

Economic Quarterly

Northland
REGIONAL COUNCIL
Te Kaunihera ā rohe o Te Taitokerau



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Disclaimer: this newsletter provides general information on the Northland economy and the views expressed are those of the author. It is not intended for any particular course of action or as a substitute for financial advice.

From the economist

Kia ora / welcome to the 23rd issue of this newsletter. There are signs that the stellar run that the Northland economy has been experiencing over the past five years may be coming to an end. Growth is still positive, but not as strong as it was. This regional slowdown appears to be driven by the same factors affecting the national economy rather than anything specific to Northland. Investment into the region through the Provincial Growth Fund, both new projects and completing already announced projects, is more vital than ever.

The annual and spotlight sections both feature some of the data available in the Northland Region Economic Profile, which can be accessed through the council's website: www.nrc.govt.nz/economicdevelopment. The online profile, which is free to use, provides an in-depth description of Northland's economic structure and performance across a wide range of variables.

In the annual section, I have made use of this data source to show changes in economic activity as measured by GDP. The Northland economy grew by 2.7% in 2018, with this growth being well spread across the region and led by the private sector dominated services. In the spotlight section, I compare Northland with the other sixteen regions across a range of economic variables. It shows that Northland has the highest level of self-employment, and sits mid-pack in terms of export orientation, productivity and economic diversity.

Darryl Jones

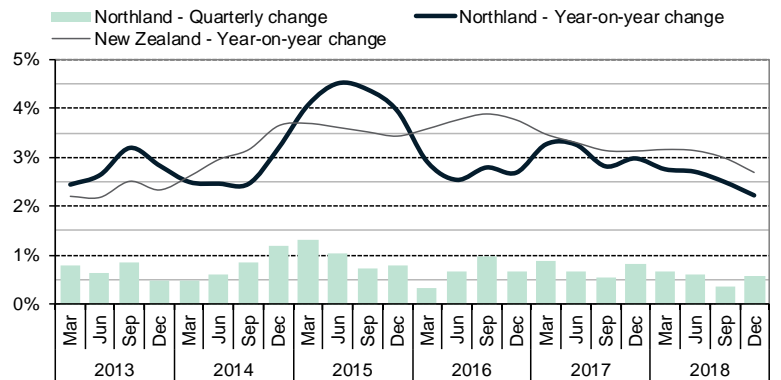
Quick quarterly statistics

- GDP is estimated to have risen 2.2% in the year ended December 2018.
- New residential building unit consents fell 7% in the calendar year 2018.
- Guest nights rose 1% during 2018 and remain at near record levels.
- Commercial vehicle registrations fell 1.4% in 2018.
- Employment fell by 0.6% in the December 2018 quarter.
- The annual average unemployment rate dropped to 5.6% in 2018.
- The annual average youth not in employment, education or training (NEET) rate rose slightly to 12% in the year ended December 2018.
- The number of people on the Jobseeker Support-Work Ready benefit rose by 7.4% in the year ended December 2018.
- The average wage and salary rose 2.6% in the year ended December 2017.
- Domestic power prices rose 1.7% during the year ended November 2018.
- There was a large deterioration in home affordability during the year to November 2018 due to rising house prices.
- Consumer confidence in Northland returned back to its four-year average.

Economic activity – quarterly

Gross domestic product (GDP) in Northland

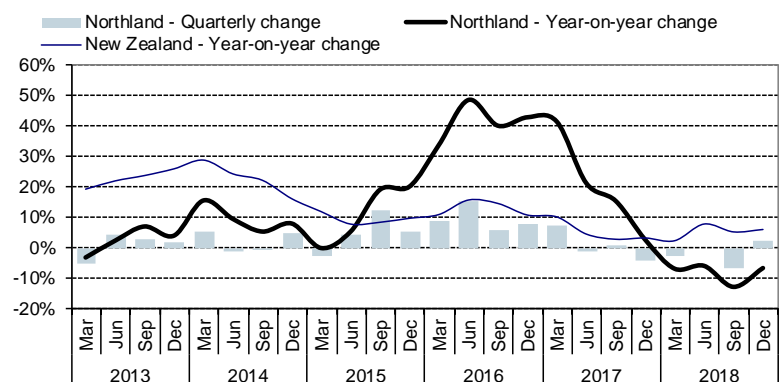
Northland's GDP is estimated to have risen by 0.6% in the December 2018 quarter. This contributed to an estimated annual growth rate of 2.2% for the year ended December 2018. This is down from 3% in 2017 and in-line with a slowdown in the national rate. It is also the lowest annual growth rate recorded in the region since September 2012. Northland's annual growth rate for the latest year is below the estimated national rate, with Northland ranking 13th out of 16 regions.



