



Quarterly Economic Monitor

Wellington City December 2013

Overview of Wellington City

Economic activity in Wellington City grew by 1.8% in the year to December 2013. The capital has experienced moderate growth over the past year driven mostly by the knowledge intensive industries which are responding to rising demand from a rapidly expanding national economy. However, Wellington City's growth has been slower than growth in the national economy and most of the economic indicators we follow grew at a level below the national average.

Wellington City's labour market is strengthening with the unemployment rate dropping to 6.8% from 7.3% a year ago. The improving labour market is making Wellington City an increasingly attractive place to live, with the level of annual net migration increasing to 1,111 from 243 a year ago.

The growing population is boosting demand for accommodation. House prices rose by 3.3% over the year to December and the number of residential consents has surged. There were 273 new house consents issued in the December quarter compared with 117 a year ago. Non-residential construction is also set to expand rapidly with the total value of consents increasing by 19% over the year to December.

Indicator	Wellington City	Wellington	New Zealand
<i>Annual average % change</i>			
Gross domestic product	↑ 1.8%	↑ 2.6%	↑ 2.7%
Traffic flow	↓ -0.7%	↓ -0.6%	↑ 2.0%
Residential consents	↑ 24.4%	↑ 27.4%	↑ 25.8%
Non-residential consents	↑ 19.4%	↑ 10.6%	↑ 5.5%
House prices	↑ 3.3%	↑ 2.9%	↑ 10.0%
House sales	↑ 0.8%	↑ 4.9%	↑ 7.9%
Guest nights	↑ 3.1%	↑ 3.2%	↑ 3.9%
Retail trade	↑ 3.6%	↑ 1.0%	↑ 3.4%
Car registrations	↑ 4.4%	↑ 9.6%	↑ 15.7%
Commercial vehicle registrations	↑ 36.2%	↑ 32.5%	↑ 32.7%
<i>Level</i>			
Unemployment rate (annual average)	↑ 6.8%	↑ 6.3%	↑ 6.0%
International net migration	↑ 1,111	↑ 78	↑ 22,466

Overview of national economy

Economic activity accelerated rapidly through the second half of 2013, thanks to a strong export performance, massive amounts of rebuilding work in Canterbury, and a broad-based strengthening to a range of other economic indicators. In this environment, not only is business confidence rising, but households' willingness to spend and invest is increasing amid improving labour market conditions. The global economic outlook, particularly for the US and the UK, is also looking up, while the outlook for Chinese demand for our export products remains bright. High net migration and growing private investment will underpin a lift in New Zealand's potential output, but capacity constraints will become more of a problem over the next couple of years - forcing the Reserve Bank to lift the official cash rate substantially in 2014.

Gross domestic product

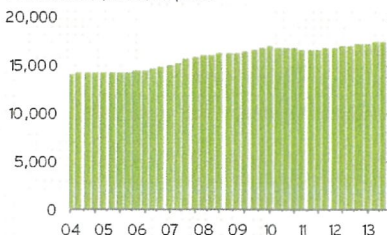
Gross domestic product growth

Year to Dec 2013 annual average % change



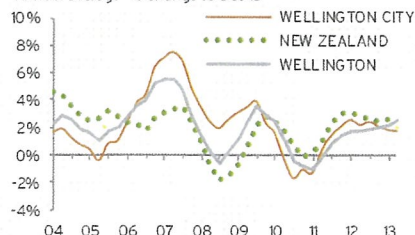
Gross domestic product

Annual GDP, \$m 95/96 prices



Economic growth

Annual average % change to Dec 13



Highlights for Wellington City

- GDP in Wellington City increased by 1.8% in the year to December 2013. Growth was lower than in New Zealand (2.7%) and lower than in Wellington (2.6%).
- GDP was \$17,520 million in Wellington City during the year to December 2013 (2010 prices).
- Annual GDP growth in Wellington City peaked at 7.6% in the year to December 2007.

