



# THE AUCKLAND ECONOMY

Situation and Forecast

MARCH 2010



INSTITUTE OF  
**PUBLIC POLICY**  
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**economics**

# THE AUCKLAND ECONOMY

## Situation and Forecast

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MARCH 2010

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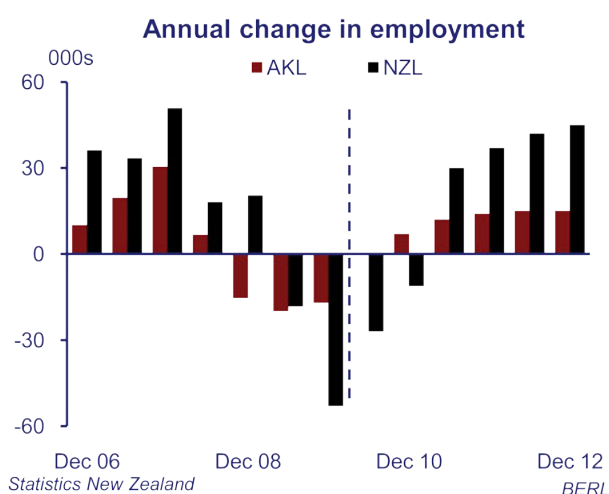
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## OUR ASSESSMENT

Changes in the labour market are our primary driver of economic prospects for Auckland over the short to medium term. Job losses are expected to continue over the first half of 2010 before some positive influences begin to exert greater sway. In this context, there are three positives we point to:

- manufactured exports – benefitting from a more favourable NZ\$/A\$ exchange rate and strong growth in the Australian economy
- new house building – unsustainably low levels of the past couple of years result in an inescapable imperative to rectify the supply-demand imbalance
- infrastructure – as a further series of large-scale projects move off the drawing boards and into construction phase.



Together these factors see Auckland employment numbers by the end of 2010 rise to 7,000 above year-earlier levels – representing average annual growth rate of 0.2%. As recovery influences magnify, we expect Auckland employment in December 2011 to be 14,000 up on year earlier – or an average annual growth rate of 1.9%. Similar growth in the following year sees total Auckland employment top 690,000 in

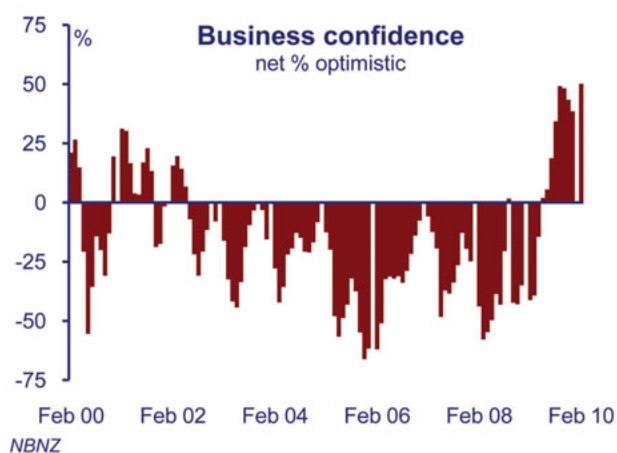
December 2012 – finally recovering all those jobs lost since December 2007.

A five-year period to essentially return to square one is indeed a sombre counter to those suggesting the recovery is swift and strong.

Despite the positive influences listed, several negatives remain. In particular, Auckland export businesses with customers beyond Australia continue to struggle with an uncompetitive exchange rate. Those exporting to Europe and the United States are also coping with sluggish demand, as the global recovery fails to overshadow severe imbalances in their economic and financial structures.

Another potential factor that could weaken the short-term recovery is the expected public sector contraction as central government attempts to re-balance its fiscal accounts.

And the Auckland retail sector is also sluggish as households' prospects for income growth are muted. With consumers remaining at the mercy of a weak labour market they see little evidence of any recovery, despite the reported surge in business confidence.



And despite the resurgence in reported business confidence, business investment remains in the doldrums with replenishing and retaining cash flow remaining a priority,

as difficulties in accessing credit continue. Latest numbers confirm 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 January were more than 29% down on a year earlier. This is consistent with the plunge in business investment nationally with the onset of recession. We don't expect a significant recovery in this sector until cash flows and credit availability are restored to some semblance of normality.

Recent data also reflects sluggish external trade activity in Auckland, with both export and import values significantly below year-earlier levels. Similarly, import volumes have plummeted – in line with those of the nation. Export volumes out of Auckland have also slumped although volumes out of other centres have increased considerably. This is consistent with the composition of exports from other centres, which are dominated by the currently resurgent commodity exports.

Meanwhile, the Auckland housing market resembles a dog's breakfast, with conflicting

statistics and/or commentary being released almost daily. The most conclusive message we can extract from the information is that the rapid recovery/rebound being signalled by some last year is by no means a foregone conclusion. We expect renewed uncertainty as to the strength of the employment and income growth, which coupled with tax changes and interest rate rises will again restrain house price growth in the latter half of 2010 and into 2011. In summary, we forecast for Auckland:

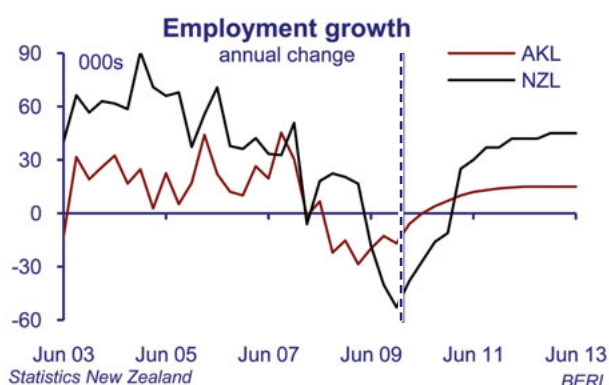
- a marginally brighter picture for manufacturing exports, but a difficult year for exporters selling to the US and European markets
- modest at best employment growth
- another 'stand-still' year for the retail sector
- considerable growth in house building activity
- net migration gains in the short-term, but easing over the medium to longer term as Kiwis again look to greener pastures across the ditch.



