Hamilton Economic Update and Outlook

September 2024 Quarter

Published December 2024

This report combines the September 2024 Hamilton Quarterly Economic Update with our Growth Outlook Report.

Nationally, economic growth has stalled with many industries declining. This decline combined with high levels of international net migration has led to an increase in unemployment. The full extent of the increase in unemployment is masked somewhat by people leaving the labour force to study, leave the country or who are no longer actively looking for work.

Economic conditions have seen job cuts increase nationally, and younger people have been the most affected. Across Waikato, the number of filled jobs fell across all age groups under 30 years in September 2024. The largest fall was in jobs filled by 15-19-year-olds which fell 10% from September 2023. Filled jobs increased most for 35-39-year-olds (up 5%).

Global economic growth has also slowed, particularly in China, impacting our manufacturers and exporters. However, global inflation has also fallen, with many countries including New Zealand now back within their target bands.

Interest rates have fallen after the Reserve Bank of New Zealand (RBNZ) unexpectedly dropped the Official Cash Rate (OCR) to 5.25% in August. While there were increasing calls to drop rates, the move in August was unexpected. RBNZ were confident that inflation was going to return to the 1%-3% range, and moving 25 basis points from 5.5% to 5.25% carried little real risk. Since August, RBNZ has cut the OCR to 4.25%. Banks have continued to drop their interest rates and fixed-term mortgage rates have fallen by around 1.5 percentage points.

Interest rate cuts did not have an immediate impact on national house prices or consenting activity, but anecdotally interest and enquiries have increased. In Hamilton, sales and prices were up. Securing bank approval and finance remains a challenge, particularly for new builds. Interest rates are still higher than they were 2-3 years ago. Construction costs are also still high, and the difference between a new build and buying an existing property remains higher.

Mortgage arrears increased across the country in the September quarter. Broadly speaking, many financial hardship indicators like defaults, tax debt and arrears for both individuals and businesses have been increasing since late 2022. Home loan arrears have returned to pre-pandemic levels after being at record lows through 2021 and into 2022.

Nationally, company liquidations increased 25% year-on-year in September 2024, reaching the highest level in 10 years. The construction industry saw a 24% annual increase in company liquidations and had the highest proportion of liquidations (28%). The hospitality sector also saw a significant rise in liquidations up 34% on a year ago.

The economic outlook deteriorated but interest rate cuts improved consumer and business confidence. It will take time for demand to increase and for the economy to feel the benefits. We expect to see little growth in GDP, house prices or consenting activity over the next nine months, and a fall in the number of jobs, as job cuts outweigh job creation.

Hamilton City Council
Te kaunihera o Kirikiriroa

The headlines

- Hamilton was confirmed as the fastest growing city in 2024 with a population of 192,000 people - an increase of 5800 (3.1%).
- Business growth continued, increasing 2.2% compared to 1.3% nationally.
- Annually employment increased 1.7% in Hamilton compared to 1.2% nationally. 1300 more Hamiltonians are employed now than in the year to September 2023.
- Hamilton continued to see economic growth, albeit low at 0.3%. National GDP saw no growth.
- Unemployment increased to 6.3%, up from 4.7% in September 2023. Hamilton's labour force has increased faster than job growth.
- Spending fell 1% annually and 3% quarterly compared to the September 2023. Retail and other spending (like travel and services) were the hardest hit.
- Residential consenting continued to fall, consents for 930 new dwellings were granted, and consents for 940 dwellings were lodged in the year to September 2024.
- The number of new homes under construction fell to 669 in August 2024, but has slowly been increasing since.
- The number of new homes completed in the year to September 2024 was down 27% to 1052 homes.
- House sales increased 22% compared to the September 2023 quarter and had the highest quarter since the housing market turned in March 2022.
- Residential property rents increased 5.8% in Hamilton as population increase put pressure on our rental market. This creates a challenge for renting households and also improves feasibility for investors.

Mortgage rate cuts should boost house prices and support more development.

- Consenting in our new growth areas (greenfield) has stabilised over the past year and is currently down 61% from the 2021 peak. Our forecasts suggest consenting activity should improve in the latter half of 2025.
- Consenting in our existing suburbs (infill) currently sits 32% lower than the June 2023 peak, at 583 dwellings. Further declines are expected over the coming months.
- Non-residential consenting in the year to September 2024 was down 69% on last year. Non-residential consenting has been struggling in an economic environment where businesses are looking to limit debt and maximise cash flow.
- The granting of the consent for a new 5000m2 Pak'n'Save in Te Rapa contributed to the highest quarter of non-residential consenting activity this year.
- Our forecasts show the next nine months will be challenge for Hamilton's economy and consenting activity will likely continue to fall.

Hamilton's economy

September 2024 quarter vs September 2023 quarter

GDP

$3.5B ↑ 1%

EMPLOYMENT

0% NO CHANGE

SPENDING

$720M ↓ 3%

UNEMPLOYMENT RATE

6.3%

MEDIAN HOUSE PRICE

$743,000 NO CHANGE

September was a mixed bag for Hamilton's economy - the number of businesses and employment increased, while, consumer spending fell for the first time since the Covid-19 lockdowns, consenting activity fell significantly, and unemployment increased. We also saw more life in the housing market with an increase in the number of sales.

Business growth continued an impressive run given the current economic climate, increasing 2.2% annually. On a quarterly basis, growth continued but was slightly lower at 1%. The business count was 365 businesses higher than a year ago. This count only includes businesses with employees (not self-employed people) and with GST turnover of more than $30,000 per year.

Hamilton's employment growth increased 1.7% over the past twelve months. However, the signs of a downturn were visible in the September quarterly data. Compared to the September 2023 quarter, job growth was down 0.1% - better than the -0.5% seen nationally, but the first negative result for Hamilton in over a decade. Job cuts are starting to outweigh job creation.

