

Economic development issues and opportunities

A background report to inform the Waikato regional economic development strategy, October 2013

Executive summary

Economic performance and drivers of prosperity

The Waikato region contributes about 9 percent of New Zealand's GDP and 9 percent of employment. In 2012, the region's GDP was estimated at \$18,300 million and the region has been growing at 1.84 percent per annum in real terms over the last decade. Of New Zealand's regions, Waikato makes the fourth largest contribution to the New Zealand economy, behind Auckland, Canterbury and Wellington.

The region has achieved generally solid, albeit modest, economic performance over the last 5-10 years, and has had mixed results on indicators of prosperity. Over the last 10 years, real GDP has grown more slowly than the national average (nationally real GDP has grown by 2.31 percent per annum over the last decade), although the region has had stronger growth over the last five years (1.37 percent per annum compared to 1.10 percent). Waikato's estimated GDP per capita is lower than the national average and below several other comparable regions (estimated at \$44,340 in 2012 compared to \$46,480 nationally). Real GDP per capita remained relatively flat over 2002-2012 (0.74 percent per annum growth).

There are differences across territorial authorities in the region, with Hamilton and Waipa achieving the strongest real GDP growth over the last 10 years, while South Waikato has declined in real terms. Hamilton, Waitomo and Otorohanga have higher estimated real GDP per capita than the national average, but Waipa, Waikato, Thames-Coromandel, South Waikato and Hauraki have lower than average real GDP per capita. Most territorial authorities in the region have experienced growth in real GDP per capita over the last decade, although real GDP per capita has declined in Thames-Coromandel and South Waikato.

Median household income in the region has increased over the last ten years and is close to the national average (\$1,281 compared to \$1,304). The regional indicator of quality of life remained about the same between 2010 and 2013, although Hamilton's quality of life perceptions are below most of the other core cities.

There has been solid levels of performance on most drivers of prosperity. Employment has grown at a slightly higher rate than nationally over the last decade (1.5 percent per annum compared to 1.4 percent) and the region's labour force participation and employment rates are around national levels, although the unemployment rate is currently well below the national average (5.8 percent compared to 6.7 percent). Waikato's estimated productivity level is above the New Zealand average and the region has experienced relatively strong growth in productivity over the last five years (1.29 percent per annum compared to the national average of 0.65 percent), although relatively low productivity growth over 2002-2012 (0.48 percent per annum compared to 0.7 percent). The region is expected to achieve slightly lower population growth over the next 20 years (0.7 percent) relative to New Zealand as a whole (0.9 percent) although has a younger age structure than several regions.

Waipa, Waikato and Taupo have performed better than other territorial authorities on key employment indicators. Hauraki, Waikato and Waipa experienced relatively high employment growth over 2006-2012, although employment in all other districts declined or remained relatively stable. Hamilton, Waikato, Waitomo and Otorohanga have estimated productivity levels much higher than the national average, while productivity in Waipa, Thames-Coromandel, South Waikato and Hauraki is well below the New Zealand average. Hamilton and Waikato are expected to have relatively strong population growth over the long term, while current projections for Otorohanga, South Waikato and Waitomo suggest that these territorial authorities will experience population declines.

