

Region
well-placed
to ride the
technology wave

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regional view

I am delighted to present the first edition of *Regional Outlook*, the Wellington Regional Council's new publication on the regional economy. This is our response to requests from the regional community, both the public and private sectors, for co-ordinated information on the region's economy.

Regional Outlook presents the good news that the Wellington region's economy has expanded steadily over the last two years, despite facing some challenges. Of course, we all know that statistics don't give us the full picture. So to give you a more colourful view, *Regional Outlook* also has some articles about some of the companies or sectors thriving in the regional economy.

The aerial photo of the Wellington region which graces the cover reminds me of the wonderful diversity of this region we call home. From the high-rise buildings and café culture of downtown Wellington City, to light industry and retail in the Hutt Valley and Porirua, to the important farming and horticulture activities in Wairarapa, this diversity gives us our strength as a region. Wellington City people enjoy heading over to Wairarapa to visit its vineyards and rugged coastline; the farmers and foresters of Wairarapa rely on good transport links including CentrePort and Wellington International Airport, to export their goods to New Zealand and the world; the Kapiti Coast is envied for its good weather and quieter pace of life.

Over my ten years as Chairman of the Wellington Regional Council, I have noticed many changes in the region's economy. New and exciting industries have sprung up or grown – film, forestry, tourism,

viticulture, e-commerce, animal pharmaceuticals, call centres – to name only a few of the ways we are branching out. The region's more traditional industries, such as government and financial services, manufacturing and farming still play an important role in the region too. Many of these industries have adapted to a changing environment and made a positive choice to stay here, recognising the many advantages this region has to offer. Whilst I can't claim to be unbiased, I have always thought the Wellington region was a great place to live and to do business. I'm glad that others think so too.

There are a number of organisations which are active in promoting and developing the Wellington region's industries. Many of the local success stories are due in no small part to their work. The Regional Council has been asked to take a more active role in economic development in the region, working alongside the other players – but currently our legislation prohibits us from doing this, although we believe that this is wrong. However, we are pleased that we can play a part by providing information on the regional economy. A sound knowledge base seems like a good place to start further economic development and promotion.

I hope you enjoy reading this publication and that it will prove to be a valuable resource.



Stuart Macaskill
Chairman



executive summary

The Wellington region's economy has expanded steadily over the last two years with relatively strong growth in the transport, communications, business services, tourism and building sectors. The regional economy performed well over 1998/99 compared to a dull national performance. A lack of dependence on exports and Te Papa's pull in attracting tourists to the region, as well as continued strong growth in telecommunications, produced regional growth close to 3% compared to a slight (-0.6%) fall in output nationally.

Over the current year ending March 2000, regional growth is estimated to be just over 3% and thus close to national economic growth, expected to be about 3.5%. This creditable growth performance has been achieved despite a significant downsizing of local operations particularly in the finance sector.

The Wellington region is well-positioned to capture some of the benefits from the so-called technological revolution that has swept the United States and is now having an effect in Europe and, to some extent, Japan. A strong base in education, research, information technology and associated business services, along with appropriate communications infrastructure and a well-educated population, will enable the region's businesses and workforce to participate in some of the faster growing areas of economic activity.

The solid growth in tourism over the past two years (a driving force in the region's growth recently) is unlikely to be repeated but the region should sustain the higher level of visitor arrivals. The region has a relatively slow rate of population growth meaning it will struggle to match the pace of economic growth nationally. Ongoing rationalisation of the financial services sector will also adversely affect growth over the next two years.

the outlook for the Wellington region

The overall outlook is for the Wellington region's economy to grow over the next two to three years, although at a slightly slower pace than the rest of the country. However, this overall description hides some promising structural change in the economy.

The Wellington region has a number of competitive advantages. These include:

- a highly qualified population
- well-developed education and research sectors
- efficient transport and communications networks
- a relatively wealthy population, on average.

These advantages should allow Wellington to seize opportunities in the fast growing "knowledge" industry. The business services area (in particular information technology) and the communications sector are expected to be beneficiaries of the growing demand for innovative solutions and value-adding information services, offset to some extent by the possible transfer of some consulting business into the public service. The education and research areas are also likely to benefit from promised increases in government funding.

The information-oriented parts of the regional economy are expected to grow faster than the national average because of the highly qualified, experienced workforce and sound infrastructure. Joining the "knowledge" businesses at the top of the market will be some fledgling sectors such as multimedia and film. These young industries have been heavily promoted in recent years and the size of the world market means there is clear potential for expansion.

In other sectors, growth will more likely be on a par with the rest of the country. This is the case in the tourism, manufacturing and primary production industries. There will be exceptions, but overall these industries do not radically differ from those in other regions. Government departments may increase their contribution to the region's economy as more staff are hired, but it seems likely that the gains from any expansion of the public service will be spread across the country, given the government's commitment to regional development.

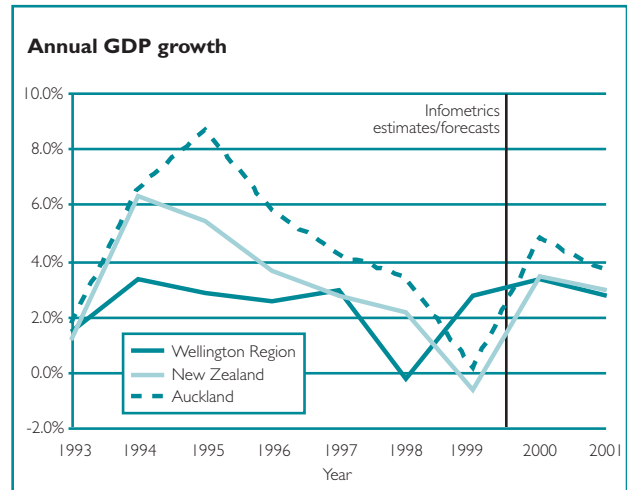
Finally, some sectors will do worse than the national average. The financial services sector is one example, with continued centralisation expected to see banks and insurance companies based increasingly in Auckland or offshore. These sectors have been large employers in the region in the past and their absence will be felt.

The Wellington region may also suffer from some perceived weaknesses, including:

- insufficient population growth (at least compared to the national average)
- a limited international airport
- weak entrepreneurial activity.

Overall, the region is expected to grow steadily, but at a marginally slower pace than the national economy in the short term. In the medium-term, the ideas culture seen to be developing in the region will change the structure of the economy and push its performance back towards that of New Zealand as a whole, although low population growth, should it continue, will limit the extent of growth.

Forecast Growth in the Wellington region



Source: Infometrics estimates/forecasts based on Statistics NZ Annual Business Directory Update and National GDP data

the region *in context*

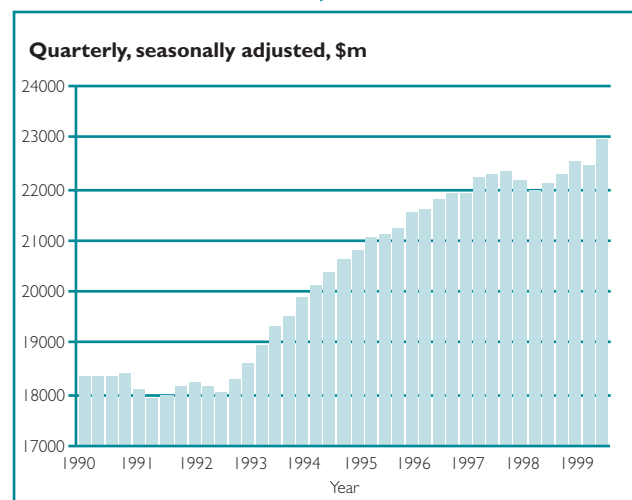
The Wellington region's economy is relatively sheltered from the international environment because of the small share of production that is exported. However, the growing importance of tourism in the region does make international economic prospects important and the Wairarapa district is largely dependent on exports of agricultural products and some manufactured goods.

The outlook for the global economy is good with trading partner growth likely to rise to around 3% this year. Growth in Asia is likely to be back at around the levels last seen in the mid-1990s.

The Wellington region's prospects are also conditioned by what happens in the New Zealand economy. The key developments in the national economy that underpin the regional outlook include:

- Economic growth of around 3% per annum
- Faster export growth due to a sustained lower currency and buoyant world demand
- Inflation of between 1% and 2.5% per annum.

Gross Domestic Product, NZ



Source: Statistics NZ National Accounts, September 1999

- Rising short-term interest rates as the rate of economic growth and inflation increases – 90-day bill interest rates will peak at about 7% in 2001
- A change of emphasis in government policy, but with little immediate impact on economic performance.

the Wellington *regional economy*

The Region's Share of the National Economy

The Wellington region accounted for an estimated 13% of national production in the year to March 1999, putting it on a par with Canterbury, but below Auckland. The Wellington region is the most productive of the main centres – its 13% of national production is generated with only 11% of the national population, making it marginally more efficient than Auckland.

Economic Growth in the Region

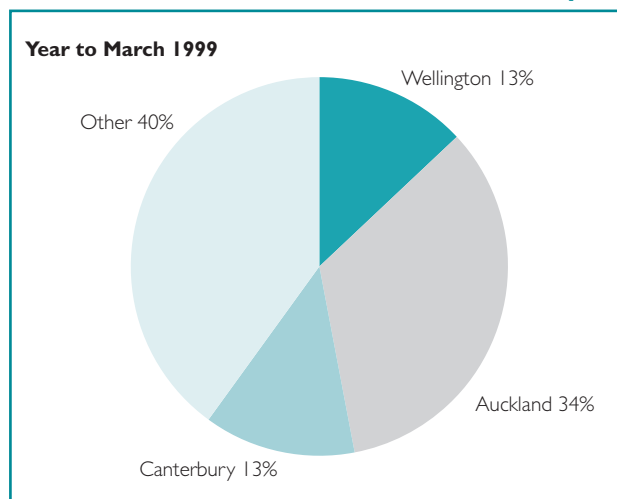
Over the last decade, economic growth in the Wellington region has generally been slower than the national average (although official employment growth was higher for a time, suggesting a shift to lower-value-added industries). Major negative influences on the region's economic growth have been the restructuring of the government and financial sectors, although the loss of some manufacturing businesses to Auckland at the beginning of the decade also played a part.

From the mid 1980s through the 1990s, Wellington, as the seat of government, was affected by public sector reform involving a reduction in staff for core departments and the sale to the private sector of many departments deemed “non-core”.

From the early 1990s, Wellington (especially Wellington City) reinvented itself. Former public servants used their expertise to move into private consulting roles, while a lively arts and café culture sprang up. Despite a steady economic recovery, the region as a whole was unable to match the hectic pace of expansion that prevailed, for instance, in the Auckland region. Wellington received less of a boost from immigration than Auckland. Wellington was also under-represented, compared to Auckland, in the fast-growing manufacturing industry.

