Hamilton Quarterly Economic Update

September 2022 Quarter

Published December 2022

Hamilton's economy held up well in the September quarter despite rising economic headwinds. Industrial consenting hit record levels and gross domestic product (GDP) increased 1.7% for the year.

New Zealand's economy got a welcome boost from a tourism comeback with gross domestic product (GDP) increasing 2.6% across the year.

The biggest challenge for businesses continued to be labour shortages despite borders fully reopening in July. Work visa data for October 2022 suggests an improvement is on the horizon with over 12,000 work visas issued. This will provide some hope for businesses struggling to find workers.

Inflation for the year to 30 September came in above expectations at 7.2%, pushing the Reserve Bank of New Zealand (RBNZ) to increase the official cash rate (OCR) higher than analysts expected. The RBNZ raised the OCR to 4.25% in November and announced it intends to push the country into a recession to try and curb demand. Despite this, it also expects inflation to be persistent and high. Banks had already priced in the 0.75% increase, but the RBNZ's outlook was far more pessimistic than expected.

While increased mortgage rates impact those with mortgages, the real pressure is coming from inflation. Only about 32% of households have a mortgage, and the median mortgage is $260,000. For the small proportion of Hamilton households who have a mortgage at the higher end of the scale, the increase in mortgage rates is particularly painful. For most households, these increases will be noticeable but manageable. Inflation on the other hand is hurting everyone.

While the housing market started to see signs of buyers returning, prices continued to fall and the number of listings continued to increase across most of the country. Buyer interest was up but they continued to struggle with finance and sales conditional on selling another property were increasingly common. The outlook remains bleak with increasing mortgage rates pushing affordability tests even higher. Forecasts are now for national price falls of around 20% from their peak in December 2021.

Looking overseas, major cities in China were back in lockdown as it struggled to contain COVID-19, stifling production and hampering supply chains once again.

Meanwhile, Europe is in the grip of an energy crisis as it moves into a northern winter. A global recession seems somewhat inevitable as central banks remain aggressive at increasing interest rates in a bid to ease inflation. A recession would see demand fall for New Zealand exports.

Hamilton City Council
Te kaunihera o Kirikiriroa

Hamilton's headlines

- Gross Domestic Product (GDP) was $12.2 billion across the year to September 2022 quarter, an increase of 1.7% on the previous year.
- Hamilton saw record levels of industrial consenting in the September 2022 quarter. Nearly 78,000m2 of new industrial floor area was granted. On an annual basis we saw almost 155,000m2 of new floor area worth a total of $247 million, an increase of 227% compared to the prior year. Ruakura continued to be the centre of new industrial development in the city.
- Completed houses turned a corner as the backlog of houses under construction started to clear. Completed houses increased 28% on the June quarter and 16% year-on-year to reach 1249.
- Residential consenting is down 12% although this is against a backdrop of record numbers in 2021. The number of consents in the pipeline (lodged but not yet granted) remains 5% higher than last year.
- The number of houses under construction has fallen in line with expectations as materials became more readily available.
- Hamilton's median house price fell an estimated 6% to $780,000 and the number of sales fell 31%. With some properties unable to be sold, some are being added to the rental market which will help keep rents down across Hamilton.
- Annual spending increased 4.4% compared to the year to September 2021 but the number of transactions over the year fell 4.8% showing that inflation is most likely driving spending increases. The average spend per transaction increased 10% to $49.
- Unemployment at 4.4% remains at historic lows, which brings positives for wellbeing and challenges for business.
- Spending on accommodation and hospitality fell despite rising inflation. The sector saw a 7% fall in spending over the year to September 2022 and a 13% drop in transactions.
- Employment continued to increase in September but at a slower rate than earlier this year. The availability of labour remains the biggest concern for businesses as unemployment remains historically low. Seek job advertisements showed a 7% decrease in ads for Waikato jobs compared to August 2022, but they remain 13% higher than September 2021.
- Hamilton's population grew marginally in 2022, reaching 179,900. The 2021 estimate was also revised up by 600 people. Growth here and across the country has been hampered by closed borders but, with borders now fully open, next year's population data is expected to show higher levels of growth.

