

THE AUCKLAND ECONOMY: *Situation and Forecast*

November 2009



economics



INSTITUTE OF
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THE AUCKLAND ECONOMY SITUATION AND FORECAST

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1 OUR ASSESSMENT

Latest employment data released last week confirm that the much-heralded end of the recession remains little more than a technicality. This is as true for the Auckland economy as it is for its national counterpart. The net 13,000 jobs shed from the Auckland economy over the past year mean annual employment contracted by nearly 3% over that period.

Looking ahead, hopes of an export-led recovery for the NZ economy have been dashed by an exchange rate that defies any rational assessment of the fundamentals.

Consequently, the short-term outlook for the Auckland economy is best described as unstable. Clearly, the next few months will be better than the first half of 2009, but there will be little to celebrate. We forecast:

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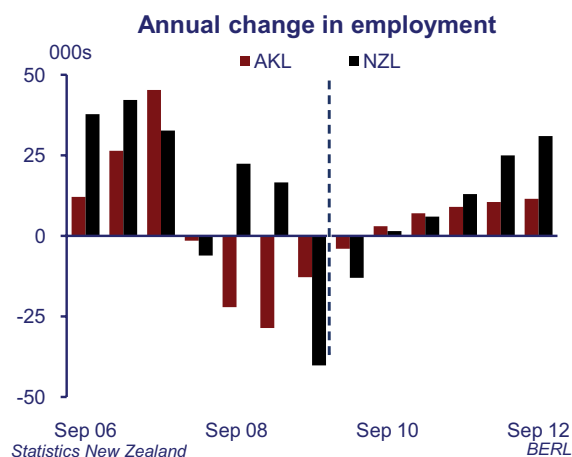
- a sombre export picture for manufacturing
- modest, at best, employment growth
- a subdued outlook for retail trade
- import growth slightly above national
- net inward migration gains
- moderate house price growth
- growth in house building activity
- guest nights treading water.

While recent retail trade, house price and residential building consent numbers appear promising, the underlying picture remains tedious. Auckland retail sales have registered growth over recent months, but at rates that mean inflation-adjusted sales volumes remain flat.

Real estate activity has definitely picked up, with days to sell, volume and price indicators all signalling a resurgent market. However, the feeling of déjà vu is inescapable as the economic sores from the imbalance between the economy's property and production sectors continue to fester.

House building activity, spurred by improving net migration, will grow. But industry capacity, limited by the skill exodus, will constrain its ability to respond. We see house building remaining well below 2007/08 levels.

Consequently, the employment picture for Auckland is set to remain modest. This employment outlook provides the backdrop to the forecast. In this context it is important to note that the Auckland economy entered recession well before the NZ economy.



Indeed, the Auckland economy was in recession before the worst of the global financial crisis had taken hold, as evidenced by a closer look at employment numbers. The Auckland economy had already shed 1,800 jobs in the year to March 2008. 6 months later saw the annual loss in jobs in Auckland climb to over 22,000 jobs. The rest of NZ had, over the year to September 2008 increased job numbers by more than 44,000.

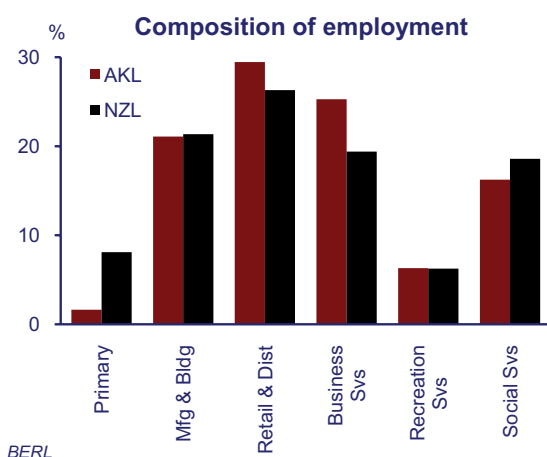
So, and contrary to popular opinion, the Auckland recession (and by implication a significant portion of the NZ recession) cannot be blamed on influences from abroad. The primary reason for the recession was the tightening of monetary policy imposed over the 2003-2007 period. The Official Cash Rate was

progressively increased from 5.0% at the end of 2003 to 8.25% at the end of 2007. This tightening was necessary to head-off perceived inflationary pressures arising from a capital inflow induced housing price bubble.

Thus Auckland's job shedding occurred earlier than that in other regions. The rest of NZ is now feeling the brunt of job losses, while the rate of job losses in Auckland is now easing. As a result we see Auckland employment growth turning positive earlier than the rest of NZ, but remaining relatively modest. Consequently, Auckland unemployment numbers are also forecast to turn down earlier than in the rest of the country.

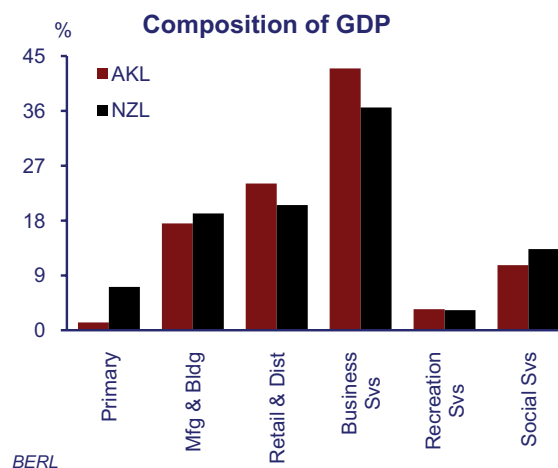
The relatively early upturn in employment in Auckland prevents the retail trade story from being totally miserable. And this domestic spending bias in the recovery story also explains Auckland import figures turning up earlier than the nation's. A further factor here is the collapse in business investment, which compounds the bias in imports towards consumer items coming through Auckland.

