



Hamilton Economic Update and Outlook

September 2023 Quarter

Published December 2023

This report combines the September 2023 Hamilton Quarterly Economic Update with our Growth Outlook Report.

Hamilton saw growth or positive movement in almost all the economic indicators we monitor for the September 2023 quarter. However, signs of an economic slowdown can be seen with the pace of growth easing in many areas.

Net migration reached a record 118,200 people in the year to September 2023 – the highest annual total on record. The influx helped to boost consumer demand and spending across the country. Hamilton saw an estimated net increase of 6100 people, including 4900 international migrants as of 30 June 2023.

Inflation continues to track down, reaching 5.6% in the September 2023 quarter. Inflation in the September quarter itself was 1.8%, up on previous quarters as the Government's transport relief package came to an end, resulting in a jump in fuel prices. Inflation has eaten into the purchasing power of Kiwis. Retail sales volumes have fallen nationally despite total spending increasing and population growth sitting at a record high.

The residential construction sector has had a tough 18 months with consents falling across the country, high financing costs (if they can get project finance at all), and additional insulation compliance requirements coming into effect in May and November. Building costs have continued to increase but at a significantly slower rate than before.

In the year to September 2023, residential consenting fell 11% in Hamilton and 20% across the country.

Mortgage rates remain high and the number of people in arrears (where they have missed a mortgage repayment) had crept up to 1.29%

in November 2023. While this is a 25% year on year increase, this compares to a period of below average levels. The current number is in line with pre-pandemic levels which ranged from 1.28% to 1.55% per month between 2017 and early 2020. Credit card arrears remain below pre-pandemic levels while auto loan arrears have returned to a similar level. Company liquidations have also increased, but again, this compares to particularly low levels during the pandemic where a lot of money was pumped into businesses by government and consumers.

A change of government has seen an improvement in consumer and business sentiment. The new government is seen as more pro-business, wants to reduce red tape for construction (including reforming the RMA to focus on the enjoyment of ownership rights), will repeal the 3-Waters legislation, and will investigate a third medical school in Hamilton. They are also interested in funding partnerships between central and local government, referred to as city deals, to support local government infrastructure requirements, and are pursuing cuts to the public sector. The impact for Hamilton is not yet known.

The outlook for New Zealand and subsequently Hamilton, is for low levels of growth over the coming year. Expectations are for house prices to increase slowly, for low levels of residential consenting, low GDP growth, slowing job growth and reduced discretionary spending. With interest rates set to remain high and inflation only moving slowing downwards, there are still tough times ahead for businesses and households.



**Hamilton
City Council**
Te kaunihera o Kirikiriroa

The headlines

The highlights

- Hamilton's population grew by 3.4% in 2023 taking the total population to 185,300. This is the highest rate of growth in decades.
- Job growth remains comfortably above the national average at 4.2% year on year, but the pace slowed from June, in line with a slowdown in the economy both in Hamilton and across the country.
- House prices have improved from the lows of the March 2023 quarter, with slow quarter on quarter growth continuing in the September 2023 quarter.
- GDP growth has continued to outperform the New Zealand economy, increasing 2.3% year on year.
- Hamilton is currently seeing some of the highest levels ever of non-residential development with 136,200m² of new space under construction across the city at the end of September 2023.
- In the September quarter, nearly 25,000m² of non-residential floor area was completed, including 17,000m² of industrial floor area – the highest level since the pandemic began. With several big projects nearing completion this will continue.
- Annually, spending increased 8% to \$3 billion. International visitors spent \$59 million over the past year, an extra \$33 million on the previous 12 months.

The challenges

- Residential consenting continues to ease with 1309 new dwellings consented in the year to September 2023, 11% lower than in September 2022. We expect residential consenting to fall to around 1100 new dwellings per year in 2024.
- Kāinga Ora has ramped up its build and acquisition programme in 2023, helping to boost consent numbers. Kāinga Ora's build programme made up 23% of all consented dwellings between January and September 2023.
- Commercial development was down 10% in the year to September 2023. Just over a third of commercial development occurred in schools and included new classrooms, new boarding hostels and a new wharehau. Commercial development has been slow since the pandemic and a less buoyant economic outlook combined with high finance costs has created a lot of uncertainty.
- Retail spending for the September quarter was down 0.4% compared to September 2022, and down 5% compared to the June 2023 quarter despite population growth and the FIFA Women's World Cup in July and early August.
- Greenfield consenting with its higher price point, has been particularly hard hit by rising finance costs, falling house prices and economic uncertainty.

Hamilton's economy

September 2023 quarter vs September 2022 quarter

GDP



\$3.4B



EMPLOYMENT

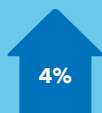


Up 4.2%

SPENDING



\$740M



UNEMPLOYMENT RATE



4.9%

MEDIAN HOUSE PRICE



\$780,000



On an annual basis, Hamilton's economy continued to perform well and outperformed the New Zealand economy. But if we look at the September 2023 quarter compared to the September 2022 quarter, the signs of an economic slowdown are more evident with GDP growth of 0.8% compared to 2% in the June 2023 quarter and 3% in March 2023.

Spending is another example of a slowing in our economy. Spending has continued to increase but the pace has eased a lot. Annually spending was up 8% but, looking at the September quarter, there was just a 4% increase compared to September 2022. This compares to an inflation rate of 5.6% and comes against the backdrop of high population growth, increased tourism and the FIFA Women's World Cup in July and early August. This trend is the same across New Zealand as rising interest rates and high inflation force households to rein in discretionary spending. Recent national data shows a further retraction can be expected in the December quarter data.

In Hamilton, spending on fuel and automotive services was up 1% in the year to September 2023, but down in the September 2023 quarter, primarily driven by lower petrol prices compared to this time last year.