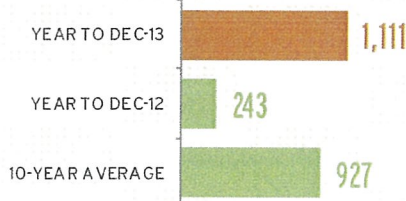
National overview

Economic activity in New Zealand picked up considerably over the second half of 2013, with GDP over the December year rising 2.7% above its 2012 level. Not only was agricultural production in recovery mode following the drought, but rising demand from the construction industry helped to boost manufacturing activity. There was also a broad-based improvement to a variety of other business and household indicators, while Fonterra's milk price forecast has hit record levels. In this environment of good export returns and rising domestic demand, the Reserve Bank has clearly communicated that the official cash rate will rise significantly during 2014.

International migration

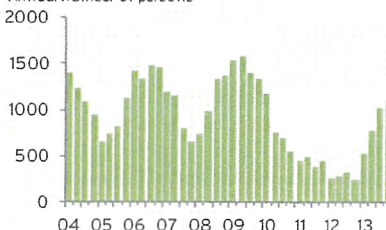
Net migration

Number of persons



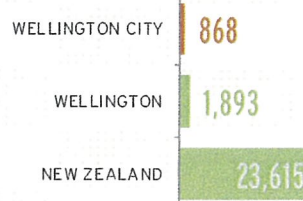
Net migration

Annual number of persons



Annual change in net migration

Absolute annual change Dec 12 - Dec 13



Highlights for Wellington City

- Wellington City experienced permanent and long-term net migration of 1,111 persons during the year to December 2013. This compares with 243 a year ago and a 10-year average of 927.
- At the national level annual net migration increased to 22,466 from -1,149 a year ago.

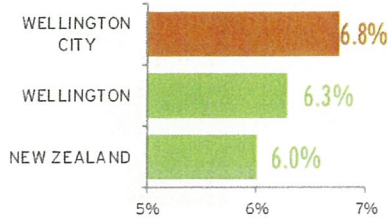
National overview

Annual net migration rose to 22,466 people in December. Although departure numbers remain slightly lower than we had anticipated, the main surprise is the large number of arrivals - with seasonally adjusted monthly arrivals hitting their highest level since February 2003. On both the arrival and departure side, changes in migration flows to Australia remained the main driver of changes in net migration. In the December quarter, lower permanent departures to Australia accounted for 95% of the total drop in departures from a year earlier. Furthermore, rising New Zealand and Australian citizen arrivals accounted for over half of the increase in arrivals.

Unemployment

Unemployment rate

Annual average rate, December 2013 quarter



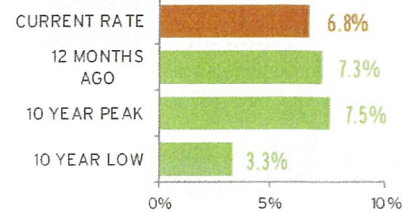
Unemployment rate

Average annual rate, 10 years to Dec 13



Unemployment rate

Average annual rate



Highlights for Wellington City

- The annual average unemployment rate in Wellington City was 6.8% in December 2013 down from 7.3% twelve months prior.
- The rate in Wellington City was higher than in the national economy (6.0%) in December 2013.
- The unemployment rate peaked at 7.5% in June 2013.

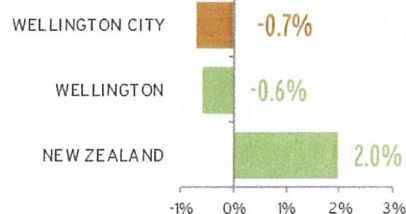
National overview

The unemployment rate fell to 6.0% in the December quarter, the lowest rate since June 2009. Employment rose by a sizable 1.1% this quarter, adding to the 1.2% increase in September. A mixture of rising construction related employment (in manufacturing, construction, and professional services) and a sharp lift in employment in the retail sector was behind the sizable increase in total employment during the second half of the year. The strength of labour market data during the second half of 2013 was stronger than our already bullish expectations, and is likely to persist through 2014.

