



# Auckland **Economic** Quarterly

Chief Economist Unit

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## Journey to the centre of the city

### *Pandemic impact on Auckland's major centres*

- The number of people in Auckland's city centre on the average workday in Level 1 is about 80-85% of pre-lockdown levels, but car traffic into the city is at over 90% of pre-pandemic levels.
- High personal vehicle usage, combined with CRL construction and road works, means that congestion in the city centre is basically what it was pre-COVID. We're getting all the costs but none of the benefits.
- Some, but not all, lost city centre spending appears to have shifted to other major centres in Auckland.
- With New Zealanders spending holiday budgets at home, and with a wealth effect stimulated by an overactive housing market, there's enough stimulus for all our centres to get a piece of the pie.

All of New Zealand has been impacted by the effects of closed borders and lockdowns. [A previous paper](#) talked about some of the challenges the city centre is facing, but questions remain about the **relative** impacts on Auckland's city centre and other major centres. A further question is how the council, central government and the private sector can aid the recovery.

### **A hollowing core**

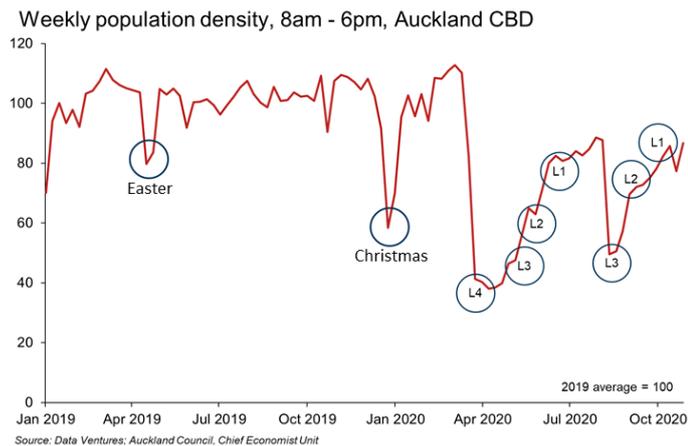
Auckland's city centre dominates commercial activity for the whole country, particularly for high-end services. It has also been growing massively, both commercially and residentially, over the past 20 years. The resident population of the city centre is estimated to have increased about 30% over the last 10 years (and quadrupled since the turn of the century), and the number of pedestrians on Queen Street [doubled](#) between 2012 and 2017. But we know that the city centre has been ailing since COVID-19 struck.

Businesses, especially those that serve office workers and tourists in the city centre, are struggling. No international tourists, fewer foreign students, higher unemployment and more working from home is bad news for the city centre.



Using Data Ventures [population density data](#), we can see how many people are in the city centre at any time. This is a rich dataset, with many possible routes for analysis. However, one of the easiest is also quite illustrative. We have the average population present in the city centre during working hours (8am to 6pm) on non-holiday weekdays (that is, on days we'd expect lots of commuters in the city).

Looking at 2019, people follow a predictable pattern with dips in population around holidays and peaks when university students return. At first, the pattern for 2020 mimics 2019 – until COVID became a major issue in mid-late March.

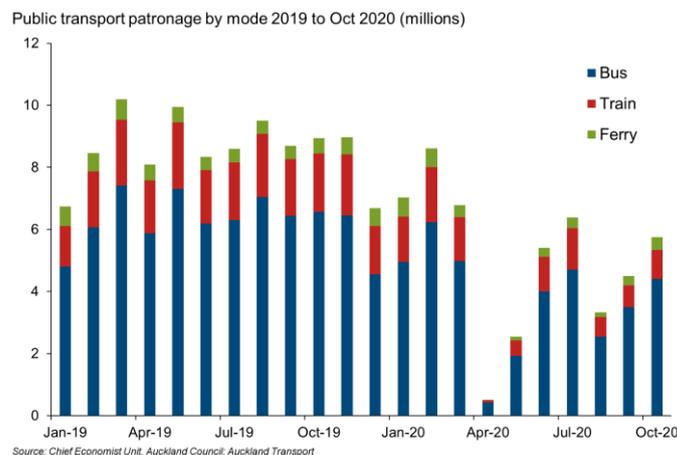


At Level 4, the population present in the city centre dropped to about one-third of what it is normally. Under Level 3, it fell about 45% and under Levels 2 and 2.5, the city centre population present was about 70% of normal. Under Level 1, we've seen population present in the city centre return to about 80-85% of pre-COVID levels. Whether this improves over time remains to be seen, though the first week of November was nearly identical to the last week of October. More encouraging is that at each alert level in wave two, more people were in the city centre than the corresponding level in wave one.

