

Infometrics Regional Perspectives



An outlook for economic conditions in NZ's regions and industries

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This report was prepared by Infometrics

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Introduction

The Infometrics Regional Perspectives report provides our view on the outlook for economic conditions in New Zealand's regions and industries over the next 2-5 years. It draws off our comprehensive detailed regional economic forecast model. The report will be produced on a six-monthly basis.

In this report, we highlight some of the key industries that are likely to have an impact on New Zealand's short-term economic outlook, both positively and negatively, and identify what this growth is likely to mean regionally. This approach enables us to explore the range of regional growth prospects across New Zealand and examine some of the factors impacting the economic outlook in different parts of the country. This report does not focus on the detailed economic outlook of specific cities, towns, or districts that sit within those regional areas in any detail. While we have the expertise and capabilities to do this, such analysis is best customised to the needs of specific areas, organisations and users.

The four industries focused on in this report are:

- Electricity and gas supply
- Professional, scientific, and technical services
- Heavy and civil engineering construction
- Health care and social assistance

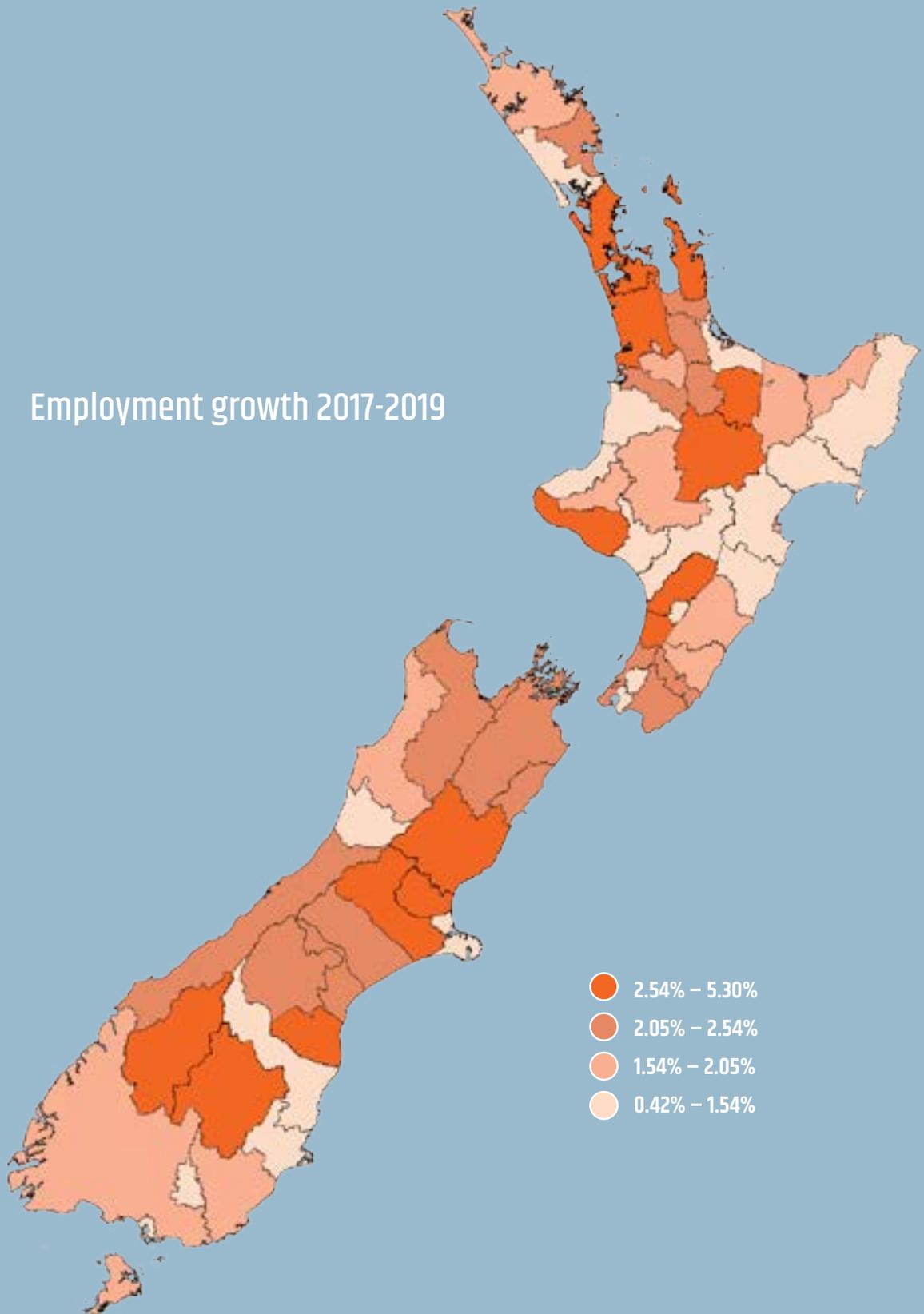
As well as looking at the outlook for economic growth in the above industries, we also take a closer look at two significant geographic areas and discuss the broader economic outlook in these areas. The two geographic areas focused on this report are:

- Auckland Region
- Christchurch City

National growth outlook

The New Zealand economy is currently enjoying a period of strong growth, with buoyant demand conditions in the construction industry and tourism sector being reinforced by a broader pick-up in demand across many other industries in the second half of 2016. Population growth is at a 40-year high due to net migration, and the tightening labour market has boosted households' willingness to spend. There are some downside risks to New Zealand's medium-term outlook posed by international demand conditions, particularly in terms of China's economic prospects and the possibility for trade sanctions to be imposed by President Trump, which could undermine Chinese economic growth. Imbalances in New Zealand's housing market also have the potential to derail our economy. However, bearing these risks in mind, we expect New Zealand's GDP to increase by an average of 2.6%pa over the next four years, with total employment expanding by 1.7%pa.

Employment growth 2017-2019



Employment growth 2019-2021

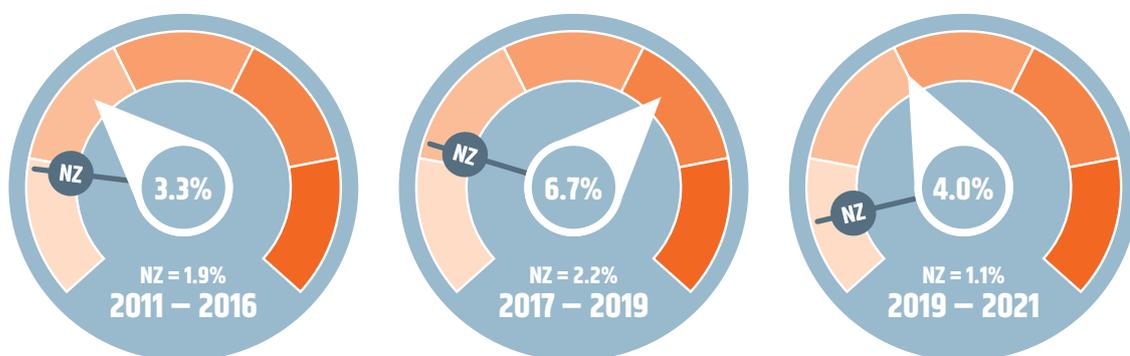


Industry Focus

Expanding population drives job growth in electricity supply Electricity and gas supply

The electricity and gas supply industry represents 2.4% of the New Zealand economy and 0.3% of nationwide employment (7,600 jobs). In terms of employment, the biggest subindustries are electricity distribution, on selling electricity and electricity market operation, and fossil fuel electricity generation.

