



**June 2009 quarter  
Manukau City Economic Report**

**for Manukau City Council**

**Prepared by Infometrics Ltd**

**July 2009**



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## Executive Summary

**Economic output** in Manukau declined by 0.2% over the year to March 2009.

The main contributors to growth in the region were communication services and central and local government administration. The main detractors from growth were manufacturing and transport services.

**Unemployment** in Manukau is estimated to have hit 10.3% in March.

Over the three months to May, **house sales** in Manukau shot up 45% on a year earlier. **House prices** have shown some signs of stabilisation, with June quality adjusted house prices only down 4.5% on a year earlier.

**Residential consents** have continued to fall sharply, with June quarter consent numbers down 34% on a year earlier. However, with the housing market stabilising it appears that residential building activity may be nearing a bottom.

Manukau has experienced a sharp decline in the value of **non-residential consents** over the first half of 2009, down 60% on the first half of 2008. Non-residential building is likely to remain weak for some time, as tight credit conditions and anecdotes of rising vacancy rates in existing non-residential buildings help to depress activity.

The value of core **retail sales** in March 2009 was down 6.1% on March 2008. Although activity is still declining rapidly, the rate of decline appears to be moderating. We expect retail sales to find a base towards the end of 2009.

Tourist arrivals to Manukau have continued to decline, with **guest nights** over the three months to April down 13% on a year earlier.

**Manufacturing activity** over the year to March was down 1.4% on a year earlier. The weakness was relatively broad based as global demand for all types of manufactured products declined.

Although continued weakness in the world and domestic economies will have a negative impact on **Manukau economic activity**, we expect Manukau to pull out of recession as earlier as September.



## Economic situation: national world, and Manukau

### National

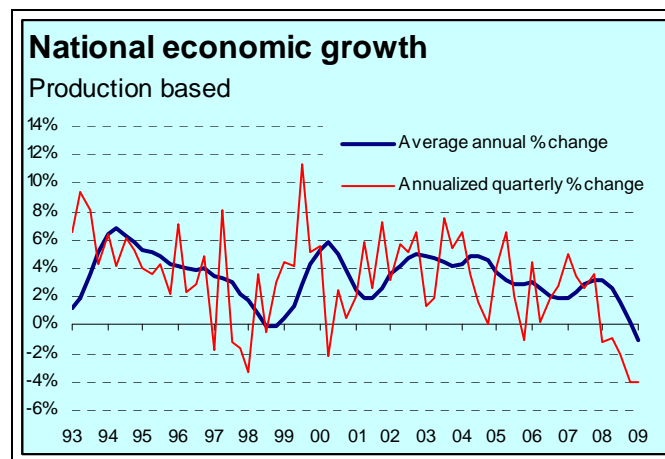
*New Zealand has been in recession for at least 15 months, with economic activity over the March 2009 quarter down 3.0% on December 2007. A number of factors helped to drive this decline: a drought, tight credit conditions, slumping global demand, and general uncertainty. Although economic activity is near bottoming, it is unlikely that the New Zealand economy will recover from the current crisis quickly.*

Gross domestic product slumped by a further 1.0% in the March quarter (seasonally adjusted). Quarterly economic activity in New Zealand is now down 3.0% on its December 2007 peak.

The main contributor to the March quarter decline in economic activity was manufacturing activity, which fell 7.1% on the December quarter (seasonally adjusted). Manufacturing activity in the March quarter was down a massive 13% on March 2008 – the sharpest annual fall on record (since June 1988).

According to the NZIER Quarterly Survey of Business Opinion a net 38% of firms experienced a decline in activity in the June quarter, indicating that economic activity continued to decline in June. Furthermore, a net 13% of firms expect a contraction in September – indicating that it is likely that the recession could last for a massive seven quarters.

Anaemic economic growth will return over the later part of 2009, as the global economy stabilises and the impact of loose monetary and fiscal policy stimulates the economy.



### World

*The likelihood of 2008/09 being the start of Great Depression Mark II has declined rapidly over recent months. Most measures of global production have stabilised, stock market uncertainty has eased, and credit markets have begun to open up. However, the global imbalances that helped drive recent events have not been solved. As a result, global activity is expected to stay weak for some time.*

Over recent months the “green shoots” in the global economy (such as the stabilisation in manufacturing activity) have led to a significant recovery in global confidence. There is now a widespread belief that the



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worst case scenario for the global economy is not going to happen – we will not have another Great Depression. This has seen global stockmarkets rise, a general precursor to rising investment and spending activity.

