

Report 13.132
Date 10 April 2013
File WRS/11/01/01

Committee Economic Wellbeing Committee
Author Colin Drew, Project Leader

State of the Regional Economy (Part 2)

1. Purpose

To update the Committee on the general state of the Wellington regional economy.

Material is based on economic trends over the last decade, indicators for the year to March 2012 and data for the quarter to December 2012. This approach provides a picture of recent performance and trends over time.

2. The decision-making process and significance

No decision is being sought in this report. Any subsequent decision arising from this report would be subject to a separate report.

3. Background

On 7 March 2013 the Committee received a report from the Wellington Regional Strategy (WRS) Office on its economic monitoring, research and information programme. It also received a summary sheet of key economic indicators for the 2012 year.

This report provides further detail and comment on the regional economy, plus an outline of what this potentially means for the WRS programme. The primary source of information is the *2012 Wellington Region Annual Economic Profile* produced by Infometrics. This profile covers the economy, labour market, the performance of key industries, standard of living, sub regional statistics and comparisons with other regions.

Officers are conscious that information in the Infometrics profile is based solely on statistical information and in the case of industry performance and occupations, assumptions are made that would ideally be supported by qualitative information. Thus caution is advised in interpreting disaggregated material such as sub regional statistics and sector performance in particular. Further research of businesses is underway to better understand the factors that sit behind some of the numbers.

Where comparisons are made with national averages or the performance of other regions, the assumption is that the whole country is subject to the same global economic climate and business operating environment. Local differences then come down to local factors.

4. Comment

This report is provided in four sections:

- Context of economic performance
- Negative trends or indicators that signal a need for further interventions
- Positive trends and indicators that signal the region's strengths and further growth potential
- Responding to the issues.

4.1 Context of our economic performance

Since 2008 the economic climate has been volatile and relative to the rest of New Zealand, the Wellington region has been affected more than in previous recessions. The reasons for this relative decline have been attributed to a shift of corporate head office functions to Auckland (and elsewhere), the continued decline in the manufacturing industry and a retrenching of government spend. Also New Zealand's growth in recent years has largely stemmed from the primary sector which has enjoyed good commodity prices. The Wellington region has a small primary sector and has therefore not benefited to the same degree as other regions.

Wellingtonians are generally positive and good business confidence scores may not reflect economic realities in many cases. While there has been growth in some sectors, this has not been sufficient to offset losses in other parts of the regional economy.

Activities such as tourism (eg cruise ships), retail, and exports through the port are highly visible, however other parts of the economy take place in large buildings with limited public knowledge of what occurs inside. Economic performance is about understanding the collective impacts of all this activity and how it contributes to jobs, income levels, population movement and business growth for example.

This report attempts to provide a collective picture of the local economy with an emphasis on trends over the last decade. This way, annual peaks and troughs, and data anomalies provide less chance of skewing the results. By understanding the potential impacts of such trends, local government is better prepared in its infrastructure, environmental and economic planning processes.

• 4.2 Negative trends

A range of indicators are used below to demonstrate where Wellington is performing at or below the national average. Growth at a global scale is being

driven from urban centres so for New Zealand the focus is particularly on Auckland, Christchurch, Wellington, Hamilton and Dunedin. Such centres are competing for business, skills and investment at a national level. In general Wellington is not performing as well relative to these metropolitan areas and/or national averages, specifically:

- **Population Growth** – This is considered an indicator of where jobs are most available, and where there is a healthy economy and excellent amenities. Annual growth has averaged 1% since 2002 which is below the national average, although Wellington City has been higher at 1.5%. Growth in recent years has come from a natural increase. For example in 2012 there was a natural increase from births of 3,300 but a net migration loss of 880. Wellington is ranked the lowest growth rate of the metropolitan regions in the last decade.

Another indicator of population growth is the number of skilled migrants attracted to an area. Wellington's percentage of all skilled migrants coming to Wellington has decreased from 17% in 2008 to 12% in 2011.

