Te Waka
Anga Whakamua Waikato

Waikato Economic Radar

Quarter 3 2021

Executive Summary

The Waikato region is better off than most. But it's time to be bold and embrace change as pressures consolidate. Anticipated growth in the region is creating a talent shortage - turbo charging opportunities for skilled Aucklanders looking for good jobs, education and a better quality of life.

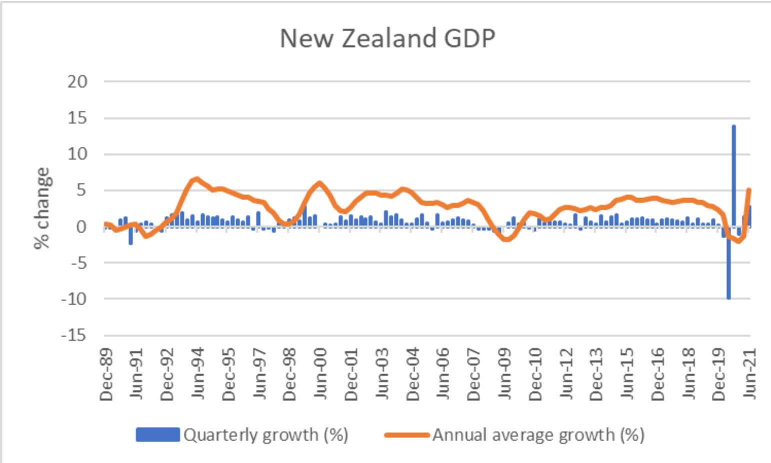
This is the first of our new Quarterly **Waikato Economic Radar** Updates, produced in partnership with the Waikato Regional Council. The radar complements our wider **Waikato Business Sentiment Survey**, which will now be undertaken on a six-monthly basis, with the results published alongside the Radar results for the respective quarter.

Key observations from this quarter include:

- The Waikato had excellent momentum leading into the lockdown, with strong growth and low unemployment. But as expected, activity has eased with the implementation of the latest lockdown.
- Activity expectations in the Waikato remain relatively better than across the economy as a whole; and Waikato firms are still expecting positive growth, though more tempered, despite negative sentiment towards the broader economy.
- Unemployment is low, competition is rising for skilled staff, workers are being picky and know they have choices, and wages are moving up.
- Anecdotal evidence suggests accessing skilled labour is a key constraint to expected business growth, matching evidence which shows a decline in absolute terms in employed workers despite strong demand for skilled workers.
- While the immediate focus is on vaccination, we are now into the hard slog of dealing with what is likely to be an enduring impact of Covid. But the recent RBNZ quote is pertinent: *"Prevalence of the disease may result in permanent changes in the way we work and interact, which could lower the productive capacity of the economy on an enduring basis."* It may seem obvious, but we cannot stand still. The productive capacity of the economy is what wellbeing is built upon.
- We are now entering an environment of heightened risk. In particular, supply bottlenecks and inflationary pressures are expected to intensify in the near-term with interest rates heading up. This environment will be challenging for many, but such times also often represent great opportunities for change and for businesses to address those typically 'hard-to-address in normal times' issues.
- The ongoing lockdown and the government's change in stance re living with Covid vs. Elimination is forcing business to embrace a very new and different normal. The changing environment necessitates the need for change. Now is the time for bold ideas, fresh thinking and true collaboration to offset the growing impacts of Covid on our businesses and communities.