## AUCKLAND ECONOMIC ACTIVITY

### 2.1 Labour market

The rate of job losses in the NZ economy accelerated in the last quarter of 2009. Consequently, there were nearly 53,000 less jobs in NZ in December 2009 than there were a year earlier. This was the third consecutive quarter in which job numbers were below year-earlier levels, and represents an annual contraction in jobs of 2.4%.



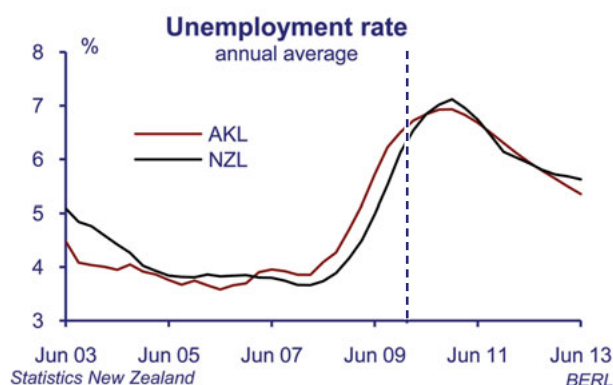
However, as noted in our November forecast, the Auckland region began to shed jobs much earlier than the rest of the country. As a result of this 'earlier start' the rate of job losses has begun to ease in the Auckland region. Note though, the rate of contraction remains higher than the national average – at 2.5% for the year to December 2009. Indeed, at 17,000 less than a year ago, the December quarter represented the sixth consecutive quarter where Auckland job numbers were below year-earlier levels.

We continue to expect the Auckland labour market to improve earlier than in the rest of the country, in part because the Auckland recession also began earlier than elsewhere. Assisting this modest turnaround are: relatively brighter prospects for manufactured exports (on the back of a strong Australian economy and a consequently weaker NZ\$/A\$ exchange

rate); renewed activity in new house construction (as the unsustainably low levels of the past couple of years exacerbate the fundamental shortage of supply); and infrastructure projects (moving increasingly off the drawing boards and into construction phase).

However, the tentative nature of the recovery conspires to keep employment growth to a minimum. In particular, prospects in the retail sector remain bleak for some time in line with income growth and constrained household budgets. And while portions of the export sector benefit from a more favourable NZ\$/A\$ cross-rate, exporters exposed to Europe and/or the United States face a stiffer task. In addition, likely public sector contractions will further act to constrain the recovery over the short-to-medium term.

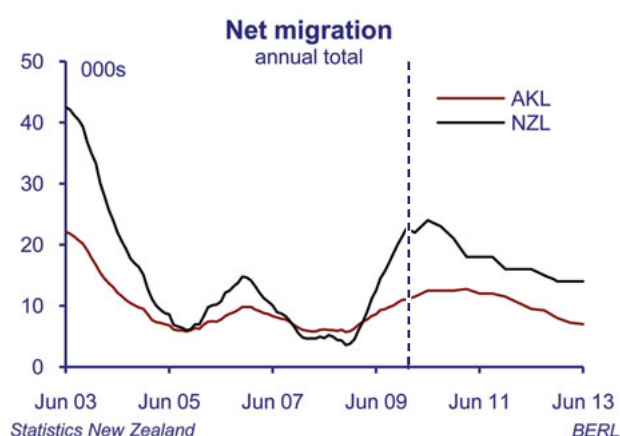
As a result, we expect annual job losses in the Auckland economy to continue into the first half of this year. New jobs are expected to appear in the latter half of 2010, with a 7,000 increase by December 2010 (compared with year earlier). This contrasts with the national picture, where we see job losses continuing over the remainder of calendar 2010.



The weakness of the recovery means a rapid reduction in the rate of jobless is unlikely. We expect Auckland unemployment to not fall below 6% until early 2012. We expect the Auckland unemployment rate to fall in line

with that at the national level, as influences on both remain similar.

Net migration is expected to continue to rise over the short term, before reverting back over the medium to longer term. We note that the boost in net migration inflows over the past year or so has arisen from a reduction in the numbers of Kiwis leaving for Australia. In contrast, the gross number of migrants entering New Zealand has remained stable despite global crises and associated uncertainties. As a result, we see the primary influence that sees net migration inflows recede over the medium term is the resurgent strength of the Australian economy and the consequent attractions (jobs and incomes) across the ditch.



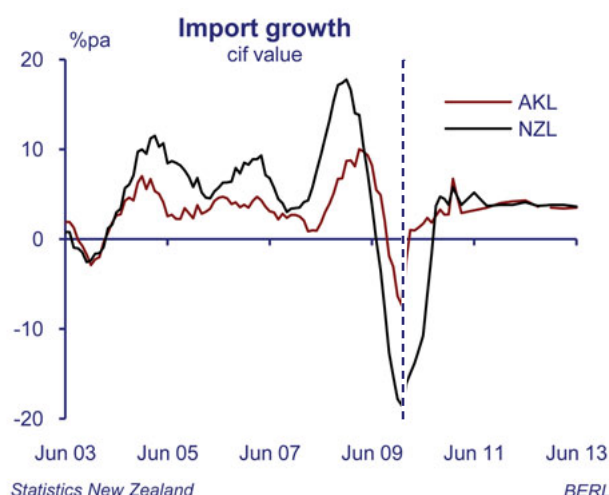
The year to January has seen a net inflow of migrants of nearly 22,600 into New Zealand, while Auckland has experienced a gain of just under 11,050. We expect a net gain for Auckland of 12,500 over the year to December 2010, with a further 11,500 the following year and declining to 8,000 in calendar 2012.

## 2.2 External trade

The economic downturn continues to interrupt regular trade patterns. The machinery of trade in Auckland has slowed down in particular. Exports from Auckland have contracted more quickly than New

Zealand as a whole. Imports have also contracted, indicating a restrained demand for intermediate and capital inputs and weak consumer demand.

The value of imports, compared to the same month a year ago, was lower in each of the last four months since October 2009. This performance was weaker than expected, but this suggests that imports to Auckland are likely to continue to contract in the very near term. As the economy stabilises and the recovery strengthens, imports will begin to grow again. Import values are forecast to rise by 1.7% in the year to June 2010 and to get back on to the average track of just over 4% in the year to June 2012.



There are some signs of the turn in imports already coming through in the trade volume data. Although volumes have continued to fall they are not contracting as quickly. We expect import volumes to turn positive around the middle of 2010. This will precede the turn for the rest of the country by about a quarter. Despite the negative data in the near term, given the turn appears to have begun, we have maintained our forecast of volume growth of 0.5% in the year to June 2010.