Job Growth at a Glance - %p.a. ELECTRICITY AND GAS SUPPLY



The electricity and gas supply industry has a relatively small proportion of total employment compared to its share of GDP. This gap indicates a high level of capital intensity in the industry, which is unsurprising given that generation facilities mostly consist of machinery and require a low level of human input.

Yet the industry has been undergoing a significant change over recent years. Data from the Quarterly Employment Survey shows that total hours worked in the broader electricity, gas, water and waste services industry surged 77% over the six years to September 2015, reversing a long-term downward trend in employment that had persisted since the 1980s. Our data shows that nationwide employment in the electricity and gas supply industry has grown by an average of 3.3%pa over the last five years and 5.4%pa throughout the last decade.

Paradoxically, at the same time as growth in the industry's employment has re-emerged, New Zealand's overall electricity usage has stalled. Energy requirements dipped as the economy suffered a

recession in the wake of the Global Financial Crisis, while greater energy efficiency due to the increasing prevalence of heat pumps and improved insulation of housing, for example, have reduced growth in household demand for electricity.

Our conclusion is that the electricity and gas supply industry is essentially as lean as it can be, and that future growth in employment will largely be a function of increases in household and business numbers – focusing demand predominantly on the distribution and on-selling areas of the industry. And with population growth holding at above-average levels and a solid economic performance encouraging business creation and expansion, we anticipate strong growth in electricity and gas supply employment.

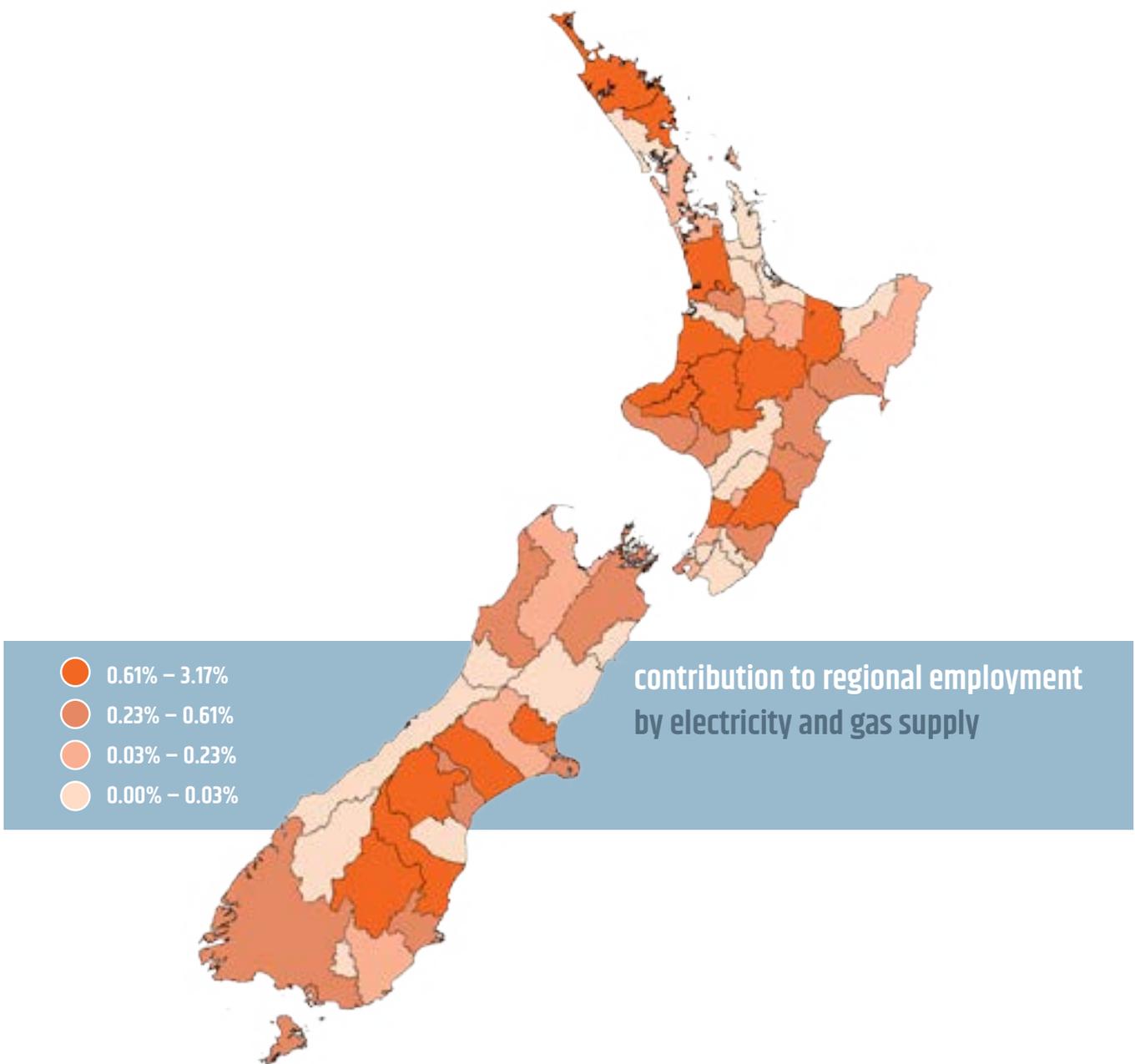
Auckland, Hamilton, Wellington City, and Christchurch are home to 47% of employment in the electricity and gas supply industry, below their economy-wide share of total employment, at 55%. These figures indicate that growth in electricity and gas supply will have a bigger-than-average effect on job numbers outside the main

centres, and particularly for those areas that are home to headquarters of electricity distribution and retail firms.

