Hamilton Quarterly Economic Update

June 2023 Quarter

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Hamilton’s economy continued to perform strongly in the June 2023 quarter with improvement shown in all economic indicators - even the ones that have underperformed of late. Gross Domestic Product (GDP) growth, the increase in guest nights and employment growth all outstripped national rates. Falls were seen in both residential consenting and vehicle registrations, but the overall picture has improved and is better than the national average.

Inflation eased to 6%, but it is not coming down at near the same rate it increased. In June 2021 the consumer price index (CPI) was 3.3%. By June 2022 it had reached 7.3% and over the past 12 months it has fallen just 1.3 percentage points.

According to Statistics New Zealand, the cost of living for the average household increased by 7.2% in the 12 months to June 2023. Food prices play a key role in pushing up the cost of living for New Zealand households and they increased 12.7% over the past year. Over the last three years, cost of living increases were about three times higher than seen over the past 30 years.

Mortgage rates rose again in June for floating and short-term interest rates (two years or less) despite the Official Cash Rate (OCR) remaining the same. Mortgage interest rates are now at levels not seen since 2008/09. New residential mortgage lending lifted in the June 2023 quarter after a very slow start to the year. Mortgage lending remains low which reflects the lower numbers of sales in the housing market.

In June, mortgage arrears increased 34% on last year with 19,500 mortgage accounts now behind on payments. Hamilton has one of the lowest arrears rates in the country at 1% of all mortgages compared to 1.32% nationally.

Business credit demand increased but so did credit defaults, particularly in the property/rental sector. Company liquidations have also increased but again remain below pre-pandemic levels.

The housing market saw some positive signs in June with the Real Estate Institute of New Zealand's (REINZ) national data showing increased sales compared to a year ago. However, the median number of days to sell was up to 49 days. The REINZ House Price Index saw growth of 0.4% across New Zealand in June compared to May, and 1.9% in Hamilton.

Labour market pressures are easing with increased migration and lower demand, but it remains tight. It is now slightly easier for businesses to fill long-held vacancies and upwards pressure on wages appears to be easing as well. This can be seen in the continued expansion of employment nationally (up 2.6%) and in Hamilton (up 3.1%). Nationally, unemployment increased to 3.6% in June 2023 which is more a reflection of the increase in labour force participation rather than people losing their jobs.

Net migration was 87,000 in the year to June 2023 compared to an average of 60,500 people per year pre-pandemic. While annual net migration has continued to increase, monthly data shows that numbers have fallen from a peak of 14,600 in March 2023 to 5000 in June 2023.

Hamilton
City Council
Te kaunihera o Kirikiriroa

The headlines

The highlights

- Industrial consenting finished the financial year with 153,500m2 of new floor area granted - a record for Hamilton and 2.4 times more than the previous record.
- Hamilton's GDP growth continued to outpace New Zealand and Waikato, increasing nearly 4% in the year to June 2023.
- The growing economy supported further employment growth, increasing 3% in the year to June 2023. The number of Jobseeker Support recipients in Hamilton fell a further 3% over the same period.
- Spending remained buoyant, finishing the financial year up 12% on the previous 12 months.
- Accommodation and hospitality spending hit a record high of $111 million in the June quarter as the sector benefited from Hamilton's event scene, with the Chiefs making it through the playoffs and hosting the Super Rugby final. Fieldays returned to its regular June timing.
- The number of guest nights in Hamilton increased 71% on the back of more event activity. This compares to 37% across our region and 63% nationally.
- House prices stopped falling in the June quarter, the first time since the end of 2021. Council data showed an increase of 1.3% in the median sales price compared to the May quarter.
- Residential consenting in our existing suburbs remained strong in the June quarter with 249 new homes consented and an annual total of 1005 – a 12% increase on the 2021/22 year.

