Auckland city business and economy report
2009

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AUCKLAND
City Council

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Executive summary

Many areas of Auckland city's economy have been hit hard by the recession and the year to March 2010 is expected to remain weak. However, New Zealand (and with it Auckland) is better placed than many countries to pull itself out of the recession.

Auckland city's economy moved into a recession in the year to March 2009, along with the rest of the country and much of the world. This has hit Auckland hard with the city's economic output declining by 2.4 per cent over this period.

The global economy remains weak with most developed nations still deep in recession. Although there are signs of it bottoming out, it is unlikely that world production will return to its 2008 level before mid 2011.

A fall in retail and wholesale trade was the largest contributor to the city's poor performance in the year to March 2009. The trade sector has been hit hard by falling consumer confidence, rapidly rising unemployment, lower imports and exports and a weak property market. Annual retail sales declined by 1.6 per cent in the year to March 2009, the first annual decline in a decade.

Output in the city's manufacturing sector also declined sharply as a consequence of falling international and domestic demand. A downturn in two of the city's traditional growth leaders, property and business services, and finance and insurance, was also a major contributor to the city's poor performance.

House prices in Auckland city fell by 3.4 per cent in the year to March 2009, while the number of sales in this period, declined by a third. The weak housing market has undermined the city's economy as declining household wealth (on the back of falling housing prices) deters consumers from spending.

Executive summary

About 5000 jobs were lost in Auckland city over the year to March 2009. Job losses were widespread and employment declined in most industries. Consequently, the city's annual average unemployment rate rose to 5.6 per cent, which was higher than in the Auckland region (5.1 per cent) and New Zealand (4.5 per cent). Finding skilled and unskilled labour was easier than at any time since 1992.

The Auckland region's economy has underperformed relative to the economies of many of its international comparator cities over the past decade. From 1998 to 2008, the Auckland region's GDP growth rate was well below the average of the nine comparator cities[1]. Measured on a GDP per capita basis, Auckland's performance was only slightly better than the worst performing city, Vancouver.

However, Auckland consistently performs well in international quality of life surveys. It was ranked fourth equal out of 215 cities in the Mercer 2009 Quality of Living Survey.

In the year to June 2008, Auckland city had an estimated population of 438,100 people. This was up 1.1 per cent on the previous year. Annual net migration in the year ended March 2009 was 7200, up 10 per cent on the previous year.

Looking forward, New Zealand (and with it Auckland) is better placed than many countries to pull itself out of the recession. Factors in its favour include the better than expected shape of some of our major trading partners (Australia and Asia excluding Japan), and the robust state of our banking sector which will enable lending to pick up earlier than much of the developed world. Additionally, comparatively higher interest rates at the start of the crisis mean there is greater headroom for monetary stimulation through further interest rate cuts than in other countries.

Despite these positive factors, the year to March 2010 will remain weak. The retail and accommodation sectors will again decline along with the cafe and restaurant sector as consumer discretionary expenditure continues to fall. The residential construction sector is in for another tough year following sharp falls in residential consents. However, a weak residential sector will be countered by strong non-residential construction which has shown a 67 per cent increase in the annual value of consents. A slight increase in export volumes is expected over the next 12 months in response to the weaker New Zealand dollar, which despite recent gains is well down from its peak in 2007. A lower dollar will provide some respite for the manufacturing and wholesale trade industries.

[1] The eight other comparator cities are Sydney, Perth, Brisbane, Melbourne, Vancouver, Singapore, Portland and Seattle.

Past economic performance

Auckland city's economy moved into a recession in the year to March 2009, declining by 2.3 per cent.

Over the past six years, Auckland city's economy has grown by an annual average of 2.4 per cent, which is slightly slower than the Auckland region and New Zealand.

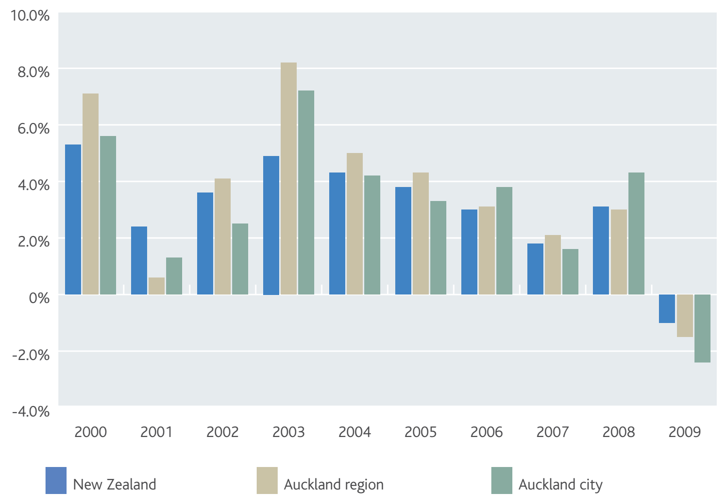
Recent past

Along with the rest of the country and much of the world, Auckland city's economy moved into recession in the year to March 2009. The city's economic output declined by 2.4 per cent[2], compared with falls of 1.5 per cent in the Auckland region and 1.0 per cent in the national economy. The city has been battered as falling house prices, tighter bank lending restrictions, lingering uncertainty about the economic environment ahead and a sharp drop off in international demand for its exports have deterred households and businesses from spending and investing.

The largest contributor to Auckland city's decline in 2009 was the wholesale and retail trade sector. Retail trade has been hit hard across the country due to falling consumer confidence, much tighter credit conditions, and rising unemployment.

Auckland city's wholesale trade industry has been affected by a broad range of factors including the drop in demand from retailers, falling demand from construction (especially the residential sector which has plummeted), declining business

GDP growth (annual average percentage change, March years)



Source: Statistics New Zealand and Infometrics.

[2] Sub-national GDP growth rates were estimated by Infometrics using a wide range of partial economic indicators including building consents, electricity consumption, employment, property market indicators, external migration and retail sales. The methodology for estimating sub-national growth rates has changed since the Business and economy 2008 report.

investment and a resulting decline in demand for machinery and equipment, and a fall in imports and exports handled by wholesalers.

A downturn in two of Auckland city's traditional growth leaders, property and business services, and finance and insurance, was also a major contributor to the city's declining output. Property and business services have been adversely affected by the sharp fall in the property market, a general decline in business activity and a reluctance of enterprises to invest in new business systems such as information technology. Auckland city has borne the brunt of the collapse of finance companies, with many national or regional companies headquartered in the city. Financial institutions focused on mergers and acquisitions have been among the most heavily affected during these times of uncertainty and falling equity prices.

Output in Auckland city's manufacturing sector has declined sharply in response to falling international and domestic demand. Auckland city has a high concentration of manufacturing sub-industries that have been hit hardest by the global recession including textiles, plastics and chemicals, and printing.

Historical

Over the past six years Auckland city's annual economic growth averaged 2.4 per cent which was slightly lower than growth in both the Auckland region (2.7 per cent) and New Zealand as a whole (2.5 per cent).

The high-end service industries (communications, finance and insurance, and property and business services) were the major contributors to growth. Together these industries accounted for more than two-thirds of the city's growth during the past six years.

Communications was the single largest contributor to growth, with one-quarter of the city's total growth (this was on average, 0.6 percentage points of the city's 2.4 per cent average annual growth during the six years). The telecommunications industry has been one of the country's fastest growth industries and the city has been well placed to capture the benefits of this increase. Much of the telecommunications industry's centralised functions are located in Auckland city and almost half of New Zealand's telecommunications employees are based in the city.

The city's finance and insurance industry has also been a strong performer in New Zealand over the past six years averaging 4.6 per cent growth per annum. It has grown as a result of the consumption boom and the resulting demand for credit as well as an expansion of the range of services it offers. With its large presence in Auckland city, finance and insurance has been the second largest contributor to Auckland city's growth.

Property and business services is by far the largest industry in Auckland city, contributing a fifth of total output. A combination of its size and respectable annual growth of 2.8 per cent per annum made it the third largest contributor to the city's economic growth over the six year period.