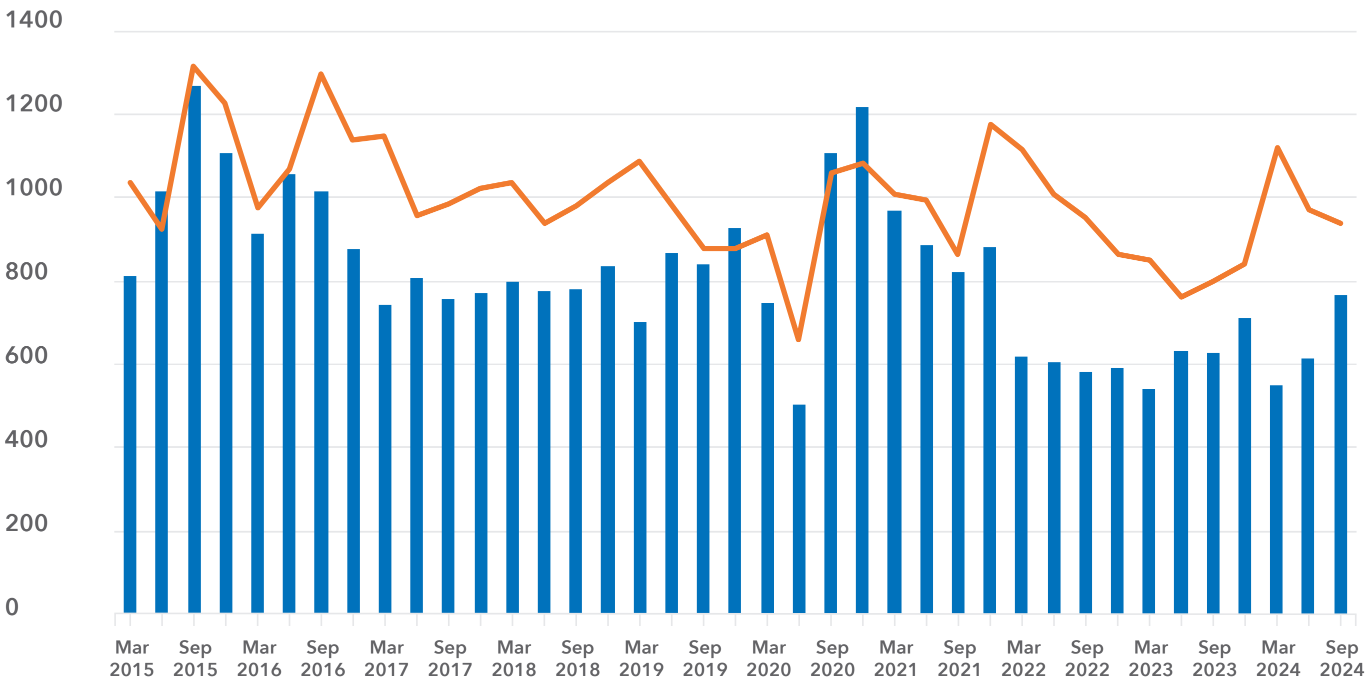
House prices remained flat compared to September 2023 but were up 2% on the June quarter. At this stage, it appears the June 2024 quarter may have been the bottom of the market for Hamilton. Lower interest rates now and the promise of future cuts is allowing house prices to creep up. However, house listings were up 18% on the September 2023 quarter, so it remains a buyers' market.

Residential real estate listings peaked in December 2021, when house prices were also at their peak. As house prices fell, so too did listings. As house prices appeared to stabilise in June 2023, listings started to increase, peaking in March 2024. Following the RBNZ's May announcement which indicated a chance the OCR might increase rather than the widely anticipated falls, listings fell and house prices stumbled slightly.

House sales have been increasing since the end of March 2024, as buyers became more confident that further price falls were unlikely. Falling sales since March 2022 saw some of the lowest sales numbers in over a decade, though they remained higher than during the Global Financial Crisis (GFC).

House sales and listings

Source: Infometrics



Card spending in Hamilton fell $18 million in the year to September 2024 (-1%). Spending fell across all categories except groceries and liquor which increased by $37 million (4%). Retail stores have been particularly hard hit by the recessionary environment. Instore card spending fell $34 million in the year to September 2024.

How people shop has changed a lot since the pandemic and continues to evolve. Analysis by New Zealand Post shows New Zealanders spent $60-$80 million per week online pre-pandemic from January to March. In 2021, this increased to $100-$120 million per week; and in 2022 online spending peaked at $130-$160 million per week. In 2023 and 2024, Covid-19 restrictions were no longer in place, but kiwis were in a cost-of-living crisis and high interest rate environment, which saw online spending return to similar levels to 2021.

Nationally, online spending increased 1% in the September quarter while instore spending fell 5% and total retail spending fell 4%. New Zealand Post also reported that there has been an increase in online shopping with overseas retailers like Temu, as kiwis looked to save money and find better prices or alternative products offshore. The top reason for shopping online was looking for a discounted price or special offer. Shoppers were also increasingly researching products online before purchasing in store.

Card spending data for Hamilton clearly shows people are spending on necessities like groceries and fuel over discretionary items including services and travel (under other consumer spending), as well as retail, accommodation and hospitality. As seen during lockdowns, grocery spending increases as dining out decreases - people still need to eat. Food inflation was 1.2% in the year to September 2024. Grocery spending in Hamilton increased 4% while accommodation and hospitality spending fell $4 million (1%).

Spending trends varied across Hamilton. In the central city, spending was up on accommodation and hospitality (3.3%) but retail was down 8.1%. Areas like The Base and Chartwell Shopping Centre saw falls overall (-5.4%) as well as in both hospitality (-2.5%) and retail (-5.7%), while suburban centres like Rototuna Shopping Centre saw increases overall (1.4%) and in retail stores (2.1%) with hospitality falling 0.6%.

Changes in card spending in year to September 2024

Source: Marketview

ACCOMMODATION AND HOSPITALITY DOWN 1%

RETAIL TRADE DOWN 3%

GROCERIES AND LIQUOR UP 4%

OTHER CONSUMER SPENDING DOWN 15%

FUEL AND AUTOMOTIVE DOWN 1%

ALL CARD SPENDING DOWN 1%

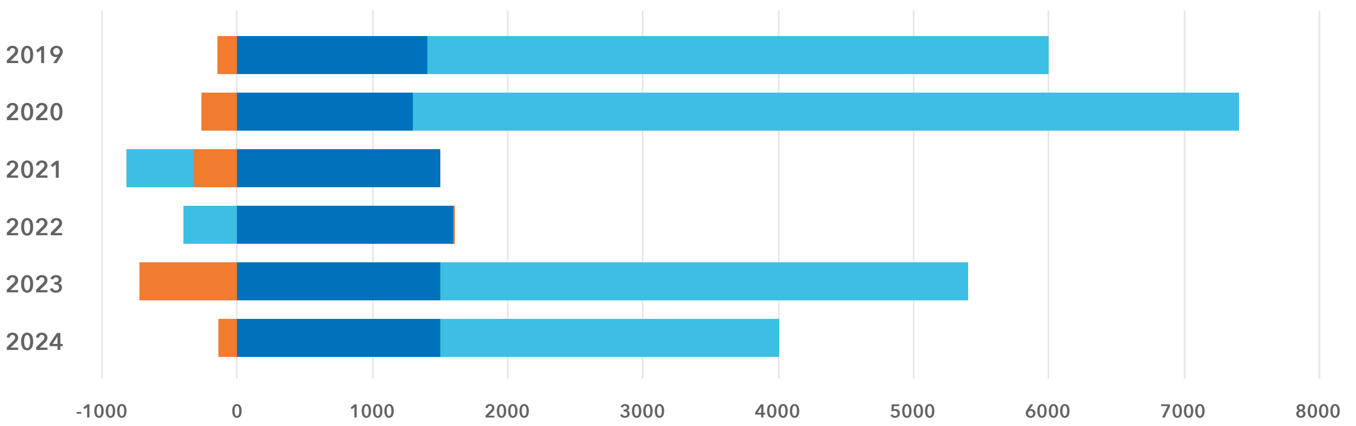
Population

Hamilton was confirmed as New Zealand's fastest growing city for the second year following the release of Statistics New Zealand's population estimates. In 2024, Hamilton's population was estimated to be 192,000, an increase of 5800 people (3.1%). Our 2023 population estimate was also revised up to 186,200 (from 185,300). The 2024 increase was slightly lower than 2023's 6100 (revised up to 7200) but this reflects the lower level of international migration in 2024 compared to the peak in 2023.

International migration continued to be a key driver of population growth, with Hamilton seeing a net gain (arrivals minus departures) of 4,600 in 2024 – the highest outside of Auckland. We saw a net loss of 150 people through internal migration (people moving to/from other parts of New Zealand). We also saw a net increase of 1400 people through natural increase (births minus deaths) – again, the highest outside of Auckland.

