Hamilton Quarterly Economic Update

June 2022 Quarter

Published 30 September 2022

The June 2022 quarter has been marred by pessimism. As inflation has taken flight, mortgage rates have increased and bank lending has tightened, causing consumer and business confidence to hit record lows. There is a general sense that the global economy is slowing and may head into a recession. Central banks around the world are pushing up official cash rates to combat inflation, with the market speculating on how high rates will need to go to return inflation to acceptable levels.

Extreme weather events are adding to inflation woes, driving up food costs as crops are destroyed by flooding, droughts, and wildfires. Individual events in isolation would cause minimal disruption, but cumulatively, and with the addition of a pandemic and the invasion of Ukraine, food security is a growing concern. New Zealand (and Waikato) has benefited from these disruptions with global dairy prices rising on the back of lower global production levels. Fonterra's forecast farmgate milk price has dropped from its 2021/22 peak but remains $2 to $3 per kilogram above pre-pandemic levels.

The upside of a global decline in demand is the easing of supply chain pressures. Shipping costs and delivery times are falling, and commodity prices are being revised lower. Crude oil prices have also fallen, easing pressure on household budgets.

Labour shortages remain one of the biggest challenges to New Zealand businesses. The number of job advertisements has dropped nationally but remains higher than 12 months ago. There is little relief in sight with migration data showing a net loss of people since borders reopened. The challenge of finding staff has seen average hourly wages increase by 6.4% as employees negotiate wages that better reflect the cost of living.

All in all, there have been many challenges during the 2021/22 financial year and there is little respite on the horizon. The 2022/23 financial year will continue to be plagued by economic headwinds.

Hamilton City Council
Te kaunihera o Kirikiriroa

The headlines

- Hamilton saw record levels of industrial consenting in the year to June 2022. A total of 98,000m2 of new non-residential floor area was granted, of which 60,400m2 was for industrial development. The Ruakura superhub gained momentum over the past year with a flurry of consents and announcements including Kmart's new 40,000m2 distribution centre which will be bigger than the APL plant in Hautapu.
- Residential consenting was down 5% on the record levels seen in the 2020/21 financial year. However, with 1501 new dwellings consented, it remains above the average for the past five years of 1453. Consenting in greenfield areas has slowed more than in infill areas.
- Material and labour shortages have pushed up the number of dwellings under construction while completions have fallen. As material shortages ease, we expect the backlog to clear and more code compliance certificates to be issued as these homes are completed.
- The number of completed dwellings fell 14% from last year's peak to 1354 homes. This was expected as the number of consents granted in late 2020 was lower and delays were prevalent for the sector.
- Hamilton's median house price fell 2% to $803,000 as the number of properties on the market increased and property sales fell 30%. Buyers are now taking their time to find the right property and are more concerned about paying too much than missing out.
- Spending increased 7.4% on the March 2022 quarter, higher than the usual seasonal increase. Inflation was a key driver of increased spending. Transaction numbers also increased but both were lower than June 2021, the highest June quarter on record.
- Fuel prices were a driver of inflation with prices peaking in June 2022. Diesel peaked at twice the 2021 price, while the cost of petrol was up nearly 40%. As a result, spending data for Hamilton in the June 2022 quarter showed a $29 million increase (27%) in spending on fuel and automotive services compared to a year ago.
- Gross Domestic Product (GDP) was $3.1 billion for the June 2022 quarter, an increase on the March quarter ($3 billion). However, overall, annual GDP fell -0.4% during the 2021/22 financial year when compared to the previous financial year. The impact of last year's Covid restrictions were added to this year's challenges of Omicron waves and labour shortages, making it hard for businesses to maintain production levels.
- Employment increased 1% in the June quarter, up 4.4% across the year, the largest annual increase since June 2020. This was a reflection of the tight labour market and the high number of jobs available across the city. Seek job data for Waikato suggests we will see employment growth slow as the record number of job advertisements declines. Businesses are still struggling to fill vacancies but demand for workers will decrease as the economy slows.

Is Hamilton's economy slowing?

