



Regional Outlook February 2003

Wellington Regional Economy

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Greater Wellington – the Regional Council publishes **Regional Outlook** twice a year. In this issue, February 2003, we present a detailed analysis of the region's industries and local economies together with news about economic development activities in the region. An update will be published in August 2003.

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Regional Outlook and the data series are available on the Greater Wellington website at www.gw.govt.nz/economy

Executive Summary – All change!

Wellington is struggling to transform itself from a centre for large corporations into a hub for education, the arts, tourism and innovative small to medium-sized enterprises. Growth in these new sectors has been encouraging. But there have been many departures of the region's head office businesses over recent years, and employment growth has slowed almost to a standstill over 2002.

However, it is important not to overreact to these structural changes. After all, Wellington's production (GDP 2%) has increased faster than New Zealand's in two of the last four years. But developments over 2002 do provoke questions:

- How long will it take for Wellington's emerging industries to fill the gap left by the departure of head office businesses, and is there anything the region can do to speed the process up?
- Why are head office businesses choosing to leave, and is there anything we can do to stop them?

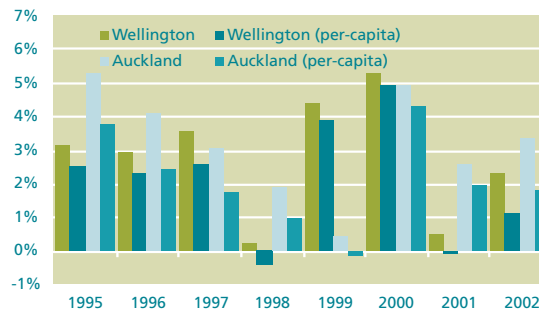
Some of the answers might be:

- The transformation of the economy, from a corporate environment to a more fragmented but innovative business community, has been underway for at least five years, and will continue for another five years.
- The destructive phase of the transformation is nearing an end but the constructive phase has only just begun. Over the short term, local and central governments can have only a limited role in speeding up the building of new industries. But over a longer period the public sector can ensure that a strong and efficient infrastructure develops to support business growth.
- Head office businesses have chosen to leave Wellington for company-specific reasons. Some common reasons include Wellington's small population, the need for proximity to major customers, and the availability of new communication technologies.
- Some of the causes of head office departures are outside the direct control of any single government or private sector organisation. Population growth is one example. However, certain policy choices – transport policy, for example – do constrain the region's ability to respond to departures.

Other than the structural change that went on, the 2002 year was positive for economic performance. Although job creation slowed, property markets were buoyant and retail sales increased. Total production volumes grew more slowly in Wellington than the national average, but did still grow.

Economic growth

Annual % change in GDP, years ended March



Source: Statistics NZ, Infometrics estimates

And there have been several specific developments, which bode well for the future:

- Victoria University opened the School of Government in September.
- Government funds were awarded for an institute of advanced materials and nano-technology at Victoria University in March.
- Peter Jackson's Weta Productions began building new film production facilities.
- A new ferry started on the Cook Strait route competing against Tranz Rail.

The outlook for 2003 is bright for most of the region, with the economic environment beginning to favour businesses in the service sector rather than manufacturers and primary producers. Watch for the education sector in particular to prosper. House builders and real estate agents should also enjoy another good year. But don't expect any fireworks – the transition to an economy less dependent on a large corporate sector will be a gradual one.

Taking on the World from Wellington

Wellington-based firm Icebreaker is one of the fastest growing businesses in New Zealand. The country's largest adventure-wear exporter is renowned for its stylish, durable merino wool products.

Icebreaker has developed a global reputation for quality and for meeting customer needs in demanding climates.

Achievements like sales growth of 500% over the last three years have seen the business added to Industry New Zealand's Fast Forward programme for high-growth businesses. Icebreaker also came in tenth in the recent "Deloitte/Unlimited Fast 50 Survey" of New Zealand's fastest growing businesses.

Managing director Jeremy Moon says that Icebreaker's strategy is about focus and leadership.

"We only work with pure New Zealand merino wool as a raw material, and we take a design-led approach to our development. Rather than reflecting what the market currently needs, we try and innovate through design and branding to create what we think the market wants."

Jeremy says that Wellington has proven to be an ideal base for global expansion.

"In Wellington we have access to world class designers, a vibrant business environment and a small but high quality talent pool. It's always a challenge being so far from export markets, but if you measure distance in time it ain't so bad."

Jeremy says key to Icebreaker's global success was the ability to build international partnerships and engage people that understood its philosophy.

Industry New Zealand's Wellington based, central region office has supported Icebreaker on its international mission.

Recently, Icebreaker received a Business Growth Grant for an international marketing system and the development of an innovative merino sock brand, Rocksock. Rocksock is an example of a quality New Zealand-made product that was aided by effective design and branding, says Jeremy.

"We look at the complete package – design, distribution and branding – it's the only way we know to consistently deliver quality products to the global market over the long term."

To find out more about Icebreaker or Industry New Zealand's services for business, visit www.icebreakernz.com or www.industryznz.govt.nz

Icebreaker managing director Jeremy Moon



The Economy of the Wellington Region

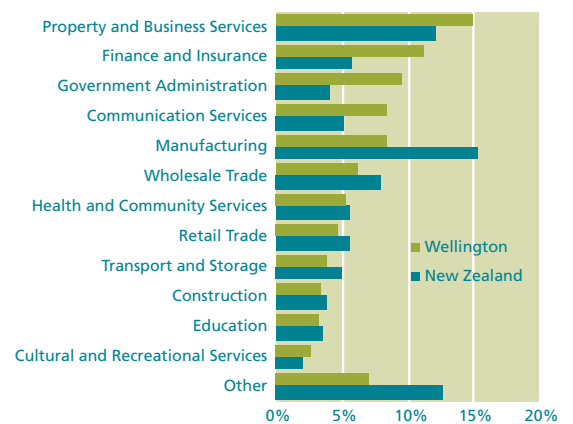
Structure of the economy

In March 2002, Wellington's largest industries – by value added – were:

- Property and business services (15% of GDP)
- Finance and insurance (11% of GDP)
- Government administration (10% of GDP)
- Communications (9% of GDP)

Wellington's economic structure

Proportion of regional GDP by industry, 2002



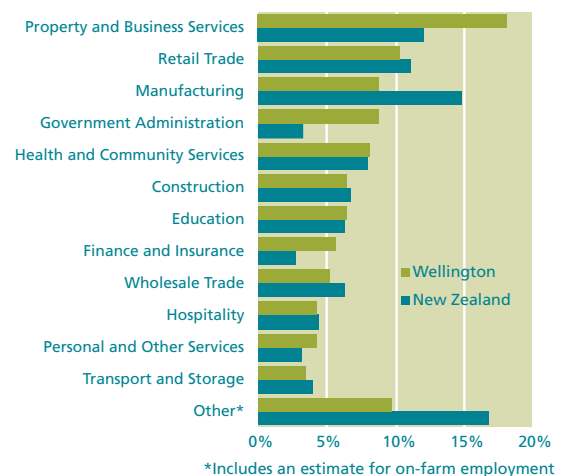
Source: Infometrics estimates, Statistics NZ

In February 2002, the most jobs were provided by the following industries:

- Property and business services (18% of all jobs)
- Retail trade (10% of jobs)
- Manufacturing (9% of jobs)
- Government administration (9% of jobs)

Wellington's economic structure

Proportion of employment by industry, 2002



Source: Infometrics estimates, Statistics NZ

Performance and Prospects

Wellington's economic and employment growth is expected to improve over the next year. The sluggishness of the last year was a function of company departures and mergers.

Sources of growth over the next year are likely to include:

- The building and property sector
- The education sector
- Information technology and other business services

A stronger New Zealand dollar favours the service sector over the primary and manufacturing sectors, and therefore favours urban over rural regions, at least in the short term. This is the main reason for our expectation that Wellington will perform almost as well over 2003 as the rest of the country, an improvement compared with 2002.

Slow population growth will remain a constraint for the region, however. And it will take time for newly established clusters of businesses to take over the role that corporate head offices once held. This will prevent Wellington's economic growth from returning easily to the levels of the late 1990s.

