Hamilton Quarterly Economic Update

June 2024 Quarter

Published October 2024

New Zealand's economy continued to feel the effects of tight monetary policies here and overseas. The construction sector has struggled since house prices started to fall in 2022. Retail and manufacturing have also seen demand fall, as high interest rates reduced household spending. The BNZ-BusinessNZ Performance Manufacturing Index (PMI) shows manufacturing fell in the June quarter and is well below average. Excluding Covid lockdowns, the current contraction in June 2024 was one of the lowest since the Global Financial Crisis (GFC). NZIER's Quarterly Survey of Business Opinion (QSBO) showed similar weakness with 73% of manufacturers across the country reporting profits were in decline.

Economic growth was negligible in Hamilton and negative for the New Zealand economy. Growth has now been close to 0% for two years.

Inflation fell to 3.3%, from 6% in June 2023, but prices in many areas are still increasing and the downward pressure is coming primarily from imports rather than domestic prices. Non-tradeable inflation (often referred to as domestic inflation) was 5.4% compared to 6.6% in June 2023. Since 2000, tradeable inflation has averaged 1.4% while non-tradeable inflation averaged 3.5%.

Construction costs fell on a quarterly basis, but annually costs remain higher than a year ago.

Price indices for construction showed mixed results with the Produces Price Index showing an increase over the past year, and the Cordell Construction Cost Index showing construction costs fell during the June 2024 quarter. Over the past year, New Zealand house prices have increased at about half the rate of construction costs, challenging construction project feasibility.

Consenting and the construction industry struggled in an environment of high interest rates and static house prices. Residential consenting across the country was down 24% (nearly 11,000 dwellings) compared to the year to June 2023, and 34% below the 2022 peak. The falls have been particularly sharp in New Zealand's growth cities. In Hamilton, residential consenting was down 29% on last year and 37% below the 2022 peak.

Mortgage rates started to fall for longer-term fixed loans in the June quarter in anticipation of a move by the Reserve Bank of New Zealand (RBNZ) to reduce the Official Cash Rate (OCR). While the moves were not substantial, it signalled a shift in thinking by bank economists and a positive sign for households and businesses. Calls for RBNZ to move earlier and drop interest rates became more common towards the end of the quarter. Instead RBNZ signalled possible rate increases in May which saw business confidence fall further.

Employment increased but so did unemployment as our working age population grew faster than our job growth. Nationally unemployment has increased the most for younger people as some companies decide to keep their more experienced workers and cut entry level and junior roles to save money.

Net migration continued to fall, reaching 73,300 in the year to June 2024 compared to 108,800 in the year to June 2023. But net migration remains well above the pre-Covid average of 56,000 people between 2016 and 2019. Migrant arrivals are down 14% (33,000 people) from the peak in October 2023. Migrant departures increased by 30% (30,000 people).

Hamilton City Council
Te kaunihera o Kirikiriroa

The headlines

- The number of businesses in Hamilton grew 2.5% in the year to June 2024 despite wider economic challenges. This compares to 1.5% across New Zealand.
- Hamilton saw continued growth in employment with an increase of 2.8% in the year to June 2024. This compares to 2.1% across New Zealand and 1.9% in Waikato.
- Hamilton continued to see extremely low levels of economic growth in the June 2024 quarter with 0.4% growth compared to the June 2023 quarter. The New Zealand economy saw growth fall -0.2% over the same period.
- House sales remained low with just 601 sales in the June 2024 quarter compared to the 10-year quarterly average of 812. High interest rates continue to dampen the appetite and ability of buyers to buy homes despite house prices being relatively low.
- Real estate listings increased to 1008 homes in the June 2024 quarter – 32% more than the June 2023 quarter, the lowest number of listings in the past decade.
- The median house sale price fell 2% compared to the March 2024 quarter, and was down 5% on June 2023, although the June 2023 quarter had the highest median sale price of the past two years.
- Despite an increase in residential consenting in the June 2024 quarter, consenting fell 31% to 1012 dwellings in the 12 months to June compared to the previous year. Nationally residential consenting fell 24%, Auckland fell 27% and Tauranga fell 36%. Residential consenting is now back to 2018 levels.
- Card spending fell 1.5% compared to the June 2023 quarter as interest rates and inflation squeezed household budgets.

The housing market was quiet in the June quarter with the median price falling and listings increasing.

- Unemployment increased to 6.3% as the number of people available to work grew faster than job growth. Hamilton's high levels of population growth has increased the working age population.
- Subdivision consenting fell 53% in the year to June 2024, however, with a significant increase in development contributions charges signalled in March 2024, developers raced to lock in the 2023 charges and 1155 lots were lodged as part of subdivision consents.
- Non-residential consenting was also a casualty of the slow economy and high interest rates, with commercial consenting down 41% on last year and industrial consenting down 82% from the record high in the year to June 2023.

