

New Zealand's economic output will have barely increased in the final quarter of 2010 following the loss of confidence among businesses and consumers from mid-2010. The latest Canterbury earthquake will further weaken economic activity in the near-term, but we see a range of factors

that could potentially boost GDP growth towards 4%pa by September 2012. However, the economy needs a catalyst to kick-start a more pronounced and sustained recovery, to help household spending growth overcome the effects of the weak labour and housing markets

Far North Overview

The Far North's economy has made little progress in its emergence from recession. GDP is estimated to have grown by only 0.6% during the year to December 2010.

Labour market indicators were mixed with the level of employment stabilising but the number of unemployment beneficiaries continuing to increase. The prospects for a recovery in the labour market have taken a hit with the stalling of the economy.

The recovery in residential building has also stalled. Although the number of residential consents issued over the 12 months to

December 2010 increased, the number issued in the final quarter of the year reached its lowest level over the past decade. Prospects are better in non-residential construction with the value of consents rising by 10% to a high level by historical standards.

Far North's housing market is very weak. The decline in the average house price in Far North was among the largest in the country. On the positive side there was strong growth in car registrations and commercial vehicle registrations.

Table 1. Regional growth indicators (year to December 2010 compared with previous 12 months)

Indicator (annual average % change)	Far North	Northland	New Zealand
GDP	↑ 0.6%	↑ 0.1%	↑ 1.5%
Employment	↑ 0.2%	↓ -1.2%	↑ 0.2%
Unemployment beneficiaries*	↓ -27.9%	↓ -13.0%	↓ -1.1%
Unemployment rate* (% point change)	↑ 0.7%	↑ 0.4%	↑ 0.2%
Residential consents	↑ 16.8%	↓ -3.7%	↑ 8.2%
Non-residential consents	↑ 10.1%	↑ 15.7%	↓ -16.9%
House sales	↓ -22.3%	↓ -19.7%	↓ -19.0%
House prices	↓ -10.7%	↓ -6.2%	↓ -0.9%
Guest nights	↓ 0.0%	↓ -0.1%	↑ 0.7%
Car registrations	↑ 47.2%	↑ 15.8%	↑ 30.7%
Commercial vehicle registrations	↑ 14.2%	↑ 6.1%	↑ 19.6%

Source: Infometrics, Statistics New Zealand, REINZ, QV and LTNZ

* An increase in the number of registered job seekers and the unemployment rate is shown as a negative.

Gross Domestic Product

National economy

Annual growth in economic activity is expected to be 1.5% in the year to December 2010 after a disappointing end to the year. Economic output growth will be barely positive in the December 2010 quarter meaning that New Zealand has either had, or has gone desperately close to, a double-dip recession. From mid-2010 there was a perceptible loss of confidence among businesses and consumers. The drop in business confidence was symptomatic of how long the sluggish economic conditions, both here and overseas, were lasting. Two key factors depressing consumer confidence were the housing market and the labour market.

The aftermath of the global financial crisis is inhibiting New Zealand's growth more than we had previously expected, and the latest Canterbury earthquake will also have a negative effect on activity in the short-term. However, we remain firmly of the view that, over the medium-term, there is scope for a substantial lift in spending activity as pent-up consumer demand lifts from its

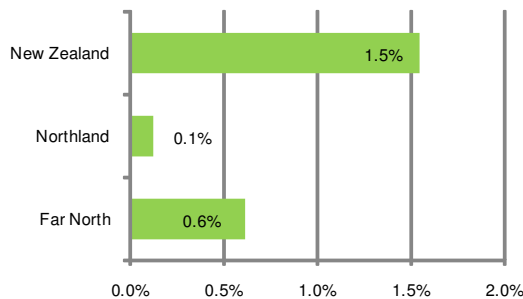
current below-average level. But the circuit-breaker necessary to cause a change in people's behaviour has not yet materialised. Reflecting our cautiousness we have revised down our forecasts of economic growth over the next 12-18 months.