Significant business migration activity

Since January 2002

Arrivals/Expansions	Departures/Downsizing
Kiwibank	Tranz Rail
Access Technologies Ltd	Enza
Campus Group Holdings	CS First Boston
South Pacific Tyres	Unilever
Feltex	IBM
	NZMP
	TelstraClear
	Westpac (head office)
	Ericsson Synergy
	Accenture
	Dominion Post

Compiled by Infometrics Ltd

Wellington compared to New Zealand

Indicator	Period	Wellington	Wellington as a % of New Zealand	Annual growth Wellington	Annual growth New Zealand
GDP (\$m) ¹	Year ended Mar 2002	14,175 ³	13%	2.3%	3.3%
Population ¹	As at Jun 2002	445,400	11%	1.2%	1.5%
Employment ¹	Average, year ended Sep 2002	233,000	13%	1.2%	2.9%
Number of businesses ¹	As at Feb 2002	36,994	12%	0.6%	2.5%
Retail sales (\$m) ¹	Total, year ended Sep 2002	4,105 [^]	12%	3.0%	7.8%
Median house price ²	Average, year ended Dec 2002	205,000	110%	5.5%	6.6%

Sources: ¹Statistics NZ ²Real Estate Institute of New Zealand ³Infometrics estimate

[^]Excludes car and petrol sales

International and National Context

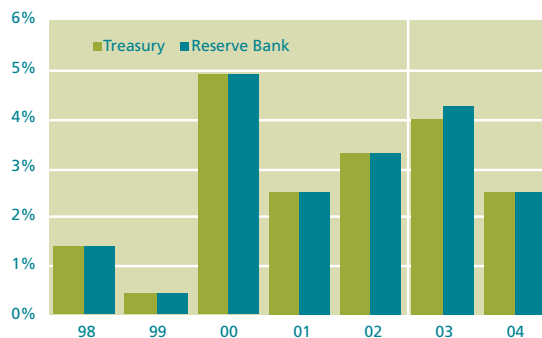
New Zealanders have enjoyed rising incomes over the last year, as profits from the export-led recovery that began in 2000 have found their way to households and the service sector.

Exporters are now finding the going tougher, as falls in some world commodity prices and a rising New Zealand dollar take their toll. However, it has traditionally taken one to three years for the negative effects of a rural and/or manufacturing downturn to be felt in the service sector. And in any case, profitability remains healthy for many exporters.

For these reasons, we expect the service sector to carry on the economic growth seen in 2002, albeit at a more gentle pace.

GDP growth forecasts

Annual % change, years ended March



Source: Treasury (Dec 2002), Reserve Bank of NZ (Nov 2002)

The Reserve Bank has indicated a preference for, if anything, cutting interest rates as the year goes on. This means that interest rates will not be a barrier to economic growth. Lower interest rates would add pep to an already-stimulated residential property market, but would also encourage business investment, which has wavered over the last year.

Outside New Zealand, the world economy continues to grow, but only slowly. The economic recovery in the United States is not yet convincing, while Europe and Japan are struggling to avoid stagnation. The good news is that gradual improvement is expected. Closer to home, Australia's economy is under pressure because of drought, but is still expected to perform well in 2003.

A major cause of uncertainty in forecasts of global economic growth, and therefore New Zealand's growth, is the manoeuvring over Iraq. War in Iraq has the potential to destabilise international political alliances and drive up oil prices. Any rise in oil prices, if sustained, would have a marked detrimental effect on western industrialised economies.

The Region's Changing Face

Since the mid-1990s, the Wellington economy has been transformed by a reduction in the number of corporate head offices and the birth of new industries. This began with the departure of several head offices over 1997, including the ANZ and BNZ banks, and several of the “baby ECNZs” formed when competition was introduced into the electricity generation market. Government department Trade New Zealand also moved away. More recently:

- Tranz Rail has moved its head office
- Westpac has announced its relocation
- Saturn's head office disappeared when the company merged with Auckland-based Clear Communications (although TelstraClear still has a regional office in Wellington)
- New Zealand Milk Products announced it would move out of Wellington.

There was one notable exception to the rule – new government-owned bank Kiwibank has established its head office in Wellington, the traditional home of its parent, state-owned enterprise New Zealand Post.

At the same time as some larger corporations were reducing their presence in the region (many left some functions here), new industries were appearing. For example:

- Business service providers (including IT consultants, lawyers, accountants and management consultants) are now a characteristic feature of the local economic landscape.
- Film and TV production and related services are now an important part of the business community. These businesses were given a boost by the filming of *The Lord of The Rings*, but the industry existed before the trilogy, making smaller-scale movies, TV programmes and advertisements.
- More tourists now visit the region, attracted by a vibrant cafe and arts scene, sporting events at the regional stadium, and Te Papa.

This change in economic structure has been felt intensely by Wellingtonians because it has mainly affected employment of locals rather than production volumes. That is, changes in the percentage of people employed in each industry have been greater than changes in the money made in those industries.

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Fluteboard Vineguards ... Hundreds of Thousands of Them!

Drive around the winegrowing districts of New Zealand and you will see hundreds of thousands of Fluteboard vine protectors that have been manufactured on the Kapiti Coast. These green-coloured guards protect seedlings through the critical stage of their development and improve their growing environment by retaining moisture and warmth. The young plants grow straight and tall and the guard keeps them safe from browsing animals and rodents.

Managing director of Fluteboard Group and president of the Buy New Zealand Made Campaign, Dalton Kelly, says that vineguards are just one of a range of specialty packaging products his Waikanae-based plant manufactures. Fluteboard is ideal for archival storage boxes, ESD (electro static discharge) packaging, and has also proved to be the material of choice for post office mail trays (here and in Australia), fresh produce packaging and hydroponic trays.

“It's strong, durable, light weight and a low cost item which outperforms cardboard, plywood, metal and rigid plastic,” Dalton says.

The company exports to six Pacific countries. “Where we really come into our own is in applications where the packaging can be reused for multi trips or needs to perform in a wet or abrasive environment,” comments Dalton.

See the Fluteboard Group web site at: www.fluteboard.co.nz

Fluteboard vineguards



Changes in employment in selected sectors

	Wellington				New Zealand			
	1994	2002	Change	%change	1994	2002	Change	%change
Information technology	3,090	7,530	4,440	144%	8,310	22,630	14,320	172%
Management consultants	1,630	5,490	3,860	237%	8,390	26,430	18,040	215%
Tourism ¹	6,410	8,770	2,360	37%	52,950	73,260	20,310	38%
Film	330	772	442	134%	1,460	3,040	1,580	108%
Telecommunications	2,040	2,310	270	13%	3,530	9,020	5,490	156%
Finance	8,652	8,280	-372	-4%	33,170	31,450	-1,720	-5%
Energy	1,350	845	-505	-37%	9,830	5,000	-4,830	-49%
Insurance	3,930	2,913	-1,017	-26%	13,625	12,703	-922	-7%

¹Includes accommodation, restaurants, cafes, clubs and Te Papa

Note: Survey coverage changed between 1994 and 1997. To our knowledge, these changes did not affect the selected industries.

Source: Statistics NZ Annual Business Frame Update

For example, the finance and insurance industry now accounts for 11.3% of Wellington's GDP, up from 10.5% in 1994. But it accounts for just 5.7% of employment in the region, down from 7.2% in 1994. The industry in Wellington is producing more value added, but doing it with far fewer people. The productivity gain is good for profits, but since the major shareholders in financial institutions are based outside the region, the effect is negative overall.

The change in economic structure raises a number of interesting questions. These can be roughly grouped into:

- Will corporate head offices continue to leave Wellington, why do they go, and is there anything the region can do to encourage them to stay?
- Are the new industries developing fast enough to fill the gap left by departing organisations, and is there anything the region can do to speed up the process?

The decline of the corporate economy

One question that has been posed regularly since the mid-1990s – every time a large organisation moves its head office or other operations out of Wellington – is “is it over yet?”. We are wary of saying yes, since every time it seems the trickle of businesses out of the region has dried up, another company surprises us. Westpac is one example; under previous management, the company had expressed its commitment to keep its head office in Wellington.

However, the drain of large corporations has been such that there are now few left here. The National Bank is the only major, private sector trading bank to have its head office in Wellington. Much of the insurance industry has moved to Auckland or packed up shop too. There are a few other large, non-financial organisations with head offices in the region, and their departure – should they choose to go – would be harmful to the economy. But the region's residents are considerably less reliant on national and multi-national head offices for jobs than they were just a few years ago.

A second question that is often posed is “why do head offices choose to leave?”. Many of the reasons for leaving are specific to particular businesses. However, some common determinants have been suggested:

- Agglomeration benefits – overseas researchers have found that businesses in large urban centres have higher productivity than those in smaller centres – see box on page 10. This is not only because economies of scale (in infrastructure, for example) are possible, but also because the close proximity of many people in similar or related fields encourages the exchange of ideas, and therefore speeds up innovation. It is debatable whether or not any of the urban centres in New Zealand are large enough to produce agglomeration benefits, but if any urban centre were, it would be Auckland.
- Population – Wellington’s population has grown more slowly than the national average. In contrast, Auckland’s population growth has been rapid, making it easier for companies in that region to increase turnover without having to increase market share.
- Proximity to customers and suppliers – half of all New Zealanders live in the top half of the North Island, and more than 50% of imports and exports travel through the Port of Whangarei, the Port of Auckland or the Port of Tauranga.
- New technology – new technology has enabled large organisations to reduce the number of big regional offices, often to just one in New Zealand, or even one in Australasia.
- Politics – the state-sector reforms of the 1980s and early 1990s have made it less important for businesses to be close to the centre of government (although the lobbying pendulum seems to now be swinging back). Internal politics are also a reason for some departures, with key management staff preferring to be based in a particular city.

