

Update

Export sector
picks up



2002 Update

In this issue of Regional Outlook, August 2002, 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 2002 issue of Regional Outlook.

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summary

Economic growth in the Wellington region has been static over the last six months. There has been little employment growth as niche industries have struggled to fill the void left by traditional industries.

Export-intensive industries appear to have performed well in the region over the last year. The primary sector, businesses that focus on tourism, and the education industry have all grown steadily. For example, the number of international students at Victoria University jumped 88% over the 2001 year. Furthermore, some manufacturing firms appear set to expand exports over the next year.

However, service industries make up the bulk of the region's economy and they have had a leaner time. The number of jobs in the service industry has continued to shrink over the past six months, primarily in the financial and business services and communications industries.

A lack of job creation in the region has constrained growth in household spending and investment. The region's rate of retail sales growth has remained among the slowest in New Zealand. An over-supply of housing in the region has contributed to the decline in the number of dwelling consents issued. And while the number of house sales is rising in the region, it is growing at only half the national rate.

Over the next year, economic growth in the Wellington region will be slow. The region relies on domestic demand growth to drive the economy, and this will be constrained over the next year. There is likely to be little employment growth over the next year as announced job losses take effect, and this will impact on household spending and investment growth. Population growth is likely to remain weak.

However, commercial construction will be boosted as the Government gives the region's hospitals a facelift, although this will be spread over the next five years.

Over the longer term, one of the region's niche industries, international education, appears capable of becoming a major industry in the region. The number of international students has mushroomed over the past year and the Central Institute of Technology (CIT) campus in Upper Hutt is being developed to house thousands of extra students over the next decade. A large lift in international student numbers may prove to be one of the 'circuit breakers' that the region needs to transform its economy because it would have significant flow on benefits for real estate and retail industries.

Summary of the Wellington Region's Latest Indicators

Indicator	Date	Wellington Region		New Zealand	
		Latest*	Trend^	Latest*	Trend^
Employment ¹	Mar 2002	3%	0%	4%	3%
Job Ads Survey ²	Jun 2002	-8%	-13%	-4%	-4%
Nominal retail sales ¹	Mar 2002	3%	4%	8%	7%
Car sales ³	Jun 2002	4%	12%	4%	15%
No. new dwelling consents ¹	May 2002	-14%	-8%	24%	16%
House sales ⁴	May 2002	19%	16%	43%	33%
House prices ⁵	Mar 2002	3%	3%	4%	2%
Value non-residential consents ¹	May 2002	-54%	-23%	-7%	6%
Tourist arrivals ¹	May 2002	7%	5%	5%	4%
Guest nights purchased ¹	Apr 2002	7%	7%	9%	7%

*Latest - is the latest three months % change over the same three months a year earlier

^Trend - is the latest year ended % change over the year ended 12 months earlier

Sources: ¹Statistics New Zealand ²ANZ ³LTSA ⁴REINZ ⁵QVNZ

weak employment *growth*

There has been no employment growth in the Wellington region over the last six months. A major reason was very little volume growth in the employment-intensive retail industry. Staff cuts in the following firms have been announced, although some are yet to show up in official employment figures:

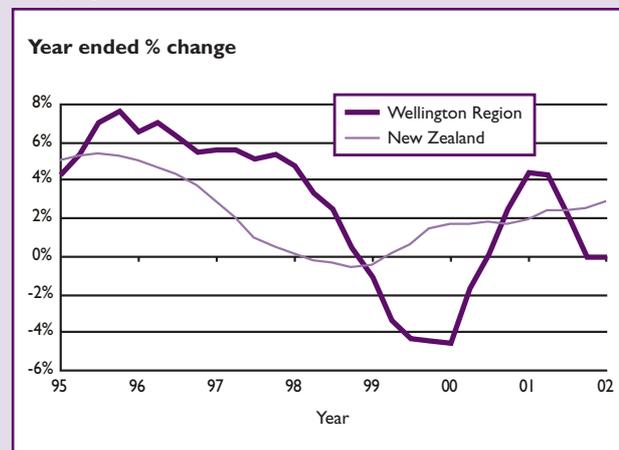
- Accenture
- TelstraClear and Paradise
- Kahukura Productions
- Dominion/Evening Post newspapers

Over the March 2002 quarter, the unemployment rate in the region (5.8%) was slightly higher than the national average (5.6%) for the first time in more than five years.