Components of population change in Hamilton, 2019-2024

Source: Statistics New Zealand

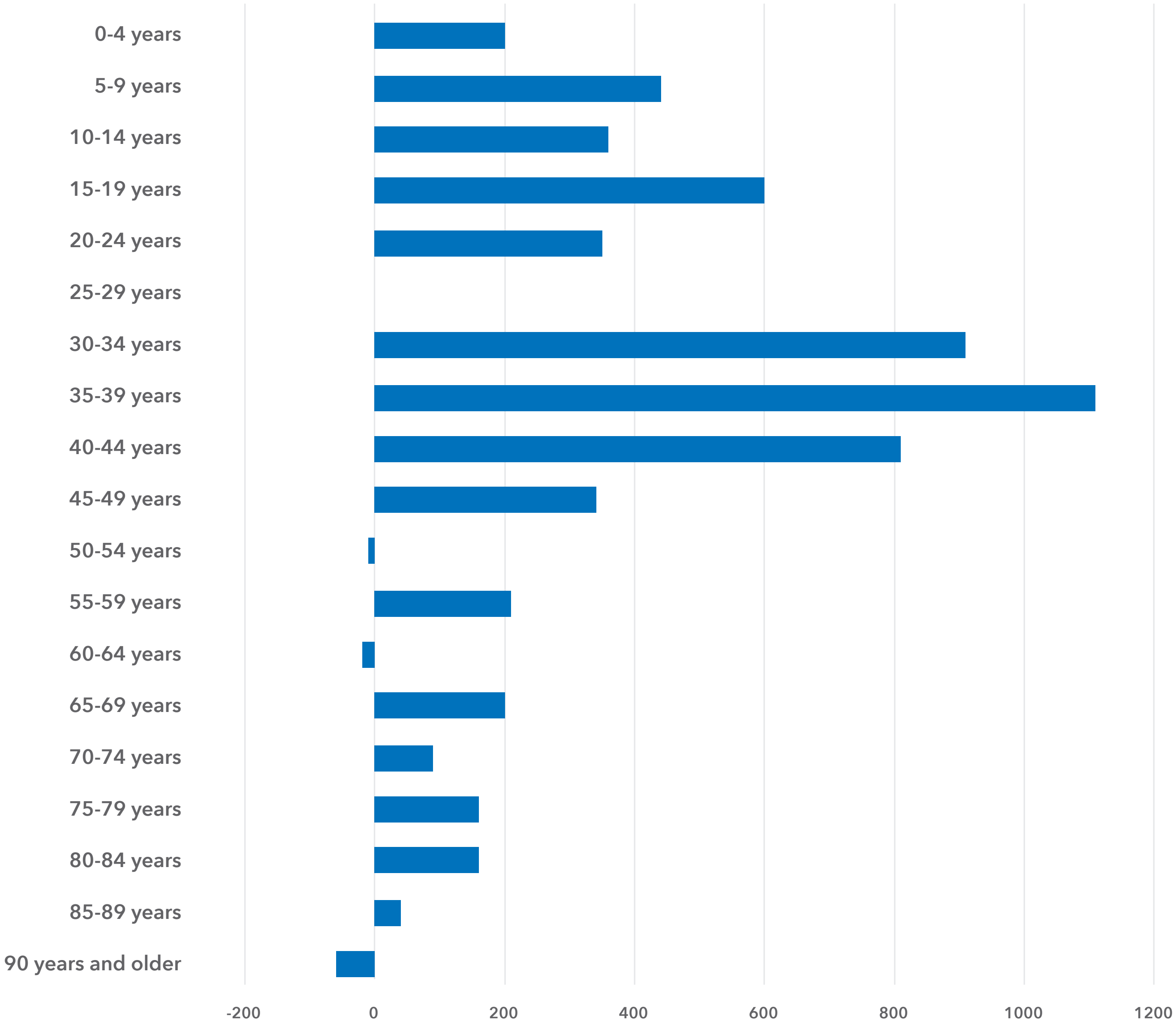


Hamilton's estimated median age increased to 33.4 years (up from 33.3 years) but remains the lowest of any city or district in New Zealand.

The headline exodus of young people appears to be at least balanced by international migrant arrivals in Hamilton, according to the estimates. Hamilton had a net gain in all age groups under 50 years, except 25-29yos which sat at zero. This doesn't mean that people aren't leaving the city, it just means there are generally more people arriving than leaving.

Hamilton population change by age

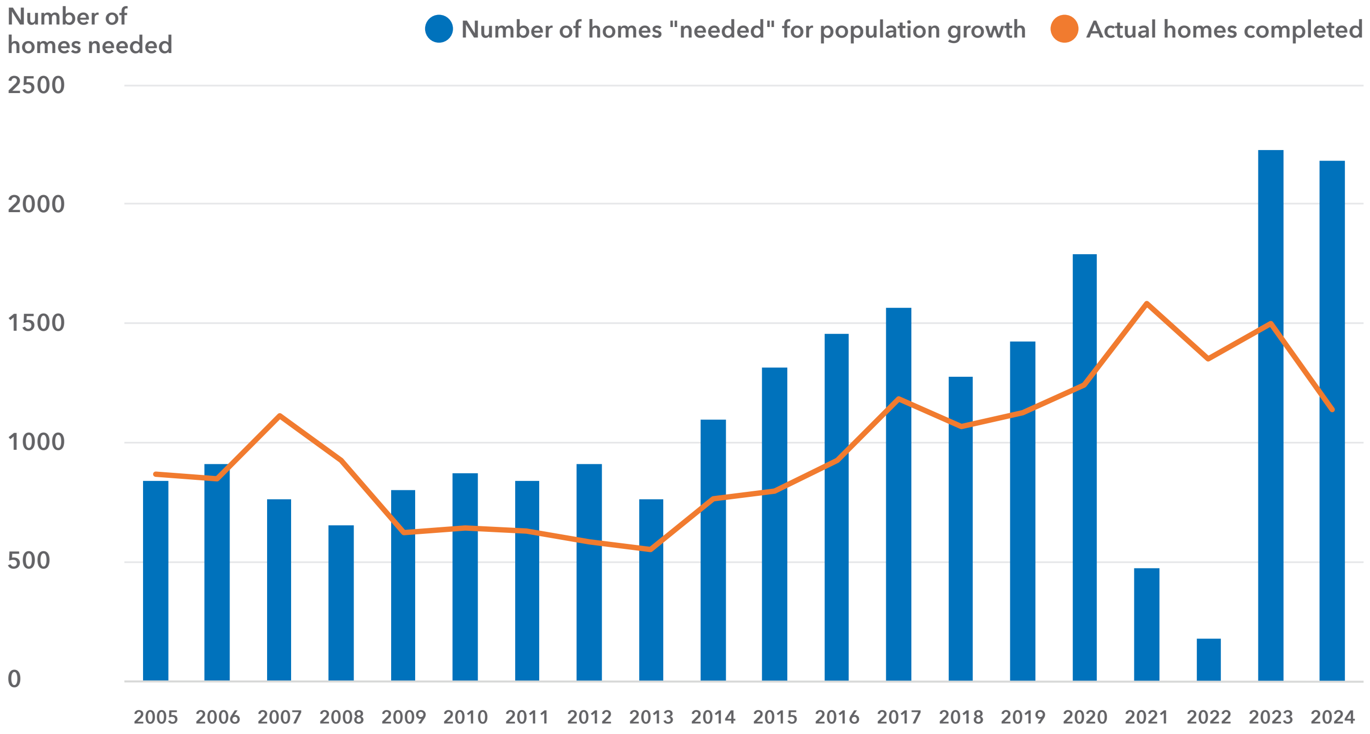
Source: Statistics New Zealand



Population growth and residential construction activity continue to be poorly aligned, with Hamilton seeing 1139 dwellings completed in the year to June 2024 compared to an estimated requirement of 2185 new dwellings to accommodate population growth. Consenting activity has a relatively weak relationship to population growth, particularly compared to the relationship between house prices and consenting activity. House prices are a bigger driver of consenting than population growth. This is partly because most new Hamiltonians are international migrants who may not be entitled to buy property, so instead enter the rental market.