Meanwhile, the tourism industry feels the brunt of the exchange rate just like any other export sector. Auckland guest nights, like those for the nation, are currently well below year-earlier levels. These are forecast to grow only marginally until a boost coinciding with the 2011 Rugby World Cup.



So, while the recession is technically over, the fundamental issues facing the Auckland

economy remain unchanged. The necessary re-balancing of economic activity between production and property is conspicuous by its absence. The search for quick solutions on the productivity debate continues, while an understanding of Auckland's role in the wider NZ economy remains elusive.



As the charts show, the Auckland economy accounts for relatively little of NZ's primary sector and noticeably more of its retail and business services sectors. These conclusions are entirely as would be expected for any economy's principal metropolitan centre. However, the extent of these distinctive features appears to be overdone as it would be expected that such a centre would also exhibit a greater relative concentration in the manufacturing and building sector. Indeed, in both GDP and employment terms, the proportions of the Auckland economy accounted for by the manufacturing and building sector are slightly lower than that for NZ.

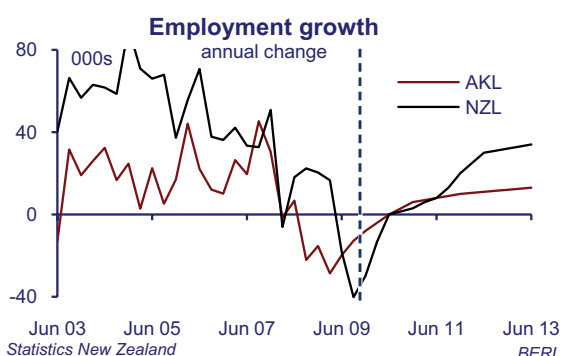
These observations reinforce the imperative that the Auckland economy rebalances towards production activity if the nation's productivity puzzle is to be tackled and its growth agenda implemented. In this context, a repeat of the responses to the previous recession (e.g. cuts in business investment spending and calls for public sector restraint) leave a mounting, and overwhelming, sense of déjà vu.

2 AUCKLAND ECONOMIC ACTIVITY

2.1 LABOUR MARKET

We expect annual job losses in the Auckland economy to continue into the first quarter of 2010. However, the rate of job losses has already eased and we expect job growth to resume by mid-2010. This contrasts with the picture for NZ where job losses are set to accumulate well into 2010.

The earlier upturn for the Auckland labour market arises, in part, because the Auckland recession also began earlier than elsewhere. At the height of this distinction, Auckland job losses were running at an annual 29,000 in first quarter of this year, while the rest of NZ recorded annual job growth of close to 45,000.

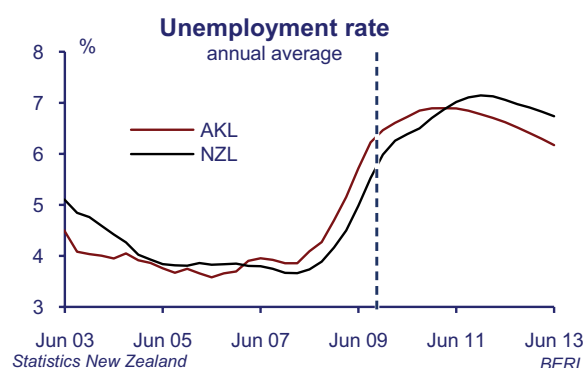


With a noticeable upturn in net migration forecast to continue, house building activity and associated retailing revert to modest growth. These factors provide a foundation for this modest upturn in employment.

However, the tentative nature of the nation's recovery as its export sector struggles to cope with the high exchange rate conspires to keep employment growth, in both Auckland and NZ, to a minimum.

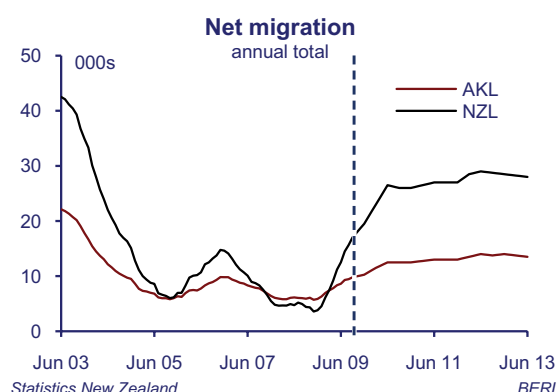
This different timing of the employment upturns is also reflected in the respective unemployment forecasts. We expect Auckland unemployment, which has averaged 6.2% over the past 12 months compared to the

nation's 5.5% figure, to peak at 7.1% in the March 2011 quarter. This amounts to official unemployed of more than 50,000 in Auckland. This figure is not higher because we expect a fall in the labour force participation rate as the number of disillusioned job seekers increase.



The weakness of the recovery means a rapid reduction in the rate of jobless is unlikely. We expect Auckland unemployment to stay above 6% for the remainder of the forecast horizon.

As noted earlier, net migration is expected to continue to rise. We expect a net gain for Auckland of 12,500 over the coming year to September 2010. This compares with the net 9,800 inflow in the September 2009 year and the 5,900 in the year to September 2008.