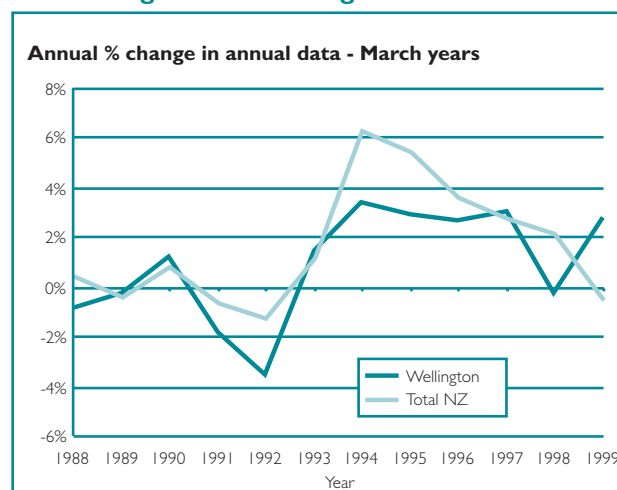
As the 1990s drew to a close, Wellington found itself assailed by another round of restructuring, this time primarily in the private sector. In particular, increased international competition in the financial services arena led to a round of mergers and rationalisation which reduced the presence of banks and insurance providers in the region. Partly as a result, there was no economic growth in

Estimated share of the New Zealand economy



Source: Infometrics estimates, March quarter 1999

Real GDP growth in the region



Source: Infometrics estimates/forecasts based on Statistics NZ National GDP and Annual Business Directory Update data

Wellington over the year to March 1998 and economic growth also appeared to falter for a time in mid-1999.

On a more positive note, the region outperformed the rest of the country (2.8% growth compared to -0.6%) in the year to March 1999 because of:

- its lack of dependence on the export sector, sheltering it from the worst effects of the Asian financial crises over 1997/98 (although some parts of the region are more exposed than others)
- significant growth in the communications and business services industries.

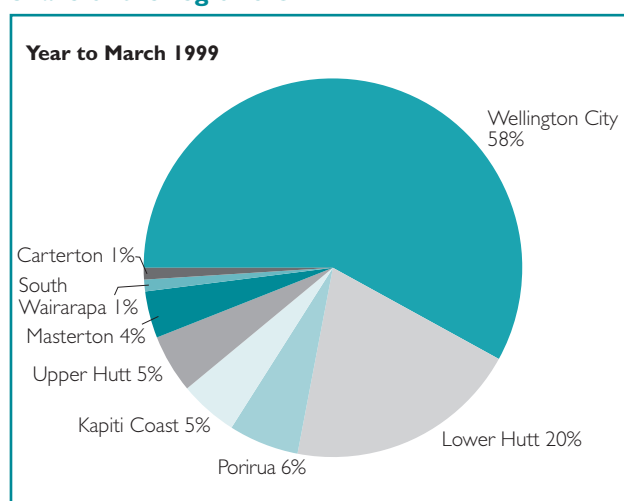
the local economies

of the Wellington region

The strengths of the Wellington region's economy have traditionally been the business and financial services industry and government activity. This is a reflection of the dominant role that Wellington City plays in the economy of the entire region. However, there are seven other local authorities within the region (eight if one counts a very small portion of the Tararua District), each of which has its own distinctive local economy.

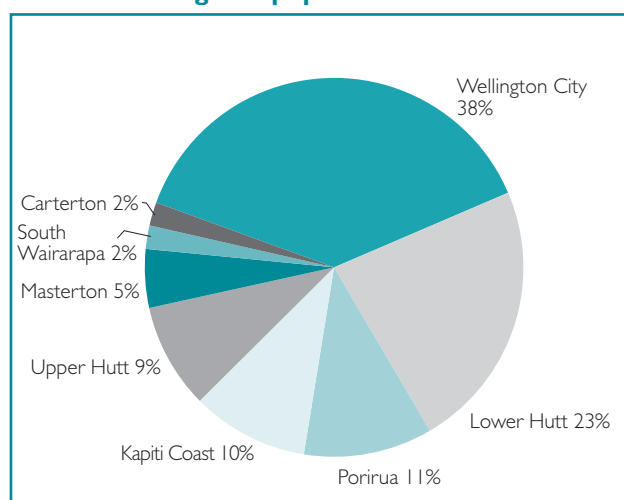
In this section we look at the key features of these local economies.

Share of the region's GDP



Source: Infometrics estimates based on Statistics NZ National GDP and Annual Business Directory Update data

Share of the region's population



Source: Statistics NZ Population Estimates, June 1999

Note: The estimates of economic growth (calculations of GDP share and movements) and population growth for local economies in this section, are indicative only. Official data at sub-regional level is less robust than regional data because of the small population base. Therefore, this data may not match locally sourced information. Local economic development agencies or city and district councils can be a good source of other information on local economies.

Wellington City

Wellington City accounts for three-fifths of the region's economy and is the main employment centre for the region. The city's official population is only two-fifths of the region's, highlighting the fact that many of those who work in the capital commute from other parts of the region.

The city economy is characterised by:

- many business service providers, including consultants, lawyers, IT professionals, accountants and public relations companies
- the finance industry (banks and insurance companies)
- the head offices of government departments
- professional or industry organisations (including lobby groups and labour unions)
- growing entertainment and tourism sectors.

Estimates of the city's production suggest that it rose 3.6% over the year to March 1999, propelled by the transport and communications sector, growth in employment in call-centres, and activity in the thriving niche film sector.

Growth did appear to wane temporarily, however, in the middle of 1999. The sale of the state-owned ECNZ and the scaling down of some bank and insurance operations were among the major factors at work here. Job growth has since recovered, with a 3% rise the September quarter of 1999.

The population in Wellington City rose 0.6% in the year to June 1999 – faster than in any other part of the region except the Kapiti Coast District.

Further information on the Wellington City economy may be obtained from the Wellington City Council's Capital Commerce publication, Issue 4. This is available from <http://www.wcc.govt.nz>.

Wellington's film industry thrives in Regional Parks

The Tribe, which screens on TV4 on Tuesday nights, is one of many television and film productions to use Wellington Regional Council's regional parks and forests as locations. In Belmont Regional Park recently, knights on horseback were seen doing battle during filming for Palana Productions' *Dark Knight*, due for release on TV in Europe later this year.

The Tribe has also been released overseas and is gaining a world-wide following. It's set in the near future, though not in any particular place. Peter Tonks, location manager for Cloud 9 in Lower Hutt, currently filming *The Tribe* says the shoot in Kaitoke was a departure from the normal locations. "We're usually more often looking for abandoned and run-down places, so it doesn't portray Wellington in a wonderful light," he admits, but then adds: "Until we get into the bush of course! Kaitoke's a beautiful place."

WRC's manager of regional parks, Susan Edwards, says she is delighted that the regional park network is used in this way. "Not all the productions are films... some are commercials. For example, in the past 18 months there have been Lotto and American Bank ads featuring Queen Elizabeth Park, and the New Zealand Army's television advertising campaign included scenes in Kaitoke. Fortunately it didn't look like a war zone once they'd finished!"

Film School for City

Wellington's rapid rise as a centre of film production has received a further boost – the Wellington City Council approved in December 1999 a \$300,000 loan to set up a Film and TV School in the City.

The school is essential if Wellington's film production dream run is to outlive Peter Jackson's *Lord of the Rings* project. Although Wellington is attracting more film crews there is a perception overseas that Wellington cannot provide enough film crews. A big part of creating the right conditions for mainstream film production to flourish in Wellington will be providing those crews.

Wellington City Council says *The Tribe*, *Dark Knight*, *The Irrefutable Truth About Demons*, *Stickmen* and *The Lord of the Rings* have all contributed to raising Wellington's share of New Zealand's film production from 20% two years ago to 43% today. In dollar terms, that translates to \$379 million compared with \$43.7 million two years ago.

Lower Hutt City

Lower Hutt City accounts for around a fifth of the region's production and is the second biggest population centre in the region.

The economy of Lower Hutt is characterised by:

- manufacturing businesses – Lower Hutt is the only part of the region where manufacturing's share of the economy is above the national average
- a burgeoning transport and communications sector – it is home to TransAlta and many road distribution companies, and a New Zealand Post distribution centre
- a fledgling IT industry, especially software production, and some research institutions.

Growth estimates suggest that the city's economy grew 2.4% over the year to March 1999. Additional communications and business service activity more than offset a decline in the important manufacturing sector. Nationally, a low exchange rate and relaxed interest rates have since seen a resurgence of manufacturing activity.

The city's population has been relatively static over the previous decade and the official Statistics NZ estimate is that there was a small decline of around 0.3% (300 people) in the year to June 1999.

Further information is contained in the publication *Hutt City Outlook*, available from Hutt City Council.



Wairarapa

Wairarapa (comprising Masterton District, South Wairarapa District and Carterton District) contributes around 6% of the region's production. It is a predominantly rural region, although the provincial centre of Masterton is home to all major urban services.

Agriculture and forestry are the most important industries in Wairarapa. Sheep farms are the biggest agricultural employers, although there are also dairy and beef farms. In the forestry sector, just under half of the standing pinus radiata forest is less than five years old and will not be mature until after 2020.

There are some manufacturing businesses in Wairarapa, particularly around the Carterton District. Among the largest are the Juken Nissho Laminated Veneer Lumber plant and Harvest Electronics, which electronically monitors soft drink vending machines around the world.

Grape growing and wine-making is the core of a small horticultural sector in the Wairarapa, particularly around Martinborough.

Economic production in Wairarapa is estimated to have contracted by 5% over the year to March 1999. A tough year for farmers (lower product prices and drought) combined with a downturn in manufacturing (demand for exported New Zealand wood products dipped, for example) to produce the lower result.

The population of Wairarapa is estimated to have fallen by 1.1% over the year to June 1999.

Porirua City

Porirua City is responsible for approximately 6% of the region's production. Its economy is characterised by community, social and personal service providers, which generate 30% of total production. Kenepuru Hospital, the growing Whitireia Polytechnic and some government operations are part of this sector.

There is a substantial number of manufacturing businesses in Porirua, though restructuring (including the downscaling of Mitsubishi's manufacturing operations) means that production in this industry has declined.

Retail trade is assuming a growing role in the local economy with recent shopping centre developments. Statistics NZ figures show that retail turnover in Porirua has grown faster than the national average since the middle of 1998 and that market share in the Wellington region has risen.

Property and business service providers are growing in importance in Porirua and now employ more people than manufacturing, and almost as many as retail trade.

The Porirua economy is estimated to have grown by 0.1% over the year to March 1999, with the increase in retail business just offsetting lower manufacturing output.