The number of employed people is likely to remain static in the Wellington region over the next year. Some announced job losses are yet to take effect, while 8% fewer jobs were advertised in the June quarter compared to a year ago.

Fewer building consents issued points to weakening construction employment, and retail employment is unlikely to pick up until there is a sustained lift in turnover.

Employment Growth



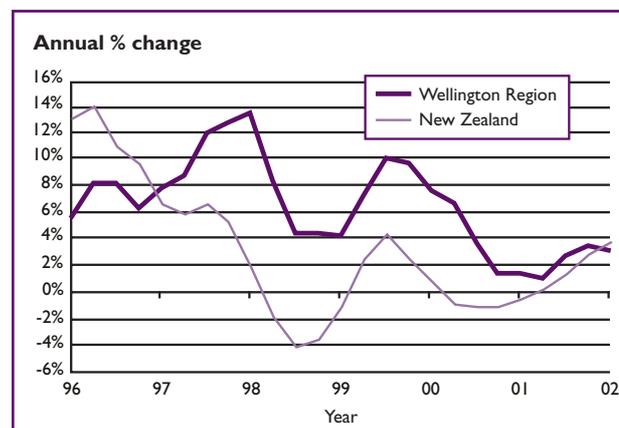
Source: Statistics NZ, Household Labour Force Survey

Offsetting these negative effects will be some job growth in the manufacturing industry. South Pacific Tyres and Feltex Carpets are planning to create another 210 positions between them over the coming year, and forestry-based manufacturing is expanding. Windsor Engineering also requires more staff to fill export orders.

lacklustre *property market*

Activity in the region's building and property market has been lacklustre compared to national activity over the past six months. Demand to build houses has bucked the national trend by falling, and the number of houses sold has risen, but only at half the national rate of growth. Illustrating the state of the Wellington real estate market, the latest data shows that house price inflation slipped below the national average.

House Price Inflation

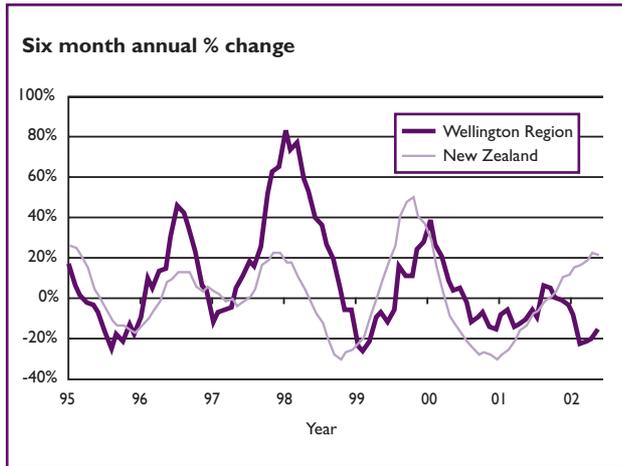


Source: Quotable Value NZ

Strong building activity over recent years has created a housing over-supply in the region, which is now dampening new house building. Other main factors behind the weakening demand for housing in the region include:

- Slow population growth
- Weak job creation means that fewer people will be relocating to the region for work, and that income growth amongst existing households will be slow
- The rate of apartment building has declined as the market has matured in Wellington City

House Building Consents Issued



Source: Statistics NZ, Building Consent Statistics

The number of building consents issued in Wellington City fell 27% over the May quarter compared to a year ago, as an over-supply of apartments stifled demand for new dwelling consents. On the Kapiti Coast, the number of consents issued declined 3% over the same period, as an over-supply of housing and significant number of people living in hospitals and nursing homes in Kapiti quelled demand for new dwellings. New residential developments in Upper Hutt have stimulated house building.