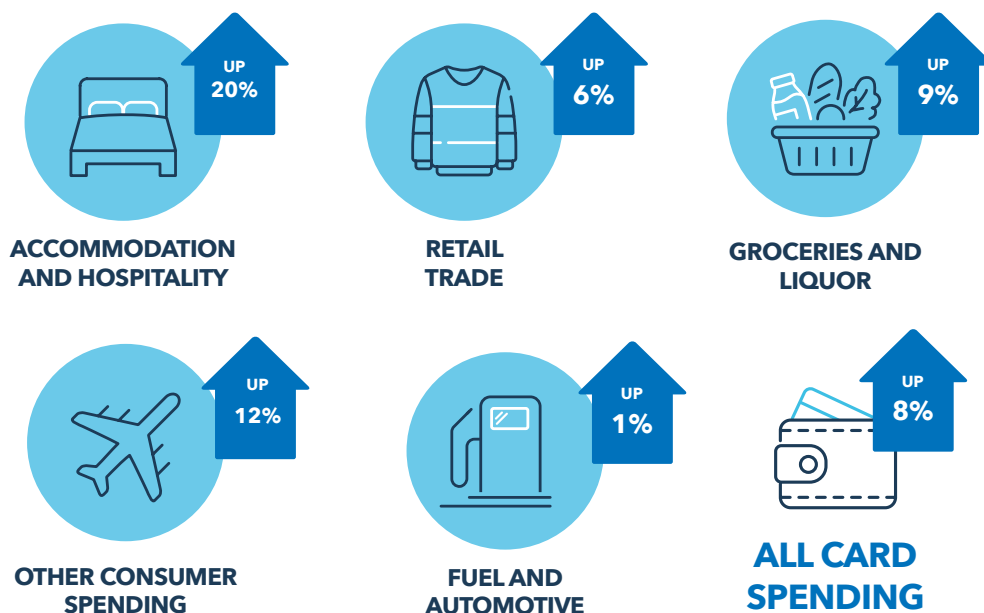
Grocery spend was up 9% year on year on the back of 11% grocery price inflation over the same period. The rate of growth in grocery prices has started to pull back with slight falls in the food price index since July 2023.

Retail trade was up 6% year on year but if we compare the September 2023 quarter to the September 2022 quarter, spending has fallen 5%. National data has also shown that the amount being sold in retail stores has fallen compared to 2022.

Quarterly data shows that Hamiltonians are spending significantly more at the supermarket compared to September 2022, which has driven the overall increase in spending. Accommodation and hospitality spending increased 5% - good on a normal year but not with inflation running higher. Retail trade increased less than 1%, and other categories were negative despite population growth of 3.4%.

Changes in card spending in year to September 2023

Source: Marketview

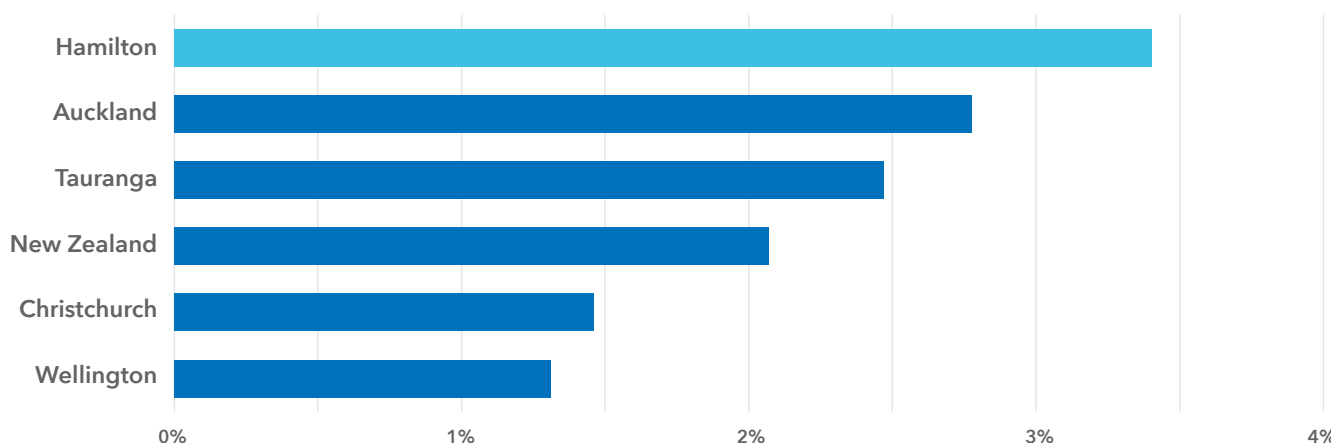


Hamilton's population grew by 6100 (3.4%) in the year to 30 June 2023 taking the total population to 185,300. Population growth was driven by international migration with a net gain of 4900 new migrants moving to Hamilton.

Hamilton saw the highest percentage increase in population growth of any of the main metros (as well as most territorial authorities). Hamilton also had the second highest total increase in population after Auckland.

2023 population change (%)

Source: Statistics New Zealand



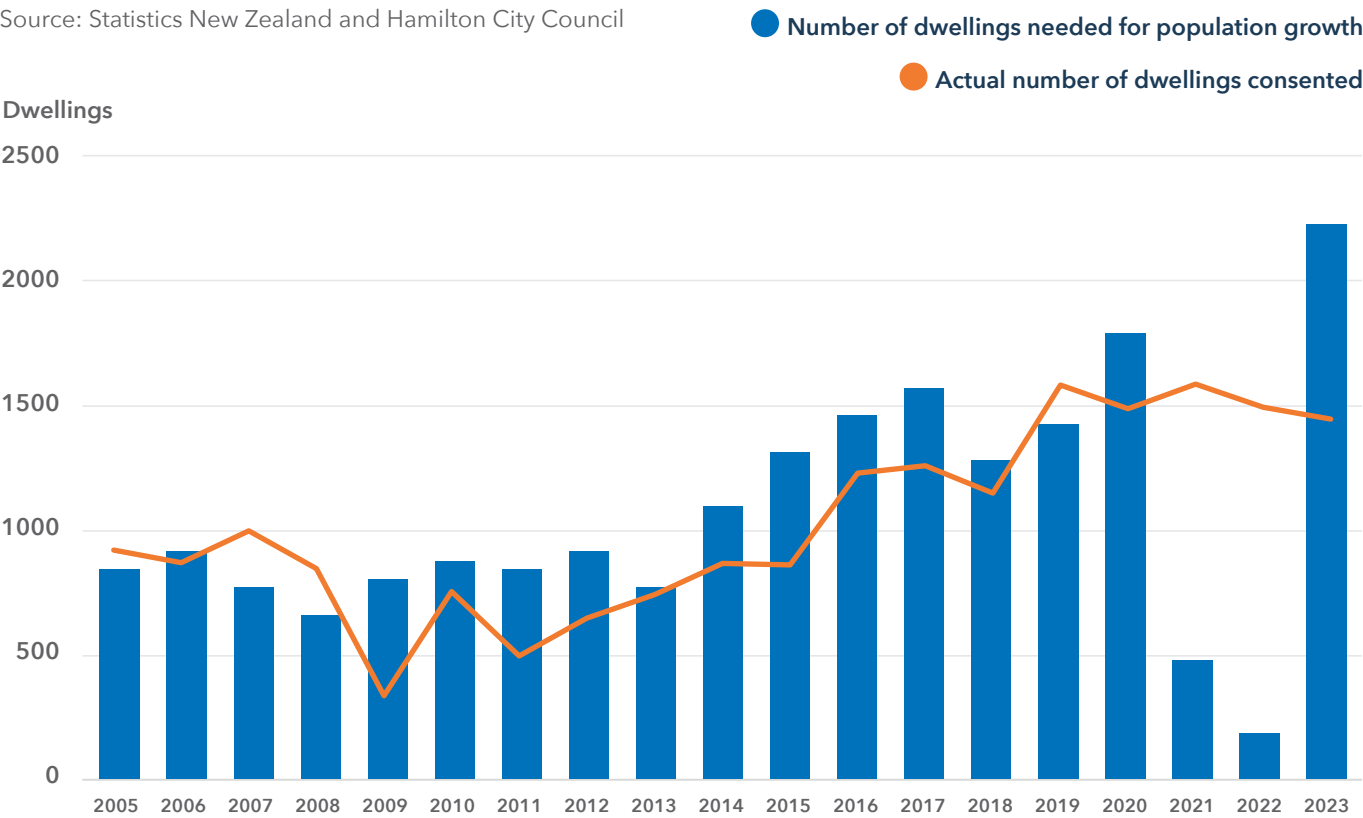
Net internal migration (people moving between Hamilton and another part of New Zealand) was estimated to be -150 people, meaning that 150 more people left Hamilton for somewhere else in New Zealand than moved here. Hamilton typically sees slight levels of negative internal migration. Our own research on internal migration into and out of Hamilton shows that the biggest outflow is to Waikato and Waipaa districts while Auckland is our largest contributor. Further research is underway to understand local drivers of internal migration and whether those moving to Waikato or Waipaa are continuing to work in Hamilton.