The relatively strong performance of Auckland city's three largest industries was countered by the poor performance of the manufacturing sector, the city's fifth largest industry which contributes almost 10 per cent of the city's output. Output in the manufacturing industry declined slightly over the six year period, which was worse than the national performance.

A number of sectors performed worse in Auckland city than at the national level. Wholesale trade and transport and storage underperformed compared to the national economy and made a smaller contribution to the city's growth. Although government administration and defence grew strongly in Auckland city, its relatively small size meant it made only a small contribution to the city's economy.

Industries ranked by absolute contribution to growth, 2003-2009

Industry	Auckland City				Auckland	New Zealand
	GDP 2003 ($m)	GDP 2009 ($m)	Net change (2003-09) ($m)	Annual average % growth	Annual average % growth	Annual average % growth
Communication services	1,839	2,857	1,018	7.6%	6.3%	4.9%
Finance and insurance	2,340	3,227	887	5.5%	5.9%	5.8%
Property and business services	4,476	5,276	800	2.8%	3.7%	3.7%
Government administration and defence	407	617	210	7.2%	5.5%	5.9%
Retail trade	948	1,130	182	3.0%	3.8%	3.6%
Ownership of occupied dwellings	1,386	1,520	134	1.6%	1.8%	1.7%
Health and community services	887	1,017	129	2.3%	4.4%	4.3%
Construction	588	688	101	2.7%	2.6%	2.3%
Cultural, recreational, personal and other services	963	1,054	91	1.5%	2.8%	2.8%
Wholesale trade	2,489	2,575	86	0.6%	1.3%	1.7%
Accommodation, cafes and restaurants	317	339	22	1.1%	1.5%	1.3%
Primary industries	50	67	16	4.8%	-0.7%	1.7%
Electricity, gas and water supply	244	257	13	0.9%	0.2%	0.1%
Transport and storage	1,032	1,032	0	0.0%	2.6%	2.4%
Unallocated	868	854	-13	-0.3%	-1.4%	-1.4%
Education	745	683	-62	-1.4%	0.0%	0.5%
Manufacturing	2,625	2,458	-168	-1.1%	-0.3%	-0.2%
Total	22,204	25,651	3,447	2.4%	2.7%	2.5%

Source: Statistics New Zealand and Infometrics.

Relative international economic performance

The Auckland region has underperformed relative to many of its international comparator cities, with much of its growth driven by an expanding population. Despite this, Auckland consistently ranks highly in international quality of life surveys.

Auckland's economy has underperformed relative to the economies of many of its international comparator cities over the past decade. The Auckland region's GDP growth rate was well below the average of the nine comparator cities from 1998 to 2008. The region's performance is even less impressive when population growth is taken into account as much of its growth was driven by an expanding population. The Auckland region experienced the third highest population growth among the nine cities and in terms of growth in GDP per capita, Auckland's performance was only slightly better than the worst performing city, Vancouver.

On a GDP per capita basis, the 2007 Demographia study ranked the Auckland region 80th out of 116 cities, with populations over one million, from Europe, North America, Japan and Australasia.

Despite Auckland's poor economic performance relative to the comparator cities, it consistently ranks highly in international quality of life surveys. In the Mercer 2009 Quality of Living Survey, Auckland was ranked fourth equal out of 215 cities, up from fifth place in 2008.

Relative international performance

City-region	Annual average percentage growth (1998-2008) [1]			Real GDP per capita 2008 (2008 $US PPP) [2]
	Real GDP	Real GDP per capita	Population	
Auckland (region)	3.5%	1.6%	1.9%	$29,733
Sydney	3.5%	2.5%	1.0%	$37,675
Perth	5.6%	3.7%	1.8%	$50,066
Brisbane	5.8%	3.5%	2.2%	$34,550
Melbourne	4.2%	2.8%	1.3%	$34,571
Vancouver	2.9%	1.5%	1.8%	$36,053
Singapore	5.0%	2.8%	2.2%	$48,472
Portland	4.1%	2.8%	0.2%	$44,278
Seattle	3.4%	2.1%	0.6%	$50,543
Average	4.2%	2.6%	1.5%	$40,660

(1) For international cities, state GDP was used to estimate growth rates.
(2) Purchasing Power Parity exchange rates were used to adjust for price differences between countries.

Economic structure

Auckland city's economy is dominated by non-government services (such as finance and insurance or property and business services).

Property and business services is Auckland city's largest sector, contributing the largest employment growth since 2003.

Auckland city's economy is dominated by non-government services (such as finance and insurance or property and business services[3]), which accounted for 74 per cent of the city's GDP, compared with 56 per cent of the national economy. Together, property and business services, finance and insurance, and communication services, contributed 44 per cent of the city's economic output in 2009, compared to only 27 per cent at the national level. The fact that these industries accounted for only a third of the city's economic output a decade ago demonstrates their important contribution to the city's growth.

Manufacturing's share of the city's economic output has declined to about 10 per cent from about 14 per cent a decade ago. Manufacturing makes a smaller contribution to the city's economy compared to its contribution to the national economy. Auckland city has a broad base of manufacturing sub-industries with the larger manufacturing activities being food and beverage, plastics and chemicals, and printing.

Other industries underrepresented in Auckland city are primary industries (agriculture, forestry, fishing and mining), retail trade, health and community services and government administration and defence.

[3] Property and business services includes activities such as property operators and developers, real estate agents, scientific research, computer services, and legal and accounting services.

Economic structure

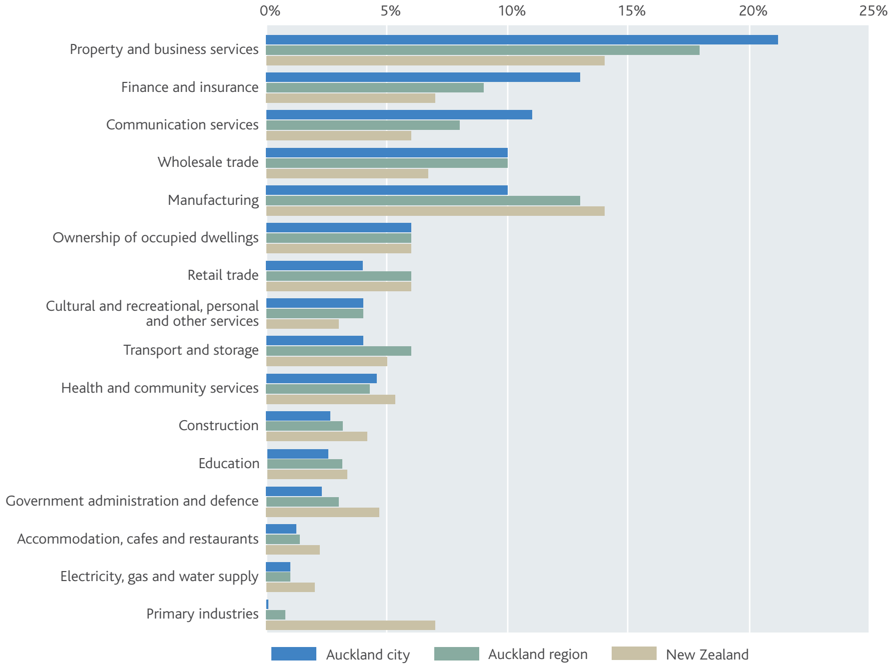
An average of 353,000 people were employed in Auckland city in the year to March 2009, down from 358,000 in the year to March 2008.

Property and business services is by far the largest employer, accounting for more than a quarter of employees in the city. This industry has also been the largest contributor to employment growth, adding more than 12,000 jobs since 2003. Within this category the largest employment growth areas have been marketing and business management services (5500), information technology services (1700) and legal and accounting services (1700).

Strong growth in the finance and insurance industry has resulted in it being the second largest net contributor of new jobs (5000 since 2003).

Industry share of economy (GDP)

Measured for the year to March 2009



Source: Infometrics and Statistics New Zealand.

