Overview of Wellington City

Wellington City’s economy grew by 2.3% over the year to December 2014, according to Infometrics’ provisional estimate of GDP. The Capital’s economy is now 6.1% larger than its June 2012 year trough. Infometrics estimates show that Wellington City’s unemployment rate in 2014 averaged 4.9% in 2014, down from 5.7% a year earlier.

The value of electronic card spending on retail sales in Wellington City in the December quarter was up 2.0% in the December 2014 quarter from a year earlier. Underlying sales volumes are likely to have been strong, as there were decreases to fuel and some consumer goods prices during the quarter.

Confidence to spend in Wellington City has risen as employment conditions improve. Increasing activity in the tourist sector has also pushed up spending, with MBIE’s Regional Tourism indicators showing that international visitor spending in Wellington City during each month in the December 2014 quarter was on average 16% higher than a year earlier. A key driver of this rapid growth in international visitor spending has been a sharp uplift in arrivals from China, Australia, the United States, Japan, and parts of Europe.

Burgeoning service sector activity levels have been another positive for Wellington. The BNZ-BusinessNZ Performance of Services Index (PSI) highlights how strong the upturn in service sector activity is, with the PSI for the Central region (which includes Wellington City) sitting at 60.1 in January, compared with a reading of 48.6 in January 2014. A reading over 50 suggests that service sector activity is expanding.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Wellington City</th>
<th>Wellington Region</th>
<th>New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual average % change</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>↑ 2.3%</td>
<td>↑ 2.4%</td>
<td>↑ 3.2%</td>
</tr>
<tr>
<td>Traffic flow</td>
<td>↑ 1.9%</td>
<td>↑ 1.2%</td>
<td>↑ 2.8%</td>
</tr>
<tr>
<td>Residential consents</td>
<td>↓ -13%</td>
<td>↓ -1.3%</td>
<td>↑ 16%</td>
</tr>
<tr>
<td>Non-residential consents</td>
<td>↑ 47%</td>
<td>↑ 37%</td>
<td>↑ 21%</td>
</tr>
<tr>
<td>House prices*</td>
<td>↑ 1.4%</td>
<td>↑ 0.7%</td>
<td>↑ 4.9%</td>
</tr>
<tr>
<td>House sales</td>
<td>↓ -4.6%</td>
<td>↓ -5.4%</td>
<td>↓ -6.6%</td>
</tr>
<tr>
<td>Guest nights</td>
<td>↑ 2.8%</td>
<td>↑ 1.9%</td>
<td>↑ 6.2%</td>
</tr>
<tr>
<td>Retail trade*</td>
<td>↑ 2.0%</td>
<td></td>
<td>↑ 2.4%</td>
</tr>
<tr>
<td>Car registrations</td>
<td>↑ 13%</td>
<td>↑ 12%</td>
<td>↑ 21%</td>
</tr>
<tr>
<td>Commercial vehicle registrations</td>
<td>↑ 27%</td>
<td>↑ 23%</td>
<td>↑ 19%</td>
</tr>
<tr>
<td><strong>Level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4.9%</td>
<td>5.6%</td>
<td>5.7%</td>
</tr>
<tr>
<td>International net migration</td>
<td>1,383</td>
<td>1,357</td>
<td>50,920</td>
</tr>
</tbody>
</table>

* Annual percentage change (latest quarter compared to a year earlier)

Overview of national economy

Uncertainty about much of the world economy has shown up in significant drops in oil prices and long-term interest rates, and has also negatively affected the outlook for New Zealand’s growth over the next couple of years. Dairy prices have recently stabilised, but fell much faster and further than expected during 2014, which will dampen spending growth over the next couple of years. Broader international demand conditions also remain shakier than might have previously been anticipated. There is a lack of inflationary pressures both domestically and internationally, and any further rises in interest rates by the Reserve Bank are a long way off – despite evidence that the Auckland housing market is reigniting. Amid this backdrop New Zealand’s GDP growth is forecast to hold above 3.0%pa this year before slowing to 2.1% in the 2016 calendar year.
**Gross domestic product**

### Highlights for Wellington City
- GDP in Wellington City was up 2.3% for the year to December 2014 compared to a year earlier. Growth was lower than in New Zealand (3.2%) and lower than in Wellington Region (2.4%).
- GDP was $17,820 million in Wellington City for the year to December 2014 (2010 prices).
- Annual GDP growth in Wellington City peaked at 6.7% in the year to September 2007.