Hamilton's economy

September 2022 quarter vs June 2022 quarter

GDP

$3.1B ↓ 1%

EMPLOYMENT

Up 1%

SPENDING

$702M ↑ 1%

UNEMPLOYMENT RATE

4.4%

MEDIAN HOUSE PRICE

$780,000* ↓ 6%

The housing market saw further downward pressure as interest rates increased and the amount of money buyers can borrow reduced. The RBNZ's latest forecasts suggest house prices could slide 20%. Data for Hamilton in the September 2022 quarter currently shows a fall of 6% in house prices since June 2022. Provisionally the median house price is sitting at $780,000. However, our data is updated after settlement so there can be a delay before a sale is reflected. House prices are holding up slightly better than we forecast in September's Hamilton Growth Outlook Report.

The low level of unemployment is likely to provide a buffer in a recession. To date there have been very few forced sales as banks tend to work with mortgage holders to find a solution.

An increasing number of homeowners, namely first home buyers who bought at the peak of the market, are facing the possibility of negative equity with these price drops. The step change in mortgage rates is buffered, to some extent, in the short to medium term with the proportion of loans due to be refixed in the next 12 months about 40 to 45%, much less than a year ago. It means a smaller proportion of homeowners will need to refix at higher rates.

According to CoreLogic, in the September 2022 quarter less than 3% of Hamilton properties were sold for less than the seller paid for them, and half of these properties had been purchased in the past 13 months. The median loss was $30,000, well below the figure seen in other metro cities. Following the Global Financial Crisis (GFC), the proportion of properties sold at a loss crept over 25% in Hamilton.

Gross Domestic Product (GDP) increased by 1.7% in Hamilton for the year to September 2022. With a lower reliance on international tourism, Hamilton's GDP increased at a slower rate than New Zealand. National data from Statistics New Zealand shows that two of Hamilton's largest sectors - healthcare and professional and scientific services - saw considerable GDP growth to June 2022 (5.9% and 7.6%). Wholesale trade also saw a 6.6% increase.

Card spending data for the year to September highlighted those parts of our economy that are already feeling the pinch as people tighten their spending. Accommodation and hospitality experienced a 7% fall in spending and a 13% fall in the number of transactions made. Spending on apparel also fell while spending on home and recreation retail was static.

