



Report	16.66
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Regional Economic Update

1. Purpose

To provide the Committee with information on the regional economic environment within which the Council has to make decisions. The report outlines 2015 growth patterns and longer term trends as applicable.

Some high level analysis of ratepayers' ability to sustain rates increases (affordability) is also provided.

2. Comment

The Wellington Regional Strategy (WRS) Office provides annual economic profiles as part of its monitoring function. In recent years it has purchased annual products from *Infometrics* and *Berl* that provide comprehensive economic data and some territorial authority (TA) level breakdown. Other councils in the region use the same information sources for their economic monitoring and reporting requirements.

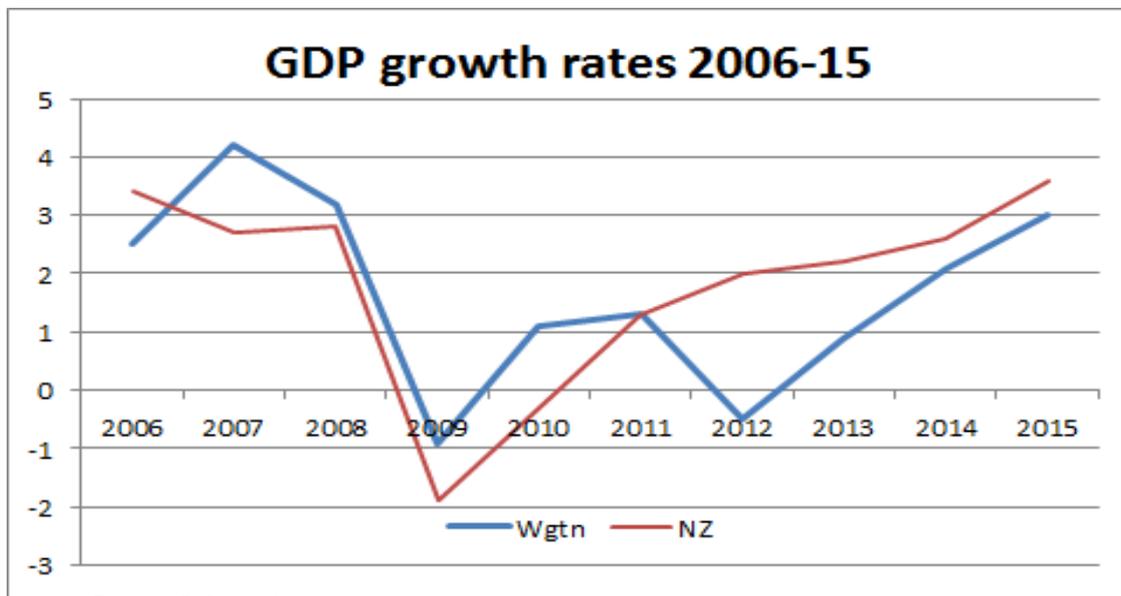
This report provides 2015 and trend data for a range of indicators. *Infometrics* data is used for regional information and limited sub-regional data is drawn from *Berl's* Situational Analysis. Some additional information is drawn from *StatisticsNZ* and the Genuine Progress Index (GPI).

2.1 Regional data 2015

(a) Gross Domestic Product (GDP)

GDP is used internationally as an indicator of overall economic growth and makes a useful national and regional comparator. Since the Global Financial Crisis (GFC) Wellington's economy has continued to grow, however at a rate below the national figure. Annual growth for Wellington in 2015 was 3% compared to 3.6% nationally.

