

Overview of Hamilton City

Infometrics' provisional GDP estimate shows that Hamilton City's economy grew by a robust 3.2% over the December 2014 year. Strong economic growth was also reflected in a 4.1% lift in traffic flows in Hamilton during 2014. In this environment, the value of retail spending on electronic cards in the December 2014 quarter was 3.6% higher than a year earlier, according to data from Marketview.

MBIE's Regional Tourism indicators suggests that international visitor spending in Hamilton during each month in the December 2014 quarter was on average 17% higher than a year earlier. Although spending by domestic visitors in the December 2014 quarter was flat compared with a year earlier, data from January shows that domestic visitors spent 2.3% more than in January 2014.

Other parts of Hamilton's service sector should also enjoy healthy conditions during 2015. The BNZ-BusinessNZ Performance of Services Index (PSI) shows service sector activity in the Northern region (which includes Hamilton and Auckland) is expanding. The PSI in January read 52.5, with a reading over 50 suggests that service sector activity is expanding.

Although Hamilton City's average unemployment rate rose from 7.5% in 2013 to 7.9% in 2014, unemployment was still well down on its March 2012 year peak of over 9%. The reason for the slight uptick in the unemployment rate during 2014, is likely to be the sharp surge in net migration pushing up the labour supply marginally faster than jobs were created. In 2015, the unemployment rate is expected to fall as employment demand remains strong.

The stabilisation of dairy prices over the past couple of months will bring a sigh of relief to businesses exposed to the dairy sector. Although low dairy prices during a single season have little effect on Hamilton City's economy, a second year of subdued prices would have begun to affect confidence and spending in the City.

| Indicator | Hamilton City | Waikato Region | New Zealand |
|----------------------------------|---------------|----------------|-------------|
| <i>Annual average % change</i> | | | |
| Gross domestic product | ↑ 3.2% | ↑ 3.2% | ↑ 3.2% |
| Traffic flow | ↑ 4.1% | ↑ 4.5% | ↑ 2.8% |
| Residential consents | ↓ -13% | ↑ 5.1% | ↑ 16% |
| Non-residential consents | ↓ -4.8% | ↑ 6.3% | ↑ 21% |
| House prices* | ↑ 3.2% | ↑ 2.2% | ↑ 4.9% |
| House sales | ↓ -9.8% | ↓ -7.1% | ↓ -6.6% |
| Guest nights | ↑ 5.6% | ↑ 8.3% | ↑ 6.2% |
| Retail trade* | ↑ 3.6% | | ↑ 2.4% |
| Car registrations | ↑ 26% | ↑ 25% | ↑ 21% |
| Commercial vehicle registrations | ↑ 13% | ↑ 19% | ↑ 19% |
| <i>Level</i> | | | |
| Unemployment rate | 7.9% | 6.4% | 5.7% |
| International net migration | 1,034 | 1,778 | 50,920 |

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

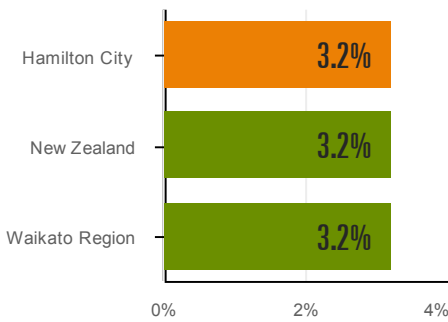
Overview of national economy

Uncertainty about much of the world economy has shown up in significant drops in oil prices and long-term interest rates, and has also negatively affected the outlook for New Zealand's growth over the next couple of years. Dairy prices have recently stabilised, but fell much faster and further than expected during 2014, which will dampen spending growth over the next couple of years. Broader international demand conditions also remain shakier than might have previously been anticipated. There is a lack of inflationary pressures both domestically and internationally, and any further rises in interest rates by the Reserve Bank are a long way off – despite evidence that the Auckland housing market is reigniting. Amid this backdrop New Zealand's GDP growth is forecast to hold above 3.0%pa this year before slowing to 2.1% in the 2016 calendar year.