The population of Porirua has been static or shrinking for some years according to official Statistics NZ estimates, with a 0.2% fall in the year to June 1999. Any decline is partly a reflection of the extreme diversity in socio-economic status existing in the region. Population in wealthy areas, such as Whitby and Plimmerton has risen substantially, while population in low income areas such as Porirua East has fallen sharply.

Kapiti Coast District

The Kapiti Coast contributes 5% of the region's output. Its main industries are:

- retail trade and hospitality, reflecting the district's status as a shopping and holiday destination
- agriculture and horticulture (much of the district, particularly to the north, is rural)
- construction, reflecting house building to accommodate rapid increases in population over recent history.

The Kapiti Coast was the fastest growing area in the region over the four years to March 1999, although some factory closures later in 1999 may have affected growth in the north of the district. In any case, its status as a relatively under-developed district (because of its rural/recreational history), combined with recent increases in population, has attracted traditional urban businesses for the first time, hence the district has grown rapidly off a small base. Estimated economic growth in the year to March 1999 was 2.4%. Population growth was 1.7%.

The Kapiti Coast has the oldest population in the region and is home to many retirees, either in their own homes or retirement villages.

Golf weekend attracts big crowds for Kapiti

January's New Zealand Golf Open attracted over 40,000 people to Kapiti Coast and injected up to \$3 million into the local economy, says Kapiti Coast District Council.

Council Tourism Manager Alison Lowes says the golf open is a wonderful event and resulted in a very big weekend for Kapiti. The event has been successfully held at Paraparaumu Beach Golf Course a number of times.

"At this stage we can only guess at figures for the weekend, but in 1996 \$2.5 million was pumped into the economy and we are picking that the latest event was bigger again."

Totally Wellington is researching the event to determine what effect it had for Kapiti; the information should be available before the end of February.

Ms Lowes says other attractions and conferences brought many more people to the Coast.

"We are hoping the Totally Wellington study will tell us why they came to the Coast, what they did here, and whether or not they stayed on in the region after their event."

One of the more exciting aspects of the golf was the international television coverage which ensured tens of millions of people saw the event world wide – positive publicity which could greatly increase the numbers of visitors to the Coast and the region, says Ms Lowes.



Upper Hutt City

Upper Hutt contributes 5% of the region's production. Sited on the border between rural Wairarapa and metropolitan Lower Hutt, this city has a mix of industries:

- education – the Central Institute of Technology is situated in the city
- research – AgResearch has a major presence in the area
- defence – the Trentham army camp is in Upper Hutt
- IT – EDS is the city's largest employer
- manufacturing – South Pacific Tyres is one of the city's biggest manufacturers, and animal vaccine manufacturing is also a large industry
- food wholesaling – Foodstuffs has a base in the city
- forestry and farming – the Upper Hutt area has significant forestry assets and some "lifestyle" farming.

The Upper Hutt economy grew by an estimated 1.4% over the year to March 1999, due partly to the expansion of the Trentham army camp and the downstream effects on retailers and other businesses. The army camp is now home to logistics, planning and maintenance units, marking a change from its traditional role in training soldiers. This shift to higher value-added activities has provided a greater level of income in Upper Hutt. Rising house prices also boosted the local economy. In addition Upper Hutt Economic Development Agency estimates that 20% of the world's sheep and cattle vaccines are produced in Upper Hutt.

Statistics NZ estimates that the population shrank 0.3% over the year to June 1999, continuing a medium-term trend.

There is clearly potential within Upper Hutt to participate in the development of a "knowledge economy", due to the proximity of research and educational facilities. The city also stands to benefit from additional government funding promised in these areas.

the people

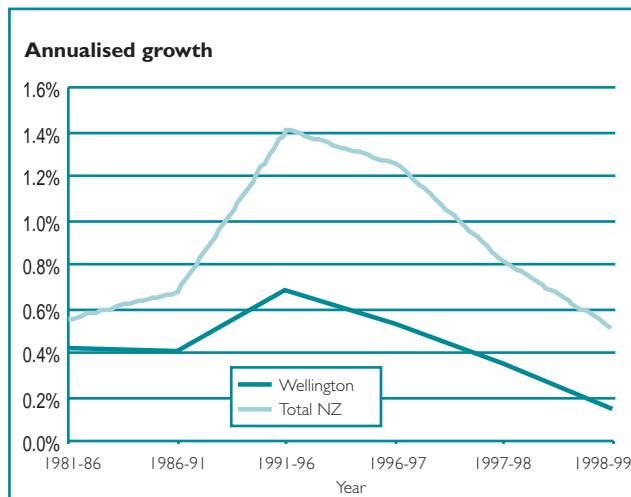
population and employment

Population movements

Wellington region's population as at June 1999 was 429,300 which is 11% of New Zealand's total population. Only the Auckland and Canterbury regions have more people.

However, migration out of the region means that Wellington's position is slipping – its annual population growth rate has been lower than New Zealand's for the last twenty years. In the year to June 1999, the region's population grew only 0.1%, with a net loss of population in all areas except the Kapiti Coast (+1.7%) and Wellington City (+0.6%). This particularly low figure may reflect a bad year for employment in the region.

Population



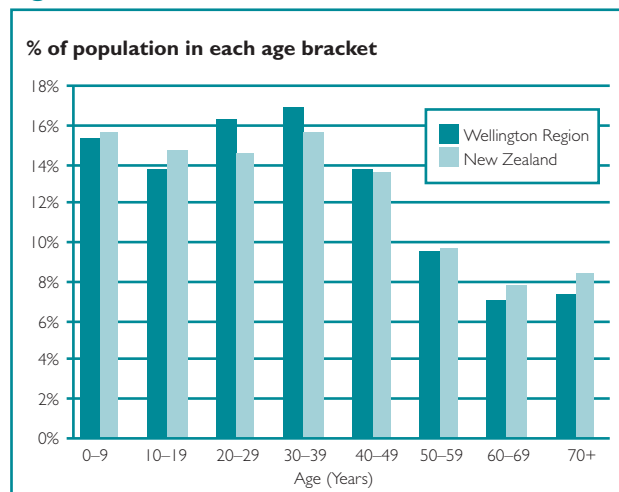
Source: Statistics NZ Population Estimates, June 1999, Census data and Infometrics calculations

Age and Ethnicity

The Wellington region has a larger percentage of working-age people in the population than most centres, and in particular it has more 20- to 40-year olds. This is typical of major centres – Auckland is similar – and reflects the region's importance as an employment centre.

There are exceptions. The Kapiti Coast District, for example, has a much older population. However, Kapiti Coast's population is relatively small and so it does not have a significant effect on the overall regional age structure.

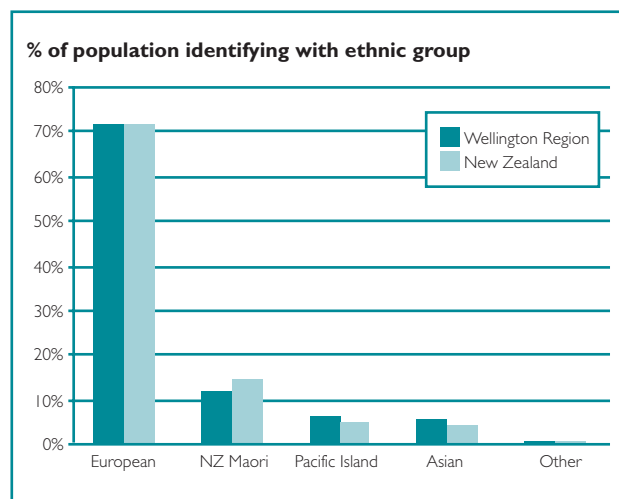
Age structure



Source: Statistics NZ Census Data 1996

The ethnic mix in the Wellington region is similar to the rest of the country but with a slightly lower representation of Maori and a slightly higher representation of other minorities. Wellington City is home to a substantial Asian population, while Porirua City has a large resident Pacific Island population.

Ethnic mix



Source: Statistics NZ Census Data 1996

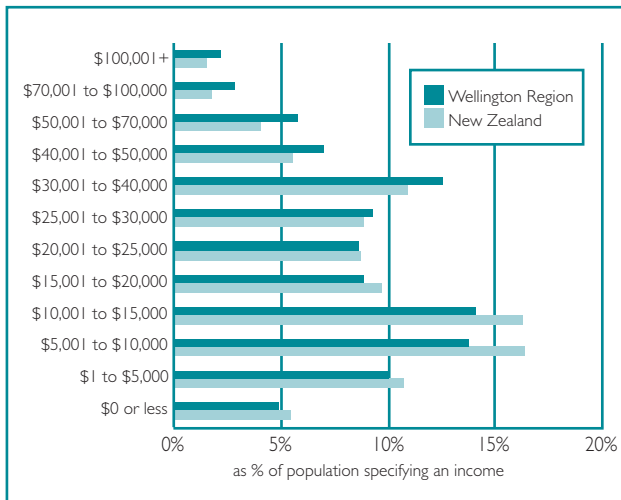
Income

Residents of the Wellington region have the highest median personal incomes in New Zealand (as at 1996, for males \$25,480 and for females \$14,359). Both men and women are over-represented, relative to the national average, in income brackets above \$25,000 per year and under-represented in income brackets below that.

High incomes reflect the prevalence of skilled service-sector jobs. This is particularly the case in Wellington City, although since many city workers live in other parts of the region, high incomes are widespread.

High incomes also reflect the highest level of educational qualifications in the country. The average level of educational qualifications in the region is the highest in the country, although highly qualified individuals are concentrated in Wellington City, Lower Hutt and Upper Hutt. Outside these areas, qualification levels are about average for New Zealand.

Income distribution



Source: Statistics NZ Census Data 1996

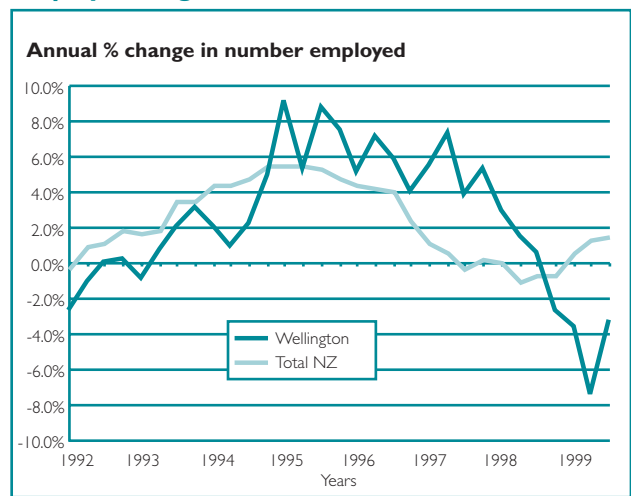
There are disparities in income across the region. Wellington City households have the highest incomes, while rural parts of the region, especially Wairarapa and Kapiti Coast, have a considerably greater percentage of households in the lowest income categories (household income of less than \$15,000 per year). Although Porirua City households have high incomes on average, there is a large gap between the incomes of residents in the more affluent northern suburbs and the lower income southern suburbs. These divergences tend to reflect occupational and labour market status.¹

The labour market

The Wellington region generated more employment growth on average through the mid-1990s than the rest of the country. A growing entertainment sector and more tourists were providing the new positions. But as jobs in these industries are not as productive² as those in the traditional finance or government industries, economic output did not benefit to the same extent.