Far North

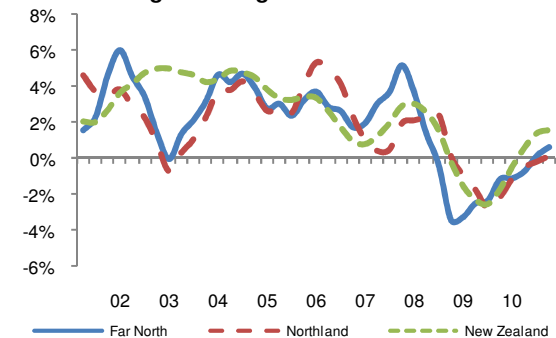
GDP in Far North increased by 0.8% in the year to December 2010 compared to the previous 12 months. The area's growth was higher than in the Northland region (-0.3%) and lower than in New Zealand (1.5%). Annual GDP growth in Far North peaked at 6% in the year to March 2002. The level of GDP was \$1,072 million in Far North during the year to December 2010. This accounted for 32.7% of GDP in the Northland region, and 0.8% of national GDP during the quarter.

Further details of the industry structure of the Far North economy and analysis of the industries that have contributed most to the growth of the economy are provided in Appendix A.

Gross Domestic Product
Year to Sep 2010 (annual av. % change)



Gross Domestic Product
Annual average % change



Employment

National economy

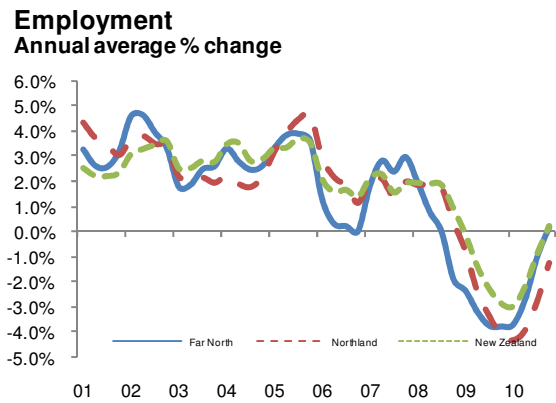
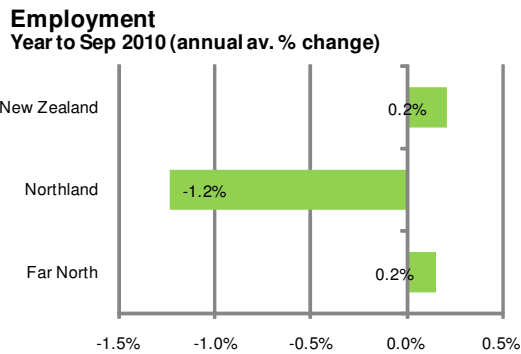
The labour market was weaker than expected in the December 2010 quarter. Employment fell slightly compared with the previous quarter, although compared to a year ago employment is up by 27,000. Total hours worked rose slightly over the quarter to be 2.9% higher than a year ago, indicating that despite recent weakness

labour demand has increased measurably over the last year. Growth in employment and hours worked are expected to slow during the first half of 2011, as the weak domestic economy and business uncertainty convince businesses to remain cautious about hiring.

Far North

In the year to December 2010 employment in Far North increased by 0.2% compared to the previous 12 months. Its growth was higher than in the Northland region (-1.5%) and lower than in New Zealand (0.2%). Approximately 21,600 people

were employed in Far North during the December 2010 quarter. This accounted for 34% of employment in the Northland region, and 1% of national employment for the quarter. Employment growth peaked at 4.6% in the year to June 2002.



Unemployment beneficiaries

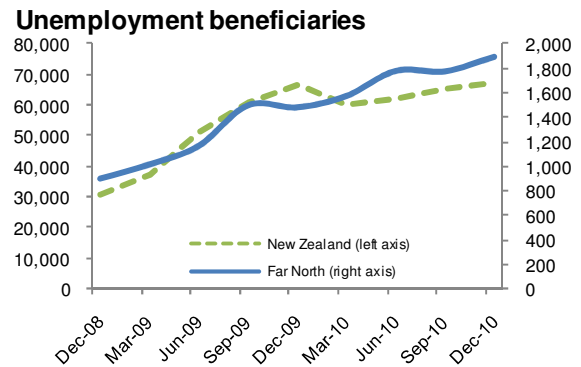
National economy

The average number of unemployment beneficiaries in New Zealand increased by 18% during the year to December 2010. We expect the number to continue increasing through the first half of 2011 as growth in employment slows. A pickup in the labour market through the second half of the year should see the number of unemployment beneficiaries decline.