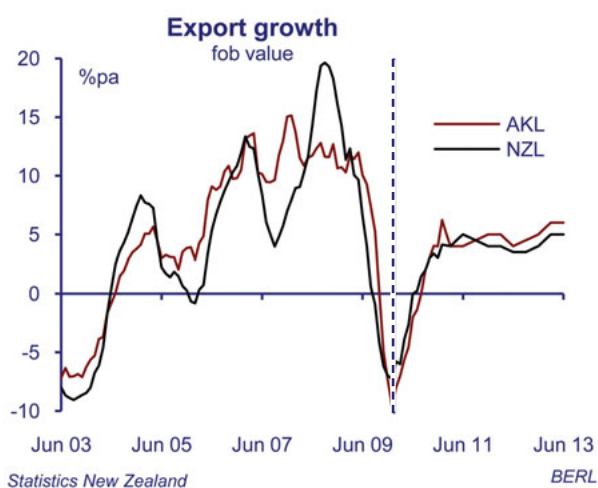
Weak employment and income growth are likely to make Auckland (and New Zealand)

consumers cautious. However, the noticeably weaker outlook for business investment sees the picture for Auckland (consumer-dominated) imports recover more quickly than the capital and intermediate imports arriving through the rest of the country.

The NZ\$ has remained volatile over the last three months. It has strengthened against the Euro and the UK£, but weakened against our other trading partners' currencies.

Lower New Zealand interest rates relative to Australia may contribute to a further fall in the NZ\$ against the A\$ over the next few months. But on a trade-weighted basis (i.e. the TWI) the NZ\$ is still 20% higher in February 2010 than it was in the same month a year ago.

Consequently, exports from Auckland and New Zealand will continue to be hampered by an over-valued NZ\$. We expect export volumes through Auckland to grow by 2%, but values to contract by 2% in the year to June 2010.



Soft trade levels and relatively low interest rates in the near term will help the dollar to drift down in the near term. Along with the gradual global recovery and, in particular the ongoing strength of the Australian economy, export growth – both volumes and values – will gain momentum through the latter half of 2010 and into 2011. This will contribute to Auckland's export growth at first matching

and then leading that in the rest of the country.

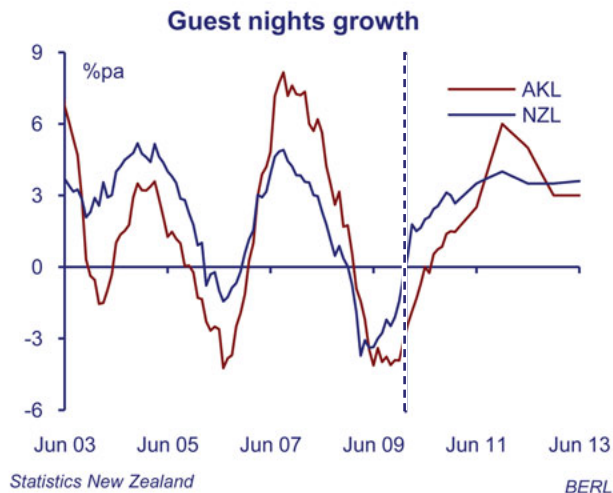
## 2.3 Tourism

Auckland has lagged behind the rest of the country in terms of its tourism sector returning to positive growth. Auckland is the only major tourist destination to see a drop in guest nights (-0.7%) in the December quarter compared to the same quarter a year ago. Demand for Auckland accommodation from domestic residents was lower by 2.5 percent. A dearth of international demand for conference and business accommodation was an exacerbating factor, although international guest nights did grow slightly – being up 2% on those of a year ago.

As a result, Auckland's share of New Zealand guest nights dropped to second in December 2009 and stayed there in January 2010.

The latest data also show that guest nights, compared with the previous quarter, picked up more quickly this year (21%) than for the same period 12 months earlier (18%). But there is a sharp distinction in the pattern between domestic and international tourists. Compared to the same three months a year ago, domestic guest nights have continued to fall, and at a faster rate in January (down 3.5%) than in December and November (down 2.5% each). In contrast, international guest nights, which account for just less than half of the demand, rose in each of the last three months. Guest nights for international visitors to Auckland, compared to the same three month period a year ago, were 1.3% higher to November 2009, 2.0% to December 2009 and 3.9% higher to January 2010.

This suggests that the region may be starting to feel some of the turn that is apparent in the rest of the country, but only in the international visitor class. Restrained domestic tourism looks likely to hold back an overall upturn until later in 2010.



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.

Despite guest night numbers still on the decline, Auckland occupancy rates remain comparable with those of a year ago. Helped by the peak season occupancy for January (56.2%), occupancy rates for the 3 months to January 2010 averaged 55.5% compared to 56.0% a year earlier. However, these rates remain well below the heady heights of 2007 and 2008, where January occupancy rates were much closer to the 60% mark.

Of course, the growing sense of anticipation with the 2011 Rugby World Cup becoming closer is likely to see the Auckland tourism sector through the next couple of years. Thereafter, the question of capacity for long-term sustainable growth will return.

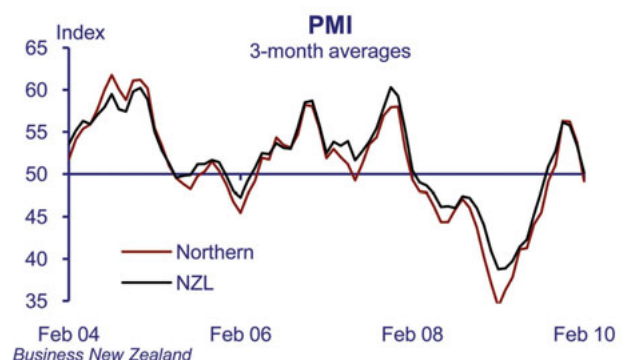
## 2.3 Manufacturing

Signs reported in our last issue of a recovery

in Auckland manufacturing may well be taking hold. Confidence based surveys have reflected a general feeling that the worst is over. However, evidence of a sustained recovery remains inconclusive.