Economic structure

Over the past six years, construction has been the third largest contributor to job growth adding 4800 jobs. However, employment has declined in this sector during the recession with the industry shedding 800 jobs over the past year.

Manufacturing is the second largest employer, accounting for nearly 10 per cent of jobs in the city. It is also the only major industry to have shed jobs consistently over the past six years (nearly 3000). The manufacturing sub-industries that have shed the most jobs are textiles (-1000), machinery and equipment (-800), and chemicals (-500).

Wholesale and retail trade are also significant employers, together employing 18 per cent of the city's workforce. The retail trade sector has contributed nearly 2300 jobs over the past six years.

Employment by industry, Auckland city

Industry	Employment March 2003	Employment March 2009	Growth (absolute) 2003-2009	Annual average percentage growth	Share of total 2009
Primary industries	600	650	50	1.3%	0.2%
Manufacturing	37,540	34,650	-2,890	-1.3%	9.8%
Electricity, gas and water supply	740	1,070	330	6.3%	0.3%
Construction	16,800	21,600	4,800	4.3%	6.1%
Wholesale trade	31,400	31,950	550	0.3%	9.1%
Retail trade	28,940	31,210	2,270	1.3%	8.9%
Accommodation, cafes and restaurants	15,470	17,220	1,750	1.8%	4.9%
Transport and storage	12,180	12,280	100	0.1%	3.5%
Communication services	7,250	8,430	1,180	2.5%	2.4%
Finance and insurance	15,130	20,130	5,000	4.9%	5.7%
Property and business services	80,040	92,630	12,590	2.5%	26.3%
Government administration and defence	4,760	6,160	1,400	4.4%	1.7%
Education	22,550	23,470	920	0.7%	6.7%
Health and community services	23,390	25,500	2,110	1.4%	7.2%
Cultural, recreational, personal and other services	23,870	25,640	1,770	1.2%	7.3%
Total	320,660	352,590	31,930	1.6%	100.0%

Source: Infometrics Regional Industry Employment Model.[4]

[4] Based on various data sources from Statistics New Zealand.

Labour market

About 5000 jobs were lost in Auckland city over the year to March 2009.

Auckland city's unemployment rate has been increasing since 2006, reaching 5.6 per cent in the year to March 2009.

Finding skilled and unskilled labour in Auckland city is easier than at any time since 1992.

Auckland city's average wage remains above that of New Zealand's, but growth over the past year has slowed.

Total employment in Auckland city declined to an average of 353,000 in the year to March 2009, a decline of about 5000 jobs compared with the previous year. Job losses were widespread and employment in most industries declined. Wholesale trade, retail trade, and the accommodation, cafes and restaurant sectors shed a total of nearly 2000 jobs. The city's largest employer, property and business services, shed more than 1000 jobs.

Auckland city's annual average unemployment rate has been increasing over the past few years to reach 5.6 per cent in the year to March 2009[5] – the equivalent of one in every 18 people in the labour force. This is up from 4.2 per cent in the year to March 2008 and a low of 3.1 per cent in 2006. Initial increases in the unemployment rate since 2006 occurred as a result of faster growth in the working age population relative to the employed population. More recent increases have been driven by a decline in employment following the slowdown in the economy.

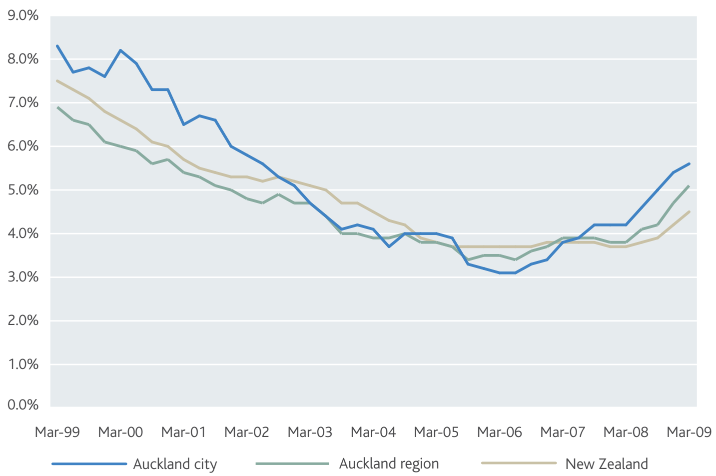
Auckland city's annual average unemployment rate was above that of the Auckland region (5.1 per cent) and New Zealand (4.5 per cent). The unemployment rate has risen sharply in all three areas over the past year and is expected to continue to rise.

Rises in unemployment reflect a significant easing in the labour market in Auckland city. In the NZIER March 2009 Quarterly Survey of Business Opinion, a net 69 per cent of Auckland firms indicated that it was easier to find unskilled labour than three months previously, and a net 35 per cent found it easier to find skilled labour. Finding skilled and unskilled labour is the easiest it has been since 1992.

At $1069 per week (before tax), the average Auckland city wage is higher than that of New Zealand ($951). Annual wage growth to March 2009 was higher in New Zealand (5.1 per cent) than in Auckland city (4.8 per cent) for the first time since 2007.

Auckland city's annual wage growth has slowed from 5.9 per cent a year earlier and is expected to slow further as employment and prospects continue to weaken over the next 12 months.

Unemployment rates
Annual average

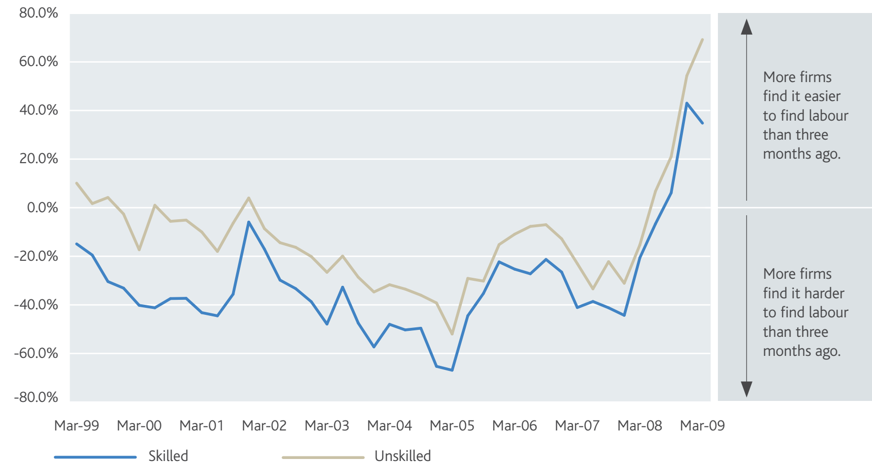


Source: Statistics New Zealand.

[5] This is an annual average unemployment rate for the year ended March 2009. This differs to the seasonally adjusted series used by Statistics New Zealand for the national rate. The annual average has also been used in this publication for the national rate to ensure consistency in comparison.

Labour market

Ease of finding labour in Auckland city



Source: New Zealand Institute of Economic Research (Quarterly Survey of Business Opinion) – net percentage of respondents is calculated by subtracting the percentage of respondents saying 'harder' from the percentage that say 'easier'.

Auckland city wage growth
March 2009 quarter

	Auckland city	New Zealand
Total average weekly earnings	$1,069	$951
Annual growth	4.8%	5.1%

Source: Statistics New Zealand, Quarterly Employment Survey.

Retail trade and tourism

Auckland city retail sales declined for the first time in 10 years as people's income levels fell and job prospects waned.

International visitor arrivals through Auckland International Airport and commercial guest nights in Auckland have declined, but at a slower rate than across the rest of New Zealand.

Annual retail sales in Auckland city declined 1.6 per cent in the year to March 2009. This followed a slight fall in the year to December 2008 (-0.5 per cent), which was the first decline in 10 years. The recent declines are in stark contrast to the growth in retail sales in the year to September 2007 (up 5.4 per cent). The falls in retail sales reflect deteriorating consumer confidence in light of falling house prices and worsening job prospects in the recessionary environment.

