

TOURISM

Background: Tourism has been a relatively small income earner for Franklin. Retail spending in Franklin is boosted by 'in transit' travellers but relatively few of them stop off and spend extended periods of time in Franklin.

The majority of Franklin's employment in tourism is in accommodation provision, mainly to domestic visitors.

Employment is often part time, with many operators closing down over winter.

Recent performance: Statistics are currently unavailable for Franklin specifically, but operators generally report an outstanding year, despite some softness around the America's Cup period. Visitor arrivals were up 10% at Auckland airport for the year ended July 2000, contributing to increased tourist spending in Franklin over the past year. In addition, Tourism New Zealand estimate that tourist spending nationally was up 22% in the 2000 year on 1999, with an increase in the average daily spend per tourist up 19%.

Outlook: The outlook for tourism in New Zealand, and Franklin by extension, is very positive. The currently low New Zealand dollar, combined with recovering Asian incomes, and continued steady growth in US incomes – all bode well for the number of visitors here. The number of Asian visitors has not yet recovered to pre-Asian crisis levels, indicating significant upside for the

market.

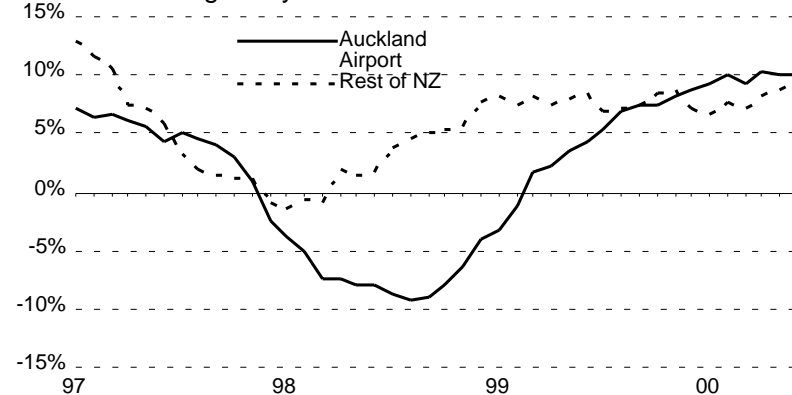
A survey by the Tourism Industry Association showed that adventure/outdoor tourist operators were most optimistic about an improving profit in 2000, compared to 1999 (every respon-

dent expected an increase). This is an area where Franklin is well positioned, with its wealth of outdoor space. Its proximity to the large Auckland corporate market means the 'adventure/bonding' tourism market is also a potential growth area.

The recently developed Tourism Franklin website (<http://www.franklindistrict.co.nz/tourism/index.cfm>) and the co-ordination of the three information centres in the Franklin District (Waiuku, Pukekohe, and Bombay) will increase the level of promotion for the Franklin area.

International tourist arrivals

Annual % change for year ended



The information in this publication is based on forecasts of the domestic economy undertaken in June 2000 and additional data as available as at September 2000. Whilst every effort is made to ensure that the information in this publication is accurate, INFOMETRICS LTD and Franklin District Council accept no responsibility for any errors or omissions, or for any loss or damage resulting from reliance on, or the use of information, forecasts or opinions it contains.

Franklin District's Economy



SEPTEMBER 2000

Franklin District's Economy – Living on the Edge

1. General Economic Summary

– Always look on the bright side of life –

Despite the negative headlines, the economy is trucking along. It is easy to get caught up in the current spate of economic information bombarding the market at present; the falling exchange rate, rising oil prices, negative business confidence and a huge (and seemingly static) balance of payments deficit. Underlying all this though there is momentum in the economy, with economic growth still expected to average around 2.5-3.0% over the next 3 years.

The New Zealand economy probably contracted in the June quarter by around -0.4% (market consensus), but this figure exaggerates the weakness in the economy. The headline June number will be dragged down by statistical anomalies that inflated the March GDP figure:

- the leap year adding an additional trading day to the March quarter,
- swings in construction activity with residential work put in place in the March quarter up 22%, and down 26% in the June quarter,
- an agricultural unwind after the storming second half of 1999.