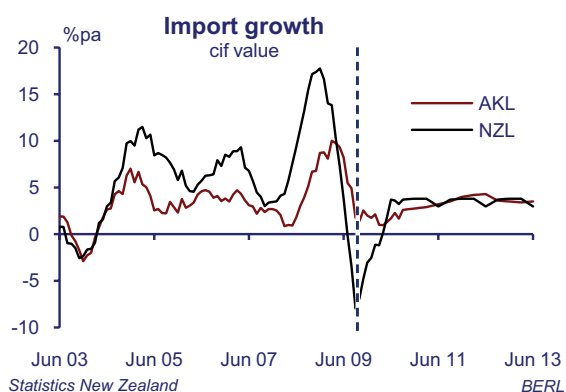
As for the NZ picture, much of Auckland's recent migration gain has arisen from a fall in

departures. In particular, Auckland migrant arrivals have stayed roughly constant over the past couple of years near an annual 35,000. However, departures have declined from over 28,000 to be currently close to 25,000.

Over the short term, we expect the decline in departures to continue through the first half of 2010. Thereafter, departures pick up as the Australian economy again begins to become relatively attractive. Arrivals also begin to grow as sluggish European, UK and US economies again entice more expat Kiwis (and others) to these shores.

2.2 EXTERNAL TRADE

In terms of exports and imports, Auckland appears to have weathered the economic storm slightly better than New Zealand as a whole.



The value of imports arriving in Auckland is expected to grow by about 1.7% in the year to June 2010, down from the 8.2% recorded in the June 2009 year. Following a tentative recovery in consumer demand and a moderate decline in the NZ\$ exchange rate, annual import growth is expected to climb to over 4% during the year to June 2012.

In volume terms, annual import growth is expected to stay negative through the first half of 2010, similar to that for the nation as a whole. The forecast 0.5% growth in the year

to June 2010 represents a stabilising following the large 8.8% fall in the previous June year.

The difference between the Auckland and New Zealand figures here reflects the relative dominance of consumer imports in the Auckland equation. In contrast, the New Zealand figures are more influenced by the picture for imported inputs for industry use (in particular, petroleum). With business spending unlikely to recover for another year or so, the differential impact on imports arises.

As to recent history, imports values have risen strongly in Auckland. The lowest annual growth figure was the 0.8% recorded for the March 2008 year. However, nationwide import growth has been larger, reflecting the composition of the earlier import expansion being more focussed on capital goods, machinery and equipment, consistent with the investment surge earlier experienced.

Exports from Auckland and New Zealand will be hampered by an overvalued NZ\$ and ongoing uncertainty associated with a volatile currency. While the value of exports has continued to grow through the global downturn, we expect exports through Auckland to grow by only 1.5% in the year to June 2010. This contrasts with double-digit growth recorded over the June 2009 year.



Looking further out, the recovery in the world economy remains weak, which sees annual growth in export values struggle to top 5% in either Auckland or nationally.

Auckland saw export values rise 9.2% a year between May 2004 and 2009. Over the same time, export weights by sea and air climbed 6.8 % a year.

While values of exports and imports through Auckland ports have risen steadily in recent years, the region has seen its share of national export and import values fall slightly, from around 47.4 %, to 46.3 %.

Despite swine flu concerns and the economic downturn, the number of international passengers passing through Auckland International Airport breached the seven million mark in the August 2009 year. One possible explanation is Australia residents choosing to holiday locally rather than in Europe or the Americas. Another is the surge in reasonably-priced four-to-seven day packages to Pacific Island and Australian destinations. Short-term arrivals from Australia through Auckland reached an all-time high of 579,000 in the June year, up 9.3 % over the previous year.

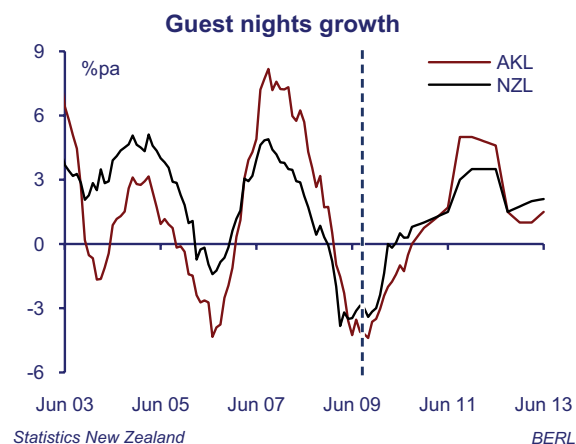
Domestic passenger numbers have been affected, however, down 3.7 % from the peak seen in October 2008.

2.3 TOURISM

Auckland's share of New Zealand guest nights (one-sixth) means that what happens in the country as a whole reflects changes in Auckland fairly closely. We expect annual guest night declines in Auckland to bottom out by late 2009 before growing again. Annual figures should move into positive territory by September 2010. The Rugby World Cup in 2011 will boost tourism further across the country from July through to the end of that year.

Guest night growth in Auckland has passed through two full cycles over the last six years, from negative growth in early 2004 to growth upward of 3% by mid-2005 and down to strongly negative again in 2006. This cycle has been repeated, but with gains of over 8%

year-on-year to September 2007 before the current downturn.



While the New Zealand trend has typically matched that of Auckland, it is noticeable that Auckland has experienced wider swings over the cycles. That is, Auckland has recorded larger gains on the upswing and small larger declines on the downswing.

With 45% of Auckland guest nights accounted for by international visitors compared with 40% nationally, the wider swings in Auckland are likely to be related to its openness to the international market.

The other distinguishing feature of the Auckland tourism market is an occupancy rate of 52%, well above the national average of 36%. Of course, these figures include caravan parks and hosted accommodation categories, so such a distinction is also consistent with the composition of Auckland tourism scene.

