Hamilton Quarterly Economic Update

March 2023 Quarter

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Hamilton's economy continued to outperform New Zealand's and most other metro cities' in the year to March 2023.

Data for the 12 months to March 2023 showed Hamilton topped New Zealand's metro cities for growth in employment and non-residential consenting. Our GDP growth continued to outperform New Zealand as a whole, as did spending.

Not all indicators showed a positive shift. Residential consenting, house values and commercial vehicle registrations were down compared to March 2022. However, the decline in Hamilton was not as deep as what was seen in many other cities.

Gross Domestic Product (GDP) data showed New Zealand entered a technical recession in the March 2023 quarter following two consecutive quarters of negative 'growth'. Commentators had predicted either just above or below zero, so the 0.1% fall was expected.

However, many households are under recession-like financial pressure with rising mortgage repayments and inflation. While Hamilton continues to fare relatively well, we are starting to see pressure show in areas like spending. Spending was up 7.8% on the March 2022 quarter - but this is before inflation (6.7%) is taken into account.

Food prices increased 3.7% in the March 2023 quarter alone and contributed to an annual increase of 11.3%. Statistics New Zealand's cost of living index showed a 7.7% increase for the average household in the year to March 2023.

Prices for New Zealand's exports of meat, wool and logs have eased in the past 12 months. Dairy export revenue is expected to increase 14% for the year to 30 June 2023, due to high prices of existing contracts and the weakness of the New Zealand dollar.

Tourism numbers increased from July 2022, but momentum has slowed and tourist arrivals remain below pre-pandemic levels. New Zealanders travelling overseas have also started to plateau after peaking at 89% of pre-pandemic levels in February 2023. Tourism helped push up spending in many parts of the country with tourist spending up 30% nationally on the March 2022 quarter.

House prices have continued to come down and interest rates have crept higher with the average floating rate in March sitting at 8% - a level not seen since 2008. In March 2023, long-term fixed interest rates (three to five years) were lower than short-term ones for the first time, reflecting that banks are forecasting interest rates to to be lower in the longer term.

Globally, inflation appears to be easing as supply chains improve and demand softens. But the United Nations still expects global inflation to average about 5% in 2023, well above the targets of central banks.

Hamilton City Council
Te kaunihera o Kirikiriroa

The headlines

- Record levels of industrial consenting continued with a further 39,000m2 of floor area, valued at $108 million, consented in the three months to March 2023.
- Commercial consenting was also healthier in the March 2023 quarter, with 14,000m2 of commercial development consented - valued at $76 million.
- Gross Domestic Product (GDP) was $13.4 billion across the year to March 2023, an increase of 3.8% on the previous year.
- Residential consenting was down 16% on the year to March 2022, although this is a comparison against record numbers in 2021.
- The number of consents lodged fell 19% in the year to March 2023. The fall came as a result of a particularly slow March quarter where the number of consents lodged was 47% lower than in the March 2022 quarter.
- House prices continued to fall as sales dropped to a record low of just over 500 sales in the March quarter. This compares to a peak of more than 1600 at the end of 2020 and an average of about 1100 sales per quarter since 2013.
- Hamilton's median house price dropped a further 3.6% from the December 2022 quarter, resulting in an annual drop of 12%.
- Annual card spending reached $2.9 billion for the first time, an increase of 12% compared to the year to March 2022. Spending was boosted by international tourism with Australians spending 150% more and other international tourists spending 187% more.
- Spending by Hamiltonians increased 8% over the 12 months to March 2023, slightly above inflation.
- While all sectors experienced an increase in card spending during the past 12 months, the story differed by sector. Spending on groceries was up 26% but spending on accommodation and hospitality increased just 3% - well below inflation.
- Unemployment increased slightly to 4.5% as the Reserve Bank of New Zealand (RBNZ) moved to reduce demand. This remains well below the 20 year average of 6.1%.
- With open borders and no COVID-19 restrictions, events like the Hamilton Sevens, Balloons over Waikato and the Hamilton Arts Festival were able to be held this year, leading to a 57% increase in guest nights.
- The increase in visitors staying overnight in Hamilton helped to counter some of the fall in local spending seen in accommodation and hospitality.
- The number of homes under construction in Hamilton fell to 1114 dwellings at the end of March 2023. This reflects the easing of supply chain issues and demand. It is also in line with trends seen between 2019 and 2021.