Hamish Bell, Chair | Hemana, Te Waka

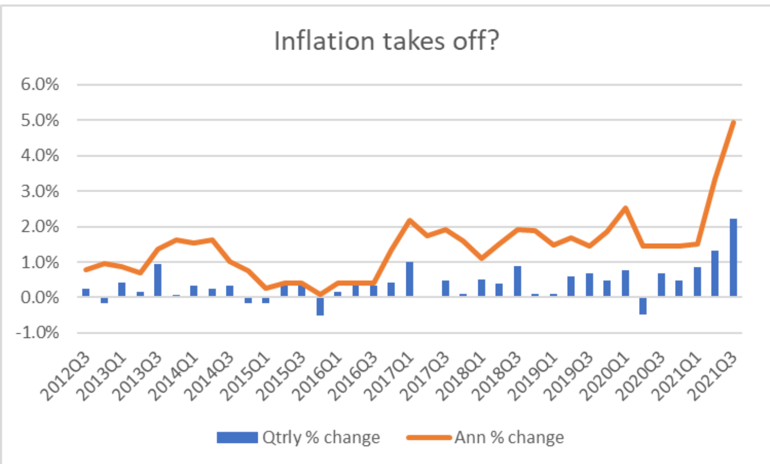
State Of The Waikato



The economy outperformed all expectations post the first lockdown, with annual average growth of 5 percent in the year to June, supported by post lockdown pent-up demand, redirected offshore tourism spending into the local market, large monetary and fiscal policy stimulus and robust commodity prices supporting rural incomes. Whilst that is the rear-view mirror story, and circumstances have changed, that recovery puts the economy in a better stead to deal with the latest covid outbreak.

The growing concern that Covid-driven supply chain constraints, along with resurgent demand, would see a surge in inflation seem to have come to pass in the latest Consumer Price Index, which rose by 2.2 percent in the quarter, resulting in an annual inflation rate of 4.9 percent. Setting aside the temporary increase in 2010 (the result of the Key government's tax increases), consumer price inflation was last at this level in 2008 (just prior to the Global Financial Crisis).

Still, it is worth noting that a large proportion of these inflation numbers have been driven by a relatively small number of categories. Food (particularly vegetables), transport (particularly petrol) and housing accounted for around 80 percent of the quarterly increase in consumer prices.



Nevertheless, a tight labour market and other supply-side pressures in the pipeline suggest more to come, and it seems likely that further interest rate hikes are on the way from the Reserve Bank.

August Survey Of Business Sentiment

The business sentiment survey undertaken by Te Waka in August also reflected the uncertainty of renewed outbreaks and the alert levels they bring. Overall, respondents were relatively pessimistic about the prospects for the New Zealand economy over the next 12 months with a net 20 percent expecting conditions to deteriorate. There was less pessimism about the respondents' own sectors and for the Waikato region generally (net 10 and 4 percent respectively expecting things will get worse).

More positively, a net four percent expect their own business to improve in the next 12 months. Most of this positivity comes from the services sector (excluding accommodation and food services), where a net 14 percent expect the New Zealand economy to deteriorate, but a small majority expect an improvement in their sector (2 percent) and the region (6 percent), while a net 15 percent expect things to improve for their business.

Not surprisingly, given the exposure to the consequences of travel restrictions, the accommodation and food services industry was the most pessimistic, with a net 36 percent expecting the sector to get worse. The distribution and logistics sector (including wholesale and retail trade and transport, postal and warehousing industries) was also among the most pessimistic, with a net 26 percent expecting national economic conditions to deteriorate and 12 percent expecting their own business to find the going harder.

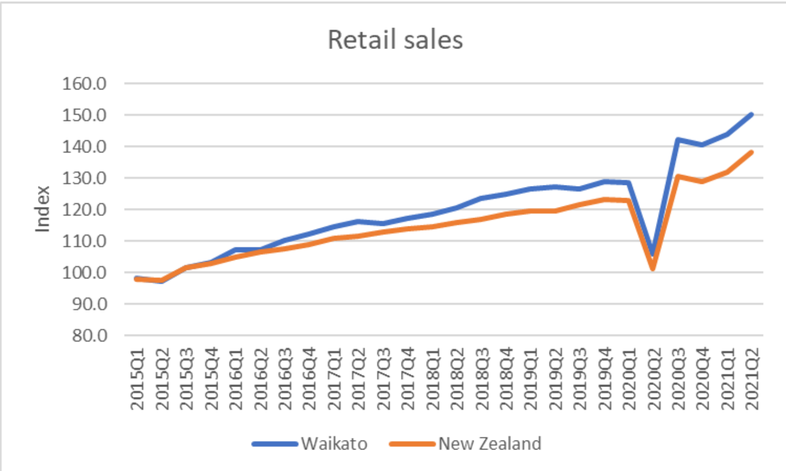
In addition to profitability generally, the pandemic seems to be worsening issues around staffing and supply chains. And that was *before* the renewed outbreak at the beginning of October. Businesses have demonstrated how adaptable they can be over the last 18 months, but the road ahead remains rocky, and exiting the business may yet have to be the adaptation strategy for some.

