

Quarterly Economic Update Q4 : 2018



Blair Keenan

PRINCIPAL ECONOMIST,
WAIKATO REGIONAL
COUNCIL & ECONOMIC
ADVISOR TO TE WAKA

Blair Keenan has an undergraduate degree from the University of Otago. Keenan worked at ANZ as a macro-economist and industry analyst for five years before heading overseas as a researcher for Japan's External Trade Organisation in the UK. While in the UK, he also received his Master's degree in applied environmental economics from the University of London and was an economist at the National Farmers Union of England and Wales.

Back in New Zealand, he held several policy roles at Landcare Research, Department of Internal Affairs and Housing New Zealand before his current role as principal economist at Waikato Regional Council. He also continues to collaborate on projects with the University of Waikato, CRIs, central and local government, and a variety of industry groups.

Where you are and where you're going

If you're starting out on a journey to a particular destination, you need at least two pieces of information: where you are and where you're going. With the launch of Te Waka, and the publication of its [2018-2022 Programme](#), we have for the first time as a region a better idea of where we are going. As we head into the final weeks of 2018, it is timely to take stock of where we are now.

While the issues with 'Gross Domestic Product' (GDP) as an indicator of economic performance are well recognised, it is still one of the broadest measures of activity that is readily available. On this count, the latest data – Figures 1 and 2 shows that the value of measured production in the region increased 5.6 percent the year to March 2017. But all of that increase was accounted for by increases either in prices or population.

Figure 1

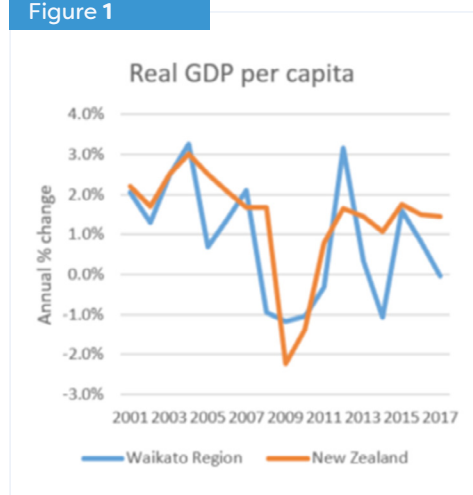


Figure 2



Taking these factors into account, real (i.e. adjusted for inflation) GDP per person in the Waikato region was unchanged over that year. Over successive 5-year periods, real GDP per person in the Waikato as a proportion of the figure for New Zealand as a whole has fallen from 96 percent (over 2003-07), to 94 percent (2008-12) to 91 percent (2013-17). On the face of it, the trend seems rather grim, and it certainly indicates that there is a job for Te Waka to do!

This data is, of course, now 18 months old, and we need to look under the bonnet to get a better sense of what's happening now and in the near future.

Retail sales often reflect the level of confidence people are feeling

So what can we say about what has been going on more recently? Retail sales often reflect the level of confidence people are feeling, and it is an important measure of consumption that goes into measuring expenditure on gross domestic product. This past year has seen some bouncing around of quarterly sales trends, but annual growth has been fairly steady, following a period of high growth in 2016-17. In the year to June 2018, retail sales increased by 3.9 percent on the previous year – in line with growth of the retail sector nationally.

Again, much of this is a reflection of the growth in population the Waikato region has experienced. On a per capita basis, retail sales in the year to June 2018 were 1.9 percent higher than the previous year. And after adjusting for inflation, the volume of retail sales per person in the region is estimated to have grown around 0.4% on the previous year. Perhaps this is a reflection of the uncertain world in which we find ourselves; the August 2018 regional report from [Westpac](#) also shows a sharp drop in confidence levels, attributing this to the effects of Mycoplasma Bovis on the rural sector, amongst other things. This may well reflect the fact that the fortunes of Waikato's primary industries – especially its dairy industry – are a major driver of the region's economic performance.