Underlying activity in the June quarter continued to show momentum and the near term outlook is positive. Growth beyond the June quarter will be supported by:

- Strong export performance on the back of robust world economic growth, firm commodity prices, and a favourable exchange rate.
- Supportive monetary policy. While the Reserve Bank is likely to raise interest rates by a further 50 basis points within the next nine months, monetary conditions will on balance have an expansionary impact on economic activity.

The Reserve Bank has signalled it is in no rush to raise interest rates due to evidence of weak business confidence, an uncertain near term growth outlook and dormant underlying inflation. But inflation risks are on the upside. The combination of a weak dollar, consistently high oil prices (nearly 200% higher in New Zealand dollar terms than 18 months ago), and prospects of increased labour costs is likely to be a catalyst for higher

Always look on the bright side of life

inflation and interest rates. Any moves by businesses to recover profitability by passing on higher costs will exacerbate the inflationary pressures.

No quick turnaround in the currency is expected despite its recent 'plumbing of the depths'. The currency will continue to languish until the trade balance significantly improves or overseas confidence in New Zealand policy-makers returns.

The labour market was soft over the first half of 2000 with employment declining in both the March and June quarters. The second half is likely to be equally soft with most employment indicators pointing down as the uncertainty around the effects of the Employment Relations Act makes employers cautious. Some increase in labour costs is expected (wages, workplace insurance etc), which will additionally flow through into soft employment growth, and higher unemployment.

2. Overall outlook for Franklin economy

Over the next three years Franklin's economic growth is expected to be around 3-3.5%, supported by agriculture, manufacturing and retail sector growth.

- The sustained weakness in the New Zealand dollar will boost exporters' incomes (mainly manufacturers and agricultural producers in Franklin), and the number of visitor arrivals. Tourism operators will be busy over the coming 2 years, following recent events such as the Millennium celebrations and the America's Cup, which have raised New Zealand's profile internationally.
- Robust world growth averaging 3.5% over 2000 and 2001(Consensus forecasts) will hold up export

volumes through steady demand.

- The income boost for exporters will flow through into increased retail spending – particularly in export-focussed regions such as Franklin.

Contribution to total business activity in New Zealand

Annual average % change, December year

	Primary	Goods producing	Services	Total business activity
1995	0.1	1.2	2.3	3.6
1996	0.6	0.3	2.1	3.0
1997	0.4	0.4	1.2	2.0
1998	-0.3	-0.8	1.0	-0.1
1999	0.2	0.4	2.2	2.9
Avg since 1995	0.2	0.3	1.8	2.2
% of total employment (1999)				
Franklin	34	28	39	
New Zealand	11	23	66	

Over the medium term however, Franklin may need to diversify its economic base to take advantage of 'new economy' industries such as communications and other services. Since 1995 the service sector contributed over 80% of total economic growth, yet only 39% of Franklin's employment is concentrated in this growth sector, compared with 66% nationwide.

Strong growth in services is expected to continue over the next decade. Franklin could yet catch the 'technology' train as its relatively cheap land and proximity to the Auckland market would make it an ideal setting for a 'specialist cluster' in the future. The expected growth in Franklin's population, largely as a result of the population sprawl out from Auckland's urban centre, will bring an increase in the proportion of services in Franklin's economy.

However in the year just passed, the falling exchange rate combined with excellent growing conditions would have benefited Franklin's manufacturing industries, although the Glenbrook steel mill is limited by capacity constraints.