The challenges

- Across Hamilton, residential consenting was healthier in the June 2023 quarter with 350 new dwellings consented, taking the annual total to 1390 – a decline of 6% on a year earlier, but up on the March quarter (-16%).
- Greenfield residential development has fallen 34% to 385 new dwellings in the past 12 months. This is less than half the peak annual total of 814 new dwellings seen in the 2020/21 year.
- The number of residential builds consented but not yet started increased 52% when comparing 30 June 2023 to the same date last year. Finance remains one of the key challenges for the construction sector with some developers putting building projects on hold until conditions improve.
- The number of consents lodged fell away in May and June, with 101 new dwellings lodged across both months compared to 124 in April alone.
- Car and commercial vehicle registrations improved in the June 2023 quarter. Although they remain negative, it was the highest quarter for both indicators in over a year.
- Commercial consenting remained subdued with 27,300m2 of new space granted in the year to June 2023 compared to 37,300m2 the previous year. However, consent values increased $32 million to $147 million.

Hamilton's economy

June 2023 quarter vs June 2022 quarter

GDP

$3.4B ↑ 2%

SPENDING

$733M ↑ 4%

MEDIAN HOUSE PRICE

$755,000 ↑ 1%

EMPLOYMENT

Up 4.4%

UNEMPLOYMENT RATE

4.6%

Hamilton experienced economic growth of nearly 4% in the year to June 2023, above the national rate. Healthcare and professional services continued to be a key driver of growth in our economy.

The city recorded high levels of employment growth, with an increase of 3.1% across the city. Unemployment rose slightly to 4.6%, however, this is more a reflection of the increased number of people looking for work rather than people losing their jobs.

Council data showed house prices in Hamilton increased 1.3% in the June 2023 quarter, the first positive shift since the end of 2021. The median house price sat at $755,000 at the end of June, up $10,000 on the March quarter. The number of sales in the June quarter was the lowest seen in our data series which goes back to 2005. Sales were less than a quarter of what Hamilton saw at its peak in the last three months of 2020.

Houses in our new suburbs sold for a median price of $950,000 – an increase of 1.6% on the March quarter. The median price for a home in our existing suburbs sat at $700,000 which was $10,000 lower than in the March quarter.

The REINZ house price index, which considers the makeup and features of the homes sold, showed a national increase of 0.4% across the country between May and June 2023, and an increase of 1.9% for Hamilton.

Spending data showed a 12% annual increase in spending in Hamilton in the year to June 2023. Accommodation and hospitality saw an impressive 28% lift while other consumer spending (which includes international travel) was up 33%.

However, annual data is hiding the slowdown in spending. A record December 2022 quarter pushed up the annual totals. A quarterly comparison between June 2023 and June 2022 is less impressive, particularly considering the borders were closed and COVID-19 restrictions were in place in 2022. Total card spending increased 5% on the June 2022 quarter, while retail trade was up just 4%. Accommodation and hospitality saw a healthy 11% bump with more travellers and no restrictions. Other consumer spending was down 11%. Fuel and automotive was down 13% but that is largely to do with falling petrol prices.

Spending by Hamiltonians increased 5% compared to June 2022 and spending by people from the rest of Waikato increased just 1%, well below inflation. International visitors spent nearly $13 million in Hamilton in the June 2023 quarter, $5.6 million more than a year ago.

House prices have fallen so we feel poorer, while interest rates have gone up. Both things disincentivise spending and using equity in our homes to purchase big-ticket items. When the borders were closed and finance was cheap, many people brought forward or diverted money into projects and big purchases like spas and renovations. We are also now travelling overseas instead of spending locally as we did during the pandemic.

Stats NZ's retail trade survey showed sales volumes fell in the June 2023 quarter, with more than two-thirds of industries having lower volumes when adjusted for inflation and when seasonal patterns are removed. Falls were highest for fuel (down 7%) and recreational goods (down 4%). Waikato seasonally adjusted sales volumes did not change in the June 2023 quarter, but both the March 2023 and December 2022 quarters experienced declines.