INVESTMENT AND PRODUCTIVITY

The economist Paul Krugman, in his 1994 book *The Age of Diminished Expectations*, said "...productivity isn't everything, but in the long run it is almost everything." If we agree that simply growing GDP shouldn't be our primary measure of economic wellbeing, then doing more with the same – that is, being more productive – should become a key focus. The Waikato region's productivity remains stubbornly low, growing only 0.1% in 2017. One possibility is that, while the region's population has been growing steadily, the capital investment required to lift productivity is either lacking or lagging. Based on building



Figure 3



consents data, there appears to be plenty of action in the construction sector. While not quite at the red-hot pace of 2016, the value of work consented is still growing rapidly, topping \$2 billion in the region for the first time in the year to June 2018.

From mid-2015, a surge in house-building fuelled rapid growth in the construction sector, and housing continues to make up 70 percent of the value of consents. While this has tailed off to some extent in the last 12 months, some of the slack has been picked up by non-residential construction – particularly for office and industrial buildings, making up two-thirds of the increase in last year.

Spending on infrastructure is expected to continue at around \$1.4 billion per year

Sales of ready-mixed concrete in this part of the world also continues to increase steadily, suggesting that investment in housing, construction and infrastructure continues.

According to the latest National Construction Pipeline report from the Ministry for Business, Innovation and Employment (MBIE), spending on infrastructure in the Waikato/Bay of Plenty region is expected to continue at around \$1.4 billion per year between now and 2023.

JOBS AND INCOMES

Te Waka makes the straightforward point that economic development for the Waikato is ultimately about more people being employed in well-paying and rewarding jobs. On the face of it, the labour market certainly seems to be in good shape, and has been readily able to absorb the growth in the working age population. Indeed, the unemployment rate, at just 3.4 percent in September 2018, is at a level only bettered in recent times over a sustained period from 2003 to 2008. Given that there will always be some proportion of workers who are 'between jobs' for whatever reason, an unemployment rate this low is just about as good as it gets! The labour force 'participation rate' measures the proportion of the working age population either employed or looking for work and tends to rise when job prospects are good and people are tempted into the job market. In the Waikato, the participation rate, at 73.3 percent, is at its highest level since the Household Labour Force Survey began publishing it in 1986.

Figure 4

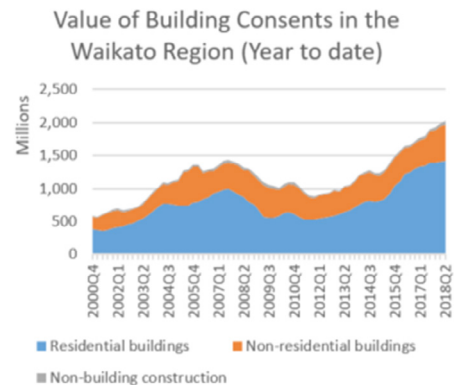
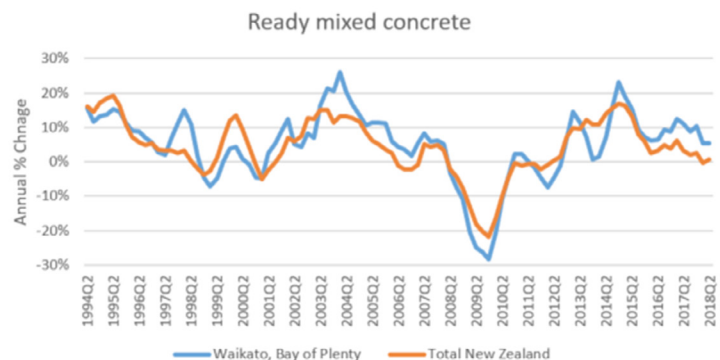


Figure 5

Construction sector growth
Residential and Non-residential contributions



Figure 6



Median incomes have increased by 38 percent

Another useful barometer of local conditions is the proportion of young people who are not in employment, education, or some form of training – also known as the NEET rate. In the Waikato, this too has been improving of late: the last three years have seen fewer 15-24 year-olds not engaged in employment, education, or training than recent times. Although, at 11.3 percent, it remains higher than for New Zealand as a whole (9.6%).

These labour market trends are also reflected in rising incomes. In 2009, median household incomes in the Waikato region were on a par with those across New Zealand. But from around 2010, median household incomes in the Waikato began to lag behind those across New Zealand, and by 2014, the Waikato median was only 88 percent of the New Zealand median. In the four years since that time, however, median incomes have increased by 38 percent, recovering lost ground and now approaching New Zealand-wide levels again.