### National overview
The New Zealand economy grew at a healthy rate throughout 2014, with our provisional estimate of GDP showing economic growth of 3.2%pa over the year to December – the fastest year of economic growth since the Global Financial Crisis. Last year was characterised by a broad-based improvement to most parts of the economy. The external sector boomed as visitor arrivals soared and the terms of trade index (ratio of export to import prices) hit 40 year highs, while construction activity rose sharply as the Canterbury rebuild continued to gather momentum and home-building in Auckland picked up. The service sector also experienced strong growth. Substantial improvements to labour market conditions have encouraged a migration boom, which has boosted demand in the New Zealand economy and lifted our nation’s productive capacity.

### International net migration

### Highlights for Wellington City
- Wellington City experienced a permanent and long-term net migration gain of 1,383 persons in the year to December 2014. This compares with a gain of 1,111 a year ago, and a ten year average of 963 (gain).
- New Zealand's annual net migration increased to 50,920 from 22,466 a year ago.

### National overview
Annual net migration rose to 50,922 people in the 2014 calendar year, the highest net inflow on record (since 1978). The surge in net migration inflows over the past year has been due to both a lift in arrivals (up 16% from 2013) and a drop in departures (down 18%). Although net migration has been evolving roughly in line with our expectations in recent months, we see scope for net migration to keep climbing in the early stages of 2015 — with net inflows peaking at around 53,000pa. However, stabilisation to the unemployment rate in Australia, more moderate employment growth in New Zealand, and a slight easing of student arrivals following their recent surge will see overall net migration fall gradually from mid-2015.
Unemployment rate

Wellington City

New Zealand

Wellington Region

Highlights for Wellington City

• The annual average unemployment rate in Wellington City was 4.9% in December 2014, down from 5.7% a year earlier.

• The unemployment rate in Wellington City was lower that in New Zealand, where the unemployment rate averaged 5.7% over the year to December 2014.

• Over the last ten years the unemployment rate reached a peak of 6.4% in June 2013;

National overview

With the unemployment rate climbing to 5.7% in December, the labour market result looks weak. However, this weakness is far from the truth. A rapid expansion in the participation rate and strong employment growth point to a labour market that is tightening swiftly. Employment rose by a heady 1.2% in the December quarter (seasonally adjusted). This drove the seasonally adjusted employment rate up to 65.7% in the December quarter — its highest in six years. Coupled with elevated usual hours worked this high proportion of the working age population in employment indicates that spare capacity in the economy continues to dwindle. With no sign that labour demand is slowing, we expect the unemployment rate to shrink back over 2015 as employers vie for workers in a shrinking pool of available labour.

Traffic flow

Annual change in traffic flows

Wellington City

New Zealand

Wellington Region

Highlights for Wellington City

• Traffic flows in Wellington City increased by 1.9% over the year to December 2014. This compares with an increase of 2.8% in New Zealand.

National overview

Traffic flows in New Zealand over the year to December grew a healthy 2.8% from a year earlier, up from growth of 2.6% over the year to September. Growth has been relatively broad-based across New Zealand, with traffic flows rising particularly strongly in provincial areas. Record spring milk production and a sharp lift in tourist numbers, at a time when economic conditions continue to strengthen will have pushed up traffic flows in these areas. Of the main urban areas, traffic flows in Christchurch City rose strongly, while traffic flows grew below the national average in Auckland and across the Wellington region.
Residential consents

Highlights for Wellington City

- A total of 131 new residential building consents were issued in Wellington City in the December 2014 quarter, compared with 273 in the same quarter last year.
- On an annual basis the number of consents in Wellington City decreased by 13% compared with the same 12-month period a year ago. The number of consents in New Zealand increased by 16% over the same period.

National overview

Non-apartment consents remained elevated in the December quarter, sitting 11% higher than levels a year ago. Consent growth in Auckland was at its fastest pace since May 2014. However, this result sits well below our expectations — despite targets in the Auckland Housing Accord being exceeded for the amount of land made available. When comparing the December quarter to a year earlier, the growth in non-apartment consents continues to be urban-centric. All seven out of the 16 regions to experience a decline in dwelling consents over the period were those with a stronger reliance on agricultural activity for economic growth. Given the lower dairy payout, we expect attitudes towards new house building in farming communities to be more cautious over the year ahead. Nevertheless, low interest rates, elevated migration inflows, and lower levels of unemployment, should ensure that consent numbers nationally rise.

