CENTRAL HAWKE'S BAY
DISTRICT COUNCIL

Central Hawke's Bay District

DEMOGRAPHIC AND ECONOMIC GROWTH PROJECTIONS - UPDATE

2022

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Contents

Background

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Executive summary

This report updates the Central Hawke's Bay District Demographic and Economic Projections 2020 - 2051 report from June 2020[1]. It is designed to give an overview of the enablers and barriers to economic progress in Central Hawke's Bay District, providing a baseline for planning for population growth. The analysis covers historic trends, with a focus on what has changed over the last 18 months, and future growth prospects for the district and selected areas within.

Central Hawke's Bay District is showing signs of resilience in the face of Covid-19. Migration into the district has been supported by several factors:

- The net outflow from Auckland to the rest of New Zealand was up 20% in 2021 from the previous two years.
- The Central Hawke's Bay economy is in historically good shape, despite ongoing challenges related to Covid-19, wider supply chain issues, two dry summers, and capacity constraints.
- Commuting is enabling migration into Central Hawke's Bay, evidenced by the increasing proportion of residents drawing income from outside the district (61% in 2020). Commuters bring income into Central Hawke's Bay and create secondary opportunities. Commuting trends point to the continued appeal of Central Hawke's Bay District as a place to live, work, and start a family.
- Investment is also creating local job opportunities. The total number of businesses in the district increased slightly in the year to February 2021 on the back of an increase in both business closures and new businesses starting. The total number of people employed by those businesses was up 1.6%. New businesses have the potential to be more innovative, boosting productivity and therefore incomes.

Additionally, domestic tourism has held up well in the district, based on the 1% rise in total card spending attributed to tourists in Central Hawke's Bay over the last year. New Zealand residents unable to travel abroad appear to have been spending some of that money locally instead.

The population of Central Hawke's Bay District was up 3% in the year to June 2020. However, growth slipped to 1.6% to June 2021 on the back of first-round effects of Covid-19 and a constrained building sector.

While significant near-term uncertainty remains, the high scenario from mid-2020 is looking more like a central scenario at present – where risks are balanced to the upside and the downside. The population of the district was 0.5% above the previous high scenario in June 2021.

Table 1: Revised high scenario and previously published projections

Year	July 2020 projections			Revised
	Low	Medium	High	High
2021	15,100	15,240	15,520	15,600
2031	15,400	17,140	18,770	20,120
2041	14,800	18,330	21,320	25,280
2051	13,430	19,430	23,980	32,300

[1] Squillions-Demographic-Growth-Projections-CHBDC-2020-2048.pdf

A big jump in the number of lots being approved from subdivisions over the last two years indicates that land availability is not going to be a constraint on population growth going forward.

Supply of land however is only one side of the equation. There still needs to be builders and resources available to develop these sections and demand to live on them (demand factors being the focus of this report). Capacity in the building sector will remain an issue in the near-term, while finance costs are expected to rise over the next few years as the Reserve Bank continues to raise interest rates.

In our revised high growth scenario, annual population growth peaks at 3.1% in the year to 2026 as more young workers choose to stay in, or move to, the district and raise their families. Central Hawke's Bay District gains 4,500 people by 2031 under this scenario.

The previous high growth scenario had an average growth rate of 1.5%pa over the next thirty years, and a total change of 9,100 people (with nearly 24,000 people living in the district by 2051). If the district's population grows by 2.5%pa over this period as assumed under the revised high scenario, Central Hawke's Bay could more than double its population to 32,000+ by 2051.

Projections should not be taken as predictions. Central Hawke's Bay District has not reached this level of growth to date, and we identify several downside risks in this report. A growth rate of 2.5%pa over this time horizon would be exceptional. But it is not completely without precedent. For the 25 years to 2021, four New Zealand districts and Tauranga city experienced average growth rates of more than 2%pa – with Queenstown-Lakes and Selwyn district posting growth rates of 4.8% and 4.3%pa respectively (albeit with different underling drivers of growth).

Central Hawke's Bay has proved itself an attractive place to live, with the population growing faster than that of New Zealand and surrounding regions over the last few years. The factors driving growth in New Zealand's regions are changing and the district has a lot to offer to an increasingly connected and mobile world, where workers are less tied to the physical location of their employer or business networks.

New Zealand economic roundup

Key insights

- Headline GDP growth was 17%pa in the June 2021 quarter, an impressive result even off a weak base, but slipped 3.7% in the September quarter.
- The COVID-19 Delta Variant and resulting local lockdowns or restrictions (previous and future) will continue to constrain activity over the near-term.
- Upward pressure on prices has been widespread across industries as supply chains struggle to keep up with demand.
- Difficulty sourcing goods, new equipment, and parts for existing plant and machinery is becoming a handbrake on activity.
- Supply of labour has been an issue in some sectors, especially where short-term gaps were previously plugged with migrant labour.
- Businesses remain confident about a recovery with pent-up demand expected to see spending and investment bounce back as we learn to live with Covid.

- Rising interest rates, Covid restrictions, ongoing disruptions to international markets, and supply chain pressures will continue to constrain growth over the coming year.

"Unprecedented" times and the "new normal"

Buzzwords abound as the New Zealand economy finds itself in relatively good shape at this stage of the pandemic. The government has stuck to the Keynesian economic playbook, using its balance sheet to absorb a large chunk of the impact of Covid through subsidies and other spending.

Net core Crown debt was 30% of GDP in June 2021, which compares favourably with Australia and other trading partners. However, concerns about "money printing" – asset purchases funded directly by the Reserve Bank – have surfaced. The Reserve Bank's own advisors warned in early 2020 that "unconventional monetary policy" measures risked fuelling asset price inflation and worsening inequality. As the economy heats up next year, the Reserve Bank is expected to raise interest rates further to catch up.

Strong headline GDP growth suggests the economy bounced back well from the first period of restrictions in early to mid-2020. However, supply chain shortages have started to bite across several sectors as stocks run low around the world. A surge in shipping costs and disruptions at ports has presented challenges to exporters and seen prices for imported goods rise.

The Consumer Price Index (CPI) is increasing at its fastest rate since the late 1980s (excluding the effect of a GST hike in 2011), with CPI inflation reaching 5.9%pa in the year to December 2021. The size of the jump inflation during 2021 caught some onlookers by surprise. Inflation expectations jumped almost 1.5% between September and December (to 4.4%), according to the ANZ Business Outlook survey.

Despite these challenges, and uncertainty around Covid, business confidence remains somewhat resilient. While confidence slid firmly into the negative in the ANZ survey, a net 12% of firms surveyed still expect to increase their own activity in the coming months.

In the short-term, the Government will continue to pull the leavers on Covid restrictions as the current Delta outbreak runs its course. The prospect of a "long tail" to the pandemic will weigh heavily on confidence. But pent-up demand from months of restrictions will see household spending playing catch up as restrictions begin to ease.

Houses have become expensive by any measure, with the national median house price reaching a nominal $905,000 in December, according to REINZ data. Over the next few years, as interest rates rise and the supply of housing increases, there is a risk a house price correction would dampen confidence, spending, and investment.

How has the population of Central Hawke's Bay District changed?

The total population of Central Hawke's Bay District was up 1.6% in June 2021 compared to the previous year. The biggest increases over the last year were in the over 65 and 15-39 age brackets (more on that soon).