Gross domestic product

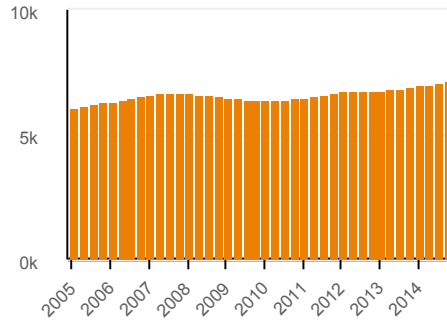
Gross domestic product growth

Annual average % change Dec 13 - Dec 14



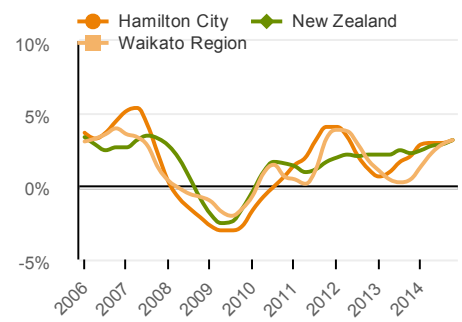
Gross domestic product (\$m)

Annual level, Hamilton City



Gross domestic product growth

Annual average % change



Highlights for Hamilton City

- GDP in Hamilton City was up 3.2% for the year to December 2014 compared to a year earlier. Growth was the same as in New Zealand (3.2%) and the same as in Waikato Region (3.2%).
- GDP was \$7,166 million in Hamilton City for the year to December 2014 (2010 prices).
- Annual GDP growth in Hamilton City peaked at 5.4% in the year to June 2007.

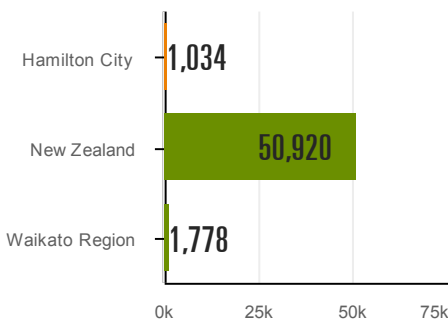
National overview

The New Zealand economy grew at a healthy rate throughout 2014, with our provisional estimate of GDP showing economic growth of 3.2%pa over the year to December – the fastest year of economic growth since the Global Financial Crisis. Last year was characterised by a broad-based improvement to most parts of the economy. The external sector boomed as visitor arrivals soared and the terms of trade index (ratio of export to import prices) hit 40 year highs, while construction activity rose sharply as the Canterbury rebuild continued to gather momentum and home-building in Auckland picked up. The service sector also experienced strong growth. Substantial improvements to labour market conditions have encouraged a migration boom, which has boosted demand in the New Zealand economy and lifted our nation's productive capacity.

International net migration

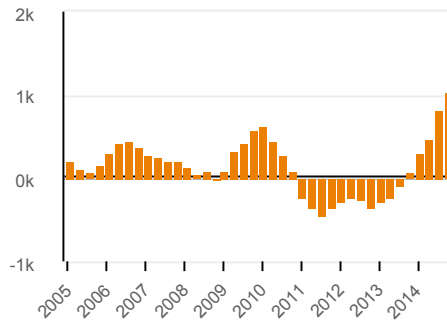
Net migration

Number of persons, year to December 2014



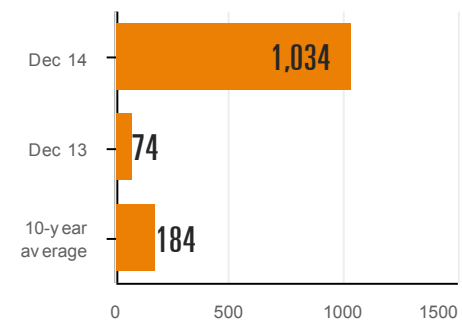
Net migration

Annual number of persons, Hamilton City



Net migration

Annual number of persons, Hamilton City



Highlights for Hamilton City

- Hamilton City experienced a permanent and long-term net migration gain of 1,034 persons in the year to December 2014. This compares with a gain of 74 a year ago, and a ten year average of 185 (gain).
- New Zealand's annual net migration increased to 50,920 from 22,466 a year ago.

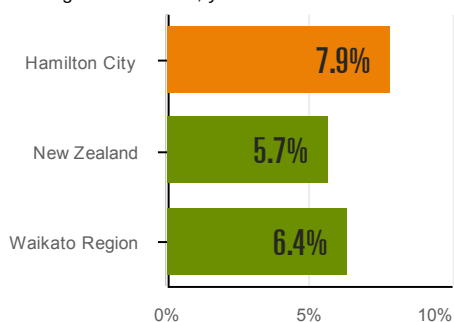
National overview

Annual net migration rose to 50,922 people in the 2014 calendar year, the highest net inflow on record (since 1978). The surge in net migration inflows over the past year has been due to both a lift in arrivals (up 16% from 2013) and a drop in departures (down 18%). Although net migration has been evolving roughly in line with our expectations in recent months, we see scope for net migration to keep climbing in the early stages of 2015 — with net inflows peaking at around 53,000pa. However, stabilisation to the unemployment rate in Australia, more moderate employment growth in New Zealand, and a slight easing of student arrivals following their recent surge will see overall net migration fall gradually from mid-2015.