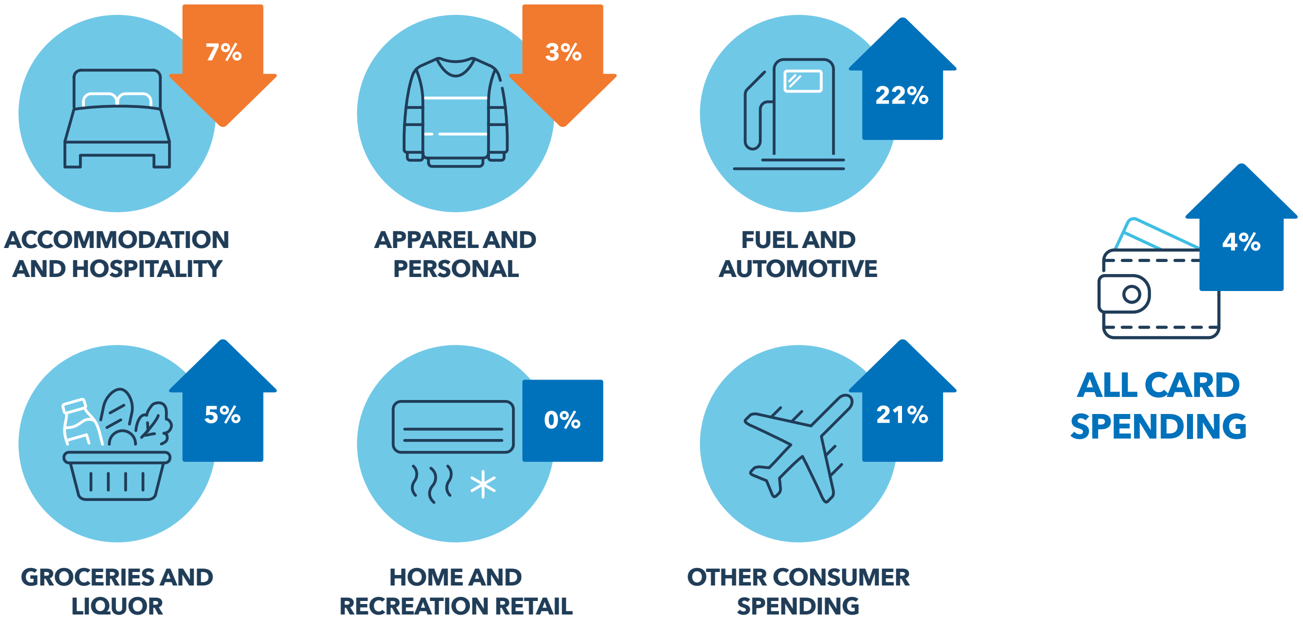
The RBNZ wants spending to come down and even went so far as to ask people to think about the bigger picture and spend less to reduce inflation and even to refrain from seeking pay rises to dampen the 'wage price spiral'. For most retailers, this is a bitter pill to swallow after three years of COVID-19 disruption. It's expected most businesses will battle through and some will find opportunities to innovate, increase efficiency, or grow - one benefit of an economic recession. A recession may, however, be the final straw for businesses struggling and who have been hanging on hoping things will improve.

Seek job data for Waikato shows that monthly job advertisements in September 2022 remain 13% higher than a year ago despite a fall compared to August 2022. The demand for workers across the Waikato is 52% higher than 2019.

Across New Zealand all industries except construction (-1%) and information and communication technology (-15%) remained at higher levels than in the September 2021 quarter. Hamilton's largest sector, healthcare, remained 19% higher than 2021, while manufacturing ads were 27% higher than last year. Job applications per job also increased, a welcome change for employers.

Changes in card spending since September 2021

Source: Marketview



Consenting is holding up

September 2022 quarter vs June 2022 quarter

NEW HOUSES IN CONSENTS LODGED

405 ↑ 0.5%

NEW HOUSES GRANTED

429 ↑ 30%

HOUSES UNDER CONSTRUCTION

1193 ↓ 8%

HOMES COMPLETED

387 ↑ 28%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

79,300m2 ↑ 301%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

$76.5M ↓ 13%

Industrial consenting continued to headline as the September 2022 quarter saw another substantial increase in industrial activity. The new Kmart distribution centre (40,000m2) and the Big Chill cold store (13,000m2) were granted building consent in Ruakura and further development was consented in Northgate. In total, nearly 156,000m2 of non-residential space was consented in the 12 months to September 2022, an increase of 144% on the previous 12 months and the highest since The Base Shopping Centre was consented in 2005/06.

Further consenting activity, including the 17,000m2 Maersk cool store, is expected in the Ruakura Superhub in the December 2022 quarter. Industrial consenting has boosted total non-residential consenting with commercial consenting remaining low with 28,000m2 consented in the year to September.

The estimated value of non-residential consenting activity remained high at $247 million, up 26% on the year to September 2021. Industrial consenting was valued at $152 million – a 227% increase on 2021 and nearly three times the previous record in 2017 of $59 million.

Residential consenting has changed in the past 12 months with the trends of infill and greenfield development diverging. Greenfield development faces more challenges from bank financing for both home buyers and developers, compared to infill development which remains high. The annual number of dwellings granted fell 12% to 1481 in the September quarter, although this fall comes on the back of a record year in 2021. We also saw continued high numbers of dwelling consents lodged, up 5% to 1753. Hamilton remained the fourth in New Zealand for consenting activity behind Auckland, Christchurch and Selwyn District.