Since 2005, Hamilton’s population has grown by just over 55,000 people. As a crude calculation that assumes on average about 2.7 people per dwelling, this equates to about 20,200 homes. Over the same period, just over 19,500 dwellings were consented. With a few exceptions, the number of dwellings consented each year has tended to sit below the number that could be expected to be needed based on the level of population growth Hamilton has seen.



Alignment of consenting and population growth

Source: Statistics New Zealand and Hamilton City Council



Unemployment increased to 4.9% in September. With high levels of migration and population growth in Hamilton, the number of people looking for a job increased. Indications are that this is the main driver of unemployment growth in September as opposed to job losses.

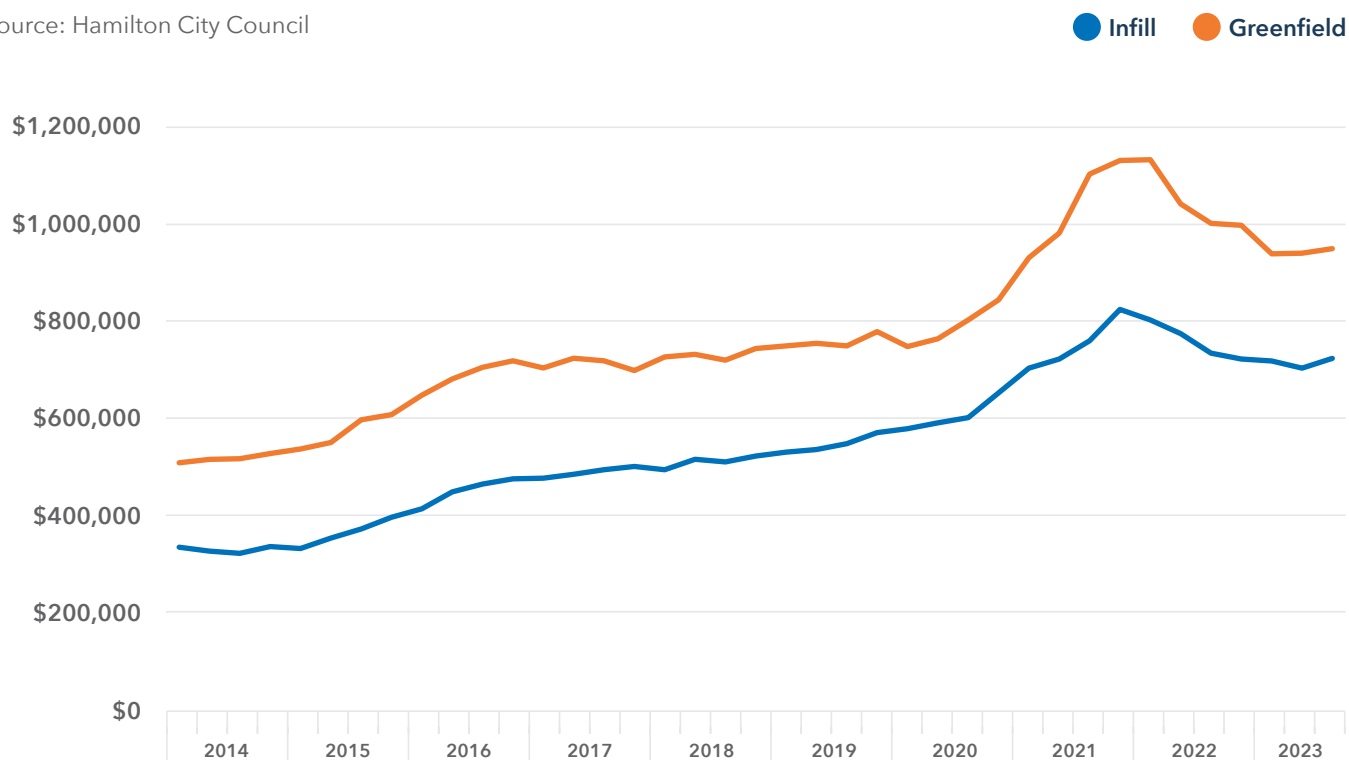
House prices continued their slow rise, increasing 1% between the June and September 2023 quarters. On an annual basis, prices are down just 1% on September last year, and 9% from the price peak in December 2021.

The median house price in infill areas was \$720,000, an increase of 3% from the June 2023 quarter. In our greenfield areas, the median price was \$949,000, an increase of 1%. Prices in both infill and greenfield remain well below the market peak in 2021 with infill prices down 12% and greenfield down 16%. Context is important though - prices remain 20% higher than in September 2020 in infill and 18% higher in greenfield.