Falling retail sales have been driven largely by declines in vehicle sales, which have been declining since late 2007. Large increases in sales have occurred in the food category due partly to rising food prices, and increased expenditure in cafes, restaurants and takeaway outlets. A sharp rise in fuel prices in 2008 contributed to greater sales in automotive vehicle services in that year. Over the two quarters to March 2009, automotive services sales have fallen as fuel prices have declined.

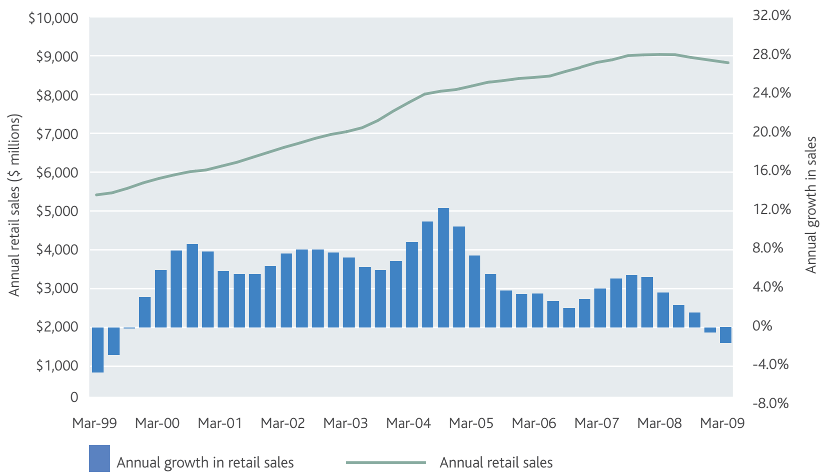
Annual retail sales also declined in the Auckland region and New Zealand. Declines were greater in the region, falling 5 per cent in the March 2009 quarter compared to the same quarter in 2008 and down 1.8 per cent in the year to March 2009. New Zealand experienced a 0.6 per cent decline in annual sales in the March 2009 quarter.

Retail trade and tourism

In the year to March 2009, there were 1.66 million international visitor arrivals through Auckland International Airport (AIA). This is a 2.6 per cent decrease (44,838 visitors) from the year to March 2008. However, it is a better result than across New Zealand as a whole where the annual number of international visitor arrivals declined by 3.9 per cent. As a result, the share of international visitor arrivals to New Zealand coming through AIA in the year to March 2009 increased from 68.5 per cent in the year to March 2008 to 69.4 per cent. However, this remains below a peak of 72.8 per cent in 2004. The largest proportional declines occurred in the smaller provincial airports of Palmerston North, Hamilton and Dunedin.

Commercial accommodation data also reflects a decline in tourist activity in the Auckland region over the past year, with total commercial guest nights (nights in paid accommodation) declining by 1.5 per cent in the year to March 2009. As before, Auckland has not fared as badly as the rest of New Zealand, with commercial guest nights down 3.5 per cent across the country for the same period.

Annual retail sales in Auckland city



Source: Statistics New Zealand.

Focus on... a spatial plan for future economic development

Auckland City Council has recently completed consultation on its draft Future Planning Framework. The framework paints a picture of how the isthmus could look in the future. It includes a combination of research, a citywide spatial framework comprising six plans which are themed around council's six high level strategies[6] and 10 area plans covering the Auckland isthmus area (excluding the CBD).

Among the citywide spatial plans, the Economic Development Spatial Framework 2050 is a visual representation of the council's economic development vision for the city: a productive and globally connected economy delivering jobs, higher incomes and an improved standard of living for all Aucklanders.

Key economic development outcomes of the framework (see map overleaf) are:

- **Business development areas:** dedicated to business activities and of particular interest to the council because of their potential to support future economic growth. Key areas are Rosebank, Penrose and Te Papapa, Mt Wellington and Tamaki.
- **Centres:** key locations for businesses with employment numbers that correspond with the size and role of the centre. The anticipated hierarchy of centres extends from the CBD/ city centre as the largest centre and then in a descending scale to principal centres, town centres and local centres.
- **Mixed use (enterprise) corridors:** provide alternative locations for some businesses. Corridors support growth because they maximise access by providing multiple transport options between employment areas, centres, community and recreation facilities, important destinations and retail.
- **Business corridors:** located within business development areas where more intensive uses could occur. They also provide access to freight routes and act as links to port and airport activities.
- **Business nodes:** located within business corridors and provide for more intensive office based development particularly around railway stations.
- **Economic corridors:** represent regional movements and flows of economic activity. They are located on strategic regional transport routes and connect business areas that provide opportunities for business growth intensification and development.

Within the framework, a number of key moves are identified. These are outcomes that have a physical or spatial aspect and will make the greatest contribution to helping Auckland city achieve its vision of First City of the Pacific. Key moves that relate to economic development are:

- developing the CBD/city centre, CBD fringe and waterfront as New Zealand's key commercial, financial, professional and educational hub with enhanced public spaces creating an attractive business environment for people to work, live and play
- developing lively and vibrant centres in local communities
- being economically competitive through facilitating employment growth in business areas, facilitating global and national connections and attracting and retaining skilled, adaptable and educated people
- ensuring employment and business areas, economic centres and hubs, town centres and the CBD are well connected along high frequency transport corridors.

These key moves will be realised through a range of projects over the next 10 years and beyond including the development of the Wynyard Quarter (the tank farm) and the Learning Quarter, completion of the motorway network and the development of centres and business nodes.

It is envisaged that this spatial planning for the economic development of the city will be incorporated into the planning process developed by the new Auckland Council from 2010 onwards. In the interim, progress will be made on the third tier of the framework – precinct planning. Four precinct plans will be prepared in 2009/10, including:

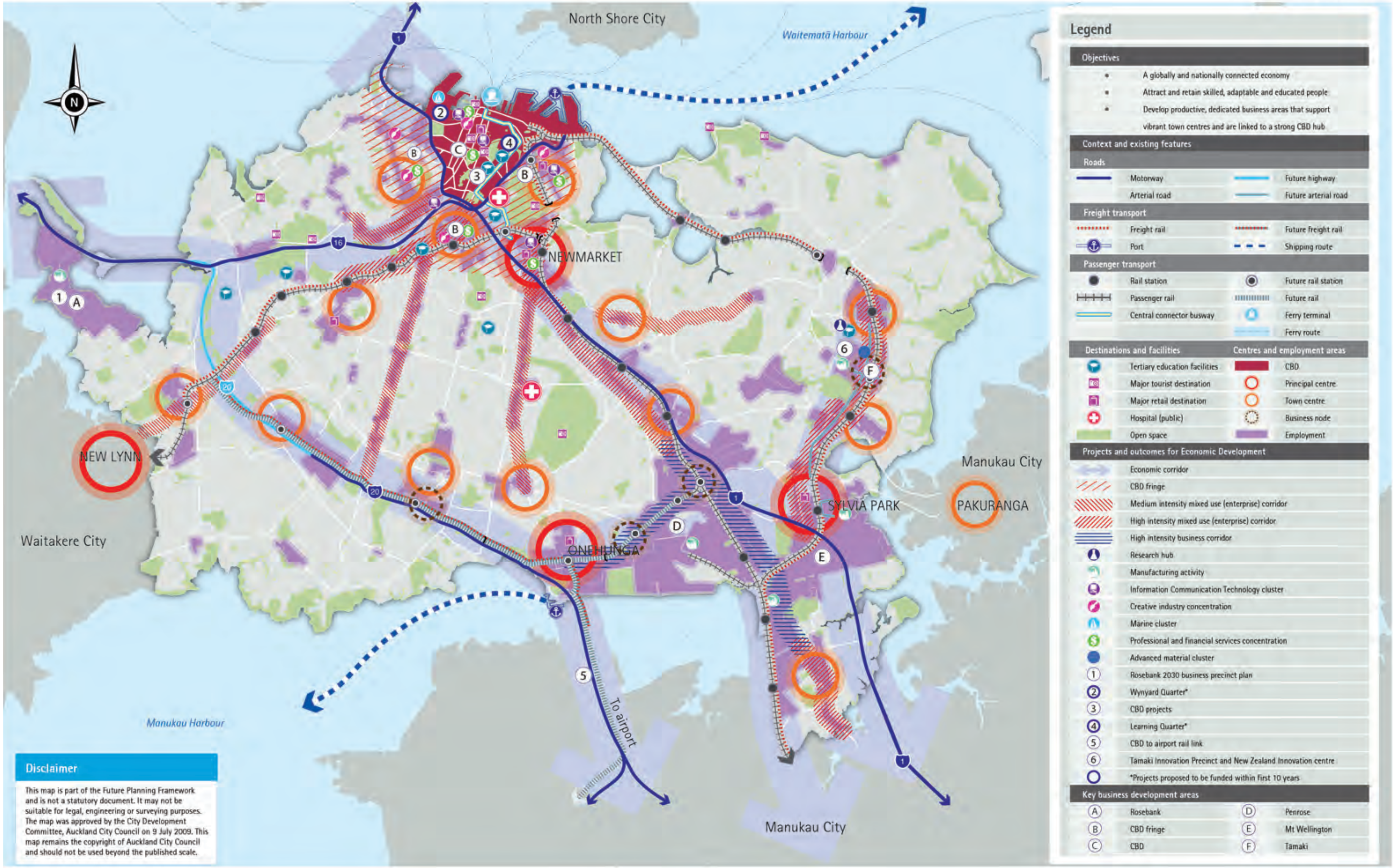
- Onehunga principal centre
- Church Street/Neilson Street area (a part of the Penrose business development area)
- Mt Albert centre
- Pt Chevalier/Western Springs area.