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Promising Future for Porirua-Based Optics Cluster

The future of the nation-wide Optics Cluster – based in Porirua City – looks promising with Vega Industries recently completing a \$1 million export deal to supply high-tech aluminium lighthouse equipment to Malaysia. More contracts are in the pipeline.

The cluster project – initiated by Porirua City Council chief executive Dr Roger Blakeley and now formally supported by Positively Wellington Business (the Wellington Regional Economic Development Agency) – has been gaining momentum over the last 18 months.

Porirua-based Vega Industries is one of the project’s leading lights. The company has built an international reputation as a designer and manufacturer of lighted navigational aids and optical, electronic and electro-mechanical instruments, with clients including the United States Navy and Coast Guard and the Panama Canal Authority.

The recent contract to supply high-tech aluminium lighthouse equipment to Malaysia was a “long shot”, according to marketing director Martyn Cook. Not only did the company have to find a way to boost the capabilities of its lights, it had to learn how to build lighthouses from the ground up.

The investment paid off and in March Vega won the contract to design and build six solar-powered lighthouses worth around \$200,000 each for Sabah in East Malaysia. The structures are lightweight cylinders 2 metres in diameter by 20 metres high which can be carried in sections by hand to remote sites then erected without a crane or scaffolding.

Mr Cook says winning the contract was one of those “critical events” where the contract must be won to keep the company out in front of its competitors. Discovering it can add “lighthouse builder” to its many talents has also opened up a world of new possibilities for the company, which has experienced 30% annual growth over the past three years.

Mr Cook believes the Malaysian contract was won largely on price, but it was also a case of the company finding new ways to make lighting technology work better and cheaper. For example, its Malaysian lighthouses need absolutely no maintenance with no moving parts and only require a battery change every five years. It’s an edge, Mr Cook says, the company’s products have over their competitors.

Tim Hutchinson of Vega Industries working on one of the lighthouses destined for Malaysia. © Robert Catto



Regional Development Funding for Wellington Tertiary Institutions

Wellington tertiary institutions fared very well in the first round of Polytechnic Regional Development Funding, with one of the best applications being a joint proposal from the Open Polytechnic, Whitireia Polytechnic and Weltec to support and develop the optics and optical engineering industry.

The consortium has received \$211,689 to research the development of optical science and engineering courses and plan how such courses can be implemented.

The polytechnics will be working closely with Vega Industries and Industrial Research Limited.

Shona Butterfield, Open Polytechnic chief executive and spokesperson for the consortium, notes that the optics industry in the Wellington region has significant growth potential but is limited by a lack of skilled staff.

“This project will evaluate and develop education options in optical engineering and science which will help the optics industry grow. A supply of optically skilled staff will also attract industry to the region with consequent economic benefits. The project is also consistent with the Smart Wellington strategy that defines Wellington as a centre for innovation and technology.”

The fund, administered by Industry New Zealand, was established as part of the 2002 Budget initiatives.

It is designed to enable and encourage polytechnics to collaborate with local industry and enterprise to develop skills-related initiatives that will support regional economic development.

In addition, \$100,000 was approved to assist Whitireia Polytechnic to establish arts and music workshop facilities, undertake a feasibility study on the development of a virtual reality lab, identify business opportunities in the creative industries and support youth innovation and entrepreneurship projects.

Other Industry New Zealand funding allocated in the region over the last year includes \$250,000 for clusters, over \$300,000 for incubators, nearly \$300,000 under the Regional Partnership Programme, and just over \$800,000 from the Major Investment Fund. Individual companies have received nearly \$2.25 million through the World Class New Zealanders, Business Growth Fund and Enterprise Awards programmes.

For more information visit www.industry.govt.nz.

The optics industry, which is often described as an “enabling” technology, is growing worldwide. There are many everyday uses: optical sensors (supermarket bar scanners for faster checkout, sales data management); laser beams for surveying and aligning buildings and tunnels; fibre optics (telecommunications); visual signalling (for guiding ships in confined harbours and canals); machine vision (fruit grading, quality inspection on production lines); high-speed telescopic systems (surveillance and security under low light levels) etc. Many exciting new materials are being developed, especially organic polymers, which could radically change the way information is displayed (computer screens, small telephone screens, televisions).

The final frequently asked question about companies leaving is “how do we stop them?” This is a difficult question to answer, because local governments have limited financial resources, and the incentives they can offer to businesses may be dwarfed by the cost savings those businesses expect to make. The implication is that a “quick fix” solution – such as rates relief – is unlikely, and the reasons for companies leaving will have to be dealt with indirectly.

The population issue is a key one. Wellington’s slow rate of population growth (off a relatively low base) has been an important influence in the decision of some companies to leave, or reduce their presence in Wellington. In some ways, this is a “chicken and egg” situation – do companies leave because population growth is slow, or is population growth slow because companies leave (and therefore, jobs are scarcer)? There is the potential for a vicious cycle to develop, or, given the right conditions, a virtuous one.

Some determinants of population growth can be taken as given – Wellington’s topology restricts population growth, for example. This warrants more explanation. In order to increase the potential for agglomeration benefits, either the density of population and businesses in Wellington City (the largest urban centre in the region) must increase, or the gaps between the various cities and districts in the region must close up (to make a single urban centre).

The first option – higher density in Wellington City – is constrained by a lack of suitable land. The town belt and various parks and reserves cover much of the available land north of Ngauranga Gorge, and other land is often steep and therefore not suitable for business use. Green areas are lifestyle amenities that encourage people to live in Wellington, but they do come at a cost – a more limited supply of housing. Population density can be increased by building more inner-city apartments and encouraging “in-fill” housing, but the former further restricts the amount of land available for businesses. Although Wellington City’s northern boundary extends to Tawa, where there is land suitable for development, this area is geographically distinct from the urban part of the city, and therefore will not contribute to urban agglomeration.

The second option – joining the gaps between urban centres such as Lower Hutt, Upper Hutt and Porirua – is made difficult because there is a single point of motorway and rail entry into Wellington City (the Ngauranga Interchange), bounded by Ngauranga Gorge in the west and the sea in the east, and this area is not suitable for large-scale development. The gap between urbanised Wellington and the rest of the region could be closed in a metaphorical sense if transport through it were low-cost and fast, and the single point of entry means the transport corridors are easier to define than in, say, Auckland. But at present transport infrastructure is under pressure. The rail network has become run down – whether under Tranz Rail or previous government ownership is immaterial to the problem at hand – and this is putting pressure on roads which are already busy at peak hours.

So, what can we do to ease the constraints to agglomeration? Some work – further north than Ngauranga Gorge – is in progress to improve the link to the Kapiti Coast, and a Hutt Link Road is planned, but these developments will take time. Talk of a Transmission Gully road funded by tolls is so far just that – talk – and in any case will not address the potential bottleneck at the Ngauranga interchange.

In the short term, a high priority is to fix the rail system, which is the main public transport link between Wellington City and other parts of the region. Whether this is done by central government, local government, or the private sector is of lesser importance than the job being done properly and promptly. An efficient and effective public transport system will take some pressure off the roads.

Local governments could also consider how any barriers to new, relatively low-cost housing might be removed without increasing costs for businesses (apartments in urban areas do raise costs for businesses by reducing the supply of office buildings).

To reiterate, the purpose of such measures would be to:

- Make it easier to increase the population of Wellington City – the largest urban agglomeration in the region; and/or
- Make the effective space between urban centres in the region smaller, creating the illusion of a single agglomeration.

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Datamine – Turning Information into Gold

Wellington company Datamine is proving that geography is not an issue when it comes to changing the way companies market to consumers both locally and internationally.

Established by a group of young Wellington visionaries in 1995, Datamine has grown to become one of New Zealand's leading data mining organisations.

For those in the know, data mining is the way to turn information into gold. Put simply, data mining is the extraction and analysis of information from commercial databases. Data mining has major significance for marketers because it can unearth more detail than ever before about customers, about markets, about products and about profitability.

One of Datamine's two founding directors, Paul O'Connor, says the company started out with himself and one other employee. Today it has 18 full-time staff and has delivered an average revenue growth rate of 92.4% over the past three years.

"We started out with an idea to help companies know more about who their customers are and how they interact with their organisation. The demand has grown as more and more companies have realised the benefits data mining provides."

Since its inception Datamine has worked with some of New Zealand's and Australia's leading corporates, predominantly in the telecommunications, insurance and financial services industry sectors.

