



COVID-19 Economic Impact in Auckland

Executive Summary | *Auckland's Future, Now*

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Presented by

COVID-19 Economic Impact in Auckland

The COVID-19 pandemic has created the most significant global economic event in a century. Governments around the world have enacted sweeping changes to prevent economic freefall, but there is no playbook. Whether these actions are effective in protecting lives and livelihoods remains to be seen.

Aotearoa New Zealand's response to the health crisis presented by COVID-19 has been world-leading. The lockdown gave us a glimpse of what we can achieve together as strong, interwoven and committed communities that are dedicated to resolving a health crisis.

It's clear though that there will be long lasting consequences for Tāmaki Makaurau Auckland's regional economy, which is in a fragile state. How can we now embrace an unprecedented opportunity to respond together to address the economic impact of this once-in-a-lifetime crisis?

As business leaders and economic decision-makers, it is up to us to take this further, so that the resilience, vibrancy and economic development potential of our region is matched by the passion of our businesses and policy-makers to help create a more prosperous, equitable and regenerative economy for Auckland.

This paper provides economic context, analysis and commentary, to facilitate the discussion that will take place at *Auckland's Future, Now*. This will be a forum for an open, honest conversation on Auckland's future, and how together we can recover our business confidence and our lost livelihoods by developing an action-based agenda for our region.

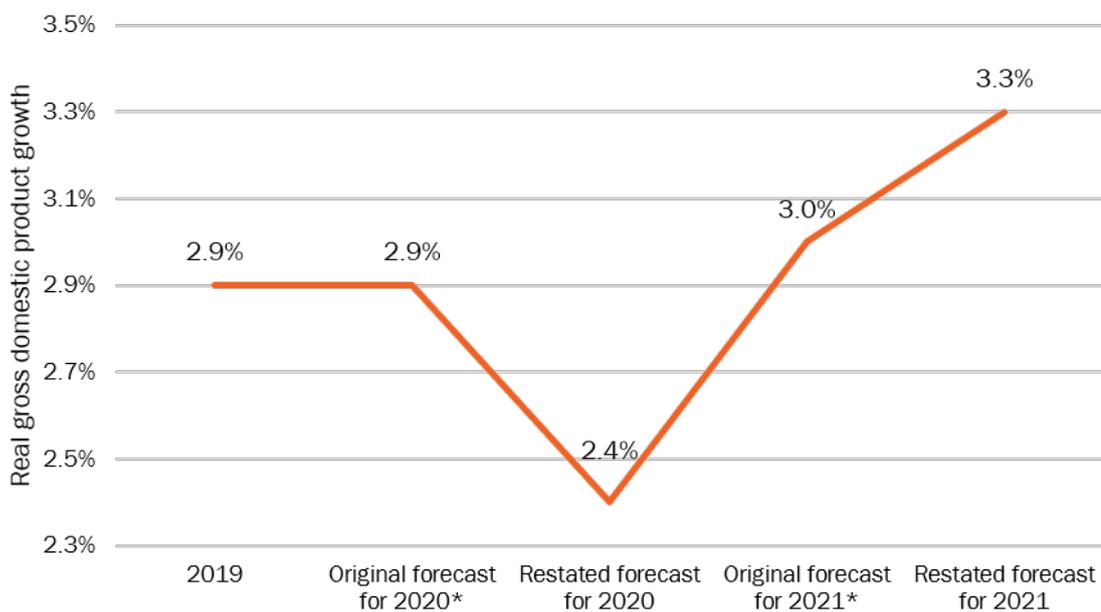
Through *Auckland's Future, Now*, we will develop an agenda together for a more prosperous Auckland that supports not only its communities in accessing livelihoods, but also its vibrant businesses, while rebuilding a more sustainable and thriving region that is loved by residents and visitors alike.

Global impact

The immediate global economic impacts of COVID-19 have been significant. Restriction of movement to control the spread of the virus, people's change in behaviour, and massive trade and travel disruption have taken a heavy economic toll. The forecasted fall in global GDP is much steeper than the contraction recorded during the Global Financial Crisis (GFC) of 2008–9,ⁱ with the global fall in quarterly GDP in the second quarter of 2020 expected to be the sharpest since records began.

Nearly all economies are entering recessions of unprecedented severity, with significant job losses predicted. Continued economic pressure will almost certainly continue until 2021ⁱⁱ and a return to pre-recession levels is unlikely before 2022 – with some scenarios prolonging recovery even longer.ⁱⁱⁱ

Graph 1: Forecasted global real Gross Domestic Product (GDP) growth due to the coronavirus (COVID-19), from 2019 to 2021