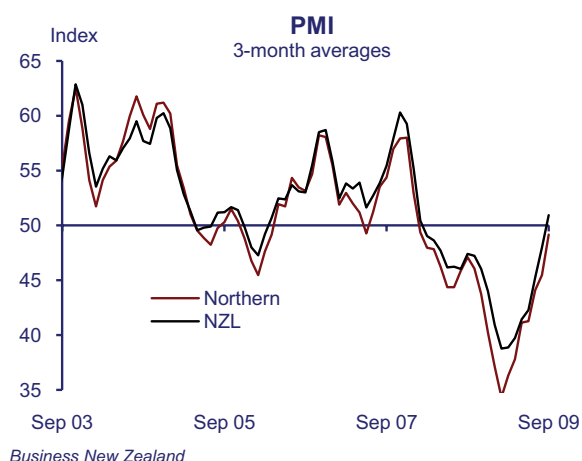
Despite the large fall in guest nights, Auckland occupancy rates remain only marginally below year-earlier levels. Occupancy rates for the 3 months to August averaged 44.3% compared to 46.9% a year ago. Over the year to August, average occupancy rates have only declined to 52% from the 53.9% recorded a year earlier.

These figures suggest tourism accommodation capacity in Auckland has fallen over the past year, in response to the downturn in activity.

2.4 MANUFACTURING

Manufacturing appears to be coming out of a long contraction, despite a strong NZ\$ that is not conducive to business confidence or sentiment, nor manufacturing sales and margins.

The Bank of New Zealand – Business New Zealand Performance of Manufacturing Index (PMI) crossed the threshold into positive territory in September, reaching 51.7 on a seasonally-adjusted basis. This was the first positive reading since April 2008.



Most positively, the new orders sub-index reached 56.3 in September, continuing the return to positive territory it has enjoyed since June. Looking at unadjusted figures, the PMI for the quarter to September was the highest (at 50.9) since the February 2008 quarter, and has consistently risen from a low of 38.8 in February 2009.

Among our trading partners, the JPMorgan Global PMI was steady at around 53 in September, while across the Tasman, the Australian Industry Group – PricewaterhouseCoopers Australian PMI rose to 52.

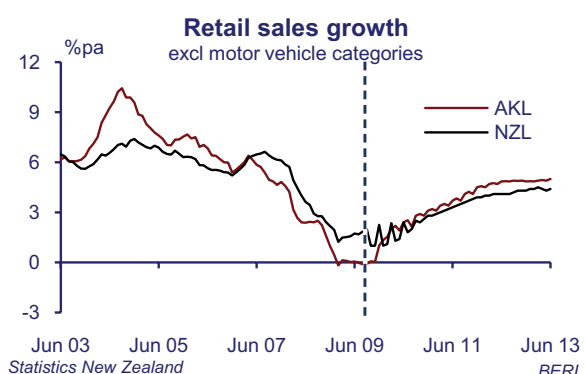
There are encouraging signs in the Northern Region, made up primarily of Auckland. The unadjusted Northern PMI breached the crucial 50.0 mark, reaching 52.8 in September, the highest reading since November 2007.

However, while these indices are beginning to indicate that manufacturing activity is expanding, this expansion is weak and fragile. Optimism needs to be balanced with figures that indicate the substantial decline in employment and production that has occurred over the last two years. While economic activity in China and India is gathering momentum, their trading partners in the US, Euro Zone and Japan remain weak, and look likely to remain so through 2009 and into 2010.

3 THE AUCKLAND CONSUMER

3.1 RETAIL INDICATORS

Auckland retail sales (excluding motor vehicles) are expected to turn positive in October or November 2009, recovering slowly to 2% growth year-on-year by March 2010, gaining momentum through the forecast horizon to 2013. Given average annual inflation of around 2%, this retail forecast implies static sales volumes for at least another 6 months



We note, consistent with the larger employment losses experienced, that Auckland retail sales had slumped by more than the national average. Further, a recent marginal recovery in some retail indicators has yet to show through in Auckland figures.

Retail sales rose strongly at a national, seasonally-adjusted level in August, up 1.1% over the month before. This was the best result since November 2007, and follows the mixed messages seen over the previous four months, where two were strongly up, one was flat, and one was negative. And for a change, the upward movement was spread across a range of industries, from furniture and floor coverings to hardware, clothing, bars and clubs, and personal services. Only eight of 24 industries recorded declines in sales.

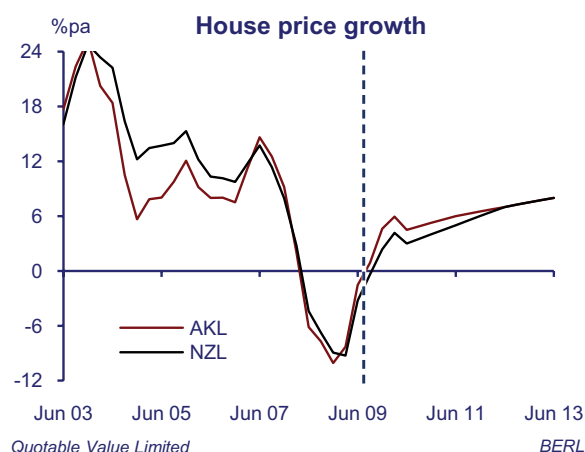
Auckland, in contrast, saw only a slight rise in seasonally-adjusted retail sales in August. But more encouragingly, this was the sixth consecutive month of positive growth.

Vehicle purchases, a major decision for most buyers, provide another indication of consumer confidence. Vehicle registrations remain well down on last year's figures nationwide and Auckland is no exception. At 15,050 in the September quarter, Auckland new car registrations were down 7.1% on the same quarter last year. However, the rate of decline has definitely eased, given that the June quarter was down 26% on the same quarter a year earlier. This suggests that consumer confidence is turning, but forecasts of higher unemployment into next year are unlikely to see a rapid recovery in new vehicle purchases.