An area plan will also be prepared for the CBD/city centre, complementing the 10 already prepared for the rest of the isthmus.

This further work will provide more detail about the required outcomes of some of our most important employment areas, as well as further demonstrating the benefits of integrated spatial planning at a range of scales.

[6] In 2008/09 Auckland City Council adopted six outward facing strategies to provide the overall direction for all work undertaken by council. The six strategies are based on the themes of economic development, lifestyle choices, quality built environment, quality natural environment, strong and healthy communities and transport choices.

Spatial framework 2050 – Economic development map



Disclaimer

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Focus on... the business opportunities of Rugby World Cup 2011

With a total of 12 matches across the region including nine at Eden Park (the most held at any single venue in Rugby World Cup history), Auckland will clearly be the hub of the next Rugby World Cup, which kicks off in September 2011.

There are obvious benefits that will flow from the 60,000 international supporters estimated to converge on the region. It is estimated that Rugby World Cup 2011 will generate up to $267 million of direct economic benefits for Auckland.

However, the potential flow-on benefits to businesses resulting from the tournament, go beyond the tourist dollars that it will bring to the region.

To maximise these benefits, a comprehensive programme of economic activities is being developed to ensure maximum economic leverage for the region. This work is being led by AucklandPlus, the region's economic development agency, with Auckland City Council and other agencies in the region playing an active role in this programme.

An example of the work being done is the recent launch of the Business Opportunities Guide. This guide is predominantly aimed at small to medium enterprises and provides advice on how to capitalise on opportunities that arise from the tournament. It educates and informs businesses on how to prepare for new commercial opportunities, access supply chains, develop relevant products and services for Rugby World Cup 2011 visitors, and ultimately maximise the economic return from the tournament at a local level.

The guide has been developed by AucklandPlus with support from the Auckland region and New Zealand Trade & Enterprise. Visit **www.auckland2011.com/business** to access it online. The full version of the business opportunities guide will be available in September 2009.

Phase two of this programme will be launched in the 12 months leading up to the event, with the roll out of a Business Ready programme. This will help educate and inform visitor-oriented businesses located in event precincts or in high foot traffic areas.

The region's economic development work is also developing other programmes as part of the package of activity to maximise the benefits of the event for Auckland, including investor attraction and the attraction and development of skills and labour.

"The Auckland region is working together to ensure Rugby World Cup 2011 is a success for Auckland, for our businesses, our residents, our visitors and for our reputation," says Michael Barnett – Chairman of AucklandPlus, and Auckland Chamber of Commerce chief executive.

Inflation, interest rates and the exchange rate

Inflation fell to 3.0 per cent in the year to March 2009 from a peak of 5.1 per cent in the year to September 2008 and is expected to fall further in the short-term.

New Zealand's official cash rate has been cut to 2.5 per cent, but mortgage rates have not been cut to the same extent.

While the New Zealand dollar has strengthened since February 2009, it has depreciated substantially against its main trading partners between February 2008 and February 2009.

The annual inflation rate eased to 3.0 per cent in the year to March 2009 from a peak of 5.1 per cent in the year to September 2008. March's annual inflation rate is just within the Reserve Bank's 1 to 3 per cent target range.

Inflation is split into two sub-categories, tradable and non-tradable inflation. The tradable component covers goods that have their prices determined on world markets (ie they are imported or in competition with foreign goods). Non-tradable inflation covers changes in the prices of goods and services that are determined by the domestic market (ie they face no foreign competition), for example, dining out.

Both tradable and non-tradable annual inflation eased in the March 2009 quarter. Tradable inflation was 1.7 per cent for the year to March 2009, which is lower than in the December 2008 quarter and the peak of 6.3 per cent in the year to September 2008. Non-tradable inflation was at 3.8 per cent in the year to March 2009, below a peak of 4.3 per cent in the year to December 2008.

Rising food prices have been the largest contributor to inflation, increasing by 8.8 per cent in the year to March 2009[7]. Within this, grocery food, and meat and poultry contributed most to inflation. Decreases in petrol prices have been the largest downward contributor to annual inflation, falling 9.3 per cent.

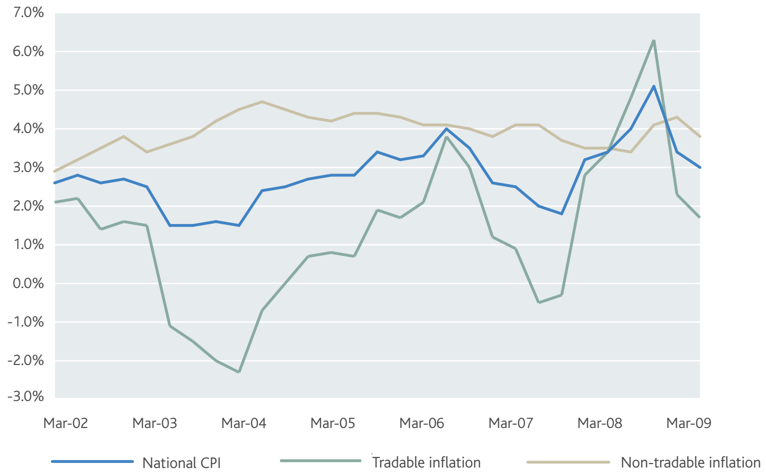
Inflation is forecast to decline further over the next 12 to 18 months due to a continued slowdown in domestic and global demand. It is expected to increase during an economic recovery in late 2010.

The Reserve Bank of New Zealand's Official Cash Rate (OCR) was 2.5 per cent in May 2009. It has undergone a series of cuts since its high of 8.25 per cent in June 2008, which was the highest official interest rate in the Asia-Pacific region.

This period of interest rate reduction by the Reserve Bank was in response to falling inflation pressure resulting from the global and domestic economic downturns. The cuts have coincided with falling interest rates across the developed world as central banks attempt to stimulate spending and generate growth by reducing the cost of borrowing.

Inflation

Annual percentage



Source: Statistics New Zealand.

[7] Other commodities such as fruit, bicycles and dwelling insurance have risen further, but have a lower overall effect on inflation due to lower weightings of consumer expenditure.

In New Zealand, the official cash rate is widely expected to remain at, or slightly below, 2.5 per cent until the latter part of 2010. However, cuts in the OCR have not mitigated the high cost and difficulty of New Zealand banks and firms obtaining credit internationally.

