Notice of Meeting:
I hereby give notice that an ordinary Meeting of the Economic Development Committee will be held on:

Date:	**Tuesday 12 May 2020**
Time:	**10.00am**
Meeting Room:	**Audio Visual Link**

Richard Briggs
Chief Executive

Economic Development Committee
Komiti OOhanga Whakatupu
OPEN LATE AGENDA
Item 16: COVID-19 Economic Update

Membership

Chairperson *Heamana*	Cr Ryan Hamilton
Deputy Chairperson *Heamana Tuarua*	Cr Ewan Wilson
Members	Mayor Paula Southgate (Ex Officio) Deputy Mayor Taylor Cr Martin Gallagher Cr Rob Pascoe Cr Maxine van Oosten Maangai Maaori - Olly Te Ua and Te Pora Thompson-Evans
Quorum:	**A majority of members (including vacancies)**
Meeting Frequency:	**As required – no less than four times a year.**

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11 May 2020

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Council Report

Item 16

Committee:	Economic Development Committee	**Date:**	12 May 2020
Author:	Stafford Hodgson	**Authoriser:**	Jen Baird
Position:	Senior Strategic Policy Analyst	**Position:**	General Manager City Growth
Report Name:	COVID-19 Economic Update		

Report Status	*Open*

Purpose - *Take*

1. To update the Economic Development Committee on the latest COVID-19 Economic Update **Attachment 1** of this report.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Economic Development Committee receives the report.

Background - *Kooreo whaimaarama*

3. Councillors Ewan Wilson and Ryan Hamilton have organised regular economic reporting and optional drop-in sessions with staff to discuss the latest COVID-19 economic information. These updates and drop-in sessions are every other week.

4. The information contained in Attachment 1 is intended to supplement the Council's broad decision making and is not intended to replace advice given on specific topics. Specific decision making will continue to be supported with evidence-based reports.

Attachments -*Ngaa taapirihanga*

Attachment 1 - Covid 19 Economic Update as at 5 May 2020

COVID-19 ECONOMIC UPDATE: 5 MAY 2020

New Zealand context

New Zealand has been at alert level three for the past week. High-frequency indicators show increased economic activity. There are more vehicle trips on the roads and consumer spending has increased. While this was anticipated, it is a reassuring step toward normality.

With no new cases in New Zealand over the prior two days, the nation's focus has increasingly shifted from the health crisis toward the economic fallout COVID-19 has wreaked. The Government has made and continues to make decisions that trade off economic and health outcomes. Difficult trade-offs persist through to the local government level where decisions affect residents' wellbeing. Every decision is a trade- off between options, made with imperfect information. No one can say for certain what will happen over the coming recession and recovery, but history and economic theory can help us make timely decisions.

The coming recession is inevitable and won't be quick as interdependent supply chains are woven into our economic fabric. Many countries have not fared as well as New Zealand but trade with China has picked up over the last week. Comparisons with Australia continue. Further detail can be found here Treasury: Weekly Economic Update - 1 May 2020.

Hamilton and the Waikato – summary

Employment

The percentage of the working-age population receiving Jobseeker support in the Waikato has increased 1.2% since the start of the year to 6.9%. The Waikato is situated around the middle nationally, with the spread being 4.2% in Southern to 10.4% in Northland. Once this wage subsidy support finishes and more stable business conditions return, business owners will have to make hard decisions; expect to see an increase in Jobseeker support/unemployment as a result. Under current projections, we expect Hamilton will have around the national average unemployment, which Treasury is currently projecting to hit 13.5% in the June 2020 quarter. (Traditionally, we have had a higher unemployment rate than nationally but also, we are not as exposed to some of the hardest hit sectors like tourism.)

How will different sectors be impacted?

The *health care and social assistance* sector is comprised primarily of essential workers. Hamilton has a much higher than average proportion employed in this sector. The sector does face the risk of increased absence from sickness due to higher levels of potential exposure to COVID-19 and increased caution around minor illnesses such as coughs and colds. It will likely be one of the only sectors to continue to grow through the recession. (This sector has seen employment growth year on year in Hamilton since 2008.)

The *manufacturing* industry struggled to work remotely. Demand will drop in this sector, but it will be depend on the business. Manufacturing related to food production will likely remain strong. Pre-existing contracts and support packages from the Government and banks should see the sector avoid catastrophic cut backs over the short term. In the medium and long term, expect a contraction of this sector. The manufacturing sector is highly cyclical and had the second biggest loss of employees during the Global Financial Crisis (GFC).

Education and training jobs are largely unaffected as teachers are all paid by the Government rather than local schools. Those in the tertiary and private sector will be more adversely impacted, particularly for institutions that rely on international student income. Waikato University has indicated that there will likely be job losses as a result of the travel bans. International students contribute about $5B to the national economy. The University of Waikato received $39M from international student tuition fees in 2018, 14% of total income from all sources. Conversely, demand for tertiary education, particularly vocational education, will increase in the medium-long term. When employment opportunities drop, people are more likely to consider further study.

The *retail trade* is one of the most seriously affected sectors. In Hamilton, there were almost 10,000 people employed in retail. The prevalence of online shopping was increasing pre-COVID-19. COVID-19 is likely to continue to increase people's preference for online shopping on an ongoing basis, as more consumers discover its convenience. Also, as unemployment increases and people's confidence in the economy drops, discretionary spending will decrease. Discretionary spending is also inextricably linked to how well-off people feel. As a lot of NZ's wealth is in housing, if house values fall people will tend to rein in spending irrespective of this not affecting their cashflows.

