

Waikato Economic Radar

April – June 2022



Executive Summary

This quarter has seen a change of focus for businesspeople in the Waikato region as the effects of inflation, low unemployment and supply chain difficulties have been felt more acutely. While issues like these are understandably challenging, we believe a future-focused approach will enable businesspeople to continue to benefit from all that our region has to offer.

Our most recent Radar referred to the need for businesses to embrace the “new normal” to offset the impact of COVID-19 on the prosperity of our region.

Though national daily infections rose to more than 10,000 in July and New Zealand remains at the Orange level of the traffic light system, inflation has surpassed COVID-19 as the dominant theme throughout the economic trends canvassed this quarter.

Despite the pressures of inflation and interest rates, our latest Business Sentiment Survey paints a picture of employers still intending to hire. There is a sense of respondents maintaining more confidence in their own businesses than in the wider economy.

Key observations from the primary data in this edition of the Radar include:

- Retail sales in the region are higher than pre-COVID-19 levels, however, the increase in the value of sales is less significant when adjusted for inflation.
- The region's labour markets remain tight, with a very low unemployment rate and pressure on the cost of labour.
- The number of work-ready people collecting Jobseeker support benefits remains well below the levels of a year ago. Demand for assistance such as the Accommodation Supplement and grants for food has fallen following peaks at the end of 2021 and start of 2022.
- Shortages of materials and costly delays are creating difficult conditions for the construction sector, compounding labour constraints and costs. The value of building consents being issued in the region remains high.
- The completion of the Waikato Expressway should start to pay economic dividends as the benefit of faster travel times and reduced congestion is seen.
- House prices in the region have continued to trend upwards, with REINZ data showing an increase of 14% compared to one year ago.
- Inflation is highest in the tradables sector (those either engaged in exporting or who compete with imports) and producer prices continue to affect businesses.

Our Business Sentiment Survey is undertaken on a six-monthly basis, with the next opening in September. We hope to have your input.



Fiona Carrick Chief Executive | Manahautū Te Waka

Review of recent data

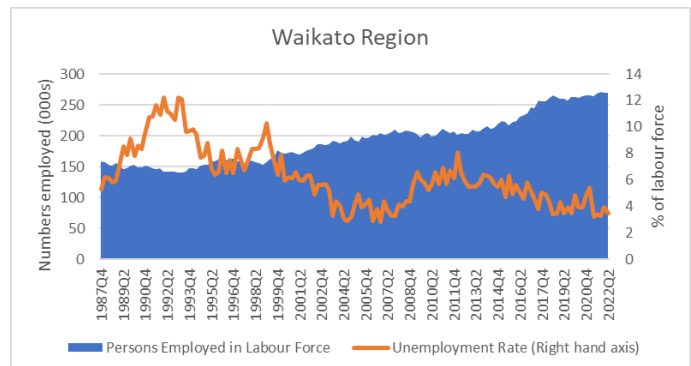
Sales

Retail sales in the Waikato region continued to grow in the early parts of 2022, up 4.2 percent in seasonally adjusted terms on the December 2021 quarter and are now 14 percent higher than pre-Covid levels. However, with inflation rising, retail sales growth is increasingly a reflection of rising prices, rather than the volume of sales. The value of sales in the first quarter of 2022 was 7.6 percent higher than a year ago, but after adjusting for CPI inflation of nearly 7 percent, the increase was just 0.6 percent. The sales growth measure for the Waikato region from the Xero Small Business Index has continued to slow, and in May was just 1.5 percent higher than a year earlier.