Overall, this paints a positive picture for residential development in Hamilton, although things do look to be easing off with October and November numbers looking more subdued. There is still a strong pipeline of projects with consents either lodged or granted but not yet underway.

Vacant sections reappeared on the open market in the September quarter. In recent years it has been difficult to find empty sections across the city with building companies buying the sections directly from the developer and offering house and land packages to the market. Since the housing market began to turn in early 2022, building companies have been cautious about over-extending as buyer enquiry dropped off.

During 2021, demand for new builds meant that building companies chewed through their supply of sections. Developers responded by working to deliver more sections to the market. The slowing of the housing market has coincided with these sections becoming ready and an above average quarter for subdivision lots granted (638 lots compared to an average of 483 over the past five years).

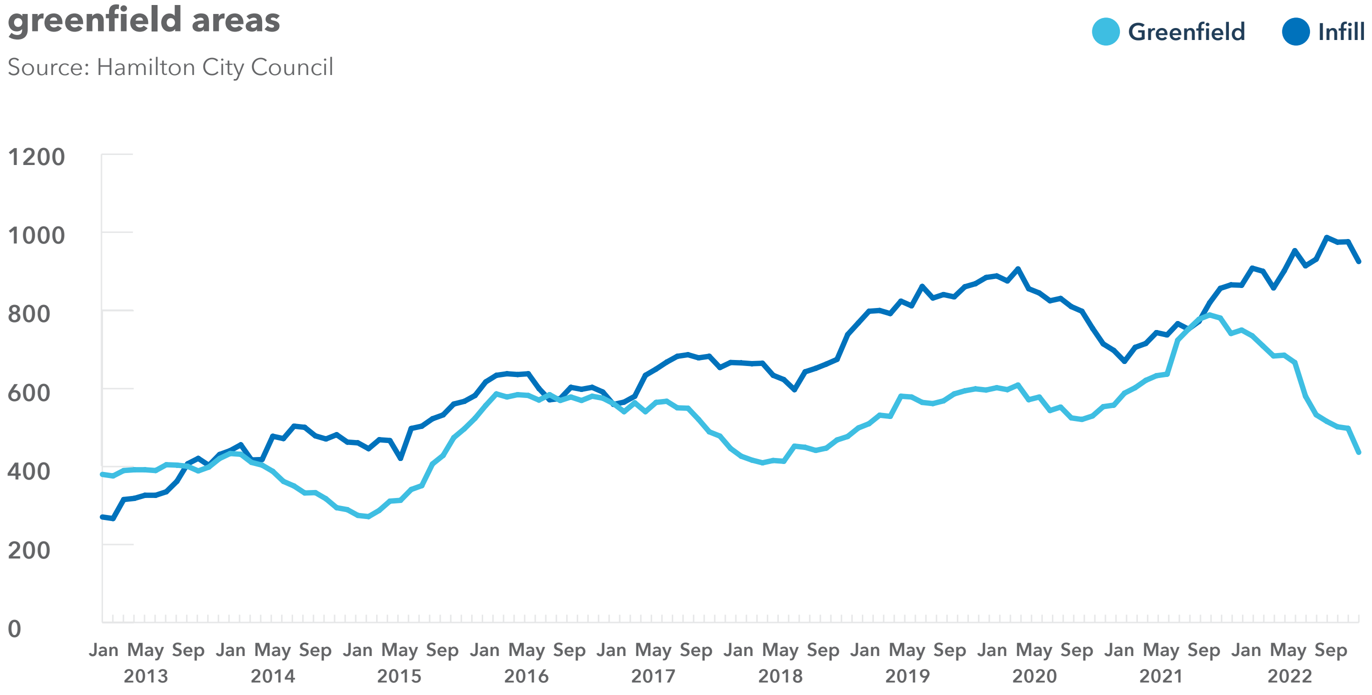
Activity in the greenfield continued to drop, with just 503 new dwellings consented over the year. Infill consenting has remained surprisingly strong, attracting some of that latent greenfield investment, with 326 new dwellings granted in the September quarter alone – a new record.