However, with short-term economic issues becoming less pressing, the international focus has shifted to some of the imbalances plaguing the world economy. Issues surrounding the establishment of a global reserve currency, the imbalance between nations consumption and production, and the rising net debt levels of much of the developed world, will continue to colour the global outlook for a number of years.

As a result, the forced adjustment of exchange rates and production/consumption levels between countries will keep global growth below its average level for some time.

## **Manukau**

*The Manukau economy has underperformed relative to both the Auckland and national economies since the year to September 2007 as its exposure to the manufacturing industry meant it was hit first by the slowing global economy. However, Manukau now seems to be showing signs of recovery earlier than the general economy – indicating that annual growth may turn positive by as soon as September.*

According to Infometrics estimates, economic activity in Manukau over the year to March declined by 0.2% on a year earlier<sup>1</sup>. This decline is significantly milder than the drops in activity experienced in Auckland and nationally (down 1.6% and 1.0% respectively).

However, annual average growth in Manukau has been running below the national average since September 2007, indicating that Manukau has been suffering from a slowdown for a lot longer than the nation as a whole.

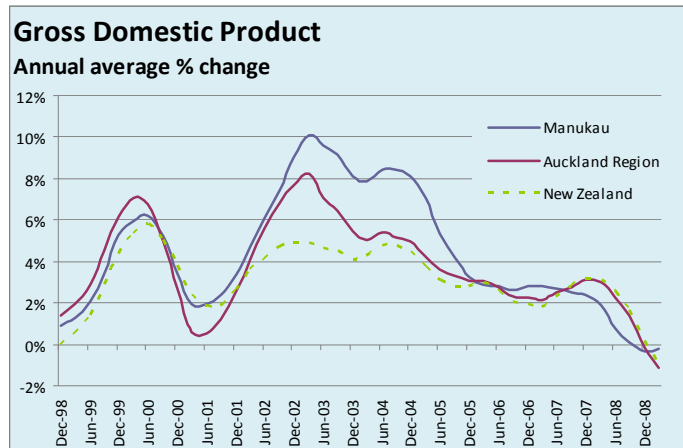
Central government and local administration is estimated to have been the best performer in the region, with activity rising 4.8% on March 2008. Communication services (up 2.7% on March 2008) is also estimated to have performed well. The increase in communication services activity was the main positive contributor to growth in the region.

The main detractors to growth were: manufacturing (with activity down 1.4% on March 2008), transport services (down 1.1%), and wholesale and retail trade (down 0.5%).

The NZIER Quarterly Survey of Business Opinion sent out a warning shot regarding the June quarter – suggesting that activity turned down sharply over that quarter. Even so, we expect positive annual growth to return in the Manukau economy from the second half of 2009.

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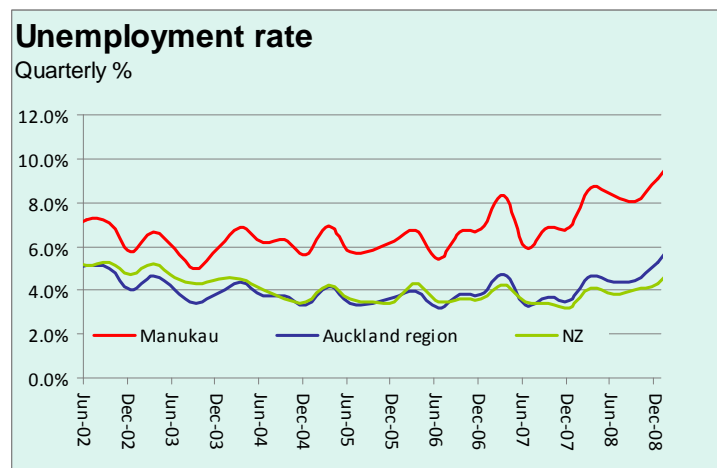
<sup>1</sup> GDP growth is estimated using a time series forecasting model which draws on a wide variety of regional economic indicators such as retail sales, vehicle registrations, electricity consumption, building consents, house prices and permanent and long term arrivals.