Unemployment rate

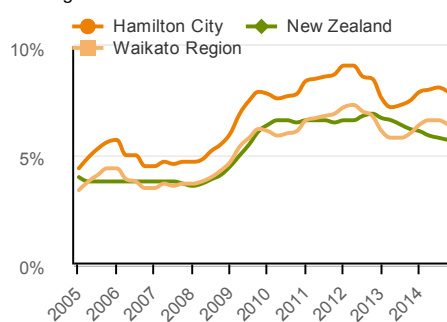
Unemployment rate

Average annual rate, year to December 2014



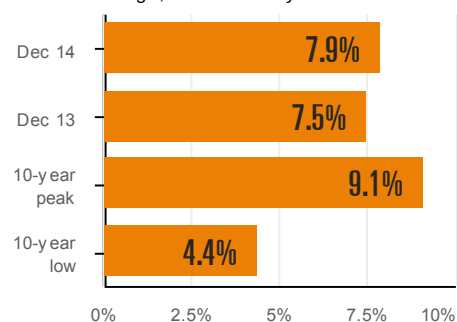
Unemployment rate

Average annual rate



Unemployment rate

Annual average, Hamilton City



Highlights for Hamilton City

- The annual average unemployment rate in Hamilton City was 7.9% in December 2014, up from 7.5% a year earlier.
- The unemployment rate in Hamilton City was higher than in New Zealand, where the unemployment rate averaged 5.7% over the year to December 2014.
- Over the last ten years the unemployment rate reached a peak of 9.1% in June 2012;

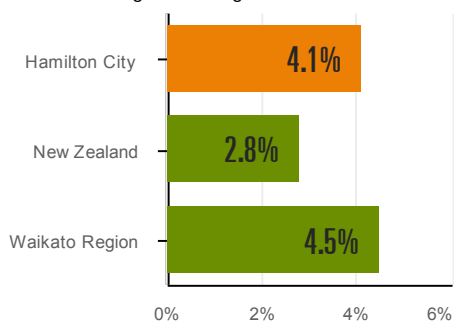
National overview

With the unemployment rate climbing to 5.7% in December, the labour market result looks weak. However, this weakness is far from the truth. A rapid expansion in the participation rate and strong employment growth point to a labour market that is tightening swiftly. Employment rose by a heady 1.2% in the December quarter (seasonally adjusted). This drove the seasonally adjusted employment rate up to 65.7% in the December quarter — its highest in six years. Coupled with elevated usual hours worked this high proportion of the working age population in employment indicates that spare capacity in the economy continues to dwindle. With no sign that labour demand is slowing, we expect the unemployment rate to shrink back over 2015 as employers vie for workers in a shrinking pool of available labour.

Traffic flow

Annual change in traffic flows

Annual average % change Dec 13 - Dec 14



Highlights for Hamilton City

- Traffic flows in Hamilton City increased by 4.1% over the year to December 2014. This compares with an increase of 2.8% in New Zealand.

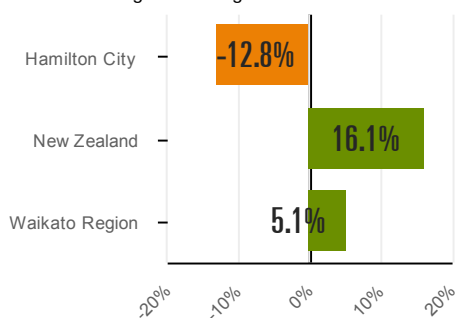
National overview

Traffic flows in New Zealand over the year to December grew a healthy 2.8% from a year earlier, up from growth of 2.6% over the year to September. Growth has been relatively broad-based across New Zealand, with traffic flows rising particularly strongly in provincial areas. Record spring milk production and a sharp lift in tourist numbers, at a time when economic conditions continue to strengthen will have pushed up traffic flows in these areas. Of the main urban areas, traffic flows in Christchurch City rose strongly, while traffic flows grew below the national average in Auckland and across the Wellington region.

