

## Quarterly Economic Update Q4 : 2019



**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.

### There and back again: Hamilton to Auckland edition

**The whole is greater than the sum of the parts, according to the popular, if slightly inaccurate, translation of the ancient scholar Aristotle. It also sums up one of the key opportunities that has the potential to improve the way the economy of the Waikato region – and the upper North Island generally – functions: better integration of development within and across regional boundaries.**



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Among other things, the Hamilton-Auckland Corridor Plan represents an effort to more closely link the regional economies of Waikato and Auckland, and to co-ordinate the way development occurs on both sides of the Bombay Hills. The plan is a joint effort between central and local government and includes local iwi and the New Zealand Transport Agency. The idea is that an integrated Waikato-Auckland economy will be greater than the two regions on their own.

Auckland sits on our northern boundary and represents both a huge challenge and a huge opportunity for the Waikato region. It can be a large market for our products, and with its port and airport, it represents a link to the rest of the world. But Auckland's growth pains are well known too and one of the reasons why the city is spilling over the Bombay Hills into places in the Waikato like Pokeno. In some ways, the Waikato is like a safety valve for some of the pressures that have built up in Auckland.

### THE PLAN

A Cabinet paper describes the purpose of the Hamilton-Auckland Corridor Plan as better coordinating growth and increasing connectivity in a way that realises the area's social, economic, cultural and environmental potential. This, it says, will help ensure that:

- growth management is more agile and responsive to demand, yet clear and firm in its long-term intentions to protect key corridors, public open spaces, and sensitive locations;
- development is transit-oriented, increasing connectivity and embedding patterns of land use that support more sustainable travel choices;
- infrastructure is provided in a more responsive and timely manner, helping shape and direct growth, optimise the use of land and match capacity to future demand; and
- innovative new tools, thinking, and approaches are applied to the delivery of transformational development opportunities.

A document published earlier this year – [Hei Awarua ki te Oranga, Corridor for Wellbeing](#) – describes an 'emerging five-part growth management programme' based around three spatial areas – the Papakura-Pokeno corridor, the river communities, and the Hamilton-Waikato metropolitan area. Also, there is a focus on strengthening networks, connecting them, developing new planning, funding and financing tools.

### AGGLOMERATION AND PRODUCTIVITY

What do connectivity and integration mean in an economic context? And how might they improve our economic performance? Since the 1990s, the field of economics has

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addressed the question of why cities exist, and why some seem to grow disproportionately compared to others, through what US economist, Paul Krugman, called the 'New Economic Geography'. Professor Krugman, who won the economics Nobel partly for his work on this topic, noted that geographic patterns of development were often driven by various factors that lead to benefits of 'agglomeration'. Economies of scale, knowledge 'spillovers' across and between industries, and deep labour markets are key to enabling more productive and profitable activity. This in turn attracts more economic activity, generating further economies of scale and the like, and so on in a self-reinforcing loop. The result of this kind of process is that businesses and populations will tend to clump together in proximity to one another in cities or regions, which will not only be larger, but will also tend to have higher incomes.

If this is the case, we should expect to see higher average productivity levels in larger cities – such as Auckland. And indeed, the average level of labour productivity in Auckland is 10 percent higher than in the Waikato region. Moreover, despite starting at similar levels in 2000, labour productivity in Auckland has been growing, on average, more than twice as fast as in the Waikato.

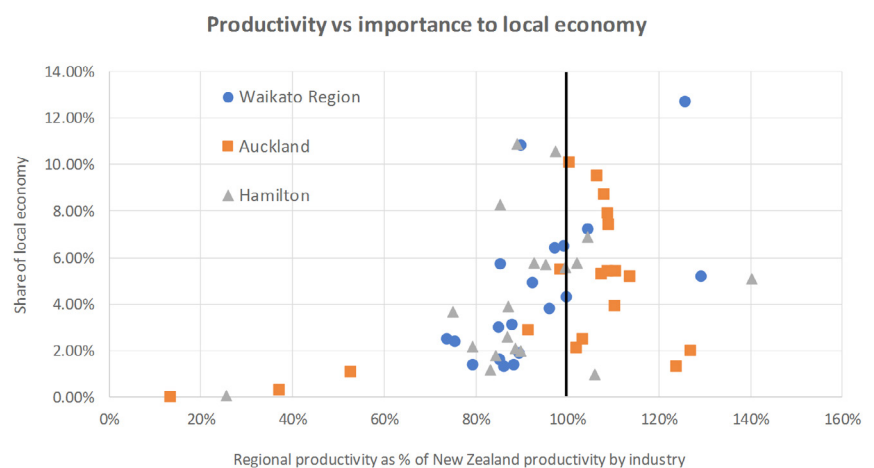
But on the other hand, as anyone who has tried to get around Auckland in rush hour knows, Auckland's growth has run ahead of the infrastructure required, resulting in congestion, and pushed housing affordability beyond the reach of many, offsetting some of the benefits of agglomeration. At some point, if a city's infrastructure and amenities don't keep up, the costs of congestion and pollution will begin to outweigh the benefits of agglomeration.