Figure 1: Population of Central Hawke's Bay District by age group

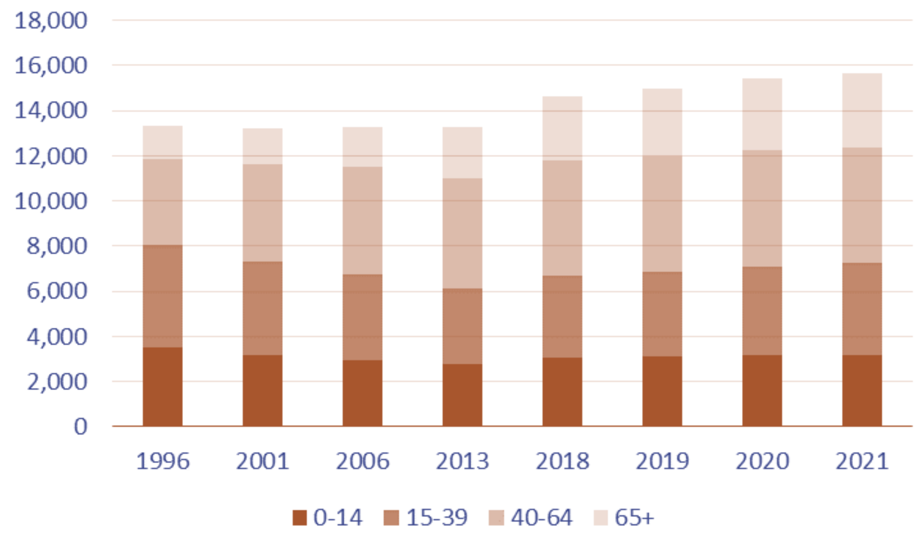
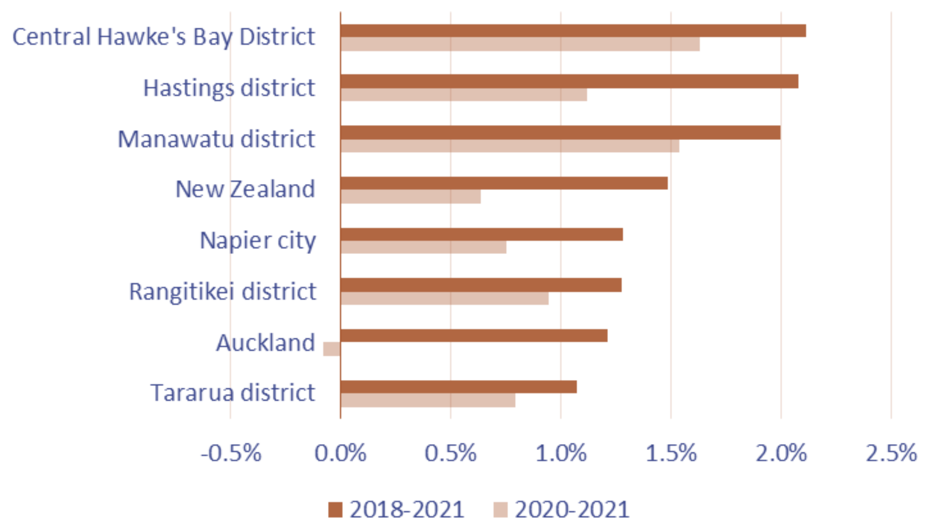


Table 2: Estimated resident population for Central Hawke's Bay District (Statistics NZ areas)

Area	Estimated population				Annual change		
	2018	2019	2020	2021	2019	2020	2021
Central Hawke's Bay District	14,650	14,900	15,350	15,600	1.7%	3.0%	1.6%
Waipawa	2,160	2,190	2,290	2,360	1.4%	4.6%	3.1%
Waipukurau	4,530	4,580	4,660	4,660	1.1%	1.7%	0.0%
Mangaonuku	990	1,030	1,070	1,090	4.0%	3.9%	1.9%
Mangarara	2,490	2,540	2,650	2,710	2.0%	4.3%	2.3%
Taurekaitai	1,960	2,010	2,050	2,070	2.6%	2.0%	1.0%
Makaretu	2,540	2,580	2,640	2,720	1.6%	2.3%	3.0%

Figure 2 shows that Central Hawke's Bay District has been growing relatively rapidly since 2018, exceeding New Zealand’s population growth rate by a significant margin.

Figure 2: Annual population growth comparison



Are young people staying by choice?

Between 1996 and 2013 the total population of Central Hawke's Bay District was static, and the number of residents aged 15-39 dropped by an average of 1.8% every year.

After 2013 total population growth picked up, and the 15-39 year age group had a proportionally bigger turnaround on the back of improving economic prospects, commuting opportunities, and relatively affordable housing.

Still, the conspicuous outlier in Table 3 is the 5.3% increase in the 15-39 age group for the year to June 2020 – a jump of 200 people.

Table 3: Annual growth by age group, Central Hawke's Bay District (1996-2021)

To June	0-14 Years	15-39 Years	40-64 Years	65 Years +	Total
2001	-1.8%	-2.1%	2.5%	1.3%	-0.2%
2006	-1.6%	-1.5%	2.0%	1.8%	0.1%
2013	-1.0%	-1.8%	0.4%	3.7%	0.0%
2018	2.1%	1.7%	0.8%	4.8%	2.0%
2019	1.6%	2.7%	0.0%	5.3%	1.7%
2020	1.6%	5.3%	1.0%	5.0%	3.0%
2021	1.6%	2.5%	-1.0%	4.8%	1.6%

Growth rates prior to 2019 are annual average from previous listed year

Young workers who desire to leave the district for "greener pastures" elsewhere in New Zealand or overseas have faced significant barriers over the last two years thanks to Covid-19. As restrictions ease, some young people will once again look for adventure and opportunities elsewhere.

However, the overall trend suggests Central Hawke's Bay District is seen as a desirable place to work and raise a family. Younger working migrants are increasingly bringing their own opportunities (see Commuting a boon for Central Hawke's Bay District, page 13). Migration is shoring-up the younger age brackets in the face of lower birth rates and an ageing population.

Figure 3: Population by five-year age group, Central Hawke's Bay District

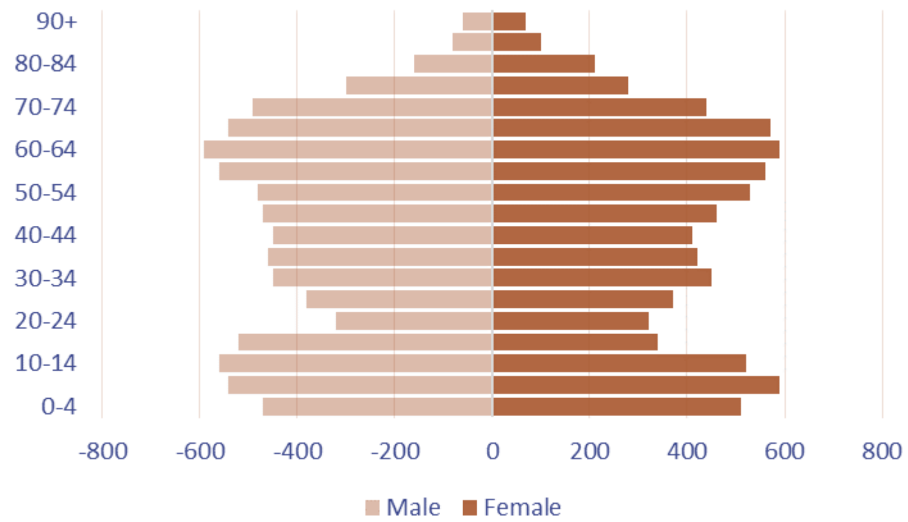


Figure 3 shows that there are many people in Central Hawke's Bay who will be reaching the traditional retirement age over the next few years.

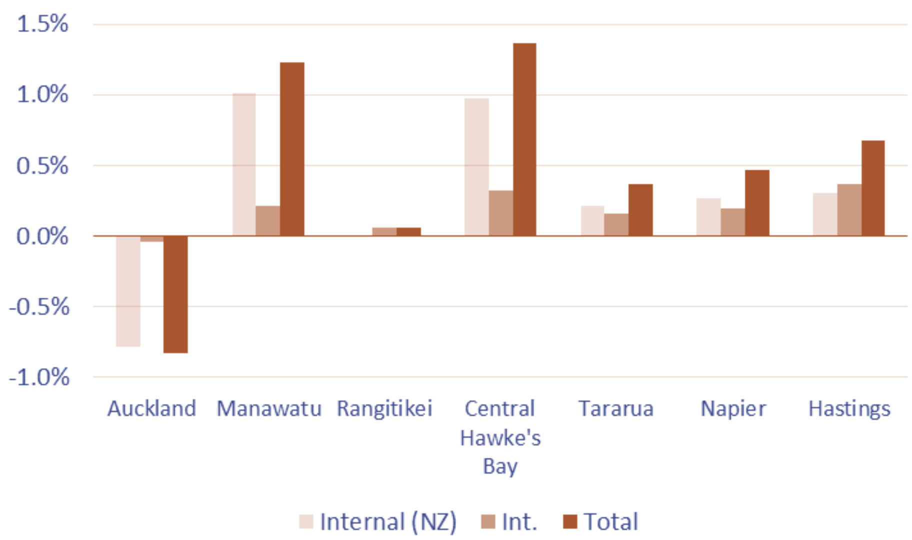
What has happened to migration under Covid restrictions?