Graph 1: GDP growth rate 2006-15 for Wellington and New Zealand

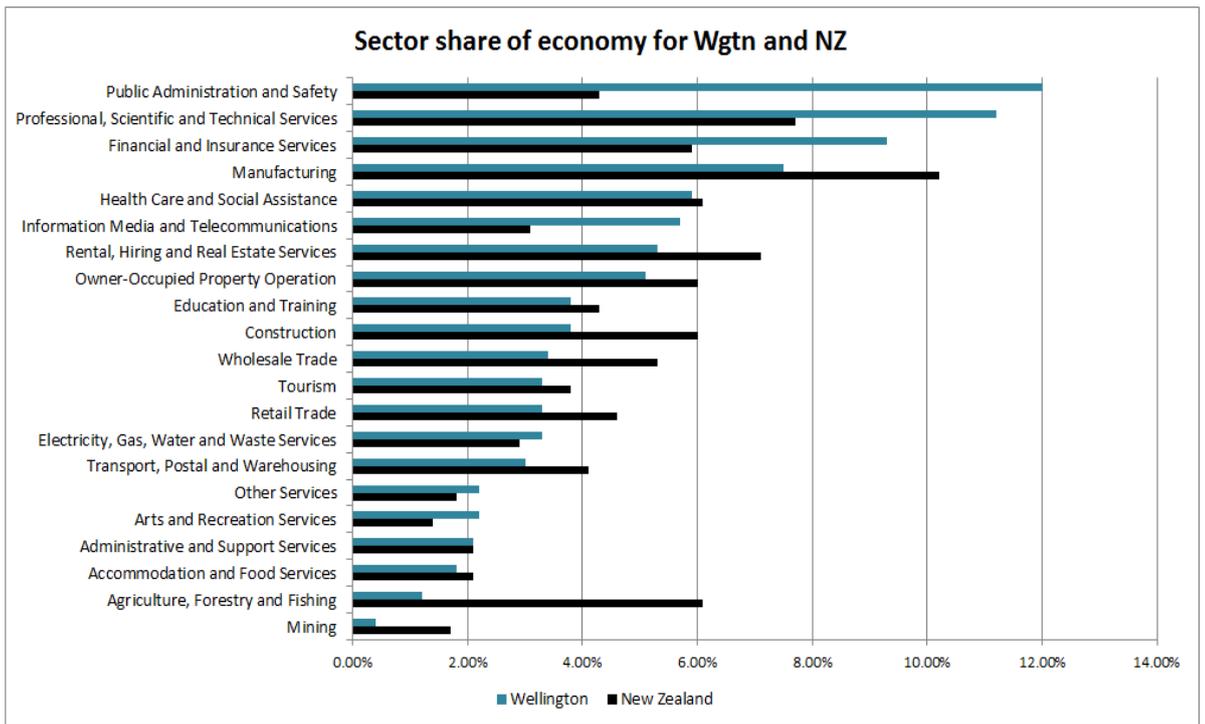


Source: Infometrics

The sectors that have most contributed to this growth over the last decade were Public Administration (30%), Professional Scientific & Technical Services (15%), Finance & Insurance (11%) and Health Care & Social Services (10%). This growth pattern is also reflected in increased employment shown in Section (b) below.

The importance of these sectors to the Wellington economy is reinforced by the percentage that they present relative to the New Zealand economy. See Graph 2.

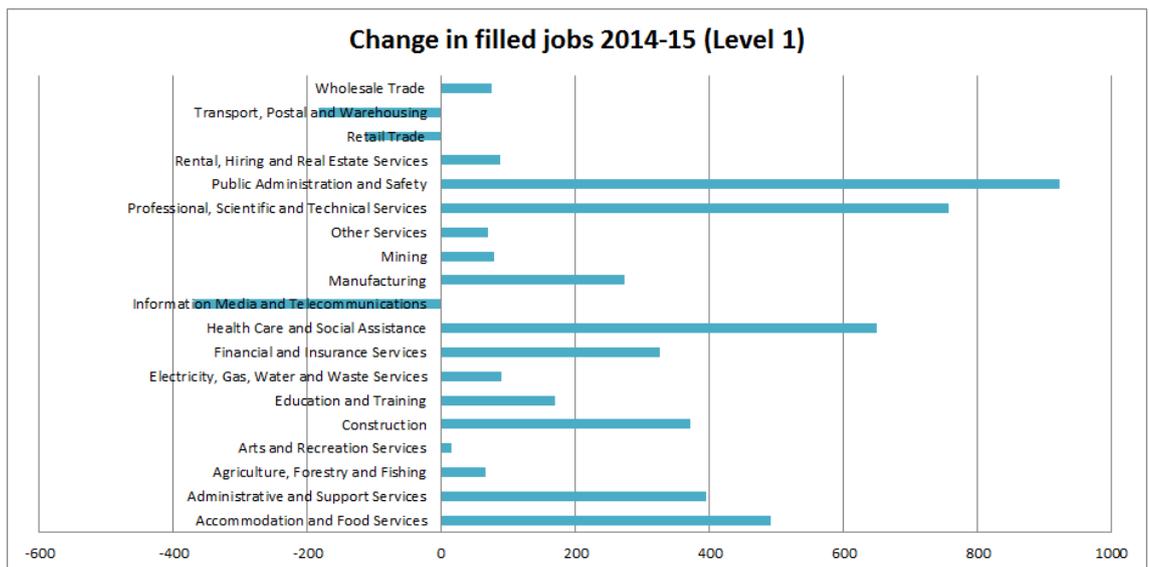
Graph 2: Sector share of economy 2015



(b) Employment

Growth in employment has continued on an upward trend as has New Zealand as a whole. The change in total employment numbers for the region is 4,168 and represents a 1.6% increase. Jobs filled by sector in 2015 is presented in Graph 3 below. A continued reliance on the public sector for much of this growth is evident. Growth in tourism activity is reflected in the growth of some other sectors, for example, Accommodation & Food Services.