Though the population present in the city centre during the workday is down from last year by 15-20%, and commuting into the city is down about 25%, city centre travel times (obtained from Auckland Transport) are not dissimilar to the same time last year.

This congestion can be almost entirely explained by the fact that private vehicle traffic is at more than 90% of the level it was at the same time last year, but that public transport (PT) usage is down significantly. Bus ridership is down to two-thirds and train ridership is barely above half of what it was in October 2019.

Whether PT usage is down because of health concerns or something else, we don't yet know. We are getting all the costs of pre-COVID congestion but without the benefits to city centre businesses of people streaming into the city. However, to get more people back into the city centre, it's imperative that we get more people riding PT.



## The centres of our attention

Even so, roughly five in six Auckland jobs are not in the city centre. Coming out of the lockdowns, a widespread effort was made to support New Zealand-owned businesses. Central government's "buy-local" [campaign](#) was launched to get people to spend their money locally and we began to hear that some centres were doing better post-COVID lockdowns than before COVID.

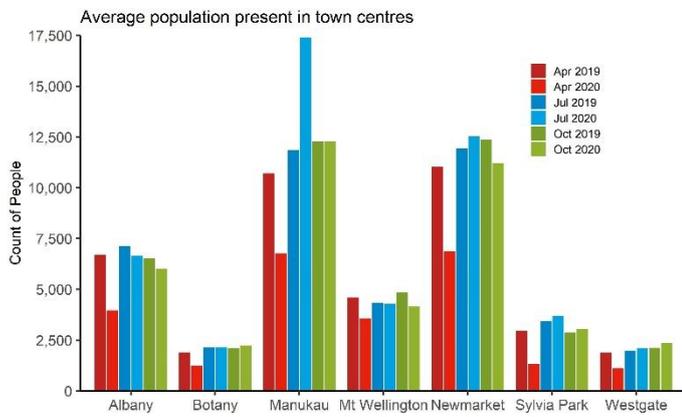
This view was despite the acceleration in online shopping during lockdown, in part facilitated by massively [accelerated](#) prioritising of technology by many organisations; and any lingering nervousness among Aucklanders after the scare of the second lockdown.

But with more people working from home, we could anticipate that more people are shopping or eating lunch locally – money that probably would have been previously spent in the city centre.

So, what does the data actually show? In summary, mixed outcomes across major centres.

During April (Level 4 mostly), all these major centres saw population present (24-hour averages) fall compared to the previous year. But in the July comparison (first round of Level 1), most saw the average number of people present equal or rise to above the number they had last year. The second round of Level 1 (October) has been a little more mixed. Three of these centres are down significantly, one is roughly the same and two are up. But perhaps most importantly, none of these centres have seen declines as large as in the city centre.

This suggests that when Auckland came out of its two lockdowns, people were quick to return to some major centres, but not the city centre – which is consistent with the fact that electronic card spending data showed strong levels of recovery in these areas.



Sources: Data Ventures; Chief Economist Unit, Auckland Council

## Centre-left? Centre-right? Centre-city?

It's increasingly clear that more people, post lockdowns, are opting for the experience that major centres have to offer rather than the city's golden mile. Whether this is a function of the return to congestion getting into the city,

nerves about PT use, or more working from home, or all of these, is uncertain.

But the city centre is important to Auckland and New Zealand. It was, and will again become, the destination for international arrivals, it remains the hub of all our highest-end service businesses. But with uncertainty about when things will return to "normal", whatever that is, we're going to have to make it an offering not easily traded-off against other major centres.

We need to find a way to encourage workers back into the city centre – and get them to use PT when they commute.

At the same time, we don't want to stop people from visiting and spending in our other major centres. But with New Zealanders spending overseas holiday budgets here at home, and with a wealth effect stimulated by an overactive housing market, there's enough stimulus around for all of our centres to get a piece of the pie.