Hamilton's economy

June 2024 quarter vs June 2023 quarter

GDP

$3.5B ↑ 0.4%

EMPLOYMENT

1.2%

SPENDING

$724M ↓ 3%

UNEMPLOYMENT RATE

6.3%

MEDIAN HOUSE PRICE

$728,000 ↓ 5%

BUSINESSES*

17,047 ↑ 3.5%

*excludes businesses with less than $30,000 income per annum

Continued weakness in the New Zealand economy pulled down economic activity in Hamilton in the June 2024 quarter. GDP in Hamilton increased 0.4% in the June quarter and 0.1% for the year to June. This is the lowest level of economic growth since 2009 during the GFC. Despite this, Hamilton saw 2.8% growth in employment and a 2.5% increase in the number of businesses.

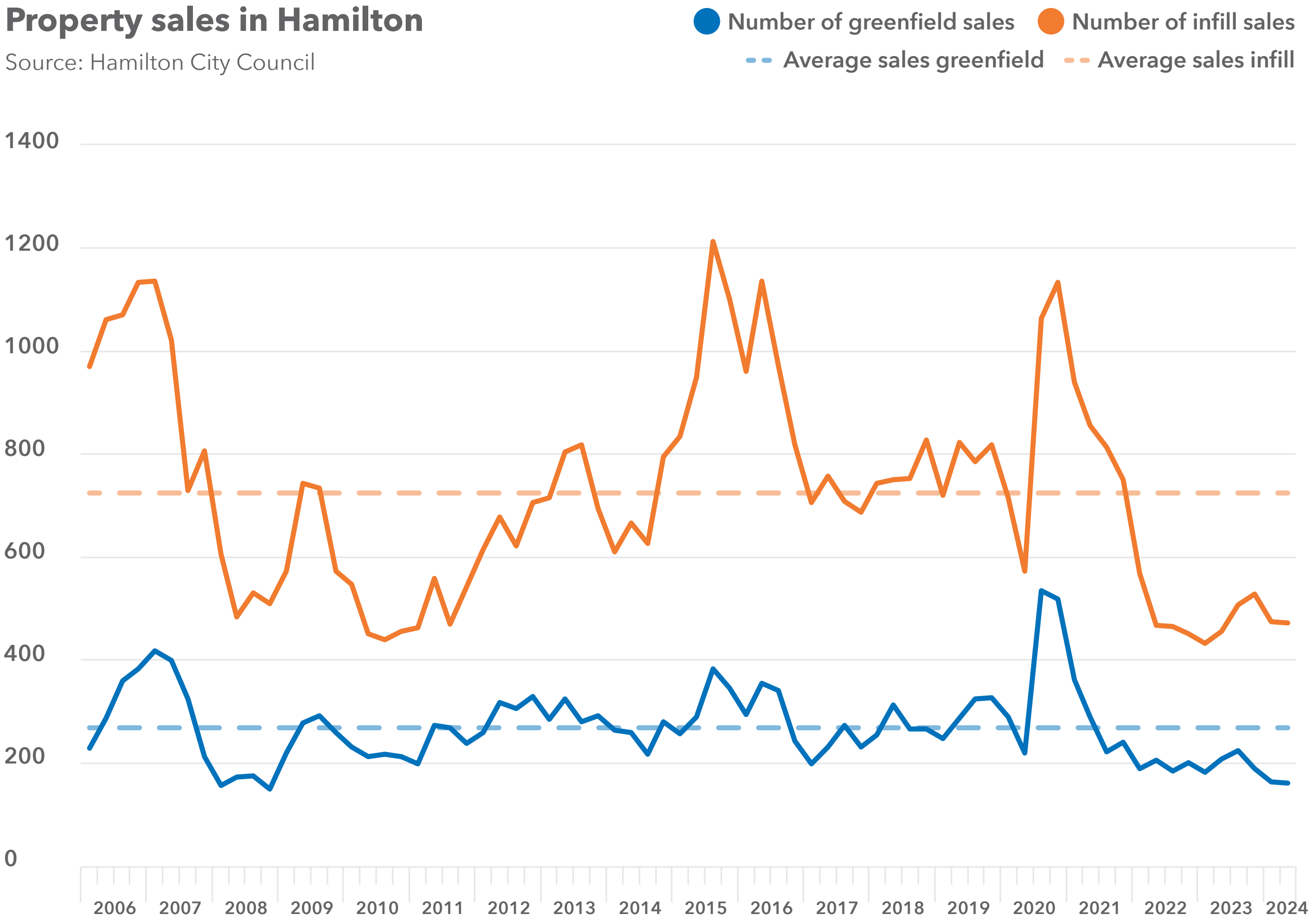
Employment growth in Hamilton continued to be strong despite the economic conditions, increasing 2.8% compared to June 2023. However, employment growth is slowing, and unemployment has increased, reaching 5.8% - the highest since 2018. Employment and unemployment growth are possible at the same time. There are more people in Hamilton getting jobs, but there are also more people looking for employment who were not previously in the labour force (e.g. new migrants, people going from study to work, parents returning to work after time off).