Central Hawke's Bay District stands in contrast to Auckland, where a drop in international migrants and a large net outflow to the rest of New Zealand led to a slight fall in the total population.

Table 4: Components of population change, June 2021

Area	Natural increase	Net migration (within NZ)	Net migration (international)	Net migration (total)	Population
Central Hawke's Bay District	50	150	50	210	15,600
New Zealand	27,700	0	4,700	4,700	5,122,600
Auckland	12,900	(13,500)	(670)	(14,200)	1,715,600
Hastings district	420	270	330	600	90,100
Manawatu district	120	330	70	400	33,000
Napier city	170	180	130	310	66,700
Rangitikei district	100	0	10	10	16,050
Tararua district	90	40	30	70	19,050

Figure 4: Net migration as a percentage of population*, year to June 2021



**Net migration during the year, expressed as a % of population at the start of the year*

New Zealanders relocating out of Auckland is nothing new, but the net outflow from Auckland was up 20% in 2021 from the previous two years. Unlike in previous years, there was not a large net gain in international migrants to offset the exodus out of Auckland.

The other regions listed in Table 4 all gained from international migration in 2021. Some New Zealand residents who have been living overseas are relocating home and spreading out around the country.

Meanwhile, some migrants living in Auckland (where international migrants disproportionately settle) may be returning to their home countries also.

How much "churn" is behind the net migration?

Net migration tells us the net gain or loss for an area, but not how many people have arrived or left during the year. A small net gain for a region could mask a large outflow, made up by a larger inflow of people.

There were an estimated 45,300 permanent and long-term arrivals into New Zealand during the year to June 2021. This was down 73% from the previous year, with outward migration down 46% over the same period.

The breakdown of international and internal (within NZ) migration[2] for Central Hawke's Bay District is shown in Table 5. Total inward migration was down 12% in 2021, back to 2019 levels.

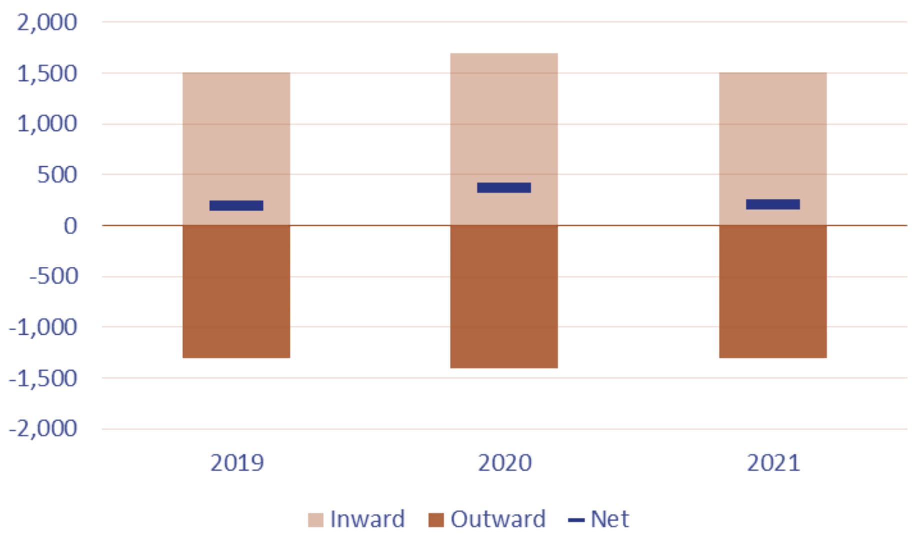
The number of people moving to the district from overseas fell 72%, but this fall was offset by lower international departures.

Reassuringly, migration from other areas of New Zealand into Central Hawke's Bay District remained steady.

Table 5: Components of net migration, Central Hawke's Bay District

Year to June	Internal (NZ)			International			Total migration		
	In	Out	Net	In	Out	Net	In	Out	Net
2019	1,300	1,200	100	180	90	80	1,500	1,300	190
2020	1,400	1,200	170	320	120	210	1,700	1,400	370
2021	1,400	1,300	150	90	30	50	1,500	1,300	210

Figure 5: Components of total migration, Central Hawke's Bay District



[2] Included in internal migration are migrants who may have arrived from overseas in previous years and first lived in another area of New Zealand.

Central Hawke's Bay District is middle of the pack for the areas listed in Table 6, ranked on churn relative to population size.

An estimated 2,800 people moved into or out of the district during the year to June 2021, nearly one fifth the number of people who were living in the district at the start of the year. For Auckland, this ratio was almost a quarter.

Table 6: Migration churn rate, year to June 2021

Area	Churn[1]		
	Internal (NZ)	International	Total
Auckland	22%	2.3%	25%
Manawatu district	20%	0.6%	20%
Rangitikei district	19%	0.8%	19%
Central Hawke's Bay district	18%	0.8%	18%
Tararua district	17%	0.8%	17%
Napier city	14%	1.3%	15%
Hastings district	13%	1.2%	14%

1: Inward + outward migration expressed as percentage of population at start of year

How will migration shape the future of Central Hawke's Bay District?

While some international migrants settle in Central Hawke's Bay, the population of the district is heavily influenced by regional migration trends.

There will be significant pent-up demand for people moving into New Zealand and out of New Zealand's cities in the near-term. While there will also be pent-up demand in the other direction (people waiting to move overseas or out of the district), the net result will be a gain to the district if current trends continue.

Migration will continue to influence the demographic makeup of Central Hawke's Bay and slow the ageing trend. See page 19 for more on the outlook for Central Hawke's Bay District.

What is the shape of the Central Hawke's Bay economy?

Key insights

- Entrepreneurial activity remained steady during the first year of Covid disruptions, with a provisional estimate of 183 new businesses started during the year to February 2021.
- New businesses represented 8% of the business stock in Central Hawke's Bay District, compared to 11% nationally.
- Total business units increased just 0.3% during these challenging times, with business closures estimated to be up 20% from the previous year.
- High property prices and strong demand has led to several new businesses starting in construction.
- Capacity constraints and supply issues continue to constrain building activity.
- Domestic tourism spending remains healthy overall despite Covid-19

Which industries gained and lost the most businesses since Covid 19?

The total number of businesses in Central Hawke's Bay grew by 0.3% in the year to February 2021, to 2,262 business units. Growth in the number of businesses has slowed since the year to February 2020, prior to the first lockdown, when the total number of businesses increased 1.1%.

Table 7: Business units by industry in Central Hawke's Bay District, as at February 2021

Industry	Business units	Annual change
Agriculture, Forestry and Fishing	819	1.5%
Rental, Hiring and Real Estate Services	516	-3.4%
Construction	165	7.8%
Financial and Insurance Services	138	-2.1%
Retail Trade	93	0.0%
Professional, Scientific and Technical Services	69	-4.2%
Other Services	66	4.8%
Manufacturing	63	0.0%
Accommodation and Food Services	54	12.5%
All others	279	-1.1%
Total	2,262	0.3%

How did entrepreneurship hold up under Covid-19?

Entrepreneurial activity remained steady during the first year of Covid disruptions, with a provisional estimate of 183 new businesses started during the year to February 2021 – an average of one every two days. New businesses represented 8% of the business stock in Central Hawke's Bay District, which was lower than in New Zealand as a whole (11%).

Table 8: Business births and deaths over the year to February 2021

Industry	Births	Deaths
Rental, Hiring and Real Estate Services	36	60
Agriculture, Forestry and Fishing	51	42
Construction	24	18
Financial and Insurance Services	12	9
Accommodation and Food Services	9	9
Professional, Scientific and Technical Services	6	12
Other Services	9	6
Manufacturing	6	6
Health Care and Social Assistance	9	3
Retail Trade	6	6
Transport, Postal and Warehousing	6	6
All others	9	15
Total	183	192

The births and deaths in Table 8 are provisional estimates from administrative data sources. Due to estimation methods and timing issues (of when a closure is recorded), births and deaths will not add exactly to total business unit change over a given period.

