

# Waikato Regional Socio-Economic Summary

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# Executive Summary

- The national economy is currently experiencing rapid domestic demand growth but sluggish exports. Relatively low interest rates, but an appreciating currency are accentuating the economic dichotomy.
- A booming housing market is creating employment opportunities, but is also raising the cost of housing.
- The Waikato region's labour market is one of the best performing in the country with the second lowest rate of unemployment and the highest participation rate, implying an increase in the proportion of all households with work-related incomes.
- The rate of employment growth in the region has slowed from 4.3%pa at the beginning of this year to a still healthy 2.7%pa (September quarter 2003 compared to a year earlier).
- There are signs at a national level that employment in the important agriculture and forestry sectors is now shrinking.
- The region's GDP grew by 4.2% over the year ended March 2003 (compared to 4.4% nationally), while population growth over the year ended June 2003 was also slower at 1.2% than nationally (1.8%).
- The region's population is characterised by higher proportions of young people and Maori than is the case nationally. Such characteristics suggest slightly higher per capita health needs than other regions.
- There has been a steady intensification of land use in the region as the dairy industry has continued to expand, with implications for both water use and greenhouse gas emissions.
- Rising energy costs will squeeze the competitiveness of key manufacturers within the Waikato. Dairy and wood processing as well as steel production are energy intensive and relatively low margin businesses.
- Levels of educational attainment in the region generally fall short of national ratios. To the extent education is an important determinant of future incomes the region may struggle to match desired national socio-economic trends.

**Table 1****Waikato compared to New Zealand**

<b>Indicator</b>	<b>Period</b>	<b>Waikato</b>	<b>Waikato as % NZ</b>	<b>Annual growth</b>	
				<b>Waikato</b>	<b>NZ</b>
GDP (\$m) <sup>1</sup>	Year ended Mar 2003	9009 <sup>*</sup>	8%	4.2%	4.4%
Population <sup>1</sup>	As at Jun 2003	377,900	9%	1.2%	1.8%
Employment <sup>1</sup>	Year ended Sep 2003	177,425	8%	3.8%	2.3%
Number of businesses <sup>1</sup>	As at Feb 2003	28,511	8%	3.9%	4.6%
Retail sales (\$m) <sup>1</sup>	Year ended Sep 2003	4,962	9%	5.9%	6.7%
House price <sup>2</sup>	Year ended Sep 2003	\$174,792	86% <sup>^</sup>	5.8%	10.5%

Sources: <sup>1</sup> Statistics New Zealand <sup>2</sup> REINZ, median measure

<sup>\*</sup> Infometrics estimate

<sup>^</sup> Proportion of New Zealand median house price

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# New Zealand economy

*The state of the national economy is a major determinant of production and profits for domestically focused manufacturers and service businesses.*

The domestic economy has grown strongly this year at the same time as the external sector has softened. In the domestic economy new house construction (over the three months to September) is running 14% ahead of a year ago, while retail sales are 5-6% ahead of year earlier levels. The major factor dragging the economy down is weak exports thanks to currency appreciation and a slump in forest exports, which are down in value 25% on year earlier levels.

The good news for exporters is that world commodity prices are now rising in line with the global economic recovery. Both the US and Japanese economies are growing faster than they have done for the past three years. Stronger world demand will offset (to some extent) the effects of the higher currency on export incomes.

The unemployment rate has fallen to a 16-year low of 4.4%, with demand for labour particularly strong from the construction, transport, and service sectors. The decline in the unemployment rate has occurred despite a strong net migration inflow adding to the potential number of available workers, and suggests that the government will need to keep welcoming immigrants to our shores to meet the demand for labour.

The migration influx has been a key driver of the housing boom. Nationally, prices are up around 16% on a year ago, and the volume of sales is still to peak after climbing for the last 2½ years.

The housing market gained a second wind through the middle of this year as the Reserve Bank lowered interest rates in response to a stuttering world economy.

But the Bank is now concerned about the high level of household debt and the ability of households to manage their budgeting should mortgage rates rise.

Strong economic growth has helped boost the government's coffers – the government budget surplus at \$5.6bn for the year ended June 2003 is the healthiest in decades. The government has signalled that it will pump around \$500m into low income working households either via tax cuts or some form of tax credit. It has also indicated a willingness to provide assistance to help low income families into home ownership. Additional spending on infrastructure (particularly roading and energy) is likely over the next two years.

