

Auckland Economic Quarterly

Chief Economist's Newsletter

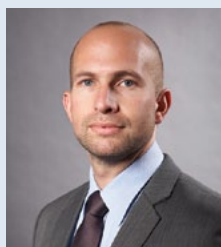


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Auckland Conversations – Auckland's Housing Market

Date: Wednesday 31 October

Time: 5pm -7pm

Venue: Limelight Room, Aotea Centre

Featuring:

Shamubeel Eaqub - NZIER,
Dominick Stephens - Westpac,
Arthur Grimes - MOTU

Chaired by Geoff Cooper

RSVP by 24 October to
aucklandconversations@aucklandcouncil.
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From the Chief Economist

Welcome to the first edition of the Auckland Economic Quarterly. This publication provides a comprehensive update of the Auckland economy.

We have developed this newsletter in response to emerging thinking on the role of cities in global competitiveness. More than half of the world's population lives in urban centres, generating more than 80 percent of global GDP. As Harvard professor and urban economist Edward Glaeser notes "despite the technological breakthroughs that have caused the death of distance, it turns out that the world isn't flat, it's paved. The city has triumphed". If New Zealand is to fulfill its economic ambitions, and compete successfully for skilled labour and productive capital, it is clear that Auckland has a leading role to play. This publication will track the success of these ambitions.

There are three key messages from this quarter's update that I would like to highlight.

First, the Auckland economy continues to perform admirably in global terms and relative to the rest of New Zealand. The Auckland economy grew at a rate of 2.1 per cent over the last 12 months. While this is not particularly glamorous in its own right (Auckland's ten year average is 2.5%), against the backdrop of a European sovereign debt crisis, a double dip recession for the United Kingdom, stuttering growth for Germany and a reduced growth outlook for China, it looks rather more attractive.

Second, migratory churn (measured as departures plus arrivals) in Auckland is at its highest level on record. In the 12 months to June 2012, Auckland experienced more than 30,200 long term or permanent departures, culminating in negative net migration in the month of April (a rare occurrence for Auckland). Slow domestic employment growth and strong economic growth for Australia (56% of departures went to Australia) are important contributing factors. Consequently, a majority of Auckland businesses are reporting an increasing difficulty in finding skilled labour.

Finally, the Auckland housing market is beginning to heat up. The median house sales price increased by 4.2 per cent over the last 12 months and is supported by low interest rates, which will persist in the medium term. New residential dwelling consents continue at low levels (4,197 over the last 12 months), well below the 10-year average of 7,154. This suggests minimal short term relief in prices from increased housing supply.

In this edition we have a piece from NZIER Principal Economist Shamubeel Eaqub commenting on the effect of the Christchurch rebuild on the Auckland economy. With the Christchurch rebuild expected to cost between \$20-30b, it is likely to have considerable implications for Auckland, most notably through migration flows and price changes in the construction and insurance sectors. You will also find a comprehensive set of Auckland economic indicators on the back page. In time we will look to introduce key comparator cities.

I hope you enjoy this first issue; please email me directly with any feedback you may have.

Geoff Cooper



Effect of Quakes on Auckland Economy

An opinion piece by Shamubeel Eaqub, Principal Economist at NZIER

The Canterbury earthquakes caused significant personal and commercial damage. The implications are becoming clearer over time, but many uncertainties remain.

Auckland's economy too has been affected by the earthquakes. The impacts will reverberate for some years to come. The key linkages have been through people flows, housing costs, insurance costs, flow of investment funds and a renewed discussion on building standards and emergency preparedness.

People inflows

The most immediate impact has been through people flows. Many left Canterbury after the earthquake. This has been evident in school rolls and taxholder address changes. Net migration of people from Canterbury to Auckland surged in the six months after the February 2011 quake. The pace has eased since then, but is still twice as fast as before the quakes.

The influx has been concentrated in Auckland central and surrounding suburbs like Kingsland, Mt Albert, Epsom, Remuera and Glendowie. The large influx of people from Canterbury added to strong international migration flows. Consequently, rents and house prices have risen at a fast pace.

Injection of skills

The people who emigrated from Canterbury to Auckland appear to be those with transferrable skills, high incomes and wealth. There are a few reasons to suspect this. First, the cost of housing in the suburbs the Canterbury migrants moved to is around 25 per cent higher than the rest of Auckland. Second, there was a surge in Auckland business and financial services jobs following the earthquakes. If these skilled, high-income and high-wealth people are retained in Auckland it will boost regional economic performance.