Residential consents

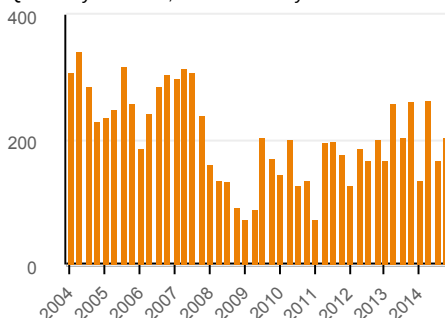
Growth in no. of new dwelling consents

Annual average % change Dec 13 - Dec 14



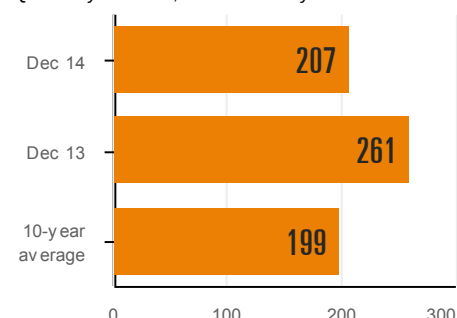
Residential consents

Quarterly number, Hamilton City



Number of new dwelling consents

Quarterly number, Hamilton City



Highlights for Hamilton City

- A total of 207 new residential building consents were issued in Hamilton City in the December 2014 quarter, compared with 261 in the same quarter last year.
- On an annual basis the number of consents in Hamilton City decreased by 13% compared with the same 12-month period a year ago. The number of consents in New Zealand increased by 16% over the same period.

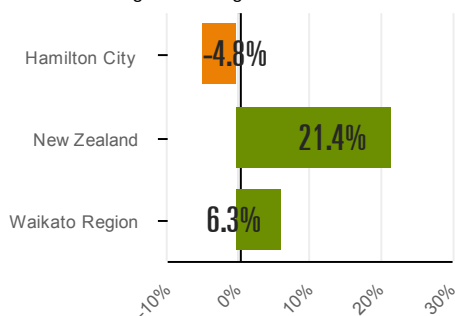
National overview

Non-apartment consents remained elevated in the December quarter, sitting 11% higher than levels a year ago. Consent growth in Auckland was at its fastest pace since May 2014. However, this result sits well below our expectations — despite targets in the Auckland Housing Accord being exceeded for the amount of land made available. When comparing the December quarter to a year earlier, the growth in non-apartment consents continues to be urban-centric. All seven out of the 16 regions to experience a decline in dwelling consents over the period were those with a stronger reliance on agricultural activity for economic growth. Given the lower dairy payout, we expect attitudes towards new house building in farming communities to be more cautious over the year ahead. Nevertheless, low interest rates, elevated migration inflows, and lower levels of unemployment, should ensure that consent numbers nationally rise.

Non-residential consents

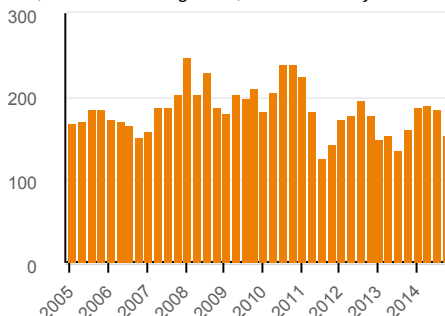
Growth in value of consents

Annual average % change Dec 13 - Dec 14



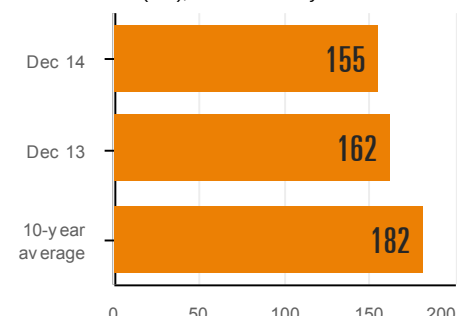
Non-residential consents, Hamilton City

\$m, annual running total, Hamilton City



Value of non-residential consents

Annual value (\$m), Hamilton City



Highlights for Hamilton City

- Non-residential building consents to the value of \$155 million were issued in Hamilton City during the year to December 2014.
- The value of consents decreased by -4.8% over the year to December 2014. By comparison the value of consents in New Zealand increased by 21% over the same period.
- Over the last 10 years, consents in Hamilton City reached a peak of \$248 million in the year to March 2008.