The June quarter saw the highest levels of both car and commercial vehicle registrations in Hamilton since March 2022. Vehicle registrations are seen as an indicator of economic confidence as households and businesses tend to purchase vehicles when they feel confident that they can afford them. The annual data still remains negative at -2.5% in the year to June 2023, but was a substantial upward shift from the -24% fall seen in the year to March 2023.

Changes in card spending in year to June 2023

Source: Marketview

ACCOMMODATION AND HOSPITALITY	UP 28%
RETAIL TRADE	UP 10%
GROCERIES AND LIQUOR	UP 6%
OTHER CONSUMER SPENDING	UP 33%
FUEL AND AUTOMOTIVE	UP 11%
ALL CARD SPENDING	UP 12%

Consenting

June 2023 quarter vs March 2023 quarter

NEW HOUSES IN CONSENTS LODGED

225

↓ 1%

NEW HOUSES GRANTED

350

↑ 25%

HOUSES UNDER CONSTRUCTION

1033

↓ 7%

HOMES COMPLETED

329

↑ 30%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

16,138m2

↓ 69%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

$30.1M

↓ 84%

Residential consenting rounded out the June quarter with 350 new dwellings granted. This resulted in an end of financial year total of 1390 new dwellings consented, with 72% of these located in our existing suburbs.

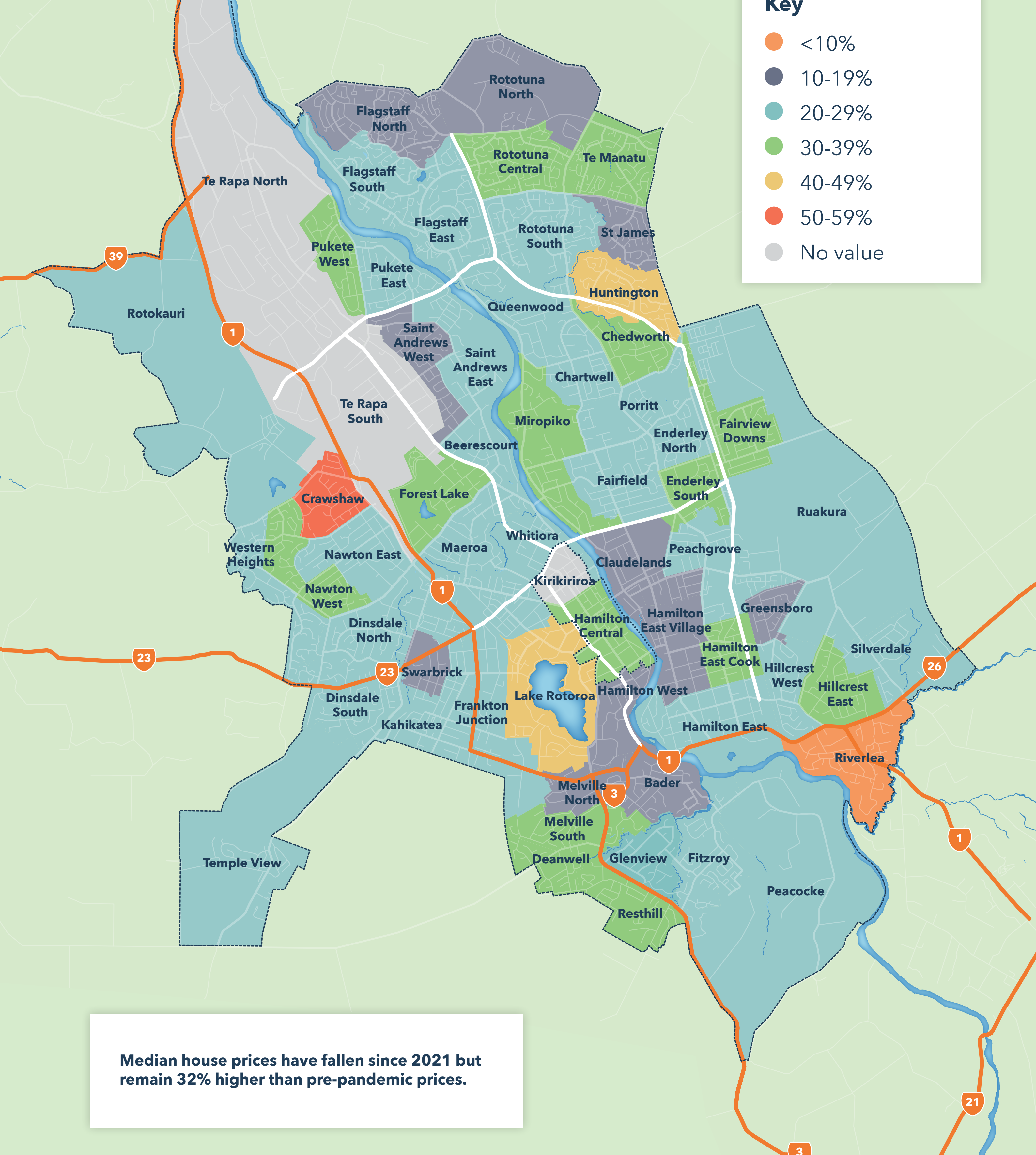
Consents for new dwellings lodged in May and June were very low, totalling just 101. Interestingly, 60% were for dwellings in greenfield locations. Greenfield homes are more likely to be sold as house and land packages and are normally consented once a buyer is locked in. In the current market, where developers are more likely to be watching and waiting, the security of a confirmed buyer can be key. Additionally, the infill pipeline is huge coming off the record high consenting levels of 2022, with developers now more likely to be cautious about overextending.