Source(s): as of March 2020, ATEED, OECD; ID 1102889

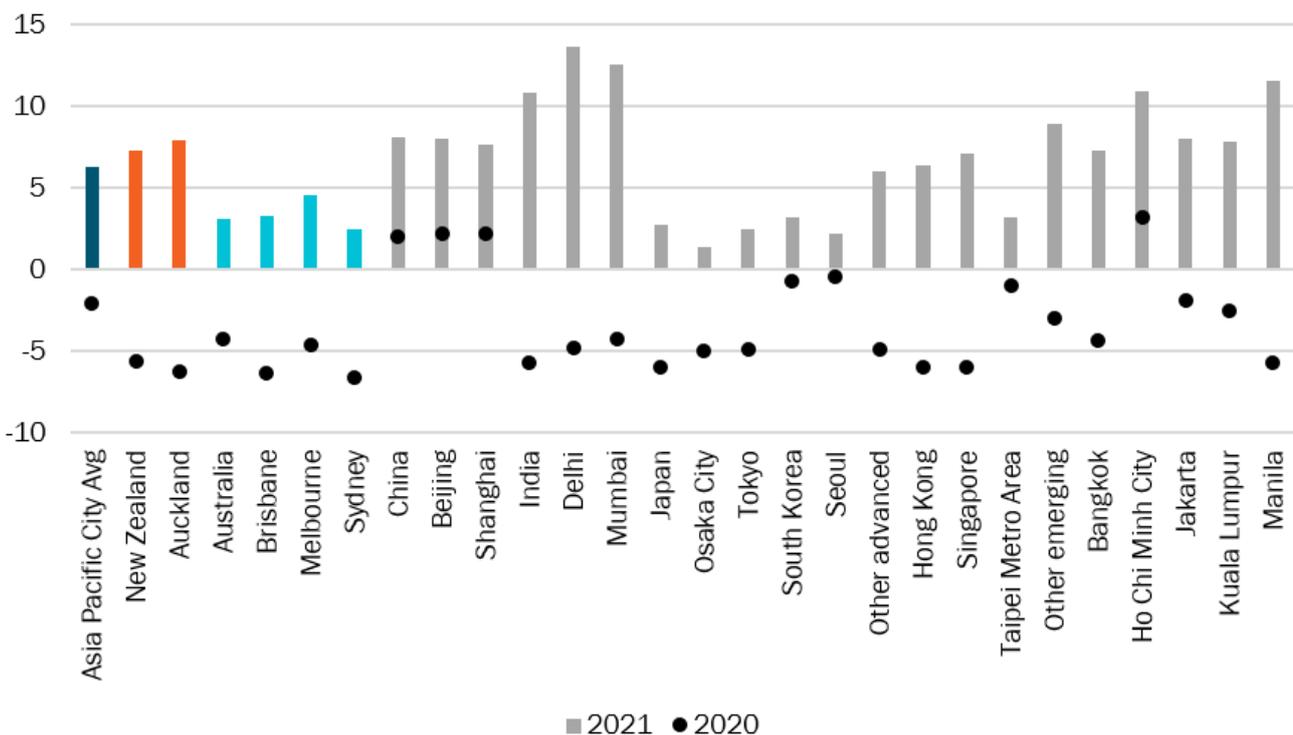
Closer to home, Asia Pacific cities have seen significant GDP declines, though a faster recovery in 2021 is expected as their ability to manage the underlying public-health crisis has been relatively effective.

Impacts are particularly severe for those economies that have a higher international exposure based on their tourism market and global trade – factors which impact Auckland significantly.

Economic impact on Auckland

Auckland’s GDP is forecast to decline by 6% in 2020 compared with a national 5.6% fall. But while Auckland has experienced a more significant fall, the expectation is for a strong recovery in 2021.

Figure 1: GDP Change % y/y 2020/2021 for Major Pacific Countries and Cities



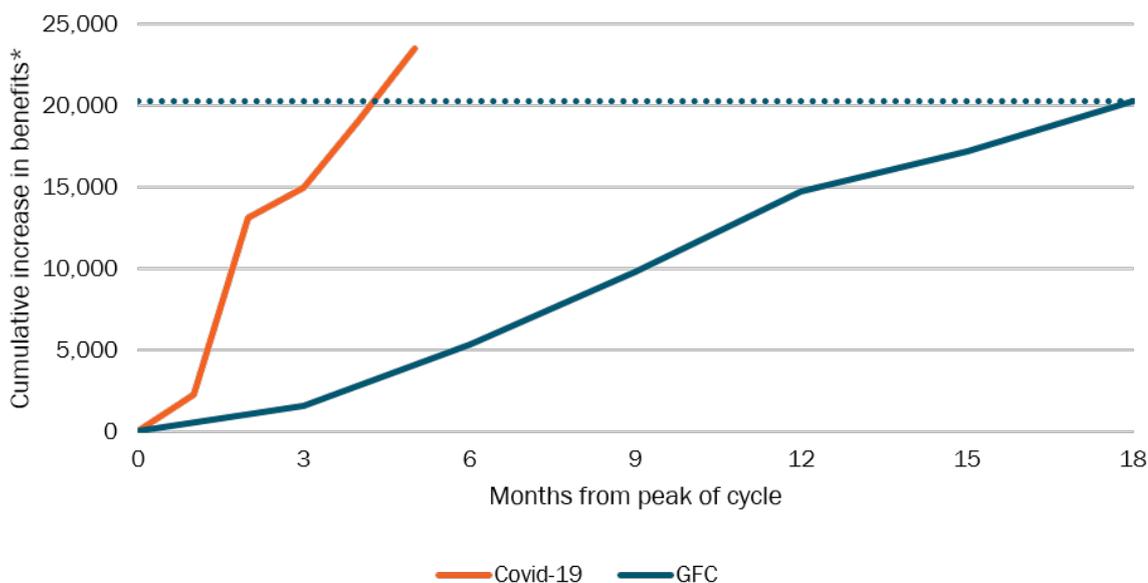
Source: ATEED, Oxford Economics 2020, Statistics New Zealand 2018, National Accounts

Auckland makes a large contribution to GDP for New Zealand. The region's contribution to GST on production, import duties and other taxes was \$9.3 billion alone for 2018 which is approximately 4.5 times greater than any other contribution nationally from any other region.

The higher decline for GDP for Auckland in comparison to national level reflects our greater concentration of sectors susceptible to disruption during a pandemic when compared to the rest of New Zealand (including manufacturing, wholesale and retail, hotels and restaurants, and 'other' services including culture and sport, gyms, hairdressers).^{iv}

The scale of potential job losses in Auckland due to the pandemic is more severe than in the rest of New Zealand largely due to the scale of international tourism and international education in our region, and our internationally oriented business profile.