June 2022 quarter vs March 2022 quarter

GDP

$3.1B ↑ 2.8%

EMPLOYMENT

Up 1%

SPENDING

$694M ↑ 7.6%

UNEMPLOYMENT RATE

4.4%

MEDIAN HOUSE PRICE

$803,000 ↓ 2%

Gross Domestic Product (GDP) growth across the country has been hampered by labour shortages combined with high rates of Covid-19, flu and winter colds. In Hamilton we saw GDP down annually when compared to the 2020/2021 and 2021/22 financial years. Hamilton also spent much of September to early December with Covid-19 restrictions in place, hampering GDP growth for the past year. On a quarterly basis, GDP was up 2.8% on the March 2022 quarter. We expect to see ongoing challenges with labour shortages reflected in the September data.

Inflation hit 7.3% in the June 2022 quarter, which was higher than expected and very high compared to the past 30 years. Most forecasters and business leaders expect inflation to remain above the top of the Reserve Bank's target of 3% for at least the next two years. This will place increased pressure on businesses to increase wages (or incentives) or risk losing employees in this incredibly tight labour market. This will, in turn, place further cost pressures on businesses that can drive prices higher. This is what economists refer to as the "wage-price spiral"

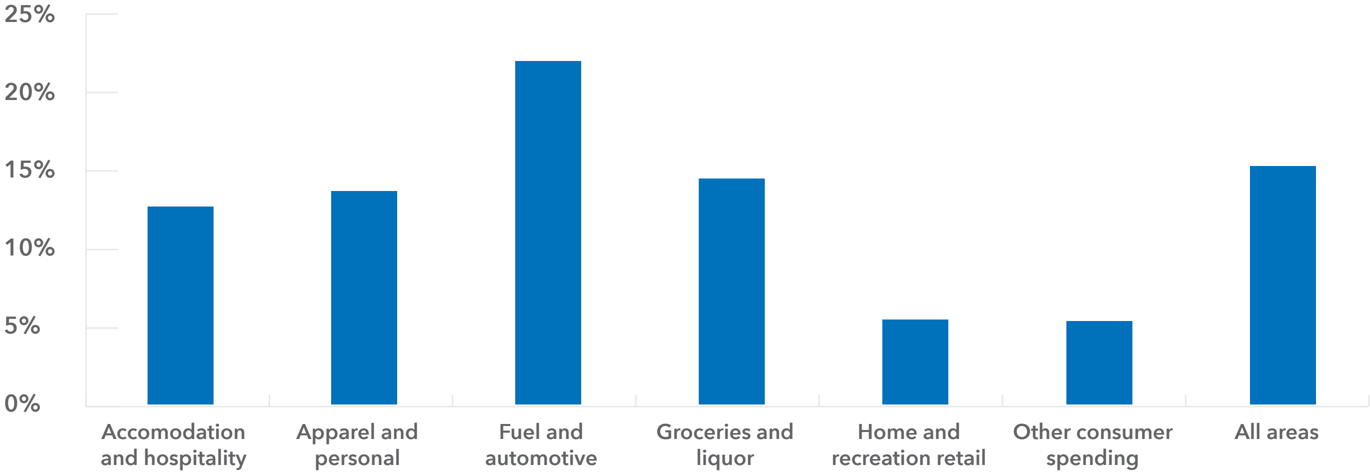
Card spending data for the June quarter showed Hamiltonians spent nearly 8% more in-store in the June 2022 quarter than in March. Overall spending across the 2021/22 financial year was down 1.6% but Hamilton was under greater Covid-19 restrictions in the past 12 months than in 2020/21 year, limiting in-store spending.

In Hamilton, 20% of all card spending was on petrol and automotive services, well above the pre-pandemic average of 15%. This came at the expense of spending on home and recreation, retail, accommodation and hospitality. On the positive side, we have seen downwards movement on petrol prices, house prices and rents since the end of June– two key drivers of household cost increases. The challenge for New Zealand will be easing demand while maintaining supply to drive down inflation.

Transaction counts for June were up nearly 800,000 (6%) on the March 2022 quarter. The average spend per transaction was $49 compared to $48 in March 2022 and $44 in June 2021. That equates to an increase of 11% on last year and 15% on pre-pandemic spends.