The Bank of New Zealand – Business New Zealand Performance of Manufacturing Index (PMI) crossed the threshold into expansionary territory (i.e. above 50) September last year and has stayed above 50 since. The February reading of 53.3 is the highest since January 2008.

The average of the latest 3 months for the unadjusted PMI is perilously close to the 50 benchmark at 50.1. The equivalent figure for the Northern region has closely followed the national figure – currently standing at 49.2.



More positively, the new orders sub-index remains above 50 – at 53.6 for the three months to February – despite the seasonal low around this time of year.

A further positive sign can be taken from the Statistics New Zealand's latest Manufacturing Survey showing a 7.9% increase in the December quarter in Structural Steel and Fabricated Metal Products seasonally adjusted sales volumes.

A considerably brighter mood may soon be apparent as manufacturers see the benefits of the NZ\$ exchange rate against the Australian currency decline further. Driven by ongoing strong expansion in the Australian economy, and favourable interest



rate differentials, the stronger A\$ provides a welcome respite for NZ manufacturers.

Clearly, though, as the Auckland export data noted earlier suggests, such benefits may not be immediate, nor widespread. Indeed, it appears that manufacturing in other parts of the country (in particular, Canterbury) are better positioned than Auckland – with a PMI already well above 50.

## THE AUCKLAND CONSUMER

### 3.1 Retail indicators

The Auckland consumer is marginally ahead of the nation in terms of recovery. However, we see weak employment and income prospects quickly closing this temporary divergence.

Growth in Auckland's retail sales (excluding motor vehicles) turned positive in the year to December, and picked up pace in January to 0.9%, while sales in the country as a whole declined by 0.8%.



The strong net inward flow of migrants will have helped here. However, the job and income outlook remains weak, despite the economy technically shifting into a recovery phase. Many consumers remain at the mercy of this weak labour market and are seeing little evidence of any recovery. As such, the retail sector in Auckland will remain static through to mid 2011. We see retail sale values in Auckland growing by about 1.0% in the year to June 2010. There may be a surge in sales in late 2010 as consumers stock up on durable goods to try and avoid some of the anticipated GST rise. But this is likely to be followed by a balancing slowing in the following quarter.

As employment growth in the Auckland economy begins to pick up, so will retail sales, which are forecast to grow by 2.8%

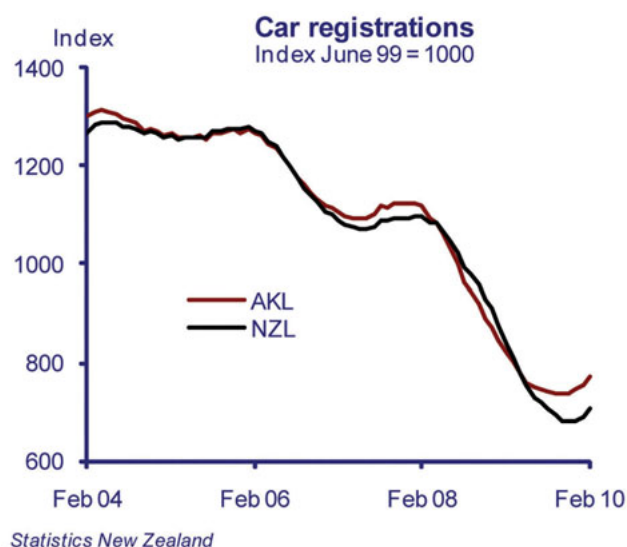
per annum in the year to June 2011 and 4.2% to June 2012.

Growth in retail volumes will be close to zero over the near term. There may even be some contraction in volumes in the very near term. Real growth in volumes is not expected until the start of 2011.

The forecast for core retail sales growth, excluding the motor vehicle industries, will mirror total retail sales in the near term. But as employment growth strengthens, so will discretionary spending, which will help lift core sales.

As a backdrop to the Auckland picture, national retail sales values in the three months to January rose by just 1% on a seasonally adjusted basis. Consequently, there remains an ongoing reduction in retail sales volumes. Taking a longer view, in the year to January 2010, retail sales contracted by 0.8%, confirming that 2009 was indeed a difficult year for the retail sector.

The positive contribution of a growing tourism sector to the national economy will offer some support to the retail sales sector. This external source of demand will be complemented, slowly, by the forecast recoveries for the housing sector and labour market through early 2011 and into 2012.



An indicator that Auckland consumer activity may be past its lows are new vehicle registration numbers. Auckland registrations for the three months to February 2010 totalled more than 16,940, nearly 19% above year-earlier levels. This compares with a 14% increase in the total for New Zealand over this period. However, the magnitude of the consumer slump is reflected in the annual total to February, which for Auckland is still down 5.8% while the comparable figure for the nation is down 15.7%.

### 3.2 Housing

The Auckland housing market resembles a dog's breakfast, with conflicting statistics and/or commentary being released almost daily.

The most conclusive message we can extract from the information is that the rapid recovery/rebound being signalled by some late last year is by no means a foregone conclusion.

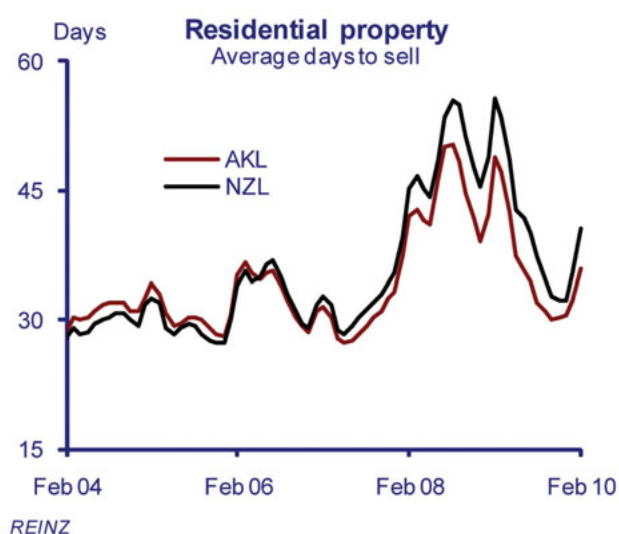


According to Quotable Value (QV), Auckland house prices in the September 2009 quarter were up 3.5% on a year earlier. This was the first increase in this indicator since March 2008. In comparison, New Zealand house prices rose only 1.1% in the year to September 2009.