Graph 2: Change in Unemployment Benefits from Peak Economy: Auckland



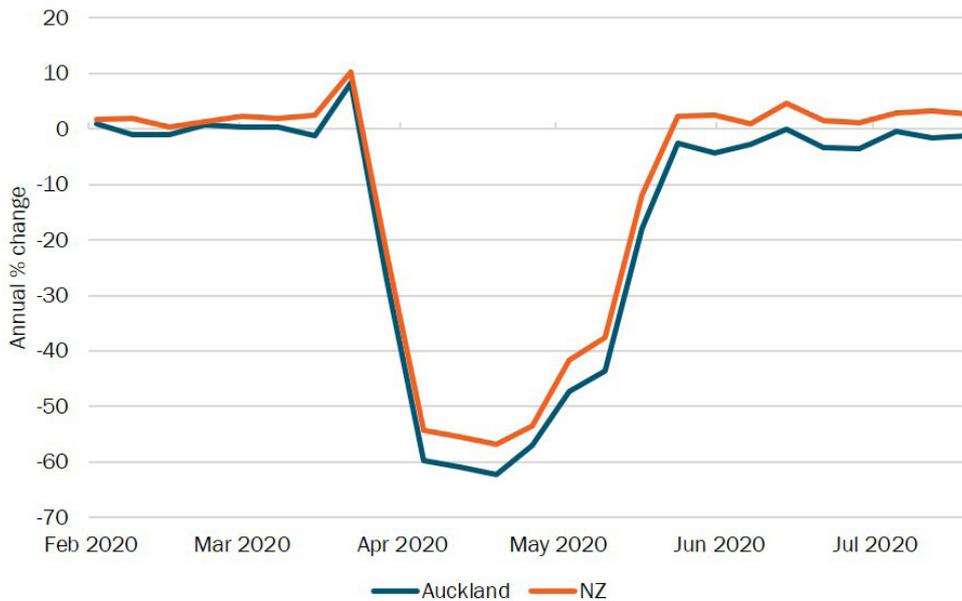
*Benefit regimes are different, so there is need to exercise caution. Includes Covid Income Relief Payment.

Source: ATEED, MSD, Sense Partners calculations

Nearly 23,500 people in Auckland have accessed welfare due to job losses since February 2020, compared to 20,000 job losses over an 18-month period during the GFC in 2008–9. In mid-July 2020, 70% of jobs were being supported by wage subsidies. As these subsidies expire in coming months, the risk of job losses will increase. We estimate that Auckland's job losses may total 40,000–50,000 over the course of this recession.^v

On a positive side, consumer spending is largely back to pre-lockdown rates, having bounced back faster than anticipated despite inbound tourism stopping entirely.

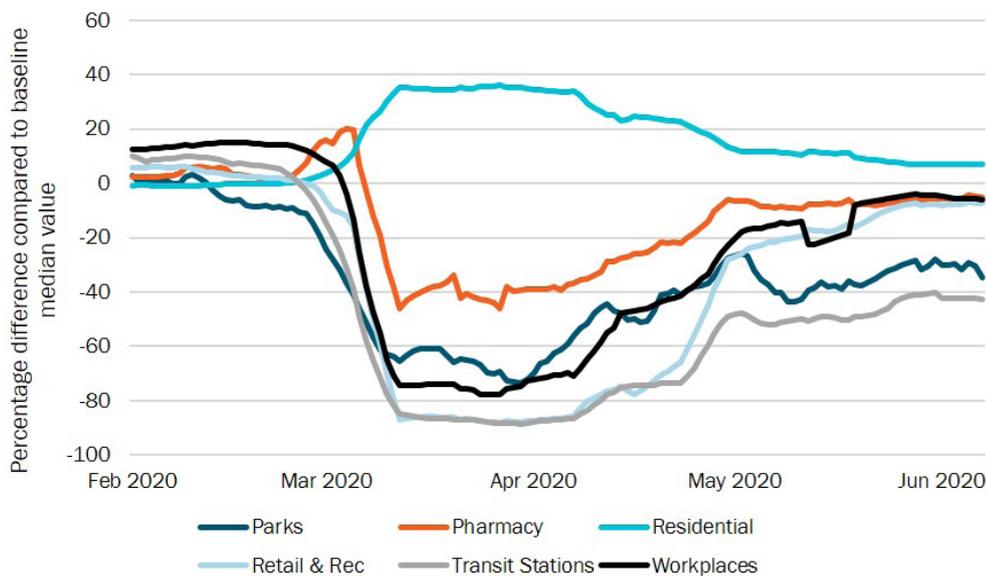
Graph 3: Auckland & NZ: MarketView-Paymark Consumer Spending Growth



Source: Market View- Spending Data July 2020

Measuring Aucklanders’ general mobility is a useful proxy for understanding their economic activity. Analysing movement of individual cell-phone patterns across the city shows a clear decline during lockdown in all areas outside the home, with a return to workplaces and public transit slow to recover.

Graph 4: Google Mobility Data for Auckland



Source: Google - Auckland Mobility Data February to June 2020

Urban inequalities – impacts of COVID-19 for prosperity in Auckland’s south and west

Despite Auckland having more employment and education opportunities than any other region in New Zealand, it has more pronounced challenges in inequality due to our larger scale. These have been amplified due to COVID-19. ATEED analysis shows 50,000 young Aucklanders will not be in employment, education or training (NEET) over the next 24 months, with a large majority of these people being hard to reach and most likely to have high or very high needs in accessing skills and jobs that are not currently addressed by social services.