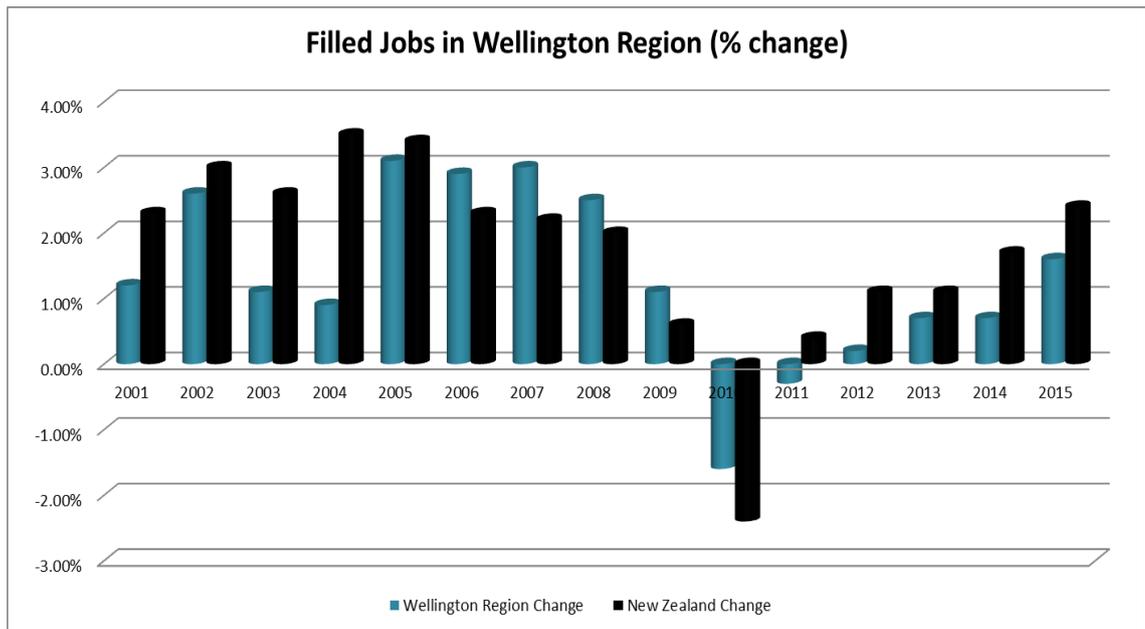
Graph 3. Change in employment number by sector 2015



Source: Infometrics Profile

Other than for the 2006-2010 period, the region has tracked below the rest of New Zealand for job growth.

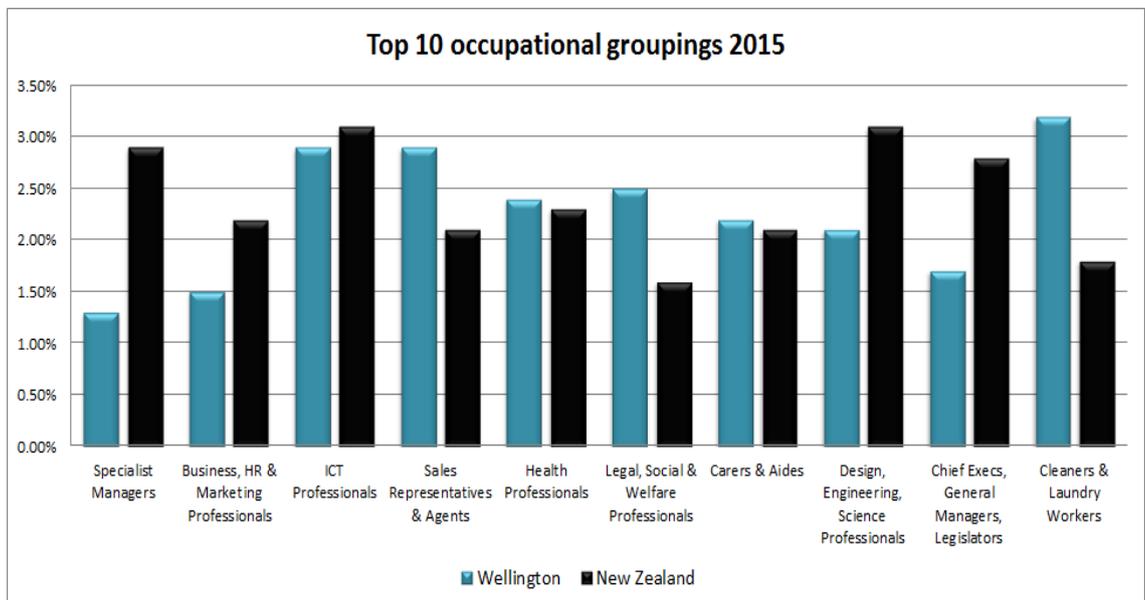
Graph 4: Percentage change in employment 2001-2015



