

# Update

## Steady growth continues...

- increase in tourist numbers
- commercial building investment
- low exchange rate plus for rural sector



# 2000 Update

In this issue of Regional Outlook, August 2000, we provide an update on the most important developments in the 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 2000 issue of Regional Outlook.

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Regional Outlook and the data series are available on the Wellington Regional Council's website at:

**[www.wrc.govt.nz/economy](http://www.wrc.govt.nz/economy)**

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# summary

## *steady growth set to continue*

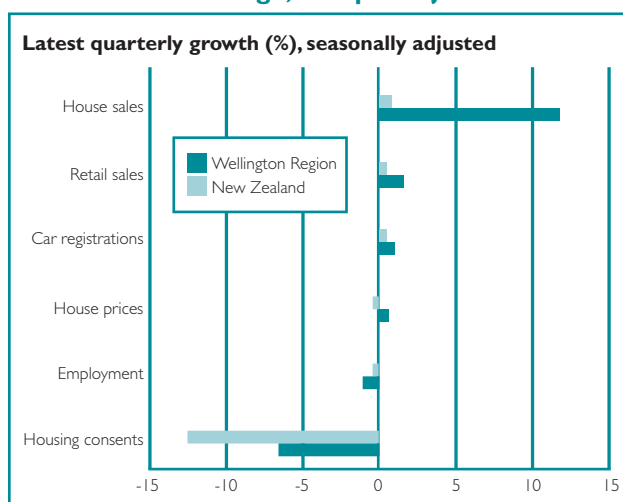
*The Wellington regional economy grew by an estimated 0.5% over the first quarter of 2000, continuing the strong performance that began last year. An important contribution to economic growth was an increase in the number of international tourists visiting the region.*

**E**conomic growth was reflected in rising property prices, investment in new hotel capacity, higher retail trade turnover and more car purchases.

However, while economic growth continues, the rate has slowed over the last six months. A weakening exchange rate and rising interest rates have favoured the rural sector, which is a small component of the Wellington region's economy, and raised the cost of doing business for the service sector, which is large in the region.

The slowing in economic growth is reflected in job cuts in the region.

### Growth above average, except for jobs



Source: Real Estate Institute of NZ, Statistics NZ, Land Transport Safety Authority and Quotable Value NZ

Nationally, we expect moderate economic growth to continue. A sharp drop in national business confidence in recent months, possibly due to pessimism about government policy changes, may have some downward impact on national economic growth. However, while most businesses are pessimistic about the economy in general, they remain relatively positive about their own prospects.

In the Wellington region, rising contributions from the tourist industry and the rural sector (in the north of the region), due to the continued weakness of the New Zealand dollar, will provide some relief from tighter times in the service sector over the short term. Some new commercial building projects will also bolster the performance of the economy.

The lack of job growth remains a concern in the region, but service businesses have indicated that they expect to hire more workers over the next six months.

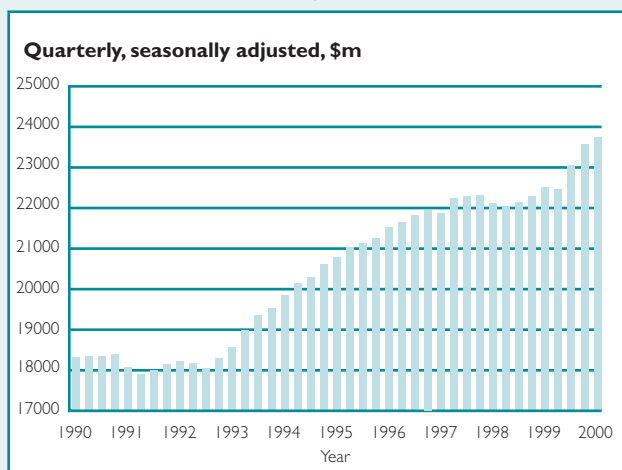
*In February's Regional Outlook, we predicted that the Wellington economy would continue to grow, but at a marginally slower rate than the New Zealand average. On the basis of March quarter data, we have no reason to alter that prediction.*

# the region in context

## *macroeconomic environment*

**G**ross Domestic Product (the value of everything New Zealand produces) rose 4.4% in the year ended March 2000, the biggest increase since the middle of 1995.