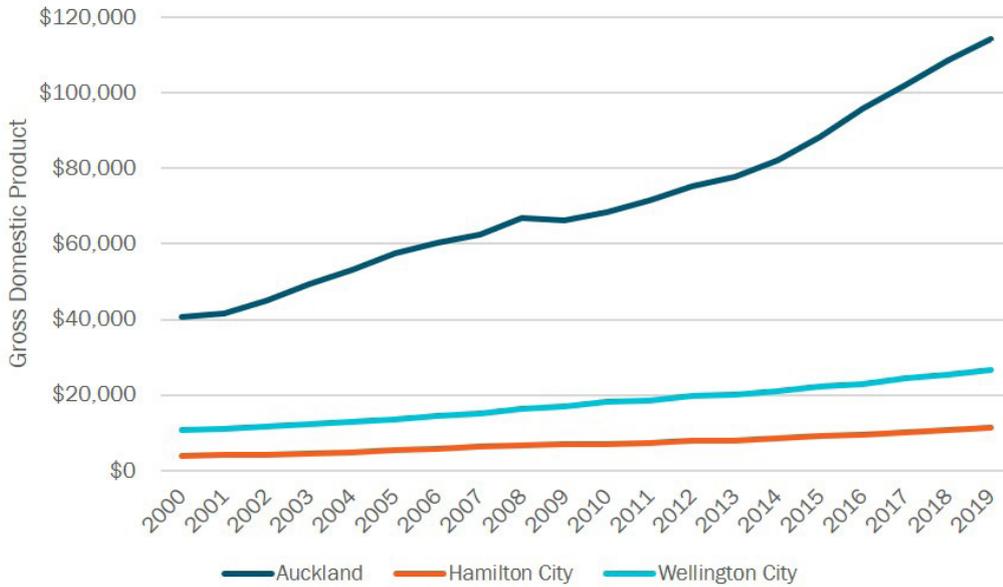
In fact, the deprivation index maps of New Zealand for 2018 and 2013^{vi} show that pockets of highest need are more prevalent in Auckland than in the rest of New Zealand. Auckland Council’s distribution of food parcels is predominantly higher in parts of south and west Auckland, confirming a disproportionate impact of COVID-19 in these communities.

Auckland’s unique economy: Structural advantages and challenges

Auckland’s economy is structurally different from the rest of New Zealand, having a more complex regional economy that is large and diverse, contributing more than 38% to the national economy, with almost 34% of New Zealand’s population residing in Auckland.^{vii} Auckland has added jobs at a faster rate than the rest of the country, with annual employment growth at 3.3% from 2014-2019, as compared to 2.6% for the rest of New Zealand.

For the year 2019, the total employment numbers for Auckland were 904,300, representing almost 36% of those employed in the country, while the regions of Wellington and Hamilton had an employment level of 292,100 and 95,700 respectively.^{viii}

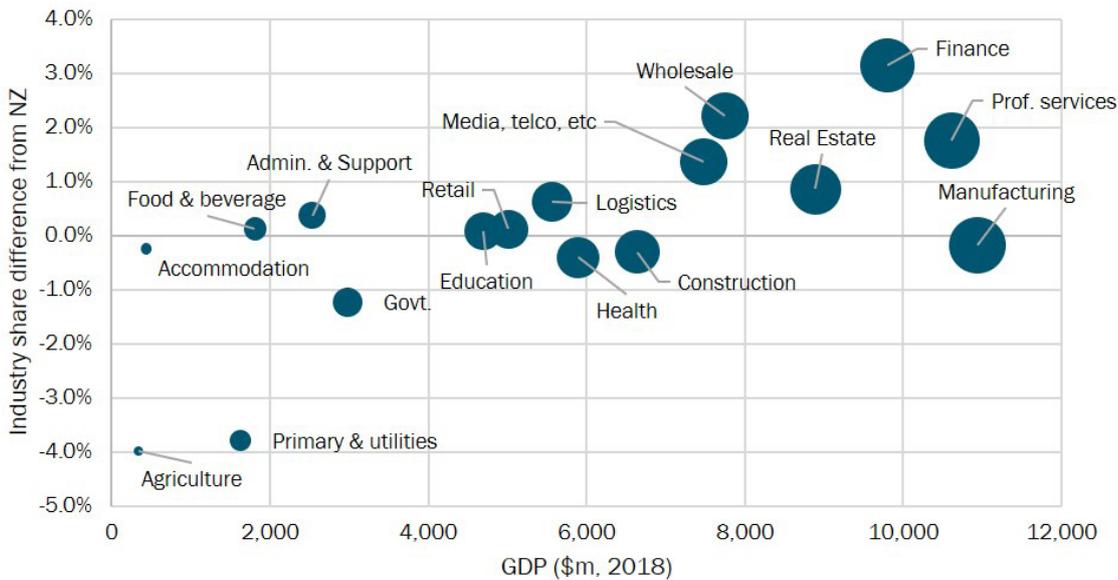
Graph 5: Gross Domestic Product (\$) 2000 to 2018



Source: Statistics New Zealand 2018 SOLGM/ATEED

Auckland’s size also means that it hosts a large number of manufacturing and logistics firms. The many local jobs and the economic volume tied up in these activities means that Auckland’s supply chain shocks are more pronounced.

Figure 2: Composition of Auckland’s economy by size of sector and differentiation from RONZ