The change in the amount we spend per transaction, June 2019 compared to June 2022

Source: Marketview

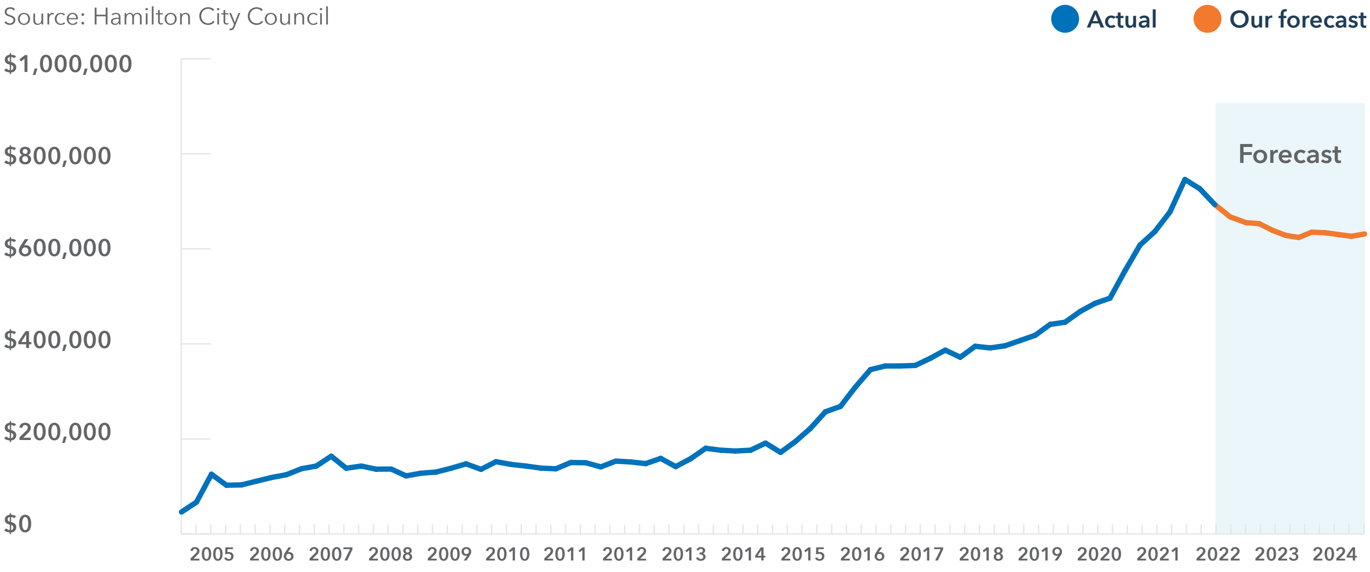


The Housing market saw rising interest rates add to the pessimism as increased repayments become another drain on household wallets. It is worth pointing out that, according to Statistics New Zealand, just 32% of all households have a mortgage on their primary residence. These are the households that will be hit by rising mortgage rates. The impact is dependent on the size of the loan needing to be reset and timing. If a household has a mortgage split over a few smaller loans, then the increase will be spread out, but those with a single large loan will see a bigger immediate increase. The banks have now largely priced in their expectations for further increases in the official cash rate, so we are unlikely to see further significant changes. The rising cost of living impacts everybody and is arguably a greater dampener on demand than interest rate hikes.

In Hamilton, the median house price peaked at $849,000 at the end of 2021 and fell 5% to $803,000 by the end of June 2022. We are forecasting a total drop of 12% to about $750,000 by the middle of 2023 and that prices will remain there for at least another year. The Reserve Bank believes New Zealand house prices need to fall 15% to reach levels of sustainability and for them to no longer represent a threat to the financial system. There are signs demand is there though with falling auction and open home attendance levelling out and people are reporting it is getting "easier" to get credit - at least easier than it was in late 2021 when the new credit regulations kicked in.