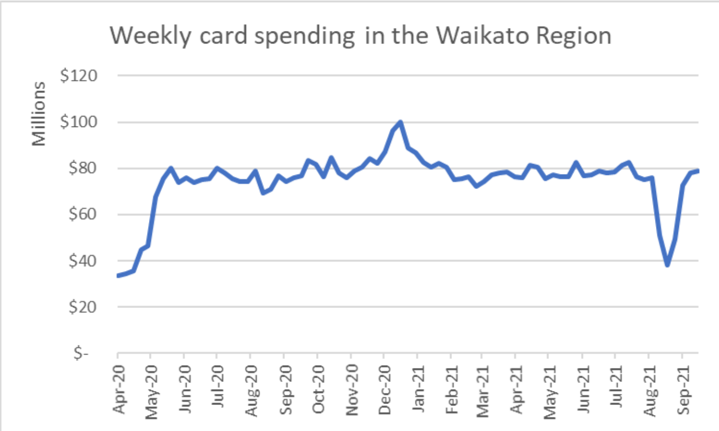
Globally, supply chain issues look set to be around for a while and energy prices are also rising.

Review Of Recent Data

Consumer Spending

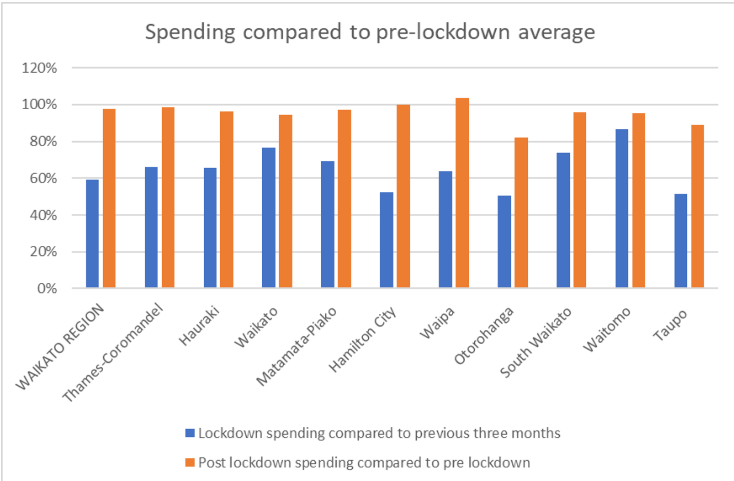
The pickup in consumer spending in the Waikato continued through the second quarter of 2021, and retail sales was 42 percent higher than the same quarter of 2020 when we were in Level 4 lockdown.