3.2 HOUSING

House prices are on the way up. We expect house price growth to have been positive in the September quarter, and that growth will grow strongly to 6% a year by mid-2011.

According to Quotable Value (QV), Auckland house prices in June were down just 1.5% on a year earlier. This contrasts with the March quarter, where house prices were recorded as 8.3% down on year-earlier levels.



We note that Real Estate Institute (REINZ) numbers record a significantly smaller fall in house prices. For example, REINZ numbers put Auckland house prices in the December 2008 quarter at only 4.1% down on year

earlier, compared with QV data which recorded a 10% fall for that period. The methodological differences between the two datasets mean that the QV data better reflects underlying influences in the market.

The media is full of stories about house price and sale figures rebounding. Sales in Auckland in particular are picking up. Consequently, it appears that relatively more higher-priced houses continue to be sold, while those in the middle-to-lower price ranges are being held off the market.

House price growth has been significantly slower in the region since 2003. However, since late 2008, as house price growth turned sharply negative across most of the country, Auckland house prices have moved more in line with those of the nation.

Looking ahead, we expect national and Auckland house price growth to be largely in step over the forecast horizon. Marginally higher house price growth in Auckland (compared with NZ) is expected over the short term as increased inward migration, and reduced outward flows combine with supply constraints.

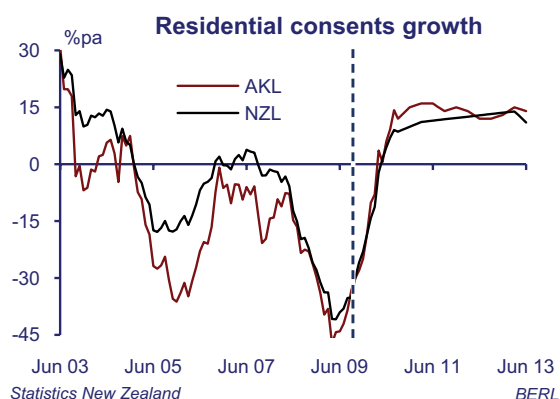
Days to sell are falling sharply as another indicator that the trough in the housing market has passed. According to the REINZ, the average number of days to sell in Auckland in the September quarter was down to 31 days compared to 48 days for the same period last year. This fall mirrors the decline over the country, with the average days to sell falling from 55 days to 35 days over this period.

4 AUCKLAND CONSTRUCTION

4.1 RESIDENTIAL

Residential building consents are projected to recover from the 33% fall recorded in the year to September 2009. Growth is expected to climb into positive territory by mid-2010 and reach 15% by the end of 2010. We project that over the longer term Auckland residential growth should stay at this level through to June 2013. This recovery reflects the improved migration picture, as well as a response to the ongoing supply-demand imbalance.

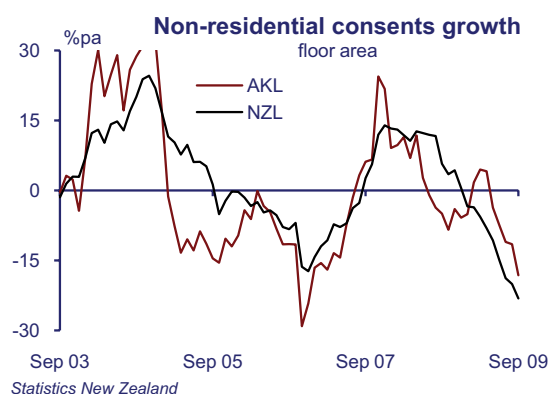
However, this is at best termed a modest recovery, noting that forecast consents for the September 2010 year of 3,800 (compared with 3,400 for the year to September 2009) remain well below the 5,090 recorded in the year to September 2008.



In 2003, Auckland residential consents were more than 40% of total New Zealand residential consents (12,400 out of 30,100 for the June 2003 year). Since then, Auckland consents have generally grown less or fallen more than nationally, especially in 2004 where national consents grew, while Auckland consent growth was relatively flat. Throughout 2006 and 2007 Auckland consents fell at a much greater rate than nationally. The declines in residential consent numbers throughout 2008 and 2009 were fairly similar for both Auckland and the national picture.

In June 2009, Auckland's share of residential consents was down to around 23% of the national total (3,300 out of 14,200). Clearly, the Auckland residential construction sector has been hit harder by falling new building demand than other New Zealand regions.

4.2 NON-RESIDENTIAL



Non-residential consents growth is typically highly volatile, affected as it is by large scale commercial and industrial developments such as malls and factories. Latest numbers suggest the non-residential sector of the Auckland construction scene has not fared any better than its residential counterpart. In floor area terms, Auckland non-residential consents in the year to September were more than 18% down on a year earlier.

Non-residential consents grew strongly in 2004, up over 34% in the November 2004 year (in floor area). However, they have declined for most of the period since, except for a short rise in the 2007 year.

The New Zealand trend typically matches that of Auckland, but with lower volatility – less significant peaks and troughs. In recent months, however, New Zealand consents (floor area) have fallen by more than in Auckland.

5 THE WIDER CONTEXT

With global stock markets recovering lost ground, New Zealand house prices and house sales numbers turning up, the prospect of stable interest rates for another six months or so, rising net migration, and Australia, Germany, France and the US recording positive GDP growth, many are suggesting the recession is past.

From a technical sense, these suggestions are correct in that quarterly growth in New Zealand's GDP has returned to positive (just).