## Labour market

*Although the labour market in Manukau has historically been weaker than the Auckland and national markets this discrepancy appears to have worsened in recent quarters. With unemployment climbing over 10% and registered job seekers rising at a rapid pace the weakness in the Manukau labour market is concerning. Although we expect unemployment to continue to rise over the coming quarters, the rate of increase is expected to slow as the regional economy stabilises.*

Unemployment in Manukau is estimated to have reached 10.3% in March 2009, up from 9.0% in December. However, March is usually a strong month for unemployment. In seasonally adjusted terms we estimate that the unemployment rate was 9.3% in March, up slightly from 9.2% in December.



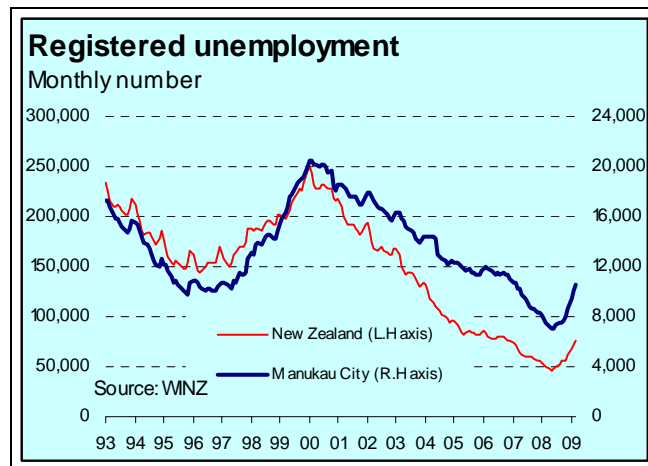
In March, the number of registered job seekers rose 39% on a year earlier, reaching 10,581 people. This is the highest number of job seekers since February 2007.

Registered job seeker numbers in the Auckland region rose by a massive 66% on a year earlier, to 29,232 people. This is the greatest number of job seekers in the region since April 2006. The sharp increase in job seekers is consistent with the sudden lift in the Auckland unemployment rate to 6.5% – the third highest regional unemployment rate.



Nationally registered job seeker numbers rose 51% on a year earlier, to 75,863 (the highest number of job seekers since December 2006). The unemployment rate increased to 5.6%, or a seasonally adjusted 5.0%.

At the moment in Manukau we estimate that the number of unemployed people is running well above the number of registered job seekers. The reason for this is the discouraged worker effect (where people are willing to work, but are discouraged from applying to be a job seeker) given that the Manukau economy has been in a recession for longer than the New Zealand economy as a whole.



## Building and property

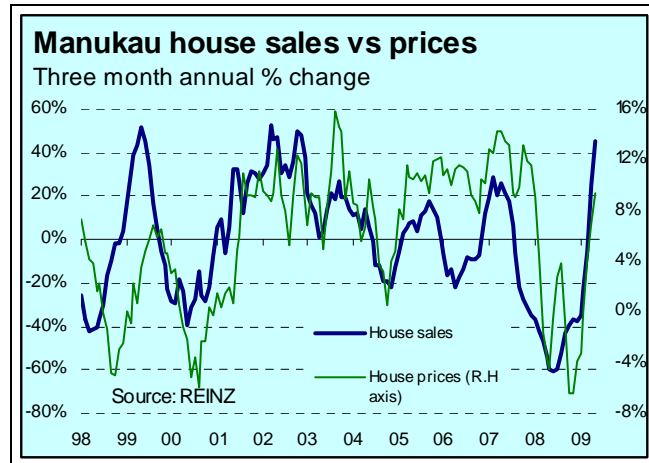
### Residential

*House sales and prices have begun to rebound sharply in Manukau. Rising house sales and a sudden stabilisation in house prices has not yet led to a recovery in house building activity – which remains well down on its levels a year ago. With the Manukau housing market seemingly recovering sooner (and more quickly) than the national housing market, we expect residential building activity to start increasing in the region soon.*

Over the three months to May the number of house sales in Manukau rose 45% on a year earlier, the sharpest increase since November 2002.

However, house sales remain well below their peak level, with the three months to May recording 1,152 house sales (seasonally adjusted) compared to the peak of 2,080 in April 2005.

