

Update

Moderate
economic growth
continues...



2001 Update

In this issue of Regional Outlook, August 2001, we provide an update on the most important developments in Wellington region's economy, since the start of the year.

A detailed analysis of the region's industries and local economies was presented in the February 2001 issue of Regional Outlook.

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summary

moderate growth trend continues

Wellington's large business and financial services sector grew more strongly than expected over the last six months, and remains well placed to provide the foundation for solid long-term growth in the region. In the last six months the region has also experienced strong employment growth, improved residential building activity, more car sales, and increased tourist arrivals.

Of course, Wellington has had its share of bad news as well as good news over the first half of 2001. Higher fuel prices put a squeeze on the profits of some transport companies. And there were signs of slower retail spending.

The rate of economic growth in the Wellington region is likely to have remained steady at around 2% per annum over the last six months. This rate of growth is likely to continue over the coming year, and while it represents a solid increase in business activity, it will be marginally lower than the national average.

Wellington is expected to benefit from a continuing rise in tourist numbers over 2001 and 2002, helping to remedy the relative slowing in retail sales turnover so far this year. Agricultural exporters will also do well.

But the overall structure of the economy – relatively few firms in export focussed industries – will count against the region in the short term. At present, a low exchange rate and continuing world economic growth (notwithstanding some recent slowing) favour exporting firms more than domestically oriented businesses. Service businesses have bucked these unfavourable conditions and grown strongly over the first half of the year, but looming wage increases for these companies mean the rapid expansion is unlikely to continue.

Slow population growth compared to the national average will also limit Wellington's economic expansion over the rest of the year.

more people

on the Kapiti Coast

Census Population Results

Provisional population as at 2001 census, and % change between censuses

Area	2001 census total	1991-1996	1996-2001
Kapiti Coast	41,967	10%	8%
Wellington City	165,942	6%	4%
Porirua City	46,833	0%	1%
Upper Hutt City	36,600	-1%	0%
Lower Hutt City	94,719	1%	-1%
Wairarapa*	38,253	-1%	-1%
Wellington Region	424,461	3%	2%
New Zealand	3,792,754	7%	3%

Population growth in the Wellington region was just 2% between the 1996 and 2001 censuses (provisional count), compared to 3% growth nationally. The Kapiti Coast recorded the highest population growth rate in the region (8%), partly due to its popularity as a retirement destination. Population in the Wairarapa declined 1% over the same period, in line with the nationwide trend of falling rural populations.

Source: Statistics New Zealand

*Wairarapa includes the Masterton, Carterton, and the South Wairarapa Territorial Authorities.

the region in context

macroeconomic environment

Taking into account seasonal factors, national economic activity did not increase over the first three months of 2001. Weak primary sector production volumes adversely affected activity in the manufacturing sector, and the construction sector remained depressed. On a brighter note, service industries, including finance and business services and personal services, performed strongly over March, and export prices remained healthy even if export volumes did not.

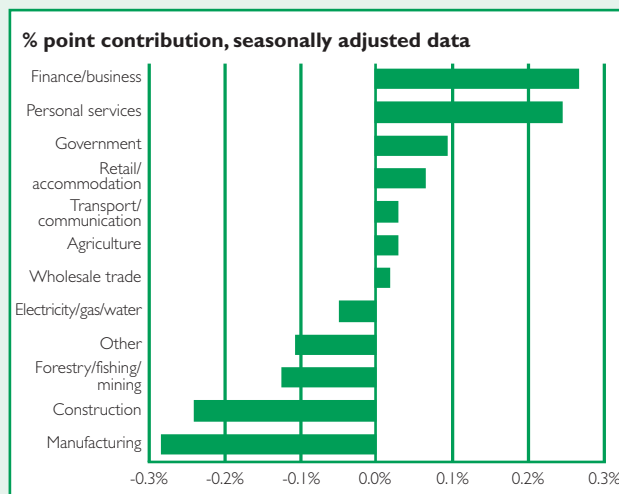
Economic indicators for the June quarter are slightly more positive. National retail sales grew healthily in April, although they stalled somewhat in May; car sales are up; new residential building is almost back to where it was a year ago; and tourist numbers continue to grow robustly. And while export volumes have remained disappointing in recent months, export receipts continue to boom due to solid world commodity prices and the low New Zealand dollar.