With banks tightening lending and house prices falling, greenfield is looking less attractive to potential buyers. The median house price in greenfield parts of the city was $1.04 million in September 2022 compared to $723,000 in infill areas.

There were 1193 new homes under construction in September 2022. This was 16% higher than in September 2021, but as material shortages and supply chain issues have started to ease, it has started coming down from a peak of 1293 at 30 June 2022. As the number of homes under construction fell, the number of homes completed increased – a positive sign that things are improving.

New dwellings consented for infill and greenfield areas

Source: Hamilton City Council

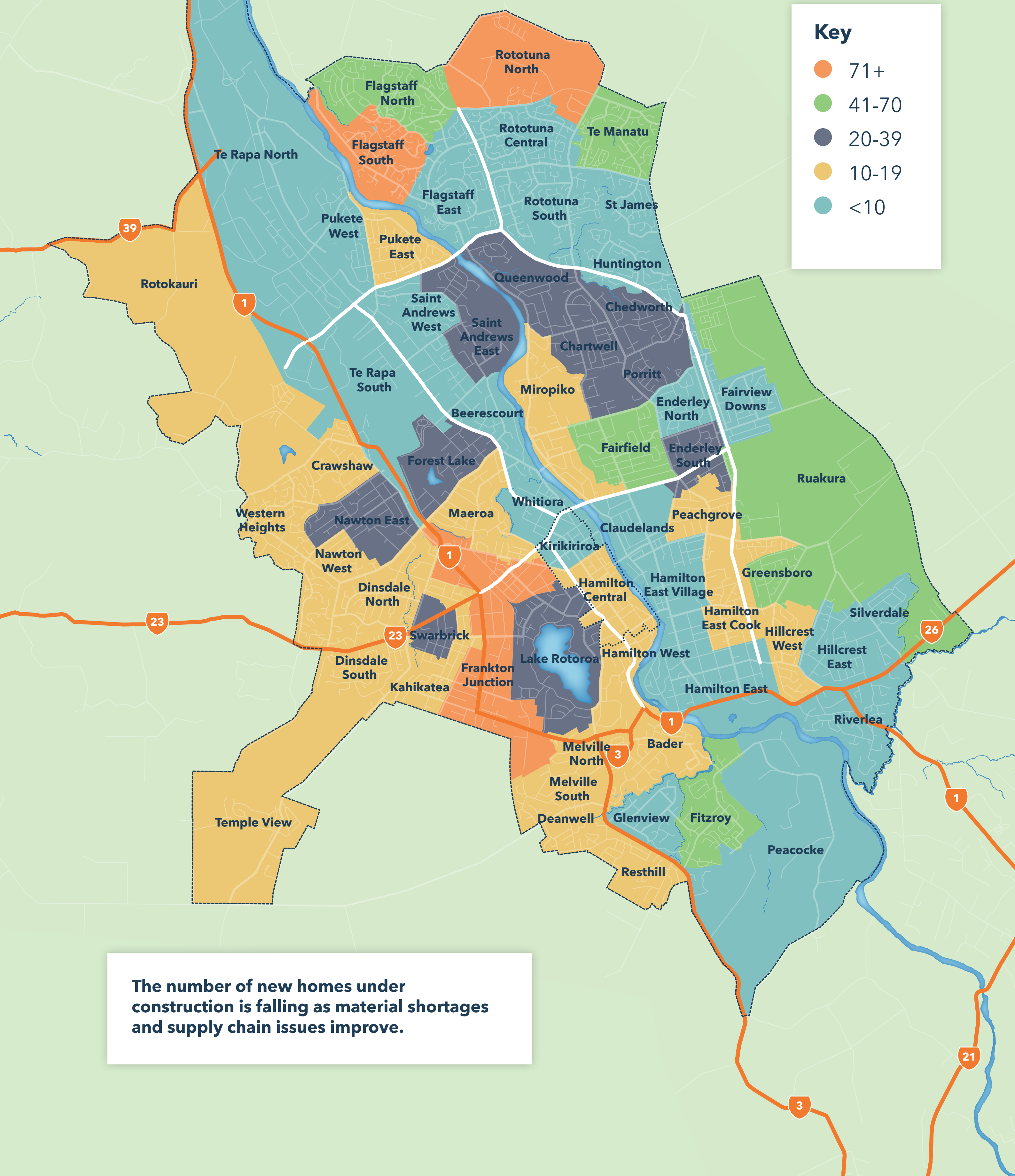


HOUSING

New homes under construction

as at 30 September 2022

Source: Hamilton City Council



The number of new homes under construction is falling as material shortages and supply chain issues improve.

The outlook

