quarterly Survey of Business Opinion. With car prices still relatively low and consumer confidence building off expectations of a lift in economic growth, total car sales are expected to hold above fundamentals over the year ahead.

Commercial vehicle registrations

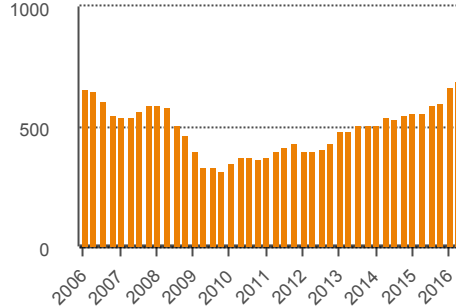
Commercial vehicle registrations

Annual average % change Jun 15 - Jun 16



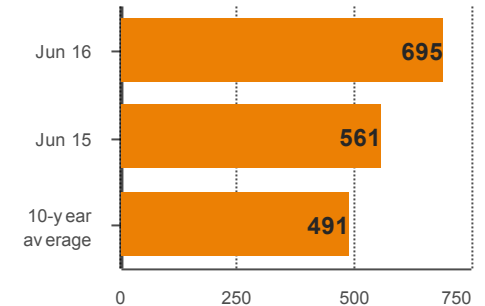
Commercial vehicle registrations

Annual number, Rotorua District



Commercial vehicle registrations

Annual number, Rotorua District



Highlights for Rotorua District

- The number of commercial vehicles registered in Rotorua District increased by 24% in the year to June 2016 compared with the previous 12 months. Growth was higher than in New Zealand, where commercial vehicle sales increased by 6.2%.
- A total of 695 commercial vehicles were registered in Rotorua District in the year to June 2016. This is higher than the ten year annual average of 491.

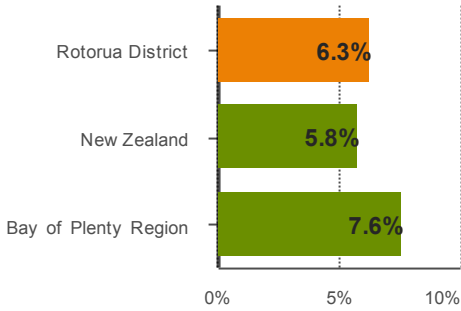
National overview

The June quarter marked a continuation of the March quarter sales trends for commercial vehicles. Total sales continued to climb, but this growth was solely due to an increase of light commercial vehicle sales, while heavy truck sales eased. The strength of the construction sector is likely to be driving this increase in demand for utes and other light commercials. According to the NZIER's Quarterly Survey of Business Opinion, construction companies are having the most difficulty in finding skilled labour since at least December 1995. With the mountain of building work to be done, construction firms are likely to be throwing everything they can into getting new staff on board, including higher pay and access to vehicles. Heavy truck fleets, on the other hand, have already gone through a significant level of investment this investment cycle and are coming off peak levels.

Guest nights

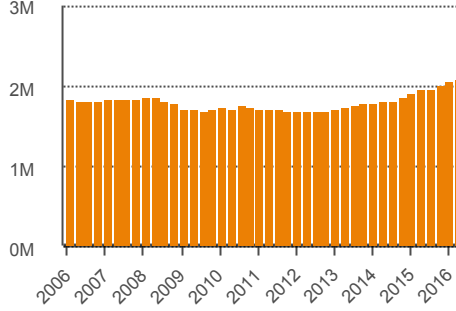
Guest nights

Annual average % change Jun 15 - Jun 16



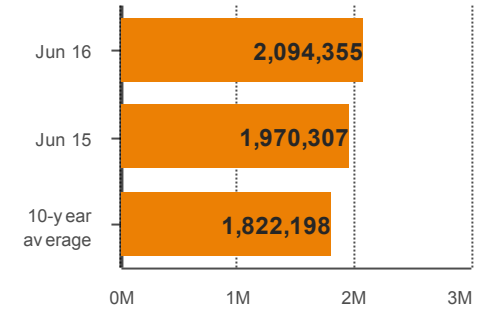
Guest nights

Annual number, Rotorua District



Guest nights

Annual number, Rotorua District



Highlights for Rotorua District

- Total guest nights in Rotorua District increased by 6.3% in the year to June 2016. This compares with an increase of 5.8% in New Zealand.
- Visitors stayed a total of 2,094,355 nights in Rotorua District during the year to June 2016, which was up from 1,970,307 a year ago.