These areas are as diverse as Waitemata and Maungakiekie-Tamaki in Auckland, Waitomo, Waimakariri, and Waitaki. Although the number of jobs created in the smaller districts will be relatively minor by nationwide standards (eg 26 jobs in Waitomo or 39 jobs in Waitaki over the next four years), the

employment growth will be an important contributor to the local economy. In comparison, the two areas with the largest lift in employment (in terms of the number of jobs) are expected to be Wellington, with more than 200 additional jobs over the same four-year period, and Waitemata in Auckland (180 more jobs).

In total, electricity and gas supply employment is forecast to expand by 14% over the next two years and 23% over the four years to March 2021.

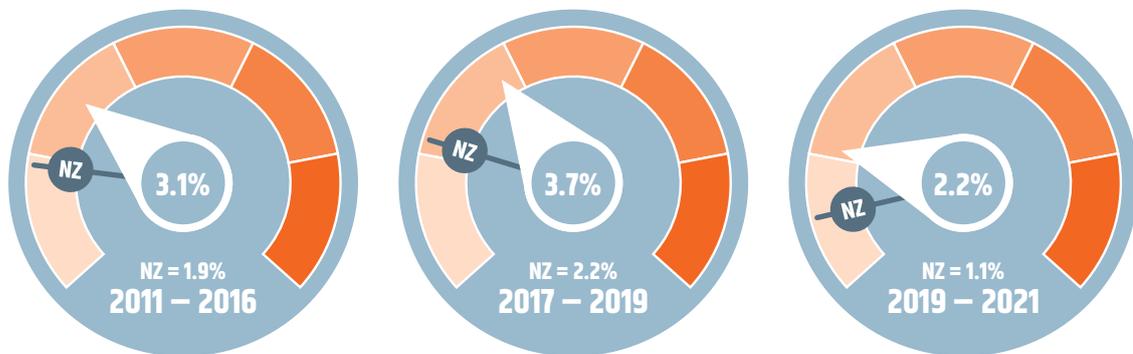


Industry Focus

Service sector growth driven by professional services Professional, scientific, and technical services

The professional, scientific, and technical services industry represents 8.1% of the New Zealand economy and 9.5% of nationwide employment (223,950 jobs). In terms of employment, the biggest subindustries are computer systems design and related services, management advice and other consulting services, corporate head office management services, engineering design and engineering consulting services, and accounting services.

Job Growth at a Glance – %p.a. PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES



Although the finance sector makes up just under 4.0% of the nationwide economy, this activity is highly concentrated in two specific geographic areas. The Auckland CBD local board area of Waitemata is home to 29% of economic activity for the finance sector, with a further 25% of nationwide activity in other areas within the Auckland region. Local board areas in Auckland with a significant finance sector presence include Maungakiekie-Tamaki, Albert-Eden, Orakei, and Devonport-Takapuna. Outside Auckland, Wellington City contains a further 20% of the finance industry.

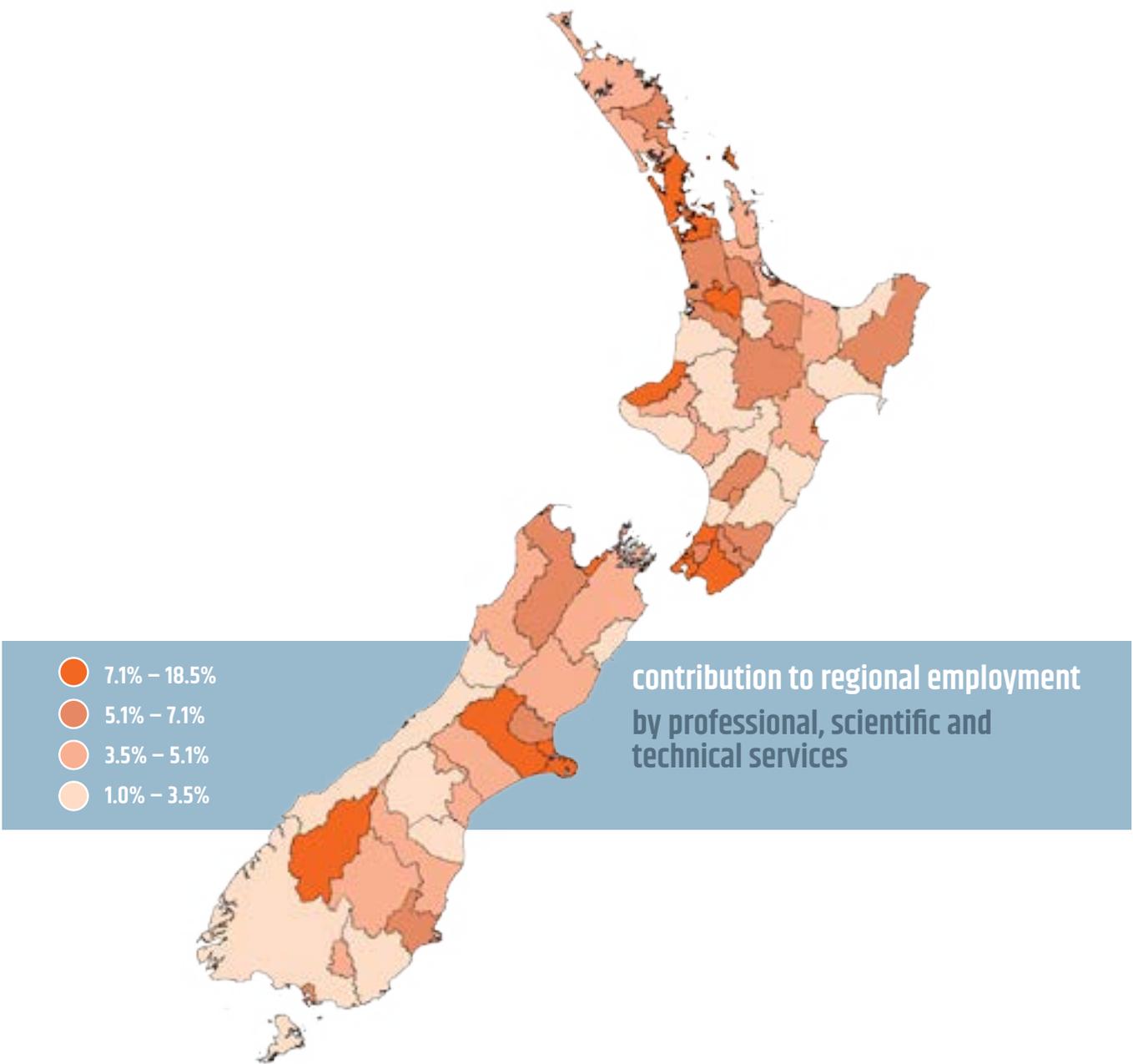
Growth in economic activity in the finance sector was relatively weak between 2008 and 2012 in the wake of the Global Financial Crisis. However, the industry has experienced stronger growth over the last few years as financial markets have recovered and the housing market has grown strongly. By mid-2016, borrowing from registered banks was growing at its fastest rate since 2009.