Non-residential consents

Highlights for Wellington City

- Non-residential building consents to the value of $335 million were issued in Wellington City during the year to December 2014.
- The value of consents increased by 47% over the year to December 2014. By comparison the value of consents in New Zealand increased by 21% over the same period.
- Over the last 10 years, consents in Wellington City reached a peak of $393 million in the year to September 2009.

National overview

For the December quarter, commercial building consents came in above forecast, with factory consents particularly strong. This strong results above were partly offset by relatively weak figures for hospital and education consents. Major projects remain in the pipeline for both these building types, but the timing of consents coming through can sometimes be difficult to pinpoint. We expect overall non-residential consents to consolidate a little below current levels during the first half of 2015, but with growth accelerating again later in the year as urban property markets tighten up and rebuilding work in Canterbury increases.
House prices

**Highlights for Wellington City**

- The median house price in Wellington City was up 1.4% in December 2014 compared with a year earlier. Growth underperformed relative to New Zealand, where prices increased by 4.9%.
- The median house price was $515,750 in Wellington City in the December 2014 quarter. This compares with $476,350 in New Zealand.

**National overview**

At 4.9%pa, annual house price inflation in December was at its slowest since August 2012, but recent monthly changes suggest the market is starting to pick up again heading into 2015. The recent signs of improvement are due in no small part to the Auckland market. The six areas with the fastest house price inflation over the last year are all located in the Auckland region. Around most of the rest of the country, the housing market remains relatively subdued. Price growth in Christchurch is at a three-year low, as the effects of the earthquakes on the market begin to wear off. With strong population growth and low mortgage rates, we expect the Auckland housing market to continue accelerating throughout 2015. However, a better balance between demand and supply is likely to limit any pick-up in growth around the rest of the country.

**House sales**

**Highlights for Wellington City**

- House sales in Wellington City in the year to December 2014 decreased by 4.6% compared with the previous year. Growth outperformed relative to New Zealand, where sales decreased by 6.6%.
- A total of 2,781 houses were sold in Wellington City in the 12 months ended December 2014. This compares with the ten year average of 3,099.

**National overview**

House sales surged upwards in December. Driving this lift was another double-digit increase in Auckland house sales, which was topped off by a sharp uptick in sales in Wellington region. December quarter house sales were up from a year earlier in every region across the country. With strong migrant numbers and home-buyers now better prepared to make the 20% deposit often required for new mortgages, sales activity is expected to continue trending upwards over the year ahead. Even so, we expect that the housing market in provincial regions will remain relatively subdued as lower agricultural export revenues dampen demand. Furthermore, there are risks that the housing market will once again come under the Reserve Bank’s hammer, with the Bank announcing potential further constraints on property investors.
Car registrations

### Highlights for Wellington City
- The number of cars registered in Wellington City increased by 13% in the year to December 2014 compared with the previous 12 months. Growth was lower than in New Zealand, where car sales increased by 21%.
- A total of 8,988 cars were registered in Wellington City in the year to December 2014. This compares with the ten year average of 8,005.

### National overview
Total car sales in 2014 were 21% above their 2013 level, with both new car sales and first-time registrations of used imports climbing at healthy rates. Downward pressure on car prices remains evident in data from the consumers price index. According to the CPI, the price of new cars in the December 2014 quarter was 1.8% below its 2013 level. With job prospects continuing to improve and low interest rates prevailing, there is likely to be enough momentum to push car sales slightly above their current levels over the coming months. However, given that economic confidence indicators have moderated over recent months and many households have already taken the opportunity to replace aging vehicles over the past couple of years, we see little scope for substantial growth in car sales during 2015.

### Commercial vehicle registrations

### Highlights for Wellington City
- The number of commercial vehicles registered in Wellington City increased by 27% in the year to December 2014 compared with the previous 12 months. Growth was higher than in New Zealand, where commercial vehicle sales increased by 19%.
- A total of 1,334 commercial vehicles were registered in Wellington City in the year to December 2014. This is higher than the ten year annual average of 978.

### National overview
Strong sales growth across all types of commercial vehicles in December capped off a stellar year for the commercial vehicle market. Strengthening economic conditions have given many businesses the confidence to expand and upgrade their fleets, while many more have taken advantage of the New Zealand dollar’s strength to lock in cheaper prices on imported vehicles. But despite recent sales strength, we anticipate that 2015 will be a more challenging year for commercial vehicle salesmen. Sales volumes are likely to plateau as lower dairy and forestry prices weaken confidence in some sectors, while a gradual depreciation of the New Zealand dollar (particularly against the US dollar) will stem downward pressure on prices. Nevertheless, robust domestic demand and rising construction activity will minimise the extent of any declines.
Guest nights

Highlights for Wellington City

- Total guest nights in Wellington City increased by 2.8% in the year to December 2014. This compares with an increase of 6.2% in New Zealand.
- Visitors stayed a total of 2,142,436 nights in Wellington City during the year to December 2014, which was up from 2,083,142 a year ago.