However, the evolving composition of this positive growth leaves us feeling very uneasy. Of course, much depends on time horizons. The outlook can be summarised as follows:

- short term – the next year will be better than last year.
- medium term – the two years following next year are unlikely to be better than the two years preceding last year.
- long term – the quest for a high-wage export-based economy with productivity advances will remain elusive.

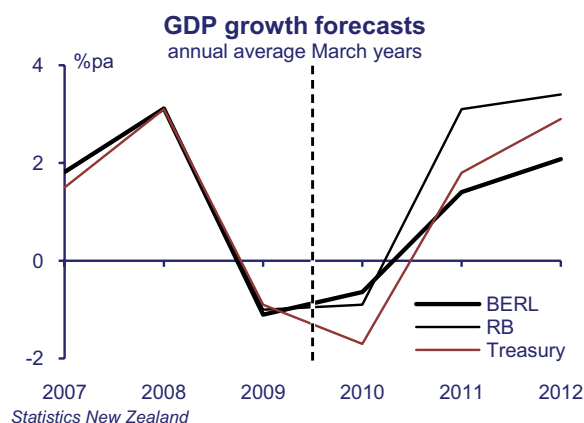
Without doubt, the immediate short-term outlook is more positive than it was earlier this year. With unemployment no longer set to reach double-digits (although we were not amongst those suggesting such a blowout) and resurgent business confidence, the 'climate of fear' has abated. Furthermore, the export contribution from forestry (logs to China), meat (receipts if not volumes), and kiwifruit and wine (ongoing industry growth) have added to the feeling that the worst may have passed.

Nevertheless, monthly indicators suggest that activity is still well below year-earlier levels across many sectors. While the rate of decline may have eased, new residential building consents are still more than 20% below those of a year ago. Similarly, the slight pick-up in retail sales turnover,

with the latest three months being 2.6% up on year earlier, suggests sales volumes remain flat (at best).

Looking ahead, our projection for GDP growth in the March 2010 year is -1.0%.

While this number looks worse than now, it is consistent with a quarterly profile of growth beginning from the June 2009 quarter. But the weakness of the recovery – barely 0.2% per quarter – ensures annual growth remains negative in the March 2010 year. Thereafter, we expect GDP growth to creep towards the 0.5% per quarter mark and register close to 2%pa for the March 2011 and 2012 years.



We are noticeably less optimistic than either of the RB's or Treasury's latest forecasts of a quick rebound to a 3% growth trajectory (as pictured). In this context, we remain unconvinced by the 'green shoots' argument. While we won't see a repeat of the 'shocks' from abroad, as we have had over the past year, the recurrence of additional isolated shocks cannot be discounted.

Further, we have difficulty seeing a rapid recovery from the export sector. The forestry industry is making a contribution via increased log exports, but the prospects for any significant surge in processed products over the medium term is low. Further, export volumes from the meat industry

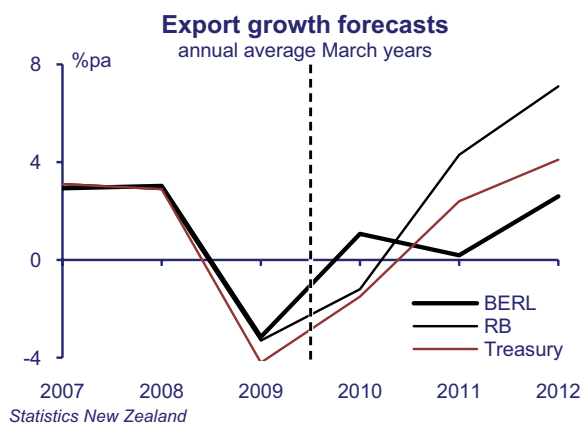
remain static with cattle and sheep slaughtering totals for the year 7% down on the previous year.

The collapse in activity in the manufacturing sector (down 9% in the year to June 2009) means that this sector has now shrunk for three out of the last four June years.

Consequently, the \$17.5bn contribution to GDP (in 1996\$) from this sector in the year to June 2009 is equivalent to its contribution in the year to June 2003. That's six years of standing still! And export volumes from machinery and transport equipment in the year to June 2009 were over 9% down on the previous June year.

Also, note that these manufacturing numbers include measures of activity in the processing arms of our primary product sector – i.e. dairy, meat, fish and forestry processing.

Meanwhile, the tourism industry has been saved (for the day) courtesy of the Australian government's largesse via this nation's ski slopes.



In behind this sad and sorry export tale is the exchange rate that defies any relationship to fundamentals. It is a story that will not be rectified unless the relative price signals between the tradable and non-tradable sector are similarly rectified.

Much as BERL has been critical of many Reserve Bank actions over the past 20 years,

we have to come to the RB's defence on these matters. Under the RBNZ Act 1989, the prevention of inflation is its single responsibility and variation of the OCR has been chosen as its only instrument. As we have argued throughout, inflation was always and still is more than just a monetary problem and influencing interest rates at the short end was never an adequate method of managing the monetary component. So it's not the RB's fault, or at least its current management's, that it has been given an impossible job to do and a useless instrument for the purpose.

In the meantime, the appreciation of the NZ\$ has continued, although at a slower rate. We believe the Trade-Weighted Index (TWI) is now near its top.