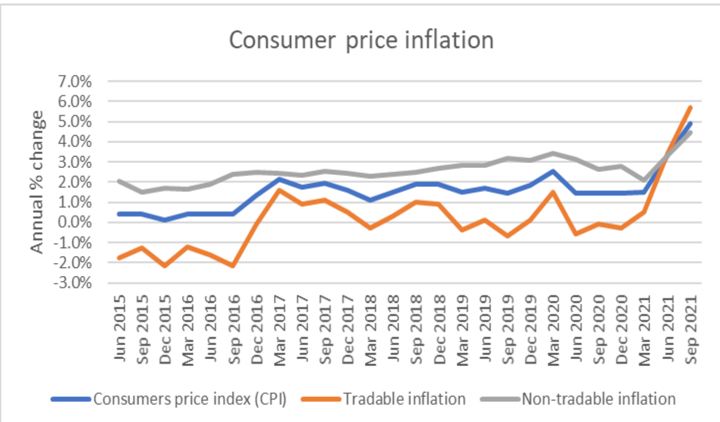




With the emergence of the Covid-19 delta variant in August and the ensuing Level 4 alert, card spending fell by 40 percent, averaging 60 percent of the pre-delta spending levels for around three weeks before returning to earlier levels by mid-September. The effects of the return to Level 3 from the 4th of October remains to be seen.

All districts in the Waikato region experienced a drop in card spending in the August outbreak (see the blue bars below), but the drop was particularly large in Hamilton, Ōtorohanga and Taupō, where average spending levels almost halved. The fall was much less in the Waikato, South Waikato, and, especially, Waitomo Districts. Ōtorohanga and Taupō have been slower to return to pre-alert spending levels.

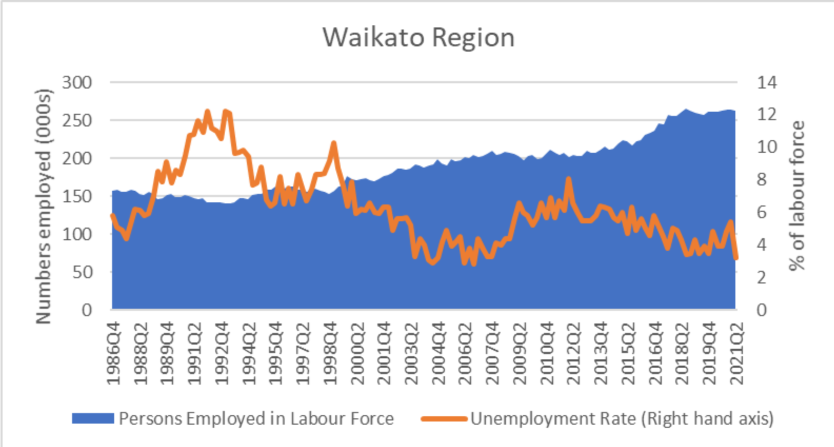


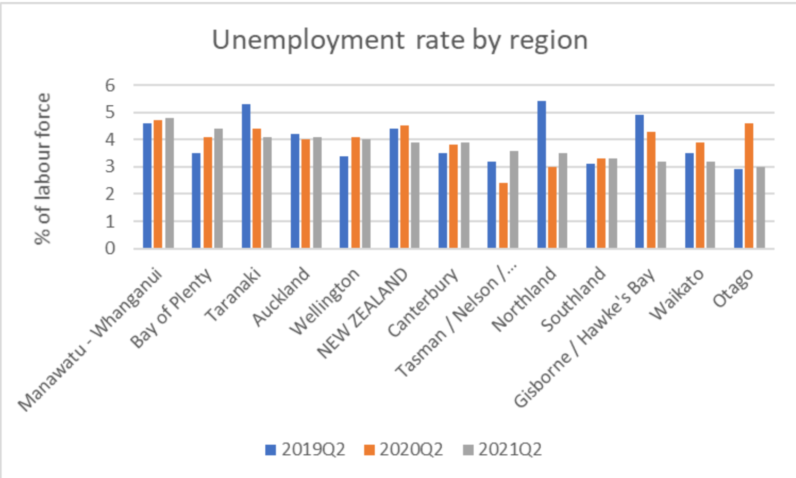


As expected, consumer price inflation rose sharply through the middle of 2021. Price increases were particularly evident in the tradable sector (that is, industries involved in exporting or that compete with imports), with supply chain disruptions likely to be a significant reason for this. The question remains as to whether this higher level of inflation is a short-term phenomenon, or if it will be sustained for an extended period, but according to Cameron Bagrie from Bagrie Economics, the inflationary undercurrent has a persistent and sticky feel to it.