Infill and greenfield median house prices

Source: Hamilton City Council



Consenting

September 2023 quarter vs June 2023 quarter

NEW HOUSES IN CONSENTS LODGED



216

11%

NEW HOUSES GRANTED



304

22%

HOUSES UNDER CONSTRUCTION



954

8%

HOMES COMPLETED



330

3%

FLOOR AREA OF NON- RESIDENTIAL CONSENTS GRANTED



15,425m²

92%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED



\$50.5M

140%

Residential consenting

Residential consenting continued to ease in the September 2023 quarter with 304 new dwellings consented. There were 75 dwellings consented in greenfield areas and 229 dwellings in our existing suburbs (infill).

The closure of borders during the pandemic enabled a “catch up” in new homes relative to migration. However, the latest population estimates suggest that much of this gain has been lost with high immigration and lower levels of consenting in 2023.

On the upside, the downturn in the construction sector has enabled Kāinga Ora’s build programme to gain momentum in 2023. Kāinga Ora has consented nearly one quarter of all new dwellings in Hamilton between January and September 2023. These consents are handled by Consentium and loaded into Council’s database after granting. Several developers are also building additional properties as part of Kāinga Ora’s acquisitions programme. With plans to build over 850 new homes in Hamilton over the next few years, Kāinga Ora’s strong presence in the market will continue.

There has been an uptick in dwellings consented but not inspected, an indicator of projects that have not started. In September 2023, building work had not started on 43% of consented dwellings. This compares to 30% in September 2022 and a long-run average of 28%. Building consents lapse after two years so we can assume that if the market conditions (and demand) improve, then many of these projects will get underway.

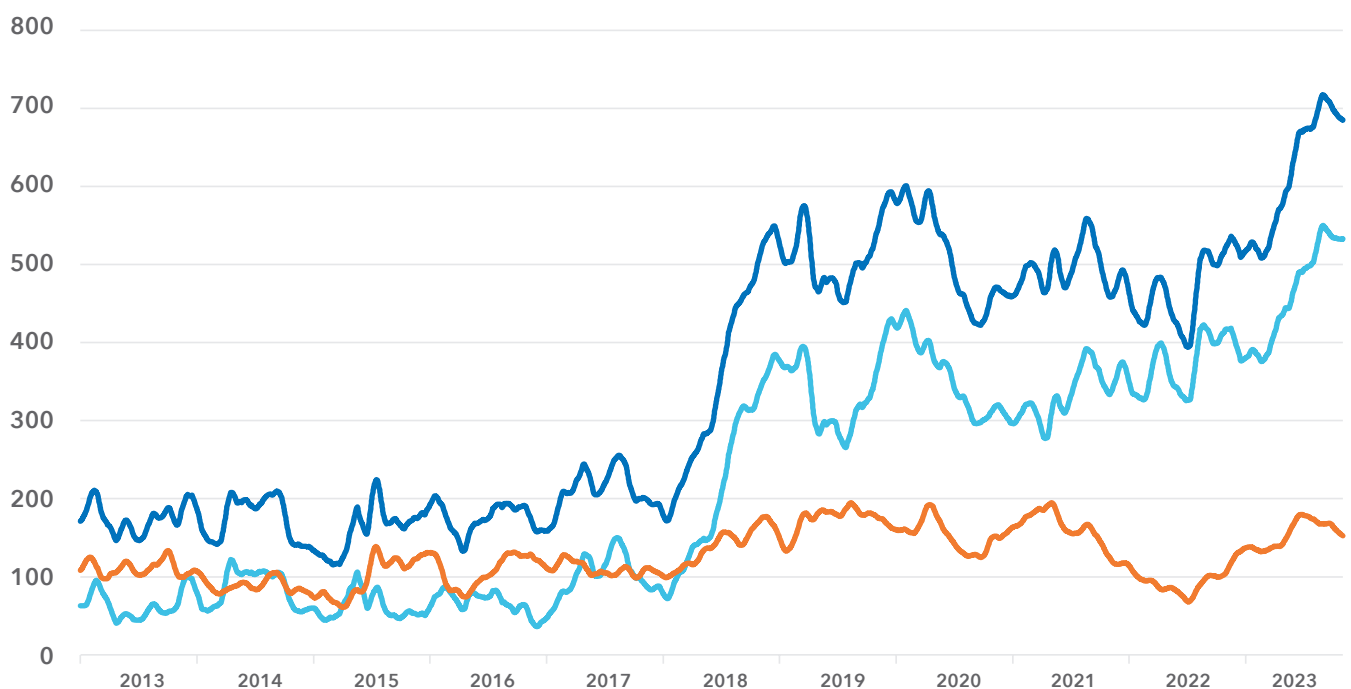
New building insulation standards came into force on 1 May and 2 November 2023. The changes to insulation requirements may have incentivised lodging consents this year despite economic conditions cooling demand for new builds. In April and October, Hamilton saw the largest number of monthly consents lodged this year. One developer estimated that the new requirements add up to \$10,000 per unit to the build cost. These dwellings may not be built within the usual timeframes as developers have two years before the building consent lapses, so they may wait for the market conditions to improve.



New dwellings consented but not started, 30-day rolling average

Source: Hamilton City Council

● Total ● Attached ● Detached



Non-residential consenting

In the September 2023 quarter, 15,424m² of new non-residential space was consented in Hamilton, made up of 12,100m² of industrial floor area and 3320m² of commercial floor area. On an annual basis, 105,600m² of new non-residential floor area was consented, down 32% on a year ago. Again, context is important – last September, Hamilton saw a record level of industrial consenting with 77,500m² consented in that one quarter compared to an average of 16,000m². Warehouses and storage facilities have been the main driver of industrial development since 2020.