And it is now expanding its horizons to the Asia Pacific region, working remotely to bring home-based smart solutions to the world.

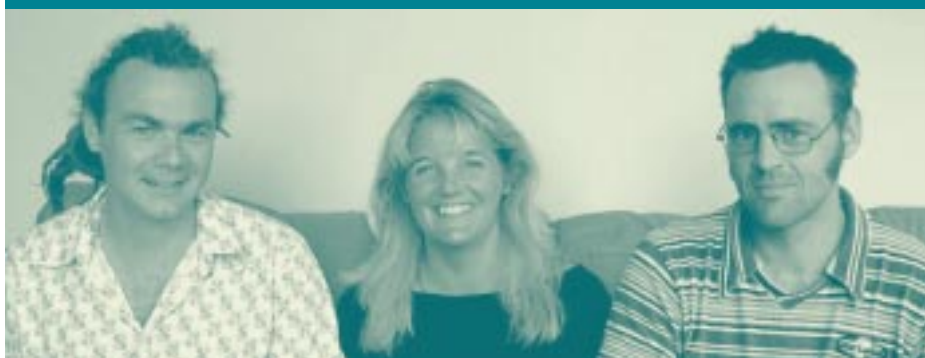
Paul puts the company's impressive successes down to tapping into local talent and challenging the accepted. He says that Datamine works hard to maintain its close-knit, performance culture.

Datamine's phenomenal growth was recognised in the prestigious 2002 Deloitte/ Unlimited Fast 50 list. The list is reserved for the 50 fastest-growing companies in the country.

Paul says Wellington is likely to remain the home base for the company, even with the prospect of more overseas work.

"We aim to continue the formula that has worked for us so far – and that is to promote innovation, partnership, excellence and a strong sense of internal culture – and ultimately, to enjoy both the journey and the destination," he says.

Datamine directors (left to right) Paul O'Connor, Sally Carey and Simon Pohlen



Agglomeration Explained

Agglomeration is the term used to describe the building up of businesses and people into a single, densely populated area. Research into the beneficial effects of agglomeration on economic growth has been motivated by the urbanisation of most industrialised western economies. Why, the question goes, do businesses and people tend to agglomerate?

Agglomeration is beneficial to an economy for several reasons:

- 1 It enhances the exchange of ideas and knowledge and thereby promotes innovation
- 2 It enables economies of scale (for example, the cost of an infrastructural asset, per resident, is lower in a densely population area)
- 3 It reduces transport costs
- 4 It increases choice (a greater range of products and services is available)

Agglomeration also has some disadvantages, congestion being an obvious one.

The rapid advance of telecommunications technology is reducing the effective distance between people, communities and nations. Some commentators have argued that this reduces the competitive advantage derived from doing businesses in a densely populated area. For example, a legal services business in a rural area should now be able to do most of its communication by near-costless e-mail, rather than by expensive post and courier.

However, researchers have found that when it comes to innovation – one of the things agglomeration promotes and a key source of economic growth – nothing beats face-to-face interaction. The implication is that highly built-up urban areas still have a competitive advantage.

Further reading:

Box, Sarah (2000), "Economic Geography - Key Concepts", Treasury Working Paper 00/12.

Gaspar, Jess and Edward Glaeser (1996), "Information Technology and Cities", NBER Working Paper 5562, May.

The rise of new industries

Offsetting declining employment in some industries is the creation of new clusters of businesses. Creative industries – film and TV, performance art, and parts of the IT industry – are now an integral part of the region's economy. So is tourism. And the education sector is growing and changing.

The problem is that because these sectors are new they are mostly small-scale, and it therefore takes very fast growth to make up for the departure of a few large companies. Indeed, in the last two years, the growth of new businesses has not been sufficiently fast to keep Wellington at the head of the pack when it comes to economic expansion.

So, how long will it take before today's emerging sectors are big enough that we don't any longer feel the effects of a shrinking corporate sector? We expect the process will take at least another five years, and possibly longer.

There are certainly some encouraging signs that growth is occurring:

- Victoria University has been awarded funding as part of the governments Centres of Excellence funding, to establish the MacDiarmid Institute of Advanced Materials and Nanotechnology.
- Victoria university has opened a School of Government, which is part of the Australia and New Zealand School of Government. A number of Australian tertiary institutions are involved, as well as the New Zealand and Australian governments, and some Australian state governments.
- Peter Jackson is building a new film post-production facility in Miramar, increasing the capacity of the film and TV production industry in Wellington and keeping it at the technological frontier.
- A large IT sector has been built up over recent years (although the last year has been a tough one for telecommunications and computing firms because of mergers – HP/Compaq, TelstraSaturn/Clear – and the sale of IBM's ICMS software arm).

However, growth in these areas typically resulted from motivated people having good ideas and doing something about them. This is not something that can be “conjured up” by government policy. The government is playing a role in developments at the University, but for the institutions that have been created to prosper, a continuous flow of bright ideas and the tenacity to put them into practice will be required. We can provide a suitable environment for innovation to occur, but ultimately time, necessity and luck will determine the rate of progress.

In order to encourage growth, local and central governments (motivated by their constituencies) need to provide a suitable economic, social and regulatory environment, and then sit back and wait for the entrepreneurs to get started. In practice this means providing appropriate infrastructure. Infrastructure includes transport systems (for more detail see “The decline of the corporate economy” on page 6), telecommunications and energy networks. But it also includes:

- Suitable systems for education, training and the delivery of health care
- An uncomplicated and consistent regulatory regime
- Strong, democratic public institutions

Governments can deliver services themselves, or take a co-ordinating role, letting the private sector deliver services or form public/private partnerships.

Grow and Go – Creative HQ Incubating Success

Creative HQ – a business incubator in Wellington City’s CBD - is now open for business and fast receiving applications. The incubator is the latest initiative of Positively Wellington Business and has the support of Industry New Zealand.

The incubator aims to create, nurture and grow those new enterprises specialising in technologies that will continue the growth of the region’s creative and ICT industries. This includes software, interactive content, digital film and television content. The programme is continued evidence of the region’s commitment to growing its creative sectors and will help to cement Wellington’s emerging reputation as the home of New Zealand’s creative industries.

Creative HQ is part of Positively Wellington Business’ technology development programme, and seeks to establish a partnership between the public and private sectors by providing premises, business advice and mentoring to fledgling businesses. Adopting a “grow and go” philosophy, incubator residents are involved with the incubator only during their critical growth period before graduating into the business community.

Businessman and former Wellington mayor, Mark Blumsky has been appointed to initially manage the incubator. “This is a fantastic opportunity to help develop creative businesses that will play a really important part in boosting Wellington’s economic future. It is also great to see the support of the region’s tertiary institutions for this project,” says Mark.

Creative HQ forms an integral part of Positively Wellington Business’ regional strategy and will complement the developments being made by another initiative, Media Lab.

“Our support for the region’s innovators will ensure that they have the opportunity to access the resources they need to take their business to the next level”, says Positively Wellington Business CEO Blair McRae.

Information technology development specialists, (left to right) Sam Minnee, Sigurd Magnusson, and Timothy Copeland of Totally Digital, survey their new Creative HQ headquarters



Water Strategy Focused on Development

The Kapiti Coast’s new long-term water strategy aims to provide for economic development while at the same time making provisions for essential and non-essential domestic use.

“Domestic growth needs to be accompanied by economic development to ensure the district’s long term balanced development. The two go hand in hand and water is a key,” says Dr Gael Ferguson, the strategic policy analyst who has led the Kapiti Coast District Council’s development of the strategy.

“It’s about reasonable and balanced water use, security of supply and a long-term view of sustainable management of resources and demand.”

Summer on the Kapiti Coast has long been characterised by domestic water restrictions for the central Raumati, Paraparaumu and Waikanae areas. Councils have reviewed many different proposals and solutions, ranging from dams to pipelines to bores and storage ponds. However these solutions have tended to be driven by cost and engineering feasibility rather than being based on long-term analysis of the sustainable management of the sources and consumption.

Late in 2001, the Council sought submissions from the public on ideas for supply and conservation. These were reviewed by a citizens group, which came up with a district-wide view. Since then the Council has endeavoured to develop a catchment-by-catchment approach that is acceptable to the individual communities that make up the district and that takes into account the views of local iwi and special needs groups.

The Council will sign off the overall strategy in mid-February 2003. It provides for community discussion of options and the relationship between growth and water use in each catchment. The aim is to reduce essential consumption while at the same time offering opportunities for people to explore ways to supplement their own non-potable supplies for non-essential uses like garden irrigation, washing cars and so on.

The overall strategy has the support of the Parliamentary Commissioner for the Environment as well as that of the Regional Public Health Officer, Dr Steven Palmer. Both see the sustainable approach and the inclusion of catchment-by-catchment and demand management programmes as an effective way of managing the district’s water supplies into the future.