Business growth in Hamilton was also strong in the June 2024 quarter with a net increase of 83 businesses since the end of March 2024. Compared to the June 2023 quarter, there were 572 more businesses in Hamilton, which is impressive growth given the economic conditions over the past year. Hamilton had the second highest level of business growth of all metro cities both on an annual and quarterly basis. Tauranga saw the highest growth.

House prices fell in the June 2024 quarter with the median house price at $728,000 compared to $770,000 in June 2023 (noting that June 2023 was more than $20,000 higher than the March and September 2023 quarters). The median house price was 15% below the market peak in the December 2021 quarter. The price fall in Hamilton was also seen nationally with the CoreLogic House Price Index showing quarterly falls of 2.2% nationally, 3.3% in Auckland, 1.9% in Hamilton and 2.1% in Tauranga.

Property sales in Hamilton

Source: Hamilton City Council



Greenfield suburbs saw a median house price increase of $35,000 between the March and June quarters, moving in the opposite direction to total sales. There were the same number of sales recorded in both quarters. Sales in our existing suburbs saw a fall of $40,000 in the median house price over the same period.

The number of residential property sales in Hamilton in the June 2024 quarter continued the record low levels seen since the market began moving downwards in the June 2022 quarter. Sales in greenfield areas of the city were 40% lower than the long-run average, while infill sales were 35% lower. Current sales levels are similar to during the GFC. Movements in the OCR have historically resulted in sharp movements in the number of properties sold in Hamilton. The sharper the movement, the larger the effect on sales.

An error was found in the data used for median house price in our previous economic publications. The error saw some data missed, primarily for attached dwellings which tend to be a lower price. As a result, our median house price has been revised lower to reflect the full data set.

Spending in Hamilton was $3 billion in the year to June 2024, an increase of just 0.9%. Spending has remained at the $3 billion mark for more than a year (five quarters). The number of card transactions peaked in the year to September 2023 at 61 million and have since fallen to 60.7 million.

Retail trade spending was down nearly 4% ($36.5 million) in the year to June 2024 and other consumer spending fell $13.5 million (16%). Once again, the biggest growth in spending was in the groceries and liquor category which increased $76 million (8%).

The central city continued to see better spending levels than the rest of Hamilton, although the pace of year-on-year growth fell from 7% in March 2024 to 4% in June 2024. The biggest increase in central city spending was on groceries and liquor which increased $32 million (10%) in the year to June 2024. This offset falls of $17.4 million in retail trade and $6.9 million in other consumer spending. Increases were also seen in central city accommodation and hospitality spending, and fuel and automotive.

Spending fell by 6% for sub-regional centres which includes The Base and Chartwell Square shopping malls, while spending in suburban centres like the Rototuna Shopping Centre increased 5%.

Hamilton-based customers spent $36 million more (2%) in the year to June 2024 compared to the previous year. International visitors (excluding Australians) spent $30 million more. Spending by customers from the rest of Waikato, other regions and Australians was down, with the biggest fall coming from customers in Waikato which fell $19 million.

Changes in card spending in year to June 2024

Source: Marketview

ACCOMMODATION AND HOSPITALITY	UP 1%
RETAIL TRADE	DOWN 4%
GROCERIES AND LIQUOR	UP 8%
OTHER CONSUMER SPENDING	DOWN 16%
FUEL AND AUTOMOTIVE	UP 0.2%
ALL CARD SPENDING	UP 1%