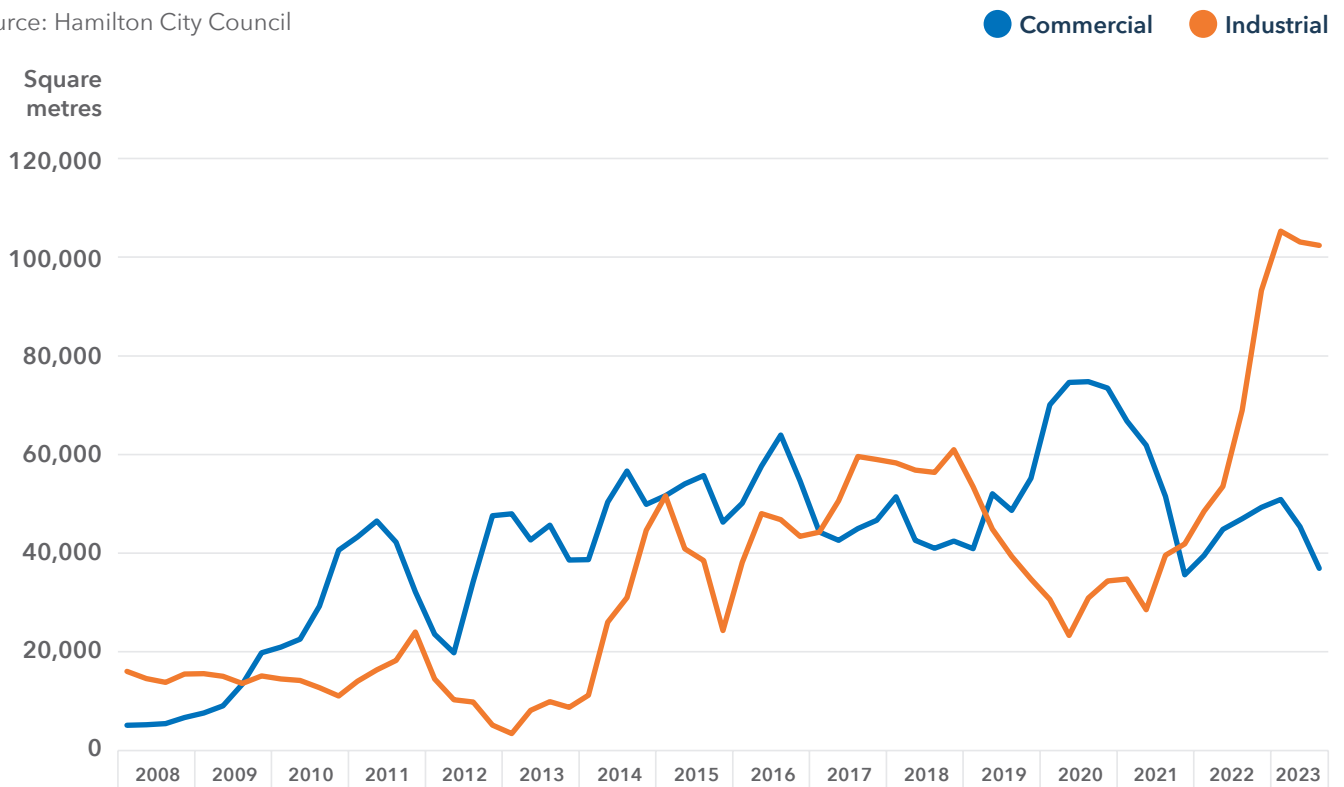
Commercial consenting remains subdued on a quarterly and annual basis. In the September 2023 quarter 3320m² of new commercial floor area was consented, a total of 25,640m² across the year. This was 10% below the previous year when 28,450m² was consented. Pre-pandemic commercial consenting averaged about 62,000m² per year. Since 2020, commercial consenting has averaged about 32,000m² per year.

Commercial development has been slow since the pandemic and a less buoyant economic outlook combined with high finance costs has created a lot of uncertainty. Since 2020, 130,000m² of new commercial floor area has been consented. In the four years prior to the pandemic, 260,000m² was consented.

While non-residential consenting has been lower in the past 12 months, there is substantial development underway around the city. At the end of September 2023, there was 100,000m² of industrial construction and 36,000m² of commercial construction underway (136,200m² in total). The long-run average for industrial and commercial construction combined sits around 39,100m².

Non-residential construction underway in Hamilton, quarterly average

Source: Hamilton City Council





Hamilton's Growth Outlook

This section of the report looks at Hamilton's economic outlook for the next two to three years. In September 2022, we released our first set of forecasts for Hamilton using models that were built to forecast the number of new dwellings consented and completed in the short to medium term. The models were built using several variables including historical consenting and completion trends, population, GDP, house prices, bank bill rates and unemployment. Except for the bank bill rate, all of these variables are available at the Hamilton level. Our forecasts for GDP and house prices also use forecasts for inflation and Treasury's house price index as key variables.

As with all modelling, particularly economic modelling during "unprecedented times", there are high levels of uncertainty. And as we have seen in the past three years, there is always the chance of something unexpected happening that totally changes the outlook – the economic impact of Cyclone Gabrielle is a recent example.

Broadly speaking, 2023 was forecast to be a year of economic slowdown. However, in 2023 (so far) Hamilton has seen continued growth in GDP, jobs, spending and record high levels of industrial consenting as development in Ruakura got underway. High net migration also resulted in a net gain of 6100 people for Hamilton.

Residential consenting was the exception and slowed significantly from the highs of 2021 when 1688 new dwellings were consented. In the 12 months to September 2023, residential consenting had fallen to 1309. The fall in house prices was a key driver of uncertainty

for developers, buyers and banks who feared committing to a new build that might be worth less than the purchase price by the time the build was complete. At the same time, the Official Cash Rate (OCR) was climbing with mortgage rates around double what they were in 2021. This made finance difficult even without the uncertainty caused by price falls.

Our outlook for Hamilton sits within the broader context of persistent inflation, a slowing global economy and high interest rates. While the Reserve Bank of New Zealand (RBNZ) has forecast a return to target inflation levels (between 1% and 3%) by the second half of 2024, it has also signalled that it expects to keep the OCR high for longer and may raise it again in the new year. The latest national GDP figures (-0.3%) mean most banks are expecting the RBNZ to hold at 5.5%.

Many economic commentators, including most of the retail banks, are expecting the OCR to come down sooner, although they have extended their timeframes too. Less than a week before the November OCR announcement, Westpac cut its two- and three-year rates. Bank rate cuts could signal to borrowers that we are through the tough part. If demand increases and inflation stops tracking downwards, the RBNZ will need to raise the OCR further.

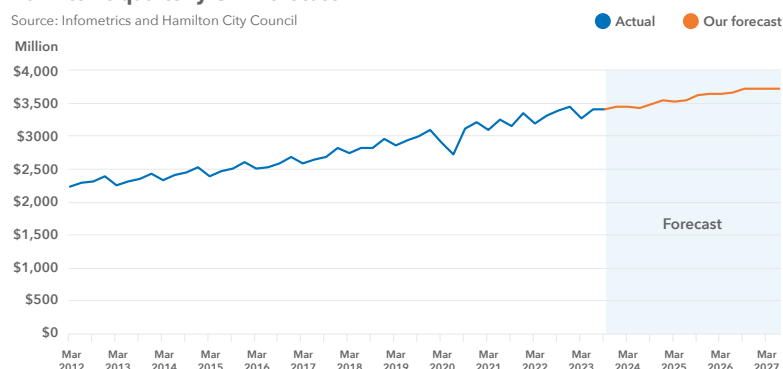
The RBNZ reported that the average mortgage rate is currently 5.4% and is expected to increase to 6.4% by mid next year. High interest rates and rising costs are causing stress for highly-indebted households.

