The Impact of the Global and National Economic Recession on the Auckland Region

for Auckland Regional Council

Prepared by Infometrics Ltd

May 2009
# Table of Contents

Executive Summary ........................................................................................................... 4

1. Introduction .................................................................................................................. 7

2. Profile of the Economic Structure and Performance of the Auckland Region ...................................................... 8
   - Summary of the structure of the Auckland economy ................................................... 8
   - Recent performance of the Auckland region economy .............................................. 11

   - Global gloom ............................................................................................................. 13
   - The impact of the global recession on New Zealand ................................................. 13
   - Exports ..................................................................................................................... 16
   - Agricultural demand .............................................................................................. 17
   - Business investment ............................................................................................... 18
   - Key risks .................................................................................................................. 20

4. Impact of the Global and National Recessions on the Auckland Region ...................................................... 22
   - Overall growth in Auckland ................................................................................... 22
   - Prospects for Auckland’s key industries ................................................................. 24
   - Employment ............................................................................................................ 33
   - Occupations and skills ............................................................................................ 34
   - Migration .................................................................................................................. 36
   - Issues relevant for regional strategy ....................................................................... 38
EXECUTIVE SUMMARY

Focus of the report

• This report provides a high level analysis of the likely impacts of the global and domestic economic recession on the Auckland region. The report primarily focuses on the short-term and cyclical impacts of the recession (at least out to March 2010), but also highlights aspects of the recession that are likely to have longer-lasting effects (to 2013 and, in some cases, beyond).

• In the medium to long-term the performance of Auckland’s economy will be determined by the fundamental factors and comparative advantages outlined in the Auckland Regional Council’s Economic Futures report. In this report business services, wholesale trade, retail trade, finance and insurance, communication services, property services, transport and storage, construction, and combined manufacturing industries are identified as the most important contributors to the Auckland region economy.

• Auckland’s port and airport, construction activity, educational institutions, demand for housing, agglomeration and economy of scale advantages are identified in the Economic Futures report as critical local drivers of growth in the region.

Outlook for New Zealand

• The global economic recession will negatively affect the New Zealand economy predominantly through tighter international credit conditions and reduced demand for New Zealand’s exports.

• The New Zealand economy is estimated to have declined by 0.9% in the year to March 2009 and is expected to grow by just 0.6% in the year to March 2010. The implication is that the level of economic activity in the year to March 2010 will still be slightly lower than was experienced in the year to March 2008.

• Declining petrol prices, monetary and fiscal stimulus, and lower exchange rate will be positive for growth, but will be offset by the unwillingness and inability of households and businesses to spend and invest due to falling house prices, tighter bank lending, and lingering uncertainty about the environment ahead.

• By the end of the March 2010 year we expect the New Zealand economy to experience a moderate recovery as the domestic stimulus 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 lifts in household spending, residential and non-residential construction activity, and exports.
Risks to outlooks for the national and Auckland economies

- There is a higher than usual level of uncertainty about the economic outlook over the next 12 to 18 months. In this report we have presented the scenario we consider to be the most likely based on history and our judgements of the events unfolding. However, given the uncertainty we have also presented two possible alternative scenarios:
  - A more positive outlook sees a recovery in economic activity in the second half of this year as uncertainty diminishes. This, however, would be unlikely to increase growth significantly beyond our central three-five year outlook.
  - A more pessimistic scenario involves a deeper and more prolonged downturn in world growth over 2009 and 2010. This would lead to a sharper domestic downturn in 2010 and slower growth over 2011 to 2013. Auckland's primary, retail trade, residential construction, finance and insurance, business services, transport and storage, and combined manufacturing industries would be most affected by the deeper and more drawn-out recession.

Exports and primary industries

- Export volumes will lift modestly over the next 12 months as the lower New Zealand 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 March 2010 when world demand stutters into life.
- The global recession is expected to reduce demand for New Zealand’s agricultural commodities (diary, beef, and lamb) over 2009, before recovering in March 2010. Post 2010 exports and agricultural production are likely to continue to grow steadily as world demand conditions improve and the New Zealand exchange rate remains low relative to its long-term average.

Business investment

- Business investment levels will fall sharply over the coming year as domestic economic activity slows, the outlook for international trade remains weak, and credit conditions continue to be restrictive. Investment will recover as domestic and world business conditions improve over 2011 and beyond, business confidence improves, and plans deferred over the recession period are subsequently implemented.

Outlook for Auckland economy

- We expect the Auckland economy to contract by an average of 0.4%p.a. between March 2008 and March 2010, which is slightly weaker growth than for New Zealand as a whole. Job losses, falling house prices and weak exports will dampen consumer and business confidence in the region. These factors will curb household spending and business investment for the rest of this year (to March 2010).
- Auckland industries likely to be worst hit over the next 8-12 months are retail trade, finance and insurance, business services, construction and combined manufacturing industries.
• *Education* will be a notable exception to weaker activity, recording solid growth over the recession period and beyond. This is due to more government spending in this area and New Zealand’s international cost competitiveness in education attracting overseas students.

• From the end of the March 2010 year we expect Auckland growth to gradually pick up and converge to the national average as monetary and fiscal policy easing and a lower exchange rate take effect in the region and the rest of the country. Annual Auckland growth is likely to be around 3% by 2011, 5% in 2012, and 4% in 2013.

• Leading growth in Auckland from the end of 2010 will be *construction*, *wholesale trade* and *business services*. This will be on the back of the improvement in residential construction to meet an increase in housing demand and a shortfall in housing supply in the region, the continuation of the outsourcing of business processes, and a modest lift in exports (which will benefit Auckland’s port *wholesale trade*, and *transport and storage* activities in particular).

• *Retail trade, finance and insurance*, and *real estate* are likely to experience weaker activity over the next 3-5 years than over the past decade. They were previously fuelled by increased borrowing and rising house prices, factors that will be more subdued over the medium-term. Growth in these areas will probably be in the 2-3% range, which is likely to be lower than the average medium-term growth of the economy as a whole (3.5%p.a.).

**Outlook for Auckland employment**

• The downturn in the Auckland economy over 2009 and 2010 will result in around 21,500 jobs being lost in the region over that period. The biggest reductions in employment will be in the region’s *retail, business services, construction* and *finance and insurance* industries.

• The greatest job losses are expected amongst semi-skilled/elementary workers (5.2% decline between 2008 and 2010) and skilled workers (-2.3%). Only a small decline (-0.6%) is expected amongst highly skilled workers, although some occupational categories within this skill level will experience a significant decline in demand.

• Lower levels of both arrival and departure of permanent and long term migrants from Auckland and New Zealand as a whole are expected over the next 12 months. These changes will almost offset each other over the next 12 months resulting in an annual net inflow of around 5,800 for the Auckland region. This net inflow is lower than the annual average inflow of migrants since the early 2000s of around 9,500. Longer-term we expect net migrant inflows to Auckland in the range of 7,000-9,000, which is line with the average inflows to the region over the past ten years.