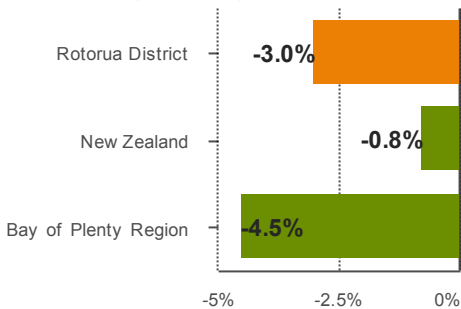
National overview

Guest nights over the year to June 2016 were up 5.7% from a year earlier, with guest nights by both domestic and international visitors climbing. Total visitor arrivals at airports surpassed 3.3 million on an annual basis for the first time on record. Visitor arrivals to New Zealand are growing from all major source markets, with growth strongest from Asia – the area that has seen the biggest lift in direct air capacity to New Zealand over recent months. Arrivals from Australia are growing, but not quite as fast as we had anticipated. The slower growth may be due to a late start to the ski season, which put some Australians off visiting. Nevertheless, recent snow dumps will have given Australian skiers confidence to book in leave for the second half of the season.

Jobseekers

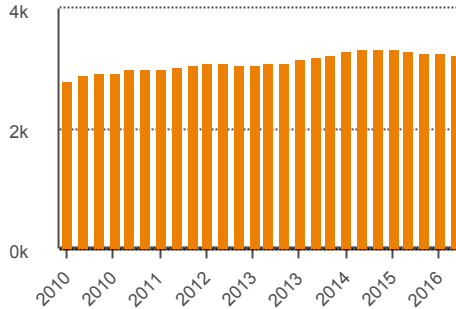
Annual change in Jobseekers

Annual average % change Jun 15 - Jun 16



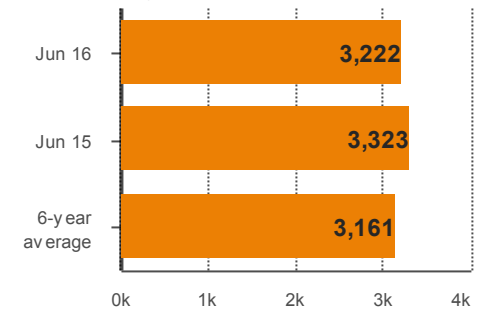
Jobseekers

Annual average, Rotorua District



Jobseekers

Annual average, Rotorua District



Highlights for Rotorua District

- Working age Jobseeker Support recipients in Rotorua District in the year to June 2016 decreased by 3.0% compared with the previous year. Growth was lower relative to New Zealand, where the number of Jobseeker Support recipients decreased by 0.8%.
- An average of 3,222 people were receiving a Jobseeker Support benefit in Rotorua District in the 12 months ended June 2016. This compares with an average of 3,161 since the start of the series in 2010.

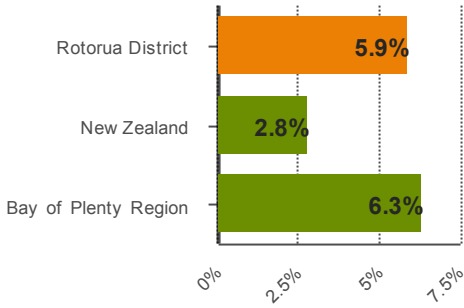
National overview

Jobseeker Support recipient numbers continued to ease in the June quarter, taking the average number of support recipients over the year to June to 0.8% below their average from the previous year. The reduction to those receiving Jobseeker Support is no surprise, given that job growth throughout the country is running well above population growth. The Quarterly Employment Survey and estimates of filled jobs based on tax data both show annual employment growth of 3.1% over the year to June, compared to a 2.7% increase in the working-age population over the last 12 months. Continued growth in the construction and services sectors is likely to underpin further strong labour market results in coming quarters, with surveys suggesting that employers in these sectors are already facing shortages across both skilled and unskilled positions.