Alignment of residential construction activity and population growth 12 months to June

Source: Hamilton City Council



Consenting

September 2024 quarter vs June 2024 quarter

NEW HOUSES IN CONSENTS LODGED

214 ↑ 6%

NEW HOUSES GRANTED

215 ↓ 22%

HOUSES UNDER CONSTRUCTION

696 ↓ 9%

HOMES COMPLETED

162 ↓ 44%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

7771m2 ↓ 8%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

$11.3M ↓ 52%

Residential consenting

Residential consenting has continued to ease, with consents lodged falling 20% to 940 dwellings in the year to September while consents granted fell to 31% to 930. Both are well below the level we've seen over the past decade (on average 1370 lodged and 1330 granted).

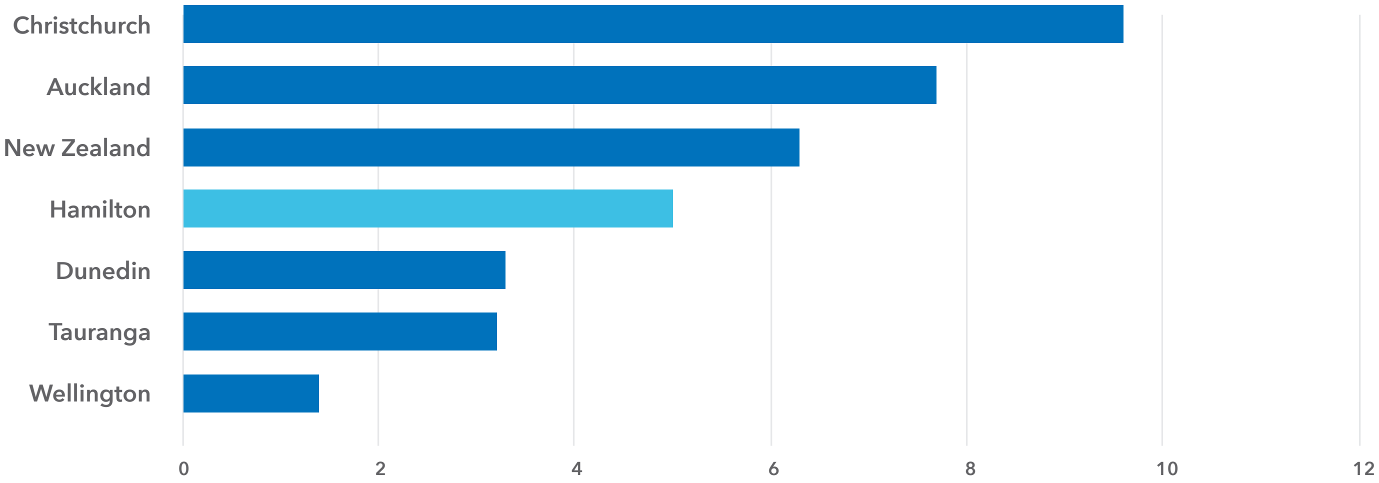
In August, residential construction activity reached its lowest point since 2015 with just 669 homes under construction. This highlights the impact high interest rates is having on the construction sector. Lots of projects have been paused while builders and developers try to ride out the downturn. The number of projects consented but not started peaked in June/July 2024 at just over 800 dwellings. This has fallen as consents have expired, projects have started, and new consenting activity has slowed.

The sector continues to struggle against low (and unmoving) house prices, high finance costs and banks' preference for buyers to purchase existing property rather than new builds. Interest rates have started to come down but remain significantly higher than in 2021 when consenting activity and house prices peaked. However, it is broadly accepted that the housing market has reached the bottom of its cycle with expectations for price increases in the coming year.

Nationally, residential consenting declined 17% from 2023 and is down 34% compared to peak activity in 2022. A comparison of the number of new dwellings consented per 1000 residents showed Hamilton in the middle of the main metros. At the peak in 2021, Hamilton was consenting 9.8 new dwellings per 1000 residents compared to 5.0 in 2024.

Number of dwellings consented per 1000 residents, Year to September 2024

Source: Statistics New Zealand



The number of dwellings consented but not started began to fall in July as consents being lodged and granted fell away and consents from 2022 began to lapse. In 2024 to date, consents for 45 new dwellings have lapsed – more than double that seen between 2021 and 2023, and significantly more than the five years prior to the pandemic. Most of the consents were for attached dwellings like townhouses, duplexes and apartments. These tend to be the projects that have less certainty because they are not usually completely presold in the same way as a standalone dwelling.

Non-residential consenting

Non-residential consenting is also down. The current economic conditions are not conducive to businesses making large investment decisions to expand or move into new premises. Both industrial and commercial consenting are now below historical averages.

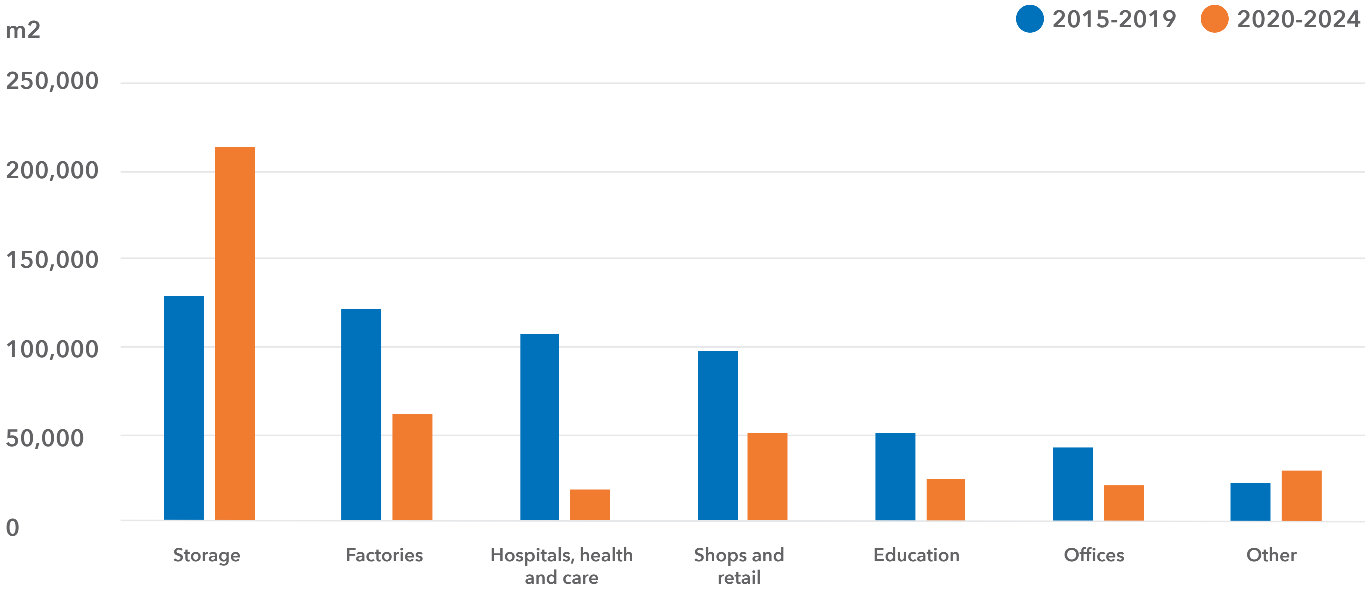
Commercial property investment is not as entwined with capital gains as residential investment, so tends to ride out periods of price falls better than residential property. However, a national recession and slowing global growth has impacted demand.