Our forecasts are predicated on the continuation of stable financial market conditions, both within New Zealand and internationally. Offshore risks to this view include concerns about the robustness of the Chinese financial system, as well as a tightening of credit conditions in Australia that could flow through the banking system and limit growth here. Domestic risks appear to be mostly centred around the potential for a correction in the housing market. However, our forecasts already incorporate a drop in house prices during 2018 and 2019.

Even allowing for a downturn in the housing market, overall prospects for the finance industry look bright. The introduction of KiwiSaver last decade and its ongoing growth since has helped boost the industry, and this trend is expected to continue over the medium term. Greater regulation and macroprudential oversight of the financial system also mean that the industry is in a more robust position than it was a decade ago.

As indicated above, the central parts of the Auckland and Wellington urban areas will be the most positively affected by the finance sector's growth. The increasing concentration of financial sector operations and employment in these two cities is also

reflected in reductions in physical banking services across provincial New Zealand, with technological advancements enabling more processes to be done remotely and making it less viable for banks to maintain branches in small towns.

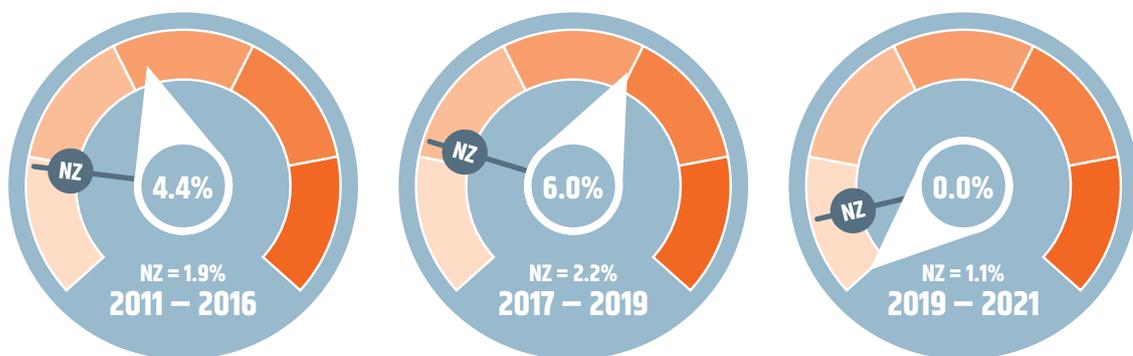


Industry Focus

Residential development and government projects underpin civil work Heavy and civil engineering construction

The heavy and civil engineering construction industry represents 1.6% of the New Zealand economy and 1.4% of nationwide employment (33,600 jobs). The two subindustries are road and bridge construction and other heavy and civil engineering construction.

Job Growth at a Glance - %p.a. HEAVY AND CIVIL ENGINEERING CONSTRUCTION



Employment growth in the heavy and civil engineering construction industry has run well ahead of total employment over the last five years, averaging 4.4%pa compared to economy-wide employment growth of 1.9%pa. Almost one-third of this growth has occurred in each of Auckland and Christchurch, with Tauranga making the next biggest contribution to growth.

Population growth is an important driver of activity in this industry, with an expanding population requiring work associated with residential subdivisions, roading, water and wastewater networks, and other infrastructure. Areas such as south Auckland, Hamilton, Tauranga, and Queenstown-Lakes require significant resources in this industry to meet demand associated with population growth.

Another key driver of activity is government investment in major infrastructure projects. The most significant pieces of work in this area are generally large roading projects, including several ongoing and proposed projects around Auckland such as the Western Ring

Route, the Puhoi to Wellsford highway, and the Penlink road. Also under construction in Auckland within our forecast period is the City Rail Link.

Outside Auckland, there are Roads of National Significance being built in the Waikato, Wellington, and Canterbury regions. These projects are expected to result in strong growth in heavy and civil engineering job numbers in Hamilton, Porirua, and Wellington Cities. In contrast, Christchurch is likely to see employment in the industry shrink as earthquake rebuilding and repair work retreats from its peak.

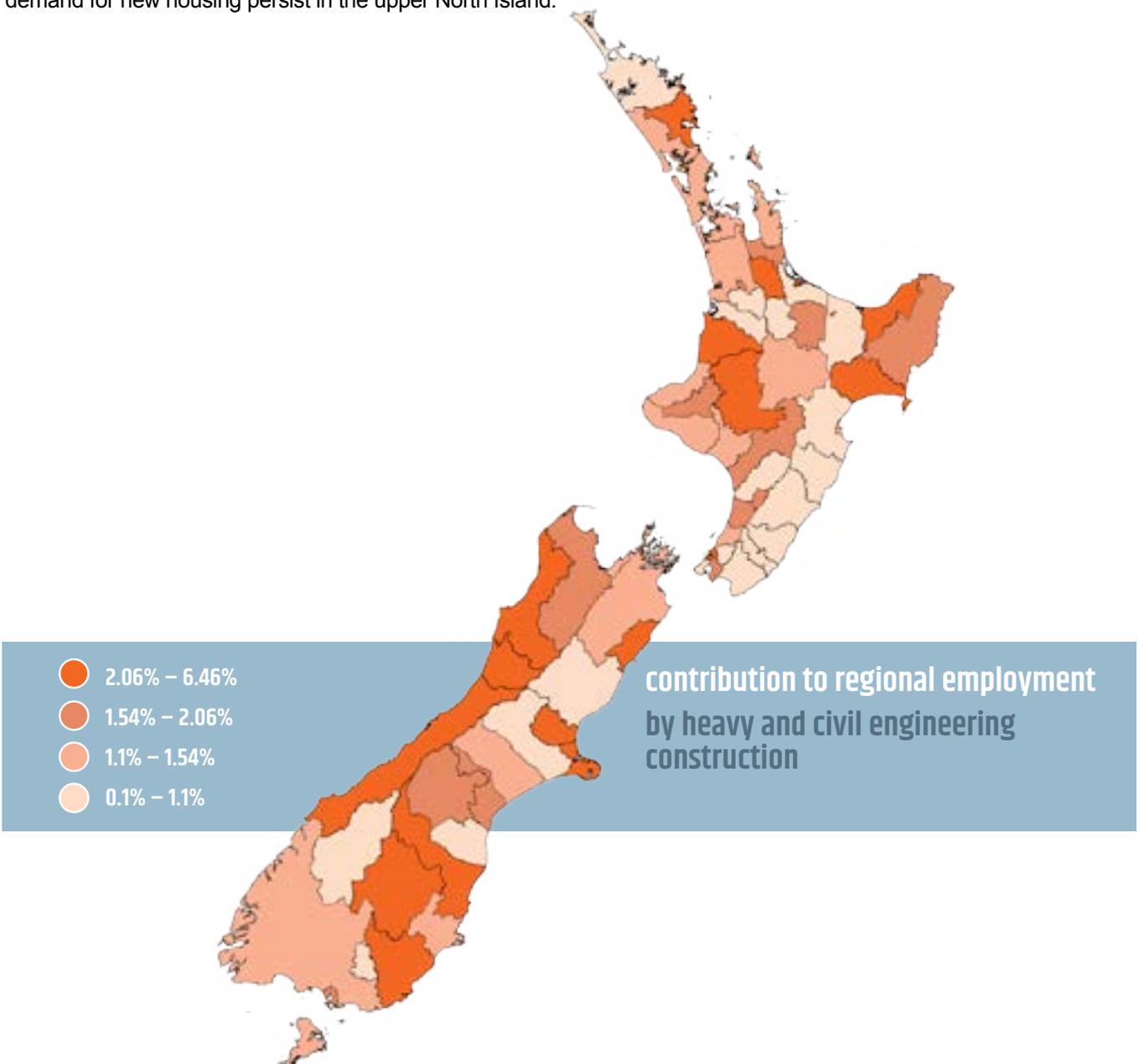
Finally, private sector investment in major projects such as irrigation schemes also has the potential to have a significant effect on the regional distribution of employment in areas such as Canterbury.