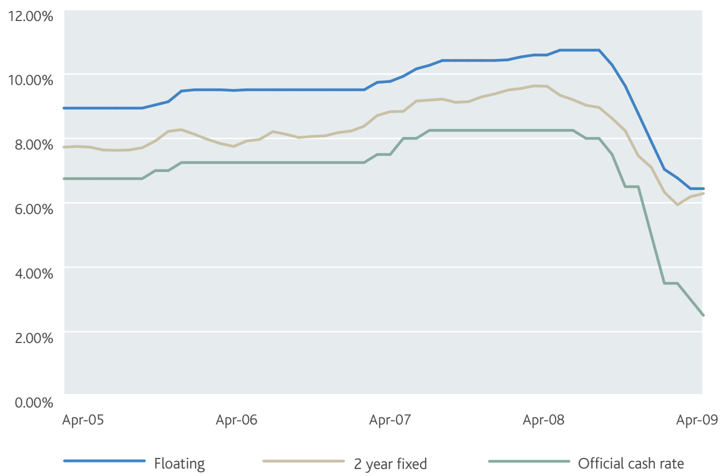
These costs are having a large impact on the domestic economy and mostly explain the increasing gap between the OCR and current retail interest rates. Domestic credit constraints are unlikely to ease significantly until international financial markets function normally and business and consumer confidence is restored.

New Zealand's average fixed and floating mortgage interest rates have declined, but not to the same extent as cuts in the OCR. The average floating rate for new customers has declined from a high of 10.74 per cent in August 2008 to 6.44 per cent in March 2009. The average two-year fixed rate for new customers has declined from 9.63 per cent in March 2008 to 6.19 per cent in March 2009.

The average two-year fixed mortgage rate rose in March 2009 as banks anticipated increasing inflation and the end of further OCR cuts. This was despite statements by the Reserve Bank Governor that the OCR will remain low over the next 12 months.

Average mortgage rates for new customers and the official cash rate

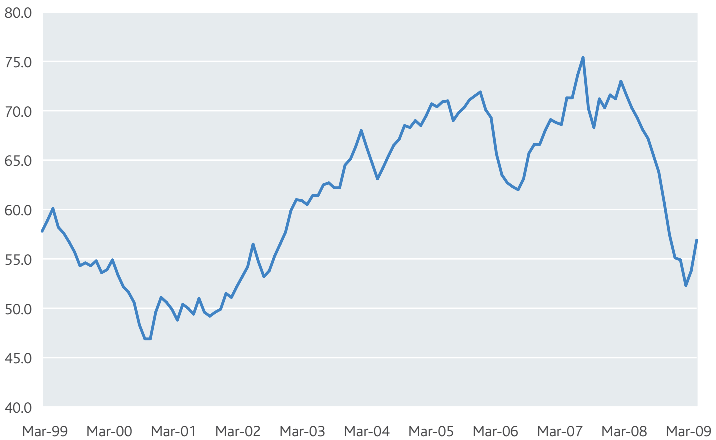
Mortgage interest rates and the official cash rate (each month)



Source: Reserve Bank of New Zealand.

Inflation, interest rates and the exchange rate

Trade weighted index
(base: June 1979 = 100)



Source: Reserve Bank of New Zealand.

The New Zealand dollar appreciated against all of its major trading partners during March and April 2009. The trade weighted index (TWI) sat at 56.9 in April 2009, which was up from a low of 52.3 in February, but still substantially below a peak of 75.4 in July 2007.

The recent rebound in the TWI reflects an improvement in global commodity prices and an increased appetite for risk on the back of better than expected economic data in the US.

Building and property

House prices declined in Auckland city over much of the year to March 2009 and it is taking longer to sell a house in Auckland city than in previous years.

The number of residential building consents declined in Auckland city over the year to March 2009, reflecting an overall slowdown in the economy.

The value of non-residential building consents in Auckland city increased rapidly over the past year despite rises in office vacancy rates and low business investment intentions.

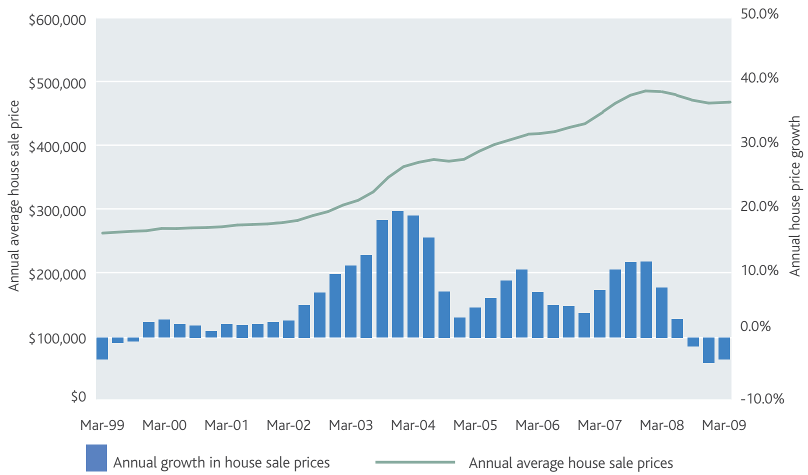
Residential

Auckland city house prices fell by 3.4 per cent in the year to March 2009. Annual average house prices in the city have been declining since the year to September 2008, with growth slowing during the 10 months prior to that. This contrasts with the year to March 2008 when house prices increased by 7.8 per cent and in the same period in 2004 when prices rose at an annual average rate of nearly 20 per cent.

A drop in house prices has also occurred in the Auckland metropolitan area as a whole and in New Zealand where annual average house prices dropped by 1.1 and 3.5 per cent respectively in the year to March 2009.

In the month of March 2009, Auckland city's median house sale price was $476,000. This is well below the median sale price of $510,000 in March 2008. Despite this drop over the past year, the median sale price in Auckland city remains 10 per cent above the median sale price for the Auckland region as a whole ($435,000) and 42 per cent above the New Zealand median price ($335,000).

Auckland city house sale prices and growth



Source: Real Estate Institute of New Zealand.

Within the Auckland region, the city's median house sale price in March 2009 was exceeded only by the median price in North Shore city ($485,000). However, house prices dropped further in North Shore than in Auckland city.

Based on incomes and cost of living, the 2009 Demographia International Housing Affordability survey ranked Auckland's housing market as "severely unaffordable". Auckland was the 26th most unaffordable city among 265 cities and ranked the least affordable out of any New Zealand city.

There were 6026 house sales in Auckland city in the year to March 2009. This is approximately one-third down on sales in the previous year (8805) and well below a peak of 11,659 in 2007.

A similar pattern occurred in the rest of the Auckland region and in the rest of New Zealand over the past year. The number of sales dropped slightly less in Auckland city than in most areas within the Auckland region.

A slight increase in house sales was recorded towards the end of the March 2009 year, across the Auckland region. The rise was faster in North Shore city, Franklin district and Auckland city than other areas within the Auckland region.

The annual average number of days to sell a house, another measure of market strength, has been increasing in Auckland city since November 2007. In the year to March 2009, it took an average of 43 days to sell, similar to the 44 days in the Auckland metropolitan area as a whole, but lower than the 51 days for New Zealand. This result for Auckland city represents a 32 per cent increase in days to sell over the past year, a clear sign of a weakening housing market. However, it was slightly lower than the 35 per cent increase in the days to sell for the Auckland metropolitan area as a whole.