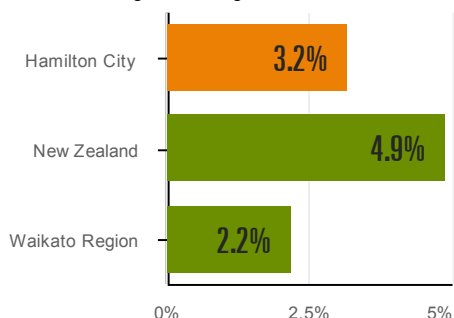
National overview

For the December quarter, commercial building consents came in above forecast, with factory consents particularly strong. This strong results above were partly offset by relatively weak figures for hospital and education consents. Major projects remain in the pipeline for both these building types, but the timing of consents coming through can sometimes be difficult to pinpoint. We expect overall non-residential consents to consolidate a little below current levels during the first half of 2015, but with growth accelerating again later in the year as urban property markets tighten up and rebuilding work in Canterbury increases.

House prices

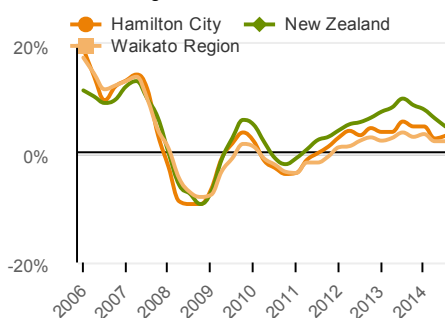
Annual change in house prices

Annual average % change Dec 13 - Dec 14



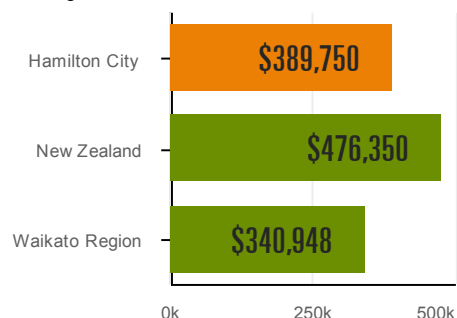
House price growth

Annual % change



Median house price

Average for 12 months to Dec 2014



Highlights for Hamilton City

- The median house price in Hamilton City was up 3.2% in December 2014 compared with a year earlier. Growth underperformed relative to New Zealand, where prices increased by 4.9%.
- The median house price was \$389,750 in Hamilton City in the December 2014 quarter. This compares with \$476,350 in New Zealand.

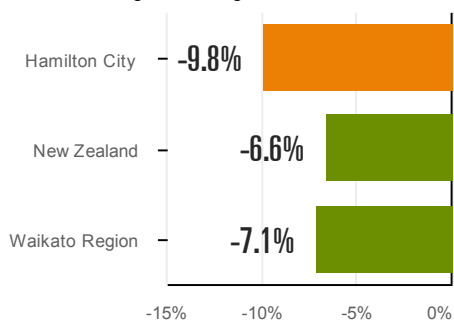
National overview

At 4.9%pa, annual house price inflation in December was at its slowest since August 2012, but recent monthly changes suggest the market is starting to pick up again heading into 2015. The recent signs of improvement are due in no small part to the Auckland market. The six areas with the fastest house price inflation over the last year are all located in the Auckland region. Around most of the rest of the country, the housing market remains relatively subdued. Price growth in Christchurch is at a three-year low, as the effects of the earthquakes on the market begin to wear off. With strong population growth and low mortgage rates, we expect the Auckland housing market to continue accelerating throughout 2015. However, a better balance between demand and supply is likely to limit any pick-up in growth around the rest of the country.

House sales

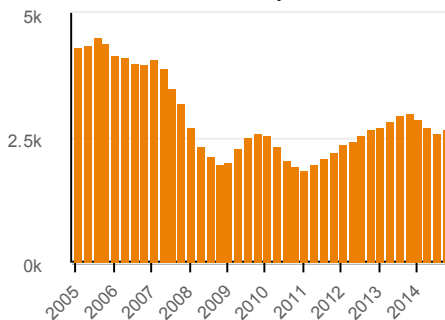
Annual change in house sales

Annual average % change Dec 13 - Dec 14



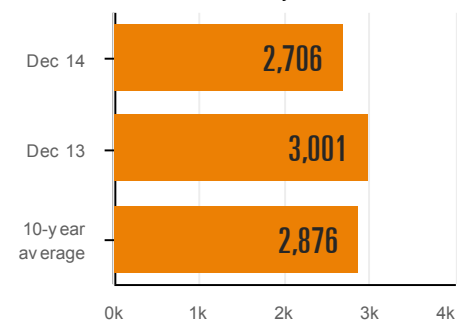
House sales

Annual number, Hamilton City



House sales

Annual number, Hamilton City



Highlights for Hamilton City

- House sales in Hamilton City in the year to December 2014 decreased by 9.8% compared with the previous year. Growth underperformed relative to New Zealand, where sales decreased by 6.6%.
- A total of 2,706 houses were sold in Hamilton City in the 12 months ended December 2014. This compares with the ten year average of 2,876.