SUMMARY

Summary of forecasts

Hamilton's quarterly GDP forecast

Source: Infometrics and Hamilton City Council

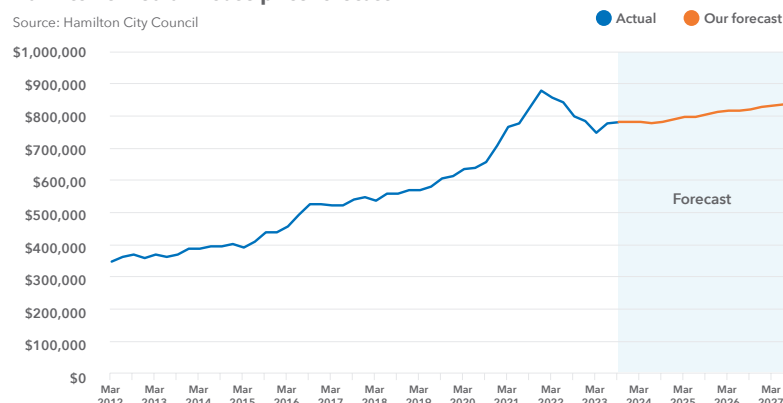


GDP

Hamilton's economy has proven highly resilient over the past year. We expect this resilience to continue with growth being slightly slower but steady in the short-term.

Hamilton's median house price forecast

Source: Hamilton City Council



HOUSE PRICES

Median house prices stabilised to sit -9% below their December 2021 peak, currently sitting at \$780,000. Our forecasts are largely unchanged, with low levels of growth over the next 12 to 18 months, increasing to growth rates of 2% to 3% per year.

Hamilton's forecast number of dwellings consented 12-month rolling total

Source: Hamilton City Council



CONSENTED DWELLINGS

Residential consenting is expected to continue to fall in 2024, reaching about 1100 new dwellings per year in mid to late 2024. A relatively quick rebound is expected in 2025 and 2026. Unexpectedly high population growth may spur residential development to improve ahead of expectations.

Our forecasts

Gross Domestic Product (GDP)

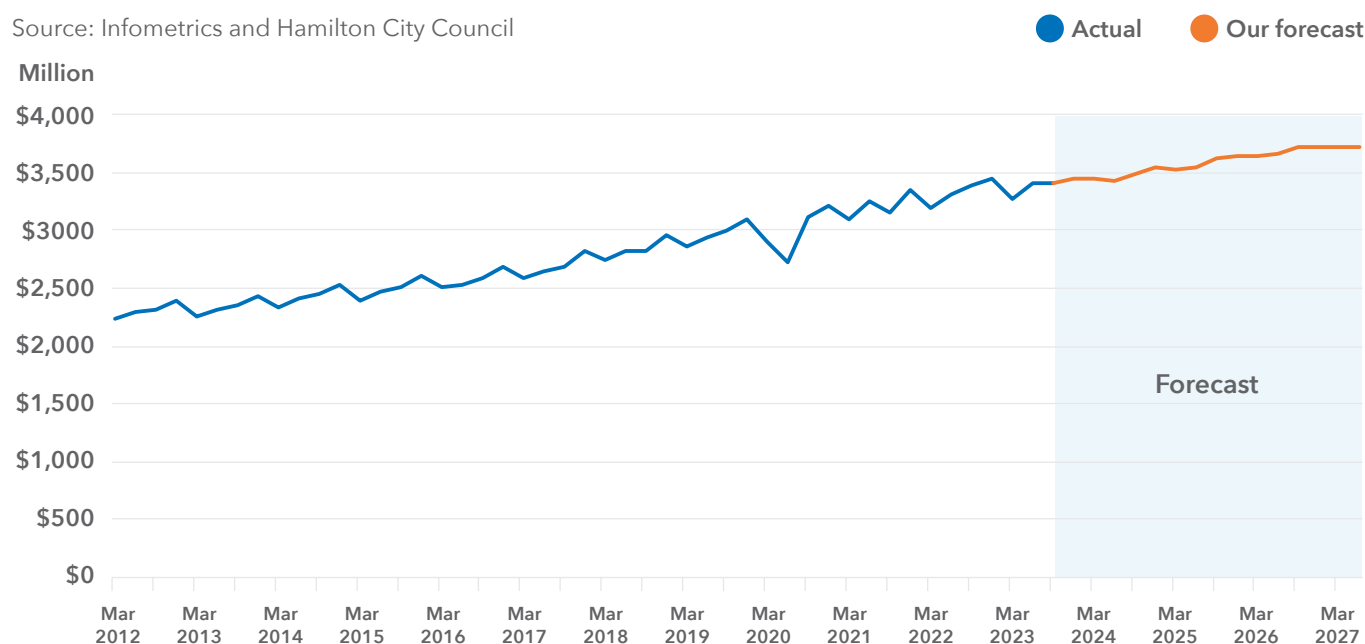
GDP growth this year has been better than we forecast a year ago. In mid-2022 when we ran our last forecasts, the RBNZ was pushing hard on inflation with OCR increases priced in and talk of the need to slow the economy. New Zealand GDP has outperformed expectations in the past 12 months, and Hamilton has outperformed the national economy.

The New Zealand economy is expected to slow but not head into recession in the coming 12 to 18 months. General sentiment at the time of writing was that we may have achieved a “soft landing”. Generally, Hamilton’s economy has seen higher levels of growth than New Zealand as a whole. While we expect this to continue, Hamilton’s growth rate is also expected to slow, as the national economy slows.

The following graph shows the actual GDP for Hamilton as generated by Infometrics, as well as the forecast for quarterly GDP through to mid-2027. Our forecasts show annual growth rates of just over 1% in 2024, increasing to 2.4% by the end of 2025.

Hamilton's quarterly GDP forecast

Source: Infometrics and Hamilton City Council



House prices

House prices have fallen from Hamilton’s market peak in December 2021 when the median house sale price hit \$855,000. The median house price in greenfield peaked slightly later in March 2022 at \$1,129,000. Prices fell steadily through 2022 and hit their lowest point in March 2023 with the median price at \$750,000. Prices have increased about 4% since March.