Source: Infometrics Regional Database

Number of new dwelling unit consents in Northland

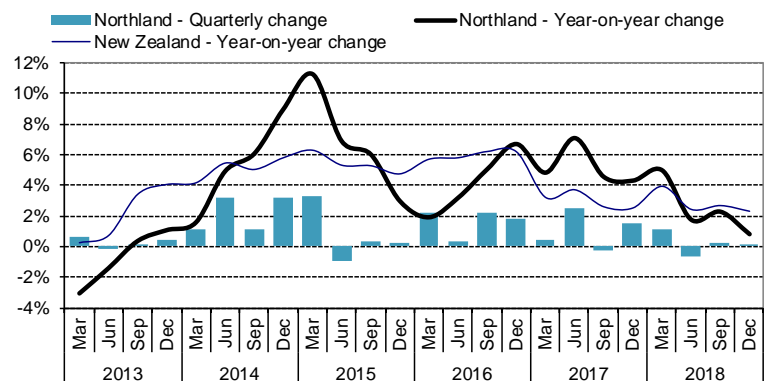
During the year ended December 2018, 1156 new dwelling unit consents were issued in Northland. This is 7% less than the number issued in the year ended December 2017. The December annual total is 285 (20%) below the record of 1441 consents issued in 2004. There is a large regional variation around the 6.1% national increase in new dwelling unit consents issued in the 2018 calendar year, ranging from a 32% increase in Nelson to a fall of 20% in the Bay of Plenty. Northland ranked 11th out of the 16 regions.



Source: Statistics New Zealand

Guest nights in Northland

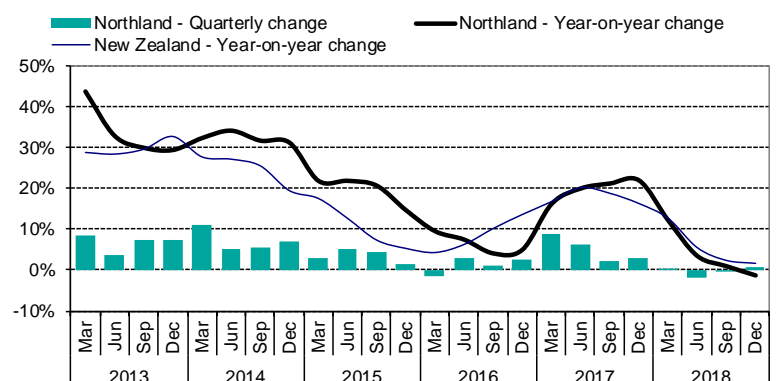
In the calendar year 2018, just over 1.967 million guest nights were spent in Northland in commercial accommodation. This is 1% higher than in the 2017 calendar year and is just below the record annual number of 1.973 million recorded in the year ended March 2018. The increase in Northland guest nights was lower than the national increase (2%), with guest nights rising 9% in Canterbury but falling 3% in Hawke's Bay. Northland's share of national guest nights is 4.9% and remains below the 5.5% level achieved in 2007.



Source: Statistics New Zealand

Commercial vehicle registration

A total of 2165 commercial vehicles was registered in Northland in the year ended December 2018. This is 1.4% lower than the number registered in the previous December year and is in line with the slowdown in national registrations. The number of commercial vehicles registered in Northland in the year ended December is just below the record level set in the 12 months to March 2018 (2198), and is considerably higher than the 691 commercial vehicles registered in 2010 during the GFC and well above the pre-GFC record of 1487 set in 2005.