## The Waikato region

The Waikato region produced an estimated 8% of New Zealand's GDP in the year ended March 2003.

At 4.2%pa, the region's economic growth over 2002/03 was slightly less than the national rate of 4.4%. Waikato's exposure to the international economy through its significant agricultural and manufacturing sectors is the main explanation for the marginally slower rate of growth. We expect a pickup in exports from around 2005 as a more buoyant world economy generates more demand and the currency weakens.

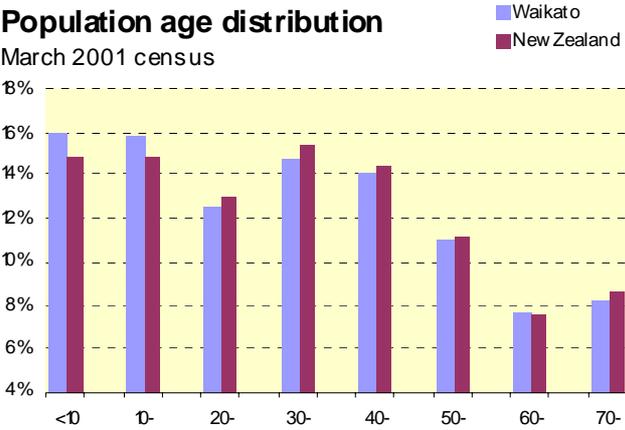
## Population

The population of the Waikato region in June 2003 was estimated at 377,900, or 9% of New Zealand's total population.

New Zealand's resident population is estimated to have increased by 1.8% over the year ended June 2003, while Waikato's population has increased by 4,600 residents over the same period, or 1.2%. That is nearly three times the rate of growth recorded between the 1996 and 2001 censuses. The region's rate of population growth tends to be slightly lower than the national average – between the 1991-2001 census national population growth averaged 1% compared to 0.9% in the Waikato.

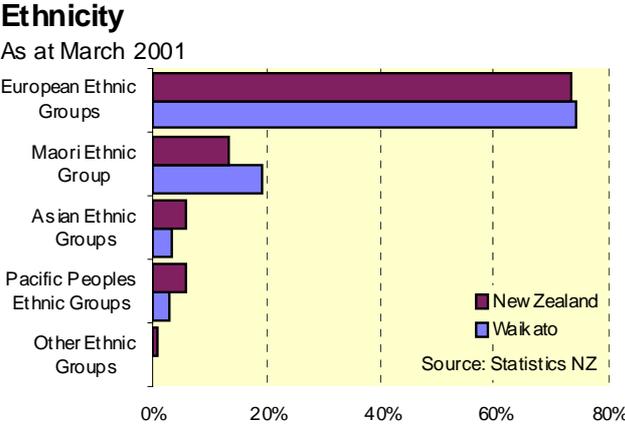
Hamilton City recorded the fastest population growth within the Waikato region over the year to June 2003. That is consistent with the country's population becoming increasingly urbanised – of New Zealand's total population, 57.5% now live in cities.

Waikato's population is characterised by the higher proportion of children than the national profile. It follows that the region's working age cohorts represent a somewhat smaller proportion of total population than is the case nationally. The age profile suggests that a slightly higher proportion of school leavers head out of the region possibly for different tertiary education or employment opportunities.



**Graph 1**

The region's ethnic mix is characterised by a relatively high proportion of Maori (nearly 20% compared to 13.5% nationally), but lower ratios of Asians and Pacific Islanders than nationally. In this sense the region probably has a relatively high proportion of its population New Zealand born, which is entirely consistent with the age profile data discussed above. Hamilton City has a more ethnically diverse population than the region as a whole (for example 7.2% of the city's residents are ethnic Asians).