Hamilton's economy

March 2023 quarter vs March 2022 quarter

GDP

$3.3B ↑ 4%

EMPLOYMENT

Up 3.3%

SPENDING

$704M ↑ 8%

UNEMPLOYMENT RATE

4.5%

MEDIAN HOUSE PRICE

$745,000 ↓ 12%

Key economic indicators for Hamilton reveal continued strength in Hamilton's economy.

Gross Domestic Product (GDP) data shows Hamilton's economy grew 3.8% in the year to March 2023, above the growth seen in New Zealand, Auckland and Waikato. On a quarterly basis, GDP was up 3.5% on the March 2022 quarter. GDP growth has continued to exceed our expectations over the past year and has been in contrast to business and consumer sentiment.

Employment growth has continued at pace with Hamilton job numbers increasing 3.3% in the year to March 2023. Hamilton outpaced all other metros and New Zealand which increased 2.2%. National data showed job growth was strong in the March 2023 quarter across all industries except agriculture, forestry, and fishing. The highest growth was in accommodation and food services, a reflection of the increased demand from tourists.

Card spending in Hamilton increased 12% in the year to March 2023 – well above inflation. Spending was spurred on by international and domestic tourism and migration. Spending by Hamiltonians and people from the Waikato region has been much softer, particularly in the March quarter. RBNZ is working to curb spending, although national data shows gross earnings for this period were up 8.8%. This, coupled with high levels of employment, is likely to be encouraging people to continue to spend.

Seek job advertisements were down 13% on March 2022 despite a lift between February and March 2023. While job ad volumes have continued to fall in April and May 2023, they remain comfortably above pre-pandemic levels. The number of applications per job increased again. This trend was seen across the country with the exception being areas hit hardest by Cyclone Gabrielle.

Business sentiment

Our team has been out talking to local businesses in the manufacturing, tech and logistics sectors. Somewhat surprisingly, given the findings of national business outlook surveys, 60% of employers said they were confident in the outlook for their own business, another third were cautious, and only 7% were concerned. Most businesses were prioritising the retention of skilled staff and not looking at reducing their headcounts. Hiring, however, was modest and mostly for backfill rather than expansion. Other surveys have also started to show a slightly less pessimistic outlook in recent months.