On the global front:

- A quick recovery is under way in Australia, following a post-Olympic and post-GST introduction decline in business activity.

- The US economy has slowed, but consensus forecasts indicate that a recession is unlikely and that by mid-2002 US economic activity will be growing back above 3% per annum.
- Structural problems will continue to inhibit economic growth in Japan, New Zealand's third-largest export market.

Contribution to National March Quarter Growth



Source: Statistics NZ National Accounts

strong employment

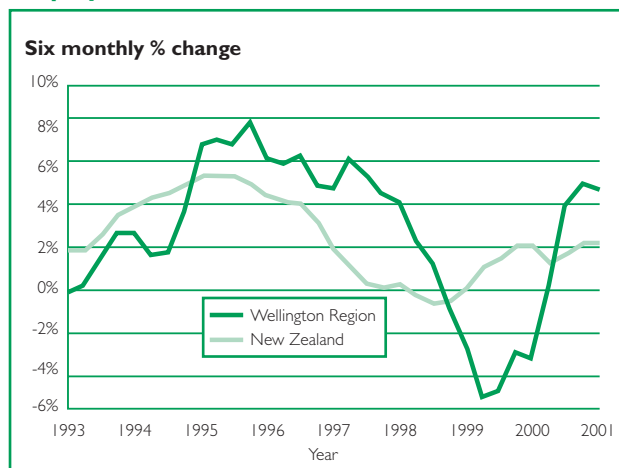
growth

Employment growth has been particularly strong in the Wellington region since late 2000. While this relatively large lift in the number employed indicates some increase in economic activity, the low level of employment in 1999 has slightly exaggerated the rate of growth.

Nevertheless, over the June quarter, the number of job advertisements in the Evening Post was 5% higher than in June 2000, suggesting that labour market activity remains solid in the region (figures are from ANZ Bank Job Ads Survey).

The unemployment rate in the Wellington region in the March quarter was among the lowest in New Zealand, reflecting strong employment growth, but also weak population growth.

Employment Growth



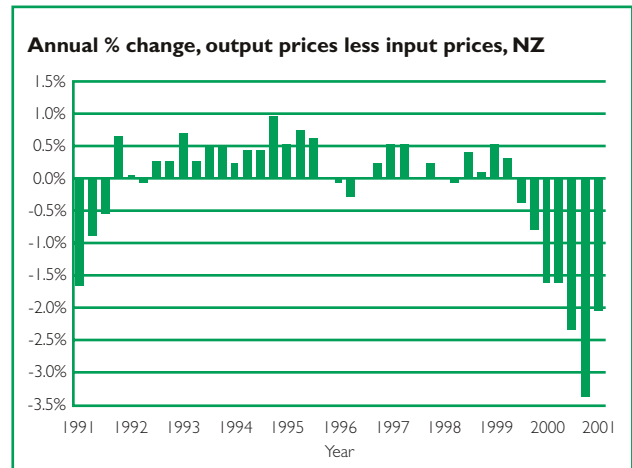
Source: Statistics NZ Household Labour Force Survey

Nationally, the fastest growing sector for employment was hospitality and trade. This suggests that tourists appear to be playing a significant role in creating employment.

Also, national March quarter GDP figures showed increased activity in the finance and business, personal services, and Government sectors, which are all central to the Wellington regional economy. This lines up with the increased level of employment in the Wellington region.

The service sector has recovered slightly faster than we expected in the February 2001 Regional Outlook. It appears that the squeeze on producers' margins is being largely offset by the falling cost of real wages, and activity has not been as constrained as much as we first thought. Wage inflation is likely to pick up as the year goes on.