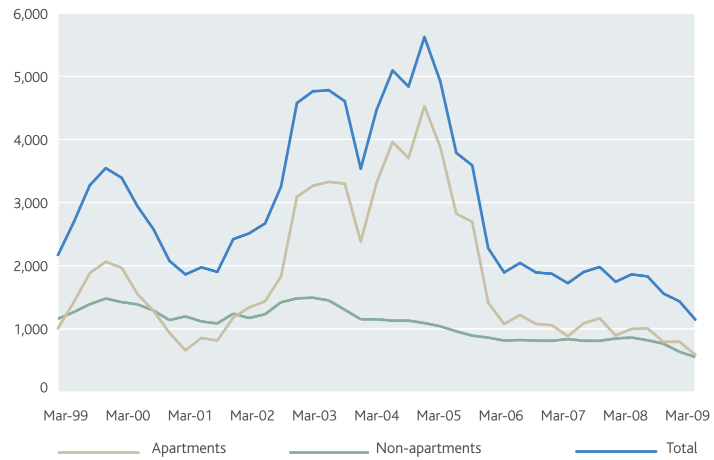
There were 1149 consents issued for new residential buildings in Auckland city in the year to March 2009, down 38 per cent on the previous year. This was the fourth consecutive quarter that annual consents had declined, following a period of relative stability from March 2006. Annual consents are now well below a migration-driven peak of 5622 consents in 2004.

Lower interest rates have not sparked demand in the residential construction sector due to the desire of households to reduce their debt levels coupled with the tighter lending criteria imposed on borrowers by banks.

There has been a decline in the number of consents to build apartments and other forms of housing. A drop in the number of apartment consents has been especially large in the CBD, with no consents issued in the last two quarters of 2008 and the first quarter of 2009.

Residential building activity in Auckland city

Annual consents issued for new residential buildings



Source: Statistics New Zealand.

Non-residential

The annual value of non-residential building consents in Auckland city grew by 67 per cent in the year to March 2009 to reach $833.8 million. It increased rapidly over the four quarters to March 2009, wholly due to consents issued for new buildings (as opposed to alterations to existing buildings).

Although the actual number of consents for new buildings experienced almost no growth, the total floor area contained in these consents increased rapidly, reflecting the construction of some significant new buildings in the city over the last year and the consenting of others that are yet to be constructed. Within the region, this is unique to Auckland city, with the value of consents across the rest of the region remaining static over the same period.

The slowdown in business activity plus the lower demand for office space has led to an increase in CBD office vacancy rates. Overall, office vacancy rates in the CBD rose from 6.1 per cent in December 2007 to 8.5 per cent in December 2008[8]. Vacancy rates are forecast to rise further in the secondary office market as tenants migrate to new office space. This is likely to result in landlords offering incentives to tenants. The lack of demand for CBD office space is making commercial property less attractive to investors looking for acceptable returns.

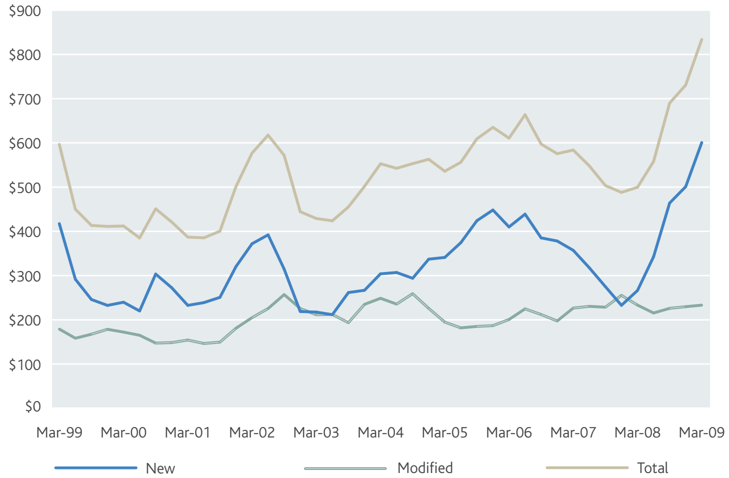
[8] Sourced from CBRE Ltd, Auckland Property Market Monitor.

Building and property

The March 2009 Quarterly Survey of Business Opinion from the New Zealand Institute of Economic Research showed that a net 52 per cent of Auckland firms expect to invest less in buildings over the following 12 months. This is a slight improvement from December 2008 when the net percentage of firms expecting to invest less in buildings over the following 12 months reached a record high. General business sentiment over the March 2009 quarter was only slightly above an all-time low experienced in the December 2008 quarter, which showed a net 70 per cent of businesses expected the general situation over the following six months to deteriorate. This reflects general business pessimism about short-term economic prospects.

Value of non-residential building activity in Auckland city

Annual running total of the value of non-residential building consents ($ million)



Source: Statistics New Zealand.

Population

Population

In 2008, Auckland city had an estimated population of 438,100 people.

A higher share of Auckland city's population is of Asian ethnicity and a lower share of Maori or Pacific ethnicity than the region or New Zealand.

Auckland city's net migration remains well below the peaks in 2002 to 2004.

In June 2008, Auckland city had an estimated population of 438,100 people. This is an annual increase of 1.1 per cent from 2007, which is a similar increase to the past few years.

The growth in Auckland city population over the past year is greater than the national population increase of 1.0 per cent, but less than growth across the rest of the region (1.6 per cent). While remaining ahead of the city, growth in the rest of the region has dropped from 1.9 per cent in 2007.

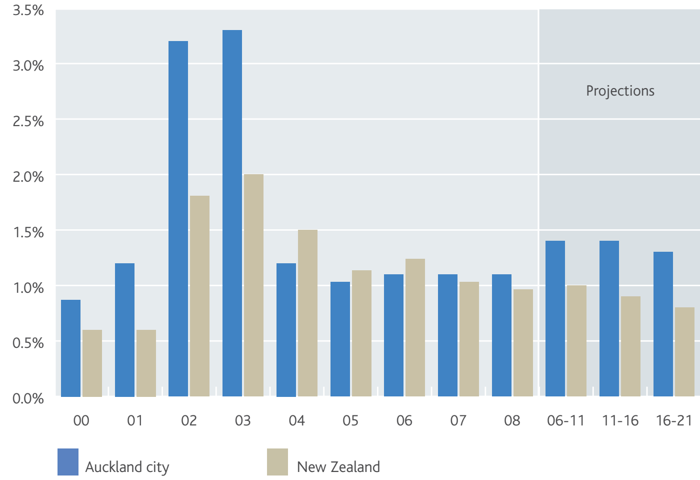
Auckland city is expected to have an annual average population growth rate of 1.4 per cent to 2016. This is above the 0.9 per cent annual average increase forecast for the country, but below the growth rate expected across the rest of the region (1.6 per cent). These forecasts suggest that the share of New Zealand's population living in the Auckland region will increase over the medium term, fuelled especially by population growth outside Auckland city.

In total, Auckland city's population is forecast to increase by approximately 62,300 people between 2006 and 2016. This is comprised of a natural increase of 43,300 people and a net migration gain of 19,000 people. The net migration gain will be comprised of a significant net inflow of people of Asian ethnicity and a net outflow of people of other ethnicities.

Nearly a third of the population growth forecast for Auckland city over the next year is expected to occur in the Hobson ward, which encompasses the CBD and inner eastern suburbs of the city.

Annual population growth

Usual resident population as at June



Source: Statistics New Zealand.
Projections are annual percentage changes.

Approximately two-thirds of growth in the Hobson ward is anticipated to occur in the CBD. A further fifth of the city's growth is forecast to occur in the Tamaki-Maungakiekie ward, which covers the south-eastern suburbs of the city.

Residents who are of Asian ethnicity represent a higher share of the population of Auckland city than in the Auckland region or New Zealand. A lower share are of Maori or Pacific ethnicity. Differences between the ethnic structures of the city, the region and New Zealand are forecast to increase out to 2016. The proportion of residents who are of Asian ethnicity in the city and the region is anticipated to increase and the proportion of residents of European ethnicity is expected to decrease. This will be experienced by New Zealand as a whole, but to a lesser degree than in Auckland.