When looking at the industry level, it's important to note that businesses can move between industries or be reclassified if acquired or merged. These events affect the counts in Table 8, but are not counted as births or deaths within an industry.

Closures tended to be higher in industries that also had high numbers of new businesses starting over the last year. This pattern is encouraging because challenging economic times can lead to marginal businesses shutting and a reorganisation of labour and capital within an economy. New businesses have the potential to be more innovative, boosting productivity and therefore incomes.

Previous recessions have seen a lag between the toughest times and business closures. This can be due to administrative factors of when a business closure is picked up, but also because some businesses hold on through hard times but can't quite claw back even when the economy is on the up.

Therefore, there will be more business closures to come. But high rates of new businesses opening will put the Central Hawke's Bay economy in a good position to take advantage of opportunities that emerge. The industry makeup of Central Hawke's Bay District will continue to evolve as businesses adjust to the "new normal".

How has employment by industry changed?

The changing industry composition in Central Hawke's Bay District is less pronounced when looking at the total number of employees across all businesses in an industry.

Table 9 shows that in February 2021 the number of employees in the two biggest industries (Agriculture, Forestry and Fishing, and Manufacturing) remained unchanged from the previous year.

Employment in construction was up 8.3% from the previous year, representing an additional 40 jobs. Sixty jobs were added in education and training, while Accommodation and Food Services added thirty jobs (during a period that included tight restrictions).

The biggest drop in total jobs was in Transport, Postal and Warehousing (shedding 40 workers). It's important to note that these jobs didn't necessarily go away as employers can move between industries (as previously noted). Business closures have contributed to job losses in some industries though (see Table 8).

Some growth industries tended to have high rates of churn, with both births and deaths. The notable exception was Agriculture with high churn yet static employment, reflecting the traditionally steady demand for labour in this industry when compared on a year-to-year basis (removing seasonal effects).

Table 9: Employee count by industry in Central Hawke's Bay District, February 2021

Industry	Employee count		Annual change
	2021	2020	
Agriculture, Forestry and Fishing	1,950	1,950	0.0%
Manufacturing	1,400	1,400	0.0%
Construction	520	480	8.3%
Education and Training	450	390	15.4%
Retail Trade	430	440	-2.3%
Health Care and Social Assistance	310	300	3.3%
Accommodation and Food Services	180	150	20.0%
Professional, Scientific and Technical Services	170	170	0.0%
Other Services	150	140	7.1%
Public Administration and Safety	140	150	-6.7%
Transport, Postal and Warehousing	130	170	-23.5%
Wholesale Trade	100	100	0.0%
Financial and Insurance Services	65	65	0.0%
Electricity, Gas, Water and Waste Services	65	50	30.0%
Administrative and Support Services	65	75	-13.3%
Rental, Hiring and Real Estate Services	45	25	80.0%
Arts and Recreation Services	40	50	-20.0%
Mining	35	35	0.0%
Information Media and Telecommunications	21	20	5.0%
Total	6,300	6,200	1.6%

Source: Business demography statistics (BDS), Statistics NZ

Where is building activity currently concentrated?

The number of consents being issued for new residential dwellings in Central Hawke's Bay District has remained historically elevated but hasn't picked up yet to match the large number of residential sections in the pipeline (see page 20). Waipawa picked up 15% of total consents for the district for the year to November 2021, while Waipukarau had almost 30% of the total.

Table 10: Building consents by SA2 area in Central Hawke's Bay District, year ended November

	Notes	Consents issued			Annual change		Share (2021)
		2019	2020	2021	2020	2021	
Waipawa		14	20	16	6	-4	15%
Waipukurau East		9	15	12	6	-3	11%
Waipukurau West		8	11	19	3	8	18%
Mangaonuku	Rural Northwest	2	3	1	1	-2	1%
Mangarara	Rural Northeast (inc. Otane)	23	43	33	20	-10	31%
Taurekaitai	Rural Southeast (inc. Porangahau)	9	11	17	2	6	16%
Makaretu	Rural Southwest (inc. Takapau)	6	9	10	3	1	9%
Central Hawke's Bay		71	112	108	41	-4	100%

Source: Statistics NZ

What has happened to tourism?

The Ministry of Business, Innovation, and Employment (MBIE) discontinued its Monthly Regional Tourism Estimates due to issues from COVID-19.

The Tourism Electronic Card Transactions series (an alternative measure) estimates electronic card transactions attributable to tourism. This series does not attempt to estimate total visitor spend but can still give insights into what has happened to tourism since Covid hit.

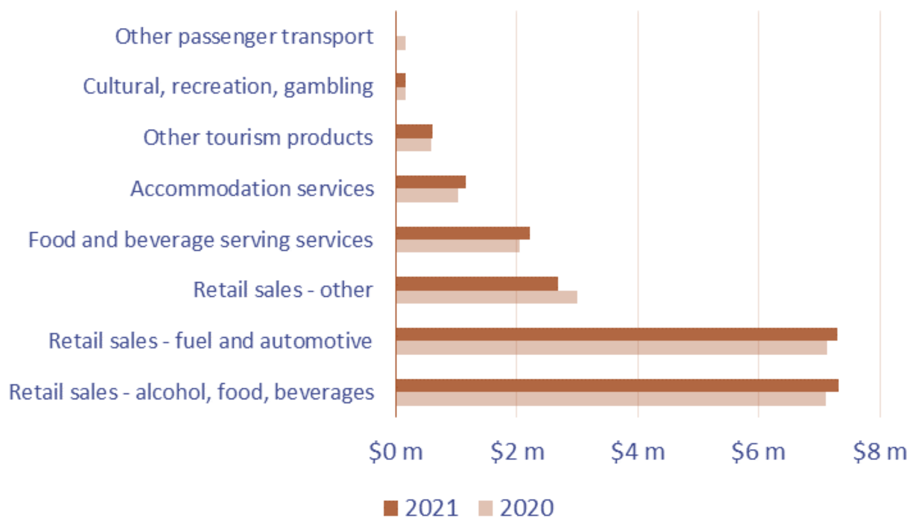
Table 11: Electronic card spending attributed to tourism, year to August ($m)

Year to Sep.	New Zealand		Central Hawke's Bay	
	Total	International	Total	International
2018	5,487	1,136	9.3	0.3
2019	12,792	3,265	21.2	1.0
2020	11,317	2,414	21.2	0.9
2021	11,788	900	21.4	0.6

There was a 63% fall in electronic card spending attributed to international tourists in New Zealand for the year to September 2021 – a drop of over $1.5 billion. For Central Hawke's Bay District, the fall was 40%, or just over $360,000 for the year.

Domestic tourism, however, has held up well in the district, based on the 1% rise in total card spending attributed to tourists in Central Hawke's Bay over the last year.

Figure 6: Tourism electronic card spending by category, Central Hawke's Bay District



Card spending on passenger transport took a bit hit over the year to September 2021, dropping over $140,000. The biggest fall in dollar terms was in the retail – other category, down over $300,000.

The falls in these categories are consistent with the effects of lockdowns and dampened confidence. However, the robustness of total tourism card spending is encouraging, suggesting New Zealand residents unable to travel abroad have been spending some of that money locally.

As domestic restrictions ease some of the pent-up demand for tourism will be directed towards domestic spending, as travellers are likely to take a cautious approach towards international travel even as border restrictions ease.

What does the state of the economy mean for growth?

The upshot is that the factors that have driven migration into Central Hawke's Bay District and boosted the population since 2018 have not gone away.

The economy is still in relatively good shape despite ongoing challenges related to Covid-19, supply chain issues, two particularly dry summers, and capacity constraints. Businesses appear to be confident enough to invest and create jobs.

What is driving population growth?