Traffic flows

Annual change in traffic flows

Annual % change Dec 12 - Dec 13



Highlights for Wellington City

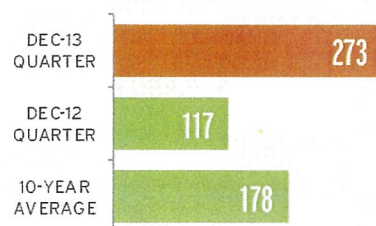
- During the year to December 2013 traffic flows in Wellington City decreased by 0.7%. This compares with an increase of 2% in the national economy.

National overview

Our traffic flows index shows that traffic activity continued to rise at a moderate pace in the December quarter, rising by 2.3% from a year earlier, taking annual growth over the December year to 2.0%. These rising levels of traffic activity are consistent with the strengthening we have seen to primary production, construction activity, and economic conditions more generally. Growth in traffic flows continues to be strongest in Canterbury, while traffic activity in regions such as Waikato and Southland also picked up significantly in the December quarter. Wellington City is the only major centre to have experienced declining traffic flows.

Residential consents

Number of new dwelling consents



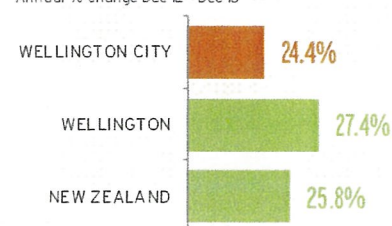
Number of new dwelling consents

Quarterly number, 10 years to Dec 13



Annual change in new dwelling consents

Annual % change Dec 12 - Dec 13



Highlights for Wellington City

- A total of 273 new residential building consents were issued in Wellington City during the December 2013 quarter, compared with 117 in the same quarter last year.
- On an annual basis the number of consents in Wellington City increased by 24.4% compared with the same 12-month period a year ago. The number of consents in the national economy increased by 25.8% over the same period.

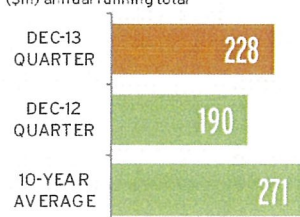
National overview

The number of non-apartment dwelling consents in December was at its highest monthly level since April 2008. In the December quarter, consent numbers in Canterbury were up a massive 60% from a year earlier, reflecting the ongoing acceleration in the Canterbury rebuild. Non-apartment building activity in Auckland has stalled in recent months, falling in seasonally adjusted terms during the December quarter, but still remains 26% above its December 2013 level. With the rebuild underway, house prices and net migration elevated, consumer confidence buoyant, and credit conditions improving in the building sector, further increases in consent numbers are expected during 2014.

Non-residential consents

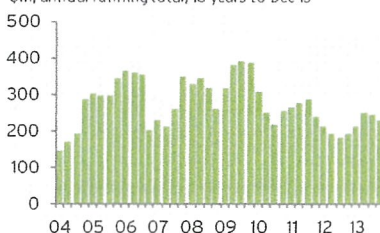
Non-residential consents

(\$m) annual running total



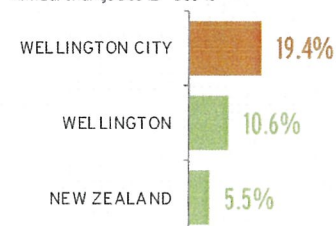
Non residential consents

\$m, annual running total, 10 years to Dec 13



Non-residential consents

Annual change Dec 12 - Dec 13



Highlights for Wellington City

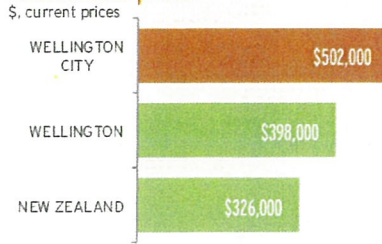
- Non-residential building consents to the value of \$228 million were issued in Wellington City during the year to December 2013.
- The value of consents increased by 19.4% over the year to December 2013. By comparison the value of consents in the national economy increased by 5.5% over the same period.
- Over the past 10 years consents peaked at \$393 million in the year to September 2009.