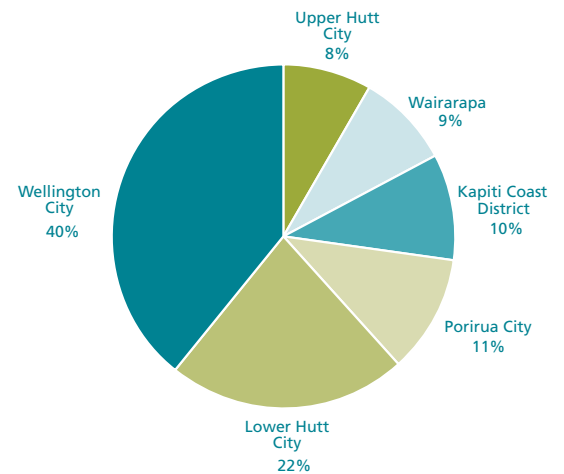
Waikanae river



Sub-regional Economies

Population

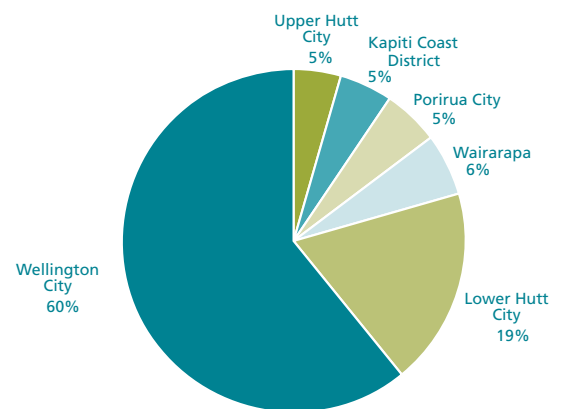
June 2002, Share by local authority



Source: Statistics NZ Sub-national Population Estimates

GDP

June 2002, Share by local authority



Source: Infometrics estimates, Statistics NZ

Lower Hutt City

Lower Hutt's economy appears to have contracted over the year to March 2002. Since that time, Unilever has closed some lines at its Petone factory and IBM has sold off its ICMS business with the loss of 140 jobs, suggesting that economic growth will be slow to recover. On a more positive note, house prices rose steadily over 2002 and there was good growth in the property and business services industry in the city.

Population

Statistics New Zealand's estimate of change between 1996 and 2002 **0.7%**

House prices

Change over the year to June 2002 **6.1%**

Economic growth

Infometrics' estimated change over the year ended March 2002 **-3.1%**

Kapiti District

Kapiti District continues to head the pack when it comes to population growth – it has managed 2% per annum for six years now. Population growth has driven business activity on the Kapiti Coast, with construction a major contributor to last year's economic growth. The year to March 2002 was also a good one for the district's rural sector.

Population

Statistics New Zealand's estimate of change between 1996 and 2002 **12.4%**

House prices

Change over the year to June 2002 **4.9%**

Economic growth

Infometrics' estimated change over the year ended March 2002 **3.1%**

(continues over)

Racing Seats Taking Off

Petone-based Racetech has begun production of specialised racing seats for car giant Daimler Chrysler's limited edition 2003 Dodge Viper Competition Coupe. 150 of the cars are planned for production in the next two years, primarily for the club level American racers. The cars have a purchase price of US\$120,000 (NZ\$240,000).

"It is pretty exciting and got to be good for us from a market exposure and credibility point of view," says David Black, managing director of Racetech. "However, dealing with a monster the size of Daimler Chrysler has not all been easy."

The company is currently exporting race seats to the United States, Britain and Australia.

Racetech is the only race seat manufacturer in the Southern Hemisphere meeting the strict Federation International Automobile (FIA) – the world's governing body of motorsport – standards. This and the fact that Racetech can provide the flexibility for individual customer demand were factors in Racetech's success in securing the \$1 million supply contract with Daimler Chrysler.

"The fact that we are small meant we were prepared to modify to whatever they wanted," says David. "Most race seats are designed for slim European physiques and don't fit the rather larger dimensions of the average American."

Each seat is handmade with more than a day's work in each one. A special energy absorbing foam is glued to the shell and the comfort foam is then glued to that, so that there is no movement while helping to absorb the shock of a large impact to the body. Then the high quality upholstery is put on.

"The technology employed in these production seats is a world first for race car seats. No other has been successfully crash tested to 45 'G' – the expected death threshold for humans in race car impacts".

"The technology and quality of the upholstery really makes our seats stand out from the crowd – it looks better for longer," says David.

Racetech has been making seats in Petone since 1998 when David Black bought the company. Its continuing success means that a move to bigger premises will be necessary in the future to accommodate the expected three-to-fourfold increase in staff numbers and to continue the 68% production growth experienced in 2002.

David Black, managing director of Racetech



Sub-regional Economies (continued)

Porirua City

Porirua leads the field with house price growth of 8.3% over the last year and economic growth of 5.0%. Retail trade – the new Mega Centre adds to the already substantial North City Plaza – was a key contributor to the expansion of the business sector over the year to March 2002, but the increase in value added was spread across many industries.

Population

Statistics New Zealand's estimate of change between 1996 and 2002	3.3%
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House prices

Change over the year to June 2002	8.3%
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Economic growth

Infometrics' estimated change over the year ended March 2002	5.0%
--	-------------

Upper Hutt

The major positive contributors to economic growth over the year ended March 2002 were the wholesale trade industry and the cultural and recreational services industry. However, weak patches in the manufacturing, transport and education industries contributed to a negative result overall. Residents will be looking to education, which has been a contracting industry since the merger of the Central Institute of Technology (CIT) and Hutt Polytechnic, to provide some growth. The former CIT campus is now home to the New Zealand International Campus, a tertiary institution for foreign fee-paying students (see "Education" page 22).

Population

Statistics New Zealand's estimate of change between 1996 and 2002	0.0%
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House prices

Change over the year to June 2002	6.8%
-----------------------------------	-------------

Economic growth

Infometrics' estimated change over the year ended March 2002	-1.1%
--	--------------

Wairarapa

The Wairarapa (includes the Masterton, Carterton and South Wairarapa Districts) enjoyed steady growth over 2002. The stimulus from the primary sector is beginning to wear off as the exchange rate rises (see "International and national context" page 4). However, the big increase in farm incomes in the previous two years is still feeding through to other industries, particularly construction.

Population

Statistics New Zealand's estimate of change between 1996 and 2002	-0.5%
---	--------------

House prices

Masterton; change over the year to June 2002	4.6%
--	-------------

Economic growth

Infometrics' estimated change over the year ended March 2002	1.9%
--	-------------

Wellington City

Wellington City had 4% economic growth over the year to March 2002. Growth occurred almost entirely in the service sector (communications, finance, business services), but that was before the announcement of job losses (from the region) at Westpac and New Zealand Milk Products.

Population

Statistics New Zealand's estimate of change between 1996 and 2002	6.7%
---	-------------

House prices

Change over the year to June 2002	4.4%
-----------------------------------	-------------

Economic growth

Infometrics' estimated change over the year ended March 2002	4.0%
--	-------------

Note: The estimates of economic growth (calculations of GDP share and movements) are indicative only. Official data at the sub-regional level is less robust than regional data and may not match locally sourced information. Local economic development agencies and city and district councils are a good source of supporting data on local economies – see page 24 for a table of contacts.

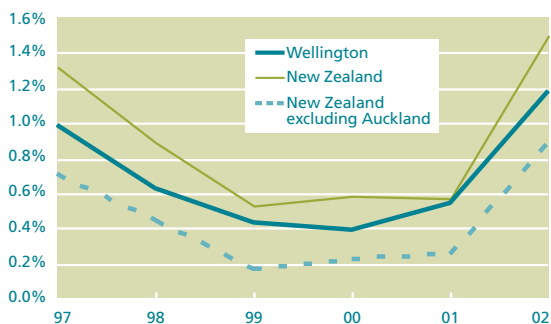
The People

Population

Wellington region's population stood at 445,400 in June 2002, and has continued to grow more slowly than the national average. However, the national average is dominated by Auckland, which has enjoyed a rapid increase in the number of residents. Taking Auckland out of the figures pushes Wellington above the average of the remaining sixteen regions.

Population growth

% per annum, as at June



Source: Statistics NZ Sub-national Population Estimates

The 2001 Census showed that Wellington's population is characterised by a greater share of 20-45 year-olds than the national average, reflecting the region's attraction to young professionals seeking employment. By implication, Wellington has proportionately fewer children and retirees than the national average.