Commuting a boon for Central Hawke's Bay District

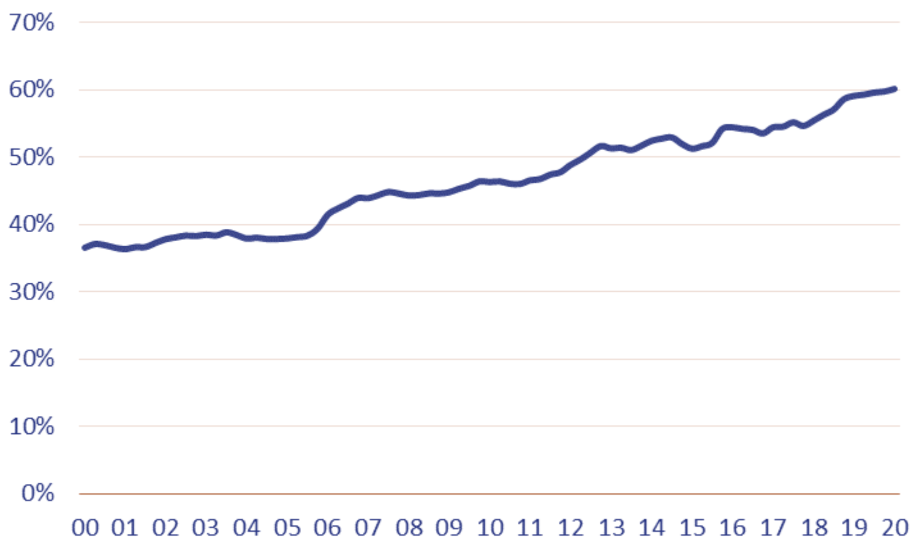
Linking employer and employee records from IRD gives insight into where residents of Central Hawke's Bay District draw their income from.

What proportion of residents derive income from outside Central Hawke's Bay?

61% of employed residents derived income from outside the district

In June 2020, 61% of employed residents (excluding self-employment) drew income from outside Central Hawke's Bay District. This figure (which includes remote work arrangements) has steadily increased over the last 20 years as shown in Figure 7.

Figure 7: Share of Central Hawke's Bay District residents drawing income from outside the district

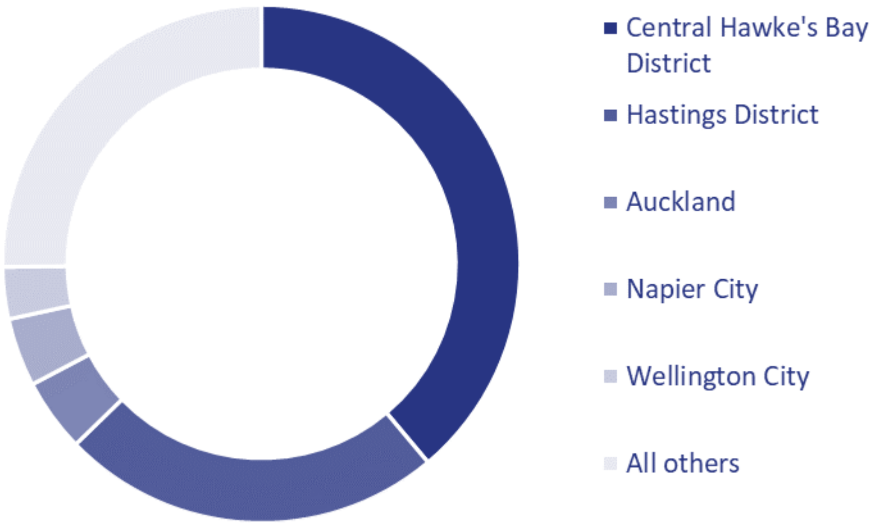


Where do residents earn their income from?

The top external employer of Central Hawke's Bay District residents was Hastings, with 24% of total employment. Auckland was a distant second with 5%, reflecting the growing flexibility of remote-working and long-distance employment relationships.

There were 190 residents employed by employers based in Palmerston North City in June 2020. In the 2018 census very few people said they commute to Palmerston North on a regular basis, which makes sense given the distance (it is 119km from Waipawa to Palmerston North via Saddle Road). But it is likely these employees make the trip to Palmerston North at least occasionally.

Figure 8: Employer address for residents of Central Hawke's Bay District, June 2020



Employers based in Tararua District employed 140 residents of Central Hawke's Bay District in June 2020.

Table 12: Employed Central Hawke's Bay residents by TA of employer

Employer TA	Filled Jobs, Jun 20		Total earnings ($m), year ended Jun 20	
Central Hawke's Bay District	2,640	39%	127	38%
Hastings District	1,620	24%	79	24%
Auckland	310	5%	16	5%
Napier City	290	4%	15	5%
Wellington City	220	3%	13	4%
All others	1,710	25%	84	25%
Total ex. Central Hawke's Bay	4,150	61%	206	62%
Total	6,790	100%	333	100%

What is the benefit of commuting to the district?

Average earnings for jobs (not accounting for hours worked) were 3.5% higher for residents of Central Hawke's Bay employed outside the district for the year ended June 2020.

Average earnings were 3.5% higher for residents employed outside the district

Unsurprisingly, earnings were higher in Auckland and Wellington than in other locations, showing the benefit to the individual from these long-distance employment relationships.

The total amount earned in wages and salary by residents from outside the district for the year to June 2020 was $206 million.

Table 13: Average earnings of residents by employer location

Employer TA	Average earnings
Central Hawke's Bay District	48,000
Hastings District	48,700
Auckland	50,300
Napier City	51,700
Wellington City	58,000
All others	49,300
Total ex. Central Hawke's Bay	49,700
Total	49,100

What proportion of the workforce lives outside the district?

51% of the workforce lives outside Central Hawke's Bay District

In June 2020, 51% of the workforce of employers based in Central Hawke's Bay lived outside the district.

Where does the workforce of employers in Central Hawke's Bay District live?

The top employer of residents working outside Central Hawke's Bay District was also Hastings, at 14%.

Table 14: Jobs for employers based in Central Hawke's Bay District by TA of residence

TA of residence	Filled Jobs, Jun 20		Total earnings ($m), year ended Jun 20	
Central Hawke's Bay District	2,640	49%	127	48%
Hastings District	760	14%	39	15%
Napier City	230	4%	12	5%
Tararua District	220	4%	11	4%
Whanganui District	150	3%	0	0%
All others	1,410	26%	77	29%
Total ex. Central Hawke's Bay	2,770	51%	139	52%
Total	5,410	100%	266	100%

As with outward commuting, average earnings were higher for longer distance employment relationships. Average earnings were 14% higher for employees based outside Central Hawke's Bay District, suggesting employers are looking further afield for some of their higher-skilled workers.

Total earnings paid by employers in Central Hawke's Bay to residents outside the district was $139m. There was a net gain to the district of $67 million over the year to June 2020 from these long-distance employment relationships captured by IRD data (based on employee address).

$67 million – net annual gain to Central Hawke's Bay based on employee address

Table 15: Average earnings of employees by TA of residence

TA of residence	Average earnings
Central Hawke's Bay District	48,020
Hastings District	51,344
Napier City	53,022
Tararua District	51,063
Whanganui District	0
All others	54,598
Total ex. Central Hawke's Bay	50,337
Total	49,206

What do commuters mean for Central Hawke's Bay District?

Commuters and remote workers bring income into Central Hawke's Bay and create secondary opportunities. Some may even leave their place of employment in time and start businesses in the district.