• A net outflow of building trades workers will undermine the ability of the construction industry to respond quickly to the shortfall of the housing stock in Auckland and New Zealand when the recession ends.
1. **INTRODUCTION**

This report provides a high level analysis of the likely impact of the global and domestic economic recession on the Auckland region. The report primarily focuses on the short-term and cyclical impacts of the recession (at least out to March 2010), but also highlights several aspects of the recession that are likely to have longer-lasting effects (to 2013 and, in some cases, beyond). The report is intended to complement the Auckland Regional Council's *Economic Futures* report, which focuses on Auckland's longer-term economic drivers and comparative advantages.

This report briefly outlines the structure and recent performance of the Auckland region’s economy drawing on the Auckland Regional Council’s *Economic Futures* report, GDP and employment data from Infometrics’ Regional Industry Employment Model (utilising Statistics New Zealand LEED and Business Demography data) and other economic indicators. This provides a backdrop to how Auckland’s economy is likely to fare over the next two years.

The next section of this report presents an overview of the structure and recent performance of the Auckland economy to provide context to the impacts of the global and national recession on the region.

The report then discusses the nature of the global recession and its main impacts on the New Zealand economy, with specific focus on exports, agricultural production, and business investment.

The key risks to the outlook are discussed and two alternative scenarios are presented with possible implications for the Auckland economy.

The subsequent section discusses the likely effects of the global and national recession on Auckland, with discussion of the effects on the industries of most importance to the region.

The implications for Auckland employment and demand for skills in the region are then outlined.

The report ends with a list of strategic questions arising from the analysis in the report.

Source data for all table and graphs is Statistics New Zealand unless otherwise stated.
2. PROFILE OF THE ECONOMIC STRUCTURE AND PERFORMANCE OF THE AUCKLAND REGION

Summary of the structure of the Auckland economy

Part 1 of Auckland Regional Council’s Economic Futures for the Auckland Region outlines the key features of the Auckland region including its economic and demographic structure and comparative advantages. The key points relevant to the assessment of the global and national recession on the Auckland region are:

- The sectors of most economic significance to the region (in order of importance) are:
  - Business services
  - Wholesale trade
  - Retail
  - Finance
  - Real estate
  - Communications services
  - Air transport, services to transport and storage
  - Cultural and recreational services
  - Machinery and equipment manufacturing
  - Personal and other community services
  - Printing, publishing and recorded media

- The global drivers of the Auckland economy include:
  - International business cycles
  - International markets for commodities and money
  - Consumer demand for New Zealand products, and
  - Multi-lateral international agreements

- The national drivers affecting the Auckland region economy include:
  - Immigration policy
  - Local government legislation
  - Infrastructure and energy policy, and
  - The skills and innovation levels within the economy

- The local drivers affecting the Auckland region economy include:
- Infrastructure: Auckland is New Zealand’s most important cargo and transport centre with the nation’s largest port, and the country’s largest airport in terms of passenger numbers and cargo throughput.

- Levels of public and private investment in construction: investment catalyses activity in the region, initially in the construction sector but with flow-on effects to other sectors.

- Educational institutions and opportunities for young people.

- Demand for housing and residential services in a region with sustained population and urban growth.

- Agglomeration effects: evident with urban growth, making Auckland an attractive region for business and financial services, and

- Certain industries which benefit from economies of scale, relative to other locations in New Zealand, choosing to locate in the region.

- Auckland is New Zealand’s gateway to the world, its main commercial hub, and education centre. It has strong linkages to the domestic economy with less direct external economic linkages than other regions.

- Infrastructure networks are a barrier to regional economic development.

- The Auckland labour market is changing. Skilled labour is hard to find. Immigration policies and weak skill development programmes in small-medium businesses present significant challenges.

Figure 1 and Figure 2 reinforce the picture of Auckland’s comparative advantages outlined in Economic Futures. Business services, wholesale trade, finance and insurance, and communication services in particular stand out as big components of the Auckland region economy, both on employment and contribution to regional GDP bases. Property services, retail trade, transport and storage, construction, and combined manufacturing industries are also significant contributors to the Auckland region economy.
Figure 1: Employment Shares by Industry March 2008

Source: Infometrics' Regional Industry Employment Model using data from Business Demography, LEED and QES
Recent performance of the Auckland region economy

Figure 3 shows that in the six years to March 2008 the Auckland economy has grown significantly faster than the rest of the country. This largely reflects rapid growth in Auckland in 2002 and 2003 linked to large net inward external migration over this period (see Figure 13). Faster growth in Auckland than the rest of the country was also due to industries that have tended to perform strongly over this period, such as finance and insurance, business and property services, and wholesale trade having a heavy concentration in Auckland as mentioned above.
Figure 3

GDP Growth

Average annual percentage change

Auckland
New Zealand ex Auckland

00 01 02 03 04 05 06 07 08
3. **General Issues Emerging from the Current Economic Recession**

**Global gloom**

The global economy is currently experiencing large scale reduction in debt following an unprecedented debt-fuelled global economic expansion. What began as a correction in the US sub-prime mortgage market has morphed into huge declines in asset prices globally.

The fall in asset prices has flowed into weaker economic growth as banks have tightened their lending standards, businesses have forestalled borrowing and investment plans and cut costs, and households have cut back their spending due to falling income and employment prospects.

During 2008, governments around the world found themselves struggling to contain an ever-worsening credit crisis. Now as credit markets conditions begin to improve, the focus is shifting towards the second round economic effects. Jobs are being shed at a rapid rate around the world, and the resulting effect on demand will stunt economic growth further. As exporters and financial institutions cut staff, governments have been stepping in with massive stimulus packages and interest rates have tumbled to record lows around the world. The IMF predicts world growth to fall to 0.5% in 2009, its lowest level since World War II. We consider it could be lower than this, in the region of 0.1% for the same period.

**The impact of the global recession on New Zealand**

New Zealand’s economic prospects are heavily dependent on developments in the world economy. Therefore the global recession is having, and will continue to have, a substantial impact domestically. The main routes by which this will occur are through reduced credit availability, lower world demand for New Zealand exports, and dampened household and business confidence.

**Constricted credit**

The most direct impact of the financial crises and recession on the New Zealand economy is through the credit channel. New Zealand has not been exposed to the worst excesses of the leveraging phenomenon as experienced in many other developed economies. Banks here have reasonably sound balance sheets, holding only small quantities of mortgage backed securities and other poor quality assets relative to their total assets. Nevertheless, New Zealand banks are highly dependent on overseas wholesale credit markets for funding. These have been severely constricted in recent times leading to much higher wholesale borrowing rates for New Zealand banks. In addition, New Zealand banks, as in the rest of the world, are finding it necessary to shore up their balance sheets to a certain extent by tightening their lending standards.

As Figure 4 shows, the tightening of bank credit is being felt primarily by households as growth in lending for housing and consumer purchases has plunged. It is this sector that is experiencing tightening bank lending
criteria at the margin. On the credit demand side, households are reducing the rate of their borrowings as the value of their houses decline and they substantially revise down their income prospects in the face of the recession. Businesses on the other hand are continuing to increase their borrowing from banks mainly because other forms of funding, such as new equity capital and direct borrowing from offshore, have dried up.