Consenting

June 2024 quarter vs March 2024 quarter

NEW HOUSES IN CONSENTS LODGED

201 ↑ 17%

NEW HOUSES GRANTED

275 ↑ 26%

HOUSES UNDER CONSTRUCTION

763 ↓ 8%

HOMES COMPLETED

289 ↑ 42%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

8410m2 ↓ 29%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

$23.7M ↓ 72%

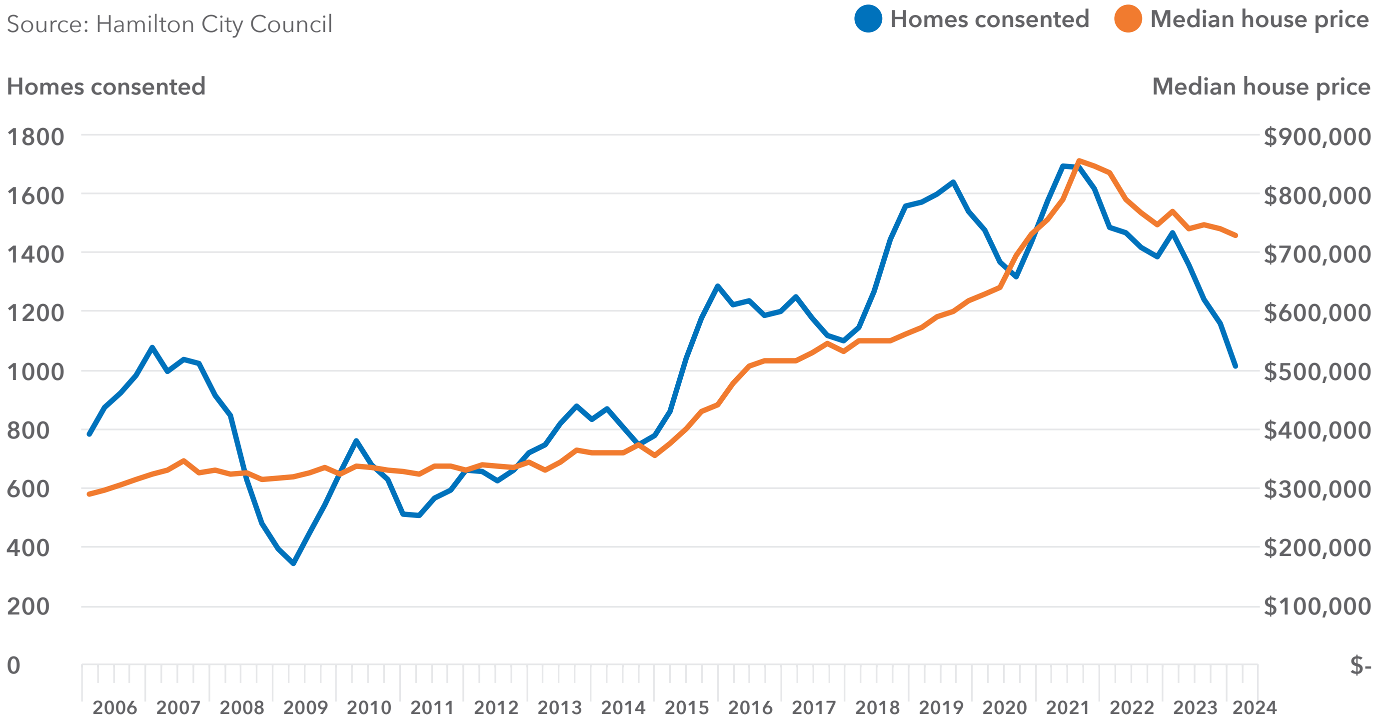
The current economic conditions have deterred investment in the residential construction sector. High building and financing costs coupled with uncertainty about how much a finished build can sell for, has seen many build projects in Hamilton stall. In the June 2024 quarter, there were 270 new dwellings consented, resulting in a 12-month total of 1012 new dwellings compared to 1468 in the previous year.

The number of dwelling consents lodged in the June 2024 quarter was up on the March quarter (201 compared to 172 dwellings) but remained well below the 10-year average of 342 dwellings per quarter. The number of dwelling consents lodged creates the pipeline for the number of consents granted and eventually the number of new homes completed. We are already seeing these low numbers filter through consents granted over the past nine months.

Consenting activity has a strong relationship with house prices as shown in the graph on the next page, particularly in our existing suburbs. As house prices increased from 2014, consenting activity also increased at a similar pace. Unsurprisingly, the more people are prepared to pay for housing, the more incentive there is to build.

