

# Business Development Unit

## “STRICTLY BUSINESS”

December 2003

### Introduction

“Strictly Business” is a monthly publication prepared for Rotorua District Council. This newsletter contains the latest information on recent business events, and trends in economic indicators and business confidence.

### LOCAL ECONOMIC UPDATE

This section of “Strictly Business” presents current information on recent local business events and investment, along with an update on key local economic indicators.

#### Local News

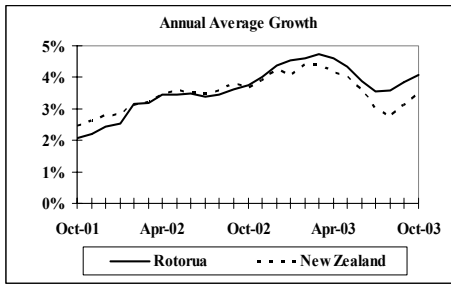
- A multimillion-dollar facelift has been completed at the former Okawa Bay Resort, 8km east of Rotorua. The first phase of the refurbishment programme is now complete with the renovation of 44 luxury guest rooms, corridors, lobby and reception areas and a second conference room that can seat 60 people. The hotel is a flagship hotel in the Rotorua region for the deluxe hotel group, Duxton Hotels International, and its third New Zealand property. Duxton Hotels New Zealand regional general manager Simon Jamieson said the hotel was situated in one of New Zealand’s most picturesque locations, on the shores of Lake Rotoiti, and distanced from the bustle of Rotorua while still being close enough to enjoy the attractions the region had to offer.
- The last vacant section in central Rotorua has been acquired for development. From now on investors and new businesses coming to Rotorua will have to either renovate an existing building for their own purposes, or tear it down and build anew. The latest construction job, a two storey office bloc being built on the formerly vacant Hinemoa Street site by local firm R&B Consultants, signals the end of an era when newcomers to town could simply build on the best piece of spare land available. R&B Consultants owner Ray Cook said inner city residents and retailers should prepare themselves for a surge in demolition and construction activity. “You will be seeing a fair bit of that from now on, because the demand is there and it does not look like it will be going away,” he said.
- The Rotorua District Council is setting up an office to help the growing number of overseas production crews showing interest in shooting everything from TV commercials to blockbuster films in the Bay of Plenty. The office, tentatively called Volcanic Films, is likely to be based in Rotorua but will help overseas crews wanting to film anywhere in the central North Island. As well as promoting the region as “film-friendly”, the office will be pushing our abundance of leisure activities. Initially, one person will be employed part-time to run the office. However, it is hoped to eventually become a fulltime role.
- Ngongotaha is poised on the threshold of large-scale expansion. The area has long been seen as a “poor cousin” community to neighbouring Rotorua. However, developers, local iwi leaders, business owners and real estate agents are now united that Ngongotaha could soon leapfrog Rotorua as a desirable place to live. Among the initiatives set to transform the town are a number of retail developments and at least 130 residential sections and lifestyle blocks on a number of subdivisions in the area. Another significant step is the formation of a management

body for Ngati Tura Ngati Te Ngakau, the hapu of the Ngongotaha and Mamaku area. Led by kaumatua Ron Roberts, the hapu aims to develop much of its land in and around Ngongotaha for a variety of uses.