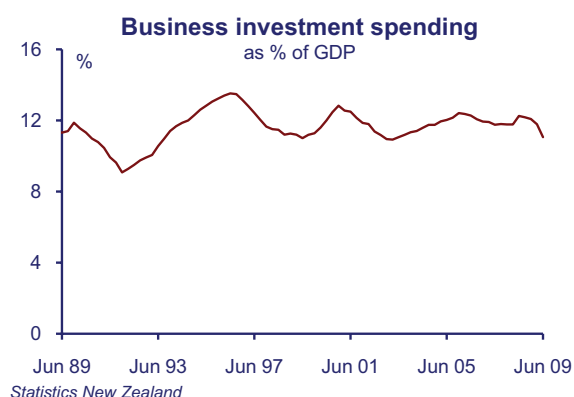
This is in contrast with the current market view that the US\$ has considerably further to fall. This could be true for the near term. But, taking a longer-term view, we note that financial authorities in general, and particularly in the US, are already considering the "claw-back" of government provided liquidity to major banks.

We believe stimulus packages may soon begin to improve investment conditions in their respective real domestic economies. Thus we could have a concurrence of reduced liquidity and increased investment demand in major markets, both of which would tend to reduce capital outflow and therefore the demand for foreign currencies such as the Kiwi.

However, we doubt that the TWI would fall to a level low enough to generate sustained export-led growth. As long as major currencies manage their currencies downward, it is inevitable that currencies not so managed will tend to be over-valued. If, as we believe, a TWI in the mid-50s is the natural rate required for such growth, it would follow that the actual TWI delivered by the market will fluctuate around a higher level, such as 60.

This is our longer term forecast of the TWI, but we would hesitate to guess when the decline is likely to occur.

Our concern for the medium to longer term is further heightened by the picture for private sector investment. The collapse in the first 6 months of 2009 (down 8.6% in March quarter followed by a further 4.3% fall in the June quarter) means real investment spending by businesses in the year to June was 15% below that of the previous year. The prospects for a quick U-turn here are also unlikely, as businesses look to replenish cash flows and bank lending remains constrained.



The latest numbers reinforce the rather sorry longer-term business investment story (as pictured). And while short-term productivity numbers are set to look good, given reduced labour inputs, the prospects of longer-term sustainable productivity growth are not bright if business investment continues under pressure.

Therein lay our concerns as to the composition of economic activity. Consequently, our forecasts are tending towards yet another domestic spending base for the re-establishment of growth.

Despite the 'technical' end of the recession, a belated impact on employment numbers and numerous other labour market indicators is now being felt. While jobless numbers rose through last year, it wasn't until the June quarter that employment growth turned negative coupled with an easing in participation rates.

We expect various labour market indicators to continue to lag behind overall economic activity. Businesses have not shed staff as quickly as in earlier recessions. Consequently, the return to positive growth as measured by GDP numbers this year will not be reflected in growth in employment numbers until later next year. But with such growth being muted, at best, unemployment numbers are set to remain high for some time.

Assisted by a slight reduction in participation rates, we are forecasting unemployment to peak at just over 7.3% in mid-2011. While well below some forecasts promulgated by others earlier this year, this is still a sobering number, representing over 170,000 officially unemployed. This represents a lengthy period of relatively high unemployment. So, while the recession may be technically over, the damage to economic performance and social conditions will continue well into the medium term.

6 FUTURE DEVELOPMENTS: THE BERL/IPP RELATIONSHIP

The current economic situation and the forecast for Auckland as outlined in this report highlight fundamental challenges for the region's future development. The forecast for only moderate, if any, improvement in Auckland's economic activity suggests that the current policy environment is not in tune with Auckland or with the challenges the region is currently facing. These challenges are not new. For more than a decade a series of reports have referred to the region's barriers and opportunities. The central themes to emerge from these reports include: the antiquated physical infrastructure and utilities; the restrictive conditions under which business and industry have operated exacerbated by an unstable financial environment; the inflated housing market which has fuelled speculation rather than investment; and an extremely diverse population base that has experienced a significant deterioration in household income and job security. These challenging issues continue to dominate the regional context today.

There is considerable evidence to show that the spectacular physical environment that nurtures New Zealand's largest city is being undermined, rather than enhanced, by numerous factors. For example, the deterioration in Auckland's development is evident in the sub-standard high rise apartments that dominate the region's centre, and in a public transport system that is among the worst of any major city in the developed world. Consequently, the potential of Auckland to become New Zealand's global city is being severely hampered and its contribution to national development is not being realised.

On the positive side of the regional ledger is Auckland's role as a population portal for the national economy and the diverse population groups that significantly define the character of the metropolitan city. Nowhere is this potential more evident than in the development of the creative industries and in particular industry sectors such as film, entertainment, sport, tourism and hospitality.

In order to address these issues and provide a comprehensive account of the region's development, BERL and the Institute of Public Policy have formed a partnership to produce ongoing assessments of Auckland's economic and social development. By integrating BERL's regional forecast with a review of the wider policy environment, the BERL/IPP partnership aims to provide a comprehensive account of the interaction between economic forces and the population of Auckland.

Policy bodies tend to be preoccupied with regional boundaries based on geographic or political assumptions. However, the strength and potential of the Auckland economy stems from its connections with provincial economies. The way in which it is able to add value to exports through professional and financial services, business management and marketing is in many ways the core business of the Auckland economy. But, there are also the many specialist manufacturing enterprises active in the Auckland economy. These relationships require a more comprehensive assessment.

The initiative launched in this report by BERL and New Zealand's Institute of Public Policy is aimed at providing independent assessments of Auckland's development, thereby combining a detailed analysis of economic and social trends over time with an in-depth evaluation of policy decisions and practices. The knowledge base for subsequent reports will be attuned to both national and global realities – we are acutely aware that there are some factors which clearly lie outside our control both in regional and national terms. The recent meltdown in global financial markets is one such example – that said, more could be done in policy terms to regulate an industry, which has not been very successful in regulating or auditing itself. Other factors in the policy environment are within our control, and thus the aim of the BERL/IPP partnership is to make an informed, constructive and independent contribution to those policy discussions and outcomes.