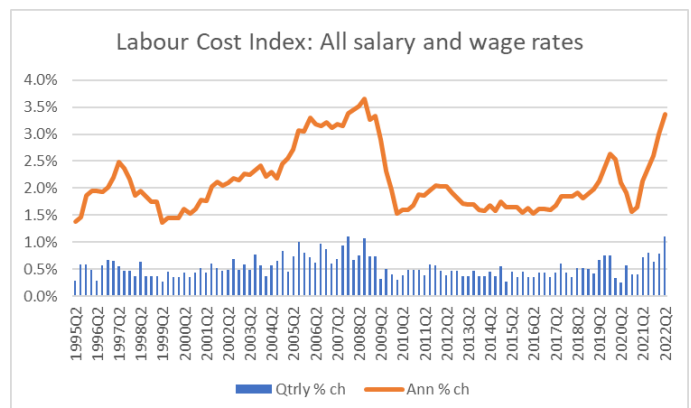


Labour Market

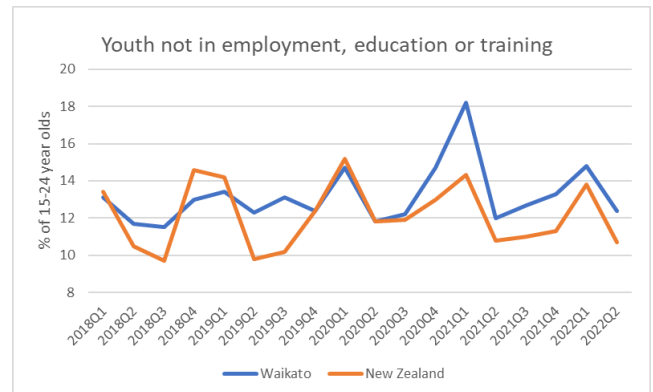
The region's labour markets continue to be very tight. A slight fall in the labour force participation rate in the June quarter meant that despite a small increase in the working age population, the labour force (i.e. those already working, or ready, willing and able to do so) recorded a marginal decrease. The unemployment rate in the region, at 3.5 percent, remains very low. This is consistent with anecdotes about ongoing difficulties for businesses in finding appropriately skilled workers.



Unsurprisingly, these conditions are also seeing pressure on the cost of labour, which recorded the largest quarterly increase since 2008, before the Global Financial Crisis. The annual increase in labour costs is also nearing its pre-GFC high. Likewise, the Xero Small Business Index wage growth indicator has accelerated each month since the beginning of the year, and at 5.8 percent is increasing at the fastest rate since mid-2017.

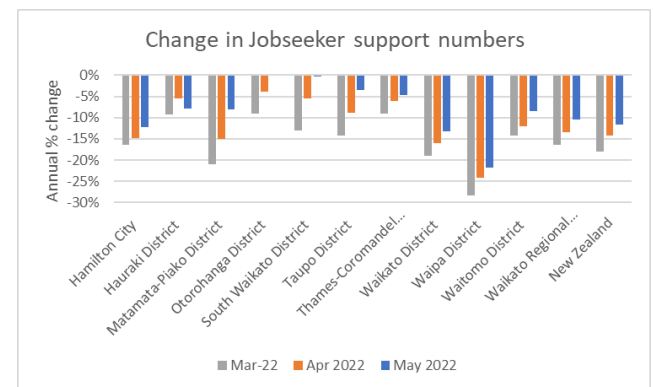


The proportion of 15 to 24-year-old youth not in employment, education or training (also known as the 'NEET' rate) was 12.4 percent in the June 2022 quarter, slightly higher than the 12 percent rate recorded a year earlier. This was driven by an increase in the 15to 19-year-old NEET rate, while the 20 to 24-year-old group improved over the year. This current Waikato figure is significantly higher than the 10.7 percent rate nationally.

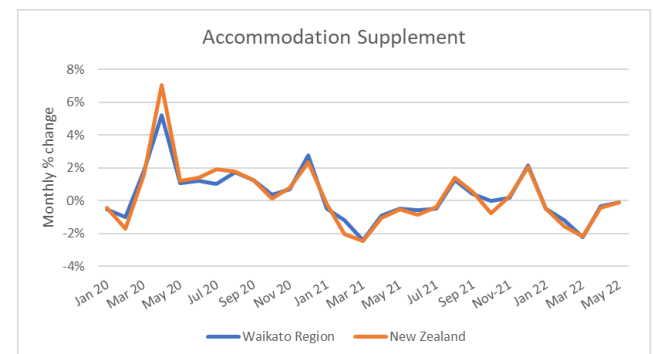


Social Supports

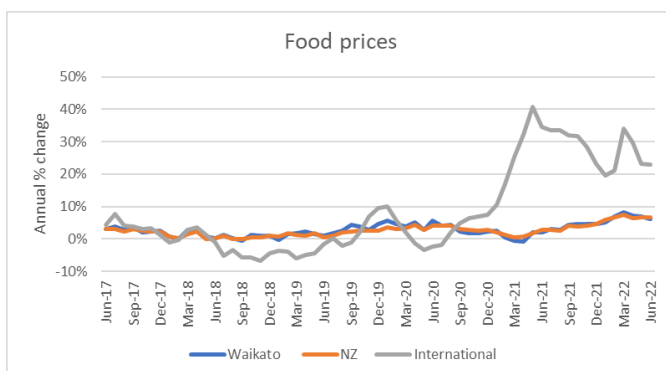
The number of work-ready people on Jobseeker support benefits has been steady over the past few months but is still well below fairly steady over the past few months but is still well below levels of a year ago. Around half of the decrease in number has been in Hamilton City, While Waipā and Waikato Districts recorded the fastest decreases in percentage terms, Ōtorohanga and South Waikato Districts, in contrast, recorded little or no change in the number of job seekers compared to a year ago.