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Industrial mix and performance	<p>The Waikato region's economy is diverse but is also dominated by primary industries and related manufacturing sectors, and social, business and infrastructure related services. The region has concentrations, and likely comparative advantages, in: dairy product manufacturing and dairy cattle farming; forestry and logging and wood product manufacturing; mining; electricity and gas supply; agriculture, forestry and fishing support services; livestock farming and meat product manufacturing; motor vehicle and fuel retailing; materials and machinery and equipment manufacturing; road transport; and heavy and civil engineering construction.</p> <p>There are, of course, spatial differences in the concentrations of industries across the region, with forestry and logging and wood product industries concentrated in South Waikato, Matamata-Piako, Otorohanga, Waitomo, Rotorua and Taupo; agriculture concentrated in Matamata-Piako, Hauraki, Waikato, Waipa, Otorohanga and South Waikato; tourism related industries concentrated in Thames-Coromandel, Waitomo and Taupo; specialised manufacturing and public service industries concentrated in Hamilton; mining related industries relatively concentrated in Waikato, Waitomo, Waipa and Hauraki; and aquaculture concentrated in Thames-Coromandel.</p> <p>Broad industries that have achieved relatively high growth in employment over 2002-2012 are mining; electricity, gas and water services; construction; wholesale trade; accommodation and food services; financial and insurance services; professional, scientific and technical services; administrative and support services; public administration and safety; health care and social assistance; arts and recreation services; and other services. The following industries have experienced relatively high real GDP growth over the last decade: electricity, gas and water services; retail trade; financial and insurance services; rental and real estate services; professional, scientific and technical services; administrative and support services; public administration and safety; and healthcare and social assistance.</p> <p>A more comprehensive analysis of industry performance, using a combination of employment, GDP, export and concentration indicators, suggests that the following sectors are particularly important in driving growth in the region:</p> <ul style="list-style-type: none"> • Dairy farming and dairy product manufacturing (estimated at 13,500 employees and \$1,450 million GDP in 2012) • Livestock farming and meat processing (estimated at 6,300 employees and \$300 million GDP in 2012) • Forestry, logging and related product manufacturing (estimated at 3,670 employees and \$440 million GDP in 2012) • Materials, machinery and equipment (including transport equipment) manufacturing (estimated at 8,300 employees and \$370 million GDP in 2012) • Education (estimated at 1,500 employees and \$370 million GDP in 2012) • Tourism-related services (supermarket and specialised retailing, accommodation and food services) (estimated at 17,600 employees and \$300 million GDP in 2012). <p>Healthcare and social assistance (estimated \$1,130 million GDP, 19,300 employees), professional and technical services (estimated \$1,300 million GDP, 13,700 employees), construction services (estimated \$1,100 million GDP, 15,900 employees), administration and support services (estimated \$350 million GDP, 6,600 employees) and central government and public safety services (estimated \$650 million GDP, 7,400 employees) are also large and growing and important to the region. However, most of these industries are not particularly concentrated in the region and hence are unlikely to be based on comparative advantages. In addition, rather than reflecting national and international market demands, these sectors will largely reflect population growth/changes and growth in other industries in the region.</p> <p>Electricity generation and supply, mining and quarrying and 'other farming' currently</p>

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	<p>generate low international exports but are based on resource advantages. These industries are of reasonable scale and currently may be drivers of growth through inter-regional exports. They may also offer the potential for future international export growth (for example, through businesses, services and opportunities related to coal, industrial minerals, precious metals, geothermal expertise, equine or goat farming). Aquaculture, although not currently of major significance to the region as a whole, is particularly important to Thames-Coromandel and does offer potential for future growth.</p> <p>Many of the industries driving growth in the region are clearly based on natural resources. However, the ability of the region to manage land and water changes/demands and the environmental impacts of extraction across land-based industries may constrain growth. Key issues relate to:</p> <ul style="list-style-type: none"> • increasing demand for freshwater for irrigation and to meet population growth, and the potential for increased droughts, mean that measures to maintain/enhance water quality and quantity will be increasingly important • soil resources, including soil quality, are under threat due to sub-division and intensification of land use • coal resources which are becoming increasingly difficult and expensive to access • public concerns about the environmental impacts of coal and mineral mining in the region • ensuring that use of geothermal resources for economic development purposes is appropriately managed.
Innovation and entrepreneurship	<p>Waikato's businesses appear to undertake innovation at a level at least equivalent to businesses in other regions, although there is limited data at the regional level. While the number of patent applications is high (99 patent applications per million people compared to the national average of 74), at the city level the proportion of businesses filing intellectual property applications is relatively low (4 percent of businesses in Hamilton filed applications between 2000 and 2010). When last measured, business investment in research and development was close to the New Zealand average.</p> <p>The region has a range of organisations and infrastructure that support innovation. However, it is perceived that there are weak linkages between research and education organisations and some industries. Although there are some examples of strong business-research connections, there is still a perception amongst businesses that research and education organisations are focused on "pure science" rather than in areas that might help solve their business and innovation problems.</p> <p>It is perceived that the biggest mismatch occurs at the applied and agri-tech/manufacturing part of the regional economy. Most research organisations and institutions in the region are perceived to be focused on dairy farming and the primary industries.</p> <p>Another reason for limited research-business linkages in some industries might be the pool of capability available. The region does not have a large base of science and technology professionals or employment in knowledge intensive industries.</p> <p>Multiple local economic development, business development and education entities has meant that innovation support in the region has been fragmented. This risks stretching limited resources and difficulties in scaling up initiatives.</p> <p>While businesses are collaborating amongst themselves on innovation, it is perceived that high levels of competition and a traditional 'go it alone' culture are limiting the extent of this. There may be merit in developing more formal approaches to business networking and business collaboration.</p> <p>There do not appear to be significant barriers in relation to access to capital. There are a number of investment networks operating in the region and iwi are a significant existing</p>