Population by age

Age group's share of total population, March 2001



Source: Statistics NZ Census of Population and Dwellings

(continues over)

Reversing Gravity

Extreme skiing is a popular pastime in New Zealand and overseas, but in the most remote locations once you get to the bottom of the mountain there is unlikely to be a chairlift waiting to hoist you back to the top. However, the good news is that help is now at hand for extreme ski bunnies everywhere. The "Ski-tow-to-go" or as it's technically known - 'The Southern Alps Heli Winch-K1.5' - is the answer to many logistical nightmares in the snow, and is the latest production of Paraparamu-based Te HuruHuru International.

The Heli Winch-K1.5 is a portable ski tow designed to be positioned in remote areas by helicopter. The portable tow has been of great interest to ski field operators throughout New Zealand and around the world, who have expressed concern and frustration that fixed lifts do not always provide access to prime skiing locations.

Te HuruHuru approached Positively Wellington Business seeking assistance in securing a Technology New Zealand research and development grant to further develop their machine. This would see the addition of a new secondary winch and a special remote system, reducing human operation and increasing the number of skiers the machine can transport in an hour from 20 to in excess of 120.

Managing director Richard Thomas says that "The grant was crucial, it enabled us to take the project through a huge portion of further development. The final stages of production and testing are now underway. Once the snow testing is finished the Heli Winch-K1.5 will be totally marketable."

The forecast is clear for Te HuruHuru, and while it is unlikely they will make use of the "Ski-tow-to-go" on site, predictions are that the Heli Winch-K1.5 will open the door to a whole new skiing experience.

Te HuruHuru managing director, Richard Thomas (left) trialing the "Ski-tow-to-go"



Economic Activity Helps to Revitalise Upper Hutt

The Upper Hutt economy has been boosted by growth in a number of different industries, says Upper Hutt City Council business liaison manager Andrew Clark.

There are expected to be 1,000 foreign students in 2003 at the New Zealand International Campus (NZIC), with the capacity for a further 4,000 students over the next five years. The Super 12 rugby team, the Hurricanes, will also use the campus site in Heretaunga for training.

“Evidence of economic growth can be seen with more jobs created at Dynathene Plastics, South Pacific Tyres and Unibag Packaging,” says Andrew.

“Proposed further investment in Eurocell Sawmilling and Serco Project Engineering Limited should also see further increases in job numbers.”

On the back of economic growth, and demand from residents, Upper Hutt City Council has embarked on “The Main Street Vision” programme to upgrade the CBD.

“This programme will provide a more compact, functional and attractive retail centre for Upper Hutt. Improved access ways to the city centre will also be considered.”

A stronger cultural presence in Upper Hutt is in the wings with the construction of the \$6 million Expressions – Arts and Entertainment Centre. The centre is due to be opened this September. See www.expressions.org.nz for more details.

Property prices and the value of building consents have also continued to rise in Upper Hutt with most real estate agents reporting continued growth in sales volume and values.

Main Street Upper Hutt



The ethnic mix in Wellington is almost the same as New Zealand’s, although we have a slightly lower proportion of Maori and a higher proportion of Pacific Islanders (the way ethnicity statistics were collected changed in the 2001 Census, meaning results are not comparable with those from previous years).

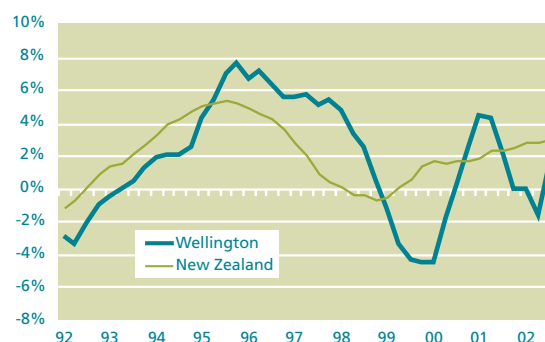
The workforce in Wellington remains the most qualified in New Zealand, with 16% of residents holding university degrees (national average: 10%) and just 19% having no formal qualifications (national average: 24%). This solid educational background translates into higher incomes. The median personal income for a Wellington resident in March 2001 was \$22,400, \$1,300 more than the median for second-placed Auckland, and \$3,900 more than the New Zealand median.

Employment

By the end of 2002, the number of people employed in Wellington was beginning to recover from a slump. Employment had briefly declined because of company departures and restructuring, as well as the conclusion of filming of *The Lord of the Rings* (although post-production continues). The September quarter of 2002 brought the first signs of a recovery, which we expect to continue over 2003 – see “Performance and Prospects” on page 3.

Wellington employment

Average growth, year ended



Source: Statistics NZ Household Labour Force Survey

The unemployment rate has risen slightly since 2001, but remains lower than the national average.

Industry by Industry

Manufacturing

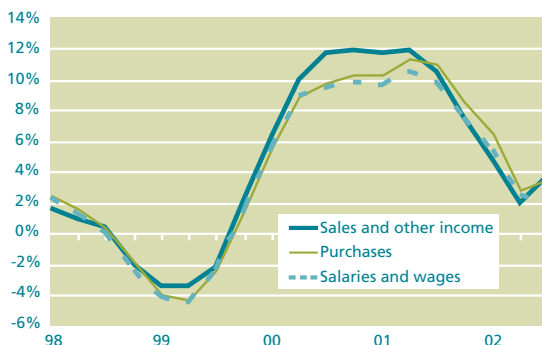
Manufacturers provide one in eleven of the region's jobs, but the industry is small by national standards (in Auckland, one in six jobs is provided by a manufacturer). The industry has declined over the last decade, with machinery and equipment manufacturing contracting most sharply because of the closure of vehicle assembly plants. In the last year, chemical manufacturing also decreased when Unilever closed some lines at its Petone plant.

Wellington does not have a competitive advantage in traditional volume-based manufacturing because it lacks a large unskilled workforce, a big local market, and proximity to a major international airport. As such, many of the manufacturers that remain in the region have had to develop excellent design skills or very efficient plants to survive and prosper. Examples include South Pacific Tyres (Upper Hutt), Interlock (Wellington City), Windsor Engineering (Wellington City) and Formway (Hutt City). To promote manufacturing activity, Positively Wellington Business (the Wellington Regional Economic Development Agency) is establishing a niche manufacturing "cluster", and it is likely to be built around firms such as these.

Across New Zealand, the value of manufacturing sales rose 4% over the year ended September 2002. Profitability within the industry has improved dramatically since the mid-1990s, but further improvements were cramped in 2002 by rising raw material prices. The rising New Zealand dollar is expected to further hamper manufacturers – both exporters and those selling into the domestic market – over the next year.

Manufacturing (NZ total)

Annual average growth



Source: Statistics NZ Quarterly Manufacturing Survey

New Tourism Ventures Gets Visitors Close to Nature

Wellington's rugged south coast is well admired by visitors to Wellington but many have actually not experienced the hypnotic beauty of Wellington's coastline because it was not accessible to them. That was until Jason Bragg set up Wellington Rover tours.

Wellington Rover is designed so that visitors can jump off the bus at any point and enjoy scenic walks, sandy beaches, watersports, a trip to the zoo or a cafe stop. Alternatively visitors can stay aboard for the whole journey and enjoy the lively commentary of the Rover guide.

"The Rover is something I've wanted to do for quite some time. Ever since I came to Wellington I realised the potential for 'micro-trips' – a kind of mini tour bus providing access to the wider reaches of the city," says Jason.

Instrumental to the existence of Wellington Rover was Jason's English partner.

"She was blown away by the walks on offer in Wellington; that you could stroll along a deserted coastline, see nothing but mountains, hear nothing but the ocean and still be only 15 minutes from the heart of the country's capital."

For more information on Wellington Rover see www.wellingtonrover.co.nz

Another new company making the south coast and other parts of Wellington more accessible is ScooTours, which hires out scooters to those visitors interested in seeing Wellington at a "zippy" pace.

ScooTours owner Alan Fairless hires out scooters from his mechanics workshop in Abel Smith St, as well as guiding tours around the south coast or around Karori, Wilton, Makara and Aro Valley.

For other ways to explore Wellington's beautiful south coast and other Wellington attractions visit www.WellingtonNZ.com

Wellington Rover tours – Jason Bragg (driver) with a visitor



Primary industries

The agriculture and forestry industries are based in the north of the region, and particularly in the Wairarapa.

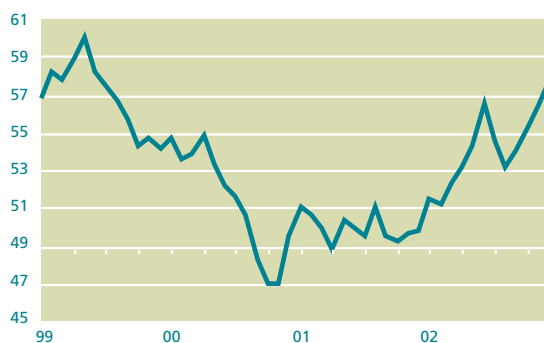
It was a good 2001/02 season for most Wellington farmers:

- Lambing percentages and survival were high owing to a mild spring
- Dairy production was up slightly
- Grape growers enjoyed increased yields

Profitability increased, although not as markedly as in 2000/01.¹

The bad news is that over the coming year, farm returns are expected to decline. Commodity prices have declined because of lower world dairy prices and a stronger New Zealand dollar.