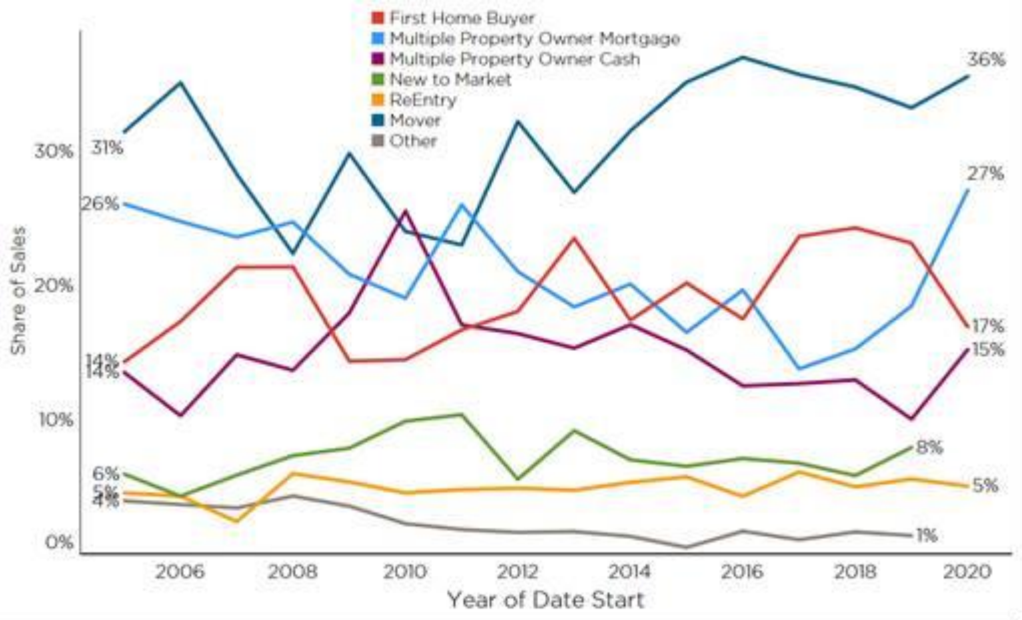
Commuting trends point to the continued appeal of Central Hawke's Bay District as a place to live, work, and start a family.

Is housing still a drawcard?

Over the last few years, the relative affordability of property has been a big drawcard for people moving to Central Hawke's Bay.

Figure 9 shows that there has been an uptick in first home buyers as a percentage of house sales in Central Hawke's Bay District since 2020. The share of buyers who already own multiple properties has taken a sharp turn in the wake of the Government’s measures announced earlier this year targeting property investors.

Figure 9: House buyer classification in Central Hawke's Bay District

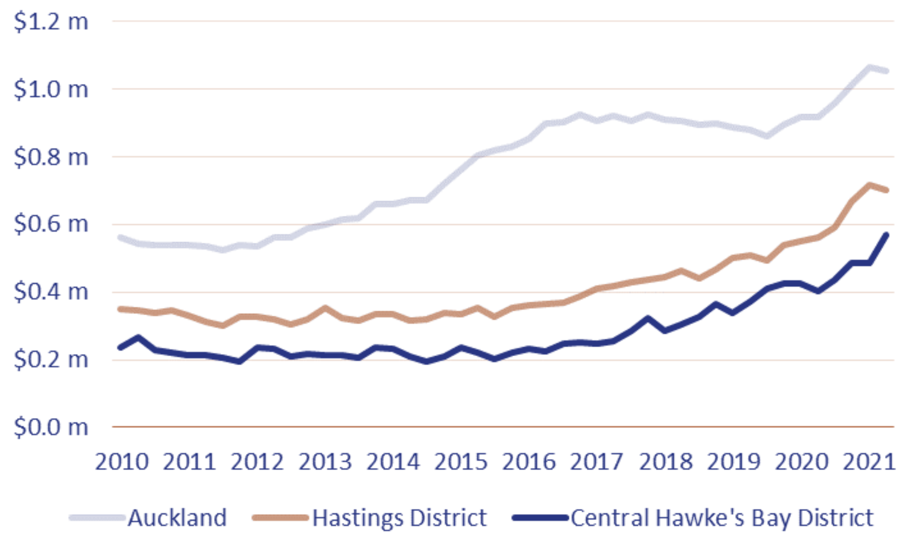


Source: CoreLogic

On an inflation-adjusted basis, the rapid growth in the median house price started to abate in some of the main centres in the first half of 2020. High prices and concerns about rising borrowing costs could be starting to bite.

However, low numbers of listings remain a feature in many regions. The low levels of building seen up until recently should limit the extent of any price falls in the short term.

Figure 10: Median house price, inflation adjusted



Source: Housing and Urban Development (HUD)

House price growth in Central Hawke's Bay has remained relatively strong to date (see Figure 10). For those who draw their income outside the region, or those considering moving, a narrowing of the affordability gap between Central Hawke's Bay District and the main centres could make living in the district less attractive, at least at the margin.

If house price growth continues to be elevated relative to other New Zealand regions, it would suggest that supply of residential houses is not currently meeting demand. But the large supply of sections coming onto the market in the district (see Build it and they will come?, page 20) should help with affordability.

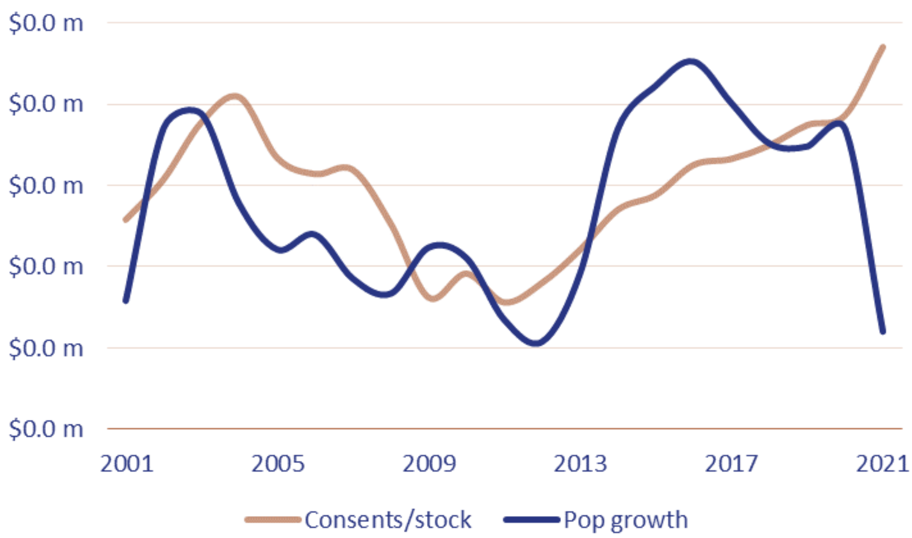
Opinions abound as to the cause of rapid house price growth in recent years, from foreign buyers to low interest rates and other monetary policy measures (see section “Unprecedented” times and the “new normal” on page 3). The issue is complex and multi-faceted.

The upshot is that supply simply hasn’t kept pace with demand in recent years. But this could be changing.

Will building overshoot and lead to an oversupply?

The demand for housing in Central Hawke's Bay District is heavily tied to the national housing market. Figure 11 plots the annual population growth in New Zealand (year ended September) with the total number of residential consents expressed as a percentage of the estimated dwelling stock.

Figure 11: New Zealand population growth and residential building rates (annual, September)



Over the past decade, even without factoring in replacement of existing stock, consents were struggling to keep up with population growth.

Strong demand, high prices, and a raft of policy measures to free up supply for housing have pushed building to record hights even as the construction sector battles with labour and material shortages.

Meanwhile, population growth has slowed sharply since Covid 19 first arrived here in early 2020.

Will we see an oversupply lead to a hard landing in the housing market? In the near term the following factors will moderate any fall in house prices:

- Pent up demand for international migration into New Zealand
- Catching up from the last ten years of underbuilding
- Capacity issues in the building sector

However, in the longer term there is a risk that the market will overcorrect. Policy and investment decisions made now will have impacts for years to come, and housing projects have a long lead time. See discussion Housing market risks, page 24, for more information.

What will the future look like for Central Hawke's Bay?

Central Hawke's Bay has a lot to offer an increasingly connected and mobile world, where workers are less tied to the physical location of their employer or business networks.

A revised high-growth scenario

Squillions published projections for low, medium, and high growth scenarios in July 2020 for Central Hawke's Bay District. Since then, the district has been tracking at or slightly above the high growth scenario (see How has the population of Central Hawke's Bay District changed?, page 3).

Why revise?

Between 2018 and 2021 the population of Central Hawke's Bay District grew by an average of 317 people per year – according to the latest Statistics NZ estimates. If growth was to continue at this rate the population would reach 16,870 in June 2025 – almost exactly what was projected under the high scenario in the 2020 report.

Why revise up the high scenario then? The high scenario from 2020 is looking more like a central scenario at present – where risks are balanced to the upside and the downside. Therefore, Central Hawke's Bay District Council has commissioned a revised high-growth scenario to assist with planning for growth.