Figure 4

Sector Lending

Source: Reserve Bank of New Zealand

Reduced export demand

In addition to tighter credit conditions, another major channel by which the global recession is lowering New Zealand growth prospects is lower world export prices and decline in exports due to weaker global demand. Even with an earlier recovery than expected by us and most other commentators, medium-term growth will be weaker than we have become used to over the last decade.

Confidence is critical

Surveys indicate that household and business confidence is at a low ebb. How quickly confidence is restored will be a critical factor in determining our prospects over the next five years. Although hard to quantify, the point at which most households start to rule out large and costly house price falls or substantial job losses is when they will feel they can make spending decisions with a greater degree of assurance. The knock-on effect on business confidence would also create a more positive capital investment environment, which would boost employment opportunities.
Some temporary positive factors...

Temporary factors that are no longer dragging down New Zealand’s economic growth are the drought and soaring petrol prices. These supply-side shocks have dissipated, providing some grounds for expectations of an improving economic performance going forward, especially when taken together with the depreciation of the New Zealand dollar and substantial monetary (lower interest rates) and fiscal stimulus (tax reductions) that is currently in train.

Figure 5

Growth prospects
Consensus GDP forecasts for 2009

But longer-term changes to landscape are dampening prospects

There are more long-term changes (or structural shocks) to the economic landscape that will maintain their influence on economic growth in the future. The positive wealth effect from rising house prices will be substantially reduced. Even if further falls in house prices are limited, people’s spending and savings behaviour is likely to be significantly modified from what we have observed between 2001 and 2007. Reaching a retirement savings goal, for instance, will require much more saving of current income than seemed appropriate when property prices were soaring.

Changes to the global banking and financial sector also represent a longer lasting difference to the economic environment. The last 25 years has been one of increasing financial deregulation, but governments and central banks will place much tighter restrictions around banking systems in the future than has been the case since the 1980s. Risk premiums demanded by investors will be higher, and credit will be less readily available than during the free-and-easy days of the last eight years. Not only will the margin between deposit and lending rates remain higher than...
previously, some level of credit rationing is also likely to persist in terms of both business borrowing (e.g. stronger projected revenue conditions, higher financing rates) and household borrowing (e.g. increased deposit requirements, tougher income or servicing prerequisites).

Summary of New Zealand’s prospects

In sum, uncertainty and poor international demand conditions will dominate the New Zealand economic outlook in the near term, creating a weak economic outlook for 2009. But by the end of the March 2010 year, the consequences of the monetary and fiscal stimulus, lower exchange rate and returning business and household confidence will start to kick in. We forecast economic annual growth to around 3.2%, 5.2% and 4.2% for the 2011, 2012, and 2013 March years respectively. New Zealand remains relatively well placed to pull out of the downturn more readily than many other countries, due to:

• The fortuitous timing of our fiscal stimulus.
• The robust state of our financial sector compared to the US and Europe, enabling lending activity here to pick up earlier.
• The competitiveness of our export sector, which is being significantly enhanced by the depreciating New Zealand dollar.
• The housing sector, which is currently being undersupplied compared with underlying demand.

The main drivers of the recovery from 2011 will be modest lifts in household spending, residential and non-residential construction activity, and exports.

Exports

Although Auckland industries are not export intensive relative to those in many other regions, exports have a material effect on Auckland’s prospects through its:

• manufacturing industries, which export around one-third of its output;
• key industries that support exports, such as wholesale trade, transport and storage, and business services; and
• port, which is an important dimension of the region’s economy.

This section and the next discuss the general outlook for exports and agricultural demand respectively.

Export volumes shrank 1.8% (seasonally adjusted) over the December quarter to their lowest level since the end of 2006. However, the effects of the financial market meltdown, with its negative effects on world demand, commodity prices, and the availability of credit, are starting to wane. We expect a modest bounce back in export activity in the March quarter as the influence of the lower New Zealand dollar comes through.

However, world demand will continue to be weak for some time. There is evidence that the lack of demand is hitting dairy export volumes, with Fonterra looking to stockpile as much product as possible until international conditions improve. Most other exporters will be forced to
take the prices on offer in offshore markets. The longer-term response will be to shift resources and change production levels as a reaction to price shifts. But over a 1-2 year horizon, production is largely predetermined by previous stocking and land-use decisions.

The effects of the global economic slump will hit exporters most heavily in terms of prices. The ANZ commodity price index shows that international dairy prices are already down 56% from their 2007 peak, with falls of 54%, 36%, and 19% respectively for aluminium, forestry products, and meat/skins/wool. Even with a weaker New Zealand dollar predicted, returns for exporters will be severely undermined. We expect further price falls over the next six months.

By 2010 we expect world demand to have stuttered back to life as financial systems stabilise and the massive stimulus measures across the globe start to take full effect. This will underpin a more sustained recovery in commodity prices and New Zealand export volumes. From the end of the 2010 March year exports and agricultural production are likely to continue to grow steadily as world demand conditions improve and the New Zealand exchange rate remains low relative to its long-term average.

We expect export volumes (goods and services) to decline 3.5% over the year to June 2009, but then recover with growth in the 5-8%pa range over 2010 and 2011.

Agricultural demand

Following are some of the main issues affecting various parts of the primary sector.

**Table 1**

<table>
<thead>
<tr>
<th>Summary of export volume forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual average % change</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>June years</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Meat</td>
</tr>
<tr>
<td>Dairy</td>
</tr>
<tr>
<td>Other primary</td>
</tr>
<tr>
<td>Forestry</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total goods exports</td>
</tr>
</tbody>
</table>

Global demand for dairy products has stagnated, with the slowdown most noticeable in developed countries. There was a period of strong expansion in the global supply of dairy products in response to the price spike that occurred in 2006 and 2007, but growth in supply has now started to ease. However, government subsidies in the US and Europe have slowed the supply response, and stocks of dairy products are building up (including in New Zealand).

Even with the US government’s support price of US$1,800/t for skim milk powder, we see potential for international prices to fall further in the short
Export markets for our beef have been affected by the re-admittance of American beef into a number of Asian countries. Beef exports to Korea and Indonesia have been driven down as a result (values were falling at around 9%pa for the December quarter), and there is further downside given the possible re-entry of Uruguayan beef into Korea as well.

Beef exports to the US are up 50% as Americans trade down to lower-quality cuts (New Zealand beef is less palatable to Americans as the animals are grass-fed). Even prospects for exports to the US are shaky, though, as the recession forces consumers to shift even further down the food value chain, eating more pork and poultry instead.

Supply issues around lamb in both New Zealand and Australia have helped hold up prices compared to many other food commodities. Nevertheless, lamb slaughtering numbers in New Zealand over the five months to December were down just 1% on the same period in 2007. The early kill has led to expectations that activity will be much weaker in the second half of the season. The problem faced by sheep farmers over the next 18 months is that the recession in Europe and the UK will be reducing demand for our lamb given its premium position in the market.

The total value of wine exports in the December quarter was still up 33% on a year earlier. But returns for our wine exporters are set to come under pressure as overseas consumers cut back their spending on luxury and non-essential items. A bumper grape harvest in 2008 is also likely to undermine the per-bottle price for New Zealand wine, but may help to hold up total export receipts.