1,480 twelve months earlier, an increase of 28%. This compares with growth at the national level of 1.1%.

Far North

A total of 1,893 persons received an unemployment benefit in Far North during the December 2010 quarter. The number was up from



Unemployment

National economy

The unemployment rate rose to 6.8% in the December quarter from 6.4% in the previous quarter as part time employment dropped sharply. The slow recovery in the domestic economy has translated into renewed weakness in the labour market. The sharp lift in commodity prices in recent months combined with the Rugby World

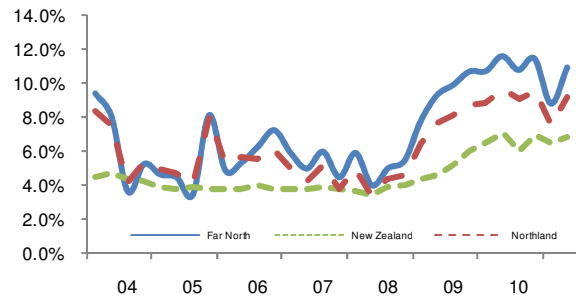
Cup will contribute to a lower unemployment rate in 2011 although the second Christchurch earthquake will slow the recovery.

Far North

The seasonally adjusted unemployment rate in Far North was 10.9% in the December 2010 quarter, down from 11.6% twelve months prior. The

unemployment rate peaked at 11.6% in the December 2009 quarter. The rate in Far North was higher than in Northland region (9.2%) and higher than in the national economy (6.8%).

Unemployment rate
%, seasonally adjusted



Accommodation

National economy

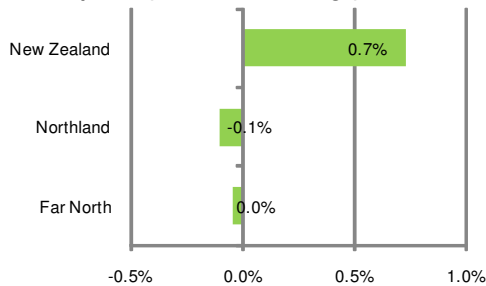
The number of foreign tourists arriving in New Zealand over the year to December increased by 2.7%. Very strong growth from a number of Asian countries such as China (20%) and South Korea (27%) more than compensated for a decline in arrivals from Western countries such as United Kingdom (-9%) and United States (-4%). The strong Chinese economy, and expanding air travel capacity will see China prop up tourist arrivals during 2011. The boost from the Rugby World Cup in the second half of the year will be more broadly

based, making 2011 a relatively bright year for the tourism industry.

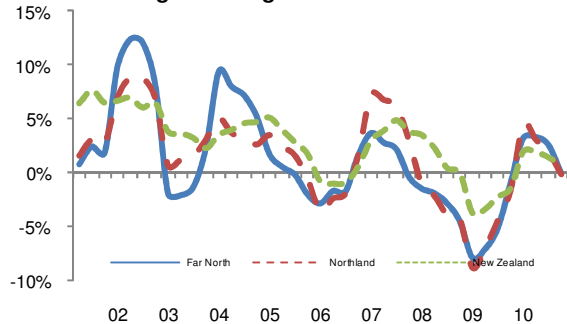
Far North

Total guest nights in Far North decreased by 0% during the year to December 2010 compared with the previous 12 months. The change in Far North was higher than in the Northland region (-0.1%) and lower than in the country as a whole (0.7%). Visitors stayed 1,092,700 guest nights in Far North during the year to December 2010. This accounted for 66.9% of total guest nights in the Northland region, and 3.4% of the national total.