We note that Real Estate Institute (REINZ) numbers record a larger increase in house prices (as well as a smaller fall during the downturn). For example, REINZ numbers put Auckland house prices in the September 2009 quarter at close to 6.5% up on a year earlier, compared to the QV data of a 3.5% increase.

The methodological differences between the two datasets mean that the QV data better reflects underlying influences in the market. Unfortunately, QV data is not as timely, so we need to cautiously infer information from the REINZ data.

Interestingly, the house price growth according to the REINZ numbers has not changed significantly since September – with the three months to February showing a rise of 7.3% on year ago. But national house price growth has doubled from 3.7% to 7.8% over this same period.



Moreover, the REINZ data shows a lengthening in average days to sell for both Auckland and the New Zealand markets. The REINZ puts the average number of days to sell in Auckland in the three months to February at 36 days. This is below the 49 days recorded for the same period a year ago, but above the 30 days reported for the September 2009 quarter. Some of this

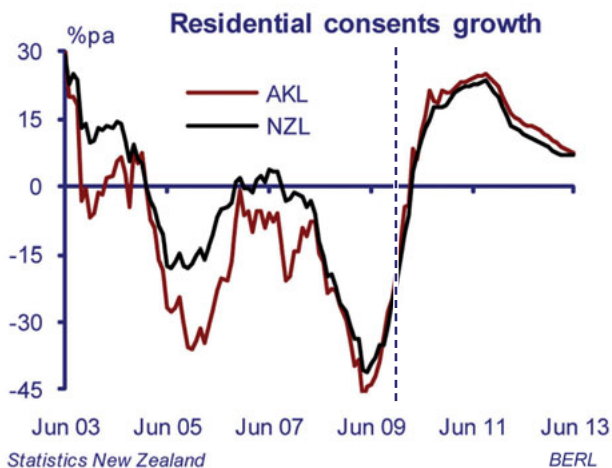
lengthening is seasonally related, but the extent of this turnaround suggests a weaker market than some may be suggesting.

Looking ahead, we expect Auckland house price growth to be marginally higher than that for NZ as increased inward migration, and reduced outward flows combine with supply constraints. However, renewed uncertainty as to the strength of the employment and income growth, coupled with tax changes and interest rate rises are set to restrain growth in the latter half of 2010 and into 2011.

## AUCKLAND CONSTRUCTION

### 4.1 Residential

The past year has been the most subdued for several decades for the issue of new residential building consents and the associated activity in the house building industry. The 3,557 residential building consents issued in Auckland in 2009 was the lowest total for any calendar year since this data series began in 1991. Further, the total for New Zealand of 14,425 consents was the lowest since that series began in 1973.



For Auckland, consents issued reached a trough in the year to August 2009 at just under 3,250, or about 40% below year-earlier levels. Since August recovery has been gradual, with the latest figures showing the year to January still being 12.9% below those of the previous year.

This slump reinforces to us that there is an unsustainably low level of activity in this industry. With current levels of net migration inflow, along with natural population increase and household formation rates, there is an insufficient number of new residential houses being built.

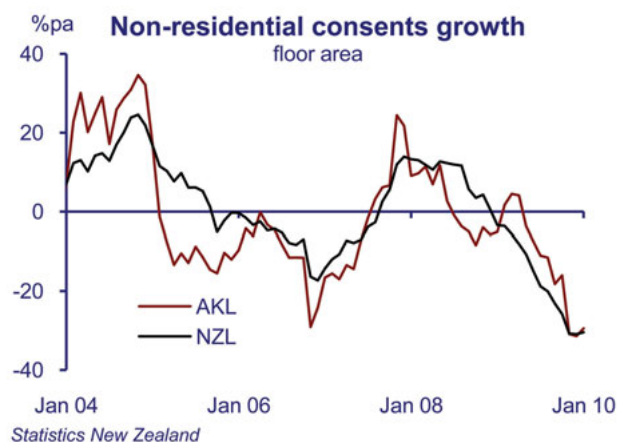
This low in industry activity has begun to turn. But the questions are how rapid will be this turnaround and whether building

construction (including workforce) capacity is available? To the latter question, our answer is yes, although capacity may become problematic the longer the recovery takes.

To the former question, we depict a relatively rapid recovery. We expect new house building activity to lift by 21% in calendar 2010, followed by a further 22% lift over 2011. However, the magnitude of these percentage changes belie the depths of the slump.

Consequently, activity in 2011 (at about 5,250 consents) sees the Auckland house building industry still below the levels experienced in 2008. Nationally, a similar bounce sees consents total 20,375 in 2011, still below the 25,000 annual average registered in the 10 years to 2008.

### 4.2 Non Residential



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 January were more than 29% down on a year earlier.

This is consistent with the plunge in business investment nationally with the onset of recession. We don't expect a significant recovery in this sector until cash flows and

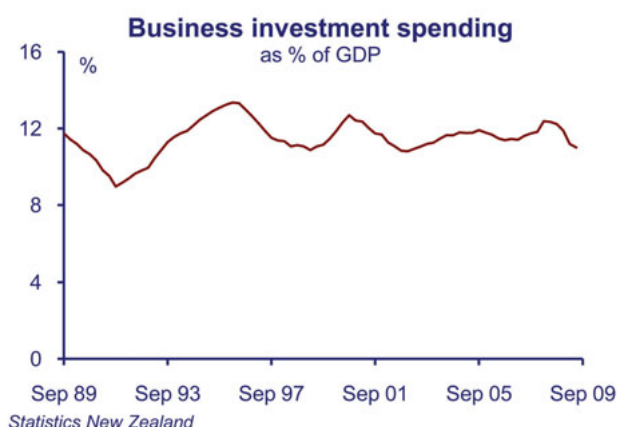
credit availability are restored to some semblance of normality, accompanied by confidence in demand (export and domestic) prospects. In the interim large infrastructure projects are expected to keep the building industry occupied, but not stretched.



## THE WIDER CONTEXT

Signs of a sound and robust recovery phase for the New Zealand economy are difficult to uncover. Clear and present positives arise from the ongoing strength of the Australian economy. Thereafter, the search for the impetus for sustainable growth becomes difficult.