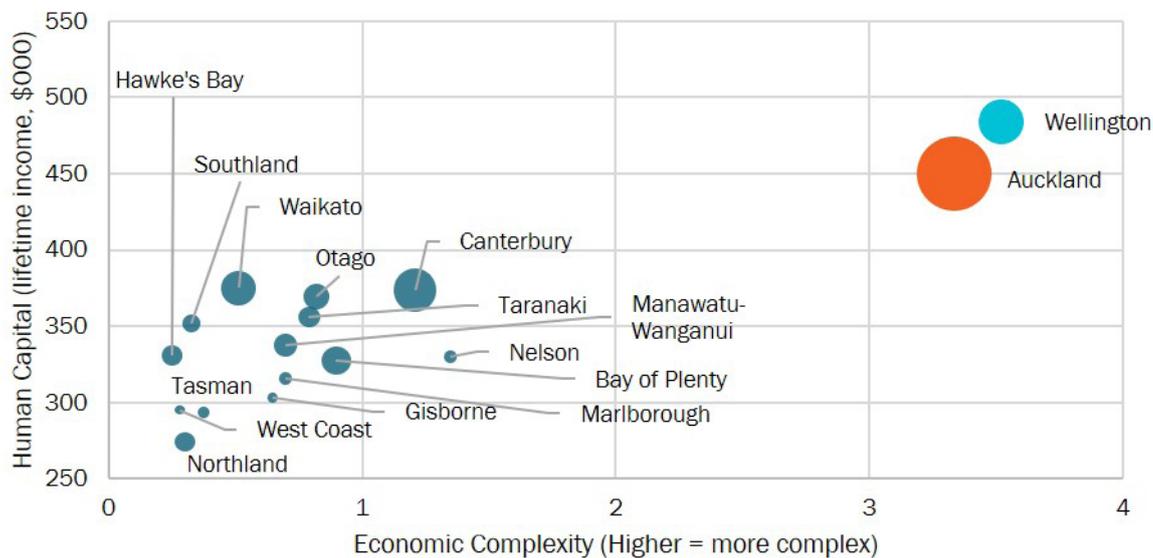


Source: MBIE, Sense Partners

Strength in scale, diversity and specialisation

The economic impact in Auckland will be different to that felt elsewhere in New Zealand. Auckland is much more exposed to import shocks than declines in exports. International visitors contribute significantly to our regional economy, as do international students, but the economy is also large and diverse, with deep specialisation. Auckland has a strong and flexible labour market and high population mobility, which will boost economic dynamism and lifetime incomes. This will enable Auckland to be more resilient to shocks and better able to bounce back.

Figure 3: Auckland and Wellington are the Big ‘Agglomeration’ Economies of New Zealand



Source: Sense Partners



Auckland's global interdependence and exposure

Global trade affects nearly one-third of all jobs in Auckland, with nearly twice as many in imports as in exports. This differs from other New Zealand provinces, where global exposure is predominantly through exports. Recent analysis conducted by ATEED and Sense Partners using the STORM^{ix} model to understand the implications on trade due to COVID-19 indicates a large number of Auckland's jobs are reliant on trade and travel:

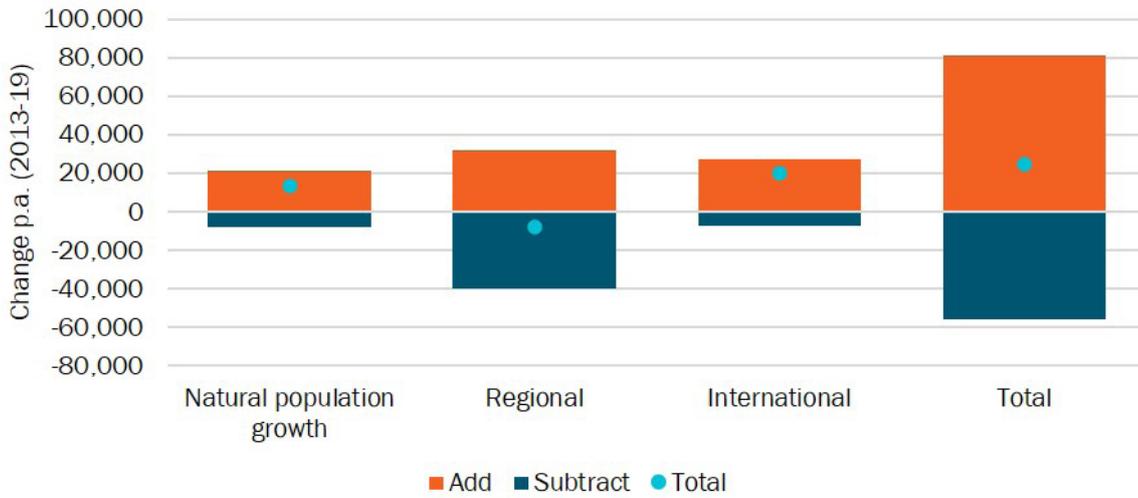
- 145,000 jobs on goods imports;
- 81,000 jobs on goods exports;
- 31,000 jobs on international tourism
(although a further 24,000 are reliant on domestic tourism); and
- about 30,000 on international education.

International tourism, which formerly contributed \$6.5b of spending to Auckland's economy,^x has evaporated. International education, worth about \$2.8b to Auckland,^{xi} is also largely on pause. International investment is an opportunity, thanks to successful containment of COVID-19 so far, giving us a head-start on repairing and normalising our economy.

An international city with an international population

Auckland is heavily reliant on international migration and tighter borders will impact our economy. Population growth drives demand and economic growth, as does the supply of prime-age and highly-skilled workers, who increase the economic capacity of the region. Over recent years, the region's population growth has averaged 25,000 people per annum^{xii} and improvements to Auckland's GDP have largely tracked our population growth. Per-capita GDP has remained relatively flat, highlighting both a persistent issue with productivity and a dependence on population growth to drive economic growth.