National overview

House sales surged upwards in December. Driving this lift was another double-digit increase in Auckland house sales, which was topped off by a sharp uptick in sales in Wellington region. December quarter house sales were up from a year earlier in every region across the country. With strong migrant numbers and home-buyers now better prepared to make the 20% deposit often required for new mortgages, sales activity is expected to continue trending upwards over the year ahead. Even so, we expect that the housing market in provincial regions will remain relatively subdued as lower agricultural export revenues dampen demand. Furthermore, there are risks that the housing market will once again come under the Reserve Bank's hammer, with the Bank announcing potential further constraints on property investors.

Car registrations

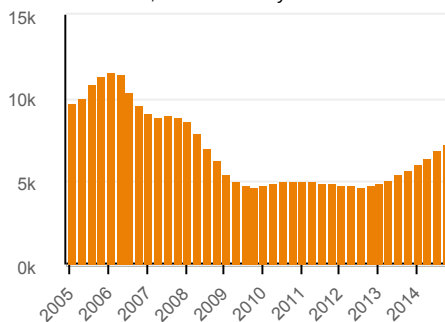
Car registrations

Annual average % change Dec 13 - Dec 14



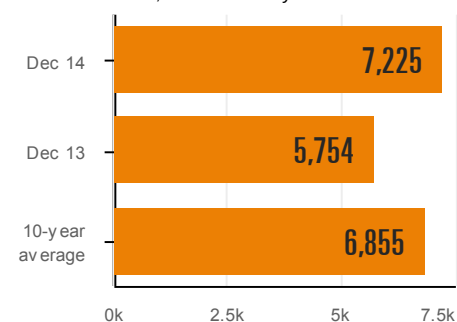
Car registrations

Annual number, Hamilton City



Car registrations

Annual number, Hamilton City



Highlights for Hamilton City

- The number of cars registered in Hamilton City increased by 26% in the year to December 2014 compared with the previous 12 months. Growth was higher than in New Zealand, where car sales increased by 21%.
- A total of 7,225 cars were registered in Hamilton City in the year to December 2014. This compares with the ten year average of 6,855.

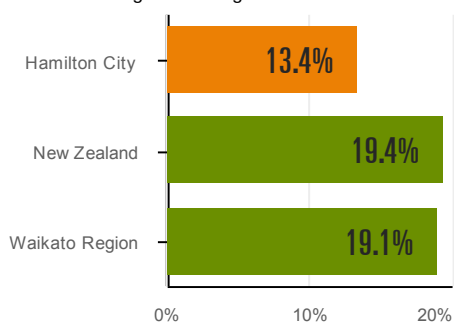
National overview

Total car sales in 2014 were 21% above their 2013 level, with both new car sales and first-time registrations of used imports climbing at healthy rates. Downward pressure on car prices remains evident in data from the consumers price index. According to the CPI, the price of new cars in the December 2014 quarter was 1.8% below its 2013 level. With job prospects continuing to improve and low interest rates prevailing, there is likely to be enough momentum to push car sales slightly above their current levels over the coming months. However, given that economic confidence indicators have moderated over recent months and many households have already taken the opportunity to replace aging vehicles over the past couple of years, we see little scope for substantial growth in car sales during 2015.

Commercial vehicle registrations

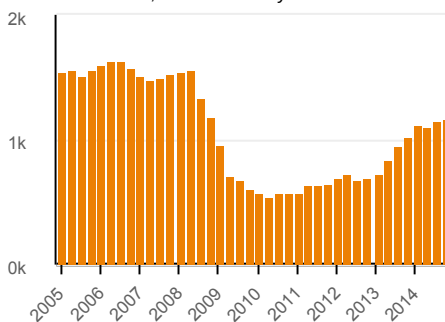
Commercial vehicle registrations

Annual average % change Dec 13 - Dec 14



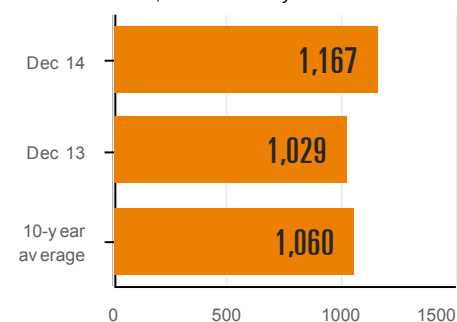
Commercial vehicle registrations

Annual number, Hamilton City



Commercial vehicle registrations

Annual number, Hamilton City



Highlights for Hamilton City

- The number of commercial vehicles registered in Hamilton City increased by 13% in the year to December 2014 compared with the previous 12 months. Growth was lower than in New Zealand, where commercial vehicle sales increased by 19%.
- A total of 1,167 commercial vehicles were registered in Hamilton City in the year to December 2014. This is higher than the ten year annual average of 1,060.