On the positive side, some of the high costs that had been plaguing farmers over 2007 and 2008 are now reversing out: fertiliser and fuel costs are the two best examples. Interest rates are also tracking downwards, although interest rate data from the Reserve Bank shows that the falls have been much more substantial for homeowners than businesses. Although growth in labour costs is likely to ease given the economic downturn, wages cannot be expected to fall outright in the same fashion that fertiliser, fuel, and financing costs have declined.

### Business investment

Firms’ investment levels will fall sharply over the coming year as domestic economic activity slows, the outlook for international trade remains weak, and credit conditions continue to be restrictive.

Plant and machinery investment recorded the first signs of significant weakness over the September quarter, falling 15% from June (seasonally adjusted) – the largest decline since March 1991. The QSBO suggested that plant and machinery investment will continue to fall over the December quarter – with a net 39% of firms stating that they have cut back on plant and machinery investment.

With economic activity declining markedly over the first half of 2009 we expect the volume of plant and machinery investment over the 12 months to March 2009 to be down 5.6% on March 2008. A weak exchange rate (which increases the price of imported equipment) and continued
economic uncertainty will see plant and machinery investment decline by another 18% over the year to March 2010.

Total private investment (including non-residential construction but excluding residential building) will decline sharply as a percentage of GDP, down from a peak of 17% of GDP in June 2008 to below 13% by December 2009.

![Figure 6](image)

Source: Statistics New Zealand

The recovery in economic activity towards the end of the 2010 March year, combined with a backlog of required plant and machinery upgrades deferred over the recession period, will see investment activity recover over the year to March 2011, up 6.9% on a year earlier.

![Figure 7](image)

Source: Statistics New Zealand
Key risks

The outlook for the New Zealand and world economies is extraordinarily uncertain. The magnitude and uniqueness of the economic events that have unfolded make forecasting more difficult than usual. In this section we briefly outline possible upside and downside scenarios for the New Zealand economy. We put more emphasis on the downside scenario because of its likely more significant implications for industries and employment in New Zealand and Auckland.

Upside scenario

A more positive outlook sees a recovery in economic activity in the second half of this year as uncertainty diminishes. The risk-averse attitude to spending currently being taken by households and businesses will wane and activity will rebound from the “artificially low” levels of late 2008 and early 2009. However, this outcome means that some of the economic problems (e.g. overvalued property and excessive debt levels) will be addressed more slowly, and heightens the chance of a recessionary relapse in 2011. An example of this phenomenon is the Asian crisis of 1998 and the echo crisis in 2001. Prospects for medium-term (three to five years) growth under this scenario are little better than under our central forecast.

Downside scenario

A more pessimistic scenario involves a deeper and more prolonged downturn in world growth over 2009 and 2010. Prolonged uncertainty surrounding property values, labour markets, and financial market stability could result in a contraction in GDP of 5% or more over the next 18-24 months for the US, with their economy struggling back towards 2%pa growth at most from 2011 onwards.

The main channels by which this scenario would impact on New Zealand are through weaker exports and reduced credit availability. This would consequently flow into weaker incomes and household spending, lower household and business confidence, and continuing house price falls. Recovery in the New Zealand and Auckland economies would probably be delayed until well into 2011. Growth through 2012 and 2013 would be slower than our central outlook.

For Auckland, the primary, retail trade, residential construction, finance and insurance, business services, transport and storage, and combined manufacturing industries would be most affected by the deeper and more drawn-out recession. These are the industries most exposed to either falling house prices, reduced availability of credit or depressed offshore demand for New Zealand exports.

Weaker activity in Auckland would likely result in lower numbers of inward migrants to the region as they will find employment and income prospects less attractive here relative to overseas, Australia in particular.

Although lower migrants would put less upward pressure on housing demand, on balance the housing supply shortage would last longer under the downside scenario because shortages of skilled trade people will be more acute as the income prospects for this group becomes less attractive in New Zealand relative to in Australia.
Job losses would likely be more severe under the downside scenario leading to higher unemployment in Auckland and more pressure on central and local government-provided social services.

Regardless of which of these growth paths ultimately proves to be correct, we consider medium-term growth will be weaker than we have become used to over the last decade. Making tough decisions around cost cutting earlier, rather than later, make it more likely that businesses will survive to enjoy the next upturn – particularly given that a reasonable amount of spare capacity has probably already developed since the start of 2008.

Lowering staff numbers may be one of firms’ cost-cutting responses, but the first focus of business needs to be on efficiency gains rather than immediately reducing employment. Retaining skills remains important if firms are to be able to respond quickly when the next economic upturn arrives.
4. **Impact of the Global and National Recessions on the Auckland Region**

**Overall growth in Auckland**

*Industries with high concentration in Auckland have led growth*

Auckland growth has outstripped growth in the rest of the country over the past five years. This largely reflects that the industries that have generally performed well over that period have a high concentration in Auckland relative to the rest of the country. Notable industries for Auckland in this regard are communication services, construction, retail trade, finance and insurance, health, and business services.

*Figure 8*

![GDP Growth Chart](image)

*Source: Statistics New Zealand and Infometrics*

**Short-term impacts of the recession on Auckland**

We expect the Auckland economy to contract by an average of 0.4% p.a. between March 2008 and March 2010, which is slightly weaker growth than for New Zealand as a whole. Job losses, falling house prices and weak exports will dampen consumer and business confidence in the region. These factors will curb household spending and business investment for the rest of this year (to March 2010). Industries identified in the *Economic Futures* report as significant for Auckland that are likely to be worst hit in the region over the rest of this year include retail trade, finance and insurance, business services, construction, and combined...
manufacturing industries. The short-term prospects for Auckland’s key industries are outlined in more detail later in the report.

**Longer-term effects on Auckland growth**

To a certain extent the downturn being experienced by Auckland and the rest of the economy is a cyclical phenomenon; a correction to over-investment and under-saving over the previous eight years. The local drivers of Auckland economic growth outlined in the *Economic Futures* report such as the port and airport, educational institutions and opportunities for its young, agglomeration effects, economies of scale for certain industries, will all persist. As such, for many industries there will not be a significant permanent effect beyond the next two years.

Beyond 2010 we expect Auckland growth to pick up and converge to the national average as monetary and fiscal policy easing and a lower exchange rate take effect in the region and the rest of the country. Annual Auckland growth is likely to be around 3% by 2011, 5% in 2012, and 4% in 2013. Leading growth in Auckland post-recession will be *construction, wholesale trade, transport and storage, and business services*.

*Construction* will likely be a key driver of growth in the Auckland region beyond 2010, mostly as a result of a pickup in residential construction activity. As we outline later in the report, there is a shortfall in housing supply in the region that will need to be closed. This will underpin residential house building, which will receive an added boost once household disposable incomes start to recover in the 2011 year. However, activity in this area is likely to be constrained from reaching its full potential by a shortage of skilled tradesmen in the region. This constraint is likely to take until at least 2013 to resolve itself. We discuss the prospects for the Auckland *construction* industry later in this report.