Guest nights
Year to Sep 2010 (annual av. % change)



Guest nights
Annual average % change



House sales

National economy

House sales continued to recover for their mid-year slump in December, rising to their highest level since May 2010. Even so, house sales remain historically low, at 35% below their decade long average. With consumer confidence low and the

domestic economy weak, we expect house sales to remain subdued in the coming quarters.

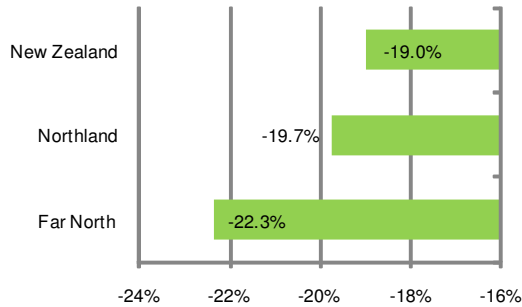
Far North

Annual house sales in Far North decreased by 22.3% compared with the previous 12 months.

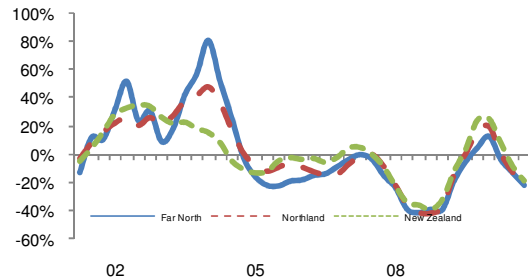
Growth was lower than in the Northland region (-19.7%) and lower than in New Zealand (-19%). A total of 77 houses were sold in Far North during the December 2010 quarter. This accounted for 25% of the total house sales in the Northland

region, and 0.6% of the total national house sales during the quarter. House sales in Far North peaked in December 2003 when 363 houses were sold.

House Sales
Year to Sep 2010 (annual av. % change)



House Sales
Annual average % change



House prices

National economy

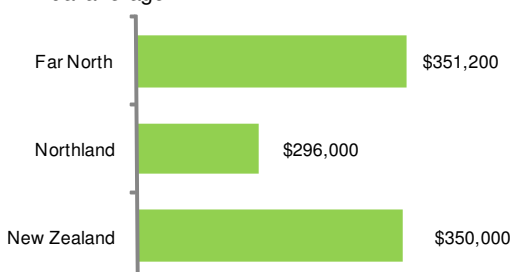
House prices were 0.9% lower in December 2010, on average, than at the end of 2009. Downward pressure on house prices remains relatively modest because few buyers are under significant pressure to sell. We expect the housing market to keep moving sideways during 2011.

Far North was lower than in Northland region (-6.2%) and lower than for the country as a whole (-0.9%). Far North's average house price was \$351,200 in the year to December 2010, which was higher than the average for the Northland region (\$296,000) and higher than for New Zealand (\$350,000).

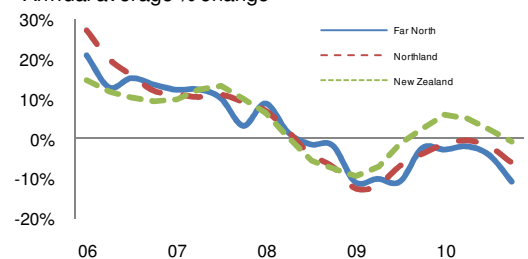
Far North

The average house price in Far North decreased by 10.7% in the year to December 2010 compared with the previous twelve months. The growth in

House prices, September 2010
Annual average



House prices
Annual average % change

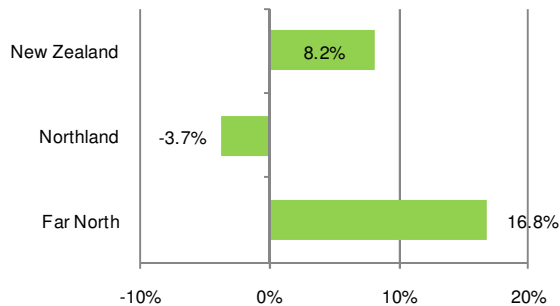


Residential building

National economy

Although the number of residential consents increased over the year to December 2010 compared with the previous 12 months the level was about a third lower than the average over the last decade. The increase also disguises a fall in the second half of the year with non-apartment consent numbers declining for six consecutive months. Uncertainty around the outlook for the housing market and economy generally led to the sharp drop in the second half of the year. With the housing market continuing to perform poorly, we expect residential consent numbers to remain low for some time.