Over the year to September 1999, the Wellington region lost some jobs. Although the region overall was largely insulated from the direct effects of the Asian financial crisis and the drought that afflicted many parts of the country, the region lost a number of corporate organisations, or parts of them, over this period.

Employment growth

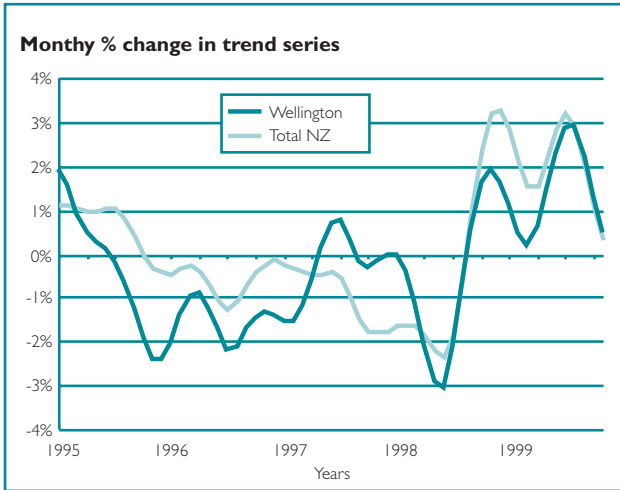


Source: Statistics NZ House-hold Labour Force Survey

The good news is that job growth resumed from the end of 1999, and is expected to continue over the short term. Judging by the number of job advertisements in the newspapers, Wellington region job growth is marginally higher than job growth in the rest of the country. The generation of new jobs in Wellington City (in activities such as call centres), combined with a better economic environment for primary producers and manufacturing exporters in the other parts of the region, has stemmed employment losses.

1 Wellington Regional Council (1999), *In Focus: A Snapshot of the Wellington Region*.
 2 Productivity is defined as output per employee.

Number of job advertisements

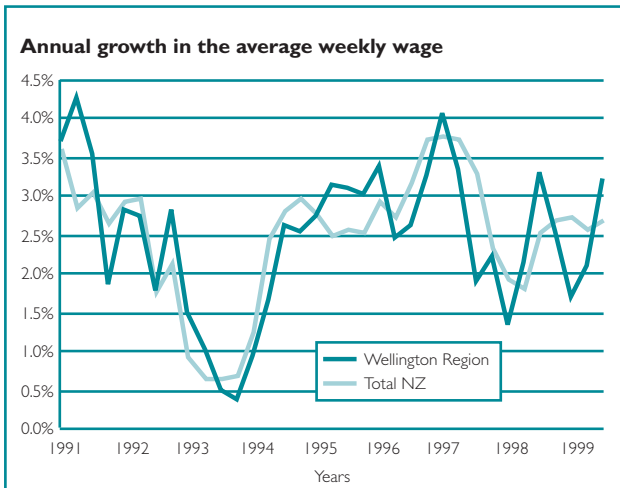


Source: ANZ Bank

Wage growth has to some extent mirrored employment growth in the Wellington region. Wages have generally risen at about the same pace in Wellington as in the rest of the country, but the fall in employment noted over the year to June 1999, temporarily reduced the rate of increase of wages. The wage figures need to be interpreted with care as they can change simply as people switch from one occupation to another, but the dip in the rate of increase of wages is consistent with the reduced bargaining power that high unemployment brings.

With a recovery in job growth at the end of 1999, wages are now going through a period of “catch-up”.

Wage growth



Source: Statistics NZ Quarterly Employment Survey

Upper Hutt attracts new business

Upper Hutt City is building on its reputation as a processing centre following the successful leasing of office space to computing and project management firm EDS.

Upper Hutt Economic Development Agency chief executive Michael Baines says EDS had leased the office area of the former Holden building for a two and a half-year period.

EDS has the contract to convert Land Information New Zealand’s paper based information service to a digital computer based system – a process that is employing 250 people.

“EDS is our biggest employer with between 650 and 700 employees at three different sites in Upper Hutt. They do everything from cheque processing to sorting out student loans.”

Mr Baines says that Upper Hutt has always had a strong production and manufacturing base with companies like Foodstuffs, General Motors and South Pacific Tyres.

“Upper Hutt offers a well educated population with high home ownership – the kind of stable environment that appeals to organisations that need to hire a lot of staff.”

He says the city’s reputation for low rates and providing for business once they establish themselves here is proving invaluable in attracting new business.

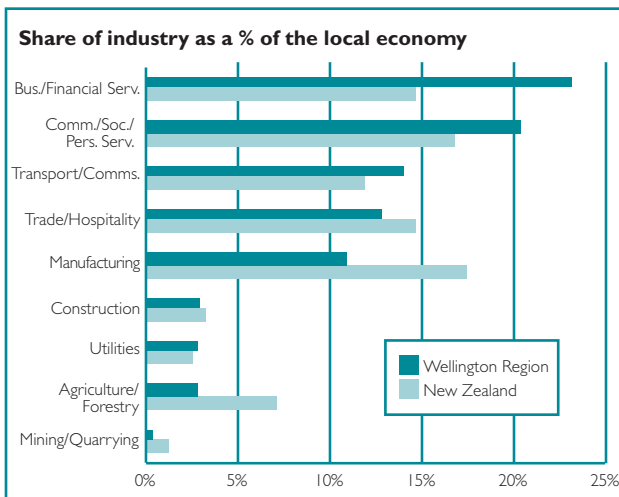


important industries

in the Wellington region

The biggest contributors to the Wellington region's economy are financial and business services, government, health, education, transport and communications. These activities are all more important to the regional economy than the national economy. Tourism is a growing source of income for the region, but still does not contribute as high a percentage of production to the region as it does to the rest of New Zealand. For cities and districts other than Wellington City, manufacturing, agriculture and forestry assume greater importance, although they are not significant at a regional level.

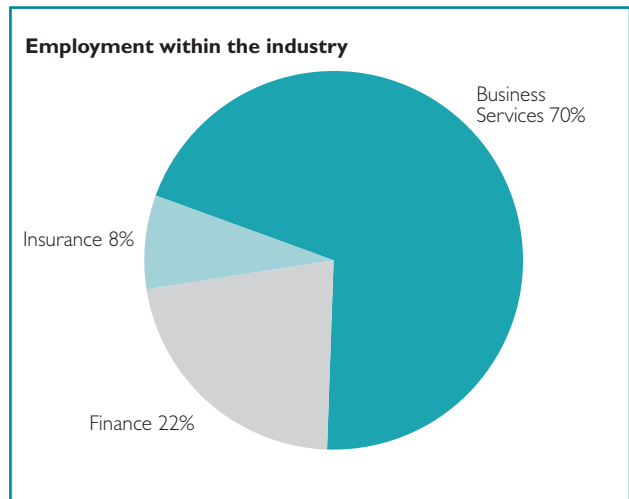
Industries in the Wellington region



Source: Infometrics estimates based on Statistics NZ National GDP and Annual Business Directory Update data

Business and Financial Services

Business/Financial Services in the region



Source: Statistics NZ Annual Business Directory Update 1999

The business and financial services industry is the Wellington region's most important in economic terms. Three-quarters of production in this industry takes place in Wellington City, with a further 13% in Lower Hutt.

The business services sector gives the region a hold in the "knowledge economy", with its consultants, IT professionals, lawyers and management accountants. With these groups, and a strong academic and research presence in the region (see section on community, social and personal services), there is capacity to develop and market new and innovative ideas. This sector is able to take advantage of the highly educated Wellington workforce.

In the finance and insurance sector, Wellington has traditionally been the head office for major trading banks and insurance companies.

Trends

Over the past decade, the contribution of the business and financial services sector to Wellington's total economic production has essentially remained static, even though its contribution to employment has increased. The value of production from Wellington business and financial service providers has increased by less than one percent a year, after adjusting for inflation, since the late 1980s. This implies low productivity growth (a phenomenon also apparent at national level).³

³ There is some controversy about the way productivity is measured in service industries. Using official employment and output data may understate productivity.

Employment growth in this sector has been slower in Wellington than in New Zealand as a whole, at least partly due to rationalisation in the banking and insurance sectors. Some banks and insurance companies have moved parts of their organisation to Auckland, or been merged into other organisations. These changes gathered pace in 1998 and 1999, driven by the need to reduce costs and remain competitive, but they now appear to be slowing.

The business services portion of the sector has seen more significant growth over the last decade, pushed along by government sector downsizing which swelled the ranks of experienced and qualified professionals. Private consulting firms have proliferated in the areas of public relations, economic and business advice, and (latterly) information technology. The legal and accounting professions have also strengthened by moving into the consulting area.

In addition, data from Invest-Wellington Region⁴ points to an increase in call-centre activity. They estimate 500 new jobs were created in this area over 1999, although those jobs may appear in sectors other than business services in official employment data.⁵ The Inland Revenue Department, ACC and WestpacTrust have all established increased call-centre presences in the last year. Against this trend, Lower Hutt power retailer TransAlta has decided to shift its call-centre from the region to Christchurch.

Prospects

Prospects for business service providers are positive. The productivity revolution that has occurred in the United States since the middle of the 1990s has been built on innovation, particularly in the field of information technology. Not surprisingly, companies that produce the ideas behind this innovation have been very successful (for example Microsoft).

Accepting that competitive pressures will necessitate continued productivity improvements and therefore make such knowledge-intensive businesses more important, it might be expected that these businesses will expand faster than the rest of the economy. As well as a large core of existing “knowledge” businesses, Wellington also has the skilled population to establish more of them. The growing cluster of computer software producers in Wellington City and Lower Hutt City is one example of the IT sector growth we expect in coming years.

The banking and insurance sector may not perform as well as business services over the short term. There may be further mergers and centralisation, as technology is making even higher degrees of centralisation possible. It is likely that some major trading banks will shift their head offices out of the country. We therefore expect employment, and in some cases output, in the financial sector to slowly wane. Fortunately for Wellington, this will be more than offset by growth in the larger business services sector.

Software Survey identifies key issues for industry

A new survey has identified who's who in Wellington's computer industry.