Hamilton's median house price forecast

Source: Hamilton City Council



To date there has been little sign of significant investor sell off and survey data shows there are still investors looking for well-priced properties. There is still a fear of overpaying and a strong desire for properties that are high quality and well-priced. People are still trying to pick the bottom of the market, a challenge for even the best property analysts. While lending is still down on red-hot 2021 levels, it has returned to pre-pandemic levels, suggesting the ship is steadying. We still expect prices to go down as there are more listings and buyers are being pickier. Many sellers will decide they just want to move on (literally) and lower their price expectations or reconsider the options entirely. The pressure on the rental market has also eased since 2021 with more properties available to rent and prices falling.

Seek job data for Waikato shows there was a 6% drop in monthly job advertisements from June to July 2022. However, they remain 2% higher than a year ago. This suggests Waikato businesses are starting to hunker down and is in line with business outlook surveys. National data shows there have been particularly large month-on-month falls for hospitality and tourism (-9%) and retail (-6%), however, both sectors are still advertising at significantly higher rates than a year ago.

While job advertising has fallen, the labour situation has not improved for many businesses. Some businesses have probably given up or found alternative ways to work around vacancies. Others will have decided to wait to see where the economy is headed before readvertising. ANZ's quarterly business survey found around 37% of businesses reported labour was their biggest constraint on production – a level not seen since the early 1970s. Demand as a constraint remains at historical levels, although there was an up-tick in the June quarter. Supply constraints as the most limiting factor have dropped from a peak of about 35% to about 15%.

The difficulty finding people to fill vacant positions saw annual private sector wage growth hit 7% in the June 2022 quarter. Wage growth has exceeded Reserve Bank expectations and there is an increased risk of embedding a wage-price spiral where workers demand higher wages to match higher inflation, with higher labour costs then passed on as higher prices.

New Zealand is not the only country experiencing labour shortages. Australia has similar challenges and analysis from ANZ shows this has historically driven up wages, inflation and job advertising in New Zealand as well as reducing unemployment. The risk of a recession does not seem to be tempering the Australian labour demand so we could see additional pressure on our labour market in coming months.

Traffic counts for the June 2022 quarter showed significant falls for Hamilton and across the country. Hamilton saw a 7.3% decrease in traffic counts. There has been a jump in bus use which appears to be higher than just seasonal fluctuation, however, it does not account for all of the decline. The fall is likely a combination of more people staying at home due to increased sickness, the rising costs of petrol and possibly the prolonged wet weather we saw over that period.

What is the likelihood of a recession?

A recession is defined as two consecutive quarters of negative GDP growth. Opinions on whether New Zealand will enter a recession are mixed, though several economists are predicting it will happen sometime in the next 12 to 24 months. Those forecasters not predicting a recession are relying heavily on a pickup in international tourists and international students to boost service exports. If the return of international tourists is more of a trickle than a stream, then the risk of recession is high. Given most of the world is in a similar position of surging living costs and rising interest rates, there is a real risk tourism will not recover quickly. Statistics New Zealand data shows an increase of 49% on international air travel costs in the June 2022 quarter compared to the June 2019 quarter. Customs data shows international visitor arrivals in July rebounded to 52% of pre-pandemic levels following the full reopening of borders in July. The big question is whether this is an initial influx of people travelling to see family after two years of closed borders, or will visitor numbers be sustained.

For GDP to grow, New Zealand essentially needs to increase the amount it produces, be it products or services. With an incredibly tight labour market, combined with high rates of winter illness, this is getting increasingly difficult. The net outflow of people from New Zealand will only make this worse.

Our projections for Hamilton, which are based on Treasury's forecasts for GDP for New Zealand, show there will be periods of little or no growth, but we are unlikely to enter a recession. Hamilton has generally sustained higher levels of GDP growth than New Zealand since September 2018, including throughout most of the pandemic, although smaller economies can see bigger fluctuations during times of uncertainty.

How did Hamilton fare in the last recession (GFC)?

Our last recession happened because of the Global Financial Crisis (GFC). A comparison of the circumstances and effects of the GFC helps to understand what might happen in the coming years. Leading into the GFC, interest rates were significantly higher than pre-pandemic levels, with the Official Cash Rate (OCR) sitting at 8.25 in 2007. Unemployment was sitting at 3.6% going into 2008, and GDP growth was over 3% per annum. The country went into a recession in 2008 and remained there until midway through 2009.