The number of house sales in Hamilton has almost halved to 630 sales in the September 2023 quarter down from its peak of 1220 in the December 2020 quarter. As demand increased in mid-2020, the number of homes available decreased, driving prices higher. As sales prices began to fall from early 2022, fewer homes were put up for sale and fewer sales occurred.

Quarterly house sales in Hamilton

Source: Infometrics

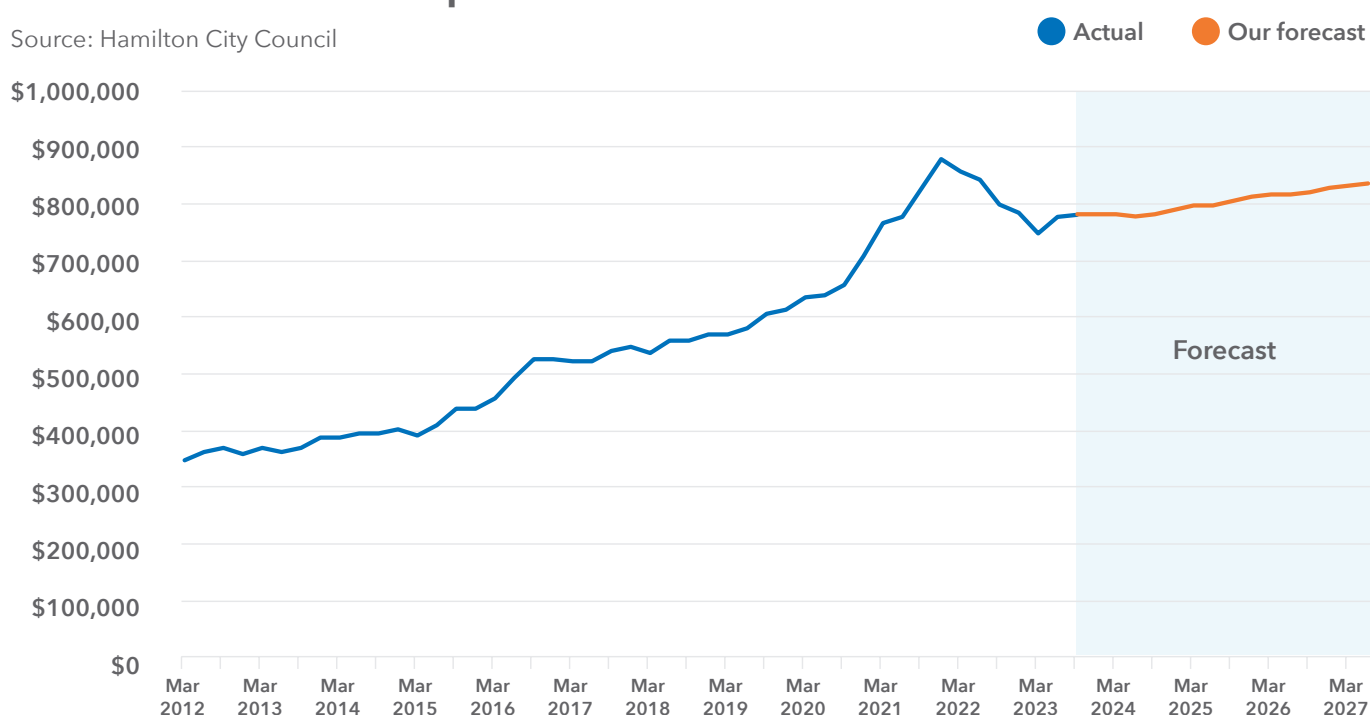


House prices have tracked slightly above but broadly in line with our previous forecasts, so our latest forecasts are largely unchanged from last year. We expect low levels of growth over the next 12 to 18 months, eventually increasing by 2% to 3% per year. We anticipate some upward pressure on prices from high levels of population growth. However, this will initially put pressure on the rental market as most visas do not allow people to purchase property. High interest rates will limit the amount that people can borrow to buy a home, placing a cap on how high house prices can track.

While the change of government is unlikely to significantly change the outlook for the economy, it could lead to house price increases. The new government will bring back interest deductibility for investors from 1 April 2024 and lower the Brightline test to two years. First home buyers will face increased competition. High interest rates will have a greater impact on home owner-occupiers but investors will eventually be able to deduct 80% of interest expenses against rental income for tax purposes. As rents increase, the return on investment for rental properties may improve enough to entice investors back into the market, but investors are also facing increased insurance costs and significant increases in council rates.

Hamilton's median house price forecast

Source: Hamilton City Council



Residential consenting

Our dwelling projection model is used to forecast short-term consenting activity. Residential consenting forecasts use economic data and previous consenting patterns including population, bank bill rates, GDP, house prices and the unemployment rate. These indicators have shown a strong relationship with consenting trends in the past.

The construction sector in New Zealand has experienced incredibly high levels of inflation in recent years. Residential construction inflation peaked at 10.4% per year in late 2022 according to CoreLogic. Over the past 12 months this has fallen back to 3.4%. Combined with falling house prices, the residential construction sector has had a particularly hard time over the past 18 months.

Residential consenting has tracked broadly in line with last year's projections with our original forecast for the year to September 2023 sitting at 1315 and actual consenting coming in at 1309 new dwellings. Our outlook has however changed. Increased interest rates, lower projected growth and higher projected levels of unemployment have resulted in our projected fall in consenting being more pronounced.

Our original projection signalled the bottom of the dip to occur in September 2023 at 1315 new dwellings per year. We are now expecting consenting to fall to around 1100 dwellings from mid to late 2024. High finance costs are going to continue to dampen residential construction with developers and buyers limited in their ability to finance projects in the short-term. Conditions are expected to improve in 2025 and beyond. Council's long-term forecasts average about 1200 dwellings per year.

Hamilton's forecast number of dwellings consented 12-month rolling total

Source: Hamilton City Council



Over the past year, greenfield and infill consenting trends have differed considerably and were unexpected in many ways. Where infill consenting not only held up but increased rapidly, greenfield consenting plummeted. Greenfield consenting fell from an average of 178 dwellings per quarter (710 per year) between 2019 and 2021, to 89 dwellings per quarter (357 per year) over the past 12 months.