With the RBNZ trying to put the country into a recession by dropping national GDP by about 1% in 2023, we can expect to see several of our economic indicators fall in the coming months. It also increases the likelihood that Hamilton will see a recession in 2023 too, despite the projections in our Growth Outlook Report.

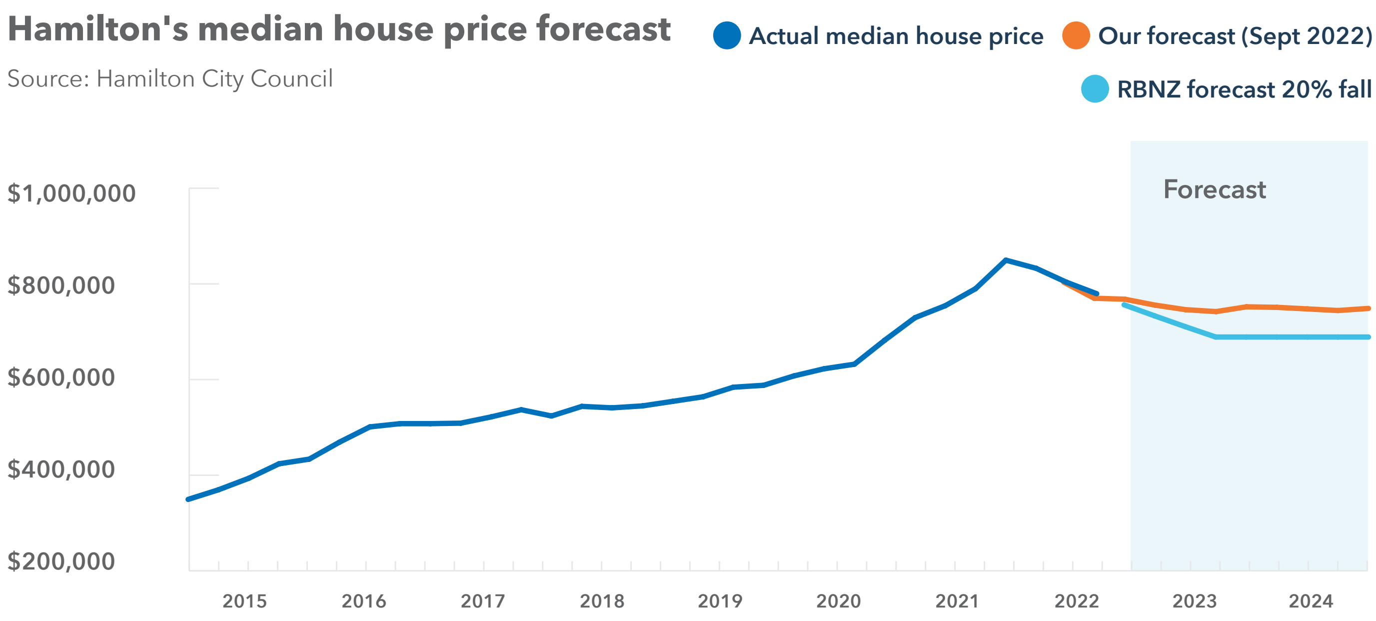
New Zealanders have been asked to ease up on spending, so expenditure should ease despite inflation. The theory is that with less money being spent across the city, we will see fewer products sold which will ease demand for manufactured goods. As demand for products eases, there will be lower labour demands and lower consumption of raw materials used to manufacture the products. In a labour constrained environment, we are not expecting to see high increases in unemployment. Rather we will see many businesses not replace staff that leave or not fill existing vacancies while they ride out the downturn.