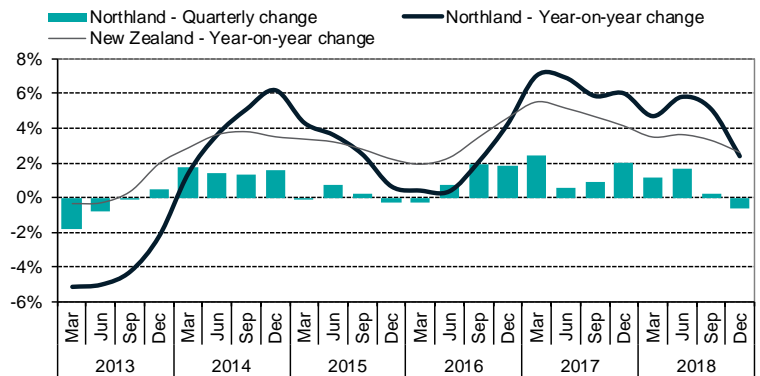


Source: Ministry of Transport

Employment activity – quarterly

Employment in Northland

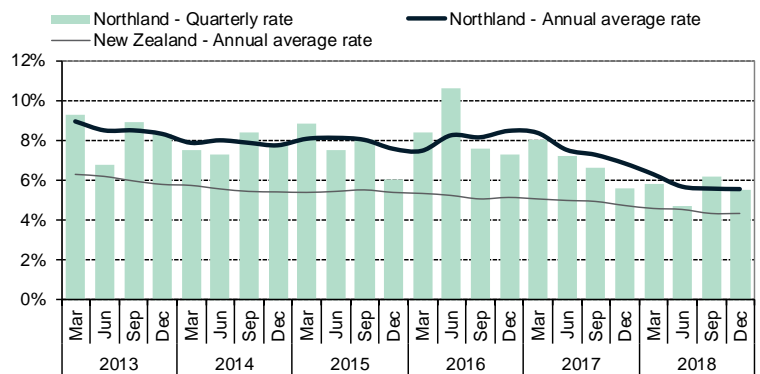
An estimated average of 83,800 people was employed in Northland (both full-time and part-time) in the year ended December 2018. The average number of people employed in Northland is 2.4% higher than one year ago and 21% higher than in 2013. The 2018 calendar year average is 500 people fewer than the record level set the previous quarter. Nationally, the number of people employed increased by 2.6% in the year ended December 2018, and 18% since December 2013. Only Auckland, Bay of Plenty and Waikato experienced a faster rise in employment during the past five months.



Source: Statistics New Zealand

Unemployment in Northland

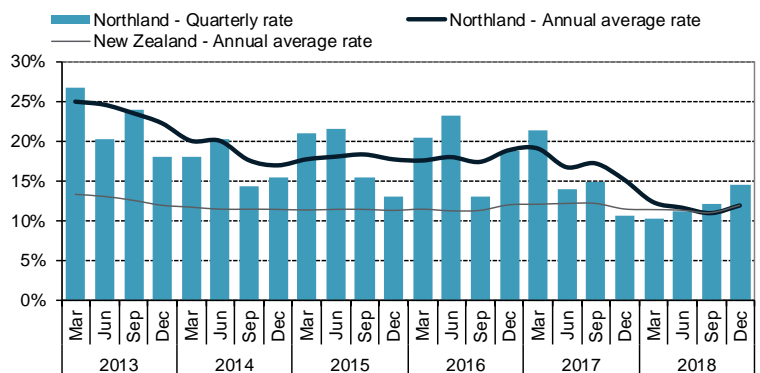
The annual average unemployment rate in Northland was 5.6% in the year ended December 2018. This is 1.3 percentage points lower than the annual average rate for 2017 (6.9%). This is Northland's lowest unemployment rate since 2008, and is only 1.3 percentage points higher than the national average of 4.3%. Northland's unemployment rate is no longer the highest of all regions; with Manawatu-Wanganui having an annual average unemployment rate of 5.7%. Southland, Canterbury and Otago regions have the lowest unemployment rates, each being below 4%.