For some industries, 2010 saw the greatest downturn in GDP, while more felt the pinch in 2011. Job numbers hit its lowest level across all sectors in 2011, but for some industries it was 2012. It took Hamilton until 2014 to regain the job numbers lost during the GFC.

From a GDP perspective, four of our top six industries only saw a brief drop in GDP, if at all. Health care; professional, scientific and technical services; owner-occupied property operation; and electricity, gas water and waste services all fared well. All of these sectors experienced growth in jobs by 2011, from 10% in health care, to 58% in electricity, gas, water and waste services. The education and public administration sectors also saw significant job growth over this period (10% and 23% respectively).

Manufacturing and construction were the worst affected, with both sectors not returning to pre-GFC levels of GDP until 2015/16. Manufacturing and construction also both saw job numbers fall 13% between 2007 and 2011. Manufacturing returned to pre-GFC levels in 2016 and construction by 2017.

The GFC was caused by excessive borrowing on expectations of property price increases in America. Banks were making high risk loans, often with very small deposits, on the assumption that properties could be onsold easily for a profit. When house prices began to slide in 2007, the system unravelled. While Hamilton's housing market saw little price decline, demand for goods and services fell across the country so the RBNZ had to drop the OCR from 8.25% in June 2008 to 2.5% in May 2009 in a bid to restimulate the economy.

Our current situation is different in that it is being driven by excessive demand and constrained supply rather than a drop in demand. There is no underlying financial instability as seen during the GFC, but rising inflation is causing increased concern worldwide. Inflation has increased from under 2% per annum pre-pandemic to 7.3% in the June 2022 quarter. In response, the RBNZ is pushing interest rates higher in a bid to dampen demand and bring down inflation levels. While it now seems likely inflation has peaked, it still has a long way to come back down to the RBNZ's target range of 1% to 3%. The RBNZ have signalled their intentions are to continue to aggressively increase the OCR. Most banks have now priced in an increase to at least 4% by the end of 2022.

So what's the verdict? The crystal ball is a little blurry but, overall, the outlook for Hamilton is positive. Most of our main sectors proved resilient during the last downturn and some even flourished. Times will undoubtedly be tough for many households and businesses, but most people will be fine.

Consenting

June 2022 quarter vs March 2022 quarter

NEW HOUSES IN CONSENTS LODGED

403 ↓ 17%

NEW HOUSES GRANTED

336 ↑ 2%

HOUSES UNDER CONSTRUCTION

1273 ↑ 16%

HOMES COMPLETED

302 ↑ 15%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

19,868m2 ↓ 5%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

$88.3M ↑ 111%

A spike in non-residential consenting

The headline for consenting in Hamilton was the 57% increase in non-residential consenting in the 2021/22 financial year. A total of 98,000m2 of new non-residential floor area was consented with 60,000m2 of industrial space. While this is below the pre-pandemic average, it shows a healthy bounce back.

The new home for the Kmart distribution centre was announced this year – a 40,000m2 industrial development in the Ruakura Superhub. This is not yet in the data but will be an added boost to non-residential consenting in the next quarter. Ruakura has gained momentum in the past year with several projects in the pipeline and underway. The opening of the expressway will increase both its visibility and appeal.

Hamilton has also seen an increase in consents for warehouses with 14,500m2 granted in the first half of 2022. This is being driven by things like the supply chain disruptions we've seen over the past two years. Businesses are now needing to hold increased stock levels to ensure they can deliver to the demands of their customers. Many also need to hold increased raw product to ensure they can keep their own manufacturing lines going.

While a recession or general economic slowdown is likely to mean some businesses delay major capital expenditure in the next few years, large businesses like Kmart are planning five or ten years out and Hamilton will be a tempting proposition for many from both a logistics and costs perspective.

Residential consenting was subdued

Residential consenting was less buoyant with the annual number of dwellings granted falling 5% to 1499 in the 2021/22 financial year. To put this in perspective, the average number of dwellings consented per year over the past five years was 1423.