Retail trade

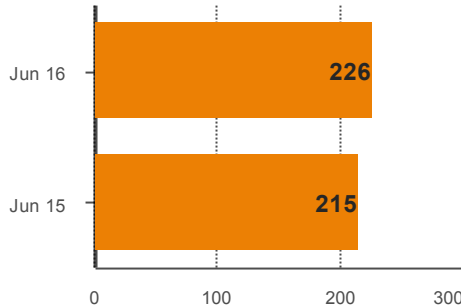
Growth in retail sales

Annual average % change Jun 15 - Jun 16



Retail sales

Quarterly value (\$m), Rotorua District



Highlights for Rotorua District

- Electronic card retail spending in Rotorua District, as measured by Marketview, increased by 5.9% over the year to June 2016 compared to the previous year. This compares with an increase of 2.8% in New Zealand.

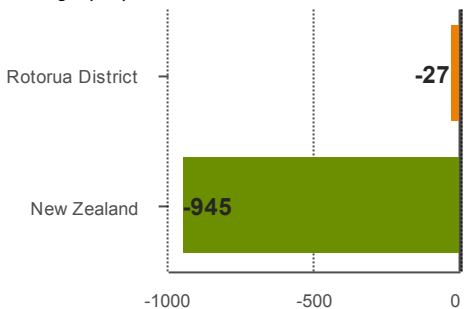
National overview

The total value of electronic card spending on retail purchases in the June 2016 quarter was up 2.3% from a year earlier, according to data from Marketview, taking growth over the past twelve months to 2.8%. Statistics New Zealand's retail trade survey suggests that hardware, building, and garden supply stores made the biggest contribution to growth, while pharmaceutical and other store-based retailing, and food and beverage services were not far behind. We expect growth to continue apace over the next 12-18 months, underpinned by construction and tourism-related spending and backed up by solid job and income security. Overall, a lack of price inflation continues to be a key feature of the retail sector. The core retail deflator is at the same level as it was in September 2009, implying average prices are the same as they were seven years ago.

Total dairy payout

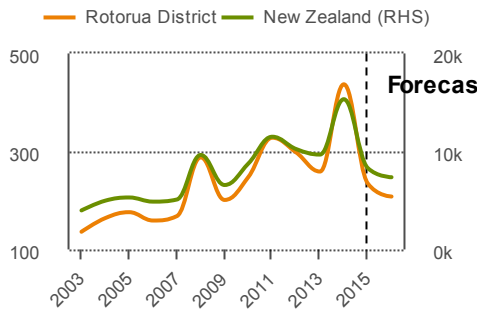
Total dairy payout

Change (\$m) between 2014/15 and 2015/16 season



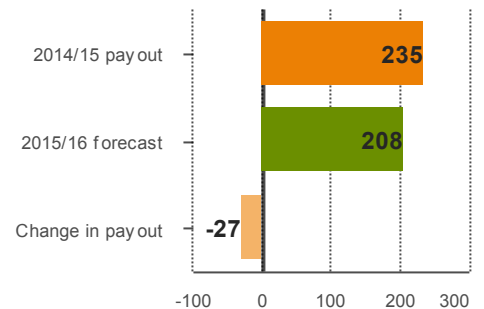
Total dairy payout

\$m each season, Rotorua District



Total dairy payout

\$m each season, Rotorua District



Highlights for Rotorua District

- Rotorua District's total dairy payout for the 2014/15 season is estimated to have been approximately \$235m.
- Rotorua District's dairy payout for the 2015/16 season is expected to be approximately \$208m, \$26.7m lower than last season, assuming that production levels from last season are maintained.
- The total dairy payout for New Zealand is estimated to have been approximately \$8,316m in the 2014/15 season, but is expected to be \$945m lower than in the 2015/16 season.

National overview

Fonterra has forecast a farmgate milk price of \$3.90/kgms for the 2015/16 season which ended on 31 May 2016. At this level most farmers are still making losses, with Dairy NZ estimating that dairy farmers' breakeven point is currently around \$5.05/kgms. Nevertheless, this breakeven point is lower than the \$5.77/kgms mark that Dairy NZ estimated for the 2014/15 season, indicating that the average dairy farmer has worked hard on ensuring that they have efficient farm management practices. Furthermore, stripping drawings and depreciation out of Dairy NZ's estimates shows working expenses currently sit at around \$4.07/kgms. Given that Fonterra has an opening forecast for the 2016/17 season of \$4.25/kgms, the heat is beginning to slowly abate for some farmers. Recent sharp increases at dairy auctions also suggest there is possibility the payout could creep higher yet this season.