**Graph 2**

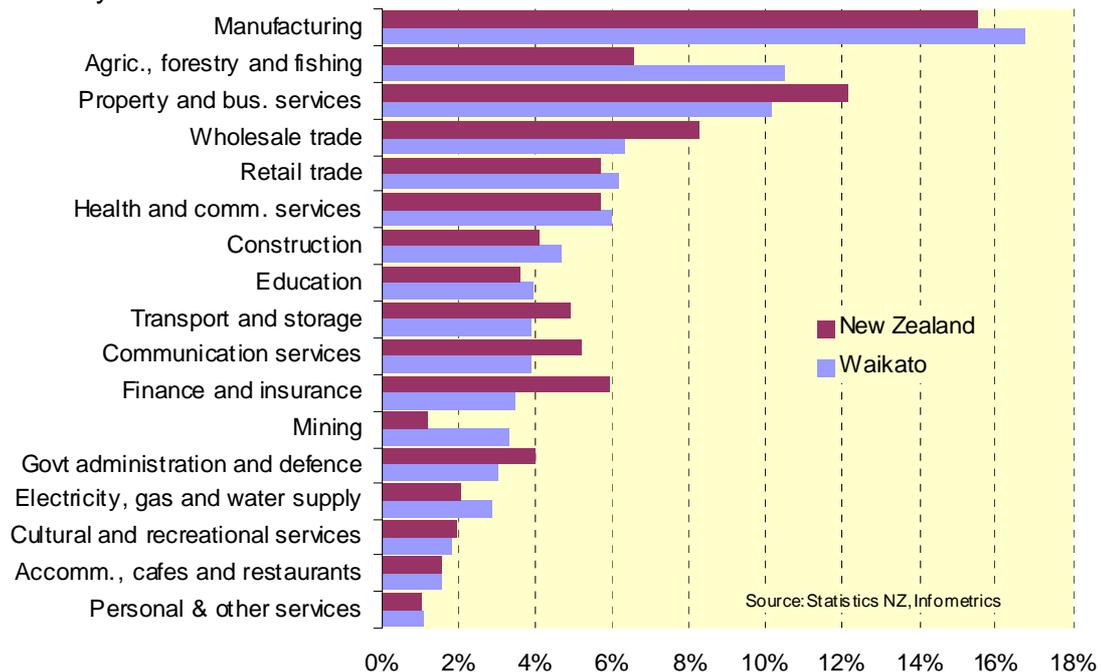
# Economic structure

Waikato's biggest industries in terms of economic value added (gross domestic product) are:

- manufacturing;
- agriculture, forestry and fishing;
- property and business services;

## Structure of the economy

Industry's share of GDP as at March 2003



- wholesale trade.

### Graph 3

The agriculture and forestry sector, and mining are significantly more important to Waikato's economy than is the case nationally.

The biggest industries in terms of employment in the Waikato region are agriculture (mainly dairy, sheep and beef), forestry, manufacturing (mainly primary processing), engineering, education (including research), and health and community services.

Difficult export conditions have resulted in some job losses in key export industries relevant to Waikato. Over the year ended September 2003 there were 7,700 fewer agriculture and forestry jobs nationwide, and there were around 9,000 fewer manufacturing jobs (HLFS data<sup>1</sup>). Employment data for the Waikato to March 2003 show no signs of a fall in manufacturing, agriculture or forestry employment.

## Labour market

The rate of unemployment in the region has fallen sharply since the beginning of the year. Household labour force survey (HLFS) data show Waikato's rate of unemployment at 3.2% as at September 2003, down from 5.5% in March and the

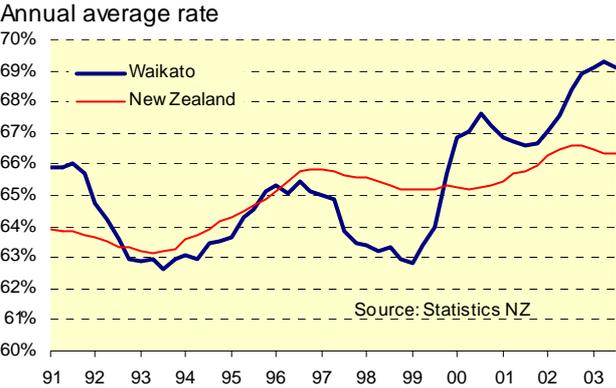
<sup>1</sup> As measured by the Household Labour Force Survey, where employment covers all those of working age who have worked for one hour or more for profit.

second lowest regional rate after Southland. The national rate of unemployment is 4.4% (seasonally adjusted).

The labour force (employed plus unemployed) in the Waikato region expanded 3.7% over the year to March 2003, while the working age population increased by 2.7%. That means more people of working age in the region are putting themselves up for work.