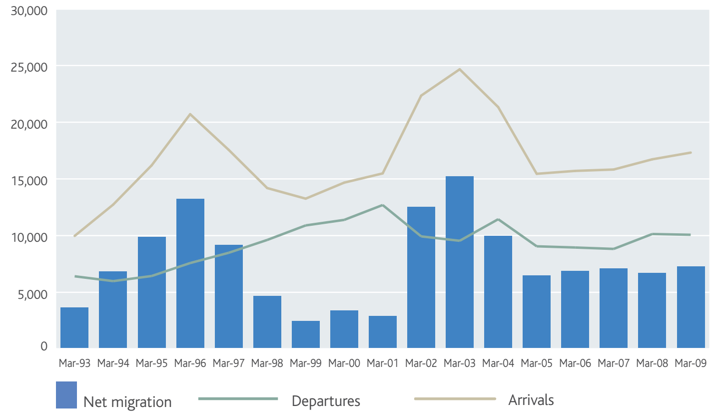
Net external migration (migration to or from overseas) in Auckland city increased by 10 per cent in the year to March 2009. This is due to a levelling off in the number of departures while the number of arrivals continued to grow.

The level of net migration is still well below that experienced from 2002 to 2004. A surge in arrivals occurred during that period, but subsequently dropped in the year to March 2005. Since then, arrivals have slowly increased again while the number of departures has fluctuated. At 7244 people, net inward migration to Auckland city in the year to March 2009 is over three times greater than a decade earlier when net migration was in a trough.

Population

External migration flows (Auckland city)

Annual totals March years



Source: Statistics New Zealand.

Auckland city was the only city within the Auckland region to experience a substantial net external migration gain over the year to March 2009. Manukau and North Shore cities also experienced net gains, although these were relatively minor in comparison. Auckland city attracted a disproportionate share of the region's (49 per cent)[9] and New Zealand's (19 per cent) migrant arrivals. However, this is down from 60 per cent and 24 per cent respectively in 2004, due to Manukau and North Shore cities attracting a larger share of arrivals.

Overall, Auckland city is expected to experience the second largest net migration gain within the region in the years to 2016. Net migration gains in people of Asian ethnicity will account for a significant share of Auckland city's net population increase to 2016. Within this ethnic group, the median age is expected to rise sharply by 4.2 years to 32.9 years in 2016. This is due to the largest population increases occurring in the working age brackets (15 to 64 years). This will be accompanied by an increase in the proportion of people aged 40 years or older, consistent with the overall ageing of the population.

Proportional increases in the working age bracket are expected to occur across all ethnic groups, although the 'European and Other' ethnic group will retain the highest median age of 37.2 years.

Within the Auckland region, Manukau city is expected to have both the largest population increase overall and the largest net migration gain. Manukau city's net migration will be less dominated by the Asian ethnic group than Auckland city, with those of Pacific descent also contributing significantly to the increase. Like Auckland city, North Shore city's net migration gains from the Asian ethnic group will contribute approximately half of its forecast population growth.

[9] "External migration data should be treated with some caution. While Auckland appears to have higher net migration than other cities, this may be partly due to the fact that when filling out the immigration arrival card, people often do not differentiate between Auckland city and other cities in the Auckland region. Auckland, as New Zealand's main international gateway, may also be the first stop for many migrants who are unsure where they intend to live on a more permanent basis" (Quality of Life '07, in 12 of New Zealand's cities, p19).

Economic outlook for Auckland city

There are signs that Auckland city's economy has bottomed out, but will remain weak in the year to March 2010. However, New Zealand (and with it Auckland) is better placed than many countries to pull itself out of the recession.

Household spending, residential and non-residential construction activity and exports will be the main drivers of Auckland city's economic recovery.

There are signs that Auckland city's economy has bottomed out but will continue to be weak in the year to March 2010. A recovery will be constrained by weak business investment and low consumer confidence. However, New Zealand (and with it Auckland) is better placed than many countries to pull itself out of the recession. Factors in its favour include the better than expected shape of some of our major trading partners (Australia and Asia excluding Japan) and the robust state of our banking sector which will enable lending to pick up earlier than much of the developed world. Additionally, comparatively higher interest rates at the start of the crisis mean there is greater headroom for monetary stimulation through further interest rate cuts than in other countries.

The retail and accommodation, cafe and restaurant sectors will experience further declines in the year to March 2010 as consumer discretionary expenditure is curtailed. This is due to lingering uncertainty, rising unemployment and further falls in house prices. A drop in the number of tourists from some of New Zealand's major source countries will also contribute to the weakness in these sectors.

Economic outlook for Auckland city

Business services will continue to remain under pressure due to the weak general business environment and a reluctance of enterprises to invest in new business systems such as information technology. Business investment (excluding property) is forecast to decline by 15 per cent in the year to March 2010. The financial services sector will also remain under pressure due to weak demand for credit and its greater reluctance to lend in the face of uncertainty.

The residential construction sector is in free fall, following a 38 per cent decline in the number of residential consents in the year to March 2009 compared with the previous year. However, a shortage of accommodation is building up in Auckland city with consent levels well below growth in demand for new houses. About 1150 consents were issued for new houses in the year to March 2009, yet at least 2000 new dwellings need to be built each year to accommodate the city's growing population. By the end of 2010 there is likely to be a shortfall of about 1900 residences. The residential construction sector is likely to bounce back sharply in the year to March 2011 in response to the shortfall.

In contrast to the residential sector, the non-residential building sector is set to perform strongly in the March 2010 year. A 67 per cent increase in the annual value of non-residential consents compared to the previous year will see the continuation of work at Eden Park in preparation for the Rugby World Cup 2011, plus further development of the new Mt Eden prison and new office blocks in the CBD including the Deloitte Centre.

The education sector, especially tertiary, is likely to be the biggest winner from the recession and will bounce back from an indifferent performance over the past few years. Poor job market prospects will encourage existing students to stay longer in study and those who have lost their jobs, will be encouraged to retrain. The weaker New Zealand dollar will encourage more international students to choose New Zealand as a study destination and Auckland city is well placed to benefit from this.

Export volumes will lift modestly over the next 12 months as the relatively lower dollar provides some respite for exporters. However, the prices they receive for their goods and services are not likely to start to rise again until 2010 when world demand stutters into life. A modest increase in exports will halt the sharp decline in Auckland city's manufacturing output and will initiate a recovery in the important wholesale sector.

The council expects the Auckland economy to experience a moderate recovery in the year to March 2011 as the stimulus from lower interest rates and tax cuts starts to take hold, world demand slowly picks up, and confidence returns to New Zealand businesses and households. The main drivers of the recovery will be modest increases in household spending, residential and non-residential construction activity, and exports.

Auckland city in figures

Summary statistics

Indicator	Period	Level			Annual percentage change		
		Auckland city	Auckland region	New Zealand	Auckland city	Auckland region	New Zealand
Population (usually resident)	As at June 2008	438,100	1,414,100	4,268,900	1.1%	1.5%	1.0%
Employment (employees and self employed)[10]	As at March 2009	353,000	713,000	2,151,000	-1.4%	-0.5%	0.4%
Unemployment rate (annual average)[11]	Year ended March 2009	5.6%	5.1%	4.5%	1.5%	1.4%	0.8%
New dwelling consents	Year ended March 2009	1,149	3,808	16,234	-38.4%	-38.1%	-33.7%
New non-residential consents (value)	Year ended March 2009	$600.7m	$1,232.5m	$3,342.1m	125.5%	28.7%	10.9%
House prices[12]	Year ended March 2009	$467,500	$431,100	$335,100	-3.4%	-3.3%	-3.5%
House sales[12]	Year ended March 2009	6,026	17,370	55,028	-31.9%	-34.9%	-31.9%
Retail sales	Year ended March 2009	$8,885m	$20,792m	$65,290m	-1.6%	-3.8%	-0.6%
Inflation (CPI national)	Year ended March 2009						3.0%
Interest rates (OCR)[13]	As at May 2009			2.5%			
Exchange rate ($NZ vs $US)[13]	As at May 2009			0.5989			

Source: Statistics New Zealand unless noted.

[10] Infometrics estimates.
[11] Annual percentage changes are changes in percentage points.
[12] Real Estate Institute of New Zealand.
[13] Reserve Bank of New Zealand.

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City Council