Source: Statistics New Zealand

Youth (aged 15-24) not in education, employment or training in Northland

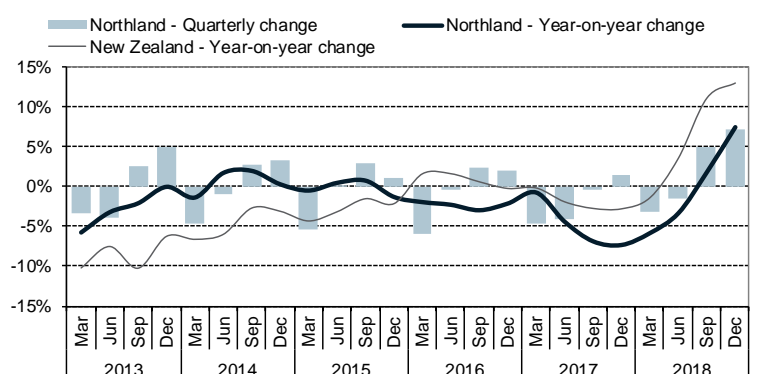
The annual average youth NEET rate in Northland was 12% in the year ended December 2018. This is slightly up on the lowest annual average NEET rate of 11.1% recorded in September 2018. The current rate is 13 percentage points below the peak of 25% recorded in March 2013. Northland's NEET rate is just above the national youth NEET rate of 11.9%. Three regions have a higher NEET rate: Gisborne/Hawkes Bay (18%), Manawatu-Wanganui (17%) and Taranaki (13%). Otago has the lowest NEET rate (8%).



Source: Statistics New Zealand

Jobseeker Support-Work Ready in Northland

A total of 4815 people in Northland was receiving the Jobseeker Support-Work Ready benefit at the end of December 2018. This is up by 331 people (7.4%) from the number in December 2017. There was a rise in the number of people receiving this benefit over the last six months of 2018, the first increase since 2015. Nationally, the number of people receiving this benefit has risen by 13% during the past year. Northland has been outperforming the national trend since 2016.

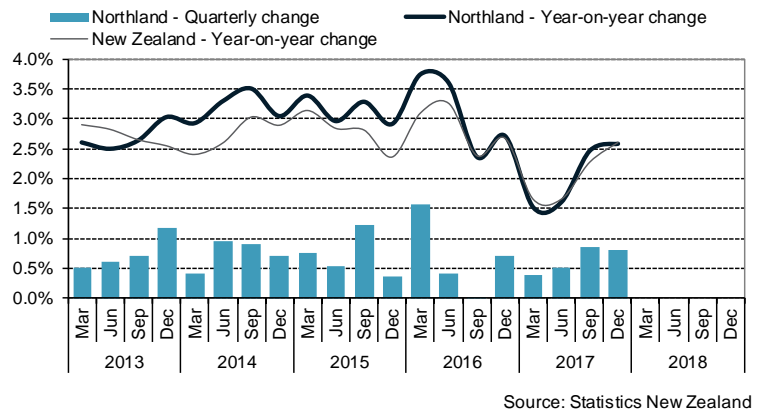


Source: Ministry of Social Development

Household welfare – quarterly

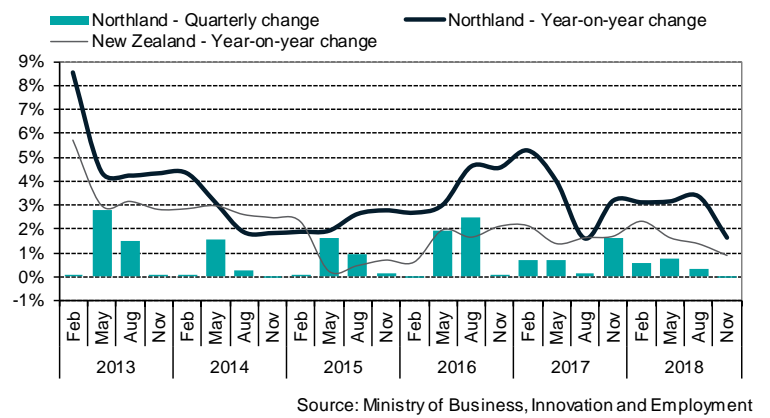
Average wage and salary earnings in Northland