- The Shanghai Circus will be coming to Rotorua courtesy of the Rotorua District Council. The China-based circus will perform two shows in Rotorua during its New Zealand tour next April and May. The council’s finance and strategic planning committee has agreed to underwrite the circus so Rotorua can secure the two shows. Rotorua will be the only Bay of Plenty venue for the circus. It is hoped that the shows will draw a number of visitors from towns round the region. A report presented to the committee said while there was obvious risk, the show was seen as a very good product that would be given national exposure. The circus is to be staged at the Convention Centre.
- An innovative Rotorua company is attracting worldwide recognition for its work in the field of visualisation, mapping and information management. Three years ago MTS Ltd released its single CD based software application called TUMONZ providing a New Zealand topographic map database and has recently done the same for the Australian state of Victoria. MTS Director Alan Somerville describes the product as “leading edge” and more technologically advanced than anything available of its type in Australasia. It is very exciting because it is new technology. We feel we are moving the goalposts and delivering information in a way not done before.” Following the initial interest in Australia, MTS hopes to expand across the Tasman. It is also exploring options for South Africa.
- Rotorua properties just keep getting hotter with what is believed to be the first \$1 million residential property sale within the city’s urban boundaries. The 390 square metre Hinemoa Pont house, located on three acres of land on the Rotorua lakefront, sold for \$1.15 million. Details of the purchasers remain confidential but the property is understood to have been bought by a high profile couple from outside of Rotorua who work in the legal profession. “It’s been a real amazing step up for the city,” said Harcourts sales agent Paul Farrell, who handled the sale. The sale could herald a development and property boom on a par with that in the Western Bay of Plenty, he said.
- Hot off the press statistics from Statistics New Zealand have shown that Rotorua’s population grew by 380 people between June 2002 and June 2003. This population growth comes on the back of latest economic growth for the district, which shows growth of around 3.6 percent. This rate is ahead of the national growth rate of 3 percent and demonstrates the strength of the Rotorua economy related to the tourism industry and domestic demand. Also in the same period the number of businesses in the district grew by 3.9 percent to 5,185. Rotorua District Council Economic and Business Development Manager Mark Rawson believes that while there has been recent criticism of Rotorua’s economic performance, recent data shows that the economy remains strong. Currently, building consents have grown by 5.3 percent in the year to August while the number of residential real estate sales grew by nearly 40 percent in the year to September 2003 and car registrations grew by 14 percent in the year to September.



## Economic Growth



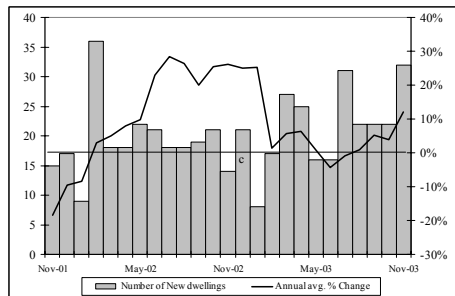
Source: APR Consultants

The APR index of economic growth is constructed from key indicators. The provisional growth index showed that the local economy has led the national average for the year ended October 2003.

## Key Indicator Trends

This section of “Strictly Business” examines trends in key indicators of Rotorua’s economic activity.

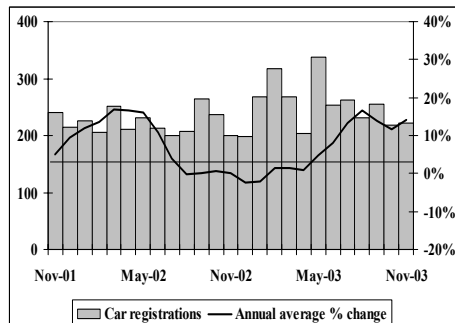
### Building Consents



Source: Rotorua District Council

After stabilising over the past 3 months residential building activity bounced back in Rotorua in November 2003. There were a total of 32 permits issued for new dwellings, the 2<sup>nd</sup> highest figure recorded over the past 2 years. Accordingly, annual average growth also improved strongly, up from 3.9% for the year ended October 2003 to 12.1% for the year ended November 2003.

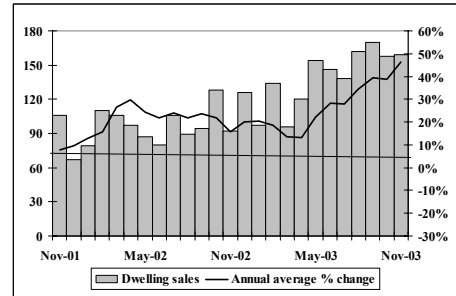
### Car Registrations



Source: Land Transport Safety Authority

Monthly car registration numbers have stabilised in Rotorua over the past 2 months. There were a total of 222 cars (including new and ex-overseas types) registered in local postal offices during November, almost the same as 219 recorded in October. However, this was higher than the 200 recorded 12 months ago, which led year-on-year growth to 14.1% for the year ended November 2003.

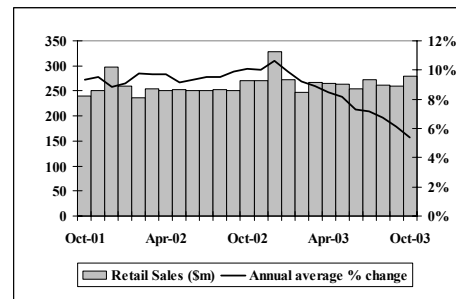
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

Rotorua’s housing sector has stabilised over the past 2 months. A total of 159 dwellings changed ownership during November 2003, which was only one more than the October figure. However, the median sales price firmed from \$148,500 to \$151,000 between these 2 months. An annual comparison showed that year-on-year growth has lifted by 46.3% for the year ended November 2003.