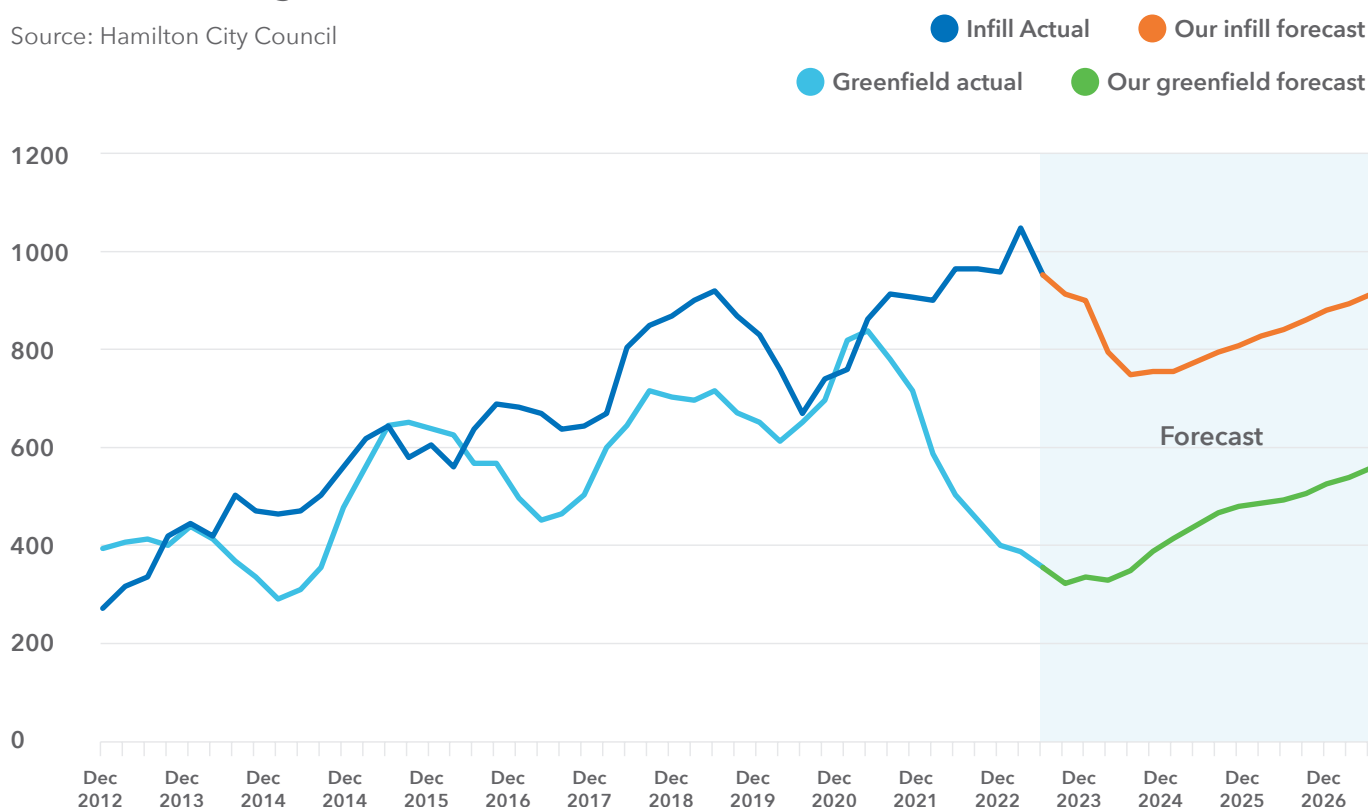
Infill consenting defied expectations with record levels of consents lodged in 2022 and 2023. Infill development tends to work differently to greenfield development. In greenfield, new builds are usually sold as a house and land package with building consents lodged once designs are agreed and a deposit paid.

In infill, developments are often duplexes or townhouses with a combination of pre-purchase and sale on completion. Infill development is more likely to go ahead without a confirmed buyer than a greenfield development. Infill new builds also tend to be at a lower price point than greenfield, largely due to land costs and the benefits of scale from building multiple dwellings at once. Kāinga Ora has added significantly to the amount of development in infill areas in 2023.

Our forecasts show infill consenting dropping to about 800 dwellings per year from late 2024 through to mid-2025. Greenfield consenting is expected to reach its floor late this year and into early 2024. Consenting is expected to start regaining momentum in late 2024 with ongoing steady growth.

Forecasted number of dwellings consented in infill and greenfield areas, 12-month rolling total

Source: Hamilton City Council



SUMMARY

Key annual indicators

Year to September 2023 compared to previous 12 months

GDP GROWTH



Hamilton	+ 2.3%
Waikato	+ 1.9%
New Zealand	+ 1.7%

EMPLOYMENT (Place of residence)



Hamilton	+ 3.5%
Waikato	+ 3.3%
New Zealand	+ 3.0%

SPENDING



Hamilton	+ 8.3%
Waikato	+ 6.4%
New Zealand	+ 7.4%

UNEMPLOYMENT



Hamilton	4.9%
Waikato	4.0%
New Zealand	3.5%

GUEST NIGHTS



Hamilton	+ 50%
Waikato	+ 28%
New Zealand	+ 49%

COMMERCIAL VEHICLE REGISTRATION



Hamilton	- 14%
Waikato	- 22%
New Zealand	- 16%

MEDIAN HOUSE PRICE



(September 2023 quarter)

\$780,000

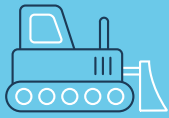
HOUSE SALES



Hamilton	- 11%
Waikato	- 14%
New Zealand	- 14%

Consenting

SUBDIVISION LOTS GRANTED



1070

53%

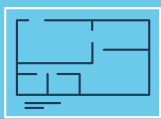
TITLES ISSUED (224C)



1309

2%

NEW HOUSES IN CONSENTS LODGED



1115

36%

HOUSES UNDER CONSTRUCTION

(as at 30 September 2023)



954

8%

NEW HOUSES GRANTED



1309

11%

Infill	73%
Greenfield	27%
Townhouses/Duplexes	68%
Houses	28%
Apartments	4%
Retirement villages	0%

Infill East	37%
Infill West	36%
Rototuna	13%
Peacocke	6%
Ruakura	6%
Rotokauri	< 1%
Temple View	1%

HOMES COMPLETED

(as at 31 March 2023)



1399

12%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED



Commercial	25,640m2	- 10%
Industrial	79,960m2	- 37%
Total	105,600m2	- 32%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED



Commercial	\$159M	+ 67%
Industrial	\$214M	+ 41%
Total	\$373M	+ 51%

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