Source: Infometrics Profile

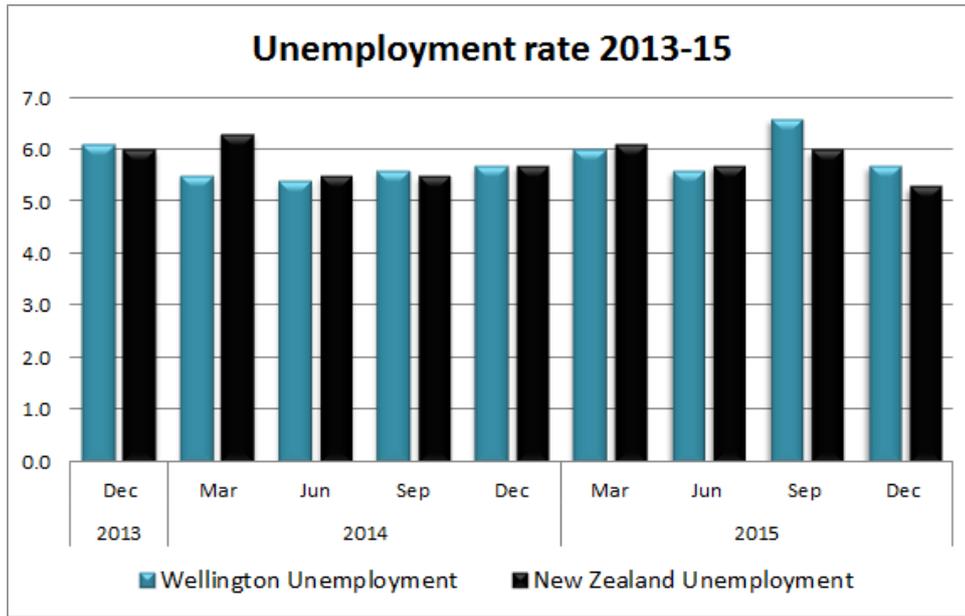
Graph 5 below looks at the top ten increases in absolute numbers for occupational groupings. Most are in managerial and highly skilled areas although there is a noticeable increase in cleaners and laundry workers during 2015.

Graph 5: Top ten occupational grouping by increase in absolute numbers



Wellington’s unemployment rate has not tracked downward to the extent of the national trend over the last half of 2015. It has remained stubbornly high at around 6%. However, the total percentage of beneficiaries in the working population has dropped to 8.9% compared to 9.8% nationally.

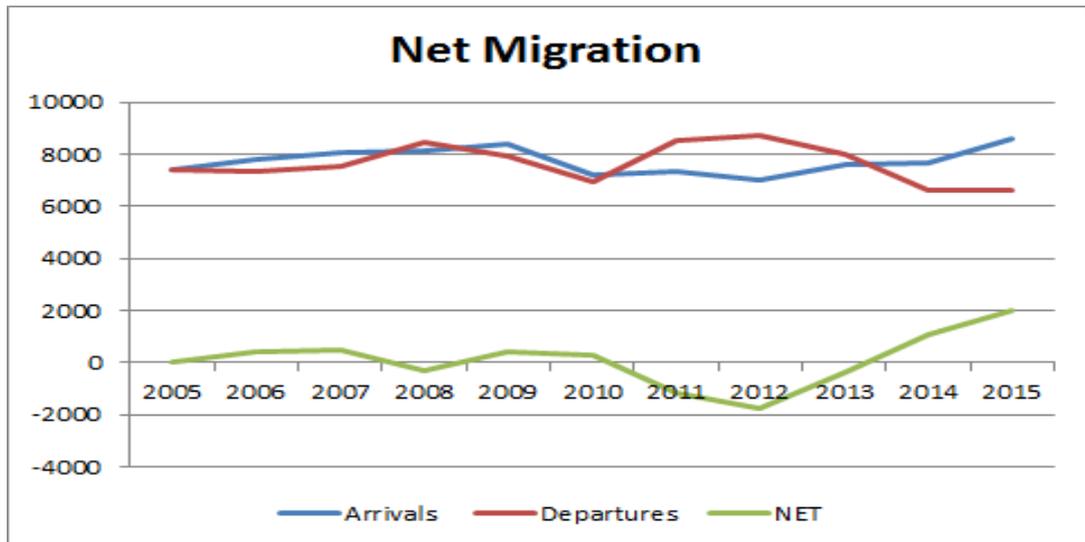
Graph : Wellington and national unemployment rates