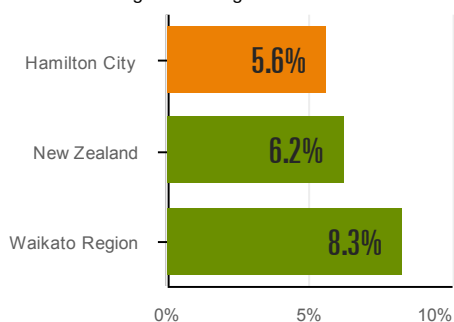
National overview

Strong sales growth across all types of commercial vehicles in December capped off a stellar year for the commercial vehicle market. Strengthening economic conditions have given many businesses the confidence to expand and upgrade their fleets, while many more have taken advantage of the New Zealand dollar's strength to lock in cheaper prices on imported vehicles. But despite recent sales strength, we anticipate that 2015 will be a more challenging year for commercial vehicle salesmen. Sales volumes are likely to plateau as lower dairy and forestry prices weaken confidence in some sectors, while a gradual depreciation of the New Zealand dollar (particularly against the US dollar) will stem downward pressure on prices. Nevertheless, robust domestic demand and rising construction activity will minimise the extent of any declines.

Guest nights

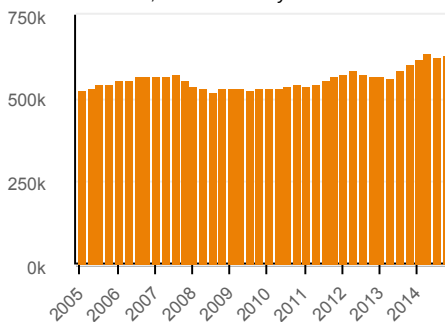
Guest nights

Annual average % change Dec 13 - Dec 14



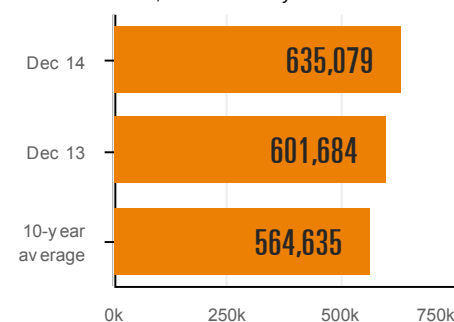
Guest nights

Annual number, Hamilton City



Guest nights

Annual number, Hamilton City



Highlights for Hamilton City

- Total guest nights in Hamilton City increased by 5.6% in the year to December 2014. This compares with an increase of 6.2% in New Zealand.
- Visitors stayed a total of 635,079 nights in Hamilton City during the year to December 2014, which was up from 601,684 a year ago.

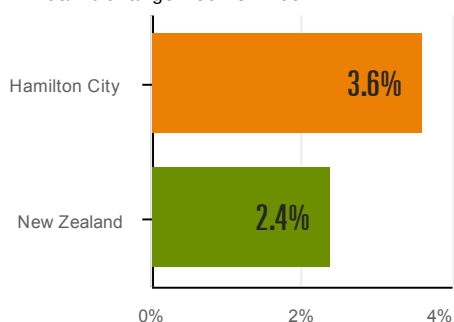
National overview

Guest nights in the December 2014 year were up 5.8% on their 2013 level, with domestic guest nights rising by 5.7% and those by international visitors increasing by 5.9%. Improving economic and labour market conditions have boosted New Zealanders' confidence to spend on travel. Moreover, in 2014 there were 2.86 million international visitors to New Zealand, a record annual total and up 5.1% on 2013. Arrivals from China are growing particularly strongly. Tourism from China is being stimulated by a sharp lift in direct air capacity to China, as well as an increasing number of independent travellers. Arrivals from North America and Europe recovered significantly during 2014, while arrivals from Australia continue to grow. We expect the recent tumble in jet fuel prices, and depreciation of the New Zealand dollar, to provide the tourism sector with a further boost in 2015.