Potential inflow of investment funds

Longer term, there is an opportunity to attract investment capital from Canterbury to Auckland. The main drivers will be a smaller Christchurch CBD leading to surplus capital and continued delays in construction work discouraging some investors. Some property owners may choose to reinvest their funds elsewhere. Auckland is then an obvious choice.

Shared costs

The reconstruction of Canterbury will be paid for with insurance claims and a top-up from taxpayer funds. This has implications for all New Zealanders. First, insurance premiums have risen by 7 per cent over the past year (general cost of living rose a modest 1%). Second, higher taxpayer spending is effectively a transfer from the rest of New Zealand to Canterbury.

Construction sector changes

As the gargantuan reconstruction in Canterbury gets under way, it may lead to higher construction costs and scarcity of labour in that sector. Construction costs will rise in Canterbury, but it is not clear if it will spill over to other parts of New Zealand. Auckland construction costs will rise if there an exodus of construction workers from Auckland to Canterbury. So far, there is little evidence that construction prices are rising or that many Auckland construction workers are leaving. This will last as long as construction activity stays relatively soft.

The earthquakes have also sharpened the focus on building quality. Increased building standards could raise the cost of construction, and thus affect the return on projects. There may also be extensive earthquake strengthening work, whether forced by regulatory standards or market demand. Because these are essentially remedial work in nature, this will not add to productive capacity. Also, investment in earthquake strengthening will be diverted from business as usual investments in new buildings. So there is little net economic gain from this.

A mixed bag

The net impact on the Auckland economy is not clear yet. The complexity of the forces and channels means that it requires careful monitoring. There are risks, but also many opportunities from the inflow of people and capital.

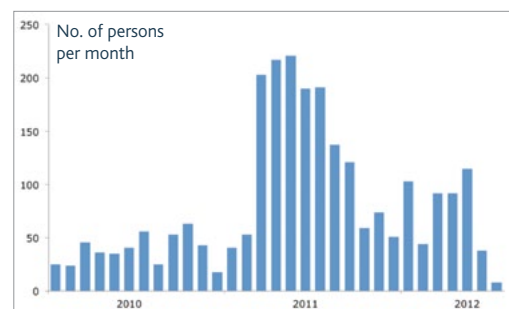


Figure 1: Net migration of tax residents between Auckland and Canterbury

Source: IRD

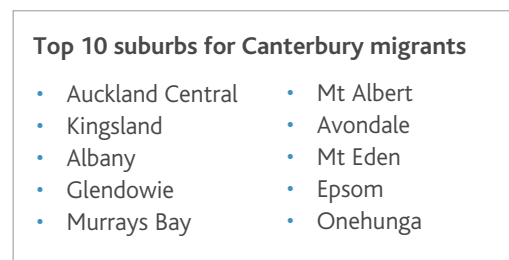


Figure 2: Top 10 suburbs of choice for Canterbury migrants to Auckland*

Ranked by the cumulative number of IRD address changes by suburb

*House price change in the top 10 suburbs between Feb-11 and Aug-12 was 14%, compared to 9% in the rest of Auckland.

Auckland Economic Commentary

Auckland out in front

Mediocre but acceptable growth of 2.1 per cent

The last year has set an uncertain scene for global economic growth. Amid a precarious situation in the Eurozone, a double dip recession in the United Kingdom, and decelerating growth in China, Auckland's GDP expanded by 2.1% in the year to June 2012. Not a bad result by all accounts. The rest of New Zealand grew at a slower rate of 1.1 per cent; while New Zealand overall grew by 1.7 per cent in the year to June 2012. Despite this growth, Auckland remains significantly below per capita income levels achieved prior to 2008 (see Figure 1).

Manufacturing rebounds

Auckland's economic growth has been led by the manufacturing, retail, and professional, scientific and technical services. These sectors were responsible for over half of Auckland's economic growth in the year to June 2012. Auckland's manufacturing sector alone accounted for almost 10 per cent of New Zealand's annual growth.

Financial and insurance sector grows

Expansion of the financial and insurance sector has also been welcomed. This sector has been particularly hard over the last five years and signs of a recovery have been slow to emerge. Over the last year, the sector grew by 3,500 employees and contributed 9.8 per cent to economic output. Auckland relies heavily on this sector due to its high labour productivity. The sector's annual output per worker in Auckland is more than double the Auckland average.