House prices and Hamilton consenting trends

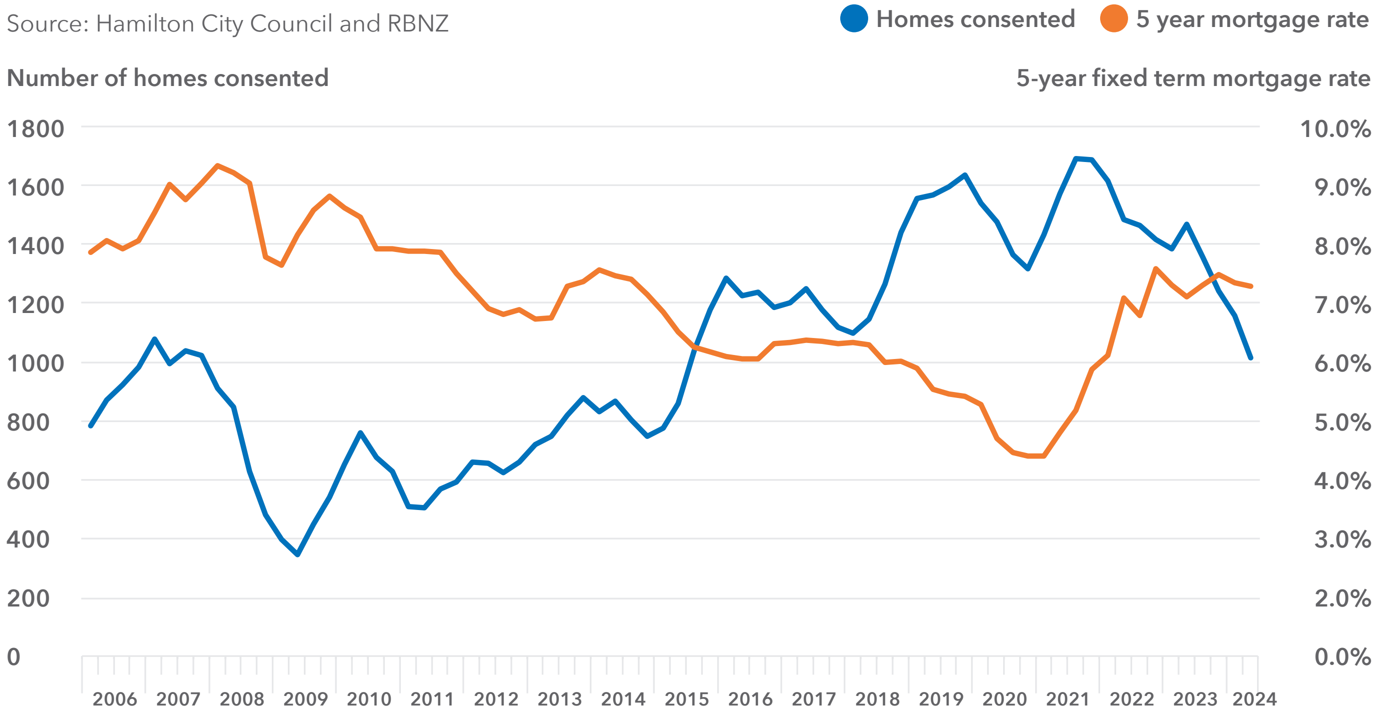
Source: Hamilton City Council



There is also a relationship between consenting activity and five-year mortgage rates as shown in the graph below. When interest rates decrease, consenting tracks upwards, while an increase in interest rates usually results in a decrease in consenting. A similar relationship exists between interest rates and house prices. As interest rates come down, house prices tend to go up as a buyer can afford more when the cost of repaying the debt is lower. For consenting activity to improve, there needs to be a fall in mortgage interest rates to increase house prices, to improve feasibility and incentivise development.

Five year mortgage rates and Hamilton consenting trends

Source: Hamilton City Council and RBNZ



The proportion of townhouse and duplex builds was 69% in the year to June 2024 compared to 65% in the previous year. Standalone homes make up 28% of dwellings consented and 3% were apartments. There have been no retirement village units consented since the end of 2022. With the value of the retirement sector portfolios shrinking alongside house prices, retirement village companies have had less equity to leverage finance against for new projects. Demand has also cooled for retirement units with the market downturn.

Land development relies on demand for sections - in recent years this came primarily from building companies. With low levels of consenting across the city, there has been significantly less demand for sections. In the year to June 2024, Hamilton saw 654 lots granted and 1088 new sections titled. This compares to a 5-year average of about 1700 lots granted per year and 1182 new sections titled.

In the June 2024 quarter there were 1159 consents for residential lots lodged. A normal quarter or three-month period is about 450 lots. The influx of subdivision consents and land use consents were driven by proposed changes to Council's Development Contributions (DC) Policy. DCs across the city were set to increase by up to 100% in some catchments from 1 July 2024. A development's DC charge is generally calculated against the policy that was in effect at the time the consent was lodged. These consents will start to filter through the granted numbers in coming quarters.

This also happened in the June 2018 quarter when another significant increase in DCs was proposed. Some of these developments are still not underway but there is a maximum statutory timeframe of eight years to complete a subdivision, from the time a consent is granted to when titles have been issued. With the market chilly, many developers will wait for conditions to improve to undertake the consented work.

With fewer projects consented and greater challenges financing those projects, there has been significantly less construction activity across the city. On 30 June 2024, there were 763 dwellings under construction in Hamilton, 23% fewer than at the same time in 2023. On average, it took 11 months from the time a project started until the dwellings were issued code compliance. There continue to be several projects that are been consented but not yet started. Although this number has stopped increasing, it remains at record high levels.