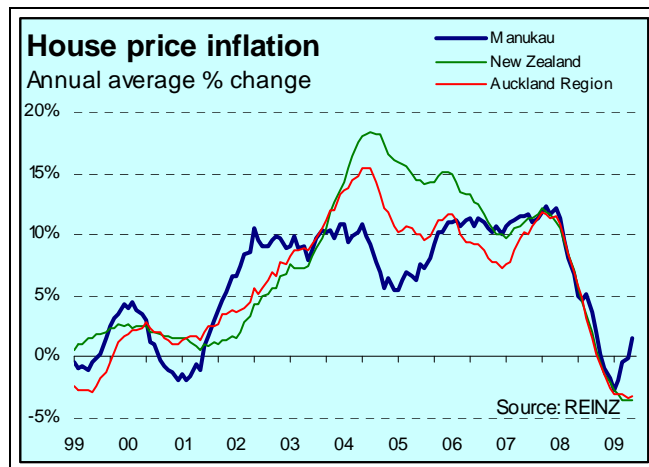
Over the Auckland region as a whole house sales have also improved, rising by 47% over the same period. Nationally house sales are up 38% on a year earlier.



According to QVNZ, in the June quarter quality adjusted house prices in Manukau fell 4.5% from June 2008. This was the sixth “best” result recorded among New Zealand’s 72 regions.

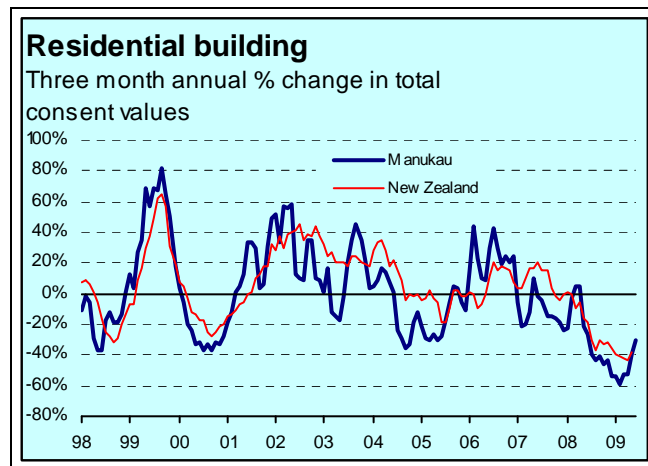
The median house price in Manukau has risen strongly in recent months, with annual growth hitting 9.4% in the three months to May. With the quality adjusted price having fallen significantly over the same period this suggests that it is primarily higher quality properties that are being sold at the moment.

Over the Auckland region as a whole the quality adjusted house price dropped 5.9% on a year earlier during the three months to June. Nationally, the decline was 7.1%.



Over the year to June the number of residential building consents approved in Manukau fell 48% on June 2008. This was a steeper decline than the 41% fall in consent numbers recorded nationally over the May year.

However, the rate of decline in residential building activity appears to be improving in Manukau. In the June quarter there were 34% fewer residential building consents, the smallest decline in 12 months.



## Non-residential building

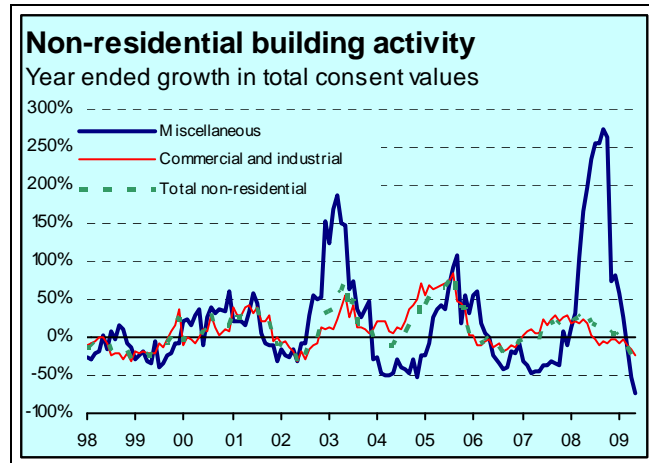
*Non-residential building activity in Manukau has completely given way during the first half of 2009, falling 60% on the first half of 2008. Nationally non-residential building activity remains strong as a swath of large consents, and rising government building activity, have created a base of activity. Non-residential building activity in Manukau is expected to remain weak until well after the region's economy recovers.*

The value of non-residential building consent in Manukau during the June quarter was 71% lower than in June 2008. Over the year to June non-residential building activity slipped 37% in Manukau.