We expect nationwide employment in heavy and civil engineering to increase by 4,450 jobs over the two years to March 2019, before levelling off as population growth gradually slows and the run of major projects

across the country eases back from its peak. Auckland is forecast to contribute around 1,900 of those new jobs, with other significant contributions to employment growth coming from Hamilton, Rotorua (subject to the Rotorua Eastern Arterial project going ahead), Manawatu-Whanganui, Porirua, Wellington City, and Queenstown-Lakes.

Beyond 2019, we anticipate that job growth in this industry will become more dominated by the Auckland and Waikato Regions as strong population growth and demand for new housing persist in the upper North Island.

Although we have noted the effect on the industry of quake-related work in Christchurch winding down over the next few years, it is also important to comment on activity associated with the Kaikoura earthquake. We predict that employment in heavy and civil engineering construction in the Kaikoura District will have doubled between 2016/17 and 2018/19, although this increase is relatively minor in terms of the industry nationwide. The Hurunui District will see a smaller increase in heavy and civil engineering construction employment because of the quake.

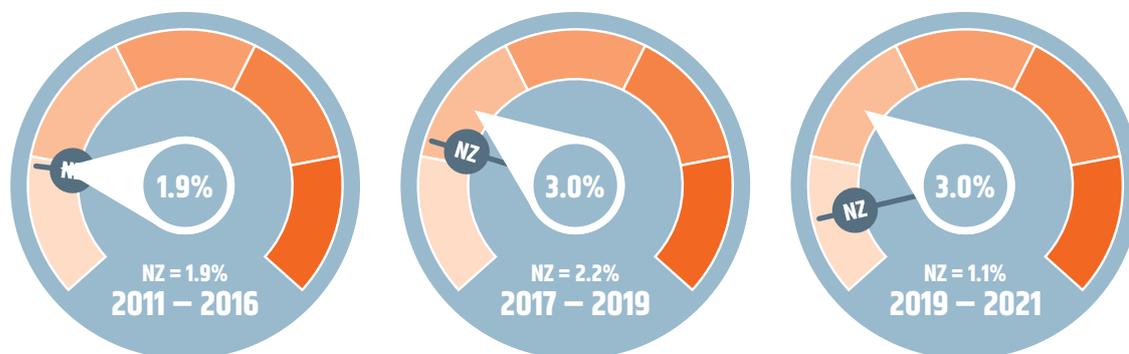


Industry Focus

Demand grows for health care and related services Health care and social assistance

The health care and social assistance industry represents 5.9% of the New Zealand economy and 9.9% of nationwide employment (233,200 jobs). In terms of employment, the biggest subindustries are hospitals (except psychiatric hospitals), other allied health services, and aged care residential services.

Job Growth at a Glance – %p.a. HEALTH CARE AND SOCIAL ASSISTANCE



Employment growth in the health care and social assistance industry has lagged behind economy-wide growth in job numbers over the last three years, averaging 2.1%pa in the 2013-2016 period, compared to 2.4%pa growth across the entire economy. This sluggish growth is, in part, reflective of a contraction in government spending on health from 6.7% to 6.2% of GDP, despite the value of health spending increasing by \$1.1bn between 2013 and 2016.

Projections from The Treasury show that government spending on health as a percentage of GDP is expected to bottom out in 2020 and grow thereafter. However, we believe that growth in health spending could rise more quickly in the near term given the tightening political race for this year's election. The government's improved fiscal position has created more room for additional spending initiatives in key areas such as health care, and the rapid population growth of recent years has stretched areas of social infrastructure such as the health system. A boost to government spending would acknowledge these

pressures and lead to increased capacity in the health system, including a lift in overall employment.