Auckland is a gateway and distribution point for exports and imports to and from overseas. *Wholesale trade and transport and storage* in Auckland will therefore benefit from an improvement in exports and imports as global and domestic economic conditions gradually improve from the end of 2010. The *Economic Futures* report highlights the importance of the Port of Auckland to the region’s economic prospects. The port should receive a boost from lifting exports and imports over 2011 to 2013. Longer-term, this operation will remain a key driver affecting the Auckland economy as indicated in the *Economic Futures* report.

*Business services* have a high concentration in the Auckland economy. This industry is likely to recover from the end of the 2010 March year as business conditions improve more generally. Firms are likely to re-continue seeking improvements in their processes and productivity through a number of channels as outlined later in the report.

Auckland’s education sector is one of the few areas that will continue to prosper in the recession due to increased government spending in this area and its international cost competitiveness make it attractive to overseas students. We expect these factors to continue over the next three to five years leading to solid growth in Auckland education activity in that period.
As in the rest of the country, there are two key longer-term elements to the recession that are likely to have negative consequences for the Auckland economy in the future: less rapid rises in housing wealth and; more conservative bank lending practices.

An increased imperative for people in the region to reduce their debt levels and not put all their eggs in the housing investment basket will result in more gradual house price rises than has been experienced over the past decade, thus moderating wealth and capacity to borrow for consumer purchases in the region. However, a shortage of housing supply in Auckland will help underpin house prices in the region to a certain extent.

The most direct and significant implications of moderate house price rises and consumer activity will be for four of the industries identified as important to Auckland’s growth: retail, real estate, cultural and recreational services, and personal and other community services. Discretionary spending will be curtailed in these areas over the next three to five year leading to average growth rates, investment and employment over that period that are permanently lower than experienced over the previous decade.

More conservative bank lending practices are a manifestation of greater risk aversion world-wide. Banks will be constrained from operating at the riskier end of the lending spectrum (e.g. high credit risk mortgages and consumer lending, and riskier property developments) because regulators and shareholders will have less tolerance for it. Relatively flat house prices and tighter bank lending standards will also constrain credit for the start-up and expansion of small to medium businesses in Auckland that would previously have borrowed against housing collateral.

Households and businesses will have a desire to reduce their debts and maintain them at average levels significantly lower than that of the past 10 years. For Auckland this will mean that on average activity over in the areas previous fuelled by high levels of leverage such as finance and insurance, the consumer durables part of retail, and real estate will be significantly more subdued than has been the case over the past decade. Average medium-term growth rates in these areas are likely to be in the 2-3% range, which is likely to be lower than the average medium-term growth of the economy as a whole (3.5%p.a.).

**Prospects for Auckland’s key industries**

**Primary industries**

Over 2009 and 2010 growth in primary industry production will continue to be constrained nationally due to weak world demand, counteracting the positive influence of a lower New Zealand dollar. Although primary industries have a low concentration in Auckland relative to the rest of the country, primary industries in neighbouring regions have important links to Auckland through its port and its heavy concentration in the transport and storage, food and beverage manufacturing, and wholesale trade industries. Therefore, these industries will experience some dampening from the weaker performance of primary industries over the next couple of years.
Table 2

<table>
<thead>
<tr>
<th></th>
<th>Actual 2003-2008</th>
<th>Forecast 2008-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>1.4%</td>
<td>0.8%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>2.2%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.2%</td>
<td>-1.6%</td>
</tr>
</tbody>
</table>

From the end of the March 2010 year we expect world demand to be reinvigorated to some extent by the combined effects of the huge global stimulus measures across the globe and returning consumer and business confidence. This will result in a lift in New Zealand’s primary industry production from that point. This in turn will have a positive effect on Auckland industries with strong connections to New Zealand’s primary industries, such as the wholesale trade and transport and storage industries.

Manufacturing

Combined manufacturing industries account for around 14% of Auckland’s GDP, so it has a relatively high concentration in the region. Manufacturing activity will be inhibited by the combined effects of weak domestic household spending and business investment. As around one-third of its output is exported, activity in manufacturing industries will also be negatively affected by declining world demand over 2009 and 2010, offset to some extent by the substantial devaluation of the New Zealand dollar. We expect Auckland manufacturing to be slightly stronger than in the rest of the country.

Table 3

<table>
<thead>
<tr>
<th></th>
<th>Actual 2003-2008</th>
<th>Forecast 2008-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>1.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>0.3%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.7%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Of the manufacturing sub-industries of most importance to Auckland, our modelling suggests that petroleum, chemical, plastic and rubber product, and machinery and equipment will be the best performing industries over the next two years. Printing, publishing and recorded media, identified in the Economic Futures report as one of the sectors of economic significance to the region, and food, beverage and tobacco are expected to be two of the weakest performing manufacturing industries. The former contains a high proportion of product packaging manufacturing, which will be directly hit by the slowdown in overall manufacturing production. It is also subject to a trend decline due to the move to electronic forms of media. Although subdued, food, beverage and tobacco activity remains positive largely because over cycles households tend to devote relatively constant shares of their budgets to non-durable goods.
Table 4

Selected Auckland Manufacturing GDP Growth
2008-2010

<table>
<thead>
<tr>
<th></th>
<th>average annual % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverage and tobacco</td>
<td>0.4%</td>
</tr>
<tr>
<td>Printing, publishing and recorded media</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Petroleum, chemical, plastic and rubber product</td>
<td>2.3%</td>
</tr>
<tr>
<td>Metal product</td>
<td>0.8%</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>2.0%</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

In general Auckland manufacturing activity is likely to recover toward the end of 2010 as a lower exchange rate and improved domestic demand conditions induce rising output from the industry.

Of the sub-industries of significance to Auckland, **machinery and equipment** is likely to be among the best performers over the next three to five years due to a lift in plant and machinery investment over that period.

**Food, beverage and tobacco** manufacturing is also expected to experience solid growth as domestic household and export demand improves.

**Printing, publishing and recorded media** is likely to be one of the weaker performing manufacturing sub-industries as it continues to experience a trend decline due to the move to digital forms of media. This will be offset to a certain extent by rising packaging output, which will respond to increased demand from other manufacturing areas.

Construction

Growth in total construction GDP is expected to fall off markedly over the next two years. Large falls in residential construction will be accompanied by relatively more solid non-residential and infrastructure construction activity. Activity in these areas is described in more detail below.

Table 5

<table>
<thead>
<tr>
<th>Construction GDP Growth</th>
<th>average annual % change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual 2003-2008</td>
</tr>
<tr>
<td>Auckland</td>
<td>5.5%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>4.5%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Residential

The rate of new house building in New Zealand has fallen to a 65 year low and is likely to remain depressed over the next two years with the economy shrinking and unemployment rising. The supply side is also severely constrained. The clear out of property developers and less favourable financing conditions are impeding the industry from
responding to demand for residential accommodation. The Government’s fiscal stimulus package will only have a modest impact in this area, with only $125m ear-marked for state house construction nationally.