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	<p>and potential source of investment. However, the region appears to attract a relatively small proportion of private equity/venture capital deals, although this may be due to the sectoral composition of the region (in that the focus of venture capital has tended to be on ICT and high-tech industries).</p> <p>In general, the regional innovation system is achieving a moderate level of performance. This is also reflected in the level of entrepreneurship in the region, as Waikato has average proportions of business entries (7 percent compared to 8 percent nationally) and high growth firms (19 for every 1,000 firms compared to 20 nationally).</p>
Destination attributes	<p>The Waikato's image and identity can play a key part in retaining and attracting skilled employees, businesses, investment and visitors.</p> <p>While local businesses and residents on the whole have a positive image of their region, the region appears to have difficulty projecting this nationally and internationally. Although the region is estimated to secure 10 percent of national visitor expenditure (a similar proportion to comparable regions), the region has had relatively weak performance on measures of visitor attraction, with low average visitor nights across all regional tourism organisation (RTO) areas, and limited growth in visitor nights in the Hamilton and Waikato RTO area, although other regional RTOs have achieved growth in visitor nights at levels at or above the national average.</p> <p>Growth in visitor expenditure in the region (0.65 percent per annum over 2009-2012) has been much lower than growth in other comparable regions. Visitor expenditure has remained relatively stable in the Hamilton and Waikato RTO area, although has declined in real terms in the other RTO areas at rates higher than the fall in real expenditure nationally. Similarly, Waikato has only been slowly growing international student numbers and the value of tuition from these students over the medium term (0.5 percent growth in student numbers and 0.6 percent growth in the real value of tuition over 2007-2012).</p> <p>While the region holds a large variety of events, the level of events activity was relatively low on a population basis when last measured – although this was prior to the establishment of Claudelands Events Centre and an increase in major events held in the region over the last few years. It also appears that more can be done to leverage international business and investment from major and signature events in the region.</p> <p>The region has strong natural amenities which are valued by its residents and which can be used to attract visitors, workers and students. The Waikato's retail amenity is growing although it will be important to consider the balance of the overall retail offering (for example, the role of Hamilton's CBD compared to precincts further afield). Waikato's cultural offer appears to be below national averages and, possibly as a result, Waikato's residents have proportionately less engagement with arts and culture than other parts of New Zealand.</p> <p>Overall, the region has a good base of destination assets but it appears that more value could be generated from these, potentially by:</p> <ul style="list-style-type: none"> • having a clear, articulated and agreed value proposition of the region • better coordination of regional marketing and promotion, from a tourism and economic development perspective. <p>Councils control many of these assets and invest in promotional activities with partners, and in some cases it may be useful to assess the on-going rationale for the investment and how greater economic benefits could be obtained from these assets.</p>
Connectivity and infrastructure	<p>High quality connectivity is critical for regional economies in order to facilitate the movement of goods, services, people, investment and knowledge. There has been significant investment in infrastructure in the region in recent years to improve the levels</p>