# Economic Commentary: A year we won't forget

David Norman

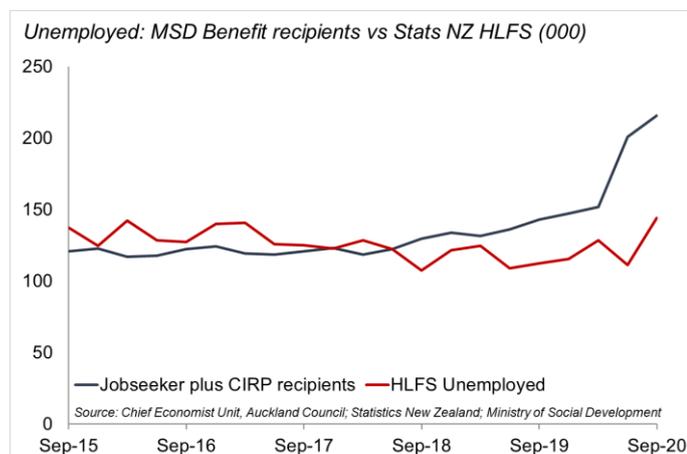
Chief Economist, Chief Economist Unit

- Economic data continues to surprise on the upside. I'm hard pressed to think of an indicator that has come out worse than expected in the last three months.
- Still, 80,000 people have lost their jobs in New Zealand since March, and the true unemployment rate is likely well above the official September figure.
- As a country, we have learned a lot through this year about resilience, sometimes through trial and error.
- There is still a mountain to climb as we face 2021.

The textbooks never teach you how to forecast economic outcomes based on public health alert levels. Yet here we are, almost through a year we won't ever forget.

## The headlines

Around 80,000 people have lost their jobs since March, and the unemployment rate has surged to, in our view, significantly above the official estimate of 5.3% for New Zealand and 5.6% for Auckland.



A second lockdown and a lower level of wage subsidy support than during the first lockdown mean Auckland's unemployment rate has risen faster than elsewhere.

Auckland's GDP fell about 13% in the June quarter, the biggest ever decline. That's what happens when you shut down huge swathes of your economy for weeks to prevent a lethal virus from spreading through your population.

We are not out of the woods yet. Even without further lockdowns, it is likely the unemployment rate will rise. We anticipate it will peak around 7% although the official measures may show it peaking at lower.

## What we have learned

We have learned a lot in 11 months:

- The pandemic can be beaten back through quick, decisive action; inaction or complacency literally kills.
- The relative merits of our approach have yet to be calculated. This will be the subject of endless empirical studies in years to come.
- Ongoing process improvement must occur to overcome gaps we never knew existed just a few weeks ago, particularly at the border.
- Technology has taken a leap that may otherwise have taken years. Many businesses were not ready.
- Necessity breeds innovation. Never in history has so much money been thrown at defeating a single disease. Vaccines and treatments have developed at record speed, and mortality rates globally have plummeted even as the virus spreads.

## What economists got wrong (and right)

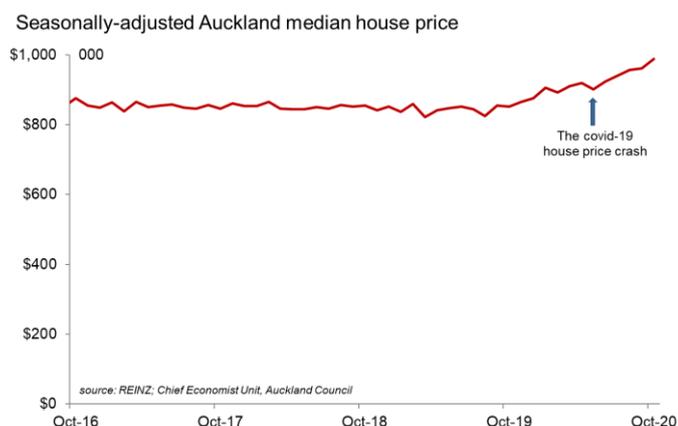
In the first week of April, I said that what many other commentators were suggesting – that the lockdown could last six to 12 months – was never going to happen, regardless of whether we beat the virus. The country could not sustain more than four months of lockdown without irreparable economic and political damage.

I still hold that view. I suspect a further six to eight weeks of Level 4 and Level 3 nationally would be possible before the economic ability to pay for, and public support for, such measures would wane and we would need to move into more of a "COVID as part of life" scenario.