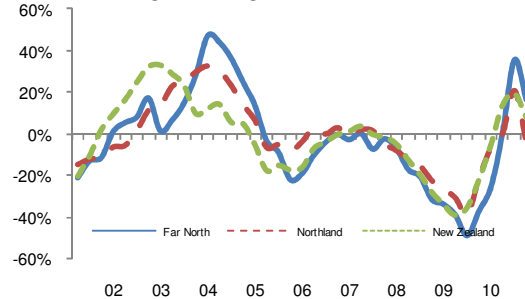
Residential consents
Year to Sep 2010 (annual av. % change)



Far North

A total of 35 new residential building consents were issued in Far North during the December 2010 quarter. The number of consents in Far North increased by 16.8% during the year to December 2010 compared with the same period a year ago. Growth was higher than for the Northland region (-3.7%) and higher than in New Zealand (8.2%). Consents in Far North accounted for 23.3% of the total number of consents in the Northland region, and 1% of the national number of consents during the quarter.

Residential consents
Annual average % change



Non-residential building

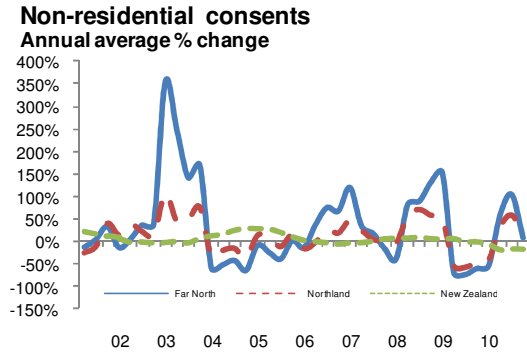
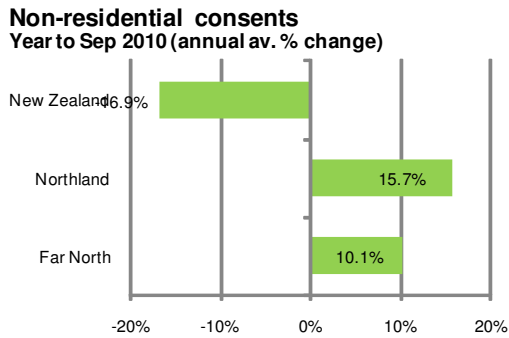
National economy

Non-residential consents finished 2010 on a soft note contributing to a 17% decline during the year to December 2010. We believe the non-residential building sector is stabilising, although slightly more slowly than we previously forecast.

Notwithstanding the immediate halt to building activity in Christchurch, we continue to expect strong annual growth in non-residential consents to return by the middle of this year as the industry recovers from the very weak levels of activity recorded in mid-2010.

Far North

Non-residential building consents to the value of \$10 million were issued in Far North during the December 2010 quarter. The value of consents increased by 10.1% in the year to December 2010 compared with the same period the previous year. Growth was lower than in the Northland region (15.7%) and higher than in New Zealand (-16.9%). Consents peaked at \$129.7 million in the year to September 2009.