### Retail Sales



Source: Statistics New Zealand

Retail sales activity has started to heat up in the Bay of Plenty. Total sales increased by almost by \$20 million from September to \$279.1 million in October, which was also better than sales of \$269.9 million recorded in October of last year. Accordingly, annual average growth has lifted by 5.4% for the year ended October 2003.

## Summary

Although 2003 was a challenging year for the forestry sector, tourism and many domestic focussed industry sectors performed strongly. Positive local business confidence and robust economic growth, along with an improvement of the global economy, should create healthy business conditions for local firms in 2004.

**HAPPY NEW YEAR**

## Supplementary Building Information

### ROTORUA

December 2003

Type of Consent	Value of consents	Number of Consents
Commercial/Retail Shop	\$25,000.00	1
Commercial/Offices	\$300,000.00	1
Commercial/Other	\$923,750.00	6
Community Buildings/Other	\$20,000.00	1
Domestic/Single Dwelling	\$3,223,212.00	18
Domestic/Multiple Dwelling	\$450,000.00	1
Domestic/Other Structure	\$37,500.00	7
Domestic/Other	\$520,100.00	18
Domestic/Resite	\$85,000.00	1
Domestic/Conservator	\$9,000.00	1
Education/Other	\$692,590.00	8
Education/Playgrounds	\$155,284.12	5
Education/Resite	\$5,000.00	1
Education/Kindy	\$40,000.00	1
Minor Work/Heater	\$22,000.00	14
Minor Work/Plumbing	\$116,647.00	10
Outbuilding/Garage	\$207,965.00	17
Outbuilding/Sleepout	\$19,995.00	1
Outbuilding/Carport	\$12,000.00	2
Outbuilding/Other	\$120,500.00	11
<b>Total</b>	<b>\$6,985,543.12</b>	<b>125</b>

*SOURCE: Application Status Report, 01 December 2003 to 31 December 2003, Rotorua District Council*

## NATIONAL ECONOMIC UPDATE

### Introduction

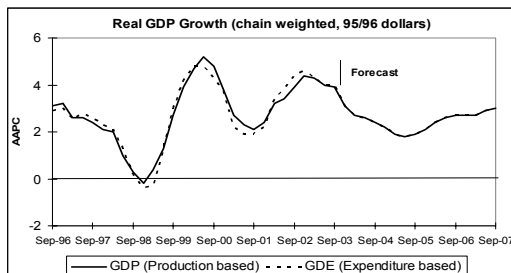
This section of "Strictly Business" presents current information on recent national business events, along with an update on key economic indicators.

#### Quarterly Economic Activity Rebounded Strongly

Following a weak increase of only 0.3% in the 1<sup>st</sup> quarter and 0.7% in the 2<sup>nd</sup> quarter, NZ's real Gross Domestic Product (real GDP, production based) rebounded strongly in the 3<sup>rd</sup> quarter of 2003, with a rise of 1.5% (seasonally adjusted). This was above the market expectation of 1.1%, and helped annual GDP grow by 3.9% for the year ended September 2003. Meanwhile, GDP per capita increased by 2.1% over the same period.

Strong internal demand was the driving force behind the growth with a sluggish export sector impacting negatively on the upward trend. Ten out of eleven industry sectors registered increases over the quarter. The electricity, gas and water industry played a leading role, growing by 7.0% over the quarter. In particular, electricity production grew by 7.2%. This was not surprising, following declines in the previous 2 quarters – especially the savings campaign which mitigated the effects of the energy crisis in the 2<sup>nd</sup> quarter. The construction sector has maintained a high level of activity with a rise of 4.7% over the quarter, which outpaced an increase of 0.7% in the June quarter. This strong lift occurred in both non-residential and residential building construction areas, and pushed annual growth to 16.1% for the year ended September 2003. Following a decline of 2.0% in the 2<sup>nd</sup> quarter, manufacturing activity rebounded by 1.9% in the 3<sup>rd</sup> quarter. The increases were widely spread, and led annual growth to 4.3% for the September 2003 year. Other sectors, such as agriculture (1.4%↑), wholesale trade (2.0%↑), and transport and communication (1.2%↑) all showed robust growth. The only exception was the fishing, forestry and mining activity, with a fall of 0.5% over the quarter, which was largely due to weak offshore timber markets.