The annual average wage and salary in Northland, based on the sum of mean earnings of people in paid employment for the four quarters making up the year, was \$53,300 in December 2017. Average earnings rose 2.5% in the year ended December 2017 in line with the national average increase. Average earnings grew by 5.4% in Tasman but by just 0.9% in the West Coast. Northland's average wage and salary is 89% of the national average. Only Auckland and Wellington have average earnings above the national average; Northland ranks 10th out of the 16 regions.



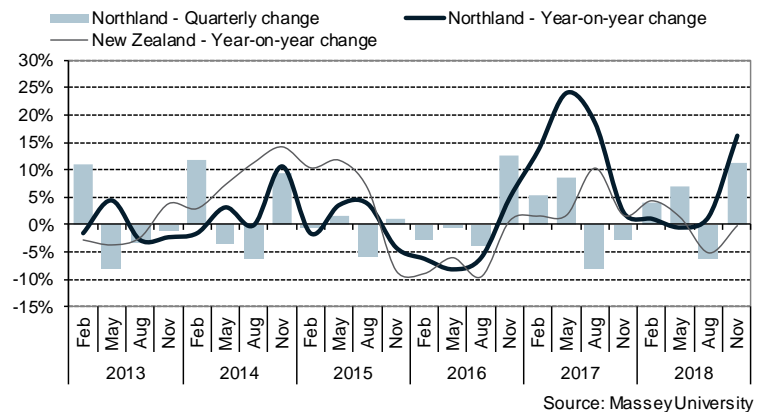
Domestic electricity prices in Whangārei

The weighted average domestic electricity price in Northland was 35.6c/kW in November 2018. This is the same as in August and 1.7% higher than in November 2017. During the past five years, the average domestic electricity price in Northland has risen by 2.8% per annum. This is faster than the national annual average increase of 1.6%. Assuming 7100kW of power is used per year, this price equates to an annual household power bill of \$2530. This is 20% higher than the national average of \$2107, equivalent to an additional \$8.15 per week.



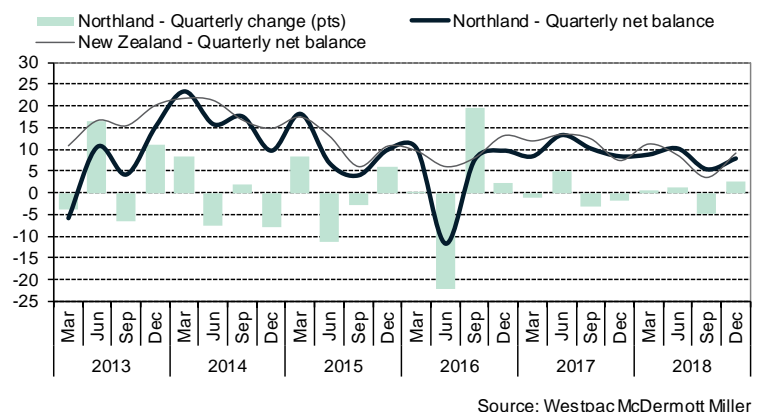
Home affordability in Northland

The Home Affordability Index for Northland (which considers the cost of borrowing as well as house prices and wage levels) rose by 16% in the year ended November 2018, indicating a sharp decline in affordability (a rising index represents a deterioration in affordability). Affordability during the past 12 months has varied among the 12 regions for which an index is calculated, with the index falling in six and rising in six, and Northland experiencing the largest percentage change. In absolute Home Affordability Index terms, Northland ranks as the fourth least affordable region.