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	<p>of physical and virtual connectivity, which is an area of strength for the region.</p> <p>Proximity to Auckland International Airport provides good access to international air connections, although businesses have indicated that a lack of international connections directly from Waikato can be a constraint on activity. The region has a natural reliance on the Ports of Tauranga and Auckland for exports and imports and there are good transport links to these cities.</p> <p>Broadband uptake in the region (71 percent of households have broadband access) is relatively low compared to the national average (75 percent), although the region outperforms many others and ultra-fast broadband roll-out should help to improve uptake.</p> <p>Waikato's estimated export performance is moderate and exports have not increased significantly over the four years to 2011 (0.15 percent per annum). However a number of initiatives are underway to broaden the region's export activities (e.g., Dairy SolutionNZ and Beef SolutionNZ). Dairy product manufacturing; metal and metal product manufacturing; forestry and logging; horticulture and gas supply are the major export industries for the region, with forestry and logging; structural, sheet and fabricated metal product manufacturing; horticulture; basic metal manufacturing and gas supply achieving the highest rates of export growth over 2007-2011.</p> <p>The number of foreign direct investment (FDI) projects into the region during the 2000s appears to have been relatively low, although regional data on FDI is very limited. More than 10 percent of businesses in Hamilton are foreign-owned, which is about mid-range relative to comparable cities. There are likely several reasons for the region's moderate performance on FDI, such as distance from markets and investor perceptions of potential constraints. Attracting more FDI will require that the region has a clear value proposition for foreign investment.</p> <p>As with other regions in New Zealand, councils in the Waikato region have developed a large range of international relationships but it is unclear whether sufficient economic value is being generated from those relationships.</p> <p>Waikato's road and rail transport network is of good quality and supports significant freight movement throughout the region, with freight between Waikato, Auckland and the Bay of Plenty representing over half of New Zealand's freight movements. By 2031 Waikato is expected to receive more freight than any other region in New Zealand. Although there is currently little commuting between Waikato districts for work or between the region and other regions, inter-regional labour market movements may increase as Auckland and Tauranga expand, which will put further pressure on the road network. The regional transport network is being future proofed through further investment (for example, the Waikato expressway has been designated as one of seven roads of national significance and will be completed by 2019). The inland, dry port at Ruakura being promoted by Waikato-Tainui also has significant potential to improve freight, logistics and transport movements in the region and to contribute to economic growth.</p> <p>There is high investment in infrastructure and building construction by both government and the private sector. The Waikato region captures a relatively high proportion of transport and communications government expenditure and, in the last 10 years, investment in building and construction per head of population has been more than the national average. Significant investments by households and the private sector have been made in new residential and non-residential buildings (and alterations) in the region in the last ten years. There have been particularly high residential investments in Thames-Coromandel, and proportionately more non-residential investment in Hamilton.</p>