The annual average labour force participation rate for the Waikato rose from 67.1% in March 2002 to 69.1% in March 2003. That is the highest regional participation rate in the country and easily exceeds the national average of 66.5% for the year ended March 2003.

### Labour force participation



### Graph 4

Total employment (HLFS) in the Waikato region was 2.7% higher in September 2003 than a year earlier. National employment over the same period rose 3.3%.

The rate of employment growth in Waikato has slowed over the past year – at the beginning of 2003 the region’s workforce was growing at around 4.4%pa, reflecting the buoyant export conditions that prevailed over 2001 and 2002.

Business services and education and health services accounted for around 40% of the roughly 5,200 additional full-time equivalent jobs created in the region over the year ended March 2003. Manufacturing businesses also expanded their workforces over the 2002/03 March year, contributing 17% to total regional job growth.

### Registered Job-seekers



### Graph 5

Job growth in services has been supported by the spending and investment of relatively high recent farm incomes, as well as other factors such as growth in tourism, a rise in population growth, and a fall in interest rates.

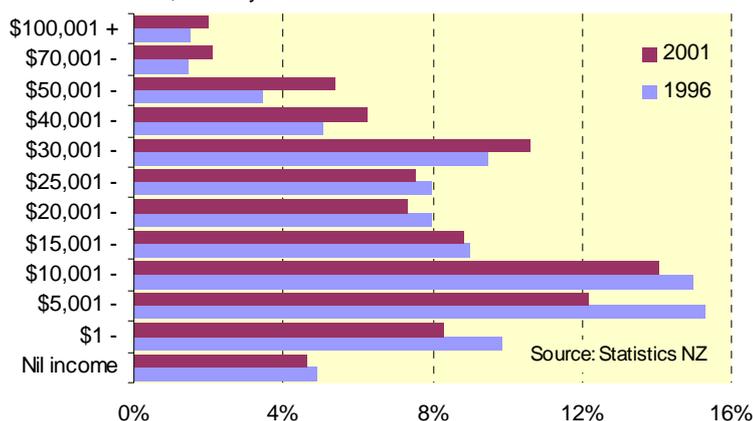
## Income distribution

The median income in the Waikato region rose from \$16,890 in 1996 to \$18,100 in 2001 – a 7.1% increase (wages and salaries over the same period rose 9.5%). Waikato's median income remains around 2% less than the national median income.

Consistent with the increase in the median income is a distinct fall (from 54% to 48%) in the proportion of people earning less than \$15,000pa and an increase in the proportion (21% to 26%) earning more than \$30,000pa over the five years to March 2001. The strong growth in farm incomes since 2001 has probably helped accelerate the shift in income distribution toward the higher income brackets.

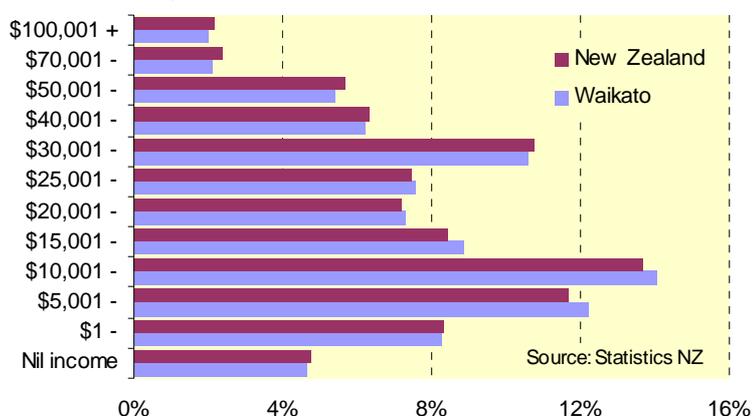
### Waikato income distribution

Personal income, March year



### Income distribution

Personal income, as at March 2001



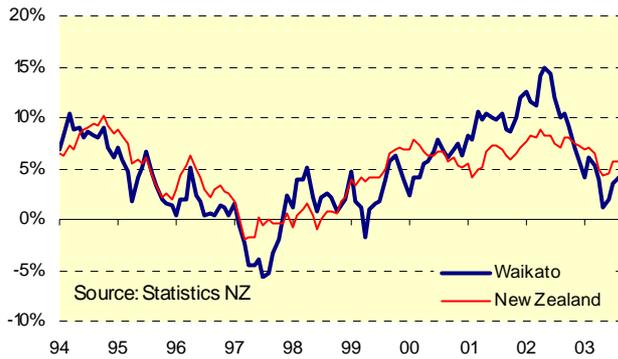
Despite the shift in income distribution, the region still has a slightly higher proportion of its population earning less than \$15,000pa than is the case nationally. The region has 61% of its working age population earning between \$5,000 and \$30,000pa. Nationally that ratio is somewhat lower at 59%. The income distribution data to some extent reflect the education data – a significantly higher proportion of the region's adult population has no formal qualifications than is the case nationally.