Demand for the Accommodation Supplement (AS) peaked in December 2021 and has declined by 4 percent since then. While a fall in AS has been seen across most of the region over the last 12 months, South Waikato saw a 1.1 percent increase in AS numbers, with Matamata-Piako and Taupō districts also recording slight increases.



After rising sharply in the first quarter of 2022, special needs grants for food in the region have fallen by a third and are now 10 percent lower than a year ago.



Construction and Housing

The construction sector continues to battle difficult conditions with the shortage of materials resulting in costly delays for many, compounding labour constraints and costs. The value of building consents being issued in the region remains high, although in the three months to June 2022, was just 1 percent higher than the same period a year before. To some extent, however, this represents increasing prices, rather than the quantity of building activity. The completion of the Waikato Expressway represents a significant milestone for construction in the region, and its benefits – both faster travel times and reduced congestion – should start to pay economic dividends.

House prices in the region have continued to increase generally, up 14 percent on a year ago according to REINZ. This ranges from a 26 percent increase in the Waikato District to a 16 percent fall in the Ōtorohanga District. However, some of these figures may be more volatile because of a large fall in the number of sales and the relatively few transactions in smaller districts.

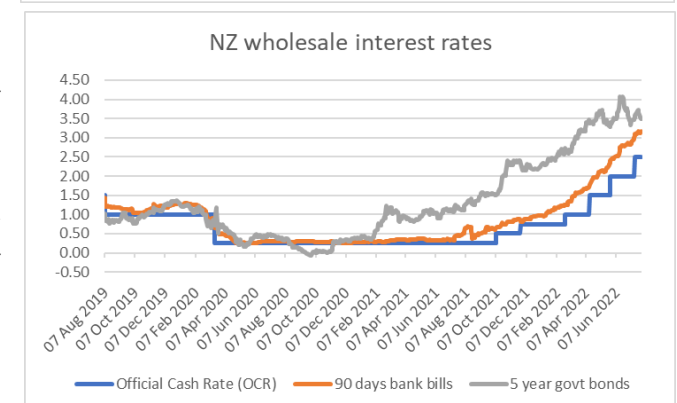
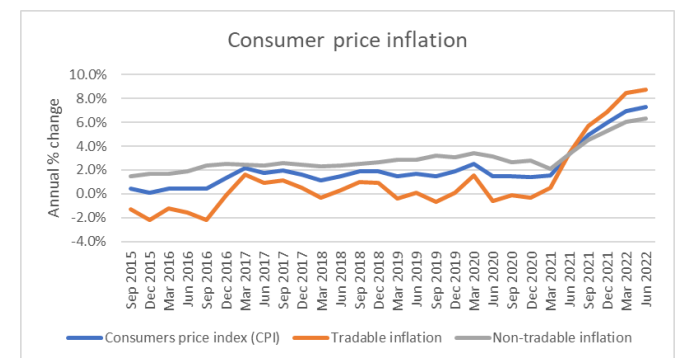
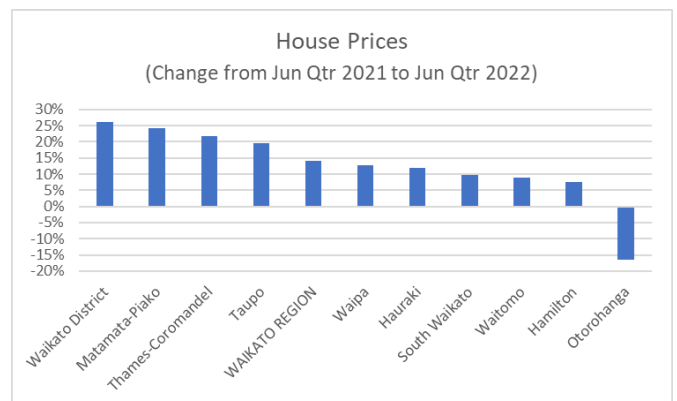
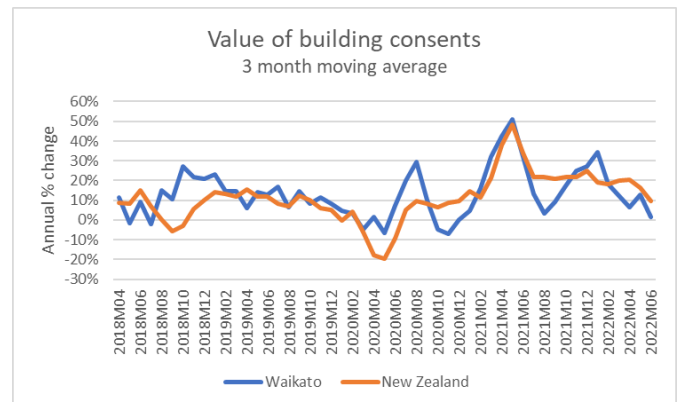
Inflation