Changes in card spending in year to March 2023

Source: Marketview

UP 3%
ACCOMMODATION AND HOSPITALITY

UP 12%
RETAIL TRADE

UP 26%
GROCERIES AND LIQUOR

UP 52%
OTHER CONSUMER SPENDING

UP 9%
FUEL AND AUTOMOTIVE

UP 12%
ALL CARD SPENDING

Residential consenting softens

March 2023 quarter vs December 2022 quarter

NEW HOUSES IN CONSENTS LODGED

228 ↓ 47%

NEW HOUSES GRANTED

279 ↓ 16%

HOUSES UNDER CONSTRUCTION

1114 ↑ 0.3%

HOMES COMPLETED

253 ↓ 49%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

52,600m2 ↑ 63%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

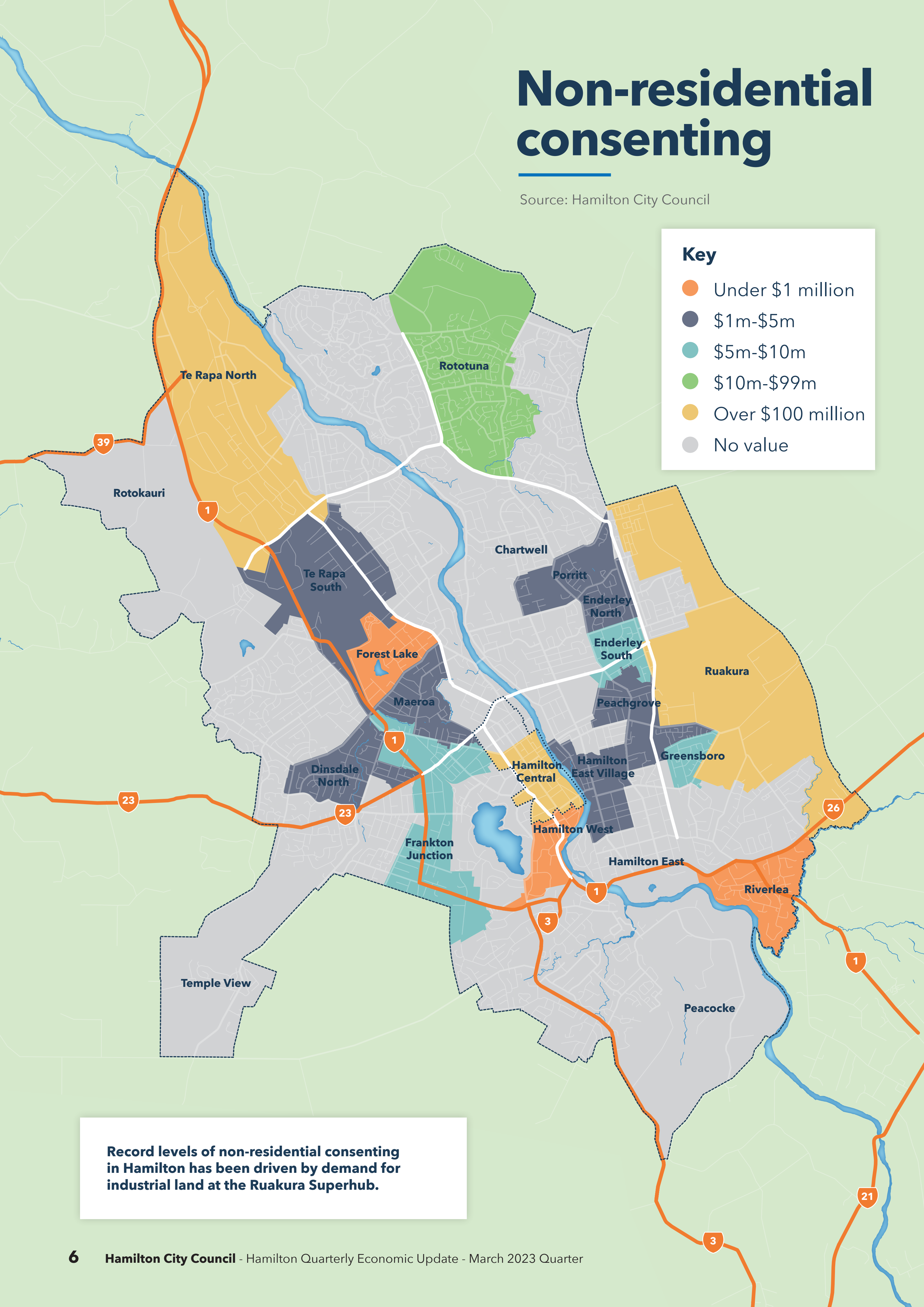
$183.7M ↑ 56%

Non-residential consenting continued at pace in the March 2023 quarter with another 38,900m2 of industrial space consented. The Ruakura Superhub has added significantly to the uptake of industrial land in the city. Commercial development saw over 13,700m2 of new space consented in the same quarter – one of the highest quarters since the start of the pandemic.

Residential consenting activity was soft in the March 2023 quarter, with 47% fewer dwelling consents lodged than in the December 2022 quarter. The past quarter was the lowest Hamilton has seen since March 2015. Consents were granted for 279 dwellings in the March quarter, of which 72% were in existing suburbs.

Non-residential consenting

Source: Hamilton City Council



Record levels of non-residential consenting in Hamilton has been driven by demand for industrial land at the Ruakura Superhub.