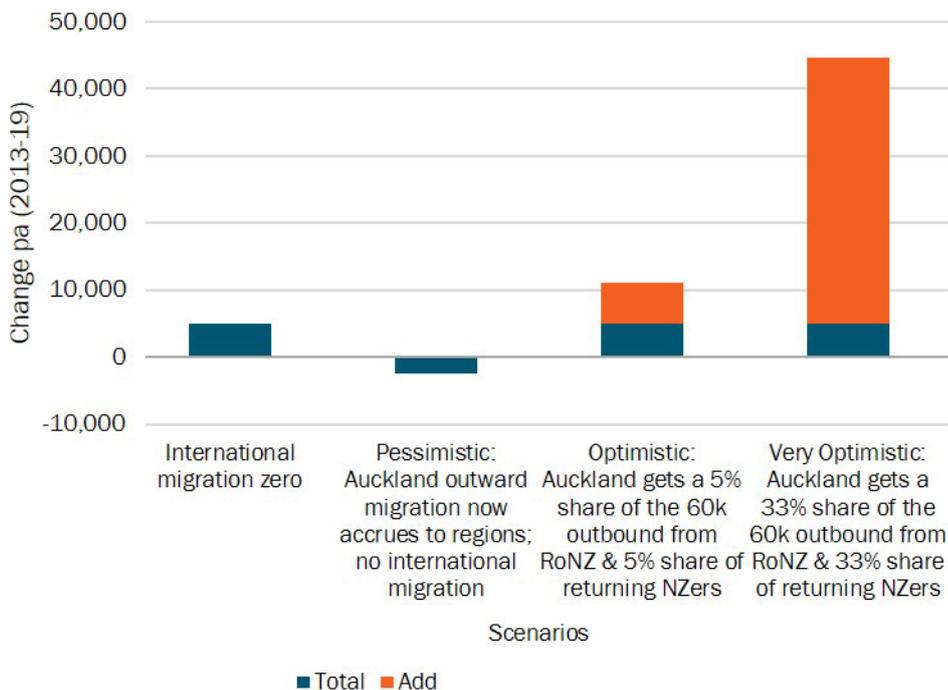
Figure 4: Population growth in Auckland



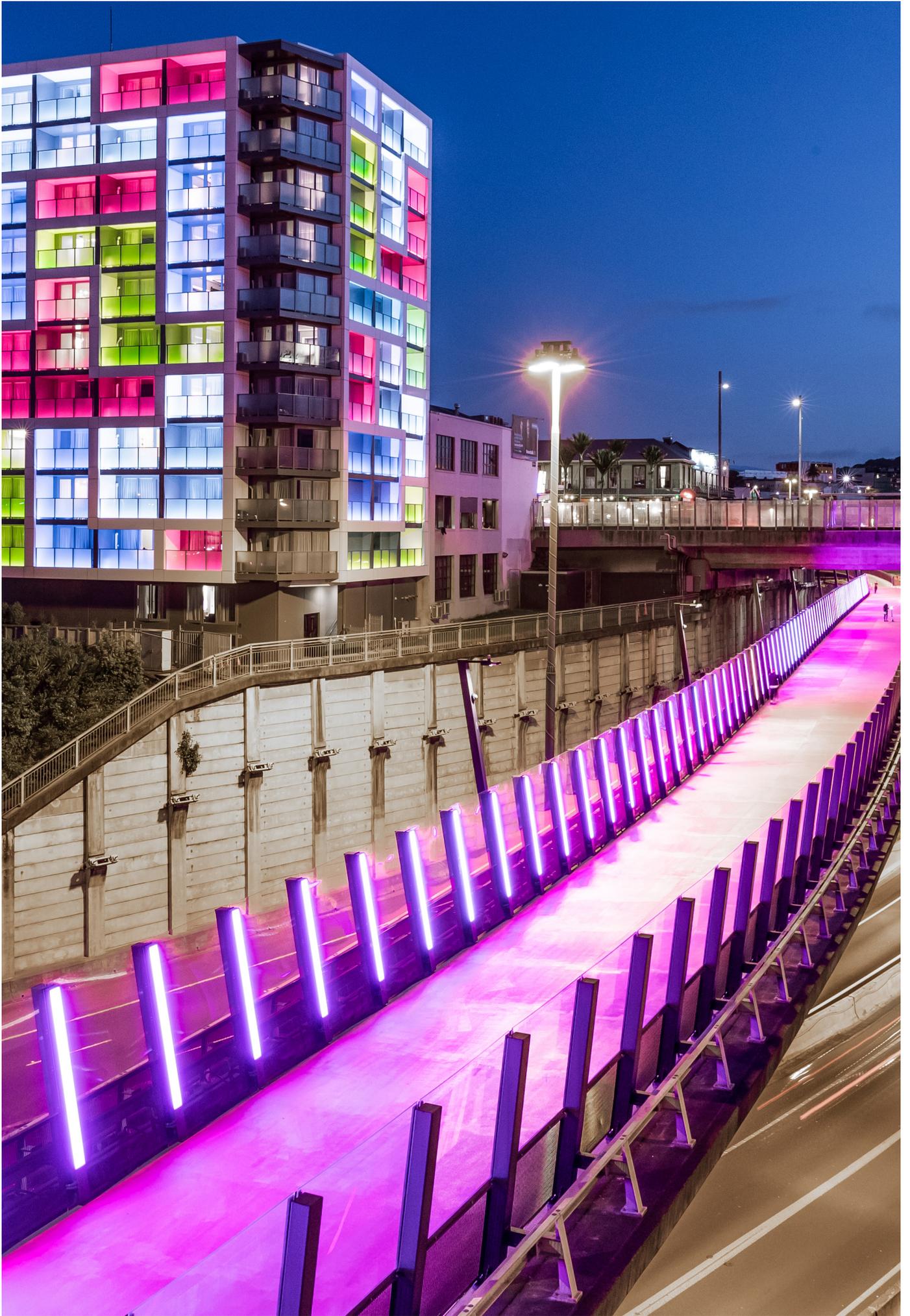
Source: Statistics New Zealand – Sense Partners

Despite the current reduction in number of jobs, many businesses are still reporting skilled labour shortages. Returning New Zealander’s may choose to make Auckland home and migration from the rest of New Zealand may help fill the gap, but longer-term migration trends are unknown. With international migration likely significantly curtailed for an extended period of time, Auckland businesses (ranging from low-skill labour-intensive industries through to high-tech knowledge economy jobs) will need to adopt new workforce strategies to fill the gap.