There were 1133 new homes completed in Hamilton in the 12 months to June 2024, down 24% on the previous year. The average over the past 10 years has been 1201 new homes each year. Nearly two-thirds (62%) of the homes completed were in our existing suburbs and 23% were in Rototuna.

Some homes that have been on the market for a while are taken down and become rental properties as homeowners and developers wait for conditions to improve. This applies to both new builds and existing properties.

Real estate agents reported that June 2024 saw an increase in listings following the removal of the Brightline test. The average time to sell in June 2024 was 47 days – six days more than the average time to sell but one day less than a year ago.

Non-residential consenting

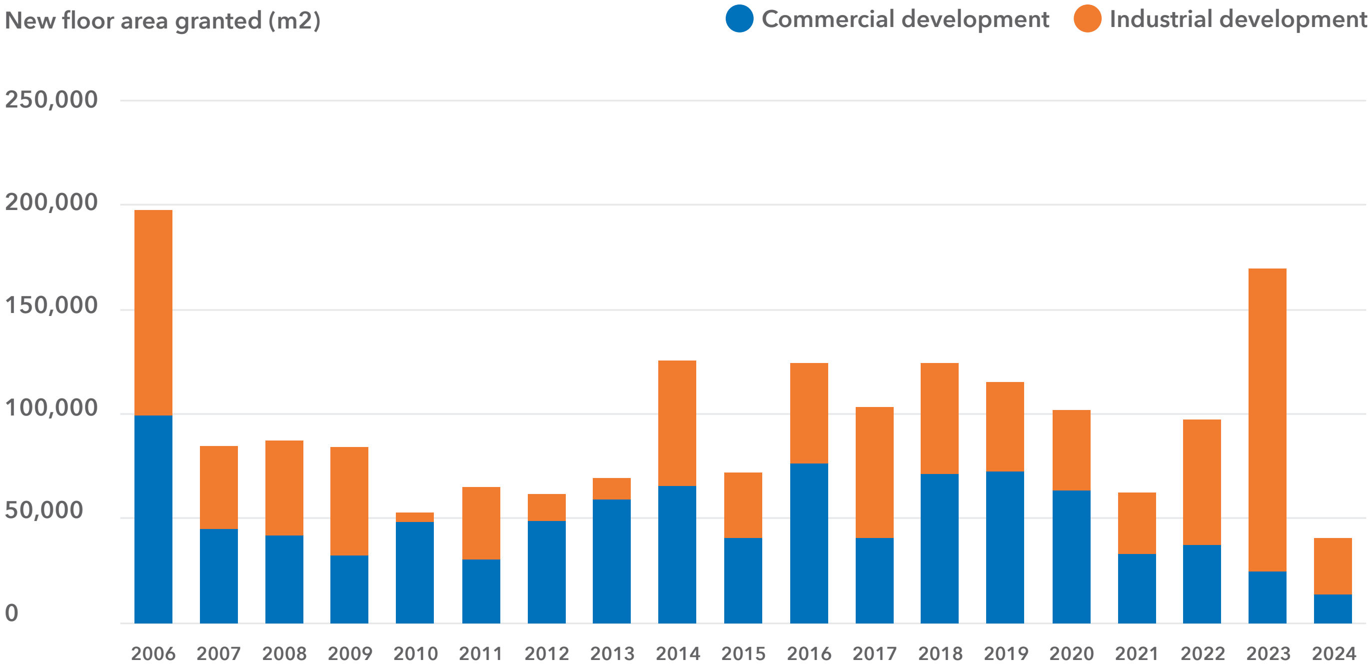
Non-residential consenting is under pressure from the current economic climate. In the year to June 2024, almost 41,000m2 of new non-residential floor area was consented – down 76% on the same time last year and 60% lower than the average over the past 10 years.

Industrial development, in terms of floor area, fell 82% compared to the year to June 2023. The total value of the industrial developments consented was $53 million compared to $251 million – a fall of 79%. A large fall in industrial development was expected after the records set in 2023.

Commercial development hit the lowest level in our electronic records. Commercial consenting has been falling since 2020 and the start of the global pandemic. A move to doing many things online and working from home saw confidence to develop commercial and retail premises fall. However, Union Square recently announced the next building is expected to begin construction within six months, indicating tenants have been secured and demand still exists for high quality spaces.

Non-residential development in Hamilton, 12 months to June

Source: Hamilton City Council and RBNZ



The June 2024 CBRE NAI Harcourts Hamilton CBD Office Occupier Survey showed an increase in office occupancy over the previous six months. This was down to a combination of refurbishments removing space from the count and a decrease in vacant space. There is currently 27,530m2 of office space in the central city under refurbishment – more than double what there was six months ago.