Building Consent Activity by Local Authority

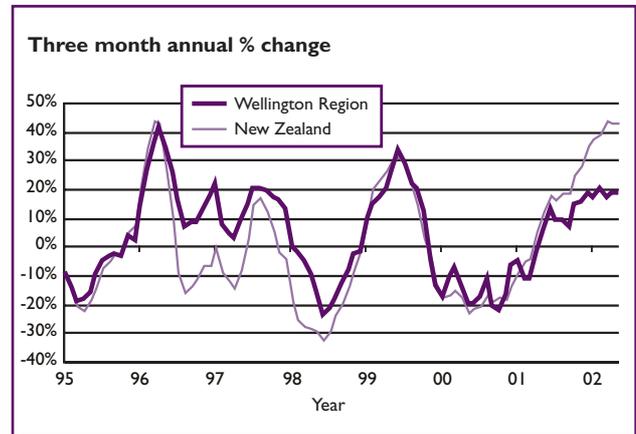
	Number issued over year to May 2002	Quarterly growth ¹
Wellington City	951	-27%
Kapiti District	438	-3%
Wairarapa	184	-11%
Lower Hutt	145	-46%
Upper Hutt	139	81%
Porirua	114	-17%
Wellington Region	1,971	-14%
New Zealand	22,349	24%

Source: Statistics NZ

¹ May quarter 2002 compared to same period in 2001

The number of house sales over the May quarter was 20% ahead of a year ago. Buying a house has been preferred to building a house in the region because building costs are rising faster than house prices. However the rate of growth in house sales is only half the national rate which illustrates the relatively weak state of demand for housing in the region.

Number of Houses Sold

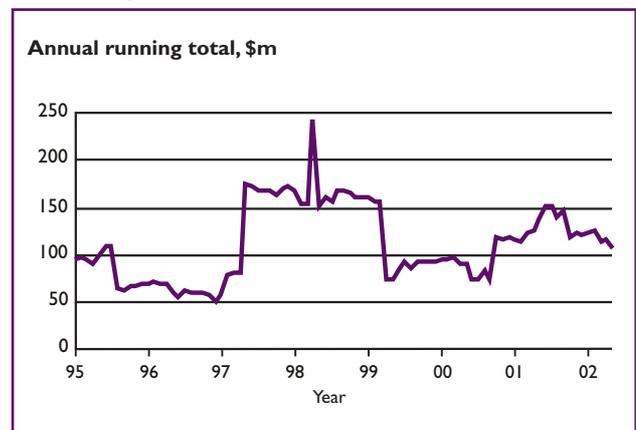


Source: REINZ

Demand for houses in the Wellington region will remain low over the next year, with little job growth and flattening house prices discouraging developers. Over the longer term, a growing number of international students arriving in the region to study are likely to require accommodation.

Like residential building consent numbers, the value of commercial building consents has declined in the region over the last year. Retail construction is now slowing after a period of strong growth. Government-related building will provide a constant stream of work over the longer term, with about \$300 million to be spent on the region's hospitals over the next five years.

New Commercial Building Consents Issued in the Region



Source: Statistics NZ, Building Consent Statistics

more New Zealanders *holidaying in Wellington*

Tourism operators in the Wellington region have seen healthy growth in demand for their services over the last six months. While growth in the number of guest nights sold in the region has slowed slightly, it is still growing in line with the national trend of 7% per annum.