### Gross Domestic Product, NZ



Source: Statistics NZ National Accounts

A near-perfect season for agricultural producers, combined with rising commodity prices that favoured forest growers and exporting manufacturers, were the driving forces behind the good result. Low interest rates over 1999 were also conducive to growth, boosting investment in housing and capital equipment and encouraging consumers to load up their credit cards.

But while the economy raced ahead in the year to March, more recent indicators of economic activity suggest that its pace is slowing. Higher interest rates are taking their toll on investment, particularly housing investment. The low exchange rate, while good for exporters, is raising the cost of doing business for the domestically focused service sector.

Despite this slowing, the outlook remains relatively positive. We expect economic growth to hold up at about 3% over the next year.

# tourism and new buildings

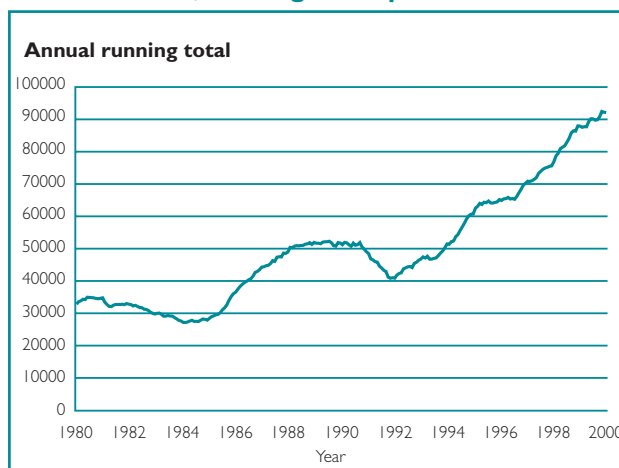
## *push region's economy forward*

**T**he Wellington region's economy pushed ahead at the beginning of the year with business activity rising an estimated 0.5% over the March quarter. The influx of tourists to Wellington was an important factor driving up activity. More international arrivals at Wellington airport helped to push up both retail sales and transport activity.

### More tourists

Over the year to March, 92,000 international tourists landed at Wellington airport, a 5% increase compared to the previous year's total. The largest absolute increase in numbers came from Australia.

### Tourist arrivals, Wellington airport

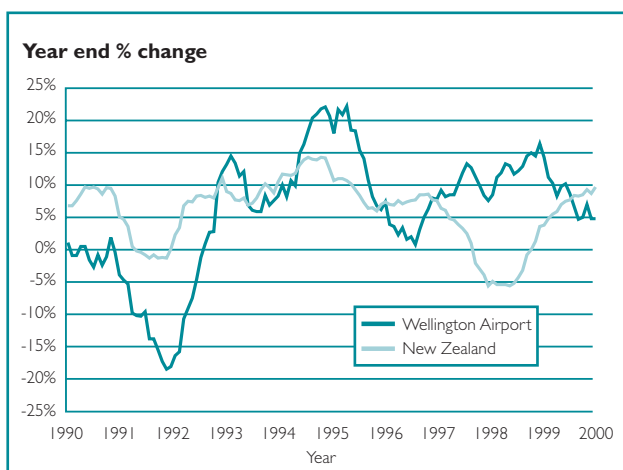


Source: Statistics NZ Visitors Arrivals

Australians make up two thirds of all international air arrivals in Wellington, compared to just a third for New Zealand as a whole. This reflects the limited capacity of Wellington airport, which can safely accommodate only short-haul international flights – those flying from Australia or some Pacific islands. Of course, tourists of other nationalities do travel to Wellington on domestic services or by land after arriving in Auckland or Christchurch.