Labour Market

Unemployment is low across the country, and competition is rising for skilled staff. Wages are moving up. After an uptick to 5.4 percent in the first quarter of 2021, the unemployment rate in the Waikato Region fell to 3.2 percent in the second quarter. This does not, however, reflect strong growth in jobs – in fact, the number of people in jobs fell slightly. Instead, it reflects a large number of working-age people exiting the labour force.



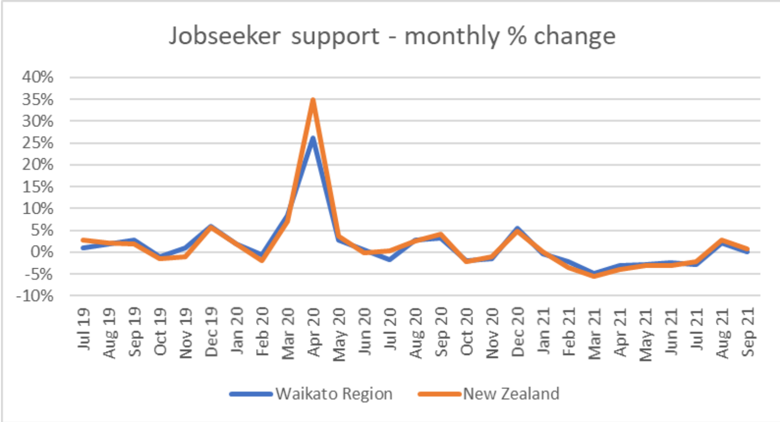


Across New Zealand, the Waikato has gone from having the second highest unemployment rate (after Bay of Plenty) in the first quarter of 2021, to the second *lowest* rate (after Otago) in the second quarter. Abstracting from intra-quarter noise the key message is one of low unemployment.

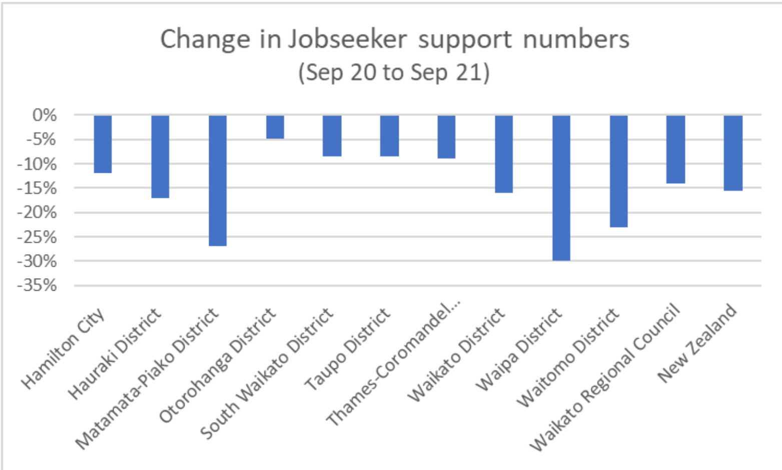
After spiking in late 2020 and early 2021, the youth NEET rate (ie the proportion of 15-24 year olds not in employment, education or training) returned to around pre-Covid levels in the second quarter of 2021. While the Waikato NEET rate remains above that for New Zealand as a whole, the gap has narrowed markedly.

Support

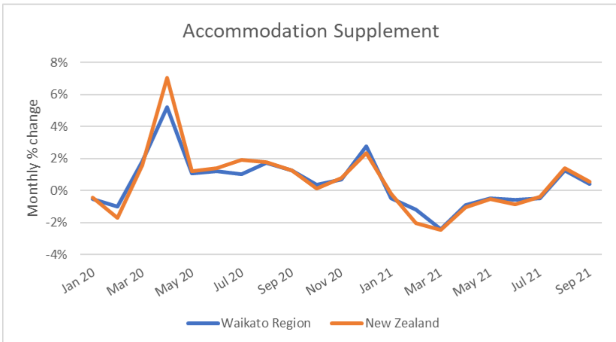
After declining slowly but steadily since January, the level of work-ready people accessing Jobseeker support in the Waikato region has ticked up in August reflecting the pressures of the delta outbreak restrictions, before declining slightly in September. (update for September and early October – numbers have started to fall)



Within the region, all districts have seen a decline in the number of people receiving Jobseeker support, with the largest falls - of more than a quarter – in the Waipā and Matamata-Piako districts.