Trade diversion to Tauranga ports

The story is not all positive. Exports out of Auckland experienced an annual contraction of 25.3 per cent, on the back of last years' port disputes; meanwhile, New Zealand's exports experienced growth. A large proportion of Auckland's export contraction has likely diverted to Tauranga, which had annual export growth of 47.6 per cent, significantly higher than the decade average (7.6 per cent).

Youth unemployment still high but begins to fall

Youth unemployment remains stubbornly high. In the June 2012 quarter, the unemployment rate was 31.0 per cent and 10.8 percent for youth in the 15-19 and 20-24 age brackets respectively. This compares to an overall unemployment rate of 7.3 per cent. Weak demand for unskilled labour looks to be a contributing factor, but sustained growth in the manufacturing and retail sectors over the last two years will help to improve opportunities for youth (see Figure 2).

House prices turn upward while construction battles on

Housing market picks up

House prices are beginning to gather momentum with activity in the sector picking up substantially over the last year. Real house prices were flat between 2007 and 2011; over the last year however, we have seen growth of 1.9 per cent. The strongest house price growth has occurred in Ellerslie/Panmure, Mt Eden/Epsom, Mt Roskill and Birkenhead.

Residential consents show small lift but from a very low base

Residential building consents have been subdued over the last four years, but are beginning to bounce back with 4,197 consents issued over the last year; but this remains well below the annual decade average (7,154 consents). As construction gets underway in Christchurch, we expect to see some geographic competition for resources in this sector, which could place upward pressure on prices.

The construction sector has struggled to get out the starting gate following the global financial crisis; GDP for the sector contracted by more than 8.8 per cent in the year to June 2012 and fell to its lowest level of output since 2003. Meanwhile, employment in the combined utilities and construction sector has been flat since early 2010.

Low cash rate to persist into 2014

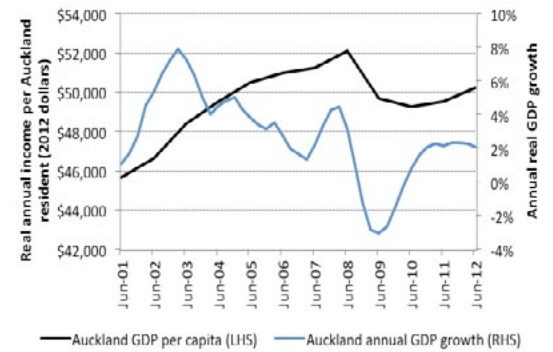
Housing demand will continue to be well supported by monetary policy. Global uncertainty surrounding the sovereign debt crisis in Europe and inflation forecasts at the low end of the Reserve Bank's target band suggest that there is little pressure to raise the cash rate in the short term. The market is not pricing in any rate hikes in the foreseeable future.

Skiping over the Tasman

Auckland props up New Zealand migration – but for how long?

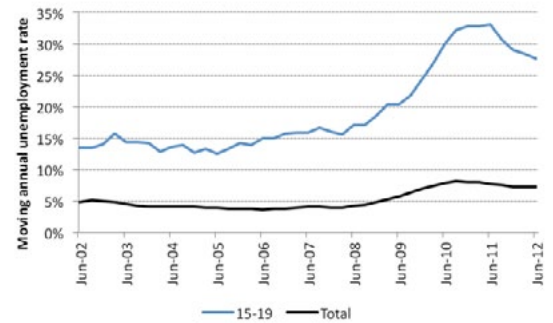
Auckland gained a net inflow of 5,079 migrants in the year to June 2012 compared to a net outflow of 8,270 for the rest of New Zealand. These net migration figures hide the level of churn currently taking place, with Auckland departures at 30,269 and arrivals at 35,348. Auckland had a net migration loss of 12,765 migrants to Australia, but Australia's economy is slowing amid a drop in global demand for its resources and lacklustre domestic consumption. Time will tell whether this is enough to arrest the outflow of Aucklanders to Australia.