As part of Wellington City Council's cluster development strategy, an on-line software industry survey was completed late last year aimed at forming a profile of the software organisations and developers in the Wellington region. 43 organisations and 110 individual respondents contributed to the survey and according to Capital Development Agency manager, Clare Nolan, there were some interesting results.

“The main thrust behind the survey was to get an idea of how many software organisations were practising in Wellington and what their needs were with an aim to setting up a software cluster group.”

Although some of the results were predictable, with 84% of survey respondents being male, and 70% identifying as Pakeha, there were also some surprises. The majority of software employers have been in business longer than expected, 65% of respondent organisations have been in business for six years or more, and only 7% of organisations have been operating for less than 2 years.

“It really breaks down the perception that the software industry is a young one,” says Ms Nolan.

Other issues uncovered by the survey was the shortage of skilled staff and the drift of IT industry employees overseas for more lucrative salary packages. This is in spite of the fact that most developers now earn more than \$65,000 pa (with 9% earning more than \$150,000 pa).

Electronic commerce was identified as the biggest growth area for future work, with financial asset management, knowledge management and web design also singled out as key growth areas.

Developing export potential was another common area of interest for respondents, and although 60% had not been involved in any collaborative projects in the past year, 70% indicated an interest in being part of a Wellington-based software cluster group.

⁴ Invest-Wellington Region is a key programme of the Five Cities Economic Development Group.

⁵ With increased outsourcing of call-centre business, this will increasingly be an activity in the nature of a business service, but can presently appear in other industries depending on the core business of the call-centre operator.

Community, Social and Personal Services

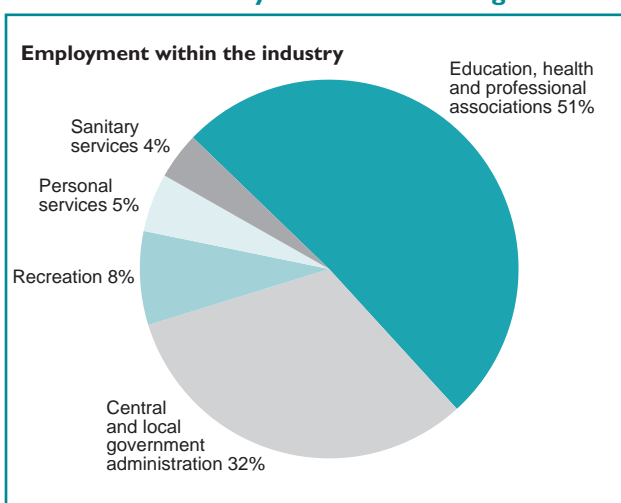
The community, social and personal services industries include government, education, health and research sectors.

Wellington is the seat of government and until the early 1980s, that meant a sizeable public service. Government reforms from 1984 reduced the size of the public sector, both by reducing the size of core departments and selling off some operations to the private sector. Nevertheless, the head offices of government departments, along with Parliament and the eight district and city councils in the region, still employ an estimated 18,000 people. Most public servants work in Wellington City, but there are also considerable numbers in Upper Hutt, Lower Hutt and Porirua cities. Upper Hutt benefits from the presence of the Trentham army camp, which is included here.

The presence of government has attracted professional associations and lobby groups to Wellington. The Manufacturers' Federation the Employers' Federation and Federated Farmers, for example, are all situated close to the policy-makers.

Outside the core of government, Wellington has a strong representation in state-funded health and education sectors. There are hospitals in Wellington City, Lower Hutt, Masterton and Porirua. There are two universities in Wellington City (Victoria and Massey) and other major tertiary institutions in Upper Hutt, Lower Hutt, Porirua (with an outpost on the Kapiti Coast) and Wairarapa. Scientific research organisations are also prevalent, particularly in Lower Hutt, but also in Upper Hutt and Porirua.

Personal/Community Services in the region



Source: Statistics NZ Annual Business Directory Update 1999

Trends

The general trend in the community, social and personal services sector since the beginning of the 1990s has been for expansion. The bulk of restructuring of government departments was over by this time and there were steady increases in state spending on health and education. At the same time, rising incomes in the main urban areas have lifted demand for recreational and personal services. Spending on such luxuries tends to rise more than one-for-one with incomes in wealthy countries.

Prospects

Overall, this sector's output is expected to rise steadily over the next two to three years.

Government sector employment and activity is likely to undergo change given the new government's shift in policy emphasis. The government has indicated that it wants to restore the capabilities of departments and ministries to deliver advice and implement policies. The number of people employed in the state sector is likely to increase, but probably at the expense of private sector consulting businesses. It is likely that the net effect on government-related employment will be positive.

Private sector consulting firms involved with government contracts will obviously need to find new areas of business. The policy changes themselves will create some additional demand in the private sector for consulting advice. Lawyers and accountants will generate extra fees from clients trying to minimise the impact of the increase in the top tax rate.

In the education sector, production is expected to continue to rise. The new government is intending to change the student loans scheme and increase per-student funding. The outcome is likely to be more people entering university or polytechnic. Some educational institutions in the region are considering mergers and some staff reductions are possible as a result. Although this might have a negative impact on employment, the resulting efficiency gains will lift gross regional product (value added).

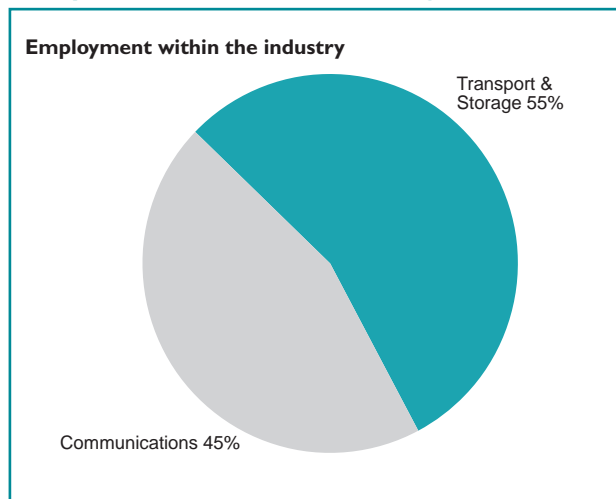
The government is likely to increase health funding to meet its pledge of reducing hospital waiting lists. Although further rationalisation of health services cannot be ruled out, the government seems keen to preserve and strengthen existing local hospitals – hence the return to local hospital boards. Nonetheless, efficiency gains are likely to be sought, increasing value added, but reducing employment.

Both the education and scientific research sectors will benefit from increased R&D spending by the new government. The Wellington region is well placed to capture additional funding by co-ordinating its existing government research, education and private sector R&D firms to deliver effective research for businesses locally and nationally.

Transport and Communications

The transport, storage and communications industry has been the success story of the decade, not only in New Zealand but also in the United States, Australia and Europe. It has been by far the fastest growing industry in the Wellington region over the last ten years, with value-added almost doubling since 1987. The rapid development of new telecommunications technology (including cell-phones) and the rise of the Internet have greatly increased voice and data traffic. At the same time, a shift from traditional manufacturing to “just-in-time” production has provided more business for transport companies. The liberalisation of world trade and the rapidly growing world tourism market have added to the need for more planes, ships, trains and trucks.

Transport/communications in the region



Source: Statistics NZ Annual Business Directory Update 1999

Trends

Until 1992, Wellington’s transport and communications industry grew more slowly than the rest of New Zealand. Its output had been falling, perhaps due to the sale of government-owned telecommunications and rail services and their resulting decentralisation.

However, it has grown relatively rapidly since that time due to:

- Wellington’s status as an inter-island transport hub at a time of increasing reliance on quick transport rather than stockpiling goods for future use
- more inbound air travel passengers as the region began to attract more tourists
- the arrival of new communications company Saturn
- initiatives such as the City-Link data network in Wellington City
- the introduction of competition on Cook Strait ferry routes.

Transport essential for regional economic growth

Investment in the region’s strategic road and rail network is essential for regional economic growth, says Wellington Regional Chamber of Commerce chief executive Claire Johnstone.

Both public and private transport options are needed to enable people to get to work and to provide goods and services to industry and customers.

“Amenity values of accessibility and environmental protection are important in making Wellington a desirable place to live in but if those things dominate in isolation we will not have the employment or growth in the region,” Ms Johnstone says.

The Regional Land Transport Strategy was finalised last December by the Wellington Regional Council’s regional land transport committee. It sets out the objectives, policies and plans for land transport in the Wellington Region for the next twenty years.

Claire Johnstone says it is a strategic plan with practical, possible solutions for the region’s transport future.

“The Wellington Regional Council needs to be encouraged to become an advocate for the growth of our economy. Transport is a key to that growth.”

The Chamber supports improvements to enable efficient transportation of goods throughout the region and easy access for people to retail, recreational and entertainment centres.

“Our concern is that to not do so will cost us companies and ultimately jobs.”

People should expect to pay for transport choices e.g. through tolls and petrol taxes. Greater leadership and funding from central and local government are needed to provide sufficient support for roading, says Ms Johnstone.

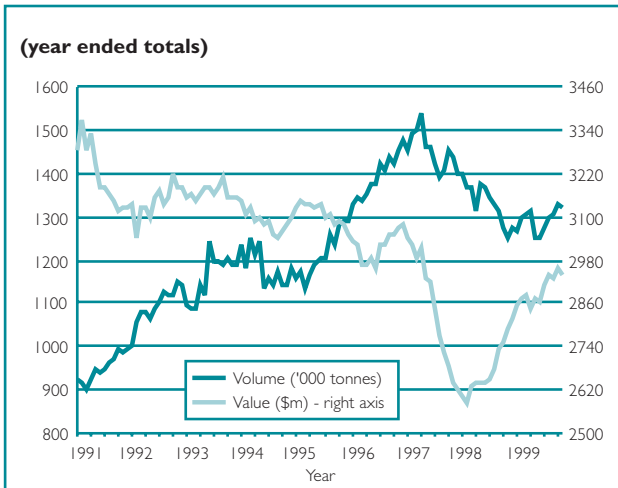
To obtain a free copy of the Regional Land Transport Strategy, contact the Transport Division of the Wellington Regional Council.



According to official employment and estimated growth figures, 1999 was a year of record growth in this industry in Wellington. The transport industry has been boosted by a rise in the volume of imports and exports passing through Wellington over the year to November 1999.

Statistics New Zealand data indicate that import and export volumes had previously been declining due to a tough time for primary producers and manufacturers following the Asian financial crisis.

Total overseas freight movements through CentrePort



Source: Statistics NZ Overseas Cargo Statistics

Prospects

Transport and communications is expected to be Wellington's fastest growing industry over the medium term, continuing the trend observed for a decade.