Rototuna North had the most activity during the 2021/22 financial year with 187 new dwellings consented. This was followed by 107 dwellings in Ruakura (Greenhill Park) and 83 dwellings in Flagstaff North. All of the top three developers were developing in our existing suburbs.

Overall, we have seen a 30% drop in consenting in greenfield from its peak in July 2021. Infill activity, however, has remained at record levels. We suspect there is a large cost element to this with greenfield homes typically standalone, on larger sections, having a larger floor area and being in the most desirable suburbs making them more expensive. As prices have increased and finance has become more challenging, infill has become the "affordable" option.

The number of homes under construction increased to 1273 in June 2022, the highest in decades. This increase was driven by the delays caused by supply chain issues, labour shortages and huge demand. The delays in construction have flowed through to fewer completed homes – down 14% to 1354 homes. The dip also aligns with a period of lower numbers of consents granted at the end of 2020. The average amount of time taken to complete a dwelling increased from eight months in 2021 to 10 months in 2022.

In the 2022 financial year, we saw the proportion of homes that were townhouses and duplex homes increased to a record 67%, significantly higher than the 54% seen in the 2021 financial year. We also saw a record 61% of new homes consented in existing suburbs (infill areas).

In the June 2022 quarter, there were 336 new homes consented, valued at $105 million. Townhouses and duplex homes made up 65%, standalone houses 26%, and apartments 9% of the homes consented. Nearly two-thirds of the homes consented in the June quarter were in existing suburbs.

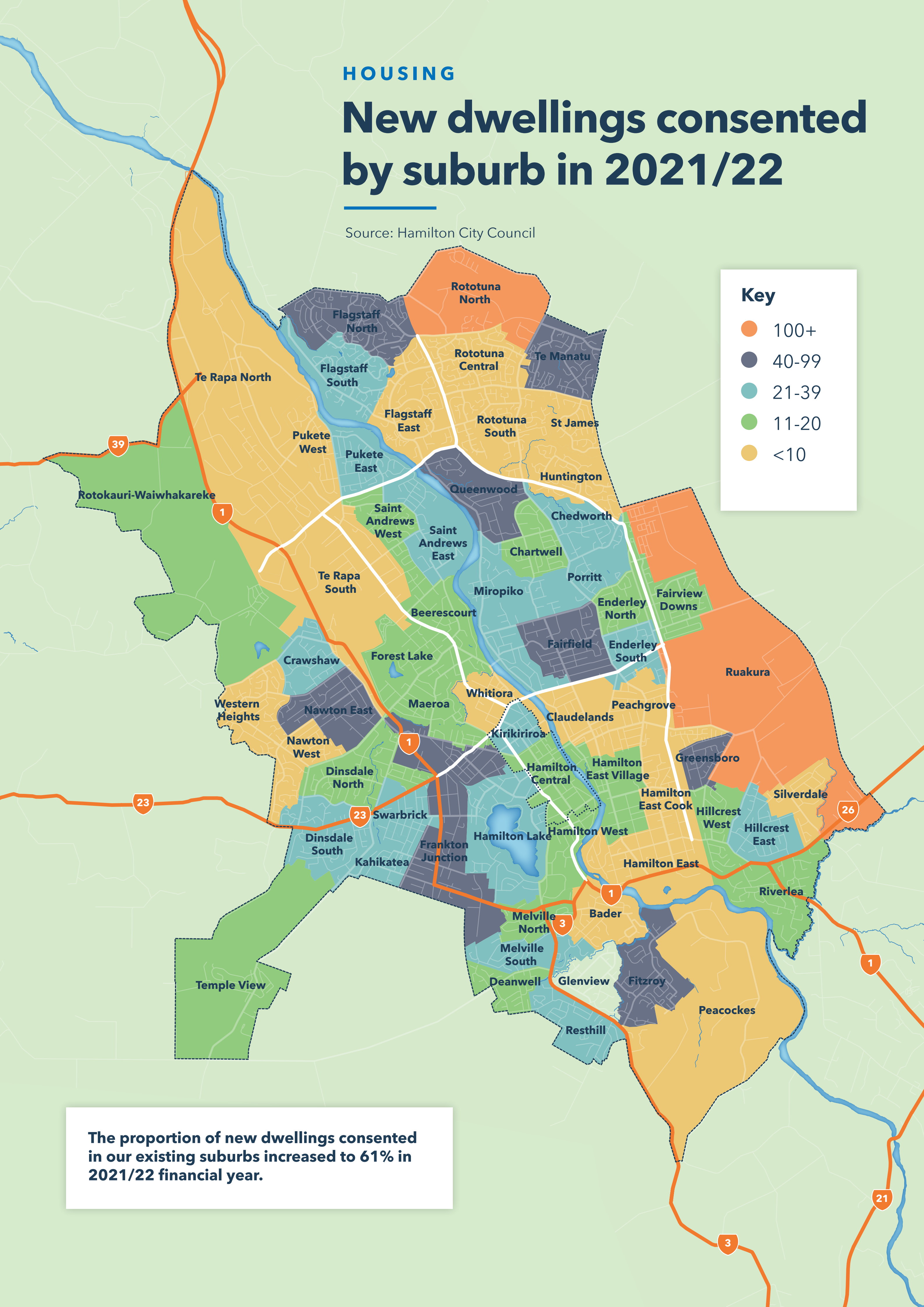
There was an increase in the number of lots granted in subdivision consents. During late 2020 and 2021, the demand for greenfield sections increased with building companies reportedly running out of sections for house and land packages. Land developers responded by working to increase the supply of lots available. These lots have now been titled and pushed up the numbers for the 12 months to June 2022.