National overview

Guest nights in the December 2014 year were up 5.8% on their 2013 level, with domestic guest nights rising by 5.7% and those by international visitors increasing by 5.9%. Improving economic and labour market conditions have boosted New Zealanders’ confidence to spend on travel. Moreover, in 2014 there were 2.86 million international visitors to New Zealand, a record annual total and up 5.1% on 2013. Arrivals from China are growing particularly strongly. Tourism from China is being stimulated by a sharp lift in direct air capacity to China, as well as an increasing number of independent travellers. Arrivals from North America and Europe recovered significantly during 2014, while arrivals from Australia continue to grow. We expect the recent tumble in jet fuel prices, and depreciation of the New Zealand dollar, to provide the tourism sector with a further boost in 2015.

Retail trade

Highlights for Wellington City

- Electronic card retail spending in Wellington City, as measured by Marketview, increased by 2.0% in the December 2014 quarter compared to the same quarter in 2013. This compares with an increase of 2.4% in New Zealand.

The switch to Marketview data has provided a more accurate basis for the measurement of retail sales at a Wellington City level but the current reporting configuration does not provide data at a regional level.

National overview

Relative to December 2013, the value of retail spending in the December 2014 quarter was up 2.4% from a year earlier, according to Data from Marketview. Decomposing the retail market at a national level using Statistics New Zealand’s Retail Trade Survey indicates that sales growth was relatively widely spread across most sectors, with only the volume of supermarket sales displaying downward pressure as households spent more on food and beverage purchases. Retail spending is expected to rise at a healthy rate during the next year. However, the concentration of the increase in retail sales in Auckland and Christchurch — both areas experiencing a large temporary surge of growth in population and economic activity — indicates that there is a downside risk to this outlook if economic growth in these regions tapers off more quickly than we currently expect.
Technical notes

Gross Domestic Product

Gross Domestic Product is estimated by Infometrics. A top down approach breaks national industrial production (sourced from production based GDP measures published by Statistics New Zealand) is broken down to TA level by applying TA shares to the national total. Each TA’s share of industry output is based on earnings data from LEED. GDP growth in recent quarters is based on a model which uses the various partial economic indicators presented in this report as inputs.

Net migration

Net migration is the difference between the number of arrivals and departures of permanent and long-term migrants. Data is sourced from International Travel and Migration statistics from Statistics New Zealand.

Unemployment

Regional level unemployment rates are sourced from Statistics New Zealand’s Household Labour Force Survey. Trends in the number of job seekers at TA level are used to break down regional unemployment rates to TA level. To reduce volatility the unemployment rate is presented as an average for the last four quarters.

Traffic flow

Traffic flow growth rates are calculated from the number of vehicles passing approximately 110 sites monitored by New Zealand Transport Agency. Each of the sites has been mapped to a territorial authority.

Retail Sales

The retail spending data is sourced from Marketview. It measures total electronic card spending using spending through the Paymark network and adding to it an estimate of non-Paymark network spending using the pattern of BNZ card holder spending at non-Paymark retailers. For further breakdown of the data by storetype and other variables contact Marketview.

Accommodation

The number of guest nights is sourced from Statistics New Zealand’s Accommodation Survey. A guest night is equivalent to one guest spending one night at an establishment. For example, a motel with 15 guests spending two nights would report that they had provided 30 guest nights.

House sales

The number of house sales is sourced from REINZ. The indicator measures the number of house sales at the point when the sale becomes unconditional. The unconditional date is the date when all the terms of an agreement have been satisfied and the sale and purchase can proceed to settlement.

House prices

House price levels (dollar value) are sourced from QVNZ. We report on the average of the median sale prices for the past 12 months. The percentage growth in house prices is also sourced from Quotable Value. The indicator measures the change in the average prices of sales entered into QV’s system in the three month period compared with the same period of the previous year.

Building consents

Building consents data are sourced from Statistics New Zealand. Non-residential consents include the value of both new buildings and alterations.

Vehicle sales

Car and commercial vehicle sales data are sourced from New Zealand Transport Authority. Sales are based on new registrations which include the first time registration of new vehicles and used vehicles imported from overseas.