Producer Margins



Source: Statistics NZ Producer Price Index

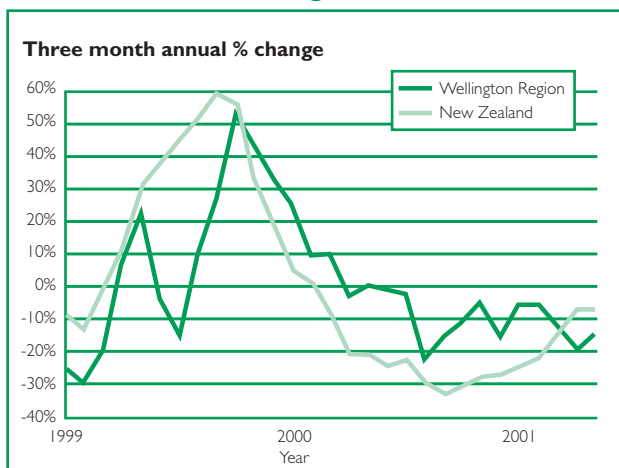
slow recovery *in house building*

Residential Building

Residential building in Wellington has not recovered as quickly as the national average in recent months. Despite interest rate cuts, the quarterly number of new housing consents granted in the Wellington region fell 15% over the year to May 2001. Wellington City is the only area where the number of new building consents has increased in the three months to May, compared to the same period last year.

We anticipate only a slow recovery in residential building in the Wellington region, as real house prices are unlikely to continue increasing at their current rate, which will give buyers little encouragement to invest. Furthermore, growth in households' real incomes will be only gradual. On a more positive note, the latest quarterly figures show we will not have to wait long for this gradual recovery to begin – it is already under way.

Number of New Dwelling Consents



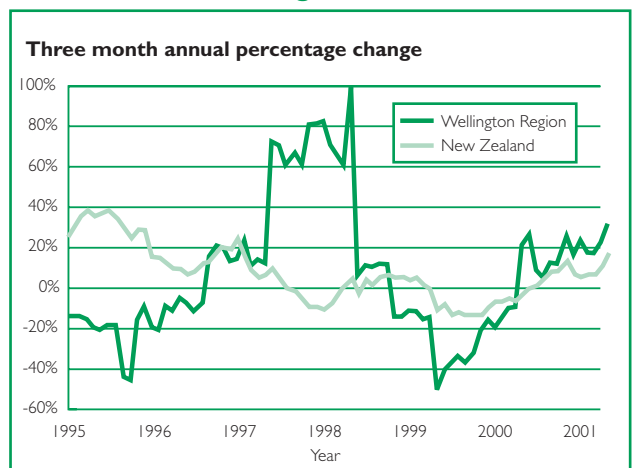
Source: Statistics NZ Building Consent Statistics

Commercial Building

The rate of growth in the value of non-residential building consents in the Wellington region has been rising since early-2000 and is now on a par with the national growth rate.

The current increase in non-residential building activity reflects, to a degree, firms catching up with building investment that was postponed after the Asian Economic Crisis and when business confidence dropped sharply in mid-2000. The number of optimists barely outweighs the number of pessimists in both Wellington and New Zealand according to June quarter business confidence figures (National Bank Business Outlook), indicating that firms' investment in building will grow only weakly over the coming year.

Non-residential Building Consents



Source: Statistics NZ Building Consent Statistics

(continues over)

Housing Permits – Where’s the Action?

Building activity by local authority, May quarter 2001

	Number of housing permits		Contribution to region’s growth in permits	
	Seasonally adjusted	Actual	Quarterly	Annual
Kapiti District	107	115	0%	-11%
Porirua City	41	42	0%	-2%
Upper Hutt City	26	21	-3%	-3%
Lower Hutt City	51	56	4%	-1%
Wellington City	296	259	11%	4%
Wairarapa	36	39	-1%	-2%
Total Wellington region	557	532	11%	-15%

Source: Statistics NZ Building Consent Statistics/Infometrics seasonal adjustment

weak retail trade but *increased car sales*

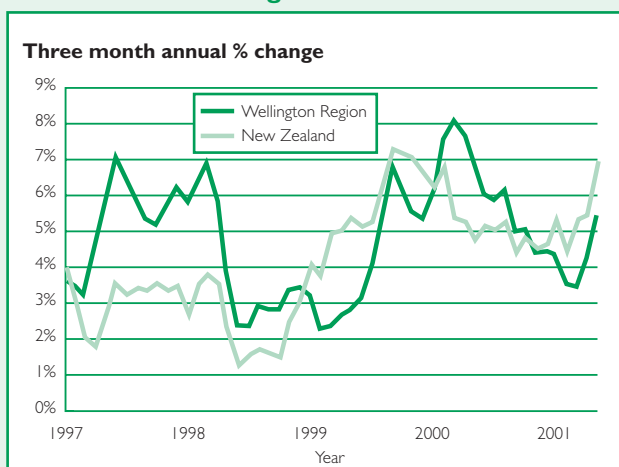
Retail trade growth (excluding car sales and services) in the Wellington region fell below the national average in the six months to May 2001. Given that the general price level increased by 3.1% in the March quarter on an annual basis, real growth in Wellington’s retail trade (excluding car sales and services) was negligible. The large depreciation of the New Zealand dollar has contributed to weak retail trade growth through cutting households’ purchasing power. The increased price of food and imports (particularly fuel) and falling real wages have detracted from households’ discretionary income.