The slow rate of new house construction will result in a growing shortfall of residential accommodation. Over the twelve months to February 2009 about 3,800 residential dwelling consents were issued in the Auckland region while about 8,000 new dwellings need to be constructed each year to accommodate the growing population. By the end of 2010 a shortfall in excess of 9,000 dwellings will have built up. In the post recession years the construction industry will need to meet the shortfall in residential accommodation that built up during the recession as well as the ongoing growth in demand from an expanding population.

By the end of 2010 we expect the moderate recovery in Auckland’s economy to flow through to an increase in demand for residential housing. This recovery will persist for at least the next three years as it will take some time for the shortfall in housing supply to be closed. This will underpin residential house building, which will receive an added boost once household disposable incomes start to recovery in the 2011 year. However, activity in this area is likely to be constrained from reaching its full potential by a shortage of skilled tradesmen in the region. This constraint is likely to take until at least 2013 to resolve itself.

The effect of the shortage of skilled building workers in Auckland will be to put upward pressure on their wage rates and lead to higher housing construction costs. The prices of existing houses in the region are also likely to receive a boost.

The probable consequences of rising housing construction costs and house prices in Auckland post 2010 include:

- Lower housing affordability and rising residential housing rents in the region compared to the rest of the country, thereby reducing its attractiveness to people in other regions as a place to relocate and settle,

- Housing shortages for low income people at a time when unemployment will still be high relative to rates experienced over the past decade,

Ultimately higher wages for skilled trade people will attract them back to the region and ease constraints in the sector. However, it will take some time for these price signals to get through to the supply side as skilled construction workers will need to relocate from Australia or be trained locally.
**Non-residential construction**

Strength in the total value of non-residential consents being issued over the second half of last year has given us some confidence that a pipeline of work will keep non-residential work put in place at healthy levels over 2009. We also see potential for some projects to be brought forward over the next 18 months by developers that already have their finance arranged, although instances of this occurring will be heavily dependent on the building type. Taken together, these factors give a more buoyant outlook for non-residential construction than for many other industries. We expect a drop-off in activity over 2010, but as Figure 10 shows, this is likely to be less than other cyclical downturns since 2000.

Auckland non-residential activity is likely to perform better than the national average. This is largely due to two key reasons – some activity generated by the 2011 World Cup and an increase in government education building ($217m education capital spending nationally) that has been earmarked for Auckland.
Auckland non-residential construction activity is likely to return to average rates of growth possibly in the range of 5-10% from 2011. This will largely be in line with the recovery in business investment activity due to improvement in the general domestic and world business environment.

**Infrastructure**

Infrastructure activity has lifted strongly over the past five years. Figure 11 shows that the government’s focus on renewing New Zealand’s infrastructure over the last five years has made up for the underinvestment of the mid-1990s.

The current government’s infrastructure package is estimated to bring forward around $500m of spending, but closer analysis shows that only $143m falls into the “other construction” category we commonly refer to as infrastructure. Of the rest of the package, $217m is directed at the education sector (largely building work), and $125m will be spent on state housing.

Although the government is likely to continue directing significant funding towards infrastructure over the next two years, the uncertain economic environment and low levels of business confidence will undermine work originating from the private sector (e.g. telecommunications). In overall terms, we expect declines of up to 5% in the volume of infrastructure work over the 2009 year. Improving business confidence will contribute to a recovery in infrastructure over 2010 and 2011.
Infrastructure activity in Auckland is expected to hold up well over the next couple of years, maintaining a growth rate significantly above the national average. This is largely due to infrastructure projects already in train particularly roading and public transport projects. Given the relatively small size of the portion of the government’s infrastructure package tagged for “other construction”, there will not be significant infrastructure activity generated in Auckland beyond what is already in train.

**Wholesale trade**

Wholesale trade activity will be constrained due to subdued or falling activity nationally in primary industries, retail, and construction industries. As mentioned above, Auckland has a relatively high concentration in wholesale trade, so it will experience the effects of the slowdown in these areas more than the rest of the country.

**Table 6**

<table>
<thead>
<tr>
<th>Wholesale Trade GDP Growth</th>
<th>average annual % change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual 2003-2008</td>
</tr>
<tr>
<td>Auckland</td>
<td>2.8%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>3.7%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Wholesale trade will be a key driver of the Auckland economy beyond the recessionary period. Auckland is the main gateway and major distribution point for the New Zealand economy. Therefore, the general lift in export...
performance and domestic economy will lead to improved performance of the region’s wholesale trade industry.

**Retail trade**

Retail activity is in for a rough ride over 2009 and 2010 as rising unemployment and softening house prices dent household confidence and reduce their ability to borrow. With household confidence down any seemingly positive factors such as tax cuts, lower fuel prices, and lower interest rates will be used for debt reduction rather than retail spending.

Auckland has experienced bigger declines in retail activity than the rest of the country because the region has been more exposed to the sharp increases in petrol prices (due to its high rate of car ownership rate), house prices have fallen faster than the rest of the country (down 9% in April on a year earlier), and the unemployment rate has risen sharply from 3.3% in June 2007 to 6.5% by March 2009, which is the highest rate of unemployment of the other two big regions, Wellington (5.5%) and Canterbury (4.6%).

Aside from petrol prices, which we expect to ease, the other negative factors are likely to persist over the next two years. In addition, the deterioration in activity in the construction, manufacturing, and the finance and insurance industries will disproportionately hit Auckland. As a result, we expect growth in the volume of retail sales to remain weak in Auckland over the next two years.

From 2011 Auckland retail activity will experience a modest recovery in line with a recovery in household spending nationally. As mentioned earlier in the report, we expect the retail trade industry to experience longer-lasting effects from the recession. Insipid house price rises, the imperative for households to consolidate their finances, and the reduced ability and willingness of banks to lend for consumer purchases will inhibit Auckland retail activity over the medium-term. Average growth in the retail trade industry is likely to be considerably lower than over the past decade.

**Table 7**

<table>
<thead>
<tr>
<th>Retail Trade GDP Growth</th>
<th>Average Annual % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual 2003-2008</td>
</tr>
<tr>
<td>Auckland</td>
<td>5.6%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>4.9%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

**Business services**

Business services prospects will be affected by general business conditions and, to a certain extent, prospects in the construction industry. Nationally, business services activity is expected to be static over the next two years, largely mirroring the moribund nature of the general economy over that period.

Business services activity in Auckland is expected to decline by an average of 1%p.a. over 2009 and 2010. This worse performance relative
to the rest of the country is due in particular to Auckland’s relatively high exposure to retail and wholesale trade, and finance and insurance services, which are expected to experience weak performance relative to other industries over the next two years.

Table 8

<table>
<thead>
<tr>
<th>Business Services GDP Growth</th>
<th>Actual 2003-2008</th>
<th>Forecast 2008-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>4.6%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>4.6%</td>
<td>1.4%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.6%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

**Business services** have a high concentration in the Auckland economy. This industry is likely to recover from 2010 as business conditions improve more generally. Firms are likely to re-continue seeking improvements in their processes and productivity through a number of channels:

- Computerisation of work processes across all industries, picked up largely by information technology companies in the **business services** industry.
- Outsourcing non-core activities such as staff recruitment, accounting, legal services, cleaning and security resulting in jobs being transferred from companies classified outside of **business services** to those classified in **business services**.
- The use of business management services (such as management consultants) to improve business performance.

