

Regional Economies

Estimates, forecasts and issues

NZIER report to The Commerce Commission
28 November 2012

About NZIER

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice to clients in the public and private sectors, throughout New Zealand and Australia, and further afield.

NZIER is also known for its long-established Quarterly Survey of Business Opinion and Quarterly Predictions.

Our aim is to be the premier centre of applied economic research in New Zealand. We pride ourselves on our reputation for independence and delivering quality analysis in the right form, and at the right time, for our clients. We ensure quality through teamwork on individual projects, critical review at internal seminars, and by peer review at various stages through a project by a senior staff member otherwise not involved in the project.

Each year NZIER devotes resources to undertake and make freely available economic research and thinking aimed at promoting a better understanding of New Zealand's important economic challenges.

NZIER was established in 1958.

Authorship

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1.1 Regional economic growth estimates and projections

The Commerce Commission is using NZIER's regional GDP forecasts in its modelling for resetting prices of non-exempt electricity distributors and has asked NZIER to provide a short commentary on these forecasts.

The regional economic growth estimates and projections are published in the NZIER's *Quarterly Predictions* publication for members. The commentary in this document relates to the September 2012 *Quarterly Predictions*.

Official estimates of regional GDP are not currently available, but are expected to be published by Statistics New Zealand in 2013.

NZIER estimates regional GDP by apportioning national level industry activity to each region, mainly using labour market and population shares, as appropriate. So for example, Auckland has around 40% of finance, insurance, property and business service jobs. This portion of activity in the industry is apportioned to Auckland. This apportionment is the commonly-accepted approach to regional GDP estimates in the absence of official estimates.

The projections for the next 20 years combine NZIER's views by industry and Statistics New Zealand's subnational population projections. Industry views include the profile of the business cycle as well as broad economic themes, such as the continued growth of the services sector and structural weakness in manufacturing. An ageing and slowly growing population will hold back economic growth in many regions outside of Auckland.

1.2 Use the data with care

The estimates and projections should be used with care. They are indicative measures which describe the broad trends in industrial activity, mix of industries by region and people's preference to live in certain regions. These projections cannot incorporate technology breakthroughs or new 'unknown' things such as, say, a major oil find or closure of major businesses.

There are also data quality issues. For example, the estimates of employment for Otago in the Household Labour Force Survey (HLFS), the official sample-survey measure of employment, has diverged from other measures which rely on administrative datasets, such as the Linked Employer Employee Dataset (LEED), although both are produced by Statistics NZ.

The official regional GDP estimates due in mid-2013 should provide better quality data on regional economies. We will calibrate our forecasts on those official estimates at that time. In the mean time we advise using the regional GDP estimates and projections as estimates. We publish these as five year compounding growth rates, to reinforce the message that these figures intend to capture broad trends in the regions.

1.3 Regional variations

The economic outlook will reinforce long-term megatrends already at play: globalisation, urbanization and ageing. This will favour urban economies of Auckland, Canterbury and Wellington. Strong growth in Auckland will help neighbouring economies of Waikato and Bay of Plenty. Smaller provincial regions will grow at a slower rate, due to an ageing population and fewer economic opportunities in their more traditional economic structure.

The regional economies are also affected by cyclical factors and one-off events. Cyclical conditions vary across regions because their industrial structures are quite different. So regions that were more reliant on construction in the lead up to the recession faced a larger downturn when construction activity fell sharply.

An extreme example of a one-off shock is the Canterbury earthquake in 2011. This has weighed on activity and there are a multitude of potential recovery paths. A less extreme example is a short term boost to certain industries (construction and logistics mainly) in Otago in recent years, which are likely to be transitory.

The Canterbury earthquake created enormous damage and economic disruption. A large amount of economic activity has been displaced from the Christchurch CBD to other parts of Canterbury (e.g. retail operations have moved to the suburbs) or to other parts of New Zealand (e.g. some financial and business service roles). Some economic activity has been hit harder for longer, for example tourism related sectors. Over the next few years much of the economic activity will be in construction, but other sectors will be relatively slow to grow.

In Otago, economic activity has been boosted recently by some one-off factors. Construction activity rose on the back of a new stadium, new education buildings and storage buildings. There was also a short term pick up in transport, wholesale and distribution. A number of other surveys suggest these were temporary pickups and economic activity is returning towards its underlying trend growth rate. Alternate data sources also paint very different pictures of the economic position, suggesting activity peaked much earlier and the economy has been flat in recent years. We have advised our clients to use these alternative measures in their economic assessments of the Otago region.