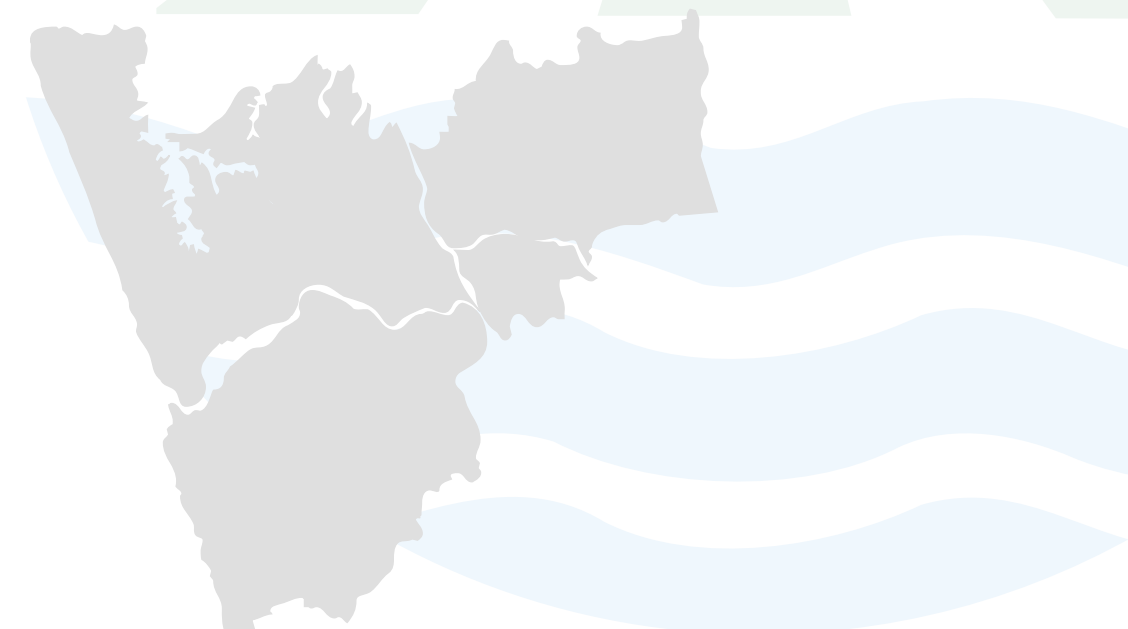
Outlook: Relatively subdued manufacturing growth is expected over the next two years in Franklin, well below the 4-6% per annum growth expected for the Auckland Region.

Over the short term there has been some recovery in the Asian economies and together with robust US growth there has been an improvement in steel market conditions. While NZ's lower currency will boost New Zealand's export income, future steel prices are likely to be under pressure as the relative demand for steel reduces as a consequence of technological changes and global over-capacity. In addition, Glenbrook will require productivity improvements in order to be cost competitive, given its

relatively small capacity and the new technology incorporated in mills currently under construction internationally.

The low vegetable prices will have benefited primary food manufacturers over the past year. And as the outlook for vegetable prices is stagnant – input prices should be easily controlled. However demand is likely to be flat as the majority of production is for the domestic market, which is being squeezed by rising petrol prices and taxes combined with a soft employment outlook.

The diversification of some of the large growers into primary food manufacturing will help stabilise income for those growers over the coming year given the bleak vegetable price outlook.



STRONG GROWTH IN SERVICES IS EXPECTED TO CONTINUE OVER THE NEXT DECADE

Prospects:

Agricultural growth in Franklin is to expected average around 5% in 2000-02 on the back of continued good weather and strong commodity prices.

Incomes for dairy farmers, of which there are a high proportion in the Franklin district, will benefit from the continued weakness in the New Zealand dollar, and the strength of overseas economies which will help support the international milkfat price. In addition, dairy farmers in the wider Waikato region expect a 4% increase in milk production in the year to 2000/01.

The outlook for vegetable farmers is duller. Continued survival will depend on being able to reduce expenditure as prices are likely to remain fairly flat. Vegfed predicts that up to 20% of potato growers nationwide (roughly 660 growers) may leave the industry if the current downward price trend continues. This is likely to hit the Franklin region hard.

MANUFACTURING

Manufacturing employment

Full time equivalent employment as at February 1999

Industry group	Number employed in:		Share of total employment in:	
	Franklin District	New Zealand	Franklin District	New Zealand
Primary Food	491	62,170	2.7%	4.1%
Textiles and Clothing	131	21,115	0.7%	1.4%
Furniture	375	25,471	2.1%	1.7%
Basic Metals	1,363	6,070	7.5%	0.4%
Fabricated Metals	568	65,558	3.1%	4.4%
Other	247	53,658	1.4%	3.6%
Total Manufacturing	3,175	234,042	17.4%	15.5%

Source: FTE stats

NB includes estimate of agriculture in total

Background: Manufacturing in the Franklin district has developed mainly to process the rich resources from the district, in particular basic metal (Glenbrook Steel Mill) and agricultural or horticultural products. Food manufacturing is mainly poultry and fruit and vegetable processing.