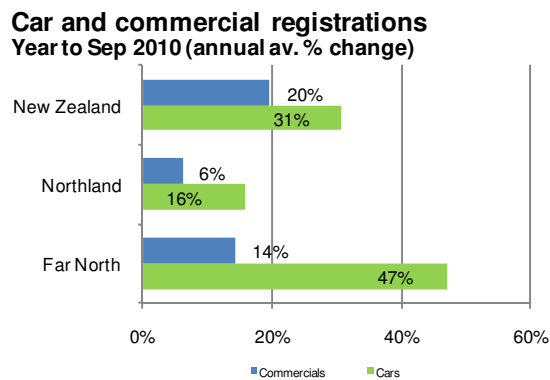
Vehicle sales

National economy

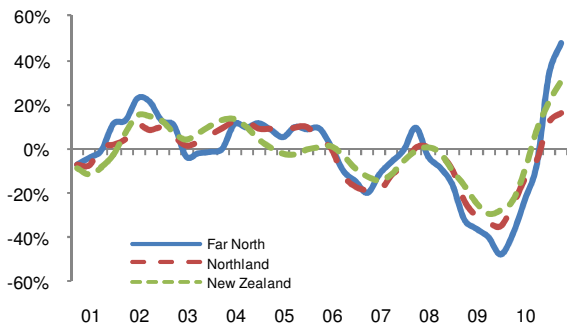
Car registrations increased by 31% in the year to December 2010. Despite the increase car sales are still well down on pre-recession levels. Through its impact on the willingness of consumers to spend the weak housing market will constrain further growth in sales in the near term. Commercial vehicle registrations increased by 20% in the year to December 2010. With dairy prices at record highs and drought conditions having eased farmers will be willing to invest vehicles which will contribute to continued growth during 2011.

Far North

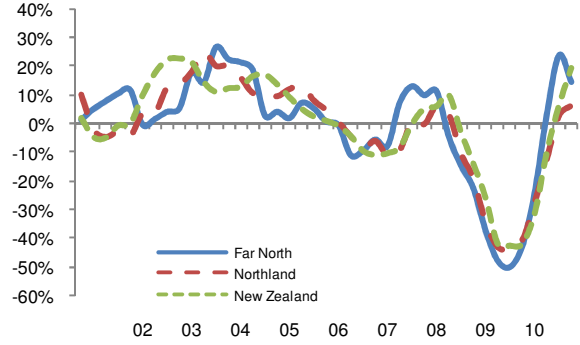
The number of cars registered in Far North increased by 47% in the year to December 2010 compared with the previous 12 months. Growth was higher than in the Northland region (16%) and higher than in New Zealand (31%). The number of commercial vehicles registered in Far North increased by 14% in the year to December 2010 compared with the previous 12 months. Growth was higher than in the Northland region (6%) and lower than in New Zealand (20%).



Car registrations
Annual average % change



Commercial vehicle registrations
Annual average % change



Appendix A. Structure and growth of the Far North economy and labour market

Structure of the economy

Agriculture, Forestry and Fishing was the largest industry in Far North in the year to December 2010, accounting for 18% of the territorial authority's economic output. Property and Business Services was the second largest (12%)

followed by Manufacturing (9%). Together the three largest industries accounted for 39% of total GDP.

Table 2. GDP (\$m, 95/96 prices) by industry in Far North, year to December 2010

Rank	Industry	GDP	% of total GDP
1	Agriculture, Forestry and Fishing	196	18.2%
2	Property and Business Services	131	12.2%
3	Manufacturing	93	8.7%
4	Retail Trade	81	7.5%
5	Health and Community Services	68	6.4%
6	Government Administration and Defence	62	5.8%
7	Education	52	4.9%
8	Finance and Insurance	40	3.7%
9	Electricity, Gas and Water Supply	39	3.6%
10	Construction	37	3.5%
11	Transport and Storage	36	3.4%
12	Accommodation, Cafes and Restaurants	30	2.8%
13	Personal and Other Services	22	2.1%
14	Wholesale Trade	22	2.0%
15	Communication Services	20	1.9%
16	Cultural and Recreational Services	9	0.9%
17	Mining	6	0.5%
	Owner occupied dwellings	99	9.2%
	Not Elsewhere Included	30	2.8%
	Total	1072	100.0%

Source: Infometrics and Statistics New Zealand

Growth industries

Property and Business Services was the largest contributor to growth in Far North's economy between December 2005 and December 2010, contributing 0.4% of the total 0.5% growth in GDP. The industry grew by 3.3% per annum over the five year period. The second largest contributor to growth was Government Administration and Defence (0.4% point contribution to growth) followed by Finance and

Insurance (0.3%). The fastest growing industries over the five year period were Finance and Insurance (9.7%pa), Government Administration and Defence (7.3%pa) and Property and Business Services (3.3%pa). The largest detractor from growth was Construction which declined by -4.9% per annum between December 2005 and December 2010.