Annual consumer price inflation has reached another high, reaching 7.3 percent in the year to June, the highest rate since 1990 which included the effects of the increase in GST in 1989. Inflation is highest in the tradables sector (that is, those that are either engaged in exporting or compete with imports), now at an annual rate of 8.7 percent, although at 6.3 percent, annual inflation in the non-tradables sector has also risen. Producer prices also continue to affect businesses, with inputs increasing by 9.8 percent and outputs up 8.7 percent in the year to March.

The rate of increase in food prices continues to hover between 6 and 7 percent per annum.

The United Nations Food and Agriculture Organisation index of global food prices fell for the third month in a row – mainly because of vegetable oil prices falling from their March peak – but is still 23 percent higher than a year ago. World meat and dairy prices continue to reach long-term highs.

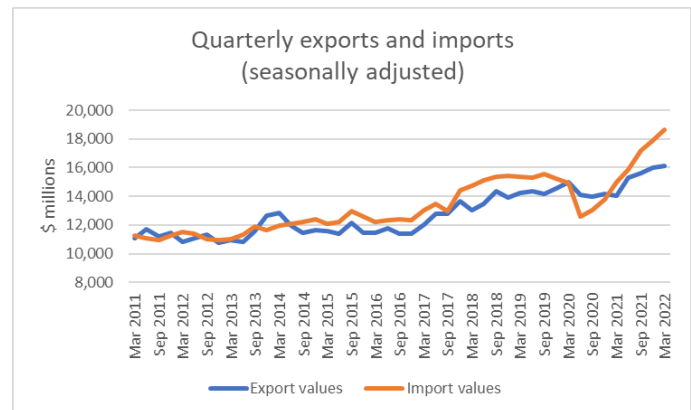
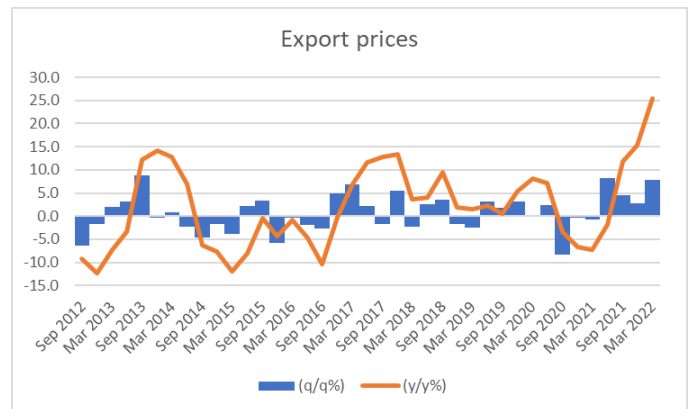
The Reserve Bank continues to increase the Official Cash Rate in response to inflationary pressures, having raised it by 225 basis points since October 2021.



Exports

Export prices have also risen further – by 7.9 percent in the March quarter – and are now 25.4 percent higher than a year ago. These higher prices mean that, although export volumes are at the lowest level in five years, the revenues from exports are up 14.7 percent on a year ago.

On the other hand, both prices and volumes of imports remain strong. Import prices are up 21.5 percent on the March 2021 quarter, and despite falling in the last two quarters, import volumes were still 2.7 percent higher than a year ago. The net result of these movements is an increasing trade deficit for the country.



Covid-19

Despite signs of a second wave of Omicron, Waikato, along with the rest of New Zealand, remains at the Orange traffic light setting, with relatively few restrictions on most business operations. Daily infections rose to more than 10,000 nationally in July. At the time of writing, there were 486 new cases in the Waikato DHB area in the last 24 hours, for a total of 3,504 active cases.