Consumers remain cautious in the face of uncertain employment and income prospects. Businesses, on the other hand, feign confidence while remaining solidly in retrenchment mode. Business investment spending in real volume terms is running at more than 15% below year-earlier levels. This slump is more pronounced when one considers the relatively attractive conditions (in terms of exchange rates) for imported machinery and equipment.



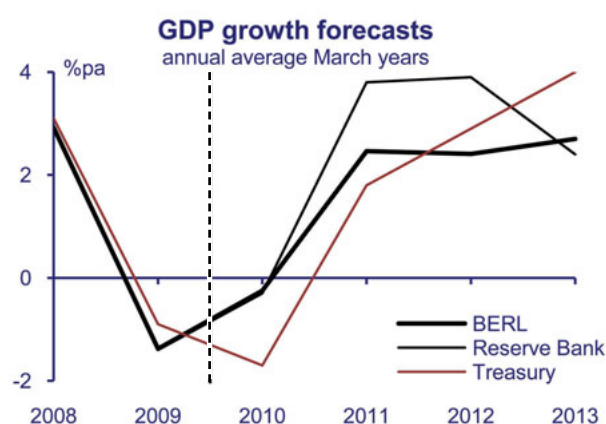
As a share, of national income business investment accounts for around 12%. This is close to its 20-year average and signals little resource or behaviour shift in NZ's economic structure towards productivity-enhancing activities.

However, while there has been a small decline by some banks in the prime rate of interest for business loans, latest data (January) shows the availability of credit for business actually declining and that for farming virtually unchanged despite normal seasonal patterns.

On a brighter note, world markets, be they for shares, bonds, commodities or oil, have tended to rise over the past month, signalling either less risk aversion or greater availability of funds. Either way it could be that our banks will find money cheaper to get, in which case some increase in credit availability here may be on the horizon.

Having said that, we wouldn't count on it in view of all the fundamental risk factors that remain uncorrected. In particular, the US and European markets continue to grapple with their financial and economic imbalances, while NZ exporters to those markets face an unfavourable exchange rate.

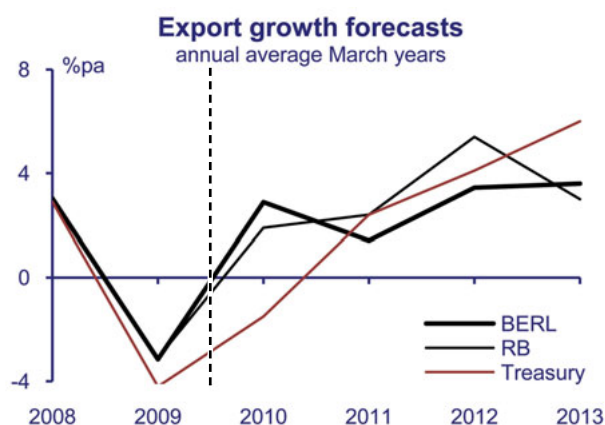
With a boost from selected exports (in the main forestry, dairy and, perhaps, manufacturing heading across the ditch), the export picture looks marginally better than in our November issue. Additional impetus from renewed house building activity, as well as ongoing infrastructure projects provide domestic sources for potential growth.



Consequently, our forecasts for national GDP growth are marginally better than in our previous issue. However, they remain little to write home about. GDP growth for the year to March 2010 is expected to average -0.2%, before rising to 2.5% in the following March year and remaining thereabouts over the forecast horizon.

Associated with this modest recovery phase, we see job losses continuing over calendar 2010 as businesses await evidence of a sustained increase in domestic and/or external demand. But the rate of losses will ease, so that by December 2010 job numbers will be 11,000 below year-earlier – representing a reduction of 0.5%. As a result, unemployment does not decline quickly – remaining above 6% until early 2012.

We note that the Reserve Bank's March forecast has become particularly bullish for the immediate short term – based, as much as we can tell, on a quicker consumer recovery. In contrast, the RB has lowered its exports expectations over the medium term. Our export forecasts, in turn, are marginally more positive than our previous issue, although they remain considerably muted.



Amongst the export scene, there are a selection of stellar performers. In value terms, wine exports achieved 13% growth over calendar year 2009, taken their annual contribution to NZInc earnings to just over \$1bn. Over the latest three months (to January), the wine picture remains encouraging at 7% up on year earlier.

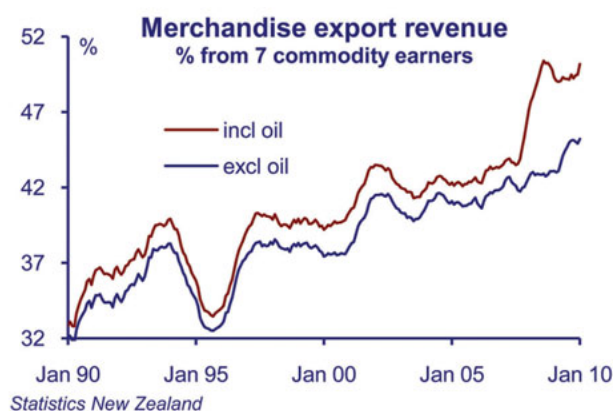
Similarly, logs and timber export revenues have surged ahead, registering a 20% increase over 2009. Again, the latest three months continues an encouraging picture with receipts up 22%

However, other categories continue to struggle. Total merchandise export revenue for 2009 was down 8.4%, with the latest three months even worse at 10% below year earlier.

NZ has seven commodity groups earning all those earning over \$1bn in export revenue. Together they accounted for 53% of merchandise revenues in the past year. These are – in order – dairy, meat, oil, logs & timber, fish, kiwifruit, and wine. The total contribution for 2009 from this 'lead' group was down 6.7%, with the latest three months still nearly 3% down.

Manufactured export categories (mechanical and electrical machinery) have fared worse, with their over \$2bn earnings having declined by around 14% over the past year.

Any short-term outlook for an export-led recovery would appear to be based primarily around hope.



More interesting, is the longer-term picture that sees a growing proportion of New Zealand's merchandise export earnings being concentrated in a relatively narrow grouping of commodities. From about a third of merchandise revenue a couple of decades ago, this group now accounts for well over a half.

Of course, this is a consequence of the demise of the manufacturing sector in general and its export sector in particular.

How this fits with any strategy to diversify the export and economic base of NZ is a moot point. And this is a particularly central point when considering the role of Auckland within an economic system that appears to be increasingly dependent on its primary resource base.