Table 3. Industries ranked by absolute growth in GDP, December 2005 to December 2010

Rank	Industry	GDP (\$m)		Change Dec 05 to Dec 10		% point contribution to growth
		Dec 05	Dec 10	Absolute (\$m)	Annual average %	
1	Property and Business Services	111	131	19	3.3%	0.4%
2	Government Administration and Defence	44	62	18	7.3%	0.4%
3	Finance and Insurance	25	40	15	9.7%	0.3%
4	Transport and Storage	33	36	4	2.1%	0.1%
5	Retail Trade	79	81	2	0.6%	0.0%
6	Personal and Other Services	20	22	2	2.1%	0.0%
7	Wholesale Trade	20	22	2	1.6%	0.0%
8	Electricity, Gas and Water Supply	37	39	2	0.8%	0.0%
9	Agriculture, Forestry and Fishing	194	196	1	0.1%	0.0%
10	Education	51	52	1	0.5%	0.0%
11	Cultural and Recreational Services	9	9	0	0.0%	0.0%
12	Accommodation, Cafes and Restaurants	32	30	-2	-1.4%	0.0%
13	Health and Community Services	72	68	-3	-0.9%	-0.1%
14	Communication Services	24	20	-4	-3.2%	-0.1%
15	Mining	11	6	-5	-11.2%	-0.1%
16	Manufacturing	103	93	-10	-2.0%	-0.2%
17	Construction	48	37	-11	-4.9%	-0.2%
	Not Elsewhere Included	132	128	-4	-0.7%	-0.1%
	Total	1044	1072	28	0.5%	0.5%

Source: Infometrics and Statistics New Zealand

Structure of employment

Retail Trade was the largest employer in Far North in the year to December 2010, accounting for 14% of the territorial authority's employment.

Agriculture, Forestry and Fishing was the second largest (13%) followed by Health and Community

Services (10%). Together the three largest industries accounted for 38% of total employment.

Table 4. Employment by industry in Far North, year to December 2010

Rank	Industry	Employment	% of total
1	Retail Trade	3,030	14.2%
2	Agriculture, Forestry and Fishing	2,790	13.1%
3	Health and Community Services	2,210	10.4%
4	Education	2,130	10.0%
5	Property and Business Services	2,030	9.6%
6	Accommodation, Cafes and Restaurants	1,850	8.7%
7	Construction	1,600	7.5%
8	Manufacturing	1,470	6.9%
9	Personal and Other Services	1,080	5.1%
10	Transport and Storage	760	3.6%
11	Government Administration and Defence	640	3.0%
12	Cultural and Recreational Services	540	2.5%
13	Wholesale Trade	480	2.3%
14	Finance and Insurance	310	1.5%
15	Electricity, Gas and Water Supply	190	0.9%
16	Communication Services	100	0.5%
17	Mining	80	0.4%
	Total	21,290	100.0%

Source: Infometrics and Statistics New Zealand

Employment creating industries

Government Administration and Defence created the largest number of jobs in Far North between December 2005 and December 2010, contributing 210 of the total -570 total jobs created.

Employment in the industry grew by 8.3% per annum over the five year period. The second largest contributor to growth was Personal and Other Services (150 new jobs) followed by

Education (140 new jobs). The fastest growing industries over the five year period were Government Administration and Defence (8.2%pa), Finance and Insurance (6.8%pa) and Transport and Storage (3.7%pa). The largest detractor from employment growth was Agriculture, Forestry and Fishing which shed 620 jobs between December 2005 and December 2010.