The Internet and cell-phones are already radically altering the way that companies and households communicate and do business. Judging by the penetration of such technologies, we are likely to see rapid uptake of more advanced systems linking computers, cell-phones, and even common household items, creating powerful communications networks and opening up new channels for the purchase of goods and services. We expect to see more on-line purchases of traditional retail goods and, especially, more on-line trade between businesses.

Communications will also be central to the transmission of that now-important commodity – knowledge – and will allow companies to conduct business at minimal cost.

The transport industry will see spin-offs from the increased purchase of goods across the Internet. Manufacturers looking to reduce their inventory costs and cut out links in the supply chain will market direct to customers, produce and deliver on-demand using efficient transport networks.

There is some hype in predictions about communications technology and there is every chance that change will not occur as rapidly as some commentators predict. Nevertheless, a rapid up-take of new technologies and a significant shift to "e-tailing" is expected within three years. In 1999 domestic cargo volumes also rose.

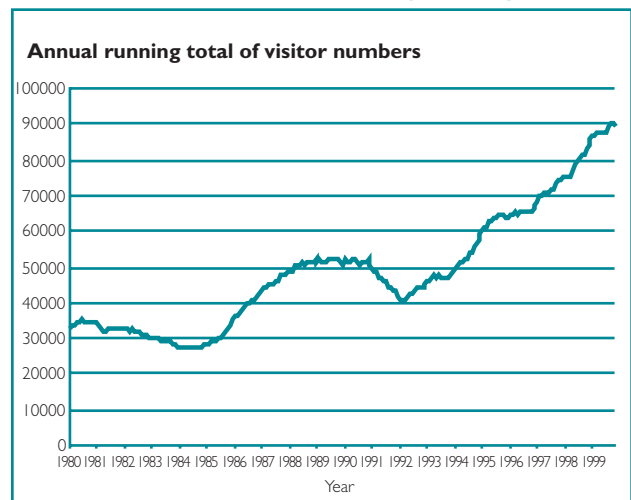
Tourism

The Wellington region (and Wellington City in particular) has recently enjoyed a period of strong growth in the number of international tourist arrivals. Official figures are unavailable for domestic tourism, but anecdotal evidence suggests that the region is also increasingly popular with New Zealanders.

Tourism has not traditionally been an important industry for the Wellington region. However, the emergence of a café and arts culture in the late 1980s began to change the image of the region.

Trends

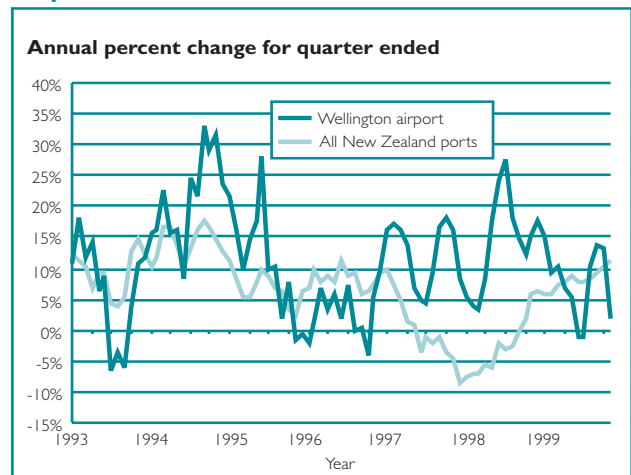
Overseas tourist arrivals, Wellington Airport



Source: Statistics NZ Annual Business Directory Update 1999

Wellington had its largest number of international tourist arrivals ever in 1999. The annual number of tourist arrivals at Wellington International Airport has risen steadily for eight years now.

Growth in overseas tourists through Wellington Airport



Source: Statistics NZ Overseas Tourism and Migration Statistics

A lively arts scene, including an international festival every second year, and the opening of the national museum, Te Papa, have contributed to the region's increased popularity with both overseas and domestic tourists.

International tourism in Wellington has been further boosted, ironically, by the decline in Asian tourism over 1998 because it put more planes on Trans-Tasman routes and lowered prices for air travel. However, while a record number of international tourists visited Wellington in 1999, the rate of growth in tourist numbers for Wellington eased, particularly relative to the national average. Anecdotal evidence suggests that the rate of domestic tourism growth waned too.

There are a number of possible explanations for the lower rate of tourism growth. It could be that the market has reached saturation point. That is, that the increase in tourist numbers was a "one-off" occurrence reflecting the greater number of attractions in the region. Since major attractions are not continually being added, arrival numbers will now increase at a slower pace. Another reason for reduced tourism growth, at least at the end of 1999, is that many people chose not to take holidays around the New Year period.

In any case, Wellington hotel and motel owners felt the pinch as occupancy rates fell in the region in the last quarter of the year.

Prospects

Anecdotal evidence suggests that the Wellington accommodation market firmed in January 2000. The International Festival of the Arts is likely to improve the situation further, so that short-term prospects are good.

However, over the medium term the number of domestic and international tourist arrivals is expected to increase more slowly than in the recent past. In spite of initiatives to attract conferences and other major events to Wellington (at the new stadium, for example), the region will not go through another change of the sort that provoked the sharp increase in tourist numbers over most of the 1990s.

Cruise ships make a beeline for harbour

Wellington Harbour has been inundated with cruise ships this summer with 26 visits over a three-month period – the highest number of visits ever.

CentrePort Customer Services Executive Clare Murphy says during the 1996/97 cruise season, nine ships visited and it was estimated that the economy benefited by \$2.2 million.

The industry has come along way since then and the benefit to the economy is likely to be much higher. "We are getting considerably more ships than in the past, and that means more passengers."

But the real economic gains have been made behind the scenes with increases in stevedoring, provedoring and in passenger exchange.

"Provedoring – where ships are restocked by local suppliers with everything from alcohol to flowers – is considerably more than last year. Passenger exchange – where passengers join and leave the ship in Wellington and are replaced by another group – is also starting. That means the region benefits from the passengers having to travel to the region to join the ship."

Ms Murphy says the size of the ships is also increasing. *Legend of the Seas* is the biggest ship which will visit this summer, with 1800 passengers.

"The cruise operators are very keen on New Zealand and as the overseas ships get bigger (some can carry 3000 passengers), the smaller ones come here."

While in harbour, most passengers go on an organised bus tour either of the city, or sometimes as far as Kapiti where they visit places like Lindale Farm and Southward Car Museum. Some exclusive tours take passengers to Wairapa – often by limousine.

"Of 1200 passengers on a recent ship visit, over 900 of them chose to go on a tour. One of the most popular is the shopping tour where Wellington's best shops are visited."

Ms Murphy says early indications suggest that even more ships could visit in the future. "Already, 15 large ships are booked for next season which is a



Mega Centre launched in Porirua

Porirua City has a new retail shopping centre called the North City Mega Centre, and shoppers are flocking to it, says Porirua City Council.

Council Business Marketing Officer Colin Drew says shoppers can buy "absolutely anything" at the centre, which is attracting larger franchises rather than the more boutique stores in the North City Shopping Centre.

Australian department store chain *Harvey Norman* was the first store to open and has been followed in quick succession by the opening of *Cost U Less*, *The Warehouse*, *Hannahs* and *Noel Leemings*.

"The smallest of the stores is 5000 square metres, so the centre certainly offers a good range of products for shoppers to purchase."

Mr Drew says by March 2000 there will be a total of 30 new stores on the 12 hectare site and an estimated 350 new jobs.

Porirua is targeting itself as a regional retail centre and is attracting shoppers from the Wellington, Manawatu, Kapiti and Horowhenua regions.

"There are over 400,000 people living within twenty minutes drive of Porirua and most of our shops are just metres from the motorway. Plus, the city offers hundreds of free carparks to shoppers."

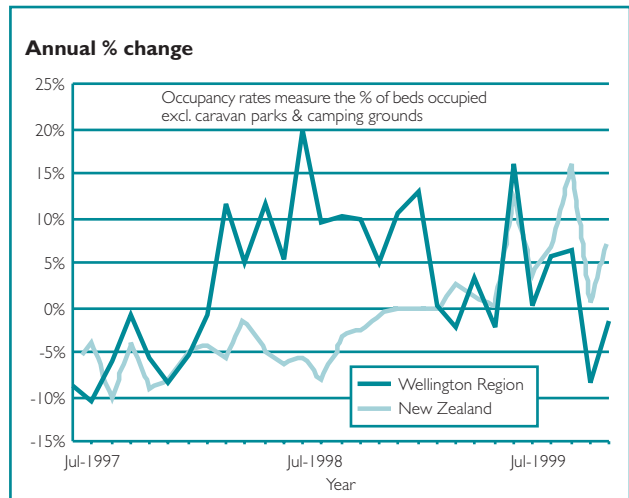
Mr Drew says for the year to September 1999 there was a 12 per cent increase in retail spending in Porirua compared with 3.6 per cent in Wellington and 3.9 per cent in New Zealand. The new Mega Centre is expected to accelerate this growth and increase the regional market share to 14 per cent, which would translate to \$220 million in sales.

In addition to the Mega Centre retail development, 2000 will herald the start of many new projects. These include a 20-plus unit motel complex near the Mungavin interchange, a supermarket and a large scale recreational development on the Aotea Block across the motorway from the city centre, and possibly the construction of a health facility.



A major barrier to Wellington increasing its share of total international arrivals to New Zealand (currently at around 6%) is the limited capability of its international airport. Of course, tourists may travel from other international ports to Wellington by domestic air connection, rail or road. But the additional cost and difficulty involved is likely to make it a niche destination rather than a first choice for most travellers.

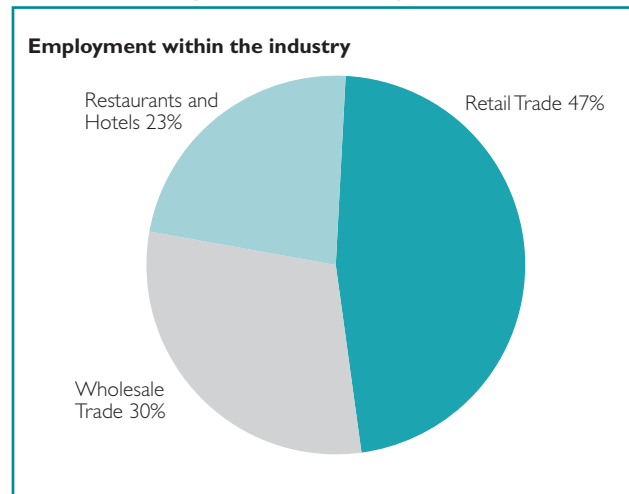
Wellington region hotel/motel occupancy



Source: Statistics NZ Accommodation Survey

Wholesale and Retail Trade

Trade and Hospitality in the region



Source: Statistics NZ Annual Business Directory Update 1999

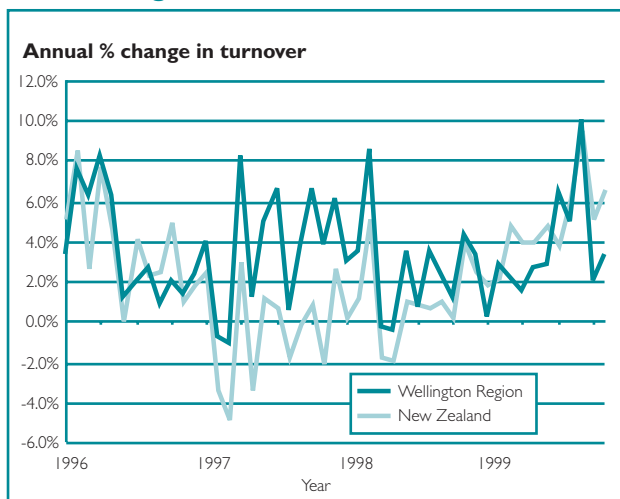
Wholesale and retail traders form part of the larger trade and hospitality sector, and account for nearly half of total employment for the sector. Prospects for the hospitality industry are covered in the section on tourism.