## Retail trade

Retail trade accounts for around 60% of total private consumption and is therefore a good indicator of domestic demand. Retail sales in the Waikato region during September 2003 quarter totalled \$401m, up \$22m or 5.9% on September 2002.

## Retail trade

3 month annual percentage change



**Graph 6**

Nationally, actual retail sales in September 2003 quarter totalled \$4.26bn, up 6.7% on September 2002. The retail sector is expecting to remain strong throughout the Christmas period. The strong New Zealand dollar is playing a part, evidenced by department store sales, which rose by 7.6% over the quarter. Surging house prices and their effects on household wealth remain a prominent driver of retail sales growth.

## Building and property

Like the rest of New Zealand, Waikato has been enjoying a booming real estate market. The annual total of house sales has climbed 93% over the last 2½ years, compared to an 80% rise in sales volumes for New Zealand overall.

Despite strong sales growth in the region, house prices have been slow to respond. Median house prices (REINZ data) in the region have risen on average at just under 6% over the past year compared to just over 10%pa nationally.

The region's relatively modest rate of increase in property values is most likely a hangover of strong building activity that took place throughout 1997 and 1999. The rapid build rate occurred at the same time as a slowdown in population growth, leading to some oversupply of housing which is only now being absorbed as population growth picks up again. Statistics NZ estimates that Waikato's population expanded by 1.2% over the year to June 2003 – up from a growth rate as low as 0.3% in the June 2000 year.

Residential building activity in the region has now surpassed the peaks recorded in the mid 1990s. Around one third of new dwellings are built in Hamilton City, with Thames-Coromandel, Taupo, Waipa, and the Waikato District the other major areas of house building activity (each district contributes between 10% and 17% of regional consents). Most residential building in the region is in the form of traditional housing, although the proportion of consents that are apartments has climbed from 2.6% a year ago to 6.5% over the year to September 2003 (a total of 195 consents). The bulk of these are in Hamilton City, although there have been a few apartment projects in Taupo as well.

The central issue for the future of the region's property market is population growth. Waikato may struggle to maintain the present pickup in population growth under more difficult export conditions currently posed by the strong New Zealand dollar. We expect a peak in residential building activity in the region to occur within the next six months – a more sustained boom in construction could result in another instance of overbuilding as occurred in the late 1990s.

## Housing trends

*The average new dwelling size in the Waikato over the last year was 189m<sup>2</sup> – well above the national average of 178m<sup>2</sup>. The biggest houses tend to be built in rural areas where land is not an issue, with Matamata-Piako, and Waipa dwelling consents*

the largest on average. New houses in Hauraki and Otorohanga tend to be smaller than average.

The occupancy rate (number of people per occupied dwelling) in Waikato is 2.7, close to the national average of 2.67. Within the region, the Waikato District has the highest occupancy rate of 2.89, reflecting a low proportion of one person households. Thames-Coromandel has the lowest occupancy rate (2.3), with a high proportion of one person households, and a low proportion of families with dependent children.

While it does not have the highest number of people per dwelling, the South Waikato district has relatively crowded households. Statistics NZ estimates that 6.3% of households in the district suffer from crowding<sup>2</sup>, placing it in the top quintile of crowded districts in New Zealand. South Waikato has a relatively high proportion of families with dependent children (57%, compared to 50% nationally), as well as a high proportion of Maori (29%, compared to 14% nationally).

In the Waikato region, 67% of houses are owner occupied, marginally below the national average of 68%. Hamilton City has the lowest rate of owner occupation (61%), but is also the area where rental costs take up the greatest proportion of income (33%, compared to 27% for the region).