Figure 1: Real GDP annual growth rates and real income per capita



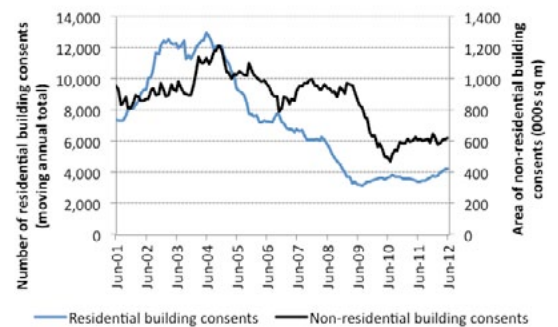
(Source: Infometrics and Statistics New Zealand)

Figure 2: Auckland's moving annual average unemployment rate 2002-2012



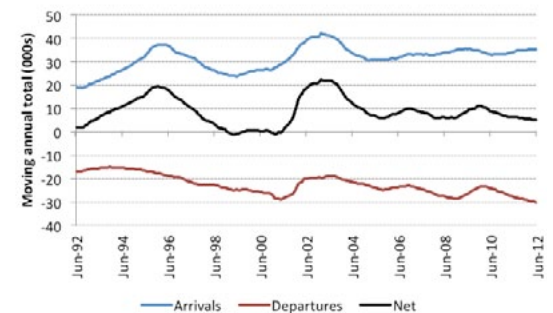
(Source: Statistics New Zealand)

Figure 3: Number of residential building consents issued and floor space area of non-residential building consents approved: Auckland 2001-2012



(Source: Statistics New Zealand)

Figure 4: Long term Auckland migration flows



(Source: Statistics New Zealand)

Auckland Economic Scorecard

New Zealand Economic Indicators	Notes		June
Inflation	1	Annual % change	1.0%
Official Cash Rate	1	%	2.5%
NZD/USD	1	June average	0.780
TWI (5 currency)	1	June 1979=100	70.85
ANZ Commodity Price Index	2, m	Annual % change	-16.1%
Current account as % of GDP		%	-4.9%
NZ population		at 30 June 2012	4.43 m
Auckland population		at 30 June 2011	1.49 m

Disclaimer

This newsletter provides general information on the Auckland economy, and is not intended to be used as a basis for any particular course of action or as a substitute for financial advice. The views and opinions expressed are those of the relevant author, and do not necessarily reflect the views of Auckland Council. Auckland Council disclaims all liability in connection with any action that may be taken in reliance of this newsletter, and for any error, deficiency, flaw or omission contained in it.

			Auckland			Rest of NZ
	Notes		10 yr trend	Q2	Quarterly change	Q2
Headline Indicators						
Employment	Number (000s)		645	708	•	1513
	Annual % change		1.9%	4.2%	↓	-1.1%
Unemployment	%		5.3%	7.3%	↓	6.3%
Real GDP (expenditure)	Annual average % change	3	2.5%	2.1%	↓	1.4%
Real wages	\$ / week (average)		\$1,036	\$1,101	•	\$1,002
Jobs						
Youth unemployment - 15-19 year olds	%		19.6%	31.0%	↑	20.7%
Youth unemployment - 20-24 year olds	%		9.3%	10.8%	↓	12.9%
Industries						
Manufacturing (employment counts)	Number (000s)	**	..	77	↓	169
Financial and insurance services (employment counts)	Number (000s)	**	..	31	•	37
Retail sales	Annual % change	*, m	3.4%	4.6%	•	4.9%
Housing and construction						
House sales - dwellings	Annual total sales	4	29,590	25,258	↑	42,985
Real average private rent	\$ / week	5, m	\$398	\$415	•	\$293
Rent to wage ratio	%	5	38.5%	37.7%	•	29.3%
Real median house sale price	\$	4, m	\$456,310	\$503,000	↑	..
Residential building consents - new dwellings	Annual total		7,154	4,197	↑	11,217
Non-residential building consents – new floor area approved (sq. metres)	Annual total		861,836	619,022	↑	1,700,077
Global connections						
Tourism - guest nights	Annual % change	m	3.1%	13.0%	↑	1.6%
Net migration	Net annual flow		9,926	5,079	↓	-8,270
Arrivals	Net annual flow		34,502	35,348	•	49,054
Departures	Net annual flow		24,576	30,269	↑	57,324
Exports (value)	Annual % change	m	1.8%	-25.3%	↑	24.6%
Imports (value)	Annual % change	m	4.2%	7.9%	↑	-0.3%
Confidence surveys						
QSBO - General business situation	net %	6	-13.7%	5.2%	↓	-9.2%
Westpac - Regional consumer confidence	Index	7	..	104.3	•	..

Notes:

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

.. denotes data not available

Calculations: Annual % change is calculated as $(\text{Quarter} / \text{Quarter}_{-1}) * 100$ or $(\text{Month} / \text{Month}_{-12}) * 100$; Annual average % change is calculated as $(\text{Year} / \text{Year}_{-1}) * 100$
m - Data relates to the month of March or June, not quarter.

* Due to data availability, an 8 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.