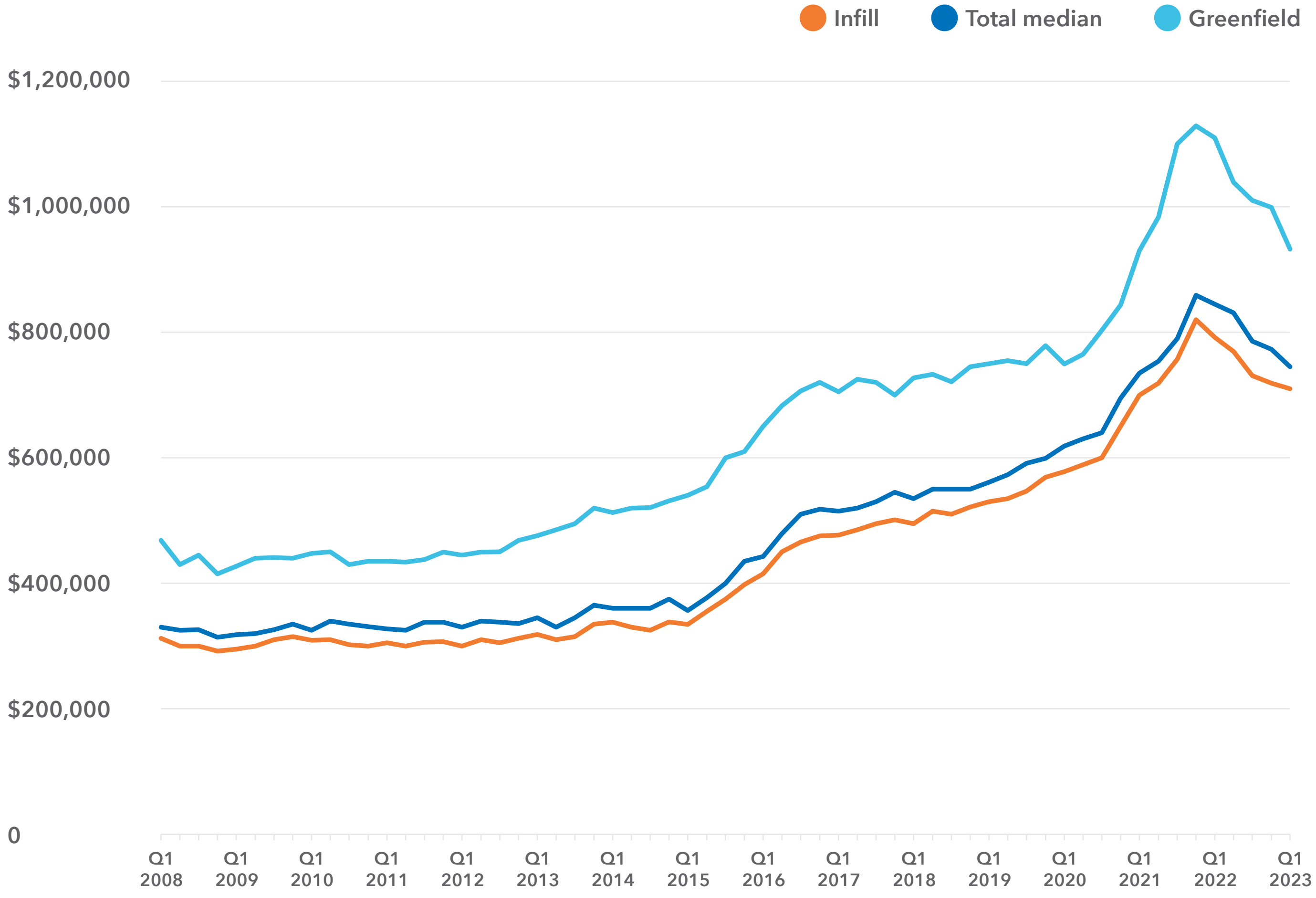
As house prices have fallen, the housing market has softened. In 2022, demand weakened in greenfield areas as rising interest rates, difficulty selling existing property and increased build costs deterred potential buyers. At the same time, development in our existing suburbs reached record highs. Consenting activity in both infill and greenfield declined in the past quarter.

Discussions with local developers suggest that while some developers are continuing with new and existing developments, many are waiting and watching the market. Previously, new dwellings were typically sold off the plans, but enquiries have now fallen away significantly. New builds in infill are still being sold but are increasingly purchased after completion and are taking longer to sell.

House sales in the March 2023 quarter reached 538 - the lowest seen since 2010/11 following the Global Financial Crisis (GFC). Prices also fell further to $745,000, similar to prices paid in the first half of 2021. Homes in greenfield areas continue to attract premium prices, with the median sale price in these areas commanding 24% more than the median price in Hamilton's existing suburbs. However, this median price difference has narrowed from a peak of 31% during the September 2021 quarter. About seven out of every 10 sales are for homes in our existing suburbs. This ratio has been consistent for more than 10 years.