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Skills and talent	<p>Skills and talent are critical to the region's productivity and income potential. However, the region faces a range of skill constraints including:</p> <ul style="list-style-type: none"> • a relatively low proportion of the working age population with tertiary qualifications (12.3 percent compared to the New Zealand average of 15.8 percent). In several districts, the proportion is less than 10 percent and in some (South Waikato, Otorohanga and Hauraki) it is around 6 percent • a high proportion of school leavers without a formal qualification (almost 29 percent compared to the national average of around 25 percent). In several districts, the proportion is higher than 35 percent (Hauraki, Otorohanga, South Waikato, Waitomo). School leavers in the region who identify themselves as Māori are also more likely to leave school with lower levels of qualifications • lower proportions of the adult population with higher literacy or numeracy (around 6 percent lower than the national level), and lower than most other regions in New Zealand • a high proportion of youth not in employment, education or training (around 18 percent compared to the national level of 11.5 percent). <p>The ability to attract, develop and retain skills has also been identified as a key issue for businesses. Businesses have reported low levels of language, literacy and numeracy in employees and the region is outperformed by most others on the proportion of the working age population who have higher literacy and numeracy. The region is also outperformed by almost every other region on the proportion of the working age population who took formal and non-formal training courses in the previous year and has a relatively low proportion of the population who undertake industry training.</p> <p>Businesses have also reported difficulties recruiting low and semi-skilled occupations as well as management and technical staff. Research suggests that future skills demands will be greatest for the construction, agriculture, retail, health and education industries, and for those with engineering, management and architecture qualifications.</p> <p>These skills issues exist despite a large array of education providers in the region and reputable tertiary institutions. Providers have suggested that a region-wide skills forum and strategy could be established to tackle the issues and work has commenced on this.</p> <p>Migrants are another important source of skills. The region has attracted a relatively small proportion of migrants relative to its population (2.7 percent, compared to 6 percent in Auckland, 3.6 percent in Wellington, and 3.4 percent in Canterbury) and some migrant groups do not appear to be achieving their employment potential.</p>
Business and built environment	<p>The quality of the region's business and built environment influences incentives to grow and the location decisions of businesses and workers. Based on interviews, businesses in the region perceive that councils are not as business-friendly as they would like and there are common concerns about the costs associated with consents and complying with regulations. However, these concerns are not unique to the Waikato.</p> <p>There is variability in consent processing times across councils, with the regional council having one of the lowest proportions of consents processed on time across New Zealand (at 90 percent), but several district councils (Hauraki, Waitomo, Otorohanga, South Waikato, Taupo and Rotorua) are achieving the highest rates (98 percent or more).</p> <p>Businesses have identified areas where the regulatory environment could be improved, including improving council engagement with industry when developing or applying regulation (e.g., through 'key account' services), improving consistency in consent processing across councils, and pooling of capability when significant development are being assessed. Several councils have already identified and are working on such improvements.</p>

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	<p>There appears to be plentiful supply of available business land and office and commercial space across the region, and therefore the opportunity to meet potential constraints in other parts of the upper North Island, such as Auckland. Office and industrial rents are also relatively low compared to other main centres.</p> <p>Although housing in Hamilton, as with New Zealand generally, is rated as unaffordable, Hamilton is the third most affordable city and unlike other main centres is not ranked as 'severely unaffordable' (such as Dunedin, Wellington, Tauranga, Christchurch and Auckland). At the regional level, house prices have not risen as fast in the Waikato compared with other New Zealand regions, but there are differences at the territorial level – Thames-Coromandel's have increased at a fast rate, while South Waikato's have declined. Waikato is also relatively more affordable for renters than other New Zealand regions. Waikato residents pay about 28 percent of their household income on rent, compared with the national average of 31 percent.</p> <p>In sum, while Waikato businesses continue to want improvements in elements of the business and built environment, overall this area has the potential to be a credible part of a value proposition to attract and retain businesses and workers to the region.</p>

***The full background report is available on
www.mpdc.govt.nz/waikatomayoralforum***

The report was prepared for the Waikato economic strategy Governance Group by Stephen Knuckey and EeMun Chen from MartinJenkins (Martin, Jenkins & Associates Limited) and Gavin Donald from Beca (Beca Carter Hollings and Ferner Limited).

The scope of this commissioned report was focused on a desk-based review of available research and economic data, rather than primary research. However, this report has been informed by a small and targeted selection of industry, business and stakeholder views. These interviews are not exhaustive, nor representative, of the broader Waikato regional economy. We appreciate the efforts of economic development officers across the Waikato region in undertaking the business and stakeholder interviews.

The contents of the report were also reviewed by the Waikato economic strategy Executive Group and Waikato region's council economic development officers.