

Auckland Economic Quarterly

Chief Economist's Newsletter



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Dean's Distinguished Speaker Series

Harvard Professor and urban economist, Edward Glaeser, speaking on the Triumph of the City: how our greatest invention makes us richer, smarter, healthier and happier.

Date: 1 July
Time: 6.30pm
Venue: University of Auckland

To register your interest and for further details, please email Amanda at a.stanes@auckland.ac.nz

From the Chief Economist

The Auckland economy rounded off the 2012 year on a good note with moderate economic growth, made to look all the better against the backdrop of a euro area in dire straits. While employment levels continue to inch along at a snail's pace, the news for 2013 looks more positive. Auckland's consumer confidence is strong, as are expectations of business profitability and employment confidence, with a net 14 per cent of firms reporting an increase in domestic trading activity in the first three months of 2013. The drought will affect growth in 2013, although with less than 1 per cent of the economy directly involved in the agricultural sector, its effects will be more limited in Auckland.

Auckland's economy grew by 2.8 per cent in 2012 – a good result given regional and global conditions. Finance and professional services experienced the greatest growth, followed by real-estate services, while manufacturing experienced the largest contraction. There is some reason to believe that conditions for manufacturers will improve as the construction sector picks up; every \$1 of activity in the construction sector generates \$0.48 in the manufacturing sector.

The economic recovery from the global financial crisis continues to be largely a jobless one. This is not unique to Auckland. Financial crises tend to require a longer recovery path because households take time to deleverage, businesses rein in spending with little or no ability to pass on costs, and a recovering financial sector takes time to resume business as usual. While Auckland did experience a reduction in its unemployment rate toward the end of 2012, this was largely through reductions in the labour force rather than any meaningful employment growth.

Auckland house prices continue their upward swing. For those reading mainstream media, this is nothing new. What has changed is the rising level of activity on the supply side. Supply tends to lag demand in this market, sometimes by several years. It is unsurprising then, that it has taken so long to see the beginnings of a more sustained supply response. The number of consents is still well below long term averages, but with a 21.5 per cent increase on the previous year, the trend is in the right direction. This should act to stabilise prices somewhat – although any increase in net migration (which would likely accompany economic growth), will offset this in the short term.

Meanwhile, the volatility of the euro zone crisis continues to grab headlines around the world. The Cyprus bailout has revived murmurs of a member being thrown out of the euro zone. While the Cyprus economy is only a paltry \$30 billion (Greece is around \$360 billion), investors will be spooked. If you can lose your money in Cyprus, investors would be forgiven for asking why it could not happen in Portugal, Spain or Italy. Meanwhile, the United States continues to deal with the consequences of an unsustainable economy and the fiscal ceiling. Lacklustre demand from European and North American trading partners is an obvious consequence back home. On a more positive note, activity in China looks to be stabilising somewhat, after a relatively mediocre 2012, and Australia's economic tumble in the first three quarters of 2012 has also stabilised.

Auckland Council released its draft Unitary Plan in March, giving details on how Auckland will grow over the coming years. In light of this, David Skilling, former Chief Executive of the New Zealand Institute and current Director of Landfall Strategy group in Singapore, has contributed an article on the unique importance of big cities in small countries.

Geoff Cooper



Big Cities in Small Countries

By David Skilling

Cities are increasingly understood to be engines of growth and innovation, and are the primary destinations for internationally mobile people and capital. The economic prospects of New Zealand therefore depend greatly on the performance of Auckland. This is partly due to arithmetic; Auckland accounts for about a third of New Zealand's population, a proportion that is expected to grow steadily. But as importantly, the transformation of the New Zealand economy requires some things that can only happen in a city the size of Auckland.

In thinking through how to best support the contribution that Auckland can make, it is important to take context seriously. In particular, that Auckland is the big city in a small country. This matters because the role of leading cities in small advanced economies is different to that of cities in larger economies.

Small advanced economies are not scaled-down versions of large economies; they have distinctive properties and need to be approached in specific ways. Engagement in the international economy matters much more in small economies, innovation tends to be at the core of the national economic strategies of the successful small economies, and small advanced economies face pressure to develop deep competitive strength in a few areas.

In small economies, the lead city assumes a deeply important role in positioning the country to respond successfully to the specific challenges and opportunities of globalisation. Consider the role that Dublin plays in Ireland, or Copenhagen in Denmark, or Helsinki in Finland. Other regions in these countries also matter, but the role of these cities is pivotal.