Consumer confidence in Northland

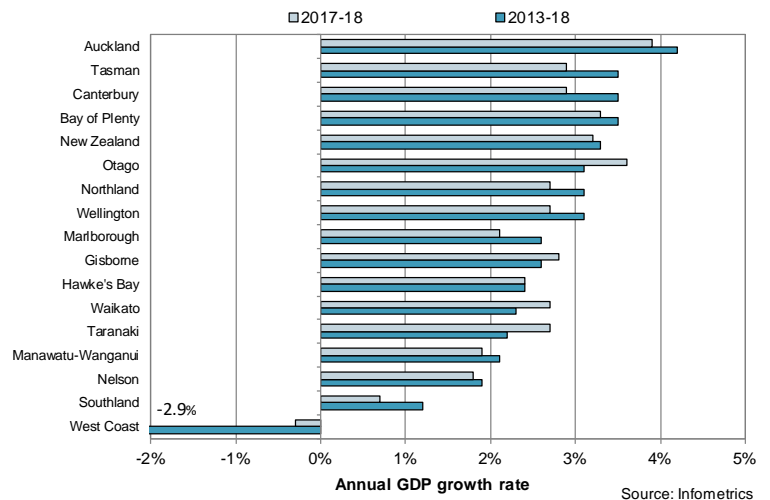
The Westpac-McDermott Miller Consumer Confidence Index for Northland rose 2.5 points to 8 in December 2018. An index number above zero indicates that optimists outnumber pessimists. This rise was in line with the rise in the national level of consumer confidence, which Northland sits just below. Consumer confidence in Northland has been relatively stable at around 10 for the past two years. Along with Northland, 10 of the 11 other regions in the data set had a rise in consumer confidence in the December quarter, with consumer confidence falling only in Taranaki-Manawatu.



Contribution to economic growth – annual

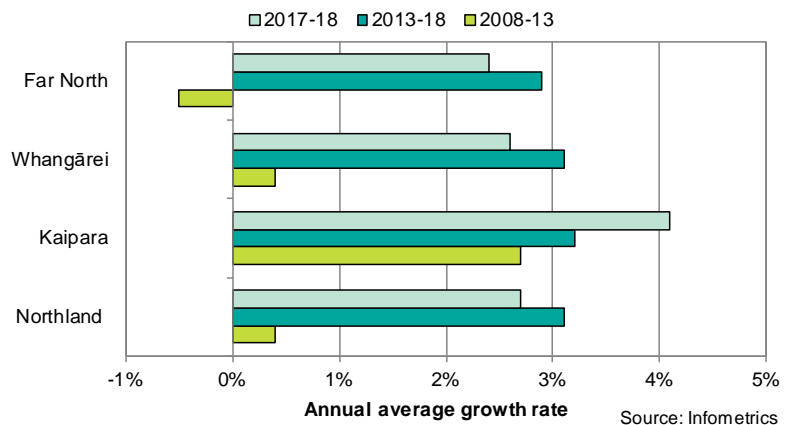
Growth rates by region

The Northland economy, as measured by GDP, is estimated to have grown by 2.7% in the year ended March 2018 to \$6.3 billion (2010 prices). This is slightly below the national GDP growth rate of 3.2%. Northland ranked sixth out of 16 regions in terms of GDP growth in 2018, with only Auckland, Otago, Bay of Plenty, Canterbury, Tasman and Gisborne growing faster. Over the five-year period 2013-18, the Northland economy grew at an annual rate of 3.1%, again just below the national growth rate of 3.3%. Northland sits towards the top of the regional pack, with only Auckland, Tasman, Canterbury, Bay of Plenty and Otago growing faster than Northland since 2013.