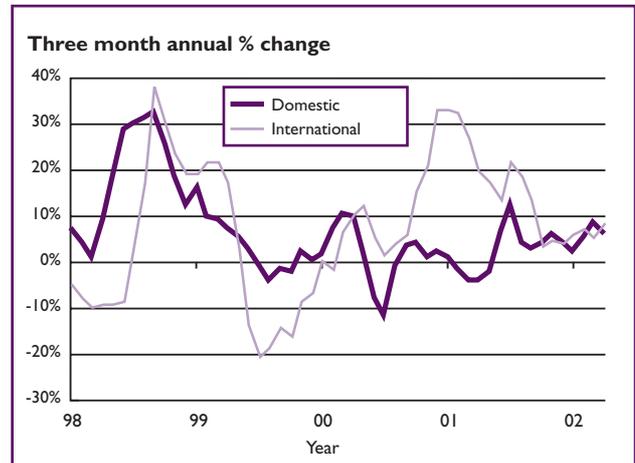
Domestic tourists have accounted for 65% of guest nights purchased in the Wellington region over the last two years. Domestic tourism has strengthened in the region over the last six months because:

- National household income growth has been strong due to rising real wages and quickening employment growth, which has encouraged New Zealanders to take holidays.
- Households have opted to steer clear of the uncertain global environment and holiday in New Zealand rather than overseas.
- Airline capacity to Australia has sagged as operators have bowed out of the market. Over the five months to May, 8% fewer New Zealanders holidayed in Australia compared to a year ago.

The number of international tourist guest nights purchased slowed sharply in the region from the last quarter of 2001, due to the turmoil created by the September 11 terrorist attacks and low global economic growth. However, a 20% increase in the number of cruise ship arrivals in Wellington over the last season softened this blow for retailers, but not for accommodation providers.

International students are a fast growing tourism market in Wellington – many students are classed as tourists as they

Guest Nights Purchased in the Region



Source: Statistics NZ, Accommodation Survey

stay for less than a year. The number of international students at Victoria University increased by 88% over 2001 compared to a year earlier to total 1,456. Private education providers aim to build on this rapid growth by developing the former Central Institute of Technology site in Upper Hutt to cater for international students. At present, less than 100 students are based on this site, but numbers are forecast to swell by 2,000 in two years.

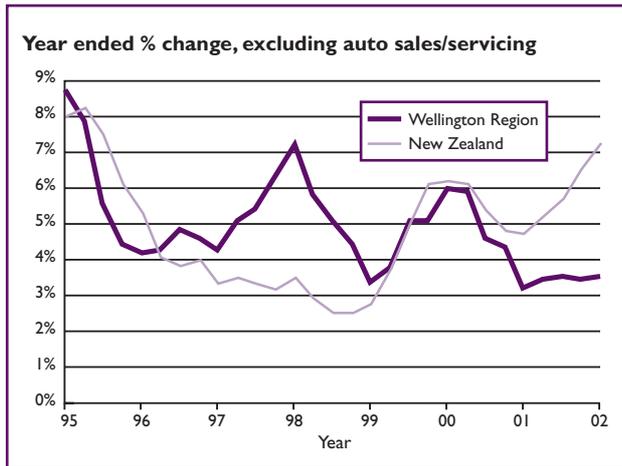
Excluding students, growth in the number of international tourists in the region will be moderate, as income growth in key overseas countries and airline capacity gradually improves.

retail sales *tail the national average*

Retail sales growth in the Wellington region has been weak for over a year, making the retail industry among the worst performing in New Zealand. Retailers in other regions have benefited more from the sharp turnaround in migration flows and strong export income growth. Furthermore, the

region's relatively sluggish real estate market means there are fewer sales amongst housing-specific stores than in other areas of New Zealand.

Retail Sales Growth



Source: Statistics NZ, Retail Trade Survey

Growth in the number of first-time car registrations in the region has continued to grow in line with the national average. However, car registrations have artificially swelled all over New Zealand as dealers rushed to import used cars without modern frontal impact designs, before a regulation change in April 2002 outlawed their use on public roads. Many of the cars registered in the region appear to have gone into stocks, as sales growth amongst motor vehicle retailers and service providers has grown at just 3-4% per annum.

Retail sales growth is likely to continue to fall well short of the national average over the next year. Slow employment growth and weaker house price inflation will limit households' ability to spend.