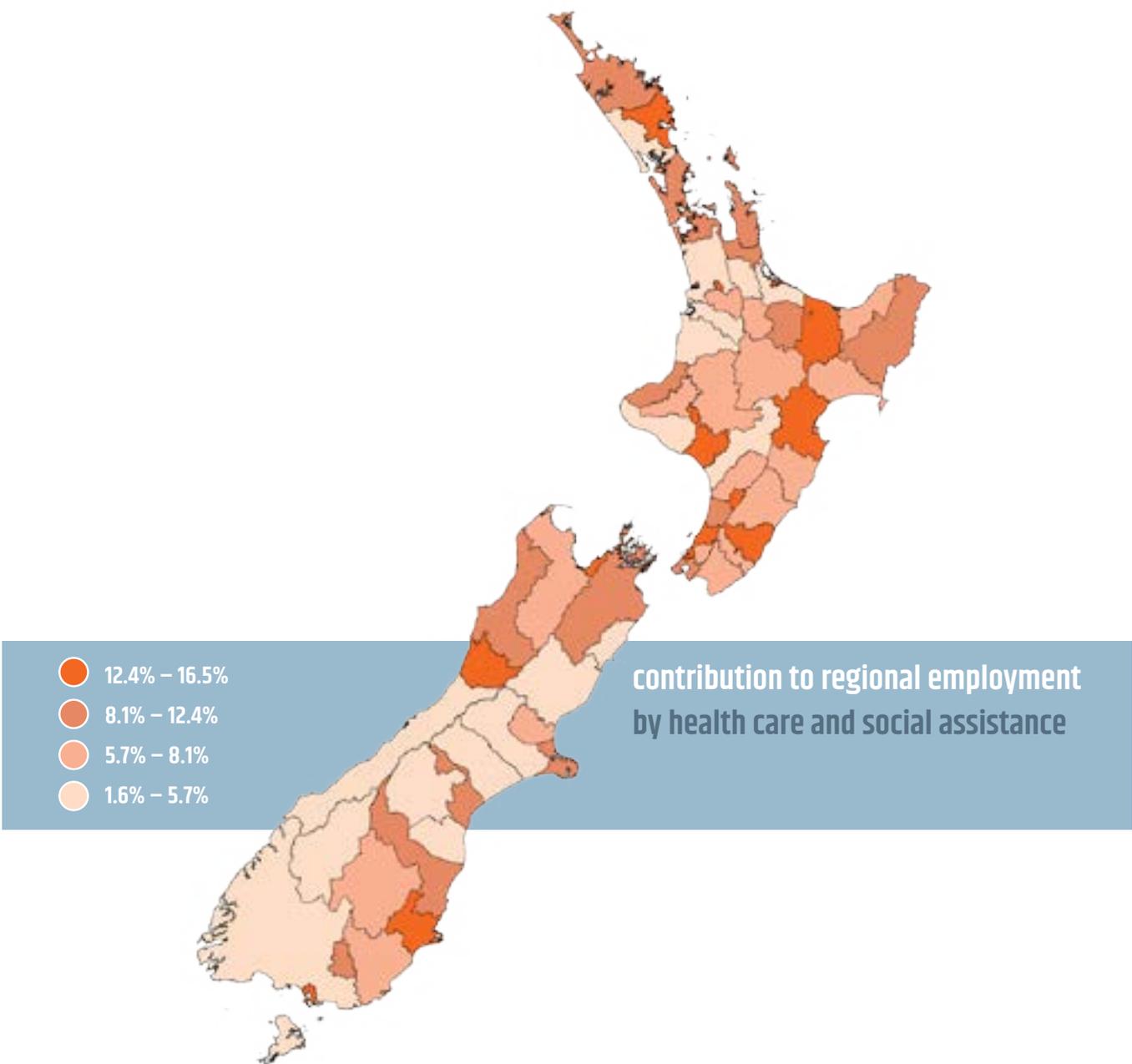
Over the medium term, the aging population will place increased demand on the health care and social assistance industry. This demand will manifest itself in terms of aged care services, as the popularity of retirement village and rest home living continues to increase, as well as in broader hospital services associated with the gradual deterioration in people's health as they become older. In some areas, technological advances will limit the additional number of workers required, but we still expect employment in this industry to run ahead of the national average.

From a regional perspective, growth in the health care and social assistance industry will be spread reasonably evenly across the country, with the provision of appropriate health services a fundamental part of the amenities available in different towns and regions around New Zealand. But even within this framework, the concentration of higher-end services

in the major urban centres tends to create a bias in job growth towards the larger cities. Provincial centres with hospitals offering mid-level medical care to a catchment that extends well beyond the town in question will also benefit from the industry's growth.

Of the 30,900 additional jobs created in the health care and social assistance industry over the next four years, we expect just over half to be in Auckland (9,900 jobs), Wellington City (2,000 jobs), and Christchurch (3,300

jobs). Although employment growth will be spread right across Auckland, the Waitemata, Otara-Papatoetoe, Albert-Eden, and Devonport-Takapuna local boards feature most prominently. Outside the three largest cities, Hamilton (2,000 jobs), Tauranga (1,300 jobs), and Dunedin (1,000 jobs) will also record significant increases, while employment growth in Whangarei, Wanganui, Palmerston North, and Masterton will be boosted by the importance of the health care and social assistance industry in their regional economies.

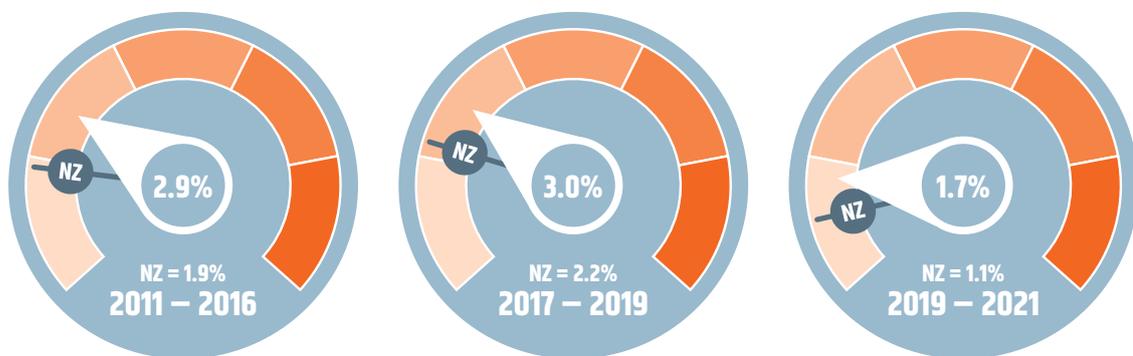


Regional Focus

Auckland is New Zealand's engine Auckland Region

The Auckland Region represents 38% of the New Zealand economy and 35% of nationwide employment (824,200 jobs). In terms of employment, the biggest industries are professional, scientific and technical services, health care and social assistance, and education and training.

Job Growth at a Glance – %p.a. AUCKLAND REGION



After being hit hard in the wake of the Global Financial Crisis, the Auckland economy has rebounded strongly over the last six years. Economic growth between March 2010 and March 2016 in the region averaged 3.3%pa, well above the nationwide average of 2.3%pa.

Two key factors have contributed to Auckland's success. Growth in the initial part of this decade reflected the recovery of service sector activity, around which much of Auckland's economic activity is centred. Secondly, the surge in international migration since 2013 has fuelled population growth in the region and boosted aggregate demand in Auckland – even if per-capita growth has, at times, not been that spectacular.

With New Zealand's labour market expected to remain relatively tight throughout the next four years, we anticipate that net migration will hold at above-average levels, sustaining strong population growth in Auckland. The expanding population will provide a solid basis for continued GDP growth in the region, which will be magnified by the continued expansion of key service industries that are important to the Auckland economy.

We are forecasting employment in Auckland to expand by 83,550 jobs over the four years to March 2021. The biggest contributions to growth will come from the three industries with the largest number of jobs in the region: professional, scientific and technical services (16,450 new jobs), health care and social assistance (11,050 new jobs), and education and training (8,200 new jobs). Other service industries also making significant contributions to employment growth include administrative and support services, local and central government administration, arts and recreation services, and other services.