- **Employment Growth** – The average rate of employment growth since 2002 is 1.2% which is below the national average and places us last of the comparator regions. There has been negative growth in the last 2 years with a net loss of 1380 jobs mostly from the finance, public administration, retail, construction and manufacturing sectors. The unemployment rate of 7.6% is the highest level in Wellington since 1994. Occupations that have lost the most jobs in recent years are bank workers, general clerks, sales assistants, secretaries, personal assistants and defence force staff.

The major job growth in the last decade has been in government; professional, scientific and technical services, and education and training. Wellington is ranked 11th of 16 regions for employment growth.

- **Economic Growth** – This is generally measured by Gross Domestic Product (GDP) and for Wellington has averaged 2.0% growth since 2001 compared to 2.5% nationally. There has been flat growth for Wellington in the last 2 years while nationally the figure is around 2% growth per annum. Wellington is currently ranked 15th of 16 regions for economic growth with Canterbury ranked last.. There was a similar period from 2003–2006 when Wellington tracked below the national growth rate.

Productivity growth as measured by GDP/capita has been the same as the national average per the period from 2001, however in 2012 was 0.3% compared to 1.1% nationally.

- **Business Units** – Growth in the number of business units is slightly below the national average but tracking ahead of it since 2011. Recent growth is not a reflection of scale however. A better indicator of impact would be corresponding flat employment and economic growth. Business size growth since 2002 is below the national average which is also a negative figure.

Economic analysts in Wellington have questioned the degree to which the number of business units reflects the significant contracting businesses in the ICT, film and government sectors which are heavily represented in the region. These are likely to be predominantly sole traders.

- **Sector Diversity** – The theory is that the more concentrated a region's economy is in a few industries, the more vulnerable it is, especially to economic conditions and commodity prices. The region's diversity score has increased between 2001 and 2012 which indicates a less diverse economy. We are ranked 15th with only Nelson ranked less diverse.

Sectors that have been targeted for growth over the last decade appear not to be contributing any greater percentage of total GDP now than previously i.e. most sectors have been 'rising with the tide'. Understanding the performance of particular sectors will require more detailed research and analysis before drawing conclusions. This is particularly the case with different operating models across sectors and how sectors have been defined over time.

- **House prices** – These are a reflection of factors such as demand, job security, demographic changes and economic confidence. Median house price growth has been declining below the national average since 2011. House prices declined by 0.2% in 2012 compared with a 3% increase nationally.

4.3 Positive trends

While there are downwards trends both recently or over a decade, there are also some areas where the region has advantages and points of economic leverage, specifically:

- **Annual Earnings** –The median annual income to March 2011 was \$56,260 compared to a national figure of \$49,900. Earnings growth has tracked at the national average since 2004 but off a higher base.
- **Housing Affordability** – This is a factor of relatively high income levels and a softening housing demand. Although housing has become less affordable since 2001, affordability has improved relative to the national average.
- **Skilled occupations** –Almost 40% of the Wellington workforce is employed in highly skilled occupations compared with 36% nationally. There is a correspondingly lower percentage of people in low skilled occupations. Government reference is also made to employment in "knowledge intensive industries" and "high growth firms". These sectors will likely be the source of future productivity growth with Wellington identified as having 25 high growth firms per 1000 businesses which is high compared to other centres. Employment growth in knowledge intensive industries since 2002 ranks Wellington third behind Auckland and Waikato.

- **Comparative advantages** - High concentrations of industries in the region generally means the availability of the appropriate skill sets and expertise. The region is assessed as having comparative advantage in the following industry groups:
 - Arts and recreational services
 - Telecommunications, internet and library services
 - Insurance
 - Finance
 - Electricity and gas.

Some of these will be a consequence of head offices located in Wellington and thus may/or may not reflect only Wellington-specific activities and employment.

- **Infrastructure** – Sustainable economic growth occurs where there is supporting infrastructure and amenities to enable this to happen. There is capacity and/or planned upgrades in the areas of water supply, telecommunications, energy supply, public transport, roads (RoNS) and port services. Health facilities have been expanded recently and there are 2,896 doctors per 100,000 population which is above the national average. The region is well advanced in the areas of hazard mitigation compared to other parts of New Zealand.