Interpreting growth scenarios

The high scenario is an optimistic scenario for planning purposes and should be read in conjunction with the discussion about risks to the outlook (see page 22).

Projections should not be mistaken for predictions about the future. The scenario approach we have used allows for modelling how the future may look based on different underlying assumptions – when there is a degree of uncertainty about those assumptions. This report highlights what the drivers of growth are and what the factors are that may shift the district off its current growth track – upside and downside risks.

Projections are demand-focused, highlighting where growth pressure is likely to occur. Future policy decisions by Central Hawke's Bay District Council may constrain or enable growth in certain areas.

See the 2020 report (referenced on page 1) for a full discussion of the assumptions and outlook under low, medium, and high growth scenarios. This section updates the high-growth scenario from that report.

What has changed?

Covid lingers and there continues to be a high degree of uncertainty regarding the shape and the timing of the economic recovery. However, nearly 18 months of data since the projections were published has confirmed some of the near-term assumptions:

- Migration into the district has held up well as expected
- Young people are moving to or remaining in the district (see Are young people staying by choice?, page 5)

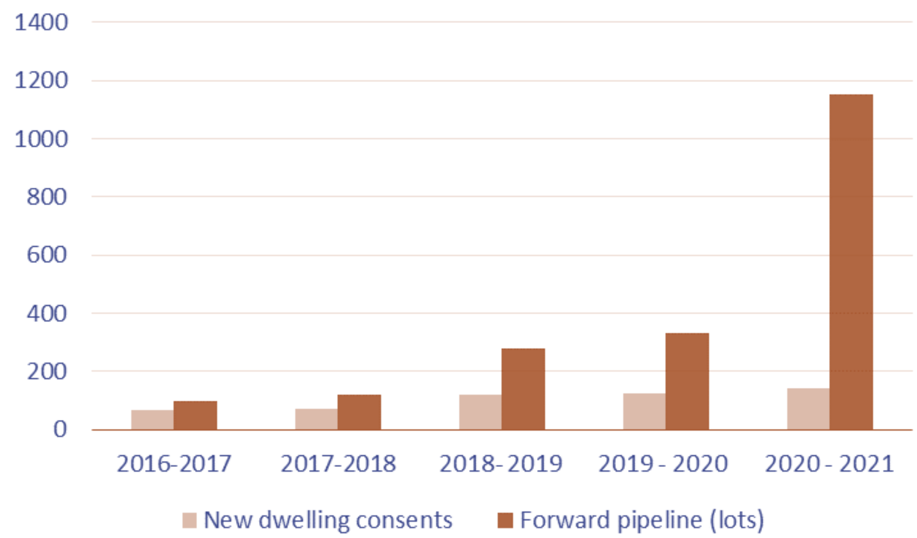
Build it and they will come?

Land availability is not going to be a constraint on development going forward.

Analysis of resource and building consents for the last five years indicates there are up to 2,500 unbuilt sections in the pipeline – 80% of these are from applications since the start of 2020 (including those still in the processing stage). Not all proposals will be approved, and some may be scaled back, but this figure only includes applications received up to November 2021.

There are also plans to release further areas for development. To deliver on the Central Hawke's Bay District Integrated Spatial Plan, the Council has been working towards enabling further areas for development in Waipukurau. This includes applying for government funding to accelerate building and infrastructure to service development in Waipukurau South Growth Precinct, more commonly known as the area around the "Old Hospital Site". This area has the potential to hold 950 lots which could be built over the next 15 years.

Figure 12: Annual new dwelling consents and resource consent pipeline, year to June



Source: Central Hawke's Bay District Council

Supply of land however is only one side of the equation. There still needs to be builders and resources available to develop these sections and demand to live on them (demand factors being the focus of this report). Capacity in the building sector is constrained and finance costs are expected to rise over the next few years as the Reserve Bank tightens monetary policy (raising interest rates).

If we were to use a "build it and they will come" approach and ignore demand factors, we would project an additional 2,000 residents by 2031 (10% higher than projected in Table 14) based on current consenting trends. To hit this population number would require an exceptional 3.6%pa growth rate for each of the next ten years.

But even under the most optimistic set of assumptions (which this high scenario uses), it is hard to see this level of growth in this timeframe. Central Hawke's Bay District is competing with other councils who have also been releasing land for development. While people will continue to move out of the cities, they will have plenty of choice as to where to locate themselves and their families.

Key assumptions (high scenario)

- Higher rates of migration slow the ageing trend in the population

- The natural increase in the population (births less deaths) trends towards almost zero by 2051 but does not turn negative.
- Some of the jump in the 15-39 age bracket proves temporary as Covid restrictions ease but commuting and lifestyle opportunities continue to attract working age people and families into the district.

Highlights (high scenario)

- Central Hawke's Bay District gains 4,500 people by 2031
- Population growth peaks at 3.1% in the year to 2026 as more young workers choose to stay in or move to the district and raise their families.
- Growth remains high by historical standards in the outer years of the projection horizon, even as the population ages and birth rates fall.
- There will be an additional 1,700 households by 2031

Projected population and households

We have projected growth under this high scenario to remain elevated between 2031 and 2051. With an average growth rate of 2.5%pa over the next thirty years the district could more than double its population.

Central Hawke's Bay District has not reached this level of growth to date, and 2.5%pa over this time horizon would be exceptional. But it is not completely without precedent. For the twenty-five years to 2021, four New Zealand districts and Tauranga city experienced average growth rates of more than 2%pa.

Figure 13: Estimated and projected share of population by broad age group (high scenario)

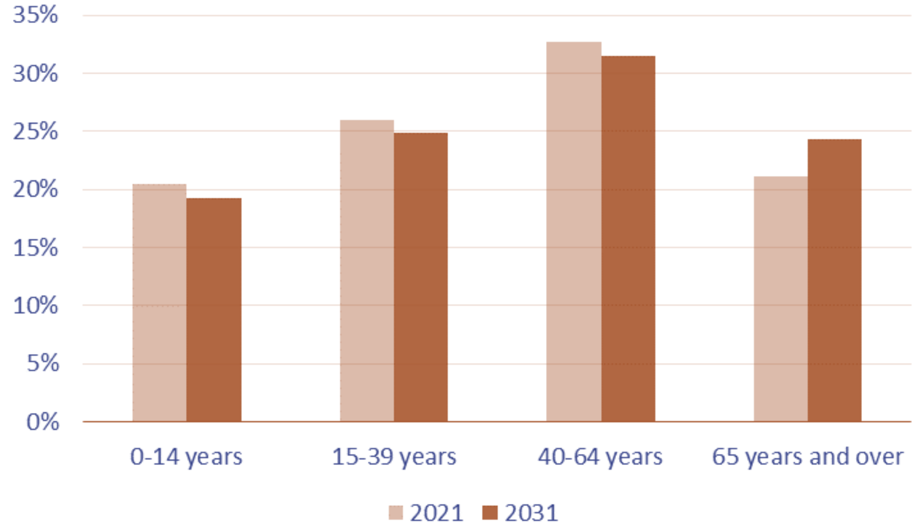


Table 16: Central Hawke's Bay District projected population (high scenario)

Year	Total	0-14 years	15-39 years	40-64 years	65+ years	Households
2018	14,650	3,050	3,650	5,100	2,850	5,418
2019	14,900	3,100	3,750	5,100	3,000	5,510
2020	15,350	3,150	3,950	5,150	3,150	5,680
2021	15,600	3,200	4,050	5,100	3,300	5,770
2022	15,960	3,250	4,090	5,150	3,470	5,910
2023	16,350	3,300	4,000	5,400	3,650	6,040
2024	16,750	3,360	4,090	5,470	3,830	6,180
2025	17,190	3,420	4,200	5,570	4,000	6,330
2026	17,720	3,500	4,370	5,710	4,140	6,510
2027	18,230	3,580	4,520	5,840	4,290	6,710
2028	18,700	3,650	4,650	5,950	4,450	6,900
2029	19,170	3,720	4,770	6,080	4,600	7,090
2030	19,650	3,800	4,890	6,210	4,750	7,280
2031	20,120	3,870	5,010	6,340	4,900	7,470
2036	22,570	4,260	5,640	7,050	5,620	8,390
2041	25,280	4,690	6,320	7,950	6,320	9,420
2046	28,550	5,230	7,050	9,130	7,140	10,650
2051	32,300	5,860	7,840	10,510	8,090	12,070

Households counts 2019-2021 are estimates, 2018 count is from census

How will growth be distributed within Central Hawke's Bay District?