There has been a change in the way people access goods and services since the pandemic. As outlined in the card spending discussion, while online shopping did exist and was growing pre-pandemic, most people generally still visited shops or restaurants in-person. Now, most businesses have an online presence, including many restaurants, and some are solely online. This creates demand for different types of premises and is visible in the increase in consents for warehouse storage facilities.

Demand for warehouse storage facilities has increased since the pandemic. Between 2015 to 2019, nearly 130,000m2 of new floor space for storage buildings was consented. Between 2020 and 2024, 214,000m2 of new storage buildings was consented. On the other hand, 89,000m2 of shops and retail space (excluding supermarkets) was consented between 2015 and 2019 compared to 46,000m2 since the pandemic.

Types of non-residential buildings consented

Source: Hamilton City Council



Hamilton's Growth Outlook

This section looks at Hamilton's economic outlook for the next 2-3 years. In September 2022, we released our first set of forecasts for Hamilton using models that were built to produce a short-term forecast the number of new dwellings consented. The models use several variables including historical consenting and completion trends, population, GDP, house prices, bank bill rates (a proxy for mortgage 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 use forecasts from Treasury and RBNZ.

All modelling contains uncertainty. Models cannot, and generally do not, try to take account of unforeseen events that radically change predictions such as the pandemic or a cyclone. When such events occur, modelling becomes unreliable.

The national economic forecast has deteriorated markedly from a year ago. The remainder of 2024 and the first half of 2025 are expected to see lower levels of economic growth, impacting our outlook for Hamilton. While our economy has continued to outperform the New Zealand economy, it cannot escape the impacts of lower national and global demand.

Our 2023 forecasts expected low GDP growth in the first half of 2024, with higher growth levels returning in subsequent quarters. Hamilton's economy was more resilient than we expected in 2024 and saw year-on-year growth, albeit low, despite the challenges. We saw high levels of business and job growth throughout 2024. However, the pace of growth has fallen.

Employment growth is expected to grind to a halt over the next six months as job cuts start to outweigh job creation. With a weak economic backdrop, a fall in employment inevitably follows – usually about 12 months later, and we have now reached that point.

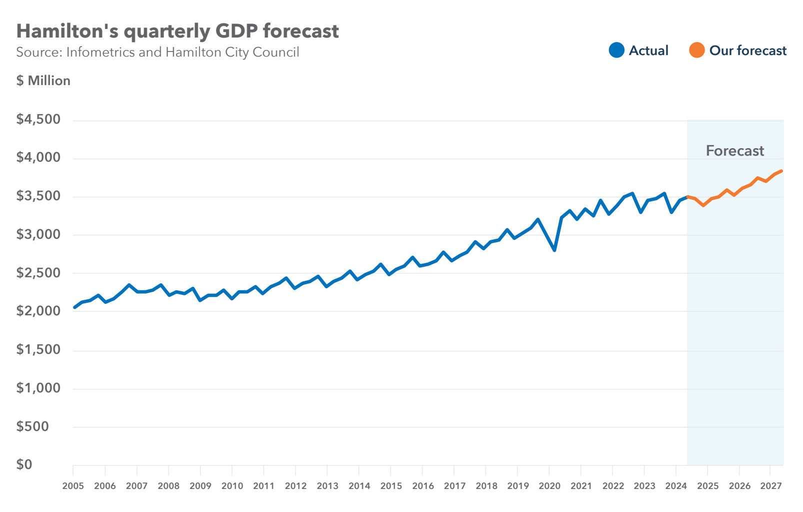
High population growth coupled with fewer employment opportunities could see unemployment rates creep higher. Nationally, unemployment is forecast to increase, reaching a peak in the first half of 2025. The percentage of people who are either working or looking for work is also expected to be lower throughout 2025.

The RBNZ is expected to continue to reduce the OCR in February 2025, and has indicated that future cuts will be "data driven" – in other words, will depend on how inflation and economic growth are tracking. The long-term forecast for the OCR is around 3% and we should reach this level in 2027. Inflation is forecast to fall further in the first half of 2025 but begin to increase in the latter half of the year. RBNZ expect to cut the OCR by 0.5 points in February, with the pace of cuts easing after that.

Historically an OCR of 3% has meant floating mortgages of 6% to 6.5% and a one-year fixed rate of 5.3% to 6.4%. The average new floating rate in November 2024 was 7.96% and the one-year fixed rate was 6.47%, suggesting some room for downward movements in mortgage rates. However, future OCR cuts may not be fully reflected in retail mortgage rate offers.

SUMMARY

Summary of forecasts

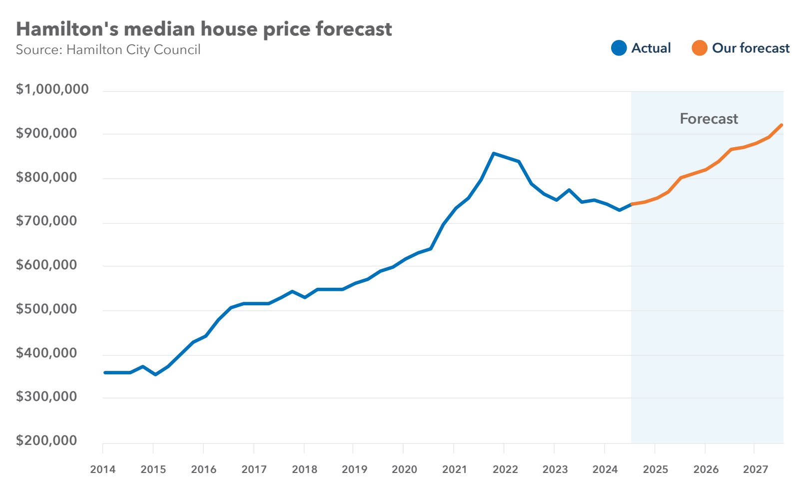


Hamilton's quarterly GDP forecast

Source: Infometrics and Hamilton City Council

GDP

While Hamilton's economy has outperformed the national economy recently, there has been little growth over the past year. We are forecasting a fall in Hamilton's GDP over the coming six months.