Figure 5: Possible population growth scenarios vary widely



Source: Statistics New Zealand 2018 - Sense Partners/ATEED Analysis



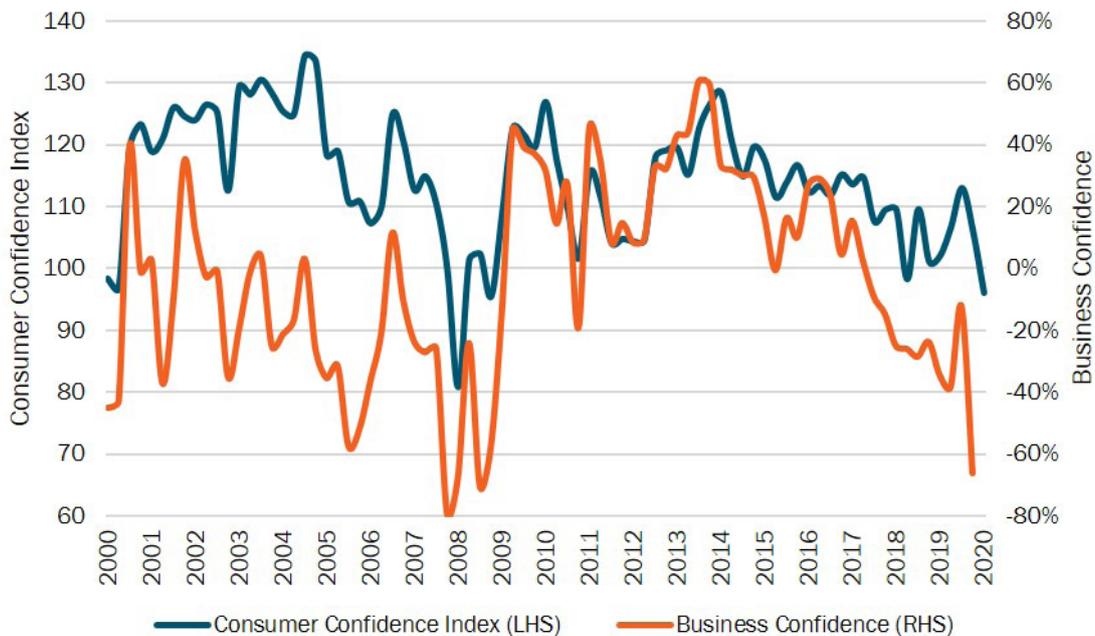
Economic outlook and the path forward

Short term: next six months

As is the case around the world, stimulus support measures will not be able to prevent New Zealand's economy from sliding into recession.

Higher unemployment levels will also affect consumption. Given the downward trend in consumer and business confidence outlook,^{xiii} it is envisaged household spending and private investment will remain muted through the rest of 2020. Retail, recreation and food services will be hit particularly hard.

Graph 6: Auckland Confidence Indices (2000-2020)



Source: Westpac McDermott Miller, Regional Consumer Confidence Index (quarterly); and NZIER, Quarterly Survey of Business Opinion (quarterly)

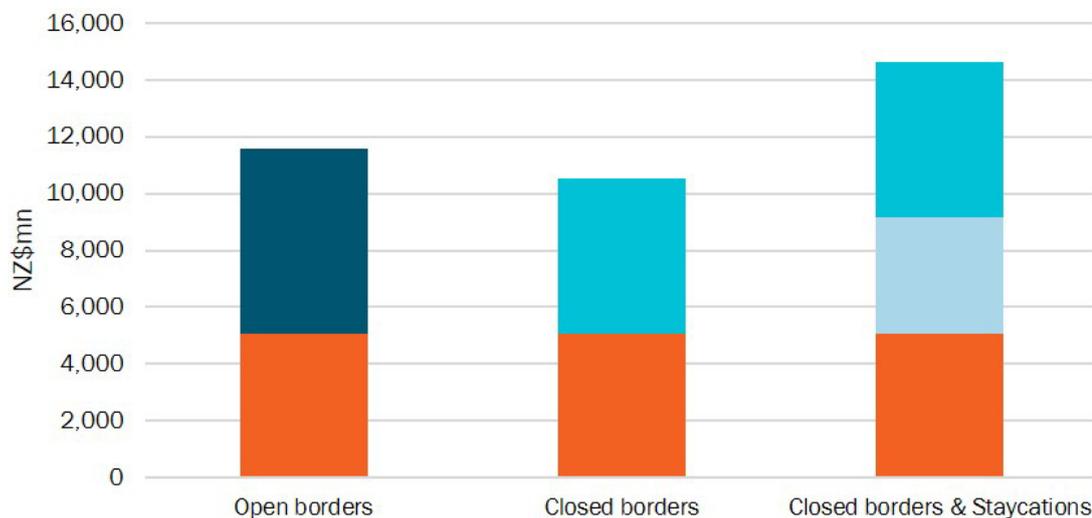
As we have seen evidenced in spending data, consumer confidence is relatively strong. This is an encouraging sign for Auckland, but it is counterbalanced by the strong negative sentiment of business.

A sharp deterioration in local and foreign investor sentiment, despite loose monetary conditions, will likely result in a contraction in private-sector investment and weaker demand in key markets for domestic products (noting that China, Australia and the US together account for around half of total shipments for New Zealand^{xiv}) will likely result in a decline in exports. These risks further erode business confidence and could lead to a second ‘drop’ in confidence levels as was seen during the GFC. Low business confidence, despite GDP growth, raises the risk of a ‘jobless recovery^{xv}’ scenario with businesses resistant to hire and expand.

The tourism sector will continue to take a major hit as government restrictions on foreign arrivals, coupled with widespread wariness about international travel, impact activity. International education will be similarly restricted due to the restrictions on travel for students and border controls.

While international travel is constrained, there is potential to capture domestic tourism spend in Auckland. The total amount that New Zealanders spend internationally, and the domestic spend of Aucklanders in other regions of New Zealand, is significant. It is not realistic to assume Auckland can divert all of this spend, but it indicates the ‘size of the prize’ of domestic tourism.

Figure 6: Maximum Tourism Wallet Size in Auckland 2020



Source(s): MBIE, ATEED/Sense Partners Analysis

Positively, China is already on its path to economic recovery. Given Auckland's international connections with China this will present opportunities for Auckland businesses. Food exports account for over half of Auckland's total exports, and the food and beverage manufacturing sector is economically important to Auckland. Other sectors of comparative advantage in Auckland such as manufacturing, technology and digital, screen and creative may also see opportunities as key international markets, including China, open up and recover.

How we retain momentum for an Auckland economic bounce-back depends on maintaining levels of investment, supporting job creation and focusing on highly productive sectors and tradeable exports. Auckland's ability to maintain and create employment opportunities for our workforce, and our ability to attract workers with the right skills into the job market, will be essential to driving Auckland's economic recovery.