Retail trade

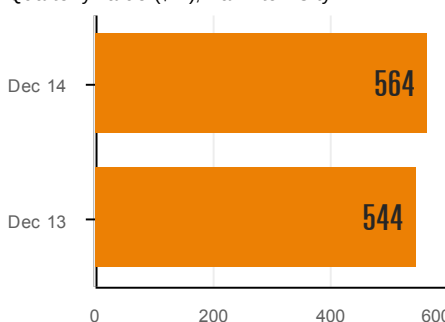
Growth in retail sales

Annual % change Dec 13 - Dec 14



Retail sales

Quarterly value (\$m), Hamilton City



Highlights for Hamilton City

- Electronic card retail spending in Hamilton City, as measured by Marketview, increased by 3.6% in the December 2014 quarter compared to the same quarter in 2013. This compares with an increase of 2.4% in New Zealand.

The switch to Marketview data has provided a more accurate basis for the measurement of retail sales at a Hamilton City level but the current reporting configuration does not provide data at a regional level.

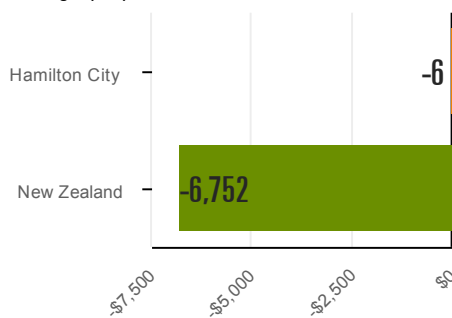
National overview

Relative to December 2013, the value of retail spending in the December 2014 quarter was up 2.4% from a year earlier, according to Data from Marketview. Decomposing the retail market at a national level using Statistics New Zealand's Retail Trade Survey indicates that sales growth was relatively widely spread across most sectors, with only the volume of supermarket sales displaying downward pressure as households spent more on food and beverage purchases. Retail spending is expected to rise at a healthy rate during the next year. However, the concentration of the increase in retail sales in Auckland and Christchurch — both areas experiencing a large temporary surge of growth in population and economic activity — indicates that there is a downside risk to this outlook if economic growth in these regions tapers off more quickly than we currently expect.

Total dairy payout

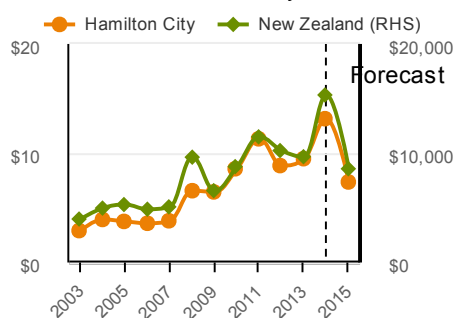
Total dairy payout

Change (\$m) between 2014 and 2015 seasons



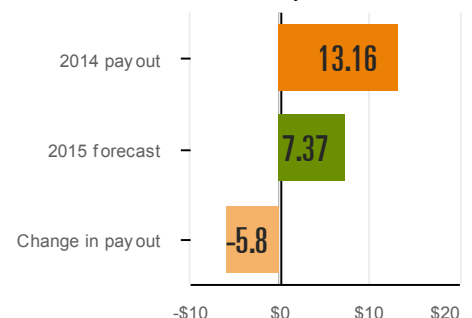
Total dairy payout

\$m each season, Hamilton City



Total dairy payout

\$m each season, Hamilton City



Highlights for Hamilton City

- Hamilton City's total dairy payout for the 2014 season is estimated to have been approximately \$13.2m.
- Hamilton City's dairy payout for the current season is expected to be approximately \$7.37m, \$5.8m 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 \$15,330m in the 2014 season, but is expected to be \$6,752m lower than in the 2015 season.

National overview

Dairy prices appear to have bottomed out in recent months, with forward prices at GlobalDairyTrade auctions rising 29% between early December and the mid-February. Risks around Fonterra's \$4.70/kgms farmgate milk price forecast for the current season now look balanced, consequently, this is the price we have used for forming current season estimates in this quarterly report. At a New Zealand level, we estimate that a farmgate milk price of \$4.70/kgms in the 2014/15 season would represent a \$6.8bn reduction to the total dairy payout compared to the 2013/14 season when the milk price was \$8.40/kgms. Looking beyond the current dairy season, dairy prices will gradually recover, as the developing world's demand for protein-rich food sources continues to expand. However, this recovery will be far less pronounced than in previous dairy price cycles, as the current lift in supply from Europe and the US is expected to persist.

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 job seekers 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 prices

House price levels (dollar value) are sourced from QVNZ. We report on the average of the median sale prices for the past 12 months. The percentage growth in house prices is also sourced from Quotable Value. The indicator measures the change in the average prices of sales entered into QV's system in the three month period compared with the same period of the previous year.

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.