Trade weighted index of exchange rates (NZ, Monthly average)



Source: Reuters, ASB Bank

While dairy prices do appear to have stabilised at their lower level, the New Zealand dollar is expected to continue rising over the short term. Drought is also a danger in the Wairarapa, because of an El Niño weather pattern this summer.

In any case, the last two years have been unusually fruitful for farmers, and many have taken the opportunity to invest in new equipment, carry out maintenance and reduce debt. This will improve their ability to respond to unfavourable developments, should they occur, over the next year.

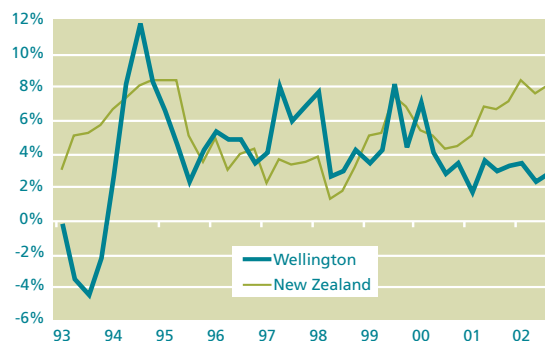
Meanwhile, forest growers have benefited from a small increase in pulp and log prices over the last year. At a national level, the volume of logs harvested rose 10% over the year to September 2002. Considerable rises are also expected in coming years because a large number of trees planted in the 1970s and 1980s are approaching maturity. However, the average age of plantation forests in the Wellington region is less than in other parts of the country (for example, the central North Island).

Retail trade and tourism

Over 2002, the average Wellington retailer enjoyed a 2-3% increase in turnover. The increase is miserly compared with the national average, but represents a good performance when a lack of employment growth and the negative effect this will have had on household income growth are taken into account (see "Employment" page 16).

Wellington retail trade

Annual % change, excludes car and petrol sales



Source: Statistics NZ Monthly Retail Sales Survey

Steady tourism business is one reason retail sales have continued to increase. The number of nights guests spent in local hotels increased by 3-5% over 2002, in line with the national average.

The resumption of competition on the Cook Strait route – Strait Shipping began running a new ferry on the route in December – was a positive development. By putting downward pressure on prices competition will, at the margin, encourage some people to travel by land/sea through Wellington rather than bypassing the region by plane.

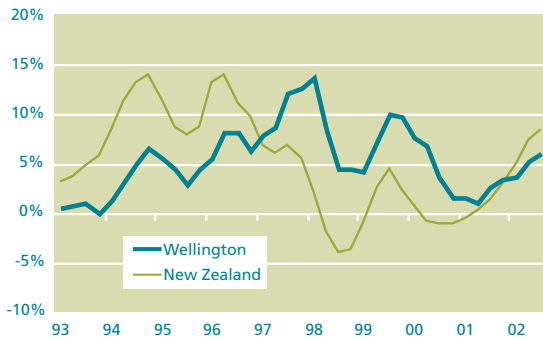
¹ Source: MAF Farm Monitoring Reports, North Central Monitoring Report – July 2002.

Property and building

The performance of Wellington's building and property market over 2002 was difficult to explain. House prices rose rapidly, but this did not seem to tempt homeowners to put their dwellings on the market, nor did it tempt investors to build more homes.

Wellington house prices

Annual % change

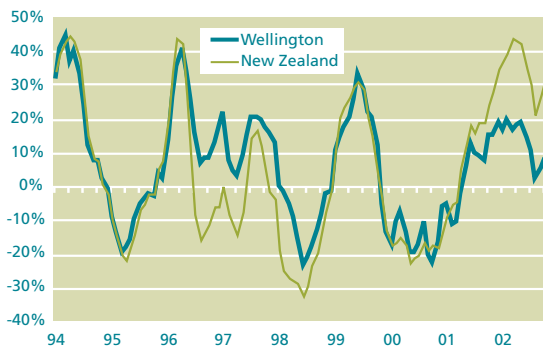


Source: Quotable Value NZ

In comparison with sales in the rest of New Zealand, the number of house sales completed in Wellington rose slowly. Agents and real estate advertisers say this was due to a shortage of listings rather than a shortage of demand (witness the rise in house prices).

House sales

Annual % change, quarter ended



Source: Real Estate Institute of New Zealand

House building activity was remarkably flat given the apparent shortage of houses for sale. Although, there was a burst of new projects approved over November and December, including approximately 400 apartments, house building activity has struggled to grow as fast as the national average.

(continues over)

World Premiere of LOTR worth Millions to Wellington

Riding on the wave of euphoria following recent announcements naming Wellington as home to the world premiere for this year's third Rings' film *The Lord of the Rings: The Return of the King*, a new report has estimated hosting the world premiere will be worth millions of dollars to Wellington's regional economy.

The report, compiled by McDermott Miller, was commissioned by Positively Wellington Business and aimed to assess the economic impact of the 2003 world premiere on Wellington.

It projects that activities directly associated with the premiere should generate \$9.5 million in new spending for the Wellington economy. In addition, Wellington's tourism spend is estimated to increase by \$5 million annually as a direct result of the event. International media exposure is also forecast to increase dramatically with coverage worth around NZ\$25 million.

"This is a very exciting time for the Capital. Wellington is the home of *The Lord of the Rings*, we're fiercely proud of the trilogy and its creators and we're not afraid to show it. We've proven with the last two premieres that we've got the talent, resources and skills to host the world premiere and where else in the world will tens of thousands of fans turn out to celebrate a film?" Mayor Prendergast said.

Securing the world premiere has been the culmination of two years' work by Positively Wellington Business, which along with Wellington City Council's events team has organised the city's last two highly successful premiere events.

Lord of the Rings stars Dominic Monaghan (left) and Elijah Wood greet fans at Wellington's Australasian premiere. © Robert Catto



Where's the action?

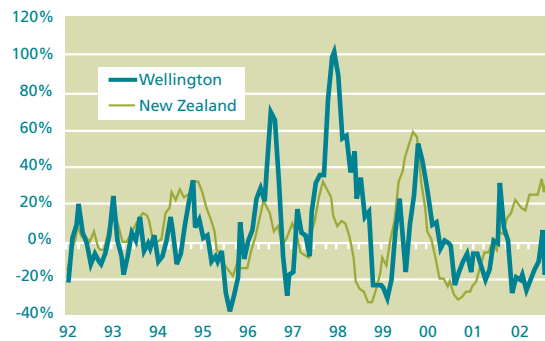
Number of houses approved for construction by area

	Yr ended Nov-02	Yr ended Nov-01	% change	Qtr ended Nov-02	Qtr ended Nov-01	% change
New Zealand	26169	20327	29%	8260	5757	43%
Wellington Region	2184	2129	3%	784	447	75%
Wellington City	1181	1059	12%	517	174	197%
Kapiti District	415	452	-8%	108	120	-10%
Upper Hutt City	165	136	21%	67	23	191%
Wairarapa	178	172	3%	45	54	-17%
Hutt City	125	172	-27%	28	45	-38%
Porirua City	120	138	-13%	19	31	-39%

Source: Statistics NZ Building Consents Statistics

No. of new houses granted permits

Annual % change, quarter ended



Source: Statistics NZ Building Consents Data

Household incomes in the Wellington region have not grown much over the last year because the number of people employed has been static, and this might be making households more cautious about investing in new houses, or even selling houses they own in order to buy others. It is also possible that the supply of new houses is being constrained by a lack of suitable building sites (in Wellington City at least) or a shortage of tradespeople.

A third possibility is that Wellington is beginning from a higher level than the rest of the country. Wellington was not badly affected by a building crash that occurred in 1997/1998, so while other regions are now “catching up” Wellington has little catching up to do.

Over the next year, we expect the pace of building activity in Wellington to pick up. Employment growth will be stronger in 2003, and builders will have had more time to respond to any shortage of tradespeople by training new recruits. With the supply of housing set to increase, the scope for further house price rises in Wellington over the short term is limited – faster population growth at a national level will mainly benefit the Auckland property market – but neither is a price crash likely.

Around the world, investment analysts are beginning to speculate about a housing price bubble, because house prices have risen faster than incomes for many years. This is also the case in New Zealand, but in general Wellington house prices have risen more slowly than those in, say, Auckland. And Wellingtonians' incomes are the highest in the country, which justifies higher median prices.