See our Growth Outlook Report for more information on our outlook for the next three years.

HOUSING

New dwellings consented by suburb in 2021/22

Source: Hamilton City Council



Key

- 🟠 100+
- ⚫ 40-99
- 🔵 21-39
- 🟢 11-20
- 🟡 <10

The proportion of new dwellings consented in our existing suburbs increased to 61% in 2021/22 financial year.

SUMMARY

Key annual indicators

Year to June 2022 compared to previous 12 months

GDP GROWTH

Hamilton	– 0.4%
Waikato	+ 0.9%
New Zealand	+ 0.9%

EMPLOYMENT (Place of residence)

Hamilton	+ 4.4%
Waikato	+ 3.9%
New Zealand	+ 3.2%

SPENDING

Hamilton	– 1.6%
Waikato	+ 1.3%
New Zealand	0.0%

UNEMPLOYMENT

Hamilton	4.4%
Waikato	3.5%
New Zealand	3.5%

GUEST NIGHTS

Hamilton	– 31.3%
Waikato	– 19.4%
New Zealand	– 19.0%

TRAFFIC FLOW

Hamilton	– 7.3%
Waikato	– 13.8%
New Zealand	– 10.4%

MEDIAN HOUSE PRICE

(June 2022 quarter)

$803,000

HOUSE SALES

Hamilton	– 30.2%
Waikato	– 29.5%
New Zealand	– 26.0%

Consenting

SUBDIVISION LOTS GRANTED

2181 ↑ 4.1%

TITLES ISSUED (224C)

1214 ↓ 9%

NEW HOUSES IN CONSENTS LODGED

1781 ↑ 7%

HOUSES UNDER CONSTRUCTION

(as at 30 June 2022)

1273 ↑ 16%

NEW HOUSES GRANTED

1501 ↑ 5%

Infill	62%
Greenfield	38%

Townhouses/Duplex	67%
Houses	28%
Apartments	3.3%
Retirement villages	1%

Infill East	27%
Infill West	34%
Rototuna	26%
Peacocke	3%
Ruakura	7%
Rotokauri	1%
Temple view	1%

HOMES COMPLETED

(as at 30 June 2022)

1354 ↓ 14%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial 37,300m2	+ 14%
Industrial 60,400m2	+104%
Total 97,700m2	+ 57%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial $115M	– 36%
Industrial $120M	+ 362%
Total $235M	+ 15%

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