The leading cities in these – and other – small countries is a vital source of international connectivity; both in terms of hard infrastructure (ports, airports, broadband) as well as people to people links. These cities are where the at-scale universities and innovation eco-systems tend to exist, even in resource-dependent economies like New Zealand. They provide the support for the national expertise, and are a key destination for inward investment and people flows. It is likely no accident that leading cities in small countries dominate the international quality of life rankings.

The significance of this national position means that there are limits to what can be learned from similarly-sized cities in larger economic systems. The role of Auckland in New Zealand differs from the role of Adelaide or Brisbane in Australia. Although there are some obvious similarities between Auckland and such cities, there are also important differences – reflecting the additional challenges and opportunities that the leading city in a country must deliberately respond to.

To provide guidance on how local and national policy-makers can best support the contribution that Auckland can make, it is most instructive to look at the experience of the lead cities in other small advanced economies. Cities like Helsinki, Copenhagen and Dublin have populations of between 1 and 2 million people, in countries of national populations about the same or only slightly greater than New Zealand. The same is true in other small countries like Sweden and Austria.

These are good examples of how to generate thriving cities that make an obvious, valuable contribution to the national economy. And in a small economy, it is not enough simply to have a successful leading city – it needs to be successful in a way that contributes to the success of the country. The strategies of the leading city and the country need to be tightly linked.

For these reasons, Auckland can learn much from the experience of leading cities in small countries. Auckland (and New Zealand) policy-makers should think carefully about the appropriate set of peers for Auckland, and systematically consider the experiences of these countries and cities in developing an approach to policy.

Dr David Skilling is Director at Landfall Strategy Group, a Singapore-based research and government advisory firm - www.landfallstrategy.com

City	Country	City population (millions)	National population (millions)	Per cent of population
Copenhagen	Denmark	1.95	5.48	35.7%
Dublin	Ireland	1.55	4.40	35.1%
Auckland	New Zealand	1.51	4.44	34.0%
Vienna	Austria	2.64	8.32	31.8%
Helsinki	Finland	1.39	5.30	26.2%
Stockholm	Sweden	1.93	9.18	21.0%
Brisbane	Australia	2.04	22.33	9.2%
Adelaide	Australia	1.20	22.33	5.4%

Source: Statistics New Zealand, Australian Bureau of Statistics and OECD Regional Database

Auckland Economic Commentary

Auckland awakes from its slumber

Economic activity bounced back over the last quarter

Auckland's economy started to grow again, helped by seasonal activity, after last quarter's soft results. Economic output expanded by 2.8 per cent over the 2012 year, higher than Auckland's 10-year average. The rest of New Zealand grew fractionally faster, at 3.1 per cent for 2012.

Services industry continued to outperform others

The services sector overwhelmingly led Auckland's economic growth in the final quarter of 2012, continuing the trend over the last decade (refer Figure 1). Auckland's economic success is not critically dependent on pastoral and climatic conditions, symptomatic of an advanced economy. The effects of the recent droughts will be seen in national accounts in about six months time and the effect on Auckland's growth even later, likely in food and beverage manufacturing.

Construction output up while manufacturing output flat

Seasonal trading helped Auckland's retail, wholesale and hospitality sectors in Q4, while over the 2012 year the largest percentage gains came from the retail, accommodation and food services; financial and insurance services; construction and agriculture, forestry and fishing sectors (albeit the last two off smaller bases). The construction sector produced its strongest result since 2008 (further details below), while the manufacturing sector remained at a level around its 10-year average.

Confidence levels firmly in optimistic territory

Big gain in business confidence, gain in activity finally followed

A net 23.2 per cent of Auckland businesses are optimistic about the general business situation in Q4, an 11.1 percentage point increase from Q3. Confidence surveys show that Auckland businesses have been generally optimistic for a while since Auckland lifted out of recession but this confidence has finally translated into increased domestic trading activity. A net 25.7 per cent of Auckland businesses experienced an increase in domestic trading activity in the last three months, up from -1.2 per cent in Q3 (refer Figure 2).

Consumers opened up their wallets

Consumer confidence also improved over the last quarter. Overall retail sales were up but importantly sales of big ticket items, such as new vehicles, were also up. Quarterly new vehicle registrations exceeded 20,000 for the first time in 19 quarters. Boosted confidence and increased trading activity should be positive drivers for economic activity in the coming quarters.