## Table 2

### Housing statistics

Year to September 2003

	Waikato	New Zealand
Annual consent total	2,988	30,125
Apartments (% of total new dwellings)	6.5%	19.3%
Growth in consents	30.7%	23.4%
Average floor area (m <sup>2</sup> )	189	178
Occupancy rate <sup>(1)</sup>	2.70	2.67
Vacancy rate <sup>(1)</sup>	15.3%	9.7%
Crowded dwellings <sup>(1)</sup>	4.7%	5.1%
Owner occupancy rate <sup>(1)</sup>	67.4%	67.8%

Source: Statistics NZ

(1) As at 2001 Census

## Tourism

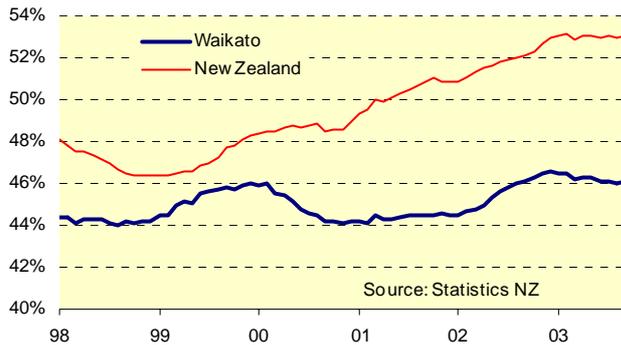
Tourism in the Waikato region is driven mainly by domestic visitors (87% of the total in 2002) – Coromandel and Taupo are key holiday and recreational destinations for New Zealanders.

<sup>2</sup> Crowding is defined as occurring when the following bedroom requirements are not met:

- there should be no more than two people per bedroom;
- parents or couples share a bedroom
- children under five years, either of same or opposite sex, may reasonably share a bedroom;
- children under 18 years of the same sex may reasonably share a bedroom;
- a child aged 5-17 years should not share a bedroom with one under five of the opposite sex;
- single adults 18 years and over and any unpaired children require a separate bedroom.

## Occupancy rates

Annual average percentage



### Graph 7

Over 2002, 4.3m tourists visited the Waikato, spending a total \$950m and staying an average of three nights. The Tourism Research Council expects the number of tourists to the region to grow by 15% over 2003-09 with international visitor numbers growing much faster than domestic visitors.

Occupancy rates in the region's hotels and motels have averaged between 44 and 46% over the past five years. That has remained below the national average and the gap has widened significantly over the past three years.

One of the arguments behind Hamilton's SkyCity casino was that it would attract tourists to the region. The casino opened in September 2002 and although it is probably too soon to assess its impact on tourism, the casino has so far matched the company's expectations in terms of trading activity.

## Agriculture and forestry

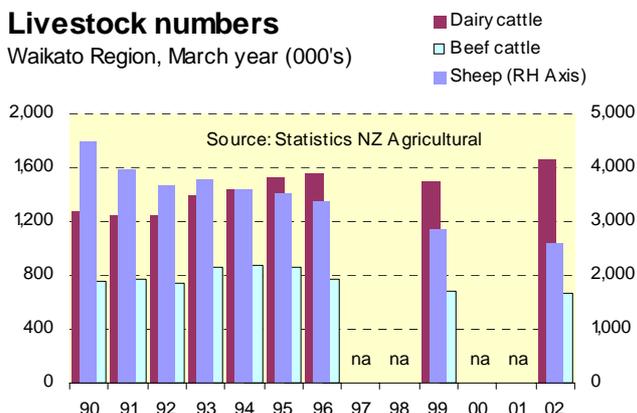
Dairying and forestry dominate the Waikato region's primary economy, and agriculture, forestry and fishing is the second biggest sector in terms of contribution to total GDP (year ended March 2003 data). Other important primary activities include beef and sheep farming, horse breeding, grain production, and horticulture.

Waikato is New Zealand's foremost farming region with around one third of the national dairy herd, 15% of all beef cattle, and around one fifth of national pig, goat, and horse numbers.

Dairy cow numbers in the region have increased 34% since 1992, but this growth falls short of the massive 49% increase in dairy cow numbers nationally. So while milk production has expanded in the Waikato region, the bulk of the increase in national dairy production has been in the South Island.

### Livestock numbers

Waikato Region, March year (000's)



### Graph 8

Sheep and beef stock numbers have declined sharply in the Waikato region over the past ten years. Beef cattle numbers are down 11%, while sheep numbers have plummeted nearly 30% – significantly more than the 24% fall in the national sheep flock over the same period.