Figure 7

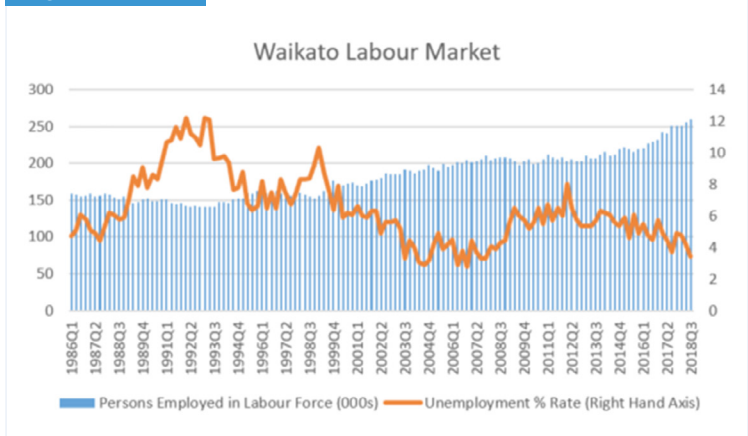
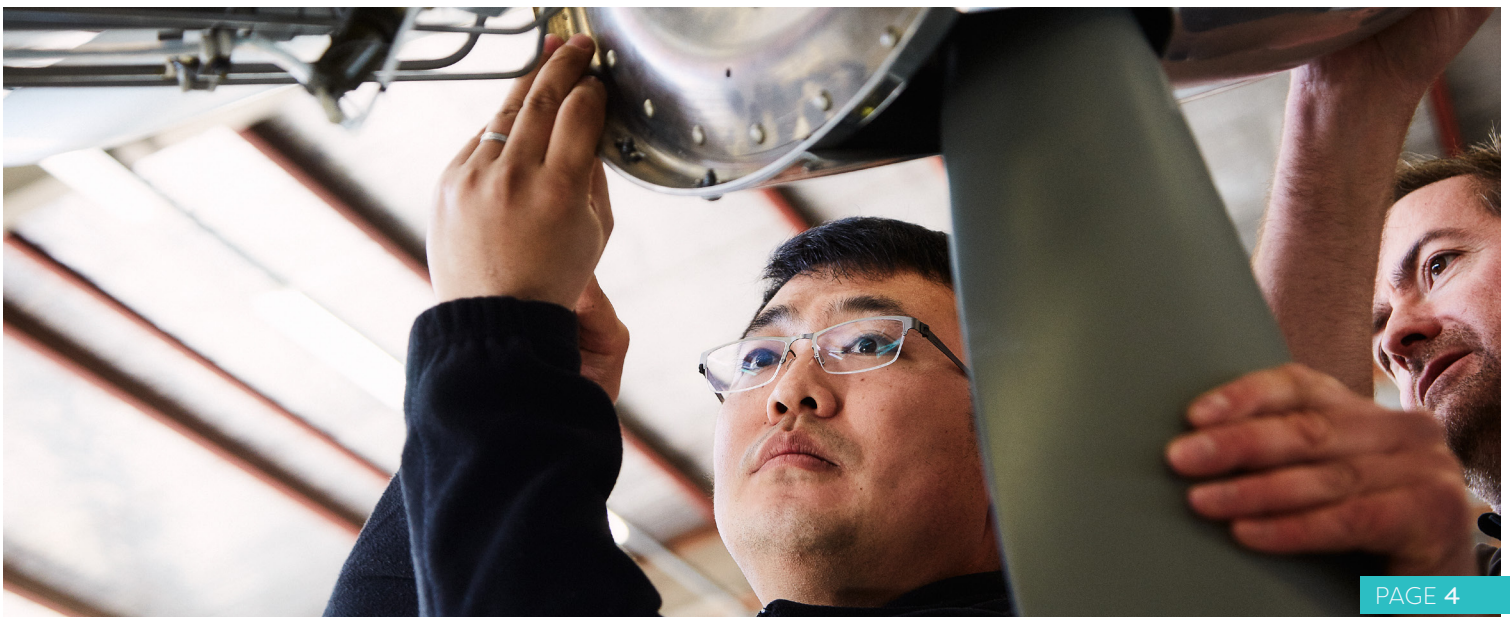
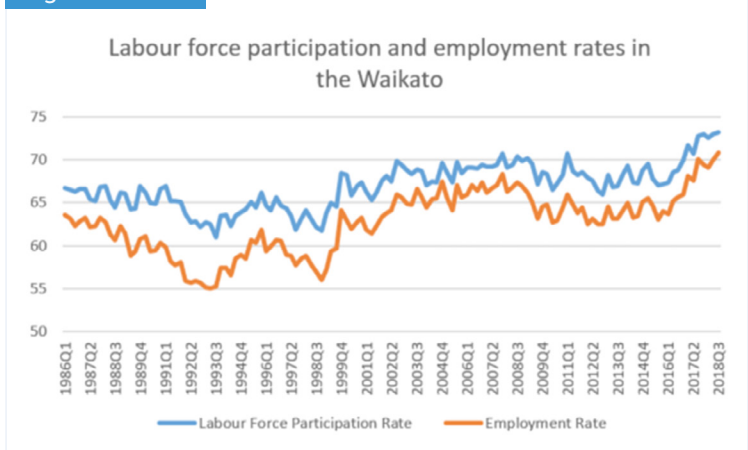