Technical notes

Gross Domestic Product

Gross Domestic Product is estimated by Infometrics. A top down approach breaks national industrial production (sourced from production based GDP measures published by Statistics New Zealand) is broken down to TA level by applying TA shares to the national total. Each TA's share of industry output is based on earnings data from LEED. GDP growth in recent quarters is based on a model which uses the various partial economic indicators presented in this report as inputs.

Net migration

Net migration is the difference between the number of arrivals and departures of permanent and long-term migrants. Data is sourced from International Travel and Migration statistics from Statistics New Zealand.

Unemployment

Regional level unemployment rates are sourced from Statistics New Zealand's Household Labour Force Survey. Trends in the number of Jobseekers at TA level are used to break down regional unemployment rates to TA level. To reduce volatility the unemployment rate is presented as an average for the last four quarters.

Traffic flow

Traffic flow growth rates are calculated from the number of vehicles passing approximately 110 sites monitored by New Zealand Transport Agency. Each of the sites has been mapped to a territorial authority.

Retail Sales

The retail spending data is sourced from Marketview. It measures total electronic card spending using spending through the Paymark network and adding to it an estimate of non-Paymark network spending using the pattern of BNZ card holder spending at non-Paymark retailers. For further breakdown of the data by storetype and other variables contact Marketview.

Accommodation

The number of guest nights is sourced from Statistics New Zealand's Accommodation Survey. A guest night is equivalent to one guest spending one night at an establishment. For example, a motel with 15 guests spending two nights would report that they had provided 30 guest nights.

House sales

The number of house sales is sourced from REINZ. The indicator measures the number of house sales at the point when the sale becomes unconditional. The unconditional date is the date when all the terms of an agreement have been satisfied and the sale and purchase can proceed to settlement.

House values

House value (dollar value) are sourced from QVNZ. The levels quoted in the report are average current values over the past 12 months. An average current value is the average (mean) value of all developed residential properties in the area based on the latest house value index from QVNZ. It is not an average or median sales price, as both of those figures only measure what happens to have sold in the period. These average current values are affected by the underlying value of houses (including those not on the market) and are quality adjusted based on the growth in each house's price between sales.

Building consents

Building consents data are sourced from Statistics New Zealand. Non-residential consents include the value of both new buildings and alterations.

Vehicle sales

Car and commercial vehicle sales data are sourced from New Zealand Transport Authority. Sales are based on new registrations which include the first time registration of new vehicles and used vehicles imported from overseas.

Dairy

Dairy data has been sourced from the "New Zealand Dairy Statistics", a publication co-owned by DairyNZ and LIC, as well as calculations made by Infometrics. The data accords to dairy seasons, which run from June to May. Total dairy payouts in each territorial authority have been calculated by Infometrics by utilising milk solids production in conjunction with Fonterra's farmgate milk price (excluding dividends) from the dairy season in question. For the current season, Infometrics calculates a payout forecast using our own expectation of the farmgate milk price and the assumption that milk solids production continues running at the same level from the previous season.

Jobseekers Support

In July 2013 the New Zealand's welfare system changed to better recognise and support people's work potential. As part of this the Jobseekers Support benefit was introduced. This benefit is for people who can usually look or prepare for work but also includes people who can only work part-time or can't work at the moment, for example, because they have a health condition, injury or disability.

Data presented for the September 2013 quarter onwards is provided by the Ministry of Social Development (MSD). Data prior to September 2013 are Infometrics estimates based on re-grouping pre-July 2013 benefit categories to be consistent with the post-July 2013 benefit categories. The pre-July 2013 benefit categories used to estimate the number of Jobseekers Support recipients are: Unemployment Benefit and Unemployment Benefit Hardship; Unemployment Benefit Training and Unemployment Benefit Hardship Training; Sickness Benefit and Sickness Benefit Hardship; Domestic Purposes Benefit - Sole Parent (if youngest child is 14 or over); Women Alone and Widow's Benefit (without children or with children 14 or over)