Infill and greenfield median house prices

Source: Hamilton City Council



Outlook

The pressure on New Zealanders is mounting as the cost of living squeezes household budgets. While Hamilton's economy has outperformed New Zealand's in many indicators, the pressure on Hamilton households is real. Discretionary spending in particular will continue to ease in the coming months.

High levels of employment in Hamilton is helping to mitigate some of the effects of higher costs but, as demand softens, unemployment will increase. Surveys show employment intentions have eased, with fewer businesses looking at employing more staff. A spike in unemployment as seen following the GFC is not expected and a recession is still expected to be relatively shallow.

House prices appear to have bottomed out, and demand for rental properties is likely to push rents higher which may make the investment equation more attractive. While we could be nearing the end of house price falls, it's not likely that prices will rebound as fast as they fell. High interest rates, challenges getting finance, particularly for investors, and increased costs like insurance will continue to dampen the amount people are willing and able to pay.

Residential consenting in the June and September quarters is likely to be much softer with the number of consents lodged falling away in May and June. Our discussions with the sector suggest that while some developers are still active, most are slowing down and many are sitting and waiting to see what happens. We expect the number of dwelling consents lodged and subsequently granted to fall further this year. The ANZ Business Outlook survey did show a reasonable shift in the residential construction sector's outlook, but it still remains firmly negative. If house prices stabilise, this should give buyers a greater sense of confidence to purchase a new property knowing it won't lose value by the time it's built. However, the cost differential between new and existing builds will continue to challenge the market.

Migration will lead to increased demand for homes but this will mostly effect the rental market as most new migrants will rent before they can buy. Only New Zealand citizens and permanent residents, and Australian and Singaporean passport holders who are "ordinarily resident" are able to buy homes in New Zealand without permission from the Overseas Investment Office. So record immigration levels will mean record numbers of people looking for rental properties. The rental market in Hamilton remains tight with rental agencies reporting vacancy rates below 1% at the end of 2022. With lower levels of development likely in the next year, there's a real risk the availability of rental properties will continue to be under pressure.

In the next two quarters, we should see some positive impact from major events on spending and tourist activity in Hamilton. The unexpected bonus of the Chiefs' home quarter, semi and final games brought much needed spending into Hamilton's economy. The upcoming FIFA Women's World Cup will also be a positive for the city, particularly our accommodation and hospitality sector.

SUMMARY

Key annual indicators

Year to March 2023 compared to previous 12 months

GDP GROWTH

Hamilton	+ 3.8%
Waikato	+ 2.8%
New Zealand	+ 2.9%

EMPLOYMENT (Place of residence)

Hamilton	+ 3.3%
Waikato	+ 2.9%
New Zealand	+ 2.2%

SPENDING

Hamilton	+ 12.0%
Waikato	+ 11.4%
New Zealand	+ 11.6%

UNEMPLOYMENT

Hamilton	4.5%
Waikato	3.7%
New Zealand	3.4%

GUEST NIGHTS

Hamilton	+ 57%
Waikato	+ 34%
New Zealand	+ 52%

COMMERCIAL VEHICLE REGISTRATION

Hamilton	– 24%
Waikato	– 34%
New Zealand	– 32%

MEDIAN HOUSE PRICE

(March 2023 quarter)

$745,000

HOUSE SALES

Hamilton	– 27.9%
Waikato	– 29.3%
New Zealand	– 27.6%

Consenting

SUBDIVISION LOTS GRANTED

1689

22%

TITLES ISSUED (224C)

FOR SALE

1477

30%

NEW HOUSES IN CONSENTS LODGED

1463

19%

HOUSES UNDER CONSTRUCTION

(as at 31 March 2023)

1114

9%

NEW HOUSES GRANTED

1357

16%

Infill	– 73%
Greenfield	– 26%

Townhouses/Duplexes	65%
Houses	25%
Apartments	4%
Retirement villages	6%

Infill East	28%
Infill West	42%
Rototuna	15%
Peacocke	3%
Ruakura	7%
Rotokauri	< 1%
Temple View	1%

HOMES COMPLETED

(as at 31 March 2023)

1438

1%

FLOOR AREA OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial 35,600m2	– 7%
Industrial 149,000m2	+157%
Total 184,600m2	+ 92%

VALUE OF NON-RESIDENTIAL CONSENTS GRANTED

Commercial $196M	– 80%
Industrial $270M	+ 191%
Total $466M	+ 131%

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