Source: Statistics NZ

(c) Population

The region’s population grew by 1.1% in 2015 compared to a national average of 1.9%. This growth is being driven equally by increasing net migration and natural increase. A combination of more migrants and decreasing departures resulted in the first significant net migration for two decades. Population growth has been highest in Wellington City and along the western corridor. It is also high in Carterton District, however off a lower base.

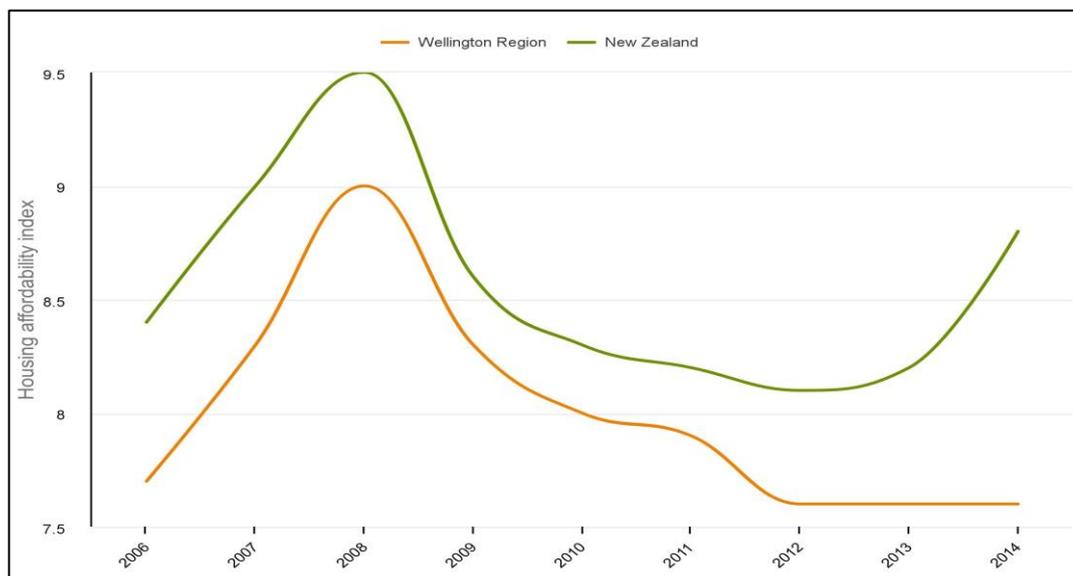


Source: Statistics NZ

(d) Living standards

Mean earnings growth was lower than for most other regions at 2%, however Wellington continues to have the highest average mean income at \$60,400.

Housing affordability (average house price relative to average income) has remained favourable, particularly relative to other parts of New Zealand. Towards the end of 2015, demand in Wellington was reported to outstrip supply and was driving house prices up. This is understandable when looking at the net migration pattern and may impact of affordability in the immediate term.



(e) Sub regional indicators

Berl's Situational Analysis (2015) models regional economic data to provide a TA level output for GDP and sector activity, in addition to population, employment and business unit numbers. For the smaller TAs annual numbers fluctuate markedly and generally reflect changes in localised activity, for example, construction in Kapiti Coast district.