However, the outlook for retailers is brightening. Recent cuts to interest rates, employment growth, and the

likelihood of increasing real wages will contribute to moderate increases in retail sales over the remainder of this year.

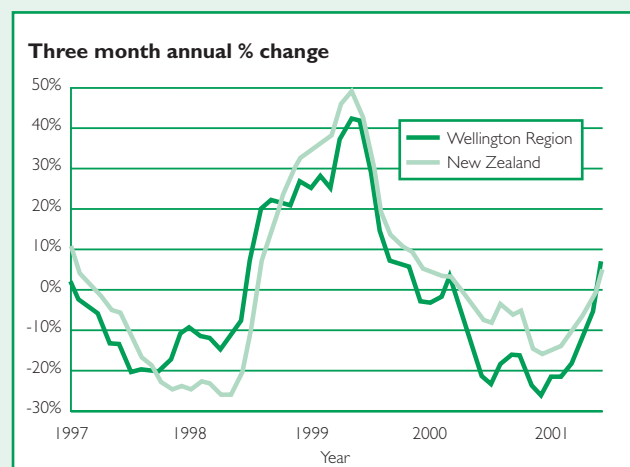
Growth in the number of car sales in the Wellington region lagged the national rate over 2000 but has now caught up. Anecdotal evidence suggests that luxury cars, which are more expensive, are being sold in relatively high numbers in the Wellington region. Luxury vehicles are more widely available for purchase in main centres, and it is likely that people from more isolated parts of the lower North Island are travelling to Wellington to purchase luxury cars.

Retail Trade Excluding Auto Sales



Source: Statistics NZ Retail Trade Survey

Car Sales



Source: LTSA First Time Car Registrations

region's export activity

led by tourism

As reported in the February 2001 Regional Outlook, the Wellington region is far more domestically-focused than export-focused. However, tourism, sheep farming, and forestry do play an important part in the region's economy.

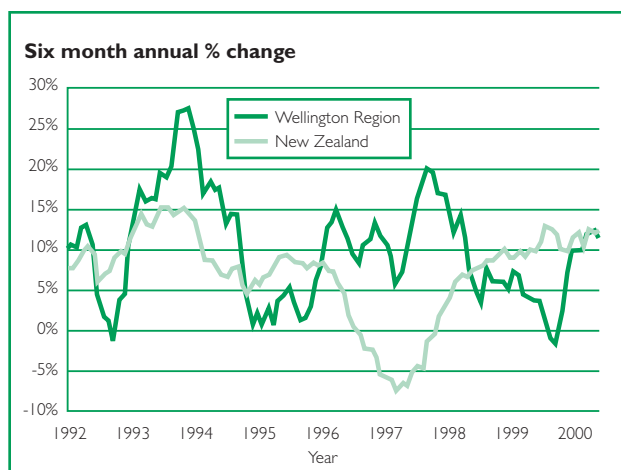
Over the next year we expect growth rates in the relatively small export sector to outperform those in the domestic sector. Although slowing global economies will constrain growth in export volumes, export prices will remain high. At the same time, weak population growth and the squeeze on business' margins from rising real wages and expensive imports will hinder demand and activity in the domestically-focussed service sector.

Tourism sector

Tourism remains the Wellington region's largest export industry. Nationally, strong growth in the number of tourists has persisted into 2001. In the year ended May 2001, tourist numbers were 11% higher than in the previous year. Solid growth in household incomes in key overseas markets is contributing to more visitor arrivals.

Tourist arrivals at Wellington Airport have risen rapidly in the last six months and in recent months have grown slightly faster than national arrivals. Wellington Airport accounts for 5% of total tourist arrivals, which amounts to almost 100,000 people per annum.