**Finance and insurance**

The finance and insurance industry has been severely eroded since 2006 with the clearing out of finance companies and the retrenchment of staff by banks and insurance companies in response to the global credit crisis. This contraction will continue over 2010 as further shaking out occurs.

The rationalisation of regionally based finance companies has almost run its course. For the large Auckland-based banks and insurance companies, however, profitability will continue to suffer in the recessionary environment. Auckland’s significant exposure to this industry will therefore be a drag on its economy over the next couple of years.

Table 9

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland</td>
<td>5.2%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>5.8%</td>
<td>1.7%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.5%</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>

Growth in the **finance and insurance** industry will be inhibited over the next three-five years as they are constrained from operating at the riskier
end of the lending spectrum. Households and businesses will have a desire to reduce their debts and maintain them at average levels significantly lower than that of the past 10 years. There may be further waves of rationalisations in the industry as institutions compete within a smaller market.

Health and community services

Two broad forces will impact on activity in the health and community services areas. The first development is the government’s policy intentions in the health sector. After a decade of rapid spending growth in public health over the past decade it is likely that this area will experience lower rates of spending over coming years as the government seeks to minimise expanding deficits.

The second key force is higher rates of unemployment and lower incomes, which are likely to reduce demand for some types of discretionary healthcare and childcare.

Auckland will share the burden of lower health sector spending growth with the rest of the country. Auckland’s higher than average regional unemployment rate and more rapid declines in house prices, however, will entail less discretionary spending on health and care services than the rest of the country. We therefore expect weaker activity in the Auckland health and community services industry relative to the rest of the country.

Table 10

<table>
<thead>
<tr>
<th>Health and Community Services GDP Growth</th>
<th>average annual % change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual 2003-2008</td>
</tr>
<tr>
<td>Auckland</td>
<td>4.6%</td>
</tr>
<tr>
<td>New Zealand ex Auckland</td>
<td>4.2%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Over the medium-term health and community services activity will be dominated by the aging structure of the Auckland economy (as for New Zealand as a whole) and government policies in the health area. The former will raise demand for health services. However, smaller budgets will put pressure on health providers to prioritise services more and seek greater value for money. This may result in more niche and primary health services being shifted to the private sector and community-based providers.

Employment

To date most declines in labour use have come from reducing workers hours. However, over the next year the decline in the demand for labour will manifest in significant job losses. We expect a net loss of around 20,000 jobs between 2008 and 2010. Of Auckland’s ten largest industry employers retail trade is likely to shed the most jobs in the period 2008-2010, followed by business services, construction, and finance and insurance.
Table 11

<table>
<thead>
<tr>
<th>Occupation</th>
<th>2008</th>
<th>2010</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>7,800</td>
<td>7,300</td>
<td>-500</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>90,800</td>
<td>88,700</td>
<td>-2,100</td>
</tr>
<tr>
<td>Construction</td>
<td>55,200</td>
<td>51,700</td>
<td>-3,500</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>64,600</td>
<td>65,200</td>
<td>600</td>
</tr>
<tr>
<td>Retail trade</td>
<td>81,500</td>
<td>73,100</td>
<td>-8,400</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>33,000</td>
<td>33,000</td>
<td>0</td>
</tr>
<tr>
<td>Communication services</td>
<td>11,900</td>
<td>11,700</td>
<td>-200</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>25,400</td>
<td>22,900</td>
<td>-2,500</td>
</tr>
<tr>
<td>Business services</td>
<td>131,200</td>
<td>126,400</td>
<td>-4,800</td>
</tr>
<tr>
<td>Health and community services</td>
<td>53,200</td>
<td>52,700</td>
<td>-500</td>
</tr>
<tr>
<td>Cultural and recreational services</td>
<td>22,600</td>
<td>22,200</td>
<td>-400</td>
</tr>
<tr>
<td>Total Auckland Employment</td>
<td>716,200</td>
<td>695,500</td>
<td>-20,700</td>
</tr>
</tbody>
</table>

Most of the slack labour should be reabsorbed into the Auckland labour market by 2011. Thereafter modest rates of employment growth are expected.

**Figure 12**

Auckland Employment

**Occupations and skills**

The sharp fall in the demand for labour expected over the duration of the recession will impact differently on the various skill and occupation categories (Table 12). The greatest job losses are expected among semi-skilled/elementary workers (5.1% decline between 2008 and 2010) and skilled workers (-2.4%). Only a small decline (-0.3%) is expected amongst highly skilled workers, although some occupational categories within this skill level will experience significant decline in demand.
### Table 12

**Employment by skill level and broad occupation: 2008-2010**

<table>
<thead>
<tr>
<th>Occupation/skill level</th>
<th>Employment 2008</th>
<th>Employment 2010</th>
<th>Absolute change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly skilled workers</td>
<td>241,190</td>
<td>240,570</td>
<td>-620</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Managers</td>
<td>119,880</td>
<td>118,900</td>
<td>-980</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Legislators &amp; administrators</td>
<td>8,420</td>
<td>8,210</td>
<td>-210</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Corporate Managers</td>
<td>111,460</td>
<td>110,690</td>
<td>-770</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Professionals</td>
<td>121,310</td>
<td>121,670</td>
<td>360</td>
<td>0.3%</td>
</tr>
<tr>
<td>Science &amp; engineering professionals</td>
<td>26,970</td>
<td>26,730</td>
<td>-240</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Life Science &amp; Health professionals</td>
<td>21,980</td>
<td>22,060</td>
<td>80</td>
<td>0.4%</td>
</tr>
<tr>
<td>Teaching professionals</td>
<td>32,470</td>
<td>33,870</td>
<td>1,400</td>
<td>4.3%</td>
</tr>
<tr>
<td>Business, legal &amp; other professionals</td>
<td>39,890</td>
<td>39,010</td>
<td>-880</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Skilled workers</td>
<td>160,880</td>
<td>157,010</td>
<td>-3,870</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Associate professionals &amp; technicians</td>
<td>99,870</td>
<td>99,930</td>
<td>60</td>
<td>0.1%</td>
</tr>
<tr>
<td>Science &amp; engineering associate professionals</td>
<td>19,960</td>
<td>19,580</td>
<td>-380</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Life science &amp; health associate professionals</td>
<td>6,550</td>
<td>6,530</td>
<td>-20</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Financial, administrative &amp; other associate professionals</td>
<td>73,360</td>
<td>73,820</td>
<td>460</td>
<td>0.6%</td>
</tr>
<tr>
<td>Trades Workers</td>
<td>61,010</td>
<td>57,080</td>
<td>-3,930</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Building trades workers</td>
<td>30,290</td>
<td>28,170</td>
<td>-2,120</td>
<td>-7.0%</td>
</tr>
<tr>
<td>Metal &amp; machinery trades workers</td>
<td>19,520</td>
<td>18,370</td>
<td>-1,150</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Printing &amp; other precision trades workers</td>
<td>4,910</td>
<td>4,720</td>
<td>-190</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Food &amp; other trades workers</td>
<td>6,290</td>
<td>5,820</td>
<td>-470</td>
<td>-7.5%</td>
</tr>
<tr>
<td>Semi-skilled/elementary workers</td>
<td>314,120</td>
<td>297,970</td>
<td>-16,150</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Clerks</td>
<td>89,550</td>
<td>81,810</td>
<td>-7,740</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Office clerks</td>
<td>63,270</td>
<td>57,660</td>
<td>-5,610</td>
<td>-8.9%</td>
</tr>
<tr>
<td>Customer services clerks</td>
<td>26,280</td>
<td>24,150</td>
<td>-2,130</td>
<td>-8.1%</td>
</tr>
<tr>
<td>Service &amp; sales workers</td>
<td>99,530</td>
<td>94,870</td>
<td>-4,660</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Restaurant, personal &amp; protective services workers</td>
<td>60,890</td>
<td>59,850</td>
<td>-1,040</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Salespersons</td>
<td>38,840</td>
<td>35,020</td>
<td>-3,820</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Agriculture &amp; fishery workers</td>
<td>14,720</td>
<td>13,940</td>
<td>-780</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Plant/Machine Operators</td>
<td>54,100</td>
<td>52,770</td>
<td>-1,330</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Industrial plant operators</td>
<td>6,260</td>
<td>6,140</td>
<td>-120</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Stationary machine operators &amp; assemblers</td>
<td>24,620</td>
<td>24,070</td>
<td>-550</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Drivers &amp; mobile machinery operators</td>
<td>23,220</td>
<td>22,560</td>
<td>-660</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Elementary Occupations</td>
<td>56,220</td>
<td>54,580</td>
<td>-1,640</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Building &amp; related workers</td>
<td>3,810</td>
<td>3,550</td>
<td>-260</td>
<td>-6.8%</td>
</tr>
<tr>
<td>Labourers &amp; related elementary service workers</td>
<td>52,410</td>
<td>51,030</td>
<td>-1,380</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Total</td>
<td>716,190</td>
<td>695,550</td>
<td>-20,640</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