National overview

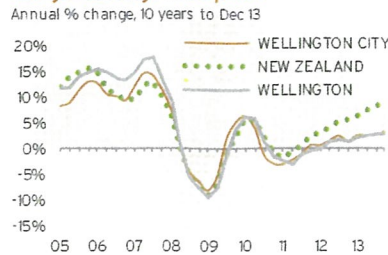
The value of non-residential building consents in the December quarter rose 12% from a year earlier. Hospital consents rose strongly, largely due to the Burwood Hospital redevelopment in Christchurch. Education building consents also continue to gain momentum - unsurprisingly, Christchurch has been responsible for the biggest share of these consents, with other major areas of activity in Hamilton, the old Auckland City, and Rotorua. Commercial and miscellaneous building work both had stronger results than we had forecast in the December quarter. Even so, the value of commercial consents was still down 17% from the December 2012 quarter.

House prices

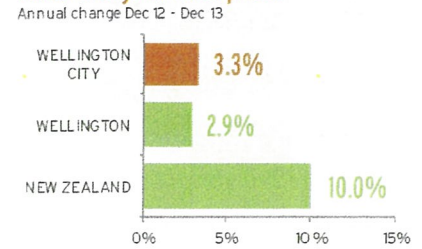
Median house prices



Change in average house prices



Annual change in house prices



Highlights for Wellington City

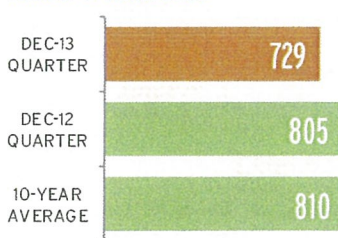
- The average house price in Wellington City increased by 3.3% in the year to December 2013 compared with the previous 12 months.
- Wellington City's annual average house price was \$502,000 in the year to December 2013, which was higher than the average for the Wellington region (\$398,000), and higher than for New Zealand (\$326,000).

National overview

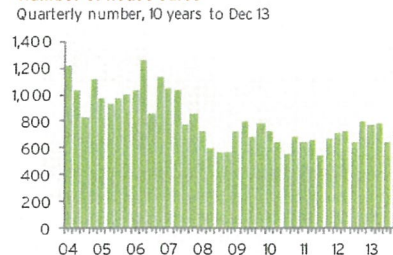
House prices rose by 10% in December 2013 (from a year earlier). This was the greatest increase in house prices since December 2007 and was largely attributable to strong house price inflation in Auckland and Christchurch. Although house price inflation in Auckland and Christchurch has been well documented, growth in house prices in other key urban areas such as Hamilton, Wellington and Dunedin has also picked up to a moderate level. Outside of the main centres, areas experiencing strong house price inflation were Waikato District, New Plymouth and North-East Hamilton.

House sales

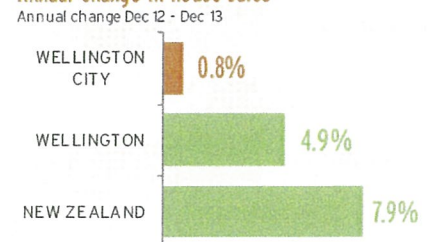
Number of house sales



Number of house sales



Annual change in house sales



Highlights for Wellington City

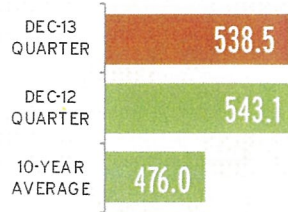
- House sales in Wellington City in the year to December 2013 increased by 0.8% compared with the previous year. Growth was lower than in New Zealand (7.9%).
- A total of 729 houses were sold in Wellington City during the December 2013 quarter. Over the past ten years an average of 810 houses were sold each quarter.