Expenditure based GDP grew by 1.7% over the September quarter with household consumption up by 2.4%, which was mainly driven by a rise of 4.5% on durable goods. Both business and residential investment showed positive trends, with the former growing by 2.9%, and the latter by 4.0%. The export sector was still struggling. Following a dip of 3.4% in the second quarter, volumes of exports dropped by 2.0% in the third quarter. A fall in dairy, seafood and beverages products contributed to the downward movement, which partly offset the overall growth in GDP.



Source: NZIER and Statistics NZ

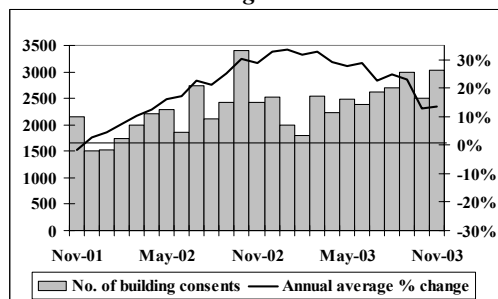
### A Brief Review of Economic and Fiscal Activity

The Treasury released its December Economic and Fiscal Update (DEFU) recently. The key information in DEFU revealed that the government would increase its revenue and expenses over the next few years. There was an estimated \$15 billion increase in operational and capital spending over the next 3 years. This included additional spending of \$6.6 billion (which led total extra operational spending to \$13.2 billion) and a further increase of \$2.2 billion in capital expenditure.

Two factors may explain a surge of government spending. The Treasury has revised its forecast on real GDP growth for the March 2004 year, from 2.2% in the Budget to 2.8% in the DEFU. However, it has also lowered GDP growth from 3.2% to 2.8% for the 2005 year. On balance, GDP growth should only have modest impact on the additional spending. A huge operating surplus for the 2004 fiscal year (with \$6.0 billion for the Total Crown, or 4.5 billion for the Core Crown), and a forecast of \$12 billion of surpluses over the next 3 years, played a key role in allowing the government to increase spending.

### Key Indicator Trends

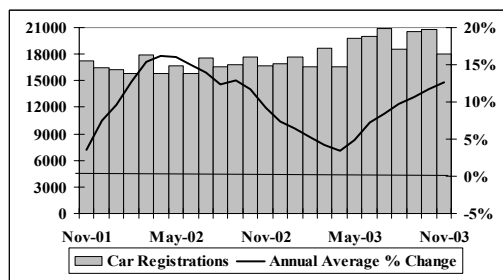
#### Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

National residential building activity rebounded in November 2003. There were a total of 3,032 permits issued for new dwellings during the month, with a combined value of around \$519.3 million. The number of permits issued lifted by 524 from October when 2,508 consents were issued. This helped year-on-year growth increase by 13.7% for the year to November 2003.

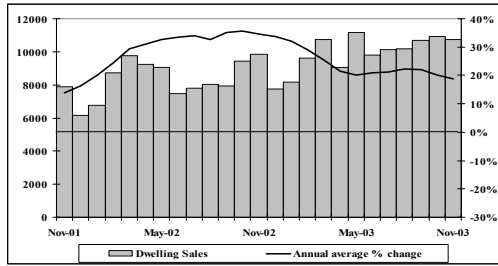
#### Car Registrations



Source: Land Transport Safety Authority

After enjoying strong growth over the past 6 months, monthly car registrations levelled off in November. There were a total of 18,052 cars (including both new and ex-overseas types of cars) registered in NZ postal offices during the month, down from 20,813 recorded in October, but still better than the 16,731 recorded 12 months ago. This brought annual average growth to 12.6% for the year ended November 2003.

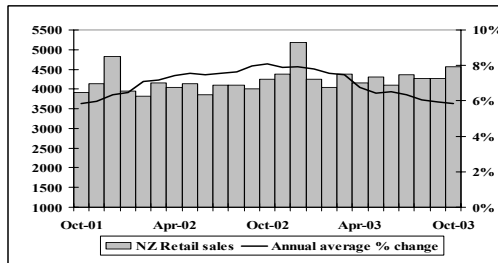
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

While the number of houses sold fell slightly from 10,923 recorded in October to 10,722 in November, the median sales price grew by \$8,000 to \$235,000 over those 2 months. Both the volume of sales and the median price were also higher than the figures recorded in November 2002, which took year-on-year growth to 18.7% for the year ended November 2003.