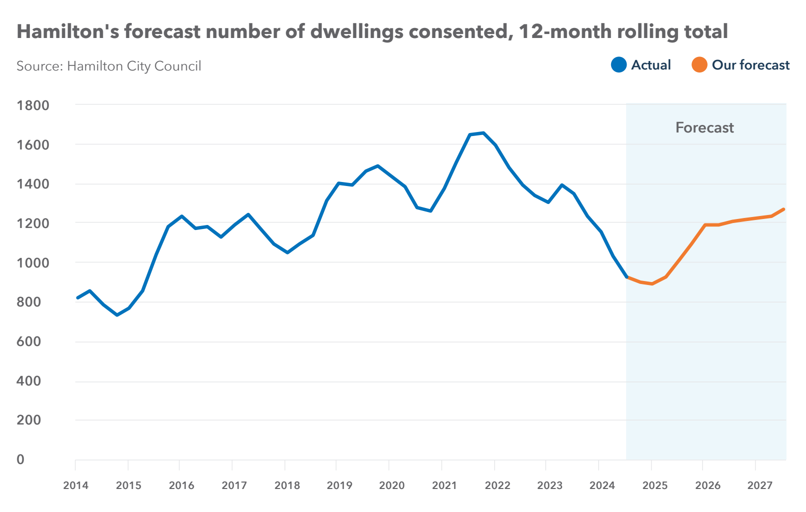


Hamilton's median house price forecast

Source: Hamilton City Council

HOUSE PRICES

Our forecasts suggest house prices will increase over the coming two years, gaining more momentum from mid-2025. Our new forecasts show faster growth from mid-2025 than previously anticipated. The forecast reflects national house price expectations.



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 over the next six months. Recovery is expected from mid-2025 as house prices and economic conditions improve. The fall in consenting is deeper than anticipated in our previous forecasts and reflects the change to the economic outlook.

Our forecasts

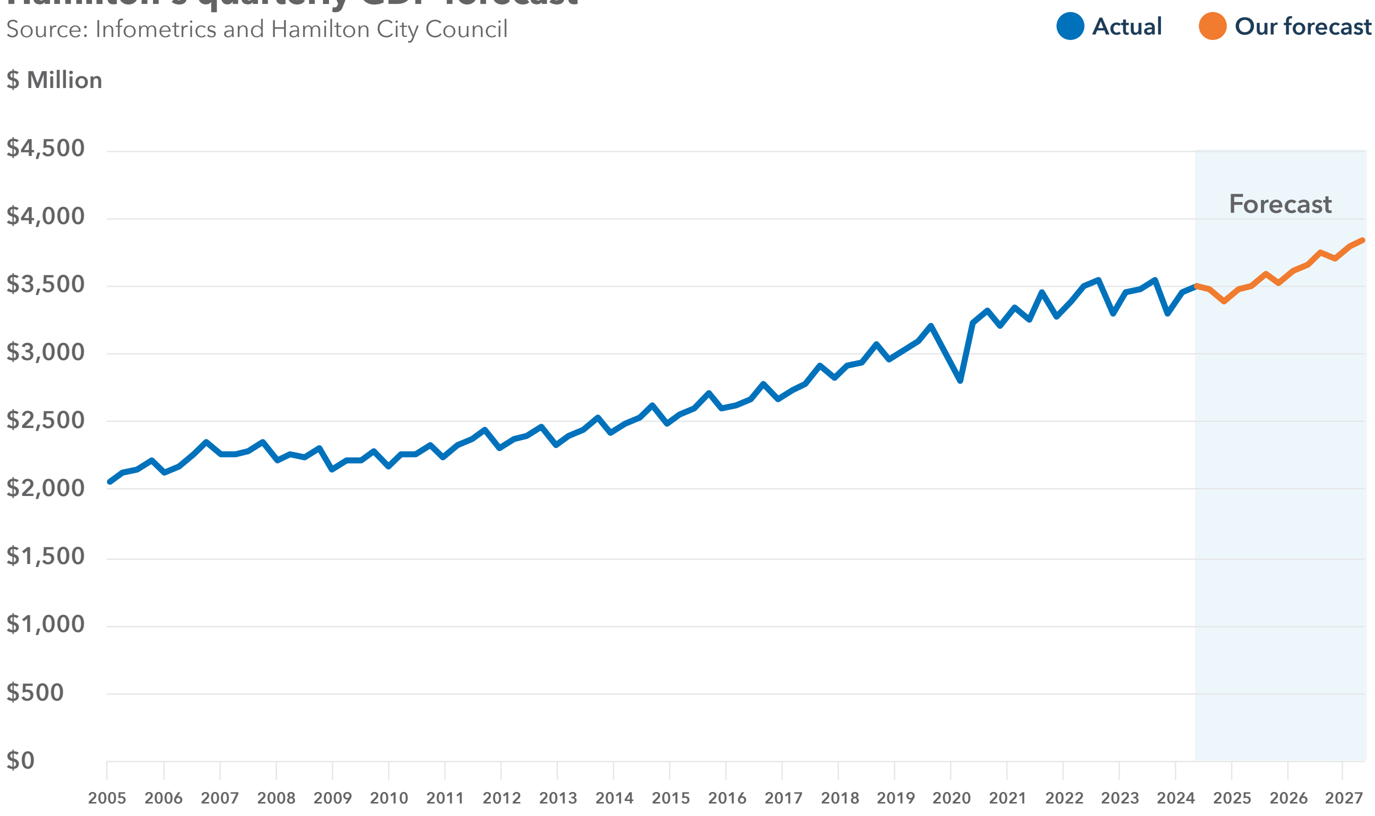
Gross Domestic Product (GDP)

GDP is widely used as an indicator of economic activity and growth of an economy. GDP growth in Hamilton in 2024 outperformed the national economy but remined less than 1% annually, compared to a long-run average of 3%.

Our 2023 projections expected growth of around 1% per annum throughout 2024 and the New Zealand economy was expected to see low growth that increased throughout 2024. As it turned out, the national economy did not rebound from a short recession, and instead has spent the last year with almost no economic growth.

For 2024, our forecasts show Hamilton's economy continuing to see little growth. This reflects national growth expectations at the time the model was run. RBNZ recently released updated projections in November which indicated that the outlook had improved slightly for 2025 but stable at lower levels over the long term. This earlier increase is on the back of higher household demand generated by interest rate cuts. We expect Hamilton's annual GDP growth to be above 3% from mid-2026 onwards.

Hamilton's quarterly GDP forecast



Source: Infometrics and Hamilton City Council

House prices

Hamilton’s median house price peaked in December 2021. As interest rates increased and the economy slowed, house prices fell, reaching a low point of $729,000 in June 2024 – 15% below the peak. The price in our growth suburbs like Rototuna, held up better, falling 11% peak to trough.

In 2023, house prices appeared to reach their bottom in March and a rebound was seen in the June 2023 quarter. However, further falls occurred throughout the remainder of 2023. A statement by RBNZ in May 2024 about possible interest rates increases led to another dip in house prices.

Our new forecasts show subdued price growth over the next 6 months, with momentum starting to increase from mid-2025. In 2026 and 2027, our forecasts show growth rates of 7.7% per annum on average. This is in line with Hamilton’s average growth rate of around 8% over the past decade.