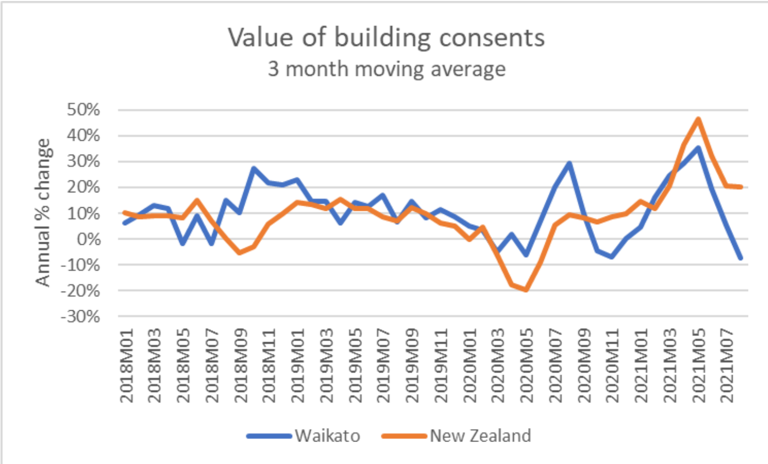


Demand for both special needs grants for food dipped in September following a significant increase in August. The accommodation supplement rose again in September for the second month in a row, following a period of decline since the start of 2021.