Wholesale trade is an important industry in the economies of Upper Hutt and Hutt City. However, in the region as a whole, wholesalers are not as prevalent as is the case nationally.

Similarly in retail trade, the region as a whole is under-represented compared to the national average, but it is very important to some parts of the region. The Kapiti Coast, for example, receives a proportionally greater contribution to its economy from retail trade than does New Zealand.

Retail trade is also an important industry in Porirua where turnover has been growing rapidly, according to official data.

Retail sales growth



Source: Statistics NZ Retail Trade Survey

Trends

Following a two-year period of strong growth in retail turnover, Wellington briefly fell behind the rest of the country in 1999. A sharp slump in employment and slower tourism growth were the likely culprits. Nevertheless, growth rates remain close to the national average in spite of slow population growth.

Prospects

Population growth is a major determinant of retail spending. Wellington has relatively low population growth, so this is an obstacle to sales growth for retailers. Over the longer term, the region's population growth is expected to continue to grow even more slowly than the national average than has been the case in recent years.⁶

However, the high average income of the region's residents and a growing number of international visitors will ensure the current trend of increasing spending will continue in the short term.

⁶ Statistics NZ forecasts an increase for the region's population of only 2% over the next twenty years, to reach 433,500, compared to a national population growth rate of 17%. This estimate may be on the low side given recent experience, but the general conclusion that the regional population will be slow-growing appears sound.

Manufacturing

Trends

The Wellington region has a diversified manufacturing base stretching from basic manufactured products – chemicals, plastic, rubber (South Pacific Tyres), processed wood (Juken Nissho) – to clothing, industrial equipment, furniture (Formway), right through to sophisticated communication and electronic goods (Deltec, Marine Air Systems, DMC).

There has been a steady decline in manufacturing activity in the Wellington region over the past decade. Employment data show that nearly 5,000 jobs were lost in manufacturing industries in the region between 1990 and 1999. This was a 20% decline in total employment in the sector and was significantly bigger than the 6% decline in manufacturing sector employment nationally.

The ongoing concentration of manufacturing activity in Auckland – the country's largest population centre by far – has been partly responsible for the decline. But the steady reduction in tariffs since the mid-1980s has also taken a toll on the region's manufacturing businesses. The demise of the car assembly industry is a good illustration of the above two pressures on local manufacturing activity. The closure of Mitsubishi's Todd Park assembly plant in early 1998 saw around 250 jobs lost. Many employees at the plant, though, were able to find other work in the area relatively quickly, reflecting the investment in training and skills development at the company and the management of the closure process.

Many of those manufacturers that remain in the region have been forced to develop export markets to survive. Leading manufacturers – South Pacific Tyres, Marine Air Systems, Interlock, Pilkington Glass – have all focused on export sales to make up for the loss of sales domestically and to allow their businesses to expand. The volatile exchange rate and slow deterioration of the infrastructure to support manufacturing businesses, for example, small engineering workshops and the pool of skilled labour, have simply added to the pressures faced by manufacturers trying to develop their businesses over the past decade.

Prospects

Financial market conditions are currently very favourable for manufacturing businesses – the currency is low, making exports profitable and competing imported products more expensive, and low interest rates help reduce overhead costs and lower investment hurdles. National data show a strong increase in business expenditure over the past year. This is consistent with firms gearing up to expand output, although a significant share of the additional investment spending was on computers in preparation for the year 2000.

Dulux decision a vote for the region

Wellington region's central location is the drawcard for Dulux staying in Lower Hutt.

Invest-Wellington Region has hailed this decision as proof that companies could achieve a strategic advantage by basing their distribution in Wellington.

Dulux General Manager Peter Brindley says rather than continue to operate separate warehouses in Christchurch and Auckland, it was decided to have a central Wellington warehouse. The thousands of products could be managed more efficiently and transported anywhere in New Zealand within a day.

"No-where else in New Zealand could we achieve that. That's a real advantage. Auckland has most of our customers so there has to be sufficient reason to choose Wellington."

David Kiddey of Invest-Wellington Region says "Centrehub" is proposed as the brand used by the Five Cities' economic development group to promote distribution from Wellington.

Dulux has spent \$4 million upgrading its Gracefield premises – including better environmental systems such as waste water treatment.

Dulux has 350 employees, 150 in Lower Hutt, and owns the Levene brand, sold from eight stores nationwide.

"The most important investment is in high quality staff who are doing a good job," Mr Brindley says.

The paint market was growing slightly above GDP, its market closely tied to the property and building industries. Research and development is an important part of marketing the brand.

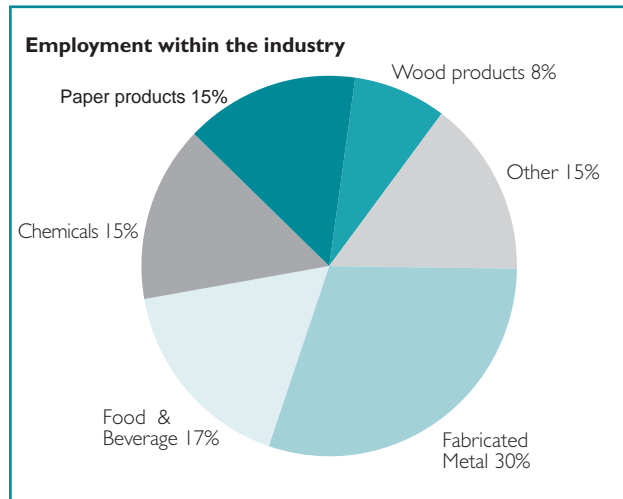
"There are real opportunities in New Zealand to bring new and innovative products. Every five years we have a serious look at our strategies. The Wellington Region has clearly come out as the right place for us to be now."

Conditions are likely to remain conducive to expanding manufacturing output. Domestic demand will be buoyant over 2000/01, and growth in our major trading partners on average will be higher than over 1999. Furthermore, while exchange and interest rates may rise over the coming year they will still be well below the levels experienced between 1995 and 1997.

Manufacturing businesses may be cautious about taking on new employees in the face of a number of government policy changes that could increase the cost of employees. In addition businesses will need to focus productivity gains to secure profits in what is likely to be a low inflation, or even deflationary, environment.

The new government's industry policies may provide some boost to local businesses, through easier access to R&D funds and potentially export insurance. In both cases, though, these areas of assistance will benefit only a handful of firms.

The Manufacturing sector in the region



Source: Statistics NZ Annual Business Directory Update 1999

Our forecast is for a small increase in manufacturing output in the Wellington region over the next year or so. The growth will reflect favourable economic conditions and will come mainly from existing firms expanding their output. The growth will be achieved without creating many new jobs as firms try to replicate the US economic recipe of growth via productivity.



The Property and Building Sector

Construction is a relatively minor industry in the Wellington region, but the state of the property and building sector is an important determinant of business and household spending in any region.

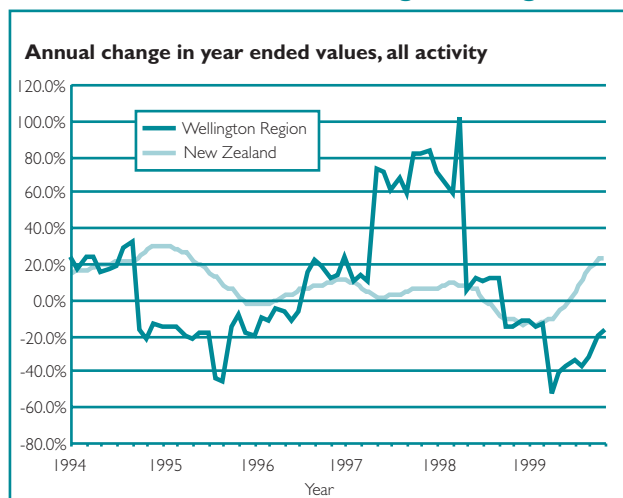
Commercial property

Wellington City is the major commercial property market in the Wellington region. The departure of a number of large organisations from the city over the last two years has increased commercial vacancies. However, a strong economic recovery over the last half of 1999 has boosted demand for office space, particularly at the top end of the market.

Anecdotal evidence suggests that demand for lower quality space remains subdued, as medium-term leases expire and tenants take the opportunity to “trade up” to better premises.

Commercial building

Commercial & industrial building in the region



Source: Statistics NZ Building Consent Statistics

The value of new commercial building projects started in the Wellington region over the year to November 1999 was down compared to the previous year (Porirua and Upper Hutt bucked this trend). A number of projects were drawing to a close over this period – the new Wellington Airport terminal, the WestpacTrust stadium and the Old Bank Arcade.

Towards the end of 1999 there were signs that the slump in building activity would not be long-lived. A number of hotel projects and the conversion of the old museum to an educational building were among developments in Wellington City.

In the high-end office market, the proposed \$78 million Lambton Tower development based primarily on a commitment from the Ministry of Foreign Affairs and Trade will further compound vacancy rates in the second tier office sector.

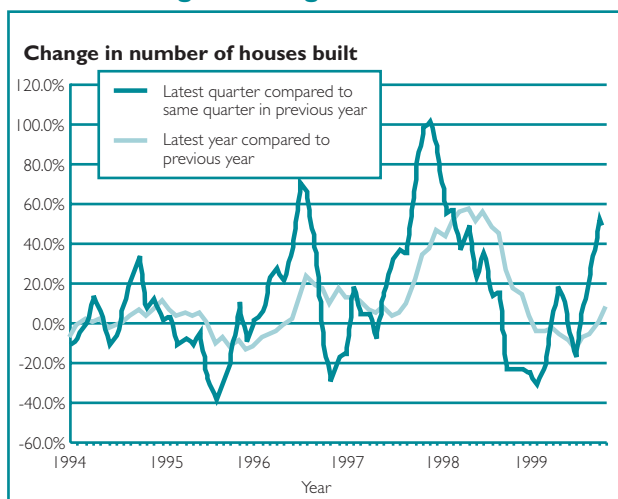
Residential property

House prices in the Wellington region rose over 1999 from a median of \$168,000 in November 1998 (the same as the New Zealand median) to \$175,000 a year later - \$4,000 higher than the national median house price.