Recent performance: Over the year to March 2000, manufacturing production grew 3.9% nationwide, compared with a 2.1% contraction in the March 1999 year.

Manufacturing in Franklin would have slowed down more than the national average in the 1999 year as it was especially exposed to a drop in demand for basic commodities. The Asian growth slowdown drastically reduced steel demand and prices. On top of this the consecutive droughts hampered agricultural production, with downstream effects for the primary foods manufacturing industry.

3. Structure of Franklin District's Economy

'Old economy' industries, such as manufacturing and construction, dominate Franklin's economy, more so than New Zealand as a whole.

Manufacturing makes up 20% of Franklin's economy and 17% of total jobs. The key manufacturer is the Glenbrook Steel Mill, with 8% of all jobs in the District involved in basic metal manufacture.

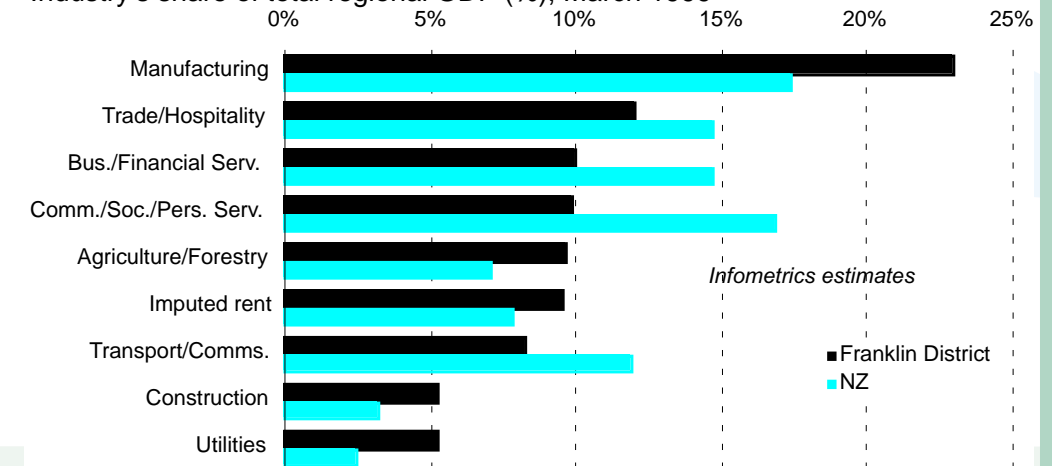
Service-based industries make the next largest contribution (9-12%), but are significantly less important than in the total New Zealand economy, reflecting the low population density in Franklin. A certain population density is required to make supplying certain services, such as legal services, worthwhile.

Franklin is considerably more reliant on agriculture, construction and utilities for both income and jobs than New Zealand as a whole. Agriculture in particular accounts for 31% of employment in Franklin, and 22% of Franklin's GDP. The reliance on agriculture reflects the predominantly rural nature of Franklin, while the importance of construction reflects the above average population growth of the District, leading to a requirement for more housing.

New Zealand currently lacks the 'new economy' industries (such as information technology and communications) that have helped bring about the significant productivity gains underpinning strength in many overseas economies. But longer term, the communication sector will be the

Franklin's important industries

Industry's share of total regional GDP (%), March 1999



fastest growing area of the economy. The Franklin District particularly lacks development in these potentially high growth areas. Continued reliance on the goods producing (old economy) sectors of the economy will see Franklin under-perform relative to the national average over the longer term despite the above average short term.