Even so, growth will not be limited to the high-end service part of the economy. The construction industries will experience substantial job growth as the prolonged response to Auckland's housing supply issues continues throughout the next four years. Residential construction activity will be accompanied by the need for ongoing investment in infrastructure in the region as well.

A combination of population growth and further increases in tourist numbers will benefit the retail, accommodation,

and food services industries in Auckland. Growth in retail employment in the region will occur despite the continuing trend towards online retailing, with the job growth being driven by the need for new retail facilities near areas of strong population growth, particularly towards the outskirts of Auckland. Capacity pressures in the tourism sector are already well-documented and will demand further growth over the medium term.

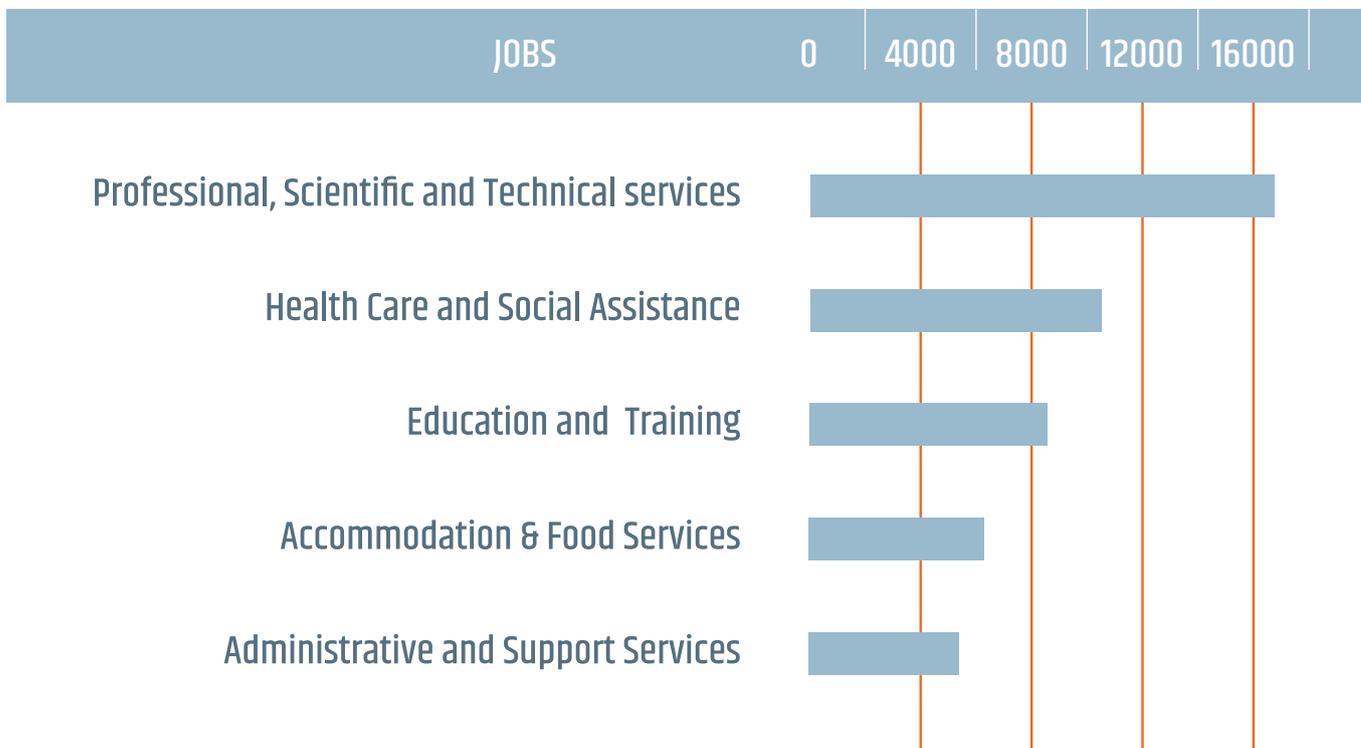
We have also noted the likely growth in electricity and gas supply employment, which will make a significant contribution to the Auckland Region.

Geographically, we expect growth to be reasonably

consistent across the Auckland Region. Sizable expansion of the stock of office space is currently underway in the CBD, which will facilitate business and employment growth in the Waitemata local board area over the next 2-4 years.

One spot that is likely to underperform is the Mangere-Otahuhu local board area, which has a relatively high proportion of industrial firms (manufacturing, wholesaling, and distribution). Rising land and labour costs are making it less viable for these businesses to be sited in Auckland, and improved transport links to the south are encouraging more firms to consider relocating to the Waikato Region.

Top five job growth industries in Auckland:2017-2021

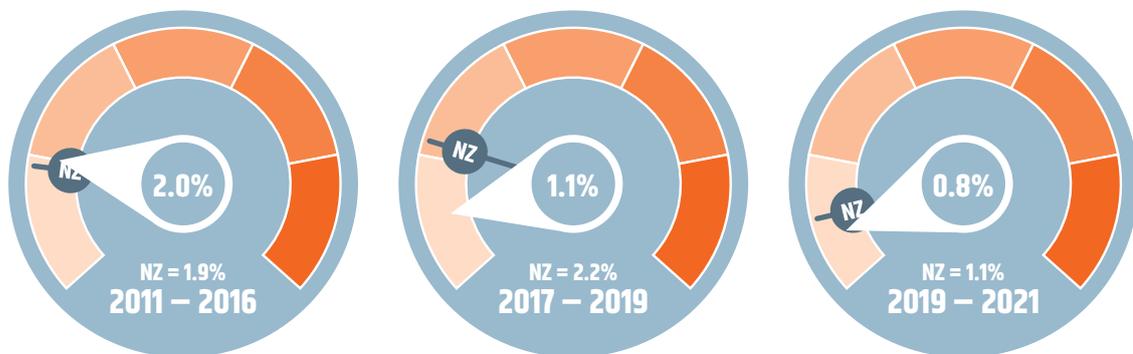


Regional Focus

After the rebuild peak, Christchurch finds growth harder to come by Christchurch City

Christchurch City represents 8.5% of the New Zealand economy and 9.5% of nationwide employment (224,300 jobs). In terms of employment, the biggest industries are health care and social assistance, professional, scientific and technical services, and education and training.

Job Growth at a Glance - %p.a. CHRISTCHURCH CITY



Economic activity in Christchurch grew by an average of 4.7%pa between March 2012 and March 2015 as the city recovered from the devastating earthquakes of 2010 and 2011. This growth rate was a full two percentage points faster than nationwide growth. But with residential building activity having peaked in 2015, and signs that both non-residential and infrastructure construction are also tapering, economic growth in Christchurch has slipped back below the national average. This struggle to keep up with the performance of the broader New Zealand economy will continue throughout the next four years.