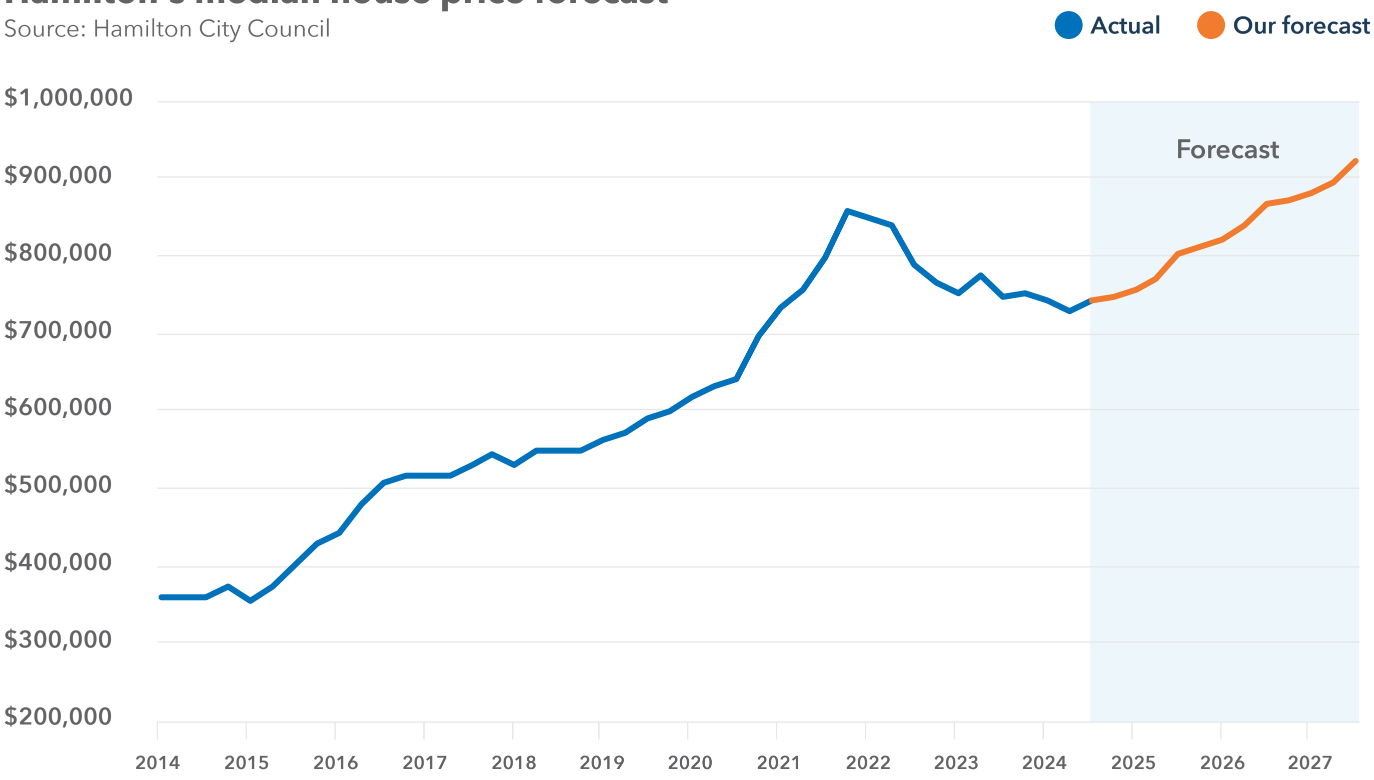
The downward shift in interest rates will support house price growth, as will the return of investors to the housing market. The government has reinstated interest deductability for investors and has lowered the brightline test.

The high population growth seen in Hamilton in 2023 and 2024, has increased demand for rental accommodation. Rents increased 5% in the year to September 2023, and 6% in the year to September 2024, compared to a 10-year average increase of 4.5% per year. Hamilton also has a relatively high rental yield, making housing here a better investment opportunity than in other cities.

There is usually a difference between the various median house prices published in New Zealand because the information comes from different sources. Council’s house price data comes from property transfer information which is generarated when a property changes ownership – i.e. it is bought, sold or transferred. Our median house price includes all sales, including those made by a real estate agent and private sales, once a sale is settled, so there can be a lag and our data is revised monthly. REINZ sales data only includes sales through an agent and captures information at the point the purchase goes unconditional.

Hamilton's median house price forecast

Source: Hamilton City Council



Residential Consenting

Our short-term consenting activity forecast uses historical consenting trends in combination with economic data like GDP, house prices, bank bill rates (a proxy for mortgage rates) and unemployment rates, and population change. These indicators have been strong predictors of residential consenting activity in the past.

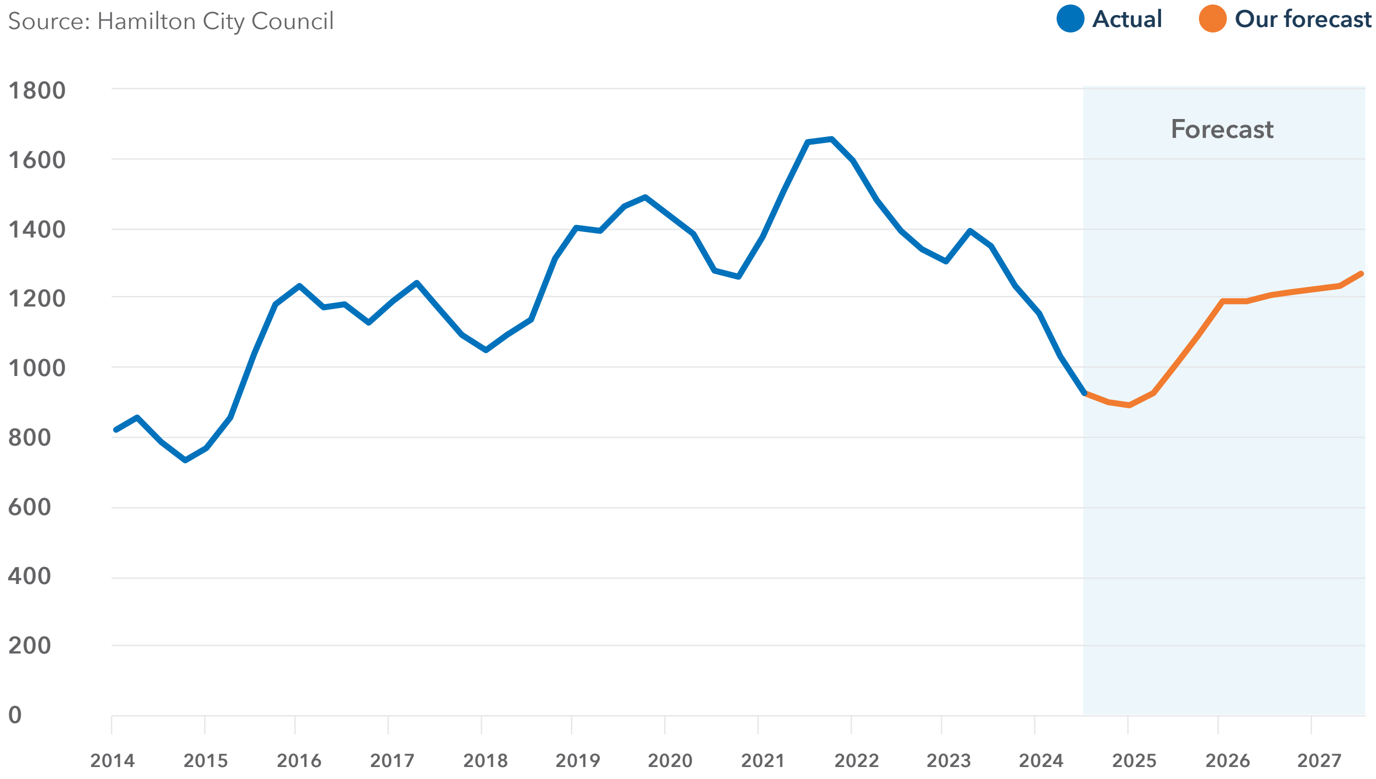
Our new forecasts expect consenting to be around 900 dwellings in the December 2024 and March 2025 quarters. This is considerably lower than the previously forecast low point of about 1100 dwellings. The low point is also a year later than we anticipated in the 2023 forecast. The longer and deeper fall in the consenting forecasts is largely a result of the deterioration in the economic outlook over the past year and persistently lower house prices.