Annual miscellaneous (including farm) building activity (down 80% on June 2008) has declined more quickly than commercial and industrial building (down 26%) in June. The steep drop in miscellaneous activity accounted for over two thirds of the entire drop in non-residential building activity in Manukau over the year to June.

Nationally, May quarter non-residential building activity was up 13% on a year earlier and activity over the year as a whole increased by 6.9%. A string of one-off large consents helped to boost national non-residential building activity.

In the May year, the best performing sectors across New Zealand were: miscellaneous and multipurpose (up 144% on May 2008) and hostel (up 75%) building. A swath of Rugby World Cup related consents was behind the boost in both these sectors.



## Retail

*Retail sales continued to fall sharply in the March quarter as Manukau consumers reacted to rising unemployment, falling incomes, and lower house prices. With the Manukau economy starting to stabilise we expect retail sales to find a base by the end of 2009.*

Nominal retail sales in the March quarter were down 7.4% on March 2008. When the motor vehicle and other sectors are excluded, the rate of decline in the core retail industries (food, clothing, household related, and restaurant and accommodation retailing) was a more moderate 6.1%.

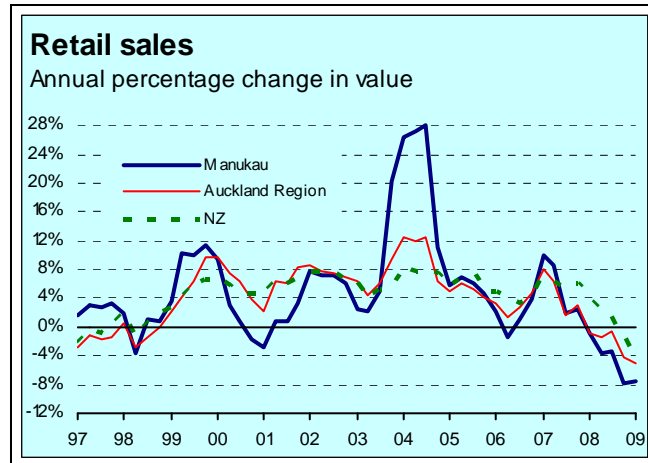
The March quarter decline in core retail sales was slightly stronger than the December decline (5.9%). However, when we take into account the leap day that occurred in the March 2008 quarter core retail sales growth has actually improved to its "best" rate since December 2007.

Clothing retailing was the only retail sector that recorded an increase in the value of sales on a year earlier, rising 7.8% on the March 2008 level. The significant drop in the value of the New Zealand dollar over this period suggests that the price of clothing retailing would have risen – implying that the quantity of clothing sold was still fairly weak.

The sharp decline in the value of restaurant and accommodation retailing over this period (with the value of sales down 16% on March 2008) would have been primarily the result of a drop in tourist guest nights. However, declining house prices and general economic uncertainty would have also had a negative impact on the use of these "luxury" goods.

Over the Auckland region as a whole retail sales did not decline quite as rapidly, falling 5.0% on March 2008. However, the decline in motor vehicle and other retailing was more substantial, down 9.5% over the same period. As a result, core retailing over the Auckland region was only down by a moderate 0.9% from March 2008, which given the leap day in March 2008 implies that core retailing was virtually flat.

Nationally, the value of retail sales fell 4.1% on the March 2008 quarter. This was the largest decline on record (since July 1996).



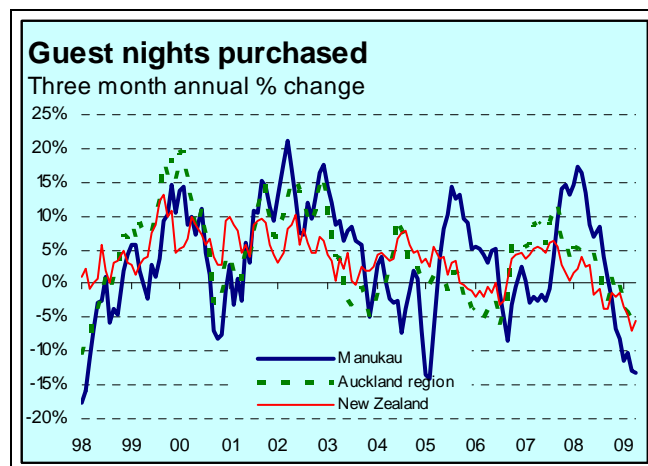
## Tourism

*Tourism has continued to struggle in the Manukau region as a deteriorating global economy has made New Zealand a less attractive tourist destination. A persistently soft New Zealand dollar will see tourist numbers start to recover by the end of 2009.*

Tourist inflows to Manukau have continued to fall sharply. Over the three months to April, tourist guest nights fell 13% from a year earlier in Manukau – the sharpest fall since February 2005.