First-Time Car Registrations



Source: LTSA

positive outlook *for land-based industries*

Sheep and dairy farming, along with forestry and viticulture make up the bulk of the region's small primary sector. While the appreciating New Zealand dollar has taken some of the gloss off export returns, primary sector income growth over the next year will be well above the average of the late 1990's. Some issues in this industry are:

- Lamb and mutton prices have remained high, although a little lower than the prices of late 2001. The outlook for prices is firm, with the possibility of prices edging higher as the Euro-zone slowly rebuilds flocks decimated by disease. While wool prices recently hit their highest price in six years, supply shortages are unlikely to hold wool prices up at their current level.
- Dairy farmers appear likely to sustain a 25% fall in income over the next season, although their income will be higher than over the second half of the 1990s.

Fonterra has forecast that the end of season payout will fall from \$5.33 per kg of milksolids in 2001/02 to \$4.00/kg in 2002/03.

- National wine production is expected to be around 70% higher than last season, due to production yields returning to normal after a poor 2001 season and the sharp increase in land area planting in grapes over recent years. Demand for wine-growing land in the Wairarapa has intensified, pushing land prices suitable for viticulture to record highs.
- Forestry commodity prices have weakened over recent months, reflecting slow global growth and an over-supply of product. Forestry production will rise significantly in the Wairarapa over the next decade, and the Juken Nissho manufacturing plant in Masterton is spending \$3.5 million upgrading its plant in preparation.

the big picture

macroeconomic context

The pace of national economic activity picked up strongly over the March quarter, jumping 1.1% excluding price changes and seasonal influences. Domestic demand grew strongly, with the burgeoning net migration inflow, strong employment and wage growth, and past interest rate cuts central to this. Real earnings from exports of services such as education and tourism jumped 9% over the quarter.

Over the March quarter services exports were the faster growing, although volume growth in the agriculture industry did boost goods exports. A strong rebound in the number of big-spending Japanese and American tourists swelled tourists receipts, while the number of international students continued to boom.

The property services sector played a key role in boosting the financial and business services industry, as house sales jumped 15% over the quarter (seasonally adjusted). Despite the increase in dwelling consents issued over 2001, activity in the construction industry fell below the level of the December quarter.

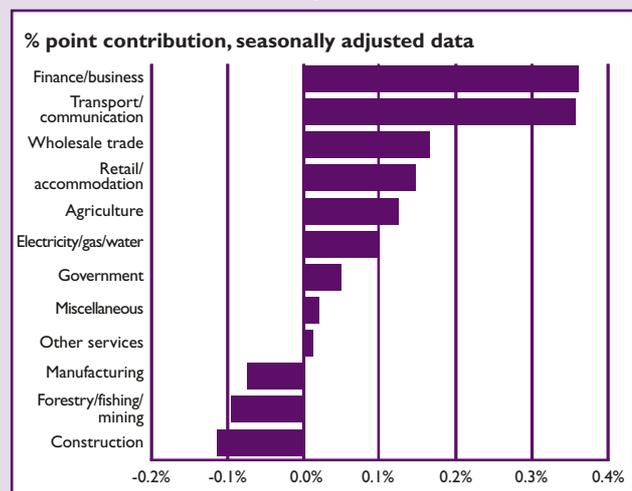
Demand for transport services was stimulated by the increase in volumes through the retail and wholesale trade industries. Lower petrol prices and recovering airline capacity also boosted this industry.

Economic activity appears to have grown at a more moderate pace over the June quarter. Retail spending growth has slowed and the appreciating New Zealand dollar and lower world commodity prices have pegged back export income growth. However, the real estate market remains buoyant and tourist arrival numbers have grown solidly.

On the Global Front

- The Australian economy has continued to grow robustly, fuelled by record retail sales growth and strong real estate activity.
- The recovery in the US economy has continued at a moderate pace, with business investment taking time to rekindle.
- Despite the Japanese economy springing to life over the March quarter as exports revived, consensus forecasts indicate growth of just 1% over 2003 as deflation and banking sector problems persist.

Contribution to March Quarter GDP Growth



Source: Statistics NZ, National Accounts

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