House prices were down 9% on June 2022, but the June 2023 quarter saw positive signs that the market is turning. Price falls should also be considered in context – the median Hamilton house prices remains 32% higher than in 2019 despite recent falls.

The movement of house prices plays a role in the consenting patterns seen in Hamilton. When house prices are rising, new developments are snapped up off the plans as buyers race to get in before prices increase further. As prices start to fall, some buyers get caught out with a home worth less when completed than what they paid (or agreed to pay) for it. Buyers have become more cautious about committing to buying a house off the plans and developers have had to choose whether to build and risk a lower sales price or put projects on hold. Finance is the biggest challenge for both buyers and developers as banks are hesitant to lend on projects that could sell for less than expected or that could be worth less than the mortgage against the property by the time it is built. These challenges remain for residential development across the country.

House price changes since 2019

Source: Hamilton City Council



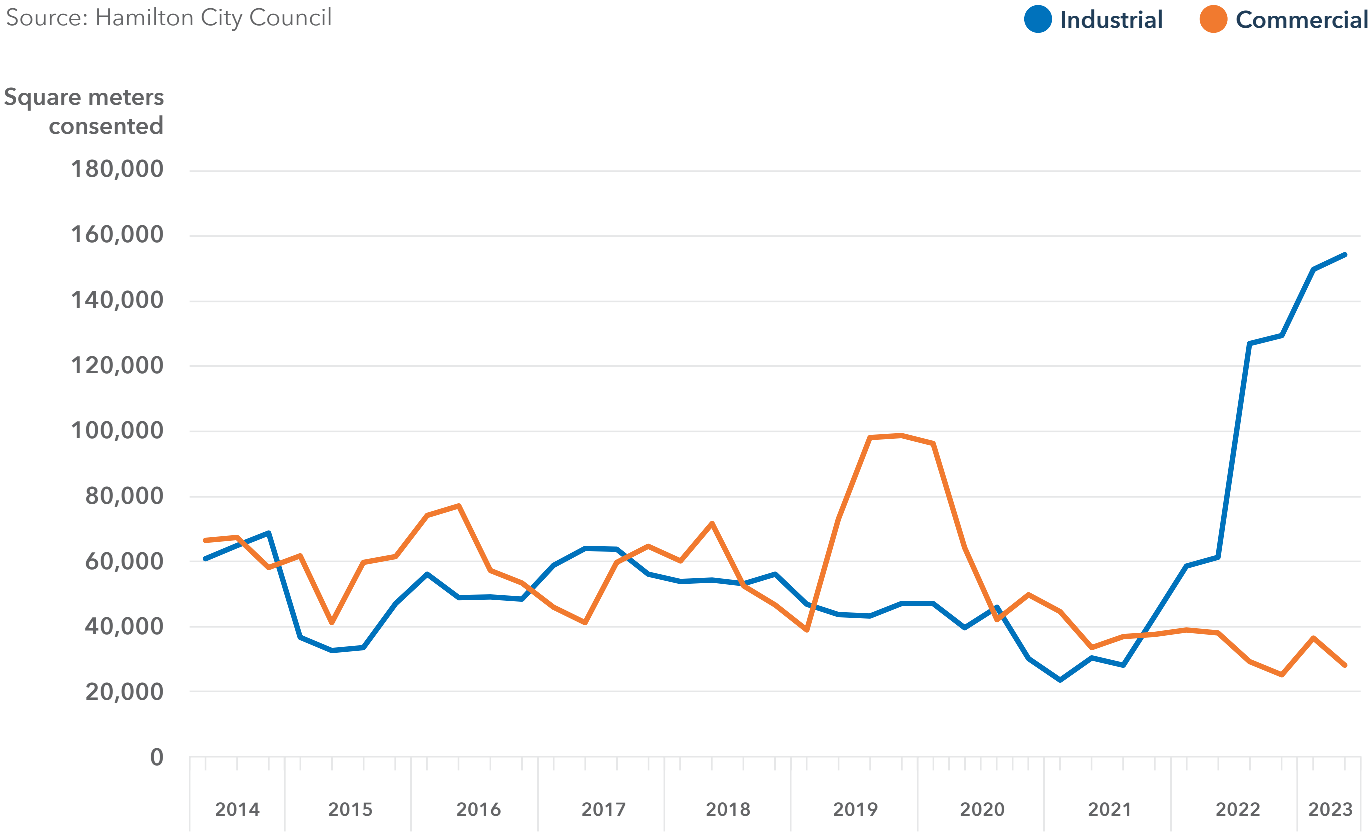
Median house prices have fallen since 2021 but remain 32% higher than pre-pandemic prices.

Non-residential consenting in the year to June 2023 reached a new record high of 181,000m2 (worth $408 million) driven by huge levels of new industrial development. The June quarter itself was slower than the record-breaking March and September quarters, with commercial consenting shrinking considerably to just 900m2 of new space consented.