The decline in tourist guest nights in Manukau was far more substantial than the drops recorded in the Auckland region (down 6.4% from a year earlier) and nationally (down 5.5%).

Even with the value of the New Zealand dollar remaining historically low, we expect the slowdown in global economic activity to keep tourist numbers depressed.



There currently appears to be a shift in tourist arrivals from long-haul destinations (Europe and Asia) to short-haul destinations (primarily Australia) as a result of heightened economic uncertainty. If Australia is excluded, national tourist arrivals were down 9.5% on a year earlier in May (compared to a 1% increase when Australia is included).



By the end of the year we expect continued weakness in the value of the New Zealand dollar to attract tourist from further afield again, but tourist numbers will not fully recover until the global economy starts to grow again.

## Manufacturing

*Annual activity in Manukau manufacturing has continued to decline as a tough export environment and a slumping New Zealand economy limited demand for manufactured goods. Although there is a feeling that activity has bottomed, manufacturing output is expected to remain soft for some time.*

Manukau annual manufacturing activity declined by 1.4% in March as a weak domestic and international economy took its toll on the industry.

Nationally, manufacturing activity slumped 5.5% from the March 2008 year – the sharpest annual decline on record (since December 1994).

According to NZIER's Quarterly Survey of Business opinion, a net 51% of manufacturing and building firms reduced output in the March quarter, the broadest reduction on record (since December 1996) – indicating that the decline in activity in these sectors during the March quarter was broad based.

However, the outlook for the general business situation improved markedly for manufacturers and builders, with only a net 4.7% of firms anticipating economic conditions to worsen in September. In seasonally adjusted terms this is the least pessimistic result since December 2003.

With global demand recovering, and the New Zealand dollar below its historical average, we expect activity in the Manukau manufacturing industry to gradually recover over the remainder of 2009. Even so, the combination of poor world export prices for manufacturing and a generally weak domestic economy will limit any pick-up in manufacturing activity.

## Outlook

*International events continue to dominate the outlook for both the Manukau and New Zealand economies. However, the general tenor of information for Manukau appears to be improving. Although the June quarter appeared to be extremely difficult for Manukau, a recovering housing market, a pick-up in export markets, and a stabilisation in the retail sector will help the Manukau economy return to positive growth within the next 12 months.*

Although the contraction in the Manukau economy is likely to have continued through the June quarter, we expect some signs of recovery heading into the second half of the year.

Manukau has been struck by the perfect storm, leading to declines in all major industries. With most industries (especially retail and manufacturing) expected to have hit a bottom, growth should resume from the end of 2009.

However, a poor global outlook will restrain the magnitude of the recovery in the Manukau economy throughout 2010.



<b>Key Economic Indicators</b>					
Year ended unless otherwise stated					
Indicator	Year ended	Level		Annual % change	
		Manukau	NZ	Manukau	NZ
GDP (constant prices)	Mar-09	\$9.8bn	\$134bn	-0.2%	-1.0%
Retail sales	Mar-09	\$3,979m	\$65,290m	-5.6%	-0.6%
Residential building permits <sup>2</sup>	May-09	\$197m	\$5098m	-46.3%	-32.2%
Industrial/commercial building permits <sup>2</sup>	May-09	\$378m	\$4262m	-22.7%	-3.9%
Median house price <sup>4</sup>	May-09	\$423,625	\$334,042	1.5%	-3.6%
Section prices <sup>3</sup>	Dec-08	\$334,675	\$200,338	2.8%	-0.4%
House sales <sup>4</sup>	May-09	3,790	58,692	-24.9%	-19.4%
Price Index (CPI)	as at Mar-09	1065 <sup>5</sup>	1075	2.4%	3.0%

Source - Statistics NZ except: <sup>1</sup> WINZ <sup>2</sup> Manukau City Council <sup>3</sup> Valuation NZ <sup>4</sup> REINZ  
Notes: <sup>5</sup> Auckland region