Business services and communications

Business services and communications including information technology businesses, contribute the biggest slice of value added and employment in Wellington.

Growth in these industries has been rapid over most of the last decade, but has slowed in the last year, because:

- HP and Compaq merged
- TelstraSaturn and Clear merged
- IBM has decided to sell its ICMS (telecommunications software) business

There were job losses in all cases.

Rationalisation in the IT industry has been driven from offshore because of lean times for parent companies in Europe, Japan and North America. Over-investment in information and communications technology (ICT) over the 1990s led to excess capacity, which will now take some time to be used up. For example, so-called “dark fibre” – fibre optic telecommunication lines which have been laid but are lying unused – is common in the United States.

Ironically, New Zealand is not suffering from the same over-investment in ICT, having to some extent missed out on the 1990s technology boom. We expect investment in ICT to be lively in Wellington over the next year. Government IT initiatives will provide some of the new business for companies here.

Eyede Goes Global

When it comes to Hutt companies taking the world by storm, look no further than Hutt City’s very own Eyede, (pronounced ID). Tucked away at the top of Trophy House in Alicetown, this team of 13 staff led by CEO Wayne Stemp may be small on space but they’re a world heavyweight in their field.

The Eyede story started three years ago when Wayne’s business Trophy House purchased an ID card printer to expand the business.

“At the time, market investigation exposed a real need for an efficient, cost-effective and secure way of ordering ID cards,” says Wayne.

Wayne and his team began to develop an Internet-based data management tool to do just that, and more. The result is what has become known as the Eyede Secure Online Management System (e-SOMS), a fully integrated web-enabled application that allows clients to manage their own data and order their cards via a secure Internet connection. Security of the system is “banking industry standard”.

While Eyede can count New Zealand Post, Liquor King, regional and city councils (including Hutt City), more than 100 schools and Civil Defence among its clients, it’s their international presence and influence that continue to grow markedly.

In 2000, e-SOMS caught the eye of software and machinery giant Datacard Group and two years later a commercial alliance between the two was formalised.

With more than 2,600 employees and 275 distributors worldwide, Datacard Group provides Eyede with the infrastructure, people and potential to tap into over 56 countries around the world. The Eyede system is already installed in Singapore, the Philippines and Malaysia. Over the next 18 months the focus will be on Hong Kong, Japan and beyond.

“We are not complacent enough to think this system is perfect as it is. Our focus is our customers and providing them with custom-fit solutions. We will continue to provide them with a data management system we believe is superior to anything similar provided worldwide. We’re an Internet-based company able to reach clients at the touch of a button,” Wayne says.

Eyede CEO Wayne Stemp (centre) and the Eyede team



Workforce Development Co-ordinator Appointed

A Go Wairarapa workforce development co-ordinator has been appointed to match potential workers and employers.

Like many regions of New Zealand, Wairarapa suffers from a shortage of skilled labour which is impeding the growth of some of its key sectors. Agriculture, horticulture and land-based production make up 30% of our job market. Yet these industries are not attracting school leavers, nor is there a managed apprenticeship structure, says workforce development co-ordinator John Bush.

A programme of co-ordination and promotion, within schools, workplaces and the wider community, aims to address this issue.

The programme has received some funding from the Department of Work & Income and it is hoped to receive support from Industry New Zealand as part of the region's Regional Partnership Programme, John says.

The co-ordinator will match up potential workers and employers and advise training. They will also promote the opportunities available in the selected industries (agriculture, forestry and wood processing, construction trades, hospitality and catering) through transition & careers advisors in local secondary schools, and establish linkages with the relevant industry training organisations.

John Bush, workforce development co-ordinator (left), discussing skills development in the print industry with Dave Cameron of the Wairarapa Times-Age



Education

Wellington's education sector provides 6.5% of the jobs in the region. That share has fallen since 1994, when it was 7.1%. However, education is a promising industry for Wellington. The presence of two universities, a wananga and four polytechnics gives the region a good tertiary education base from which to grow, and this will be supplemented by private schools teaching English to foreigners.

Over the last year, there have been positive developments at Victoria University. The institution announced the opening of a School of Government, and the granting of government funding for a new Institute of Nanotechnology.

The School of Government is part of the Australia and New Zealand School of Government (ANZSG), which also comprises the New Zealand government, the Australian federal government, and the state governments of Victoria and Queensland. It is expected to also include the Australian National University, Griffith University, Monash University, the University of New South Wales, the University of Queensland, the University of Canberra and Melbourne Business School.

The ANZSG will have a core of professors based in Melbourne but teaching at all involved institutions, with other courses provided by local teachers. Some Australian students will do part of their study at Victoria.

The MacDiarmid Institute for Advanced Materials and Nanotechnology is to receive \$23.2 million in operational and capital funding over three years, from the government's Centres of Excellence Research Fund (CERF). Canterbury University and Industrial Research are major partners in the institute, but other organisations are also involved. The institute will undertake basic research, but aims to incorporate this into practical projects and to develop infrastructure for the application of nanofabrication techniques. Victoria was also a partner in ventures at other universities that were granted CERF funding.

In its general operations, Victoria has also expanded. There were 13,162 full-time equivalent students at the university in 2002, up from 12,392 in the previous year. There has now been strong growth in student numbers for two years running, following a period of stagnation that threatened to undermine the university's financial stability.

Meanwhile in Upper Hutt City, the former CIT campus is home to approximately 100 international students. Student numbers are projected to rise to several thousand over the next few years. The New Zealand International Campus offers English language courses, but also plans to develop degree and diploma programmes.

Financial services and insurance

Using the number of people employed as a measure of size, the finance and insurance industry is now smaller in Wellington than it was in the mid-1990s, in spite of steady economic growth since that time (as noted, output has increased, but this benefits mainly offshore shareholders – see “The decline of the corporate economy” page 6). With the exception of the National Bank, major trading banks existing since the 1990s have moved their head offices away from Wellington. Westpac was the last to move, announcing its relocation late last year.

On a more positive note, newly established state-owned Kiwibank has its head office in the region. It is too early to say whether or not the Kiwibank venture will be a success, but it has been reported that the bank is meeting its early financial targets. The choice of Wellington as a base is a logical one – Kiwibank’s parent company New Zealand Post is based here too.

The scope for further reductions in the size of the finance and insurance industries in Wellington is now limited. We expect to see some stability in the number of jobs restored over the next year.

Go Wairarapa Takes Lead Role in Wairarapa’s Economic Development

A unique organisation combining economic, tourism and cultural development aims to boost the economic prosperity of Wairarapa.

Go Wairarapa is a new organisation combining the roles and resources of Masterton Business Enterprise, South Wairarapa Enterprise Board, Tourism Wairarapa and Creative Wairarapa.

New general manager Kelvin Speirs says, “It’s been a busy six months integrating the four cultures and visions into one coherent form. Having them all under the one umbrella enables us to work with local and central government for the growth and wellbeing of Wairarapa.”

Go Wairarapa will facilitate implementing a regional economic development strategy for Wairarapa.

“We know that Wairarapa, and its economy, is based firmly on the land and land-based activities. The Strategy develops ways to build on the economic benefits of land-based activities and includes action plans for both generic themes and sector-specific ones.”

This work has been part of the Wairarapa’s activities under the Regional Partnerships Programme of Industry New Zealand. A copy of the entire strategy can be found at www.wairarapa.gen.nz

A Regional Economic Summit was held in November to build on the themes introduced in the Strategy.

Speakers included Hon Paul Swain the Minister for Small Business, Rosemary Howard of TelstraClear, Alan Frampton of the Tatua Dairy Cooperative and David Kirk of Norsk Skog Australasia.

Over 120 attendees also participated in workshops which focussed on themes from the Strategy such as workforce development, smart business, clustering, branding, events and retail development.

Go Wairarapa will continue to hold such events to inform business leaders of the progress being made on implementing the Strategy, update them with the latest economic information and discuss how business can be involved with the various projects.

Hon Paul Swain speaking at the launch of Go Wairarapa



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The information in this publication is current as at January 2003, or earlier where noted. The economic data and commentary in **Regional Outlook** has been prepared by Infometrics Ltd. The regional news stories were co-ordinated by Greater Wellington with the assistance of Positively Wellington Business, Hutt City Council, Upper Hutt City Council, Porirua City Council, Kapiti Coast District Council, Go Wairarapa, Positively Wellington Tourism, Wellington Regional Chamber of Commerce and Industry New Zealand. Greater Wellington gratefully acknowledges their support and assistance. The opinions expressed in this publication are not necessarily the views of Greater Wellington or of these agencies.

Water, air, earth and energy: elements in Greater Wellington's logo that combine to create and sustain life. Greater Wellington promotes **Quality for Life** by ensuring our environment is protected while meeting the economic, cultural and social needs of the community.

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