The implication of these changes is that there has been a distinct increase in the intensity with which pastoral land (56% of all land in the region) is now used. Dairy farming generally involves greater use of both fertiliser and water than traditional sheep and beef farming. Shifting land use to dairying, however, increases the value of output per hectare and also underpins the expansion of downstream manufacturing facilities.

Primary sector employment accounts for 15% of all jobs in the region. That percentage is roughly double the national employment level of 8%, based on 2001 census data. Dairy farm returns dropped sharply over the 2002/03 season (ended May) as a result of a 30% cut in the milk solids payout. Dairy product prices were squeezed by both weak world commodity prices and an appreciating New Zealand dollar. Although an increase in on-farm milk production helped cushion the blow to farm incomes, the loss of income to the region has been in the order of \$500m.

The government's controversial "fart tax" to fund research into reducing greenhouse gas emissions has been dropped, but pressure will still remain on the pastoral farming industry to reduce emissions.

Forestry is the other major primary industry in the Waikato region, and planted forests account for roughly 12% of total land use. A major structural change is occurring in the forestry industry, with ownership of forests being separated from processing businesses. Forest ownership is a long-term investment and not well suited to conventional public companies that face short-term financial disciplines. The highest profile split in ownership of the various components of the forestry business has been Fletcher Challenge Forests' move to sell all its forests and concentrate on processing and marketing wood products.

### NZ Radiata log price in Japan

(\$NZ/m<sup>3</sup>)



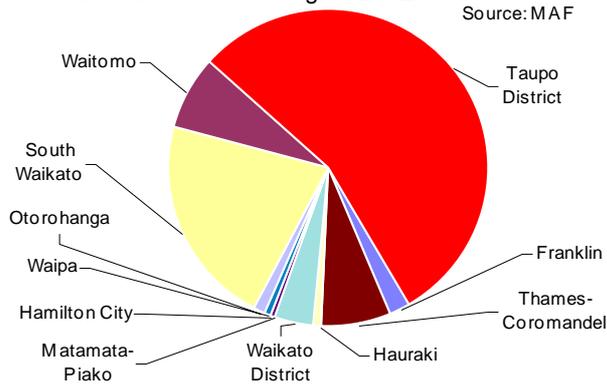
**Graph 9**

Returns in the forestry industry have been depressed by weak international product prices (particularly for logs) and the high currency. More recently, the log trade has been squeezed viciously by 100% plus rises in shipping costs to key markets. Although the latest harvest data (for the year ended June 2003) still shows 7-10% increases over year earlier levels, export data show the volume of log and timber exports (seasonally adjusted) over the September quarter fell 18.1%.

The forestry sector will play a pivotal role in the creation and maintenance of carbon sink credits. The government is currently developing an agreement with the forestry sector to spell out rights and obligations.

## Share of regional wood supply

% of total hectares for the region 2002



Graph 10

## Manufacturing

Manufacturing is the largest single sector within the Waikato economy, accounting for around 15% of GDP (March 2003). Employment among Waikato manufacturing businesses increased 4.3% over the year ended March 2003. National manufacturing sector employment has declined over the past year.

Manufacturing in the region is dominated by primary industry processing dairy, meat, and forestry outputs. The region has a number of world scale dairy and forestry processing facilities.

Fonterra's plants in the region are not only world scale; most are amongst the most sophisticated processing facilities of their type in the world. Besides Fonterra's extensive investment in processing capacity in the region, the relatively small Tatua dairy company has continued to develop its reputation for innovative new milk-based products.

The Waikato region is home to one of the largest dairy manufacturing clusters in the world. The cluster includes associated manufacturing, (stainless steel, electric fences, milking systems) farming, product and genetic research, as well as the internationally recognised Mystery Creek agricultural exhibition.

There are two world scale wood processing facilities in the region – Carter Holt Harvey's Kinleith softwood kraft pulp plant, and Fletcher Challenge Forests' (FCF) panel and mouldings plant at Taupo. The shift in strategy at FCF suggests that, over time, there will be some expansion of the Taupo plant. An important point about the FCF plant is that it uses a lot of wood waste, previously discarded by the industry, to make some of its products. The likely introduction of a carbon tax will raise the value of the waste wood raw material used by FCF, thus compromising the profitability of that business.