That is one of the few things I got right. I take little comfort from being perhaps the "least wrong" among major commentators with a view on house prices, and even less from the fact that our unemployment views were among the most pessimistic.

In fact, practically every indicator has turned out **less bad** than we thought would be the case.

- GDP fell "only" 1.6% in March, and 12% in June.
- More people could work under each level than at first expected. Even so, around 200,000 Aucklanders could not work at Level 3.
- As a result, unemployment has "only" risen to (our estimate) a little over 6% in Auckland.
- Retail trade bounced remarkably.
- Air New Zealand is getting close to 90% of pre-pandemic domestic capacity.
- Business confidence is now higher than in September 2019, when GDP was growing around 2.3% in Auckland and unemployment was 4%. That also says something about confidence measures.
- House prices surged as 10% unemployment did not materialise, interest rates plummeted and loan-to-value ratio restrictions were removed.



- Consequently, residential development reached record levels, especially in Auckland.

## Ongoing risks

But several ongoing economic risks worry me.

- Once the “maths” of recovery has moved through, where will economic growth come from in late 2021?

- How do we deal with city centres being hollowed out by the loss of tourists, international students, lower employment, and more people working from home?
- Where will the builders come from to build the 15,470 dwellings consented in the last year, especially with borders closed and an Australian economy (outside of Victoria) that has performed better than New Zealand’s now offering one-way quarantine-free travel to New Zealanders?
- When will we have a safe border policy that will allow sufficient skilled migrants and foreign students in?
- When will the “shovel-ready” projects, needed for jobs and the big infrastructure deficit, actually begin?
- Inequality is rising. Fiscal policy must work with monetary policy to avert an even greater divide between landowners and renters as house prices skyrocket. Ironically, rapid house price rises give developers confidence to build more homes. We still have a shortage of 28,000 in Auckland.

Data summary provided by [Ross Wilson](#) - Analyst, RIMU

Indicator	Sep-20 quarter	Jun-20 quarter	Sep-19 quarter	5-year average	Rest of New Zealand Sep-20 quarter
<b>Employment indicators</b>					
Jobseeker support recipient growth (%pa)	54.0%	46.6%	14.1%	13.3%	37.9%
Annual employment growth (%pa)	-1.3%	0.0%	-0.2%	2.9%	1.1%
Unemployment rate (%)	5.6%	4.0%	4.2%	4.6%	3.9%
Unemployment rate among 20 to 24 year olds (%)	10.4%	8.5%	9.5%	9.2%	9.9%
Unemployment rate among 15 to 19 year olds (%)	17.5%	13.5%	17.1%	19.5%	19.5%
<b>Earning and affordability indicators</b>					
Annual nominal wage growth (%pa)	2.4%	-1.1%	3.1%	2.5%	2.5%
Annual geometric mean rent growth (%pa)*	2.7%	1.5%	1.4%	2.7%	4.4%
Geometric mean rent to median household income ratio (%)*	26.7%	27.4%	26.6%	27.5%	24.5%
Annual median house price growth (%pa)*	12.6%	8.4%	0.2%	4.1%	15.4%
Mortgage serviceability ratio (relative to Dec-06)*	7.2%	8.3%	8.4%	-0.2%	18.2%
<b>Construction</b>					
Annual new residential building consents growth (%pa)	5.7%	5.3%	13.0%	12.2%	2.0%
Annual m2 non-residential building consent growth (%pa)	-29.1%	-42.8%	-2.5%	-0.9%	-4.3%
<b>International connections</b>					
Annual Auckland Airport passenger movements (%pa)	-49.2%	-26.3%	1.7%	-8.4%	NA
<b>Confidence</b>					
Annual retail sales growth (%pa)	0.0%	0.4%	4.5%	4.6%	0.0%
Quarterly Survey of Business Opinion (net optimists)	-32.1%	-59.0%	-38.4%	-12.1%	-43.2%
Westpac Consumer Confidence*	91.6	96.0	106.7	108.1	95.1

Sources: Chief Economist Unit, Auckland Council; Statistics New Zealand; Ministry of Business Innovation and Employment; Real Estate Institute of New Zealand; New Zealand Institute of Economic Research; Westpac; Reserve Bank of New Zealand; Ministry of Social Development. \* Rest of New Zealand figures are for all of New Zealand including Auckland. Data is not seasonally-adjusted.

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