So on the face of it, if we could remove the barriers that separate Auckland and Waikato, and allow positive economic spillovers from Auckland's more productive economy to extend across its southern border, and if we could enable Auckland's growth to occur across a less constrained area (including in the Waikato region), might we see a boost in productivity in the Waikato and the relief from some of the costs that are holding Auckland back?

### PRODUCTIVITY AND THE LIMITS OF THE CORRIDOR

Of course, we cannot simply attribute differences in regional productivity entirely to differences in Auckland and

Figure 1



Source: Infometrics

Waikato's size and concentration. The different structures of the economies are important too. The Waikato has much higher productivity in some sectors such as agriculture and utilities, as a result of its endowment of rich agricultural land and the hydro schemes on the Waikato River. But, for most industries, Auckland's productivity is relatively high.

Figure 1 shows productivity by industry in both regions (plus Hamilton City), against the share of that industry in the local economy. A marker to the

right of the dark line represents a local industry whose productivity is higher than the New Zealand average. In Auckland, most industries are to the right of the line – they have relatively high productivity compared with the New Zealand average. The exception is a few industries that represent only a tiny share of the Auckland economy. The Waikato Region and Hamilton City, with a few notable exceptions, are typically to the left of the average line. If better integration resulted in the productivity gap closing – even by a fraction – the benefits to the Waikato could be significant (see Figure 2).

And yet, Auckland's productivity growth has not been particularly impressive in recent times, growing by less than one percent per year since 2000 (still better than the 0.4% annual increase in the Waikato over that period!).

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Moreover, research has shown that 'agglomeration' effects taper off quite sharply as distance increases, and there may be little benefit beyond an 80-minute journey. Of course, this is partly what the Corridor Plan is trying to address: getting the infrastructure and services in place so that an 80-minute journey gets you much further along than is currently possible.

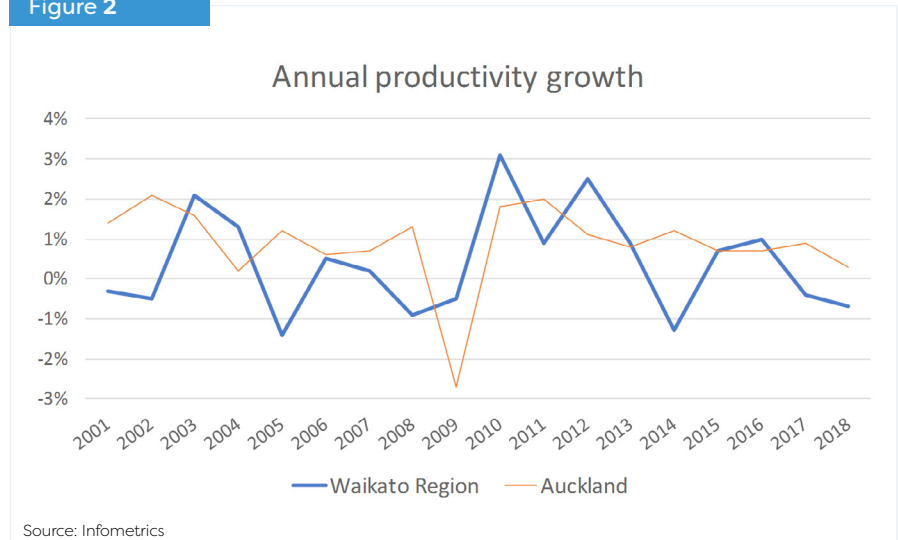
This would effectively mean that the labour pool available could be expanded for both regions as the travel barrier between the Auckland and Waikato labour markets is reduced, and the potential for agglomeration benefits to be realised.

### A FINAL WORD

Finally, as a word of caution, it is worth reminding ourselves that Aristotle's famous quote referred to at the beginning of the article is an inaccurate translation. A more correct interpretation would be "...the whole is not a mere heap, but is something other than the sum of the parts."

We do not want to simply make the same mistakes on a bigger scale. Nor

Figure 2



do we want a plan that brings a heap of consequences other than those which we had intended. Increasing the amount of economic activity will only really be beneficial if productivity increases.

Those in the Auckland and Waikato regions – and perhaps Aristotle himself – would surely be satisfied if we can improve both the whole and the parts. But in any case, if we take a sensible, well-informed approach to networks and supporting infrastructure, it

seems clear that working together for the best of both regions is a better approach than trying to outdo each other, or 'winning' at the expense of others. •