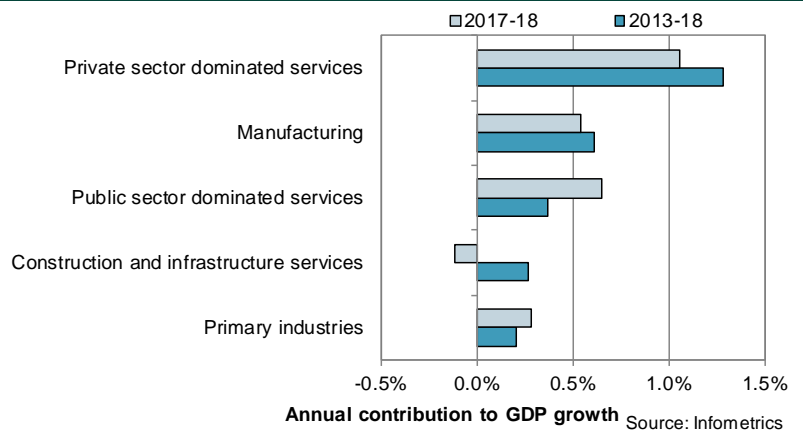
Growth rates by district in Northland

Economic growth rates can be highly divergent over the region. Over the five-year period 2013-18 economic activity grew at similar rates across the region, with annual average growth of 3.2% in Kaipara, 3.1% in Whangārei and 2.9% in the Far North. Over the preceding five-year interval 2008-13 the Kaipara economy grew by 2.7% per annum and Whangārei by 0.4%, while the Far North economy shrunk at an annual average rate of 0.5%. The economy of Kaipara is 34% bigger than in 2007 while the Far North economy is only 13% bigger.



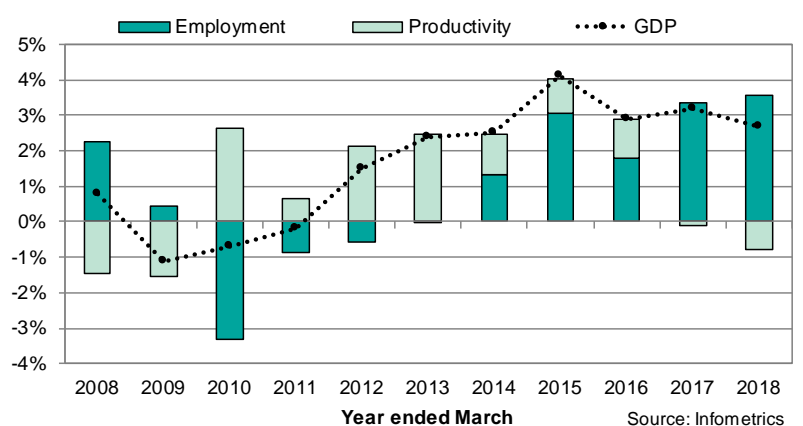
Contribution of sectors to economic growth in Northland

The main high-level sector contributing to the rise in Northland's GDP over the 2013-18 period was the private sector dominated service industries (such as retail trade), which raised the region's GDP by 1.3% per annum. Economic activity in the manufacturing sector lifted regional GDP by more than 0.5% per annum over the period. The other three high-level sectors have also contributed positively to regional economic growth, but at a lower level of 2-4% per annum.



Contribution of employment and productivity to economic growth

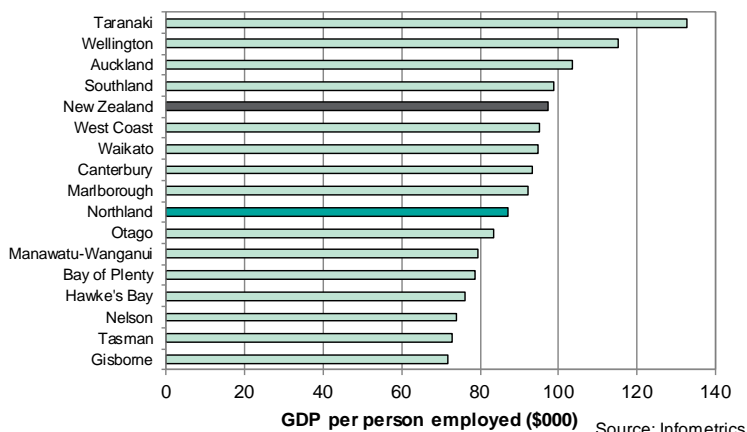
It is also useful to analyse GDP growth in terms of employment and productivity (GDP per filled job). A notable feature of Northland's GDP growth over the past five years was the positive contribution of employment. This had not been a feature of Northland's economic growth during 2010-13 when the number of filled jobs fell. There has been a slight fall in the average GDP produced per filled job over the past year, indicating that there is perhaps a capacity constraint in the local economy and a requirement for further capital investment.