Among the new developments granted, the largest industrial projects were located in the Rotokauri industrial zone, with smaller developments consented in Te Rapa, Frankton and Riverlea. The largest commercial consent granted was a new classroom block at Hillcrest High School followed by a new community room in Western Heights.

The industrial pipeline is huge after two years of record high consenting. Developers are now prioritising the existing work and the completion of these projects.

Commercial and industrial floor area consented - 12 month rolling total



Source: Hamilton City Council

Outlook

There are a lot of economic drivers pulling the economy in different directions at the moment, making it hard to predict where things will go in the next 12 months. Migration levels have been incredibly high since the borders reopened which is increasing demand for goods and services, but migration is slowing. Mortgage rate hikes are reducing demand in line with monetary policy but government spending is pushing demand up. Climate events continue to challenge the supply of some things (like food) and increase demand for others (like infrastructure). Inflation is eroding buying power, but wage growth is supporting spending. Export prices are down, but the housing market seems to be turning. There is a lot of uncertainty about the coming few years and the most likely scenario is that growth in the economy will be restrained and close to zero.

House prices appear to have turned a corner in the June quarter, earlier than expected by the Reserve Bank of New Zealand (RBNZ) and banks. There is a risk that the falling number of homes for sale, coupled with a fall in new homes being consented and built, will result in prices inflating faster than anticipated. Real estate surveys suggest the fear of overpaying is once again giving way to the fear of missing out.