Commuting will remain a key driver of where people choose to locate. But there will also be local opportunities for employment in the district. For example, the developing Te Mata Mushroom development is expected to employ up to 200 staff.

Residents that draw their income from outside the district (see page 13) will create local employment opportunities as they spend a portion of that income in Central Hawke's Bay District.

The Integrated Spatial Plan process identified more opportunities for infill and/or greenfield development in Waipukurau than in the other centres. Due to this greater potential for development, we have projected Waipukurau to pick up a higher share of growth over both the medium and longer term.

But analysing recent resource consents indicates there will be plenty of land available to build on in Waipawa and (proportionally speaking) Otāne over the next few years as well. Demand for sections in these localities will remain strong due to its handy location for commuters heading north.

Population growth in Waipukarau has been proportionally slower since 2018 (0.9%pa), despite an apparent availability of lots from subdivisions. If land availability in other areas within the district remains high, there is a risk that growth in Waipukurau will be slower than we have projected.

Table 17: Population by residential area (high scenario)

Area	Population		
	2021	2031	2051
Waipawa	2,360	3,270	5,330
Waipukurau	4,660	6,100	9,980
Otāne[1]	790	1,250	2,370
Pōrangahau[1]	240	310	580
Takapau[1]	640	760	1,200
Central Hawke's Bay	15,600	20,120	32,300

1: 2021 population for small areas estimated from 2018 census and partial indicators

Assuming the makeup of households in the areas listed remain stable, the population counts in Table 17 translate into the following household counts.

Table 18: Household estimates and projections (high scenario)

Area	Households		
	2021	2031	2051
Waipawa	950	1,320	2,160
Waipukurau	1,860	2,440	3,990
Otāne	290	460	870
Pōrangahau	90	120	230
Takapau	230	270	430
Central Hawke's Bay	5,770	7,470	12,070

Rural areas

As with the residential areas listed in Table 17, we have considered current trends, land availability, and subdivision applications in distributing projected growth across rural areas. There is some judgement used in allocating growth between the urban areas listed and the rest of the district, as town boundaries are not fixed over time.

Table 19: Projected population by rural area (high scenario)

Area	2021	2031	2051
Rural North West (Mangaonuku)	1,090	1,240	1,830
Rural North East (Mangarara)	1,920	2,330	3,580
Rural South West (Makaretu)	2,080	2,720	4,230
Rural South East (Taurekaitai)	1,830	2,140	3,220

Risks to the outlook for Central Hawke's Bay District

Most of the attention since the projections were published in mid-2020 has focused on the high scenario. Indeed, Central Hawke's Bay District has been tracking close to the high scenario (on balance) over the last 18 months, and forward-looking indicators point to further upside potential (see page 3).

But a robust planning framework also requires careful examination of the factors that could knock the district off its current high growth track.

Key risks identified for Central Hawke's Bay District:

- The Covid-19 crisis and subsequent economic effects drag on for longer than anticipated, supply chain and labour shortages persist for longer, and the building sector can't meet demand.
- A widespread housing market correction impacts people's net worth and changes the equation on housing affordability, impacting on confidence, spending, and migration into the district.
- Inflationary pressures become intrenched in wage and price expectations, leading to stubbornly high inflation, dampening confidence, and constraining investment.
- Increasing frequency of adverse events from climate change undermine the agricultural sector.

Downside economic risks

The prospect of new Covid-19 variants has been in the media recently – with Omicron the latest emerging variant. If restrictions drag on here and around the world, supply chain issues could constrain key sectors (e.g., building) for longer than anticipated.

A weak global economy could dampen demand for our exports, and earnings from international tourism could take longer to recover (further constraining New Zealand's export earnings).

Housing market risks

Decisions made now, by planners and businesses, impact the supply of housing 2-3 years or more down the track. This lag leads to momentum that can cause an oversupply of housing if underlying demand changes.

Councils around New Zealand are releasing land for development. Despite the near-term capacity issues in the building sector, over the longer term the risk of an oversupply emerges if building rates remain elevated.

In 2008 house prices fell about 8% nominally but there were significant regional differences. If New Zealand goes into the next recession with an oversupply of housing, the effects could be much more pronounced.

If house prices were to fall in Central Hawke's Bay relative to other areas, it could drive migration in the short-term. But in the longer term it would undermine confidence and investment in residential development.

Inflationary pressures

CPI inflation is currently being driven by price increases across a wide range of goods and services, including transport and shipping costs, pent up consumer demand, supply constraints, energy prices, food prices, and labour shortages.

Some of these factors are expected to ease in the near-term. But inflationary expectations can easily become self-fulfilling. If businesses expect prices to increase, they will put their own prices up more readily and be more amenable to the wage demands of their staff (who are also expecting prices to keep going up).

The reserve bank has a significant challenge ahead of it to rein in expectations before higher inflation becomes entrenched. This will mean higher interest rates in the near-term, and the outside chance of a costly war on inflation further down the track.

Climate change and adverse events

Population growth is being driven primarily by commuters, remote-workers, and industries disconnected from agriculture. Agriculture nonetheless remains a critical part of the economy and the character of Central Hawke's Bay District.

The district has had two dry summers in a row and is staring down the barrel of a third. Conventional scientific opinion is that such events will become increasingly common.

Climate change presents both threats and opportunities. A recent report by The Economist[3] argues that economic growth does not have to be linked to rising CO_2. To date, policy and industry efforts have focused on switching to lower-carbon energy sources and making industries more efficient (using less energy). Progress has been mixed, leading some to suggest radical “degrowth” solutions – a reduction in population and/or living standards.

But growth breeds growth, The Economist argues, and it also breeds innovation. Companies like Tesla are blazing a path for others to follow and show that consistent, cumulative improvements in existing technologies can be as powerful as new, radical innovations.

Despite the optimism from some, there is much to contend with. The Intergovernmental Panel on Climate Change (IPCC) now expects an average rise in global temperatures of 1.5-1.6°C in the near term (to 2040), and 1.6-2.4°C by 2060. The uncertainty comes from modelling assumptions and different scenarios of how society may respond to the threat, but the trend is clear[4].

Each increase in average global temperatures causes further changes in regional average temperature, rainfall patterns and soil moisture levels.

The National Institute of Water and Atmospheric Research (NIWA) has identified several areas of concern for New Zealand[5]. For agriculture:

- Rainfall changes and rising temperatures are expected to change the timing of growing seasons, and where certain crops can be grown economically.
- The outlook for pasture-based farming is mixed. Some areas are likely to benefit from climate change, but areas near the east coast (including Central Hawke's Bay) are expected to experience lower average rainfall and more frequent drought conditions.
- Warmer conditions could present new problems from pests, weeds, and diseases.

Uncertainty in projected rainfall changes creates significant challenges for adaptation. In agriculture, when the rain falls is as important as how much. Coastal areas and flood plains are expected to see increased erosion and risk of flooding.

The opportunities and challenges from Climate Change will not be evenly spread across industries in Central Hawke's Bay. Agriculture will be under increasing pressure to adapt, through water

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[3] The Economist, (2021) *The economics of the climate*. Accessed 19 January 2022. https://www.economist.com/special-report/2021/10/27/the-economics-of-the-climate

[4] The Intergovernmental Panel on Climate Change, (2021) *Working Group I Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.* Accessed 19 January 2022. https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM_final.pdf

5 NIWA (2020), IPCC Fifth Assessment Report - New Zealand findings. Accessed 19 January 2022. https://niwa.co.nz/sites/niwa.co.nz/files/NZCCC%20Summary_IPCC%20AR5%20NZ%20Findings_April%202014%20WEB.pdf

management, selecting the right cultivators, and timing of planting. But new businesses will emerge to service a low-carbon economy, providing employment opportunities for displaced workers.