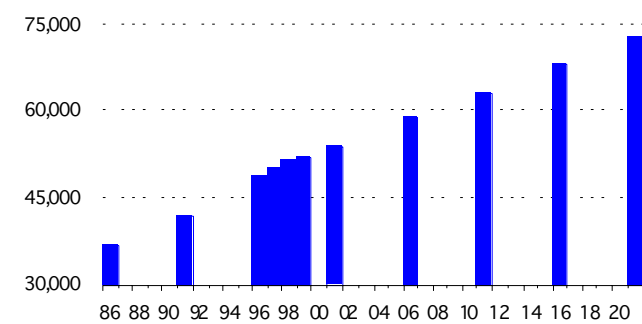
4. The people

Franklin District's population grew an estimated 6.7% between June 1996 and June 1999, making it the second fastest growing area in the Auckland Region, behind the Rodney District (8.5%). A growing demand for 'lifestyle farms' combined with a recently improved roading network and reasonably priced land is behind the drift outwards from the city centre.

Statistics New Zealand estimate that this outward sprawl will continue, with the population expected to grow by 19,100 or 35% between 2001 and 2021, compared with only 14% growth nationwide over the same period. The

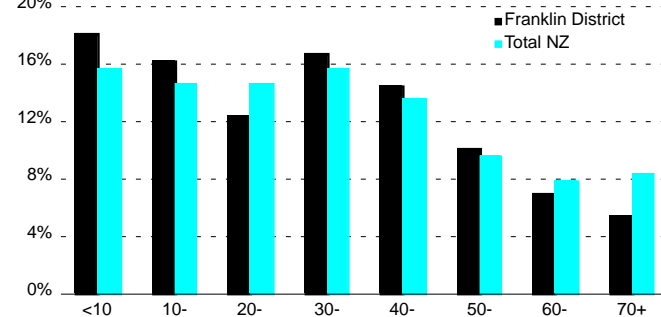
population growth is likely to come from either within the Auckland Region, or other parts of New Zealand, rather than from new migrants to New Zealand who tend to settle first in the urban centres such as Auckland, Manukau or Wellington.

Fast population growth in Franklin
Population, 1986 - 2021, Census data & Statistics NZ projections



At present, Franklin has a young population. However there is a noticeable under-representation of 20-29 year olds as people head out of the area for training or employment. At present, these people either return in their 30's or are replaced by people in the 30's age bracket moving into the area.

Age structure
% of population in each age bracket



5. Industries of note

AGRICULTURE AND FORESTRY:

Agricultural and forestry employment

Full time equivalent employment as at February 1998

Industry group	Number employed in:		Share of total employment in:	
	Franklin District	New Zealand	Franklin District	New Zealand
Dairy Farming	1,395	42,490	7.6%	2.8%
Sheep Farming	159	24,670	0.9%	1.6%
Beef Farming	720	12,240	3.9%	0.8%
Other Farming	687	15,950	3.8%	1.1%
Fruit and Vegetable Growing	1,659	24,520	9.1%	1.6%
Other Horticulture	567	12,010	3.1%	0.8%
Agricultural Services	399	20,630	2.2%	1.4%
Other Agriculture	3	230	0.0%	0.0%
Forestry and Logging	30	9,490	0.2%	0.6%
Fishing	15	4,553	0.1%	0.3%
Total Agricultural and Forestry	5,634	166,783	30.9%	11.1%

Source: FTE stats

Background: The fertile volcanic soils in the Franklin District have made it renowned for its potatoes and other vegetable produce for many years. In 1999 vegetable growing made up 8.5% of total employment. The other main contributor to agriculture in Franklin is dairy farming (7.6% of employment).

Recent performance. Over the 2000 season the excellent growing conditions, with a mild winter and spring and adequate rainfall, boosted grass growth and vegetable production. As a result nationwide agricultural production has grown strongly. In particular, production of milkfat is up 13.7% in the year ended May 2000. MAF also estimates increased production of onions, potatoes and green vegetables based on farm reports.

Combined with an increase in production, strong commodity prices have further boosted livestock farmers' incomes. The ANZ commodity price index is up 9.9% in world prices and 24.8% in New Zealand dollars, on the back of strong international demand primarily fuelled by a growing US economy, and a falling New Zealand dollar. The combination of high prices and high production is a relative rarity.

Vegetable growers did not receive such an income boost, as the additional production only added to the oversupply in world markets and depressed prices. Onion producers were offered barely break-even prices while there are reports of potato growers selling for stock food because there is no other outlet for their product. Prices for green vegetables were static compared to last year.

Dairy production and price movements