Overall office vacancy was 7.2% but this varies considerably by grade. Grade A buildings (the highest quality spaces) had a vacancy rate of 1.1%; Grade B buildings had a rate of 6.5%; Grade C had a rate of 10.1%; and Grade D had a rate of 10.1%. Grade E buildings had a higher occupancy rate in June 2024 because 3000m2 was redevelopment. The low vacancy rates for high grade properties are a positive indicator and is an incentive for developers and owners to undertake refurbishment of older office buildings.

Outlook

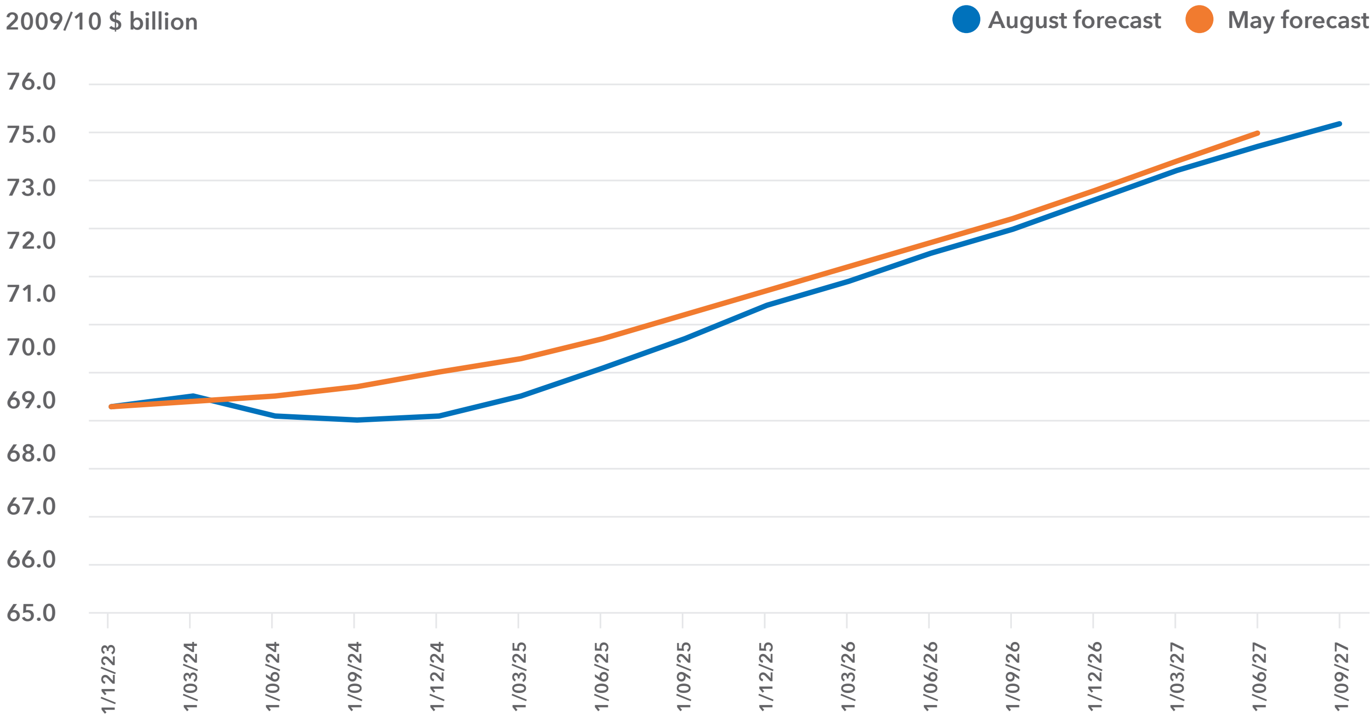
The outlook for Hamilton's economy has improved in some respects following RBNZ cuts to the OCR in both August and October. The RBNZ is expected to cut the OCR again in November. This results in an improvement in our outlook for consenting as lower interest rates make borrowing for new projects cheaper and should provide some stimulation for house prices in 2025 – something the construction sector has been waiting for.

On the other hand, the RBNZ forecast for the national economy shows a longer period of little or negative economic growth, stretching out across the rest of 2024. Hamilton has historically seen better economic growth than New Zealand, but we still expect the rest of 2024 to be tough for many local businesses.

The RBNZ revised down their forecasts for the OCR, household and government consumption, net migration, inflation expectations, and revised up unemployment expectations. Ultimately, RBNZ projected a gloomier outlook for our economy than it did three months earlier.

Comparison of RBNZ GDP forecasts

May 2024 forecasts compared to August 2024 forecasts



Interest rates have moved quickly in response to the OCR cuts, and this should provide some stimulation in 2025 as more mortgages move to lower rates, freeing up money for households to spend. This will support spending in sectors like retail which should then improve the outlook for manufacturing.