Table 5. Industries ranked by absolute employment growth, December 2005 to December 2010

Rank	Industry	Persons employed		Change Dec 05 to Dec 10		% point contribution to growth
		Dec 05	Dec 10	Number	Annual average %	
1	Government Administration and Defence	430	640	210	8.3%	0.2%
2	Personal and Other Services	930	1,080	150	3.0%	0.1%
3	Education	1,990	2,130	140	1.4%	0.1%
4	Transport and Storage	630	760	130	3.8%	0.1%
5	Finance and Insurance	220	310	90	7.1%	0.1%
6	Electricity, Gas and Water Supply	140	190	50	6.3%	0.0%
7	Cultural and Recreational Services	510	540	30	1.1%	0.0%
8	Wholesale Trade	460	480	20	0.9%	0.0%
9	Property and Business Services	2,040	2,030	-10	-0.1%	0.0%
10	Mining	100	80	-20	-4.4%	0.0%
11	Accommodation, Cafes and Restaurants	1,870	1,850	-20	-0.2%	0.0%
12	Communication Services	130	100	-30	-5.1%	0.0%
13	Health and Community Services	2,260	2,210	-50	-0.4%	0.0%
14	Retail Trade	3,090	3,030	-60	-0.4%	-0.1%
15	Construction	1,790	1,600	-190	-2.2%	-0.2%
16	Manufacturing	1,860	1,470	-390	-4.6%	-0.4%
17	Agriculture, Forestry and Fishing	3,410	2,790	-620	-3.9%	-0.6%
	Total	21,860	21,290	-570	-0.5%	-0.5%

Source: Infometrics and Statistics New Zealand

Technical notes

Gross Domestic Product

Gross Domestic Product is estimated by Infometrics. A top down approach breaks national industrial production (sourced from production based GDP measures published by Statistics New Zealand) is broken down to TA level by applying TA shares to the national total. Each TA's share of industry output is based on the number of people employed, the intensity at which they worked (hours worked per employee) and their productivity (output per hour worked).

Employment

This indicator measures the number of jobs as measured by Infometrics' Regional Industry Employment Model (RIEM). The model draws heavily on Linked Employer Employee Data (LEED) Quarterly and LEED Annual series as well as Business Demography (BD). RIEM differs from BD in that it is a quarterly series (BD is annual) and it includes both employees and self employed whereas BD only includes employees.

Unemployment

The number of unemployment beneficiaries is sourced from Ministry of Social Development (MSD).

Unemployment

Regional level unemployment rates are sourced from Statistics New Zealand's Household Labour Force Survey. Trends in the number of job seekers at TA level are used to break down regional unemployment rates to TA level.

Retail Sales

Retail sales are sourced from Statistics New Zealand's Retail Trade Survey. The estimates are core retail sales ie they exclude automotive. The Retail Trade Survey sample was changed in April 2010 which caused a break in the regional series. We have removed the break using econometric time series software, however this decreases the reliability of the data.

Accommodation

The number of guest nights is sourced from Statistics New Zealand's Accommodation Survey

House sales

The number of house sales is sourced from REINZ. The indicator measures the number of house sales at the point when the sale becomes unconditional. The unconditional date is the date when all the terms of an agreement have been satisfied and the sale and purchase can proceed to settlement.

House prices

House price *levels* (dollar value) are sourced from REINZ. The levels are based on median sale prices for the month when the sale and purchase becomes unconditional. REINZ publish house prices and number of sales for about 170 jurisdictions which are a mixture of suburbs, territorial authorities and regions. Infometrics have mapped each suburb to a territorial authority and estimated the average price for each territorial authority using the number of sales as weights. The *percentage growth* in house prices are sourced from Quotable Value. The indicator measures the change in the average prices of sales entered into QV's system in the three month period compared with the same period of the previous year.

Building consents

Building consents data are sourced from Statistics New Zealand. Non-residential consents include the value of both new buildings and alterations.

Electricity Consumption

Electricity consumption data are sourced from the Electricity Commission. Data is published by approximately 220 grid exit points (GXPs). Each GXP has been mapped to a TA.

Vehicle sales

Car and commercial vehicle sales data are sourced from New Zealand Transport Authority.