The heavy reliance on the Australian market has seen Wellington’s tourist market growing somewhat more slowly than the national average. Wellington has missed out on the strong recovery in visitor numbers from north Asia that has benefited other regions such as Auckland.

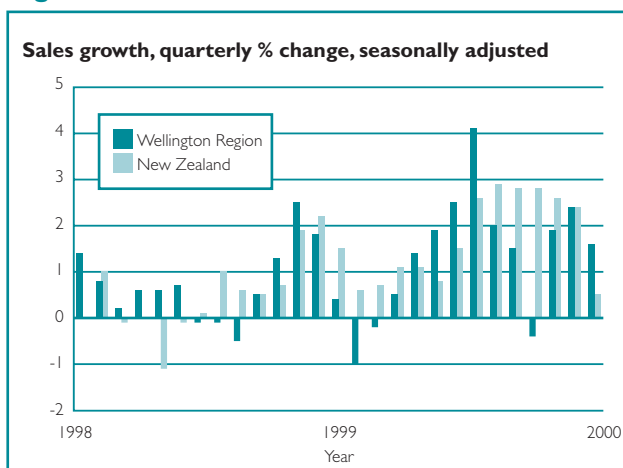
### Overseas visitor arrivals



Source: Statistics NZ Visitors Arrivals

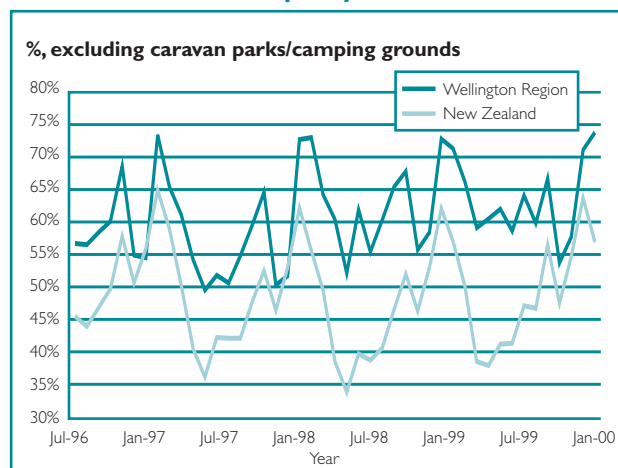
In any case, more tourists over the March quarter helped shop owners, accommodation providers and restaurateurs to boost sales throughout the Wellington region – the average Australian visiting New Zealand spends \$140 per day.

### A good New Year for retailers



Source: Statistics NZ Retail trade Survey

### Accommodation occupancy rates



Source: Statistics NZ Accommodation survey

Wellington city is often the first port of call in the region for tourists, but tourism is a growing business in other parts of the region too. Day trips to the Wairarapa have become popular with passengers of the cruise ships that berth in the city, for example. On the Kapiti Coast and in Upper Hutt there is anecdotal evidence that tourism operators are expanding their businesses and in Lower Hutt, visitor numbers have risen rapidly at the Dowse Art Gallery. Plans for a new leisure park in Porirua have also been announced.

### More investment

Another of the key components of growth in the Wellington region over the March quarter was rising commercial building activity. Over the first three months of the year, \$50.5 million of construction work was approved.

Some of this investment activity was also tourism-related. The recently completed Ibis Hotel in Wellington city was a response to the high occupancy rates of other Wellington hotels following the opening of Te Papa and the subsequent influx of tourists. The Ibis increases the capacity of the Wellington hotel sector by 200 guests per night. There have also been new facilities added to the Duxton hotel (formerly Plaza International) in recent months.

In the near future, the relocation of Hotel Rafaele from Oriental Bay to the former Shell House on the Terrace in Wellington city will add a further 120 rooms to the accommodation capacity of the region.

Outside the tourism sector, a new \$55 million cinema multiplex and shopping centre is planned for Courtenay Place in Wellington city. Construction will begin in September and be completed before Christmas 2001.