Regional comparators for infrastructure in New Zealand are starting to emerge. At an international level, cities are benchmarked for “Quality of Life” through organisations such as Mercer. These exercises include all the infrastructure elements listed above as an indicator of why labour and investment would be attracted to a city and what some of the problems may be.

In the 2012 Mercer report Wellington scores mostly 10/10 on infrastructure and community amenity, as does Auckland (although Wellington score a point higher on public transport and congestion). However while Auckland is ranked third globally, Wellington comes in at 13th. The primary reason for this difference is the low score of 4/10 for Wellington’s international connections/direct flights.

4.4 Responding to issues

Local government holds relatively few levers to reverse downward economic trends in the short term. Generally it takes a longer term planning approach through the provision of infrastructure, essential services, community amenities and land controls. More targeted interventions occur through economic development functions within councils and Grow Wellington, the regional economic development agency.

This section focuses on such direct intervention activities designed to understand and respond to growing the local economy.

4.4.1 Understanding the business environment and practices

As outlined in the background section, statistics are only the starting point for determining if an issue exists or not. The previous presentation at the last Economic Wellbeing Committee meeting on the regional economy discussed the research, monitoring and evaluation programme being undertaken by the WRS Office.

An addition to this is a joint initiative with Victoria University and third year human science students to undertake in-depth business surveys. This will involve some 200 surveys and 60 case studies to better understand factors such as future skill needs, staff management practices, growth plans and why businesses reside in Wellington. Armed with such knowledge more targeted interventions and support can be provided.

4.4.2 Leadership and communications

Other than the international climate, two main factors are emerging that impact on the ability to address some of the negative regional economic trends. High business and consumer confidence masks many deep-seated economic issues and a reluctance to acknowledge these. Thus leadership and communicating the facts and longer terms implications of trends is an important role local government can play.

Wellington is also being somewhat sidelined by government attention on Auckland and Christchurch in particular. Government has multiple ways of assisting the regional economy given the large public sector presence here. Yet lack of a strong regional voice, united front or commitment to a regional approach translates into the region being perceived as difficult to work with.

4.4.3 Projects

The WRS Office is progressing specific projects aimed at facilitating business growth. These include developing business case material for uptake of ultrafast broadband (UFB) so that it can be used to demonstrate to business the cost and performance benefits to them. This work is being undertaken in the knowledge that there is international evidence of increased UFB uptake resulting in improved economic, employment and social outcomes.

On 11 April 2013 the WRS Office organised a call to action workshop on employment matters in the region. This was attended by representatives from local government, business, the tertiary sector, government agencies and community organisations. This exercise was to firstly highlight some of the gaps that need addressing and secondly, to identify what further actions could be progressed. Follow up work will be done with the relevant partners.

There are two other significant regional infrastructure projects identified that local government has a role in progressing and which have the potential to significantly impact the regional economy in the long term. One, the Wairarapa Water Use project, is currently being progressed under Greater Wellington Regional Council's leadership. The second, attracting international

air carriers and expanding the Wellington Airport facilities, is currently included in Wellington City Council's strategic plan.

4.4.4 Grow Wellington

The regional economic development agency will be presenting its draft Statement of Intent (SOI) for 2103/14 to the WRS Committee on 24 April 2013. This will show alignment with the WRS focus areas and targeted approach to Grow Wellington's extensive work programme. Through a greater partnership approach, some of this work will increasingly be informed by research, monitoring and project activities conducted through the WRS Office.

5. **Communication**

There has been no communication or consultation related to this report. It is possible that some media interest is generated on the more negative aspects of the regional economy outlined in the report. A media statement has been prepared.

6. **Recommendations**

That the Economic Wellbeing Committee:

1. *Receives the report.*
2. *Notes the content of the report.*

Report prepared by:

Report approved by:

Report approved by:

Colin Drew
Project Leader

Jane Davis
General Manager

Nicola Shorten
Manager Strategy