Growth in Tourist Numbers

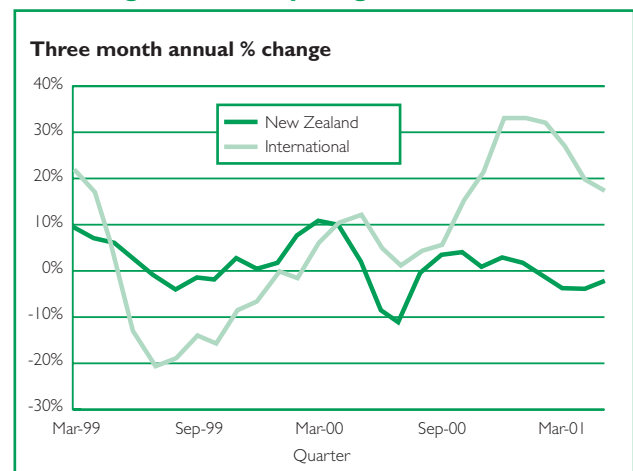


Source: Statistics NZ Tourism and Migration Statistics

As expected, more tourists has meant more hotel beds filled. International tourists are almost solely responsible for solid annual growth in Wellington's hotel patronage – the numbers of New Zealanders staying in Wellington has declined – quarterly foreign guest nights spent in the Wellington region grew 17% over the year to May.

The most recent monthly data have pointed to a gradual recovery in domestic tourist numbers, particularly in Wellington City. Likely reasons for the improvement include renewed tourism marketing efforts, the Versace exhibition at Te Papa, and a number of international sporting events.

Guest Night Growth by Origin



Source: Statistics NZ Accommodation Survey

Agriculture and forestry sectors

The Wairarapa and Kapiti Coast account for the majority of primary sector activity in the Wellington region.

Lamb, mutton, and beef prices are currently at all time highs. Returns to farmers from exporting meat have been augmented by the low New Zealand dollar and disease problems in Europe. New Zealand farmers are well placed to continue supplying the European and United States markets over this year and returns are likely to remain rewarding.

In contrast to meat prices, forestry prices have been weak. While domestic timber prices remain flat to falling, log prices in Korea (which takes half of all our log exports) in the June quarter were 25% lower than in June 2000. This reflects low house construction activity.

While forestry is not a major industry in the Wellington region, wood harvests in the lower North Island are forecast to increase substantially over the next decade. This will have a positive effect on the volume of exports from the region, but will be most apparent once large more recently planted stands mature.

steady growth

in services sector

The Wellington region's economy is service based, and the largest component of the regional service sector is the business and financial services industry. Over the March quarter, national production from this industry rose steadily, and Wellington is likely to have shared some of that growth. As previously mentioned, this growth came despite a tough environment for non-exporters. Declining real wages were partly responsible for the unexpectedly good performance of this labour-intensive sector. We do not expect the weakness of wages to continue, suggesting slower services growth ahead.

Another important service industry for Wellington is transport. The difficult time the transport sector has had over the past six months is best illustrated by the demise of Qantas New Zealand. Sustained high fuel prices have contributed to downward pressure on profit margins. Recent offshore developments in fuel production indicate that the squeeze on margins from fuel is likely to continue.

In the Wellington region, the squeeze on road transport operators' margins and flat growth in container volumes at CentrePort (due mainly to the effects of weak consumer demand for imports) have constrained transport activity.

Other areas of the transport sector have grown over the last six months and some are preparing for more growth over the next year:

- activity at Wellington airport has been boosted by rising tourist numbers
- another Cook Strait freight ferry was introduced in April
- in July, CentrePort announced plans to build a large forestry products store and to upgrade their loading crane to attract forestry exports.

Spending on the health and education sectors, both of which are significant components of the Wellington regional economy, was increased in the 2001 Budget, but not by as much as in previous years. We expect the Government to increase its health and education spending in election year, though the Wellington region may not substantially benefit because of its relatively low population growth rate.

At a national level, the number of employees in the government administration and defence sector (which excludes those employed in service delivery, such as doctors, nurses and teachers) increased 20% over the year to February 2001. As the centre of government, Wellington can expect to have benefited from the increase in the number of government administrators.

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