National overview

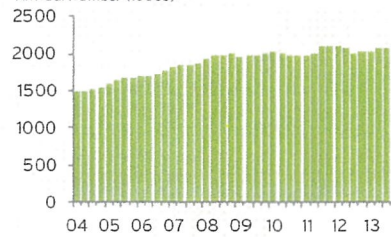
House sales activity continued to soften in December, with sales dipping 3.6% from November levels to a new six-month low. For the December quarter, only four out of 12 regions recorded a lift in sales compared to the end of 2012, with the key Auckland market recording its first three-month annual decline in sales since February 2011. The drop-off in house sales volumes is most likely to be related to the loan-to-value restrictions introduced by the Reserve Bank in October last year, but it is difficult to be categorical about the effects from the data.

Guest nights

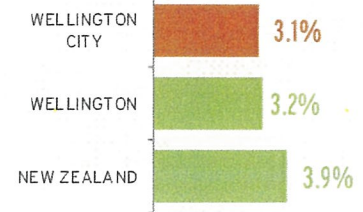
Guest nights
Number (1000s)



Number of guest nights
Annual number (1000s)



Annual change in guest nights
Annual change Dec 12 - Dec 13



Highlights for Wellington City

- Total guest nights in Wellington City increased by 3.1% during the year to December 2013 compared with the previous 12 months. The change in Wellington City was lower than in the Wellington region (3.2%) and lower than in the country as a whole (3.9%).
- Visitors stayed 538,500 guest nights in Wellington City during the December 2013 quarter. This accounted for 74.5% of total guest nights in the Wellington region, and 6.2% of the national total.

National overview

Growth in guest nights over the year to December picked up to 3.9%. This acceleration was driven by a 7.3% surge in guest nights by international visitors, while domestic guest nights were up a more modest 2.0%. Rising international guest nights is consistent with the broad-based increase to arrivals from the US, Europe, Australian, China, and other parts of Asia. Visitors from the US and Europe typically stay for longer than other visitors, which has put further pressure on guest nights. Domestic guest nights have risen as households become increasingly willing to spend on discretionary items such as travel.

Retail sales

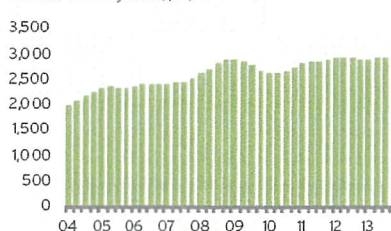
Growth in retail sales

Annual change Dec 12 - Dec 13



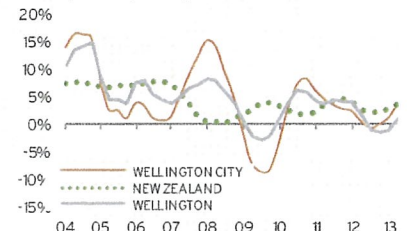
Retail sales

Annual running total (\$m)



Retail sales

Annual percentage change



Highlights for Wellington City

- In the year to December 2013 annual retail spending in Wellington City increased by 3.6% compared to the previous 12 months. Its growth was higher than in the Wellington region (1%) and higher than in New Zealand (3.4%).
- Core retail sales measured \$2,980 million in Wellington City during the year to December 2013.

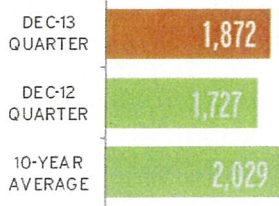
National overview

On the face of it, a 0.7% (seasonally adjusted) increase in core retail sales volumes in the December quarter is a strong result – and was in line with expectations for the quarter. However, the increase was largely payback for weak sales in the clothing and fuel sectors in the previous quarter. The key reason for weakness in December was spending on durable goods, which has come under downward pressure as loan-to-value restrictions are limiting demand for big-ticket items. Nevertheless, with unemployment falling and sentiment among consumers bright, we still expect to see a solid lift in retail sales activity during 2014.