## AUCKLAND TOWARD THE 'SUPER-CITY'

Auckland is experiencing significant change in its governance systems, paving the way for what is colloquially referred to as a 'Super-City'. The proposals are based on the stated objectives of the government, as outlined by the Prime Minister:

All New Zealanders have an interest in the success of the Auckland region, which requires decisive leadership, robust infrastructure, and facilities and services to cater for its people. Auckland is an important engine for New Zealand's economic growth. As such, it must have a simple and effective system for making regional decisions and implementing them smoothly. That's what the new governance structure has been designed to achieve (John Key, media release, 7/4/09).

The intentions are based on strengthening Auckland's contribution to the New Zealand economy and enabling it to reach its potential as New Zealand's 'global city'. The assumption is that streamlining the region's governance system will enhance Auckland's potential whilst at the same time addressing any challenges or obstacles to development. There is also an inherent understanding that both in policy terms and in the provision of services, local and regional government are the vehicles that represent the public interest and the common good. The recent developments in realigning Auckland's governance, however, are cause for concern. It is difficult to see where the intentions to boost the functioning of Auckland, and especially its economy, will be realised under current proposals.

## Background to Auckland's governance reforms

Over the past decade the Institute of Public Policy (IPP) has been intimately involved in the development of strategies to boost Auckland's economic development. It began with the AREDS process and the establishment of the Auckland Regional Economic Development Association – building local economic development agencies into a collaborative relationship with local and regional government, from a community base and in partnership with business and industry groups across the region.

The AREDS initiative articulated a vision for the region of a great place to live, work and do business. The aim was to build a platform of exceptional people, cultures, environment and infrastructure. Because of the widespread engagement of the different population groups and interests across Auckland it had significant support from within the region.

At the same time, outside of Auckland other interpretations dominated. These alternative views were vigorously expressed in 2003 at an Economic Development Conference in Timaru at which Auckland was cast by a number of speakers as the 'basket case' of the country – a drain on the nation's economic performance – a failure when measured against other global cities across the developed world.

These alternative views provided the motivation to build a programme of work that might establish an evidential base for economic and social development in Auckland. That was the basis of the Metropolitan Auckland Project. Soon after the Timaru conference the IPP prepared a draft paper which proposed a regional action plan aimed at giving substance to the AREDS strategy, and subsequently

formed a partnership with the Committee for Auckland and the Auckland Regional Council to advance the proposal. This partnership was responsible for launching the Metropolitan Auckland Project and for engaging the international team which made a significant contribution to the formation of an action plan for the region.

## Regional Development

The Metro Project Action Plan, as the working document for the Auckland Regional Economic Development Forum, laid the foundation for an integrated approach to the Auckland region's development. In describing 'why Auckland matters' the plan highlighted two fundamental elements. These were the importance of the population base of Auckland. The second was Auckland's strategic significance as a 'junction' or 'portal' for both the national and global economies.

The Metro Project Action Plan sought to build on Auckland's distinctive population base and advance its potential in relation to its density and diversity. As the region containing approximately 1/3 of New Zealand's population and comprised of around 190 different ethnic groups, Auckland is the population portal for New Zealand. It contains more than a third of the paid workforce and hosts the most socially and culturally diverse communities in the country. More than half of New Zealand's population live within a 200 km radius of Auckland and it is this size and population density that enables the region to provide business with economies of scale in population, labour markets and consumer markets. The population base, more than any other factor, defines the character of Auckland. 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.

The downside of the region's population base was identified in a 2001 Treasury report which concluded that just on 36% of the most deprived neighbourhoods of the country were concentrated in Auckland. During the AREDS process the deprived neighbourhoods of the region were identified as a major impediment to regional and national economic development. We now have considerable evidence to show that these disparities are increasing with the most disconcerting aspect of these trends being the relationship that exists between deprivation and a wide range of social deficits such as ill health, benefit dependency, violence and crime. The impact of these trends is evident in a resurgence of preventable childhood diseases associated with factors such as material deprivation and in labour market segmentation that has produced 'work rich' and 'work poor' households. If Auckland is going to realise its economic, social and cultural potential, its governance needs to be grounded in a true understanding of these needs. These are best understood by local communities who need to be active participants in developing the necessary solutions.

## Regional Boundaries

Auckland's strategic significance as a 'portal' for both the national and global economies was highlighted as critical factor in the development of the Metro Project action plan. Auckland is New Zealand's major commercial centre, service hub and gateway to the world; a role that is fundamental to New Zealand's global competitiveness. A central proposition in building a sustainable economic base for metropolitan cities such as Auckland suggests that connectivity is a far more significant factor than notions such as agglomeration, land use or population growth. Likewise, in domestic terms 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 manufacturing, logistics, professional and financial services, business management and marketing is in many ways the core business of the Auckland economy. The arbitrary demarcation of regions has little relevance to industry sectors, business services or the flow of goods through the 'ports' of Auckland. Yet despite this reality, policy bodies continue to be preoccupied with regional boundaries based on geographic or political assumptions. The boundaries being imposed by the Local Government Commission and the myopic research agenda of government are classic examples of spatial reductionism.

Beyond the population base and the fundamental drivers of the regional economy, the Metropolitan Auckland Project proposed a springboard for action. The international team in particular referred to uncoordinated strategies that lacked implementation tools and resources. It referred specifically to investment, transport options and skilled workers and it highlighted the need for better regional coordination and integration. It was these issues that instigated the close investigation of Auckland's governance and the search for alternatives, which became the focus of a Royal Commission which reported in 2009.

### **Governance and the Super-City**

The Royal Commission implemented a comprehensive and participatory exercise which provided the potential for the most informed strategies for revamping and consolidating Auckland's governance structures in its history. The participation of thousands of Aucklanders in the Royal Commission process implied that the intentions of integration and democratic consensus would be realised. Three days after the publication of the Royal Commission's

report on the Governance of Auckland, however, the Minister of Local Government circumvented the integrated approach to governance proposed by the Commission and introduced a hastily conceived strategy that has the potential to undermine the true purpose of the reforms; to improve regional (and local) governance in Auckland. As a series of reports have subsequently noted, the strategy advanced by the Government ignores history, fails to connect in any meaningful way with the diverse populations and neighbourhoods of the region, and in the process it raises questions about how the trust and confidence of citizens and ratepayers in the new governance structures will be realised.