Inflation is expected to remain above 5% for the rest of the year and the RBNZ has hinted that it may need to increase the OCR again in the next 12 months if inflation remains too sticky. They are now not forecasting a decrease in the OCR until 2025. This should keep a lid on house price increases.

Residential consenting is likely to be muted for the next 12 months. While developers and building companies are reporting a recent uptick in interest for new builds, there can be a time lag of up to 12 months from enquiry to consent being lodged. Finance restraints mean that potential buyers need to go back and forth between their bank and the build/design company. Increased enquiry now and a stabilisation of house prices would suggest an uptick in consenting is likely from mid-2024.

Annual net migration will continue to be high as the period of border restrictions is replaced by "normal" migration levels. Numbers are likely to peak by the end of 2023. Increased migration will create additional demand for goods and services over the long-term and will counter some of the slowdown in spending caused by inflation and increased mortgage costs. Migration also cools wage inflation as there are more people available for jobs. But our labour market remains incredibly tight.

The outlook for growth in China has deteriorated in recent months which has flow on effects for our regional export markets, including dairy. Declining global dairy prices will impact New Zealand's economy as the dairy industry makes up about 5.3% of New Zealand's GDP and 23% of total export values. A look at Hamilton's GDP, jobs and spending since 2013 shows that changes to the dairy payout are unlikely to have a significant impact on Hamiton's economy as a whole, but it will impact industries that service our rural community.

Indicators show that spending is slowing. The full effect of interest rate increases are slowly being realised but there are still mortgages rolling off relatively low rates. Over the next 12 months there will be increased pressure on household budgets and spending can be expected to fall further.

New Zealand's economy will see little if any growth in the coming months with most commentators forecasting negative GDP growth for the September and December quarters. Hamilton has historically seen higher GDP growth than New Zealand as a whole, but it is also expected to be close to zero.

SUMMARY

Key annual indicators

Year to June 2023 compared to previous 12 months

GDP GROWTH

Hamilton	+ 3.8%
Waikato	+ 3.2%
New Zealand	+ 3.1%

EMPLOYMENT (Place of residence)

Hamilton	+ 3.1%
Waikato	+ 3.1%
New Zealand	+ 2.6%

SPENDING

Hamilton	+ 11.7%
Waikato	+ 9.7%
New Zealand	+ 11.8%

UNEMPLOYMENT

Hamilton	4.6%
Waikato	3.8%
New Zealand	3.4%

GUEST NIGHTS

Hamilton	+ 71%
Waikato	+ 37%
New Zealand	+ 63%

COMMERCIAL VEHICLE REGISTRATION

Hamilton	– 2.5%
Waikato	– 12.8%
New Zealand	– 10.1%

MEDIAN HOUSE PRICE

(June 2023 quarter)

$755,000

HOUSE SALES

Hamilton	– 20.1%
Waikato	– 21.8%
New Zealand	– 20.0%

Consenting

SUBDIVISION LOTS GRANTED

1478 ↓ 36%

TITLES ISSUED (224C)

1428 ↑ 16%

NEW HOUSES IN CONSENTS LODGED

1290 ↓ 27%

HOUSES UNDER CONSTRUCTION

(as at 30 June 2023)

1033 ↓ 7%

NEW HOUSES GRANTED

1390 ↓ 6%

Infill	72%
Greenfield	28%

Townhouses/Duplexes	66%
Houses	25%
Apartments	4%
Retirement villages	5%

Infill East	31%
Infill West	41%
Rototuna	12%
Peacocke	7%
Ruakura	7%
Rotokauri	< 1%
Temple View	2%

HOMES COMPLETED

(as at 31 March 2023)

1465 ↑ 9%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial 37,300m2	– 27%
Industrial 153,500m2	+154%
Total 180,800m2	+ 85%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial $147M	+ 28%
Industrial $261M	+ 117%
Total $408M	+ 73%

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