We expect falls in spending, employment growth and GDP in 2023. As the housing market softens, we will likely see a fall in residential consenting too. The gap between the cost of a new build and an existing property is widening. The cost of land plus building materials, at a time when inflation is running so high, is making the equation less attractive and most new build companies are reporting very low levels of enquiry.

While house prices are currently tracking down in line with our September forecasts, the RBNZ has forecast house prices to fall by 20% from their peak so we may see prices fall further. However, so far Hamilton prices have held up better than other cities.

Industrial consenting is harder to predict. Large industrial businesses tend to plan strategically five, 10, 15 years out rather than looking at the next three to five years. Hamilton's strategic location and growth outlook makes it an attractive location to set up or expand, particularly in areas where logistics are important. The momentum in Ruakura could well pull non-residential consenting through a downturn. Commercial consenting has proven to be more sensitive to economic uncertainty, so we may see ongoing softness here until the economic outlook starts to pick up again.

While the outlook for the next two to three years is for an economic slowdown, this doesn't change Hamilton's value proposition, its strategic positioning or its inherent advantages for business. Our long-term growth outlook remains positive. Yes, the economy may slow down in line with the rest of New Zealand, but growth will return.



Hamilton's median house price forecast

Source: Hamilton City Council

SUMMARY

Key annual indicators

Year to September 2022 compared to previous 12 months

GDP GROWTH

Hamilton	+ 1.7%
Waikato	+ 1.9%
New Zealand	+ 2.6%

EMPLOYMENT (Place of residence)

Hamilton	+ 4.1%
Waikato	+ 3.7%
New Zealand	+ 3.1%

SPENDING

Hamilton	+ 4.4%
Waikato	+ 6.8%
New Zealand	+ 7.0%

UNEMPLOYMENT

Hamilton	4.4%
Waikato	3.5%
New Zealand	3.3%

GUEST NIGHTS

Hamilton	– 16.8%
Waikato	– 9.2%
New Zealand	– 6.0%

TRAFFIC FLOW

Hamilton	– 4.2%
Waikato	– 9.2%
New Zealand	– 4.1%

MEDIAN HOUSE PRICE

(September 2022 quarter)

$780,000

HOUSE SALES

Hamilton	– 31.4%
Waikato	– 25.6%
New Zealand	– 29.6%

Consenting

SUBDIVISION LOTS GRANTED

2247 ↓ 10%

TITLES ISSUED (224C)

1318 ↑ 9%

NEW HOUSES IN CONSENTS LODGED

1753 ↑ 5%

HOUSES UNDER CONSTRUCTION

(as at 30 June 2022)

1193 ↑ 16%

NEW HOUSES GRANTED

1481 ↓ 12%

Infill	66%
Greenfield	34%

Townhouses/duplexes	67%
Houses	25%
Apartments	4%
Retirement villages	5%

Infill East	24%
Infill West	42%
Rototuna	21%
Peacocke	4%
Ruakura	7%
Rotokauri	0%
Temple View	2%

HOMES COMPLETED

(as at 30 June 2022)

1249 ↓ 23%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial 28,500m2	– 21%
Industrial 126,100m2	+ 362%
Total 154,600m2	+ 144%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial $95M	– 36%
Industrial $152M	+ 227%
Total $247M	+ 26%

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