Spotlight – Annual economic profile

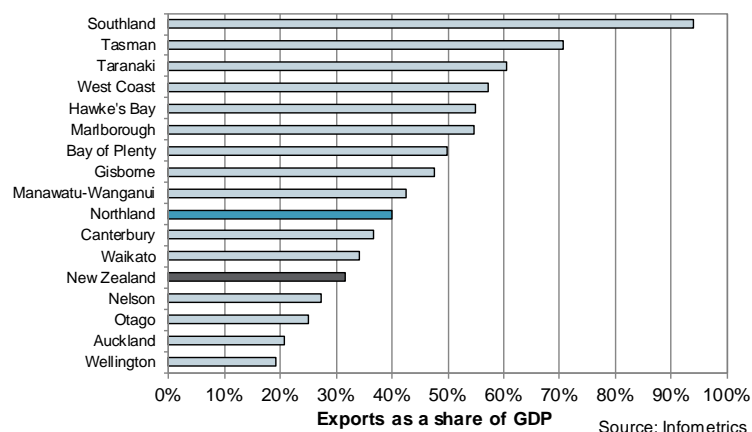
Labour productivity by region in 2018

Labour productivity in Northland, as measured by GDP per filled job, was \$87,200 in the year ended March 2018. This is 10% below the New Zealand average of \$97,200. Across the regions, Northland ranks ninth out of 16 in terms of labour productivity. Only four regions, Taranaki, Wellington, Auckland, and Southland have an average GDP per filled job level above the New Zealand average. Over the last five years, Northland's labour productivity has increased in real terms at an annual average rate of 0.5% per annum. This is slightly slower than the New Zealand annual increase of 0.7%.



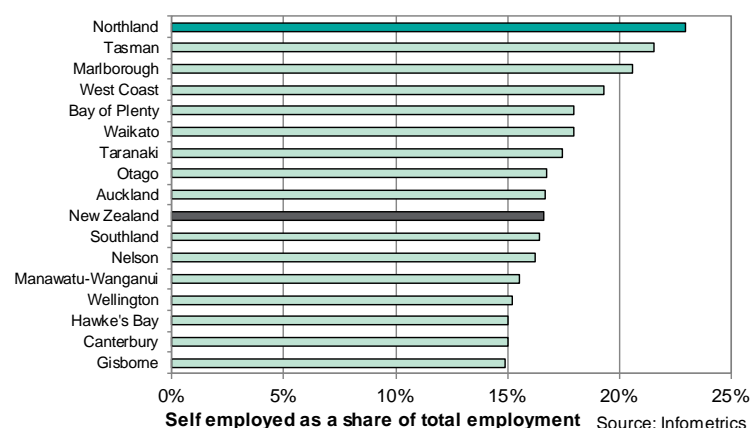
Export orientation by region in 2018

The export orientation of a region can be measured by an estimate of the value of exports to GDP. In Northland, this was 40% in 2018, significantly higher than the national level of 32%. Northland ranks tenth out of the 16 regions in terms of export orientation. Southland has the highest export orientation with a value of exports to GDP value of 94%. The importance of exports to the Northland economy is significantly larger than in Auckland and Wellington where exports represent 20% or less of GDP.



Self-employed by region in 2018

Northland has the highest level of self-employment among the 16 regions of New Zealand as shown by the share of self-employment in total employment. One in four people in Northland is self-employed compared to the national average of one in six. Between 2000 and 2006 there was a large drop in Northland's self-employment rate from 28% to 23%, after which the self-employment rate has stayed relatively constant. A smaller trend is observed at the national level, falling from 20% in 2000 to 17% in 2006, and then stabilising at this level since then.



Industrial diversity by region in 2018

The Herfindahl-Hirschman Index (HHI) measures the level of diversification in an economy. An index of 0 represents a diversified economy with economic activity spread across all industries. The higher the index, the more concentrated economic activity is in a few industries. In 2018, the HHI for Northland was 23.2, ranking it as the seventh most diversified region in New Zealand. Taranaki and Wellington are the least diversified economies, while Hawke's Bay and Tasman are the most.