Table 1: TA level growth indicators for 2015(percentage change 2014-15)

	WCC	Hutt	UHCC	PCC	KCDC	Mast	Cart	SWDC	Region	NZ
Population	1.9	0.3	0.5	0.8	0.6	0.8	1.4	0.8	1.1	1.9
GDP	1.7	1.1	-0.3	-1.8	3.2	1.0	-0.2	1.8	1.3	3.2
GDP/Capita	-0.2	0.8	-0.8	-2.6	2.5	0.2	-1.6	1.0	0.2	1.2
Employment	0.7	0.1	-1.9	-2.7	2.9	0.5	-2.7	-0.8	0.3	2.3
Labour Productivity	1.0	1.4	1.6	0.6	1.4	0.8	2.2	3.1	1.2	1.2
Business Units	1.1	1.0	2.3	1.9	0.1	1.5	2.8	3.5	1.3	2.7
Business Size	-0.4	-1.0	-4.1	-4.6	2.8	-1.0	-5.3	-4.2	-1.0	-0.5

(f) Regional comparison

For a selected range of growth indicators, *Infometrics* provides regional comparators. Table 2 below ranks Wellington's position for 2013 and 2015 relative to all the 16 regions in New Zealand. For the majority of growth measures Wellington has slipped from mid-field to nearer the bottom third.

Table 2: Regional growth indicator rankings for Wellington

GROWTH INDICATOR	2015	2013
Employment	10th	7th
GDP	11th	7th
GDP/capita	10th	7th
Productivity	8th	6th
Population	9th	5th
Highly skilled employment	12th	5th
Knowledge intensive employment	11th	9th
Median house price	11th	12th

2.2 Affordability considerations

As part of the economic environment, councils need to consider ratepayers' ability to pay rates in the context of movements in income and other living expenses.

Ratepayers are affected by a number of factors that impact directly and indirectly on their disposable income and therefore their ability to pay rates. The combination of limited growth in earnings and a relatively high tax burden are significant factors in assessing the affordability of paying rates. Therefore it is important for the council to appreciate the economic situation according to these factors that are facing sections of the community.

Some figures showing the relationship between increases in regional rates, GDP, household expenditure and income levels are presented below. Due to data series limitations, not all time periods are directly comparable. The discussion below is designed in the first instance to give a sense of the differences in scale upon which more detailed analysis can be undertaken.

Over the period 2004/05 to 2015/16 the regional rates total increased by 89.9%, which is equivalent to an average annual increase of 6.01%, although the rate of increase has varied between 3.2% and 12.2%. The forecast increase between 2015/16 and 2029/30 totals 64.8%, or 3.63% per annum on average.

In the Household Expenditure Survey (2013) housing on average accounted for 23.9% of total expenditure, and 2.3% was on property rates specifically (just under 10% of the total spent on housing costs). Spending on property rates was higher than on education, and comparable to health products and medical services which have also been rising.

Between 2001 and 2014 the total increase in real regional GDP was 25.4%. The increase in average weekly earnings for this period was lower at 17.0%, therefore the proportional increase was only 67.0% of the GDP change.

Table 3 below highlights the significant difference between forecast rates rises, increases in GDP (wealth), average household incomes and average weekly earnings. Note that averages can hide the impact of such trends on particular sections of the community and any evidence of growing inequality.

Table 3: Selected regional data and associated annual change (%)

Selected regional data	Annual change
Average Rates (2004/05-2015/16)	6.01%
Forecast Rates (2015/16-2019/20)	7.25%
Forecast Rates (2015/16-2029/30)	3.63%
Regional GDP forecast	2.26%
Average household income forecast; 85.9% of GDP	1.94%
Average weekly earnings forecast; 67.0% of GDP	1.51%

Sources: GWRC data (rates); GDP from BERL forecasts; earnings and income data from Statistics New Zealand;

In summary, the rate of increase in real wages has been far slower than the rate of increase in productivity and general increases in household and personal incomes. In this context, regional rates have been increasing at a pace several times higher than real incomes and are forecast to continue to do so.

Such economic realities need to be balanced with Council's purpose and legislative responsibilities, and the increasing community expectation for local government to help stimulate job growth and make the region more resilient. Economic growth across the region has been flat over the last decade relative to national trends, and major interventions are being promoted as a basis for accelerating business and population growth. Examples include the Wairarapa Water Use Project, the airport runway extension, major roading projects and the convention centre and film museum.

Such projects generally require additional local government investment and therefore may impact on overall affordability. At the same time consideration also needs to be given to renewals, the increasing cost for maintenance, community expectations for higher levels of service, improving resiliency and cost shifting by central government. This complexity is a challenge for the region when trying to balance growth with affordability factors.

To better understand the affordability component of a complex economic, environmental and community picture, further analysis would be required looking at the impacts of rates increases at a sub-regional level and on particular groups in the community.

3. The decision-making process and significance

No decision is being sought in this report.

4. Engagement

Engagement on this matter is unnecessary.

5. Recommendations

That the Committee:

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

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