The very low rate of official population growth in the region would normally suggest low demand for housing, so the increase in demand for houses reflected by the rise in prices is surprising. A look at the latest month by month data shows that sales activity is losing momentum, which is consistent with slow population growth and possibly an emerging over-supply of new dwellings.

Residential building

House building in the region



Source: Statistics NZ Building Consent Statistics

Elderly care boon for economy

Building retirement villages in the Wellington region creates tremendous flow-on effects for the economy, says The Summerset Group general manager Margaret Macaulay.

She estimates up to six times the amount invested in building the complexes is gained by the region. A \$7 million investment equates to a \$42 million regional dividend. The planned development at Athletic Park is expected to cost \$60 million over three years, reaping a \$360 million payback for the region.

“Several businesses on the Kapiti Coast, including manufacturing and providers of goods and services, have grown with us and know they have a future with us,” Mrs Macaulay says.

The Summerset Group, based in Paraparaumu, has built a hospital in Waikanae and a hospital and 86-villa complex in Paraparaumu. Plans are underway for new facilities in Masterton, Wairarapa, at Trentham, Upper Hutt (on a former carpark of the race course) and at Athletic Park. Building on the Trentham site is due for completion by October 2000. A deal has been signed with Athletic Park site partner, Wellington Tenth Trust, and site preparation begun for an 80-bed hospital, 100-unit facility.

After the building work is completed, the service-based nature of retirement villages brings ongoing work for the local community, Mrs Macaulay says.

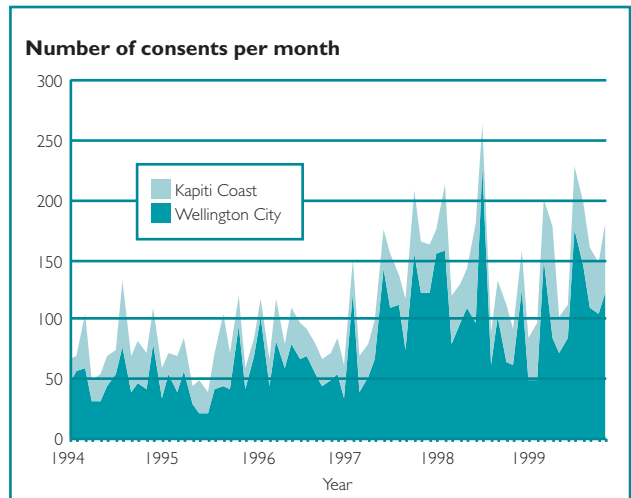
“Residents have to be fed and clothed, and they use the community facilities. It’s a service-based industry which requires all services for residential and health care.”

Mrs Macaulay estimates about \$2 million will be spent on staff wages for Summerset’s facilities in the region this year. In addition, there are many people from the local community, including doctors, hairdressers etc. who benefit. The Group maintains its own sites, including electricity cables and rubbish disposal, so it is not a cost to the community. She also believes building a new rest home can make the area more attractive, increasing nearby property values.

“Every cent we invest in developments, we try to source locally. And the nature of the industry means running costs are circulated back into the region.”

Building activity in the Wellington region increased sharply (20%-40%) in the second half of 1999. Most new building has occurred in Wellington City and on the Kapiti Coast, reflecting the areas of relatively strong population growth within the region.

Building consents for new houses



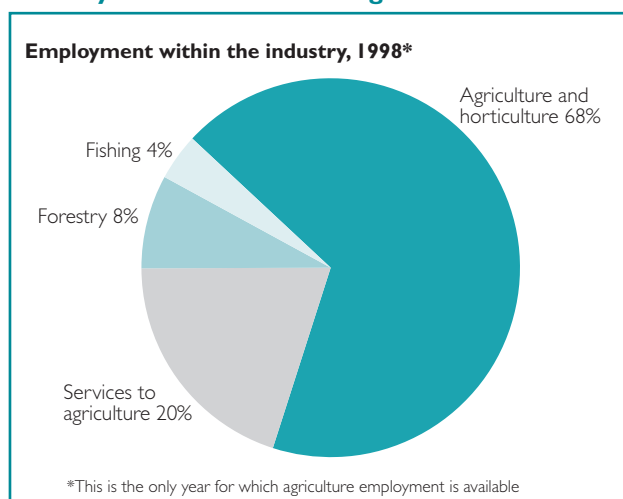
Source: Statistics NZ Building Consent Statistics

The official forecast of relatively slow population growth for the region, along with the recent dip in house sales activity, suggest the rate of new house construction will slow over the coming year. A structural shift in demand towards apartments and away from traditional houses may sustain new building work, but this may simply be reflected in downward pressure on the price of traditional housing.



Agriculture and Forestry

Primary Production in the region



Source: Statistics NZ Annual Business Directory Update 1998

Although 96.5% of Wellington residents live in urban areas, farming occupies two-thirds of the land area. The Wellington region also accounts for 3.4% of New Zealand's plantation forests. The vast majority of agriculture and forestry production occurs in Wairarapa.

In the agricultural sector, sheep farms were the biggest agricultural employers in the regional economy (22% of all agricultural, horticultural and agricultural service employment) in 1998. Next most important were dairy farming (19%) and beef farming (7%).

In the forestry sector, there were 57,000 hectares of plantation forest (mostly radiata pine) in the region as at 1 April 1998, more than 80% of which were in Wairarapa. There are also some plantation forests in Upper Hutt. Almost half of all plantation trees in the Wairarapa have been planted in the last five years, as high log prices in the mid-1990s encouraged the conversion of some marginal farming land to forestry. Planting activity in Upper Hutt has also begun to accelerate in the last five years, although the peak period of planting in that area ended ten to twenty years ago.

Trends

A dry autumn in Wairarapa in 1999 resulted in poor pasture growth and stock condition on many sheep and beef farms. In addition, farmers had held on to breeding stock in an effort to rebuild overall stock numbers following a drought in 1998. This led to decreased sheep and beef production in the year to July 1999. (After removing the effect of destocking last year and restocking this year, however, gross farm incomes have been largely unchanged for the last five years.) Lamb prices rose by around 18% compared to the previous season, although ewe prices were down. Prices for beef showed some recovery, due in part to restocking efforts.

Meanwhile, dairy production increased by between 2.5% and 4.5% in Wairarapa areas over the 1998/99 season. A mild winter and sufficient rain in late-summer provided ideal conditions for milking and are likely to have lifted profitability. This was in contrast to drier conditions experienced in the Tararua district (north of the Wellington region) and in the Taranaki region (to the north-west). Production in these neighbouring areas fell sharply and reduced farm profits. Milk prices rose over the year to an estimated \$2.75 per kilogram of milk solids, up 8c from the previous season's price.⁷

In the forestry sector, log prices and export volumes were badly affected by the downturn in Asian markets over 1998. Export volumes have now recovered most of the ground that was lost, due to increased economic growth in Korea and, to a lesser extent, Japan. Prices have also increased marginally, although this is more a result of a weak New Zealand dollar than any rise in world prices. Prices are still well below their mid-90s highs.

Prospects

As stock numbers return to pre-drought levels, farmers expect production to increase substantially. In addition, cattle and milk prices are expected to rise over the next year reflecting greater weights and an improving world market. A small improvement in wool prices is forecast, but lamb prices are expected to remain unchanged.

The biggest threat to predictions of rising farm incomes and profits is disease, with facial eczema and fly-strike affecting stock condition. Farmers are expected to spread more fertiliser to improve nutrition and boost lambing and calving percentages. There is also some concern among dairy farmers regarding the extent to which a "mega-dairy-co-op", should it eventuate, will affect farm-gate returns.

⁷ MAF Farm Monitoring Report, North Central Region, July 1999.

Vineyards a rewarding alternative

Paul Bunny began planting grapes on his farm at Opaki, north of Masterton, because the rising price of land was making farming less profitable.

Six years later he's obtaining 25 tonnes of grapes per annum (at \$1500 a tonne) and is planning to plant out a further 70 hectares. His property is just one of three major developments – the others are in Martinborough and at East Taratahi – which will see a doubling of the Wairarapa area planted in grapes within the next two years to over 500 hectares.

"There is demand for premium wine and Wairarapa, with its drier climate, is at the premium end of the scale. Also, lifestyle blocks have forced land prices up which is why I've planted part of my farm in grapes. If it works, it'll be something for my kids for the future."

Veteran vintner Richard Riddiford, Managing Director of Palliser Estate, says Wairarapa needs commercial operations, like the proposed Craggy Range vineyard in Martinborough, to help with the continuity of supply.

"Martinborough sells out of its wine within six months," he says. Palliser is planning to double its production over the next three years.

"Martinborough as a region will become world famous inside ten years because of the quality of its pinot noir. I export 54% of my wine to 14 different countries."

Paul Bunny is enthusiastic about his new venture and says the grapes produce a softer wine than those grown near Martinborough. He's planted a wide variety of grapes, from pinot noir to cabernet sauvignon, riesling and chenin blanc. He's sold many to the Lintz Estate but has also bottled his own which, with the Waipipi label, he hopes to sell via retail outlets.

He predicts the tourism associated with vineyards – people visiting to taste wine and enjoy the atmosphere – is an important spin-off.

Richard Riddiford agrees: "The region is generally becoming more attractive for tourists. If Martinborough becomes world famous, people will come from overseas. Currently, a quarter of our visitors come from overseas."

In the forestry sector, the low average age of most plantation trees in the Wellington region – most are nowhere near their optimal harvest date – means that prospects for log and wood product markets are unlikely to be significant for another decade or more.

Nevertheless, the outlook for both prices and export volumes is positive in the short term. Asian economies are recovering faster than expected, especially South Korea, and this is flowing through into demand for logs. Over the medium term, there is some doubt about the sustainability of the Asian upturn.

Domestically, there has been heavy investment in log processing capacity within New Zealand and there is anecdotal evidence that New Zealand log processors are now performing at close to capacity. Manufacturers such as Juken Nissho's laminated veneer lumber plant near Masterton are one example, although they are not expected to be a major source of demand for local forest growers as they have their own plantations.



Photo courtesy of Palliser Estate

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We welcome your feedback or further information on the regional economy, to help us improve future editions of Regional Outlook. Please contact the Corporate Policy Section of the Wellington Regional Council PO Box 11646 Wellington or telephone 04 384 5708.