Medium term: six to 18 months

The medium-term impact on Auckland's economy will likely be less severe than that facing some of our peers in the Australasian region. We see relative strength and a comparative advantage in New Zealand's early and prompt action to contain the spread of the virus, and our strict measures for lockdown, which has prevented additional economic losses for Auckland and New Zealand when compared to Australian cities, where there has been a recent resurgence in COVID-19 cases.

As New Zealand's economy opens up and domestic economic activity picks up, Auckland will start to recover towards the end of 2020. We expect Auckland's real GDP to expand, albeit at a constrained pace, as growth in household spending, gross fixed investment and exports gradually regain momentum.

Auckland entered this period with relatively strong economic performance. The city also has many international firms that are head quartered here, a strong manufacturing sector, and a growing tech and creative sectors.

Within New Zealand, to minimise the lower cost of distribution, compared with much larger countries, has enabled consolidation of manufacturing production into fewer factories for economies of scale. Generating nearly 40% of New Zealand's GDP, Auckland performs a major economic role for the prosperity and resilience of the city and country.

Of course, huge uncertainties remain for Auckland's economy, even more so than the rest of New Zealand, given our large international exposure and global economic connections. Still, Auckland's economy started the year on a strong footing, and we must further build our recovery based on our region's advantages, including our large economic base.

It is the time now to focus on our productivity and innovation, and on exporting high-value-add products from Auckland on behalf of New Zealand, including adapting towards a green economy and focusing on our new growth sectors, while strengthening the resilience of our existing sectors of advantage such as manufacturing and construction, among others.



Priorities for Auckland

Auckland's access to skills, knowledge capital, labour force and productivity potential is its huge comparative advantage for the region.

However, Auckland also needs to focus on ensuring higher skills and maintaining flow of highly skilled migrants for industries in specialised sectors of comparative advantage, such as the technology and digital sectors, and the screen and creative industries. By building these skills and sectors further, we'll support Auckland's economic structure and advantages to help the city generate higher output per capita and productivity.

As Aucklanders, it is more important now than ever before that we work together to develop a resilient and prosperous future for Auckland. One that is vibrant, attracts investors, talent and visitors, and is also loved by its residents. We need to work in our areas of comparative advantage, to build our strengths further and to adapt a technology-oriented digital future – one that minimises our international exposures while we maintain closed borders with the rest of the world.

As we come together at the *Auckland's Future, Now*, we invite you to bring your ideas and collaborate on solutions to the challenge ahead.

We believe there are four areas of focus where this group of Auckland's corporate and business leaders, civic leaders and economic development agency can act and advocate on to help Auckland thrive in a Covid world, to enable all its people, its businesses and communities to prosper:

- Talent and skills
- Trade and markets
- Healthy people and places, with a vibrant city centre at Auckland's heart
- Attracting investors and ideas

Auckland is poised to recover and lead New Zealand's economic recovery – however, only with bold action can we cushion the economic impact of COVID-19 on our city's businesses and communities. We look forward to discussing and debating these bold actions with you during *Auckland's Future, Now*, and beyond.

ⁱIMF (2020), 'A Crisis Like No Other, An Uncertain Recovery', World Economic Outlook Update, June, www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

ⁱⁱEconomist Intelligence Unit (2020), 'A Q3 recovery, what Q3 recovery?' EIU, 15 July, <https://country.eiu.com/China/ArticleList/Analysis/Economy>

ⁱⁱⁱIbid.

^{iv}Estimates based on ATEED in-house modelling and scenarios utilising assumptions from RBNZ and Treasury for NZ, and Oxford Economics data for global cities which constitute 28% of the city's economy compared to 25% of the New Zealand economy.

^vSource: MBIE, Sense Partners

^{vi}University of Otago (2018), Socioeconomic Deprivation Indexes for New Zealand, <https://www.otago.ac.nz/wellington/departments/publichealth/research/hirp/otago020194.html>

^{vii}ATEED Infometrics 2019 data from Statistics New Zealand (2018), <https://ecoprofile.infometrics.co.nz/>

^{viii}Infometrics (2019), MBIE(2018), Stats NZ (2018) and ATEED <https://ecoprofile.infometrics.co.nz/>

^{ix}STORM - Sense Partners Trade Opportunities and Risks Model Analysis – ATEED/Sense Partners -2020 analysis conducted by Shamubeel Eaqub

^xStatistics New Zealand (2018), Tourism Satellite Account.

^{xi}Education NZ (2018), 'Economic Valuation of International Education in NZ', <https://intellilab.enz.govt.nz/document/504-5042018-valuation-of-international-education-in-nz-onshore>

^{xii}Statistics New Zealand 2018, ATEED/Sense Partners Analysis

^{xiii}Westpac McDermott Miller, Regional Consumer Confidence Index (quarterly); and New Zealand Institute of Economic Research (NZIER), Quarterly Survey of Business Opinion (quarterly). NZIER's Quarterly Survey of Business Opinion is New Zealand's longest-running and most comprehensive business survey. The survey samples manufacturers, builders, architects, wholesalers and retailers, and service sector firms. Information from these industries provides useful indicators of future investment patterns, and the likely direction and composition of economic growth in coming quarters. Firms are surveyed regarding both their recent experience and expectations for the next three to six months.

^{xiv}Statistics New Zealand (2018)

^{xv}Fergal O'Brien & Catherine Bosley (2020), 'A jobless recovery is becoming a real risk for Europe's economy', Bloomberg, 19 July, <https://www.bloomberg.com/news/articles/2020-07-19/a-jobless-recovery-is-becoming-a-real-risk-for-europe-s-economy>

This paper provides general information on economic issues in Auckland, and is not intended to be used as a basis for any particular course of action or as substitute for financial advice. The views and opinions expressed are those of the relevant author, and do not necessarily reflect the views of Auckland Tourism, Events and Economic Development. Auckland Tourism, Events and Economic Development disclaims all liability in connection with any action that may be taken in reliance of this paper, and for any error, deficiency, flaw or omission contained in it.

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