Figure 8



SUMMING UP

Looking at the headline GDP per capita data tells a fairly underwhelming story for the Waikato economy in recent times, and suggests that Te Waka and all those with a role in economic development in the region have an important job to do. But, as is now increasingly accepted – even at the Treasury – GDP tells at best only part of the story of the economy – and in the case of the published regional statistics, a rather out-of-date story at that. The labour market at least seems to be a bright spot, but the lack of productivity improvements remains a key issue for the region.

Productivity... makes a real and tangible difference, opening up whole new possibilities and options

It is certainly worth noting that the capital investment being undertaken now – particularly in infrastructure, plant and equipment, and industrial construction – has the potential to lift productivity in the region in the near future. Given that BRANZ forecasts \$12.6 billion invested in non-residential construction and infrastructure over the next five years, it would seem that the region has something to build on.

Economist Michael Reddell reflects frequently on the key, and often neglected, role that productivity plays in New Zealand's economic and social future. Earlier this year he wrote: "Productivity isn't just some abstract plaything of economists. It makes a real and tangible difference, opening up whole new possibilities and options. We need, and should be able to achieve, a whole lot more of it. Our kids deserve no less."

It's a worthwhile subject for Te Waka and the Waikato economic development community to properly focus on – not at a superficial level, but with some real understanding and wisdom. Reaching our economic goals absolutely depends on it. •

Figure 9

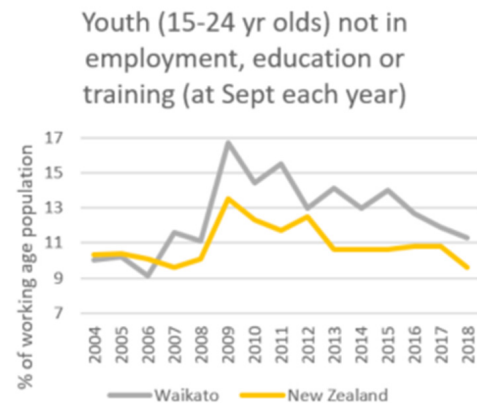


Figure 10

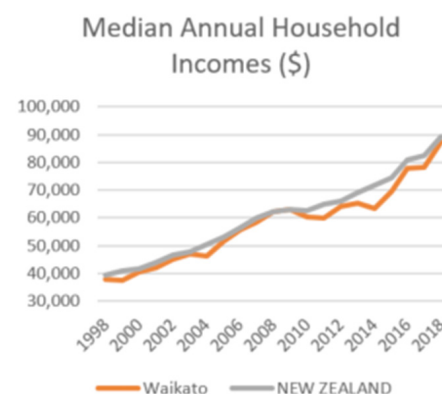


Figure 11