Auckland's labour market subdued: still waiting for big expansion in employment

Unemployment rate decreased as people left the labour force

Auckland's unemployment rate fell to 7.2 per cent in Q4. One of the big drivers of the decrease was the 11,300 people who dropped out of the labour force, no longer counted as officially employed or unemployed. As a result, the labour force participation rate dropped by 0.4 percentage points to 67.9 per cent. Sustained business optimism and growth in economic activity should spur businesses to take on more staff in the longer term, leading to better labour force outcomes for Aucklanders. Businesses are likely to be using up spare capacity before taking on new staff; we observe that on average, employees worked 28 minutes more per week in Q4 compared to Q3.

But employment expanded due to seasonal factors

However, there was some expansion in the number of Aucklanders employed, by approximately 20,700 to 712,000 workers. This result is likely to have been heavily influenced by increased seasonal hiring.

Housing market and construction sector activity up

Construction sector continued to respond to housing market activity

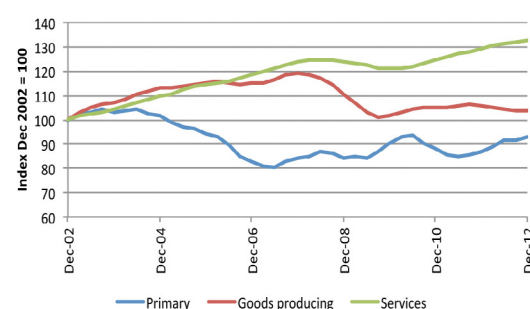
The housing market is still lively; real median prices increased by 4.1 per cent, the number of sales increased by 11.1 per cent and on average, houses sold one day faster in Q4. Residential consents issued moved in the right direction and at 432 consents, this was the highest December issuance since pre-recession 2007. Activity in the sector has been strong enough to entice firms to hire more people, employment in the utilities and construction sector expanded by 7,200 workers. Meanwhile, the non-residential construction sector remained flat in Auckland, with Canterbury driving almost all of the non-residential building growth. However, non-residential construction remains an important part of the Auckland construction landscape, making up almost 38 per cent of total construction by value (refer Figure 3).

Aucklanders still moving offshore

Annual net migration at lowest level since 2001

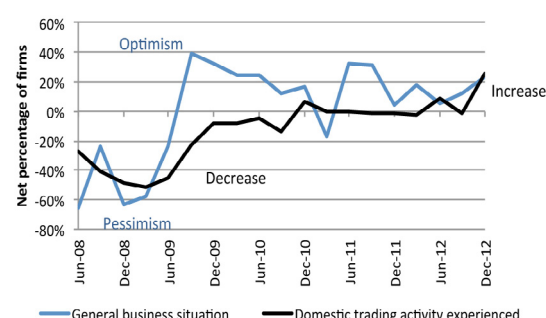
At 3,875 people, annual net migration in 2012 was at its lowest level in over 10 years. Arrivals appear to have plateaued but Aucklanders are still leaving for abroad, over 31,000 left in the 2012 year. Migration data suggests that the rate of departures has slowed recently, particularly over the last two quarters (refer Figure 4). This is a positive sign for advancing Auckland's economic growth potential through gains in productivity and the size of Auckland's labour force.

Figure 1: Economic activity by industry



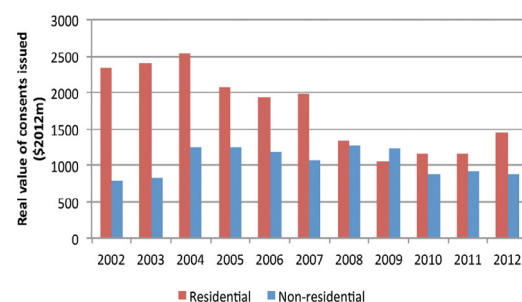
Source: Infometrics and Auckland Council

Figure 2: Business confidence and domestic trading activity



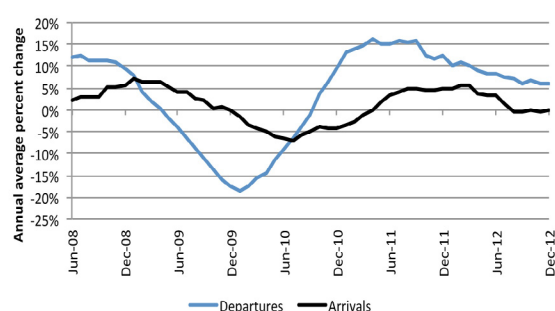
Source: NZIER

Figure 3: Real value of consents issued (\$2012m)