An improvement in house prices from mid-2025, alongside falling interest rates and a readjustment of land prices, should improve feasibility for development projects and encourage more consenting and construction activity. It should also enable developers to have better access to finance for projects as banks become more confident that a development project will make a profit.

We expect residential consenting to average around 900 new dwellings per year for the next nine months, increasing to 1100 new dwellings by the end of 2025. By September 2027, we expect consenting will be pushing towards 1300 dwellings per year.

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

Source: Hamilton City Council



Consenting activity in our existing suburbs and new greenfield growth areas has differed over the past two years. Greenfield development fell ahead of the housing market turning in 2021. Greenfield consenting fell 58% in the 18 months between September 2021 and March 2023, and it has stayed reasonably flat since.

Consenting in our existing suburbs (infill) increased when the market turned, and reached a record high of 1082 new dwellings by June 2023. Initially, demand for new developments in infill was maintained as the new builds appealed to investors and were at a lower price point than standalone homes were, making them more affordable in a higher interest environment, and more competitive with existing homes. Kāinga Ora was also increasingly active in the consenting space.

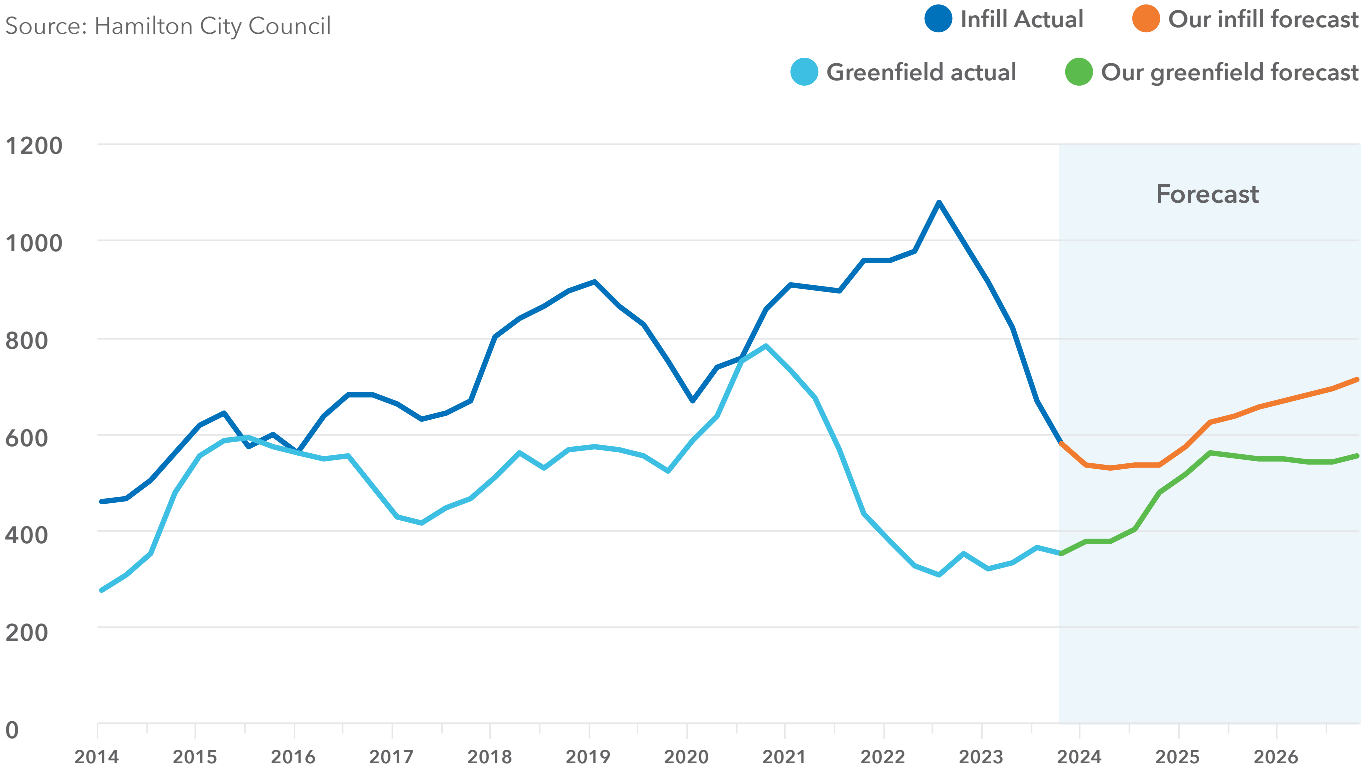
Infill consenting activity turned from September 2023, and began to fall sharply from early 2024 as house prices fell further and Kāinga Ora wound down its development and purchasing programme. By September 2024, infill consenting had fallen 46% from its peak a year earlier.

Our forecasts suggest further falls for infill consenting into 2025, followed by a slow increase in subsequent years. We are not expecting a return to 2022 or 2023 levels in the next three years. On average, we are expecting about 540 new dwellings per year between now and the end of 2025, increasing to 700 dwellings per year by mid-2027.

Our forecasts for greenfield consenting suggest another nine months at the current level of activity, increasing from late 2025. Again, we are not expecting greenfield consenting to return to the levels seen in 2021, but we do expect it to return to pre-pandemic levels of around 550 new dwellings per year in 2026 and 2027.

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

Source: Hamilton City Council



SUMMARY

Key annual indicators

Year to September 2024 compared to previous 12 months

GDP GROWTH

Hamilton	+ 0.3%
Waikato	+ 0.1%
New Zealand	0.0%

EMPLOYMENT (Place of residence)

Hamilton	+ 1.7%
Waikato	+ 1.1%
New Zealand	+ 1.2%

SPENDING

Hamilton	– 0.9%
Waikato	+ 1.6%
New Zealand	+ 0.5%

UNEMPLOYMENT

Hamilton	6.3%
Waikato	5.2%
New Zealand	4.4%

GUEST NIGHTS

Hamilton	– 2.7%
Waikato	– 0.2%
New Zealand	+ 1.7%

COMMERCIAL VEHICLE REGISTRATION

Hamilton	+ 2.2%
Waikato	+ 1.7%
New Zealand	+ 1.3%

MEDIAN HOUSE PRICE

(September 2024 quarter)

$743,000

HOUSE SALES

Hamilton	+ 10.5%
Waikato	+ 17.1%
New Zealand	+ 12.2%

Consenting in year to September 2024

SUBDIVISION LOTS GRANTED

1013 ↓ 5%

TITLES ISSUED (224C)

1070 ↓ 18%

NEW HOUSES IN CONSENTS LODGED

940 ↓ 20%

HOUSES UNDER CONSTRUCTION

(as at 30 September 2024)

696 ↓ 9%

NEW HOUSES GRANTED

930 ↓ 31%

Infill	64%
Greenfield	36%

Townhouses/Duplexes	67%
Houses	32%
Apartments	1%
Retirement villages	0%

Infill East	25%
Infill West	39%
Rototuna	20%
Peacocke	5%
Ruakura	7%
Rotokauri	2%
Temple View	2%

HOMES COMPLETED

1052 ↓ 27%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial 17,350m2	– 32%
Industrial 15,480m2	– 81%
Total 32,830m2	– 69%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial $102M	– 36%
Industrial $34M	– 84%
Total $136M	– 64%

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