In Porirua, a \$15 million supermarket development on the former Energy Board site, further building at the North City Mega Centre and a number of smaller developments are due to proceed over the short term. In Kapiti, a \$5 million library development is scheduled for the new “town centre” behind the existing District Council headquarters and further development is expected to follow. In Lower Hutt, a new district court is to be built. In Upper Hutt, a new supermarket is nearing completion just as some new accommodation projects (including a retirement village) get started.

## Business services face rising costs

Despite the smart pace of growth in the tourism and construction sectors over recent months, there are signs that the important services sector is finding expansion more of a challenge.

The services sector has been the biggest contributor to economic growth in the Wellington region over the last five years. This is partly because of the sector’s large size, but also because providers of services to business such as software developers and management consultants, communications companies and transport businesses have flourished.

More recently however, the low exchange rate, which has favoured farmers, horticulturalists and forest product producers in the north of the region, has raised operating costs for some service businesses.

Petrol prices are up sharply and shortages of skilled labour are beginning to bite as overseas companies lure employees to countries with stronger currencies and higher wages. Higher interest rates have also raised debt-servicing costs.

In the competitive operating environment that prevails in the service sector, businesses are under pressure not to pass on these price increases to customers, and have pressed hard for productivity increases. They have achieved improved efficiency at the cost of lower job growth in the short term.

This is in line with national trends – a key difference between the current period of national economic growth and that enjoyed over the mid-1990s is that employment growth over the last year has been relatively weak. Just 24,500 new jobs were created across New Zealand in the last year, compared to 72,100 in the year to March 1996.

Business confidence surveys show that service businesses are the least optimistic of all businesses about prospects for the economy over the next year. We are inclined to discount the importance of the confidence surveys somewhat, since they indicate that most service businesses are relatively positive about their own prospects for expansion, even if they have doubts about the economy as a whole. Nevertheless, pessimists outnumber optimists in this important sector.

### Exchange rate bottoming out?



Source: Reuters

# house prices

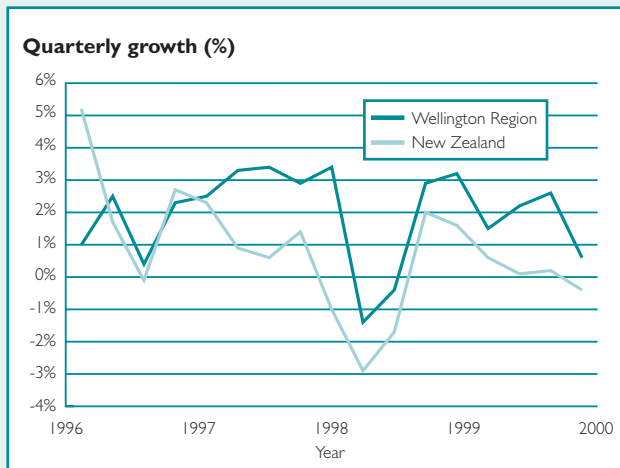
## *buck national trend*

House prices rose in the Wellington region over the March quarter, bucking the national trend. One explanation for the rise is that the number of house sales (seasonally adjusted) rose over the quarter - an indication of rising demand. For example, such an increase in demand might come from the creation of new jobs in the government sector since Labour came to office.

income-related rents for state house tenants may be putting some downward pressure on demand for competing private rental accommodation.

The promise of capital gains has proved attractive to Wellington investors and building activity in the region has eased only moderately as 2000 marches on, while activity in the rest of New Zealand has taken a more drastic tumble.