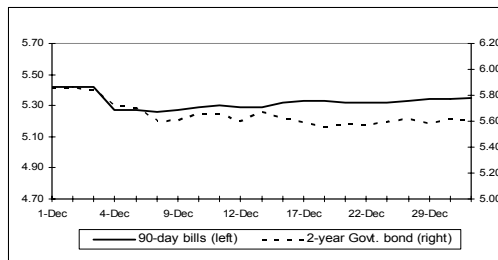
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

National retail sales activity improved in October 2003. Monthly sales climbed to \$4,563.4 million during October, which were \$300 million above sales of \$4,263.5 million recorded in the previous month. Compared with \$4,247.3 million of sales recorded in October last year, retail sales grew by 7.4%, and took annual average growth to 5.9% for the year ended October 2003.

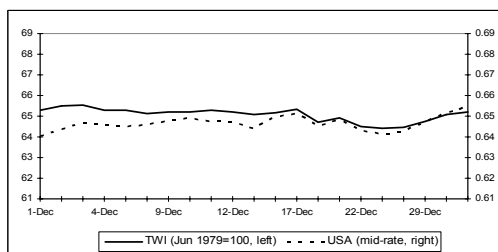
### Interest Rates



Source: Reserve Bank of New Zealand

While short-term interest rates dropped during the 1<sup>st</sup> week of December, the market stabilised over the balance of the month. By the end of year 2003, 90-day bill rates were at 5.35%, which was lower than the 5.61% of the 2-year bond yield.

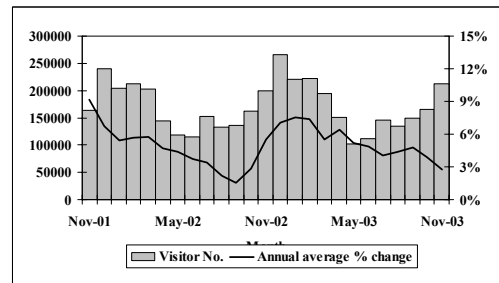
### Exchange Rates



Source: Reserve Bank of New Zealand

NZ's exchange market remained stable for the 1<sup>st</sup> 3 weeks of December. While there was a small dip afterwards, the kiwi dollar bounced back against its major partners' currencies. By the end of the month, one NZ dollar had traded at \$0.655 US dollar, and the trade-weighted index (TWI) had reached 65.2 points.

### International Arrivals



Source: Statistics New Zealand

There were a total of 211,735 overseas visitors that entered NZ during November 2003, an increase of 45,914 from October. These were also higher than the 198,770 recorded 12 months ago, which led year-on-year growth to 2.8% for the year ended November 2003.

### Summary

A surge in quarterly GDP was a nice gift for the Christmas season. Strong domestic demand was the driving force behind the upward momentum in GDP. This was also confirmed by the latest consumer confidence survey results. The Westpac McDermott Miller consumer confidence index reached 126 (>100 indicates optimists outpace pessimists) in December. This was up from 123.3 in September, and was the highest figure since March 1996. The survey showed that a net 24.1% of consumers anticipate the NZ economy will improve for the 2004 year. In addition, a net 12.1% of respondents said they were financially better off than they were a year ago. The positive wealth effects triggered by the buoyant housing market played a role in this area. Meanwhile, business people were not as optimistic as consumers. According to the National Bank's December survey, business confidence slipped again with a net 16% of firms expecting general economic conditions to deteriorate over year 2004, down from a net 3% who felt pessimistic in November. Pessimists outnumbered optimists across all sectors except for retailers, which were only just optimistic (+0.8%). Nevertheless, firms remained optimistic about their own futures with a net 30% of respondents expecting to increase their business activity over the next 12 months, which was almost the same as a net 29% surveyed in November. The appreciation of the NZ currency has squeezed exporters' profits and therefore, had a dampening effect on confidence. A net 75% of respondents also expected that the RBNZ will lift interest rates soon, which in turn could drag confidence down. However, overall economic activity remains robust, and 2004 should be a prosperous one for consumers and businesses.

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