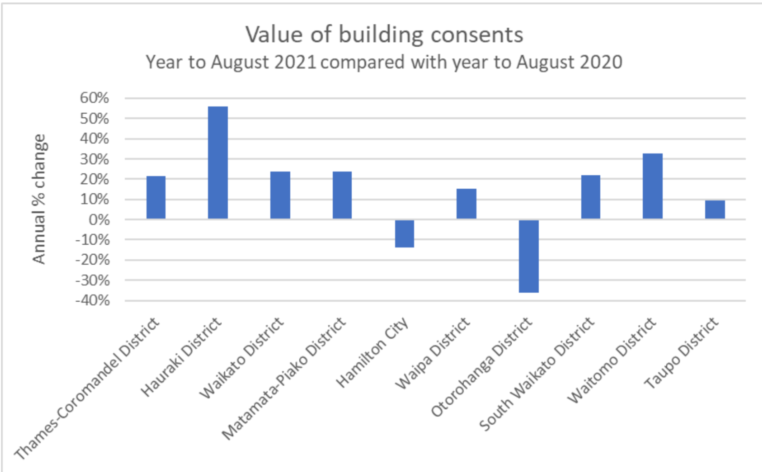


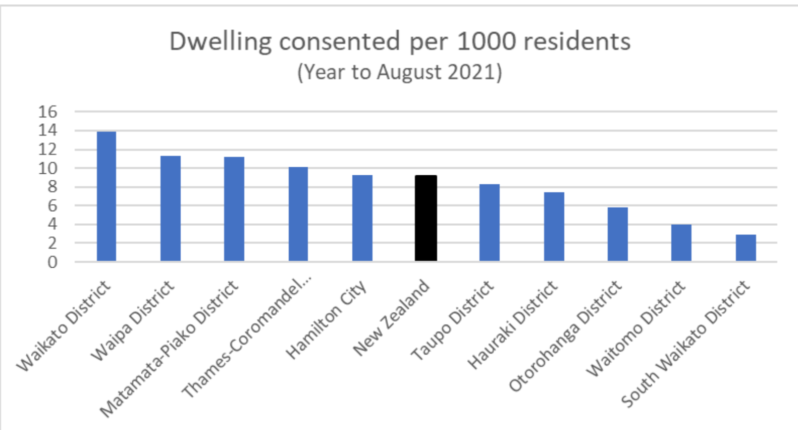
Building Consents

The value of building consents in the Waikato Region in the three months to August 2021 was seven percent lower than the same period the year before. However, this may simply reflect an unusually high peak in 2020 as pent-up demand after the earlier lockdown was realised. In contrast to the fall in the Waikato, the value of building consents across New Zealand as a whole was 20 percent higher than a year ago.



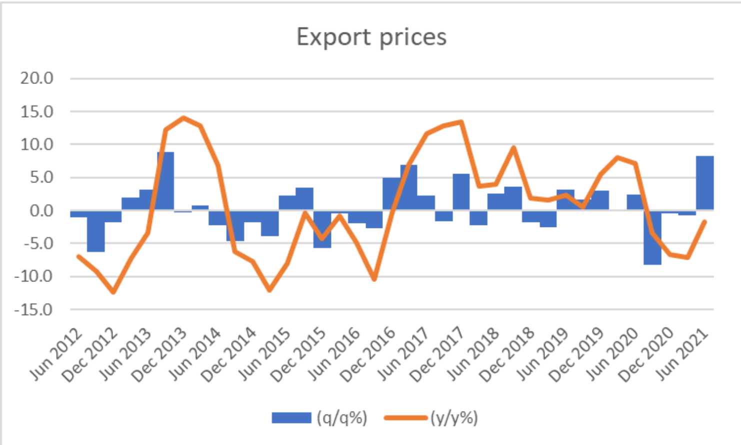
Building consents in the year to August 2021 were 56 percent higher than the previous year in the Hauraki District. Hamilton City and Ōtorohanga District both saw a lower value of building consents than a year ago (down 14 and 36 percent respectively).



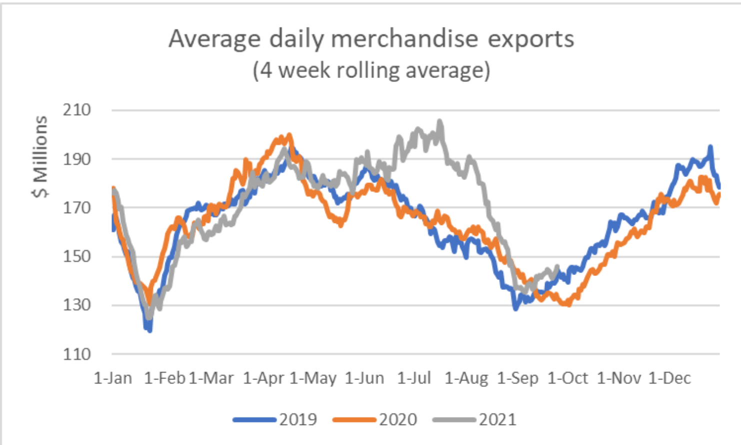


On a per capita basis, the rapidly growing Waikato District had the highest level of consenting in the past year, with 14 consents per 1,000 residents. Ōtorohanga, Waitomo and South Waikato, without the same population pressures, have a level of consents less than half of the Waikato District's.

Exports



After a period of declining export prices, a sharp rise reversed much of the previous falls. Domestic food prices continued their steady rise in recent months, while international food prices have levelled off after rapid increases beginning in mid-2020.



The recent decline in merchandise exports essentially represents the usual seasonal pattern for New Zealand's exports. Returns over the winter (June-August) were particularly strong, thanks to high commodity price.

COVID

Controlling the delta outbreak has proved difficult and resulted in an extended closure of the border between the Waikato and Auckland. The emergence of Covid delta cases in the Waikato Region on 3 October will further disrupt activity in the region.