These comments are not made lightly. IPP has been intimately involved in processes that supported gaining better governance in Auckland through the AREDS process, the Metropolitan Auckland Project and more recently as a participant in the Auckland Regional Economic Development Forum. The significance of 'government' in the development of the city and the region is both appreciated and understood. In this respect we accept the general conclusion of the Royal Commission that Auckland currently lacks the capacity to make strategic investments on an integrated, regional and indeed national basis. As it noted:

... governance arrangements affect how much access people and communities have to the system and their ability to influence decisions about what services and initiatives they value... Formal consultation by Auckland councils has become a poor proxy for true connection with their communities. (Report of the Royal Commission, Vol. 1, 2009, p.4)

Instead of connecting with the communities of the region the government proposes a

structure which will see Auckland massively under-represented by world standards. In the urban centres of the United Kingdom on average, one councillor represents 2,605 citizens. In France the ratio is one councillor for every 116 citizens – in Germany 250 citizens – in Italy 397 citizens – Spain 597 citizens – Sweden 667 citizens – and Denmark 1,084 citizens. In Auckland, if you include all elected members, the ratio proposed is 1 to 8,462 citizens. If you analyse the proposed ratio of Local Board members it is 1 to 9,654. The ward boundaries proposed by the Local Government Commission will deliver huge variations in the level of representation from one ward to another. Furthermore, twenty councillors will be hopelessly inadequate to make decisions at the regional level which can address the major issues facing local communities. As the proposals stand the power of local boards to determine local matters is unclear and could be severely constrained. Their ability to influence any regional decisions will also be minimal given that all the power will reside with central government and the Auckland Council.

It is not, then, just the level of representation which is a major concern in the establishment of the so-called 'Super-City' but also the form of governance being advocated. Recent comments from both business and government representatives equate city governance with the running of a business. While there are areas in which private sector management principles have relevance for public sector administration, there are also significant differences which have both political and constitutional ramifications. Most significantly, the accountability mechanisms and performance indicators of the public sector need to go beyond that of profit-making and efficiency. 'Government' in its various forms is required to implement programmes with multiple and sometimes conflicting objectives, in the public interest

and for the common good. By suggesting that public and private sectors are similar or (in the case of management) synonymous, inevitably undermines the constitutional and political responsibilities of government. Not only is the 'public interest' devalued, but democracy itself is demeaned.

### **Toward the Super-City**

It was evident to us from the day that the Minister of Local Government released his plan for the Super-City (thereby rejecting the integrated approach to governance as proposed by the Royal Commission) that the public would be largely excluded from the decision-making process. As a consequence both the process of establishing the governance structures and the projected outcomes of the restructuring have raised serious questions for the citizens and ratepayers of Auckland. The Minister has become strangely silent on the economic impact for ratepayers, after the early claims of savings that would be made by combining administration and planning systems. Our experience tells us that in amalgamations of this type it is the highest – not the lowest – common denominator that sets prices, taxes and rates, and the unintended costs are never counted.

In trying to counter the issues that have been raised over representation and public scrutiny, government spokesmen have made much of efficiency gains and transparency. Such claims, however, are clearly refuted by representation ratios, by the limited powers proposed for local boards, and by the governance structures advanced for CCOs. Even the New Zealand Herald, nine months out from the Super-City elections, has conceded that the new regional structures will see Auckland 'locked out' of any control over the region's public assets.

It is therefore reasonable to question how this new Super-City structure will

deliver the economic gains claimed by the Prime Minister. How will it deliver decisive leadership for the region when there is little clarity around the respective roles and responsibilities of regional and national government? How will it respond to the increasing agitation of different social and cultural groups claiming that their voices are not (and will not) be heard in the new regional structure? How will it deliver a robust infrastructure for a region that has one of the worst public transport systems of any major city within the developed world? How will it counter Auckland's poor record in the provision of infrastructure and utilities over recent decades despite numerous reports and publicly voiced dissatisfaction?

How will the Auckland Council address the deprived neighbourhoods of the region which

have been identified as a major impediment to economic and social development? How will the new administration create a central business district and waterfront for the people of Auckland, when the best that can be advanced by Wellington-dominated initiatives are a waterfront stadium which was opposed by a majority of Aucklanders, and rapidly diminishing plans for a Queens Wharf 'party central' for celebrations associated with the 2011 Rugby World Cup?

If the new Super-City administration is not able to address these issues then it will inevitably struggle to gain the trust and confidence of Auckland's citizens and ratepayers. If it fails to gain their trust and confidence, then it will ultimately fail to fulfil its potential as New Zealand's global city.

## Forecast Data Summary

December years		Actual			Forecast		
		2007	2008	2009	2010	2011	2012
Employment %pa	AKL	4.7	-1.2	-2.9	0.2	1.9	2.2
	NZL	1.9	0.6	-1.1	-1.1	1.5	2.0
Unemployment %pa	AKL	3.6	5.3	6.4	6.4	5.7	5.1
	NZL	3.3	4.4	6.8	7.2	6.0	5.6
Export volumes %pa	AKL	14.8	-2.6	5.7	2.5	3.8	4.0
	NZL	4.9	7.8	8.1	4.0	2.4	2.4
Import volumes %pa	AKL	9.7	-2.2	-11.9	0.4	0.3	0.5
	NZL	-0.2	5.0	-16.8	1.2	0.9	0.9
Guest nights %pa	AKL	7.2	1.7	-3.9	1.5	6.0	3.0
	NZL	3.8	0.0	-1.4	3.0	4.0	3.5
Net migration 000s	AKL	6.4	5.9	10.9	12.5	11.5	8.0
	NZL	5.5	3.8	21.3	21.0	16.0	14.0
Retail trade excl mvs %pa	AKL	4.8	1.0	1.4	2.0	2.4	4.0
	NZL	6.0	3.6	0.1	1.5	2.0	3.5
House prices %pa	AKL	9.2	-10.1	7.4	2.6	6.5	7.5
	NZL	8.0	-8.9	3.8	2.5	6.0	7.5
Residential consents %pa	AKL	-14.3	-29.7	-19.5	21.0	22.0	11.0
	NZL	-1.4	-27.9	-21.8	17.9	19.9	8.6

\* detailed data tables available on request

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