The other major manufacturing business in the region is BHP's Bluescope Steel mill at Glenbrook. Around 60% of its 700,000 tonnes of output is exported, and the mill provides employment for around 1,300 people.

## Mining

Mining is generally a relatively small industry within most regions' economies. In Waikato, mining accounts for 3.3% of total GDP in the region – almost three times the national ratio. Gold, coal, and iron sands are the main mining activities.

Newmont's Martha Mine at Waihi has lodged a resource consent application to establish and operate the Favona underground mine in Waihi. The new mine is likely to generate employment for between 130 and 150 staff and contractors. Current

operations at the Martha Mine are expected to gradually wind down with a finish date around 2008.

Solid Energy mines at Rotowaro and Huntly East supply the steel mill at Glenbrook and the Huntly power station owned by Genesis. Solid Energy has recently signed a contract with Genesis to supply 11m tonnes of coal to their dual thermal Huntly power station over the next eight years. The contract implies an expansion of the Huntly coal mining area.

## Energy

Energy has become a major national issue for three reasons:

- increasing incidences of energy shortages, creating price spikes;
- prospective significant increases in energy costs as Maui gas runs out and access to cheap hydro resources is all but exhausted;
- an increasing cost of energy due to the government's intention to introduce a carbon tax.

### Electricity prices

Producer output price index, Dec 97 = 1000



### Graph 11

The region has several significant energy users – Kinleith, Fonterra's milk processing plant, and Bluescope's steel mill. These businesses are all heavily committed to exporting, and any domestic cost increases (such as higher energy costs) will eat directly into their competitiveness. Each of these businesses is likely to seek a negotiated greenhouse agreement (NGA) to reduce the impact of a carbon tax.

## Research

Research is a significant area of activity in the Waikato region, with the presence of the University of Waikato and several crown research institutes: AgResearch, Landcare research, NIWA, and HortResearch. The Ruakura Agricultural Research Centre represents one of the largest agricultural research clusters in New Zealand.

Work is well underway on the Waikato Innovation Park. The Park will lead to a close alignment between business and science. It should also increase the chances of research being commercialised, which could generate new business within the region.

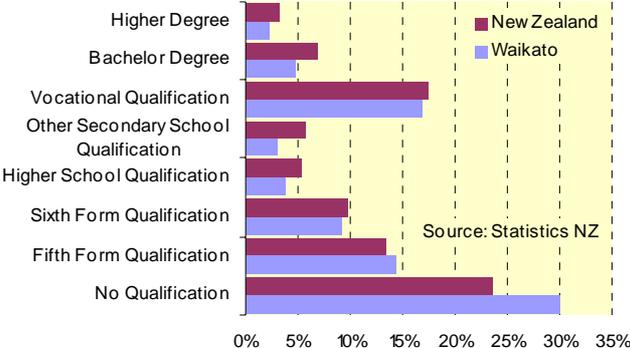
## Education

As at March 2001 28.5% of people aged 15 and over in the Waikato region had a post-school qualification, compared to 32.2% nationally. The difference reflects the fact that agriculture, forestry and manufacturing are key areas of employment in the region and these businesses rely more on vocational skills than formal qualifications. The small difference between national and Waikato region data for vocational qualifications emphasises that point.

Nonetheless, a significantly higher proportion of Waikato’s population has no qualification (school or tertiary) than is the case nationally – 30% compared to 24%. The higher proportion of people under 20 partly explains the difference, but given the increasing importance of education in determining life-time incomes the region’s relatively low educational attainment levels have important implications for the region’s socio-economic outcomes.

**Education**

Highest qualification, as at March 2001



**Graph 12**

**Health**

Although Hamilton had a higher life expectancy than the national average for both males and females in 1986, 1991, and 1996, it is likely that the region as whole has a slightly lower than average life expectancy because of the relatively high proportion of Maori in the population. Maori male life expectancy is 67.2 years (1995-97 data, Statistics NZ) compared to 75.3 for non-Maori males. A study by the Ministry of Health indicates there is a strong association between life expectancy and deprivation – lower life expectancy reflects higher incidences of deprivation.

New Zealand Medical Council data (2001) show the Waikato region has fewer general practitioners (80.3 per 100,000 people) than the national average (81.3) and fewer medical specialists (62 per 100,000 people, compared to the national average 72.9).