Source: Statistics New Zealand

Figure 4: Rate of growth of arrivals and departures



Source: Statistics New Zealand

Auckland Economic Scorecard

New Zealand Economic Indicators	Notes		Dec
Inflation	1	Annual % change	0.9%
Official Cash Rate	1	%	2.5%
NZD/USD	1	Dec average	0.8318
TWI (5 currency)	1	June 1979 = 100	74.32
ANZ Commodity Price Index	2, m	Annual % change	-12.3%
Current account as % of GDP		%	5.0%
NZ population		at 30 Sept 2012	4.441m
Auckland population		at 30 June 2012	1.508m

Disclaimer

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			Auckland			Rest of NZ
		Notes	10 yr trend	Q4	Quarterly change	Q4
Headline Indicators						
Employment	Number (000s)		651	712	↑	1,493
	Annual % change		2.0%	-0.2%	↑	-2.0%
Unemployment	%		5.4%	7.2%	↓	6.6%
Real GDP (expenditure)	Annual average % change	3	2.5%	2.8%	↑	3.1%
Real wages	\$ / week (average)		\$1,057	\$1,111	•	\$1,020
Jobs						
Youth unemployment – 15-19 year olds	%		20.8%	33.5%	↑	29.8%
Youth unemployment – 20-24 year olds	%		9.3%	13.3%	↓	12.0%
Industries						
Manufacturing (employment counts)	Number (000s)	**	..	72	↓	167
Financial and insurance services (employment counts)	Number (000s)	**	..	31	↑	41
Retail sales	Annual % change	*	3.8%	3.3%	↑	2.6%
Housing and construction						
House sales – dwellings	Annual total sales	4	29,232	28,387	↑	45,613
Real average private rent	\$ / week	5	\$414	\$437	↑	\$309
Rent to wage ratio	%	5	39.1%	39.4%	↑	30.3%
Real median house sale price	\$	4, m	\$463,300	\$535,000	↑	\$389,000 (NZ)
Residential building consents – new dwellings	Annual total		6,822	4,582	↑	12,347
Non-residential building consents – new floor area approved (sq. metres)	Annual total		846,735	596,955	↓	1,793,751
Global connections						
Tourism – guest nights	Annual % change	m	2.3%	4.2%	↑	1.7%
Net migration	Net annual flow		9,112	3,875	↓	-5,040
Arrivals	Annual flow		34,225	34,895	•	50,360
Departures	Annual flow		25,113	31,020	↑	55,400
Exports (value)	Annual % change	m	0.0%	-17.6%	↑	-10.6%
Imports (value)	Annual % change	m	0.1%	-5.7%	↓	-15.6%
Confidence surveys						
QSBO – General business situation	net %	6	-12.7%	23.2%	↑	19.8% (NZ)
Westpac – Regional consumer confidence	Index	7	..	117.9	↑	111.1 (NZ)

Notes:

All data is from Statistics New Zealand and is not seasonally adjusted, unless otherwise specified. Other sources of data: (1) Reserve Bank of New Zealand; (2) ANZ (3) Infometrics, Regional Economic Database; (4) Real Estate Institute of New Zealand; (5) Ministry of Business, Innovation and Employment; (6) New Zealand Institute of Economic Research; (7) Westpac.

Calculations: Annual % change is calculated as $(\text{Quarter} / \text{Quarter}_{-4} - 1) * 100$ or $(\text{Month} / \text{Month}_{-12} - 1) * 100$; Annual average % change is calculated as $(\text{Year} / \text{Year}_{-1} - 1) * 100$.

• No quarterly change.

.. Denotes data not available. GDP data is not available due to revisions in methods employed by Statistics New Zealand.

m Data relates to the month of December, not quarter.

* Due to data availability, a 9 year trend is presented instead of a 10 year trend.

** Growth in the manufacturing and financial and insurance services sectors is proxied by growth in employment counts in these industries.

6 Figures presented are the net percentage of respondents that believe the general business situation will improve in the next six months.

7 Figures greater than 100 represent optimism at the consumer/household level.