The broad conclusions regarding the impact of the recession on the demand for skills and occupations are:

- The occupation category facing greatest job losses is salespersons (-9.8%) due to the poor expected performance of the retail trade industry.

- Significant job losses are expected among clerical staff (-8.6%). The clerical occupations face a double whammy from a decline in employment in financial and business services (in which a high concentration of clerks are employed) and declining demand due to continued automation of office processes.

- Trades workers are expected to face severe job losses (-6.4%). The collapse of the residential construction market will result in a large fall in demand for building trades persons (-7.0%).

- Metal and machinery trades workers (-5.9%) and plant and machine operators (-2.5%) are also likely to face job losses due to...
sharp declines in demand in the manufacturing industry and the motor service industry. However, following the end of the recession the manufacturing industry is likely to bounce back as a result of the weaker exchange rate and demand for these occupations will recover.

- Overall demand for professionals will remain more or less constant although this disguises quite different impacts on the various professional categories. The sharp contraction in financial and business services is likely to result in a decline in employment of business, legal and other professionals (-2.2%). The education sector (especially tertiary) is expected to expand during the recession due to increased participation as poor job prospects induce more people to seek new skills) resulting in growing demand for teaching professionals (4.3%).

**Migration**

Lower levels of both arrival and departure of permanent and long term migrants from Auckland and New Zealand as a whole are expected over the next 12 months. These changes will almost offset each other over the next 12 months resulting in an annual net inflow of around 7,400 nationally and 5,800 for the Auckland region. This net inflow is lower than the annual average inflow of migrants since the early 2000s of around 9,500.

With Asian economies struggling, the willingness and ability for people to make the long trip to New Zealand has diminished. Although we expect more expatriates to return home, we expect a continuing decline in arrivals from Asia to lead to a significant reduction in overall migrant arrivals.

On the other side, we expect departure levels to decline over the rest of 2009 before levelling off over 2010. One of the primary reasons for lower departures is the rapid slowdown in Australian economic activity. The unemployment rate in Australia has climbed quickly, reaching 5.5% in April, and is expected to keep rising over the rest of 2009. With job opportunities in Australia limited, departure levels to our largest neighbour will fall.

As well as a decline in departures to Australia, the slowdown in economic activity in other countries (namely the UK) will have a downward impact on total departure numbers.

Longer-term we expect net migrant inflows to Auckland in the range of 7,000-9,000, which is line with the average over the past ten years.

Auckland has historically experienced large cycles in the inflow of external migrants to the region and so is uniquely orientated to catering for them. Nevertheless, the large net inflows experienced in the early 2000s and steady net inflows in recent times will pose three key issues for the Auckland economy:

- the extent to which the inflows contribute to housing shortages in the region;
• the extent to which migrants increase demand for, and use of, regional council provided services; and

• the extent to which the higher migration is being absorbed into the Auckland labour force or contributing to unemployment in the region.

Ultimately, positive net inward migration to Auckland contributes to growth in the region. In the short-term it raises demand for housing and goods and services, and injects wealth into the region. In the longer-term positive inward migration increases linkages with the rest of the world and provides skills and expertise to the regional labour force, which can help to raise productivity.

**Figure 13**

![Annual Net Migration Graph](image)

**Source:** Statistics New Zealand and Infometrics forecasts

**Migration of building trades workers**

Despite the relatively strong total net migration into New Zealand and Auckland region some occupations are experiencing significant net outflows. The slump in the construction industry has resulted in the largest net outflows of building trades workers since 1980. Around three quarters of these net outflows are to Australia. Over the year to February 2009 there was a net outflow of more than 1,100 building trades workers from New Zealand. This loss is undoing much of the gains of the rapid growth in building industry trainees and apprentices achieved this decade. The depletion of the building workforce is undermining the ability of the construction industry to respond quickly to the shortfall of the housing stock in Auckland and New Zealand when the recession ends.

Ultimately higher wages for skilled trade people will attract them back to the region and ease constraints in the sector. However, it will take some
time for these price signals to get through to the supply side as skilled construction workers will need to relocate from Australia or be trained locally.

Figure 14

Permanent and long term net migration of building trades workers from New Zealand (annualised).

Source: Statistics New Zealand

Issues relevant for regional strategy

This section lists some questions arising from the impact of the recession that may be relevant from a regional planning and development perspective.

- Are there actions that can ease housing supply constraints in the region?
- Are there policies that can help improve housing affordability for low income households?
- How can compliance costs associated with building regulations be minimised or reduced to aid residential and non-residential construction activity?
- How can local government-sourced costs be minimised for retail businesses given the significant drop in activity and employment in this industry over the next 12-18 months?
- How can regional council costs be eased for Auckland ratepayers to help shore up their disposable incomes and spending activity over the recessionary period?
- How can the Port of Auckland diversify its revenue sources and increase market share during a difficult time for exports and imports over the next 12 to 18 months.
• What strategic policies and infrastructure developments need to be implemented to ensure that Auckland builds on its key strengths and sets the path for robust growth once the recessionary period ends?

• What strategies can be implemented to deal with the risk that the recession is deeper and more prolonged than expected?