Naturally, the post-rebuild slowdown will be felt most acutely in the construction industries. Between 2017 and 2021, we are forecasting the loss of 4,200 jobs, or 15% of the workforce, across the building construction, heavy and civil engineering construction, and construction services industries.

Other parts of the Christchurch economy that are likely to come under pressure include motor vehicle retailing

and manufacturing. The drop-off in building activity will reduce demand for new vehicles from tradespeople, and the need for replacement vehicles in Christchurch over the next few years is likely to be below the national average given the strength of car sales volumes in the city between 2012 and early 2015.

Manufacturing activity in Christchurch has been under sustained pressure from the weak Australian dollar and soft economy across the Tasman. Demand from Australia is a significant driver of manufacturing activity in Christchurch, and although both Australia's economic performance and the exchange rate are likely to become more favourable for exporters over the 2-3 years, the city's manufacturing sector is unlikely to grow rapidly.

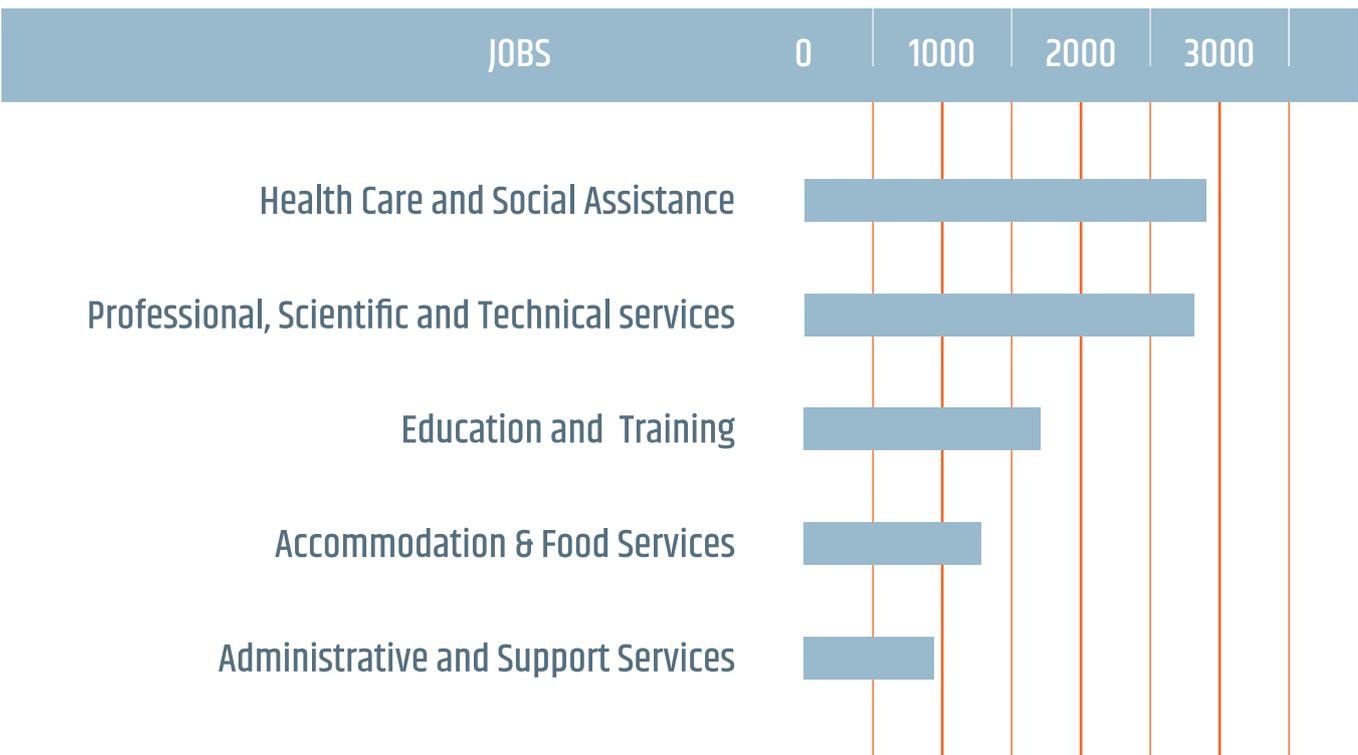
Furthermore, a sizable proportion of manufacturing production is related to activity in the construction sector. The slowdown in building activity will limit demand for workers in some manufacturing subsectors such as wood product manufacturing and polymer product and rubber product manufacturing.

But it's not all doom and gloom for the Christchurch economy. Strong performances by professional, scientific and technical services (2,850 more jobs over the next four years), health care and social assistance (2,950 more jobs), and education and training (1,650 more jobs) will be big contributors to new job growth. Ongoing growth in visitor numbers nationally will flow through to Christchurch, with employment in accommodation and food services also boosted by

the city's tourism sector gradually returning to "normal" after its post-quake downturn.

At 0.9%pa over the next four years, we are forecasting employment growth in Christchurch to lag behind nationwide growth of 1.7%. The toughest period is likely over the next 12 months as construction employment declines by over 10%.

Top five job growth industries in Christchurch City:2017-2021



Regional Data Table

The following table provides high level summary data about regional employment and job growth in New Zealand. Please contact Infometrics for information about how to obtain detailed regional and territorial employment forecasts.

	Level	%pa growth			
	2016	2011-2016	2017-2019	2019-2021	2017-2021
Northland Region	68,014	1.2%	2.0%	0.9%	1.4%
Auckland Region	824,200	2.9%	3.0%	1.7%	2.4%
Waikato Region	204,453	1.8%	2.0%	0.8%	1.4%
Bay of Plenty Region	141,455	1.6%	2.0%	1.0%	1.5%
Gisborne Region	21,274	0.5%	1.1%	0.0%	0.5%
Hawke's Bay Region	76,939	0.3%	1.4%	0.2%	0.8%
Taranaki Region	57,837	0.8%	1.7%	0.1%	0.9%
Manawatu-Wanganui Region	110,421	0.1%	1.4%	0.2%	0.8%
Wellington Region	273,590	0.9%	1.9%	0.6%	1.2%
Nelson Region	30,041	1.0%	2.1%	0.8%	1.4%
Marlborough Region	26,183	1.4%	2.4%	1.2%	1.8%
Tasman Region	21,575	1.7%	2.2%	0.5%	1.4%
West Coast Region	16,615	-0.9%	1.9%	-0.3%	0.8%
Canterbury Region	320,669	2.4%	1.6%	1.1%	1.3%
Otago Region	117,130	1.6%	2.2%	1.3%	1.8%
Southland Region	53,030	0.8%	1.5%	0.3%	0.9%
New Zealand	2,363,428	1.9%	2.2%	1.1%	1.7%

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