Financial markets are now expecting bigger reductions in the OCR over the remainder of the year, with a resulting shift in mortgage rates already. The RBNZ indicated a steady flow of cuts at 25 basis points at a time in August, but following the 50 basis point cut in October, the debate is now 50 or 75 basis points.

While this is positive for confidence, it is unlikely to have a massive impact on demand in the short-term for a few reasons. Firstly, unemployment is growing and is expected to increase further still (keep in mind that most public sector job cuts are not yet showing in the data), so people remain worried about their jobs and will be cautious about spending.

Secondly, most New Zealanders with mortgages have at least part of their debt on a one-or two-year fixed term, meaning it will take time for falls to flow through to household budgets. For households and businesses, the fall in the OCR is the glimmer of hope they needed to hang on a bit longer.

We are likely to see unemployment creep up higher over the rest of 2024 and into 2025. Job numbers usually take about 12 months to react to a downturn in the economy – we are just arriving at that point now and there is still some pressure to come.

Inflation is now within the target band of 1% to 3% and is expected to remain there. The August ANZ Business Outlook Survey showed that businesses were expecting inflation to be below 3% over the next 12 months – the first time since 2021. An increased percentage of businesses have a more positive outlook for their own activity, and investment intentions were higher than they were in July, but this is coming from a very low base.

We expect consenting activity in Hamilton to fall further over the rest of the year and remain low into the first half of 2025 for two reasons. Firstly, we have had three very low quarters of activity, so even a more positive September and/or December quarter will not bring annual figures back to recent levels. The number of dwellings in consents lodged is currently very low, which means the number of consents granted in the near future will also be low.

Secondly, increased activity requires improved feasibility and increased demand. This relies a lot on house prices and the cost of borrowing money for both development and for a mortgage. Recent interest cuts provide some extra capacity for borrowing which allows for small house price increases. Expectations are for annual house price growth to be less than 1% per annum over the next nine months. From the end of 2025, house price increases are forecast to be between 5% and 6% per year.

However, new caps on debt-to-income ratios will have a cooling effect. Going forward we can expect a stronger link between income growth and house price growth similar to what we see in rents. Our expectation of a further fall in consenting activity is in line with the RBNZ forecasts for residential investment across New Zealand.

For many households, spending is likely to remain focussed on essential items. While there is relief coming for households with mortgages, job insecurity will make people cautious and high interest rates tend to encourage saving over spending. Households are also facing increased non-discretionary costs like power and rates. There are still tough times ahead, particularly for sectors like retail and manufacturing. But 2025 is expected to be a bit better and 2026 is forecast to see growth return to pre-Covid levels and unemployment to settle at what is considered an optimum level around 5%.

SUMMARY

Key annual indicators

Year to June 2024 compared to previous 12 months

GDP GROWTH

Hamilton	+ 0.1%
Waikato	– 0.1%
New Zealand	– 0.2%

EMPLOYMENT (Place of residence)

Hamilton	+ 2.8%
Waikato	+ 1.9%
New Zealand	+ 2.1%

SPENDING

Hamilton	+ 0.9%
Waikato	+ 3.0%
New Zealand	+ 1.9%

UNEMPLOYMENT

Hamilton	6.3%
Waikato	5.0%
New Zealand	4.2%

GUEST NIGHTS

Hamilton	+ 0.2%
Waikato	+ 2.6%
New Zealand	+ 5.3%

BUSINESSES

Hamilton	+ 2.5%
Waikato	+ 1.9%
New Zealand	+ 1.5%

MEDIAN HOUSE PRICE

(June 2024 quarter)

$749,000

HOUSE SALES

Hamilton	+ 6.2%
Waikato	+ 15.6%
New Zealand	+ 12.1%

*excludes businesses with less than $30,000 income per annum

Consenting in year to June 2024

SUBDIVISION LOTS GRANTED

654 ↓ 56%

TITLES ISSUED (224C)

1088 ↓ 24%

NEW HOUSES IN CONSENTS LODGED

946 ↓ 30%

HOUSES UNDER CONSTRUCTION

(as at 30 June 2024)

763 ↓ 23%

NEW HOUSES GRANTED

1032 ↓ 30%

Infill	64%
Greenfield	36%

Townhouses/Duplexes	69%
Houses	29%
Apartments	3%
Retirement villages	0%

Infill East	31%
Infill West	35%
Rototuna	20%
Peacocke	5%
Ruakura	6%
Rotokauri	1%
Temple View	1%

HOMES COMPLETED

(as at 30 June 2024)

1133 ↓ 24%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial 14,410m2	– 41%
Industrial 26,410m2	– 82%
Total 40,820m2	– 76%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial $122M	– 17%
Industrial $53M	– 79%
Total $175M	– 56%

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