Cars

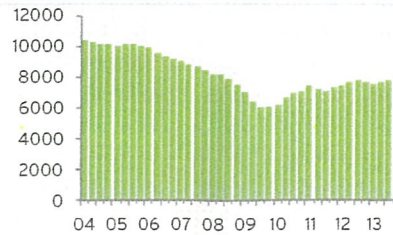
Car registrations

Number (1000s)



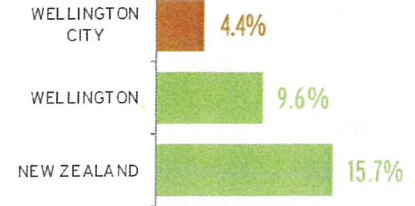
Car registrations

Annual number (1000s)



Annual change in car registrations

Annual change Dec 12 - Dec 13



Highlights for Wellington City

- The number of cars registered in Wellington City increased by 4.4% in the year to December 2013 compared with the previous 12 months. Growth was lower than in the Wellington region (9.6%) and lower than in New Zealand (15.7%).
- A total of 1,872 cars were registered in Wellington City in the December 2013 quarter. This compares with a 10-year average of 2,029.

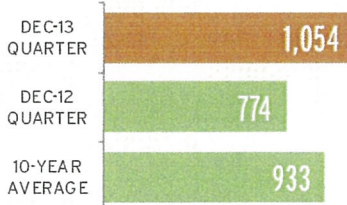
National overview

Vehicle registrations continued rising rapidly over the closing stages of 2013. In the December quarter new car sales climbed 12% from a year earlier, while first-time registrations of used imports (up 20%) also surged ahead. Demand is being driven by a combination of favourable vehicle prices, as well as a rapidly improving labour market and business conditions. Our modelling suggests that an increased willingness to scrap older vehicles, coupled with stable car ownership rates and higher levels of household formation, will continue to push up underlying car demand during 2014.

Commercial vehicles

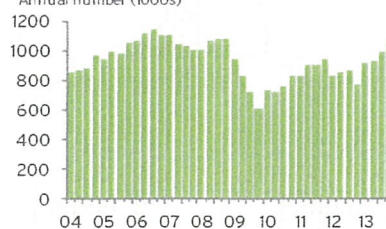
Commercial vehicle registrations

Number (1000s)



Commercial vehicle registrations

Annual number (1000s)



Annual change in commercial registrations

Annual change Dec 12 - Dec 13



Highlights for Wellington City

- The number of commercial vehicles registered in Wellington City increased by 36.2% in the year to December 2013 compared with the previous 12 months. Growth was higher than in the Wellington region (32.5%) and higher than in New Zealand (32.7%).
- A total of 1,054 commercial vehicles were registered in Wellington City in the December 2013 quarter. This compares with a 10-year average of 933.

National overview

Commercial vehicles sales rose rapidly over the closing stages of 2013. Confidence to embark on fleet upgrades is high, as the outlook for key users of road transportation has improved. Milk production is soaring, the effect of the drought on sheep numbers was smaller than expected, and forestry volumes are at record levels. Furthermore, growth in construction activity is beginning to spill over outside of Auckland and Canterbury, and the outlook for wholesale and retail trade is also looking up. At the same time, commercial vehicles prices remain favourable, with heavy commercial vehicles prices averaging 5.8% less in 2013 than in 2012.

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 beneficiaries

The number of unemployment beneficiaries is sourced from Ministry of Social Development (MSD).

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

Retail sales are sourced from Statistics New Zealand's Retail Trade Survey. The estimates are core retail sales ie they exclude automotive. The Retail Trade Survey sample was changed in April 2010 which caused a break in the regional series. We have removed the break using econometric time series software, however this decreases the reliability of the data.

Accommodation

The number of guest nights is sourced from Statistics New Zealand's Accommodation Survey.

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 REINZ. The levels are based on median sale prices for the month when the sale and purchase becomes unconditional. We present an average for the last 12 months. REINZ publish house prices and number of sales for about 170 jurisdictions which are a mixture of suburbs, territorial authorities and regions. Infometrics have mapped each suburb to a territorial authority and estimated the average price for each territorial authority using the number of sales as weights. The *percentage growth* in house prices are 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.

Electricity Consumption

Electricity consumption data are sourced from the Electricity Commission. Data is published by approximately 220 grid exit points (GXPs). Each GXP has been mapped to a TA.

Vehicle sales

Car and commercial vehicle sales data are sourced from New Zealand Transport Authority.