FORECAST DATA SUMMARY*

September years		Actual			Forecast		
		2007	2008	2009	2010	2011	2012
Employment %pa	AKL	7.2	-3.3	-2.0	0.5	1.4	1.8
	NZL	1.5	1.0	-1.8	0.1	0.6	1.4
Unemployment %	AKL	3.7	4.4	6.5	7.0	6.8	6.4
	NZL	3.5	4.1	6.3	6.8	7.1	6.8
Export volumes %pa	AKL	12.6	0.9	8.3	2.0	3.5	4.0
	NZL	4.8	11.0	3.9	2.5	2.4	2.4
Import volumes %pa	AKL	9.9	-1.1	-10.2	0.5	0.2	0.4
	NZL	3.4	3.8	-14.3	0.5	0.1	0.1
Guest nights %pa	AKL	8.2	2.7	-4.2	0.0	5.0	1.5
	NZL	4.9	0.4	-3.0	0.8	3.0	1.5
Net migration 000s	AKL	7.8	5.9	9.8	12.5	13.0	13.8
	NZL	8.3	4.4	17.0	26.0	27.0	28.8
Retail trade excl mvs %pa	AKL	5.0	2.5	-0.1	2.8	4.1	4.9
	NZL	6.4	2.8	2.0	2.5	3.6	4.2
House prices %pa	AKL	12.5	-7.7	0.9	4.9	6.3	7.3
	NZL	11.4	-6.7	-0.4	3.5	5.5	7.3
Residential consents %pa	AKL	-13.3	-22.5	-33.2	12.0	14.0	12.0
	NZL	-0.1	-19.4	-35.2	8.6	11.8	13.2

* detailed data tables available on request

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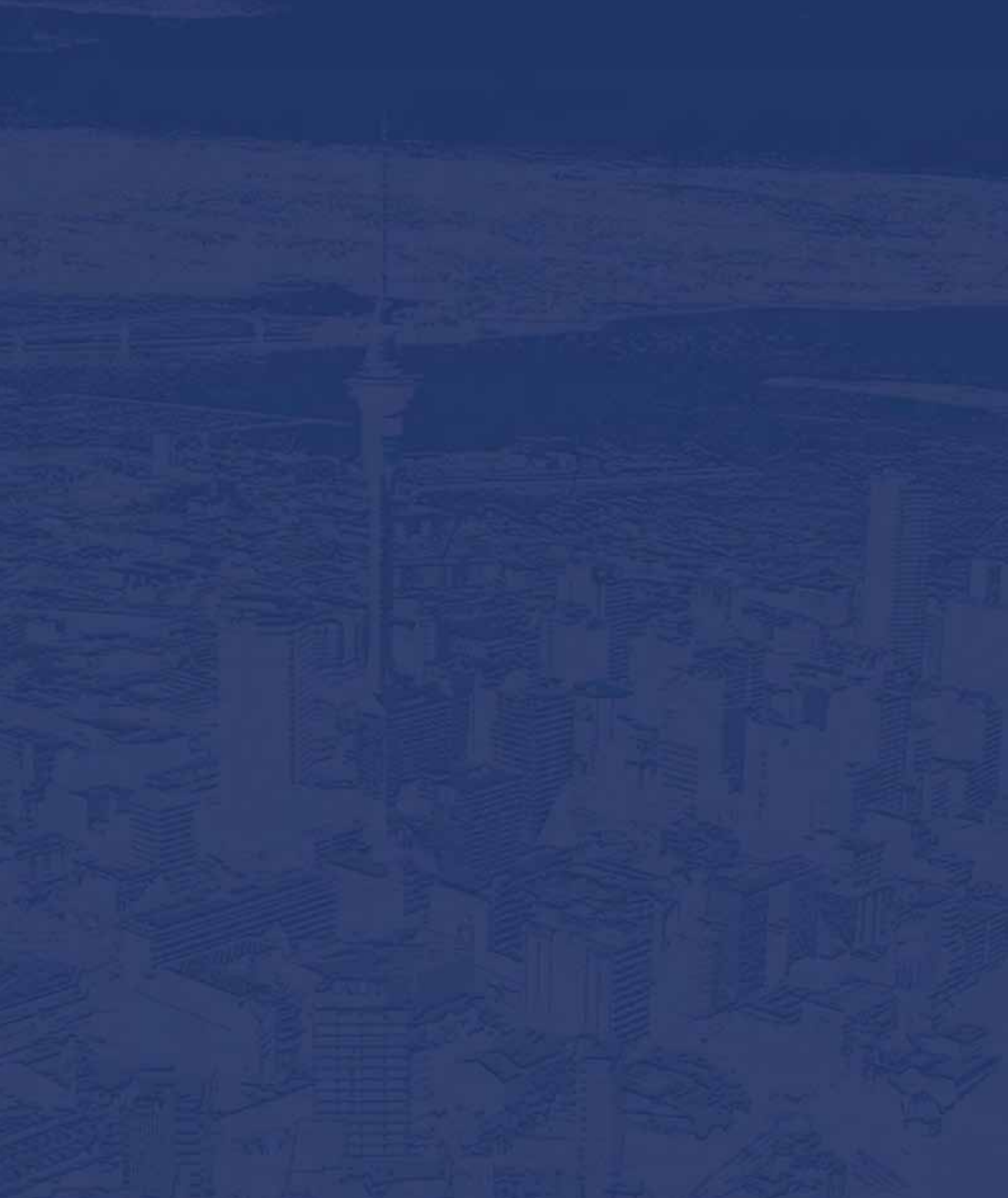


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