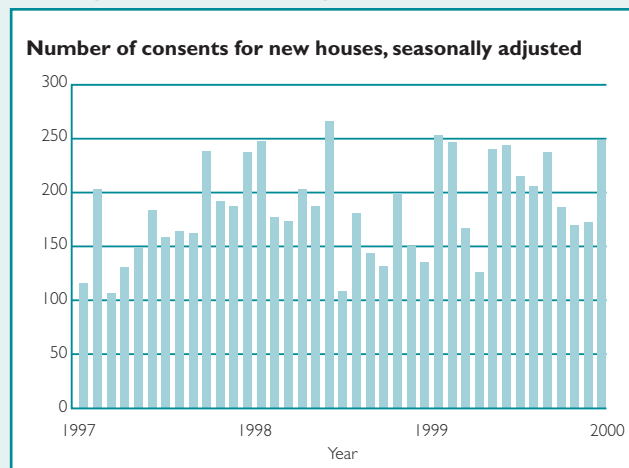
### House prices rising here



Source: QuotableValue NZ index

Another possible reason for the rise in prices is that the housing market has split into two distinct segments – low-end and top-end. House prices continue to increase at the top end of the market where demand persists, while house prices at the lower end of the market do not appear in overall price measures because there are few sales taking place there. Plans by the government to reintroduce

### Wellington house building continues



Source: Statistics NZ Building Consent Statistics

The moderate decline in regional building activity over the March quarter occurred mostly in Wellington city, with other parts of the region experiencing some growth. However there is evidence that Wellington city's activity had begun to recover by May.

### Where's the action?

Building permit activity by local authority, March quarter 2000

	Number of housing permits		Contribution to region's growth in permits	
	Seasonally adjusted	Actual	Quarterly	Annual
Kapiti District	157	152	3%	4%
Porirua City	48	49	-3%	1%
Upper Hutt City	39	35	3%	3%
Lower Hutt City	63	64	5%	8%
Wellington City	225	197	-15%	-10%
Wairarapa	48	50	0%	3%
<b>Total Wellington region</b>	<b>579</b>	<b>547</b>	<b>-7%</b>	<b>10%</b>

Source: Statistics NZ Building Consent Statistics/Infometrics seasonal adjustment

# employment

## *prospects improving*

Job prospects have recently improved for Wellingtonians, despite the number of people employed in the region falling from a peak of 237,500 in mid-1998 to just 219,300 in March this year (seasonal effects have been removed).

## Employment

In 1998 there were some well-publicised staff cuts in Wellington's financial sector with some flow-on effects for other sectors. In 1999 other businesses joined the push for productivity improvements, resulting in a lack of new jobs.

The good news is that the decline in employment looks to be ending. Relief for jobless Wellingtonians had appeared distant until recently, with the number of job advertisements in local newspapers tailing off at the beginning of 2000. But a Morgan and Banks survey indicates that 44% of the businesses in the lower North Island are planning to increase the number of workers they employ over the next six months, while only 14% are planning to decrease employment.

The intent to employ is particularly strong in the IT sector and in government organisations.

## Unemployment

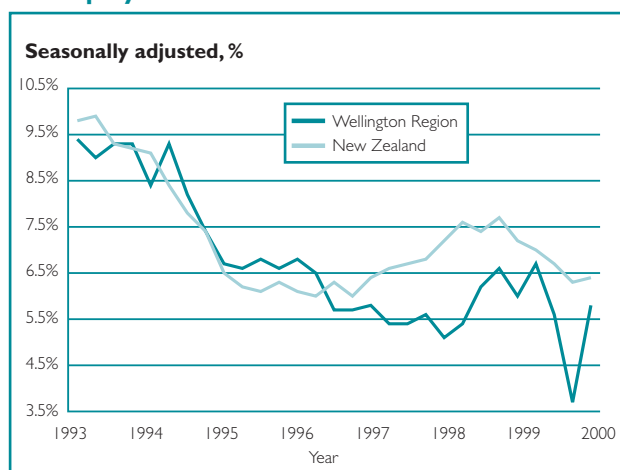
The seasonally adjusted unemployment rate for the Wellington region was 5.8% in March. The negative effects of job losses over 1998 and 1999 have been reduced by the low population growth the region is experiencing – just 0.1% over the year to June 1999. With a minimal increase in the population and therefore the number of people requiring jobs, the unemployment rate has remained below the national average of 6.4%.

### Employment growth



Source: Statistics NZ Household Labour Force Survey

### Unemployment rates



Source: Statistics NZ Household Labour Force Survey

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