The *construction sector* was at a standstill during level 4; however, the sector returned to construction sites following the lockdown. The civil construction work pipeline looks strong with large capital programmes from the Government and councils set to continue and/or be expanded. It is paramount that this work is put into place before the connections between construction firms and employees breaks down through redundancies and business failure. Infrastructure New Zealand has stated "Contracting and construction companies could let go of up to 30% of their staff within 3 months under the current conditions." This would cause significant delays to the sector's recovery. This is very concerning as stimulus to the construction sector through local and Central Government funding of projects is a key pillar if New Zealand is to have a swift recovery (for example the Future Proof area submitted 23 proposals with a total value of $2.875B). The Government's relief package, i.e. wage subsidy, hopefully ameliorates the worst of these redundancies. If asset prices fall, this will cause fewer projects to proceed. The residential and commercial construction sectors have storm clouds on the horizon as noted by an industry expert. "The big issues are the forward work programme. [I'm] not hearing a lot of drop offs for confirmed clients who had already completed design. It's really those future clients, that's where the big focus will turn to over the next few weeks." If new building work stalls, expect staggered additions to unemployment as work underway is completed.

The *accommodation and food* sector is another area that has suffered heavy losses since the first travel bans were put in place. Many staff had, and will continue to, work reduced hours due to social distancing, travel bans and major event cancelations. Over 5,000 people are employed in this sector in Hamilton. Expect significant ongoing disruption to this sector and a slow recovery over the coming years. Strong demand for takeaway food during the first week of alert level three has been positive for those businesses able to trade and provides hope for those anticipating opening as restrictions ease.

The *tourism* sector (a combination of a number of sectors discussed here) in Hamilton is proportionately smaller than in many other regions. This puts us in a stronger position for recovery once the lockdown is over and COVID-19 is controlled. However, a number of job losses across the economy is likely, with people needing support to retrain in order to redeploy. Often retraining will take time and require a return to study before a new position can be attained. Discussions about a trans-Tasman travel bubble are only at preliminary stages and would likely not benefit Hamilton greatly.

How quickly will Hamilton recover?

Any prediction of the duration of the downturn and the timing of the recovery contains a large element of crystal ball gazing as the situation is rapidly evolving. Hamilton's recovery will depend not only on how long it takes New Zealand to get on top of COVID-19 but also on the global response.

The Hamilton, national and global economies have contracted very rapidly and at a staggering scale. The sheer scale of the retraction provides room for growth, albeit by recovering lost ground. While most business will struggle, some will now thrive. There is additional capacity (higher unemployment, lower cost of capital, cheap leases) for new businesses if they can find clients. The businesses that survive or establish themselves during this downturn will be efficient and ready to grow rapidly when the economic conditions become more favourable.

When analysing this recession, it is useful to compare and contrast prior recessions. One key point of difference between this recession and the GFC is their underlying drivers. This recession is driven by the effects of, and the response to, the pandemic, while the GFC was a financial crisis precipitated by structural failures in the financial system. The GFC had a slow decline due to the complex nature of the bad debt and asset bubbles while the severity of the COVID-19 was rapidly understood and its effects immediate.

The initial optimistic thinking around the COVID-19 downturn is that after the sharp fall off the economy will largely start back up again after a successful pandemic response (a 'V'-shaped recession). As other nations responses become known, it becomes less likely we will be able to fully open our borders any time soon. Irrespective of how well New Zealand deals with the pandemic, our economic recovery is interdependent on the recovery of our major trading partners.

A 'U'-shaped recovery would see the economy bottom out for some time before a prolonged recovery. This would see more businesses close and prolonged levels of high unemployment. The GFC followed a 'U' shaped recovery. Hamilton employment levels in 2014 (83,300) surpassed 2007 (83,000). If Hamilton employment levels surpass those of 2019 (96,000) in 2022, this would be a very rapid recovery. A U-shaped recovery is likely.

Housing market and residential construction

Consenting data to April 2020 does not reveal the anticipated longer-term impact of COVID-19 on the Hamilton residential construction sector. We anticipate that the demand for housing will soften and house prices will decline. House prices and housing construction (in the short term) are driven by confidence and house prices. Commentators at QV and some economists are predicting a slowing of sales and a fall in house prices of up to 12%. The timeframe for this house price decline is guesstimated to fall between 6 to 18 months out. The responsiveness of this market will be better understood when new sales data becomes available.

Consenting lodgement and granting has not softened in March and April 2020. Code Compliance Certifications have slowed down as both builders and inspectors have not been on site during alert level four. Residential construction should continue over the short term as buildings underway are completed. Apartment buildings, commercial and industrial construction has the most risk out of the sector. Expect to see a significant reduction in building consents. It is important to note that while building consent numbers diminish, significant work will continue as pre-existing consented projects progress. We do not know that projects underway will not be completed but intuitively some will fail. The GFC did not see a large spike in non-completed consented work but as this crisis is different in nature we will continue to monitor this space.

What does this mean for growth planning?
There are both short- and long-term planning implications from the COVID-19 economic fallout. In the long term, it is unlikely to change aggregate demand for housing drastically. However, once construction work underway reaches completion, we will see likely see a substantial decline in residential and non-residential construction.

In the short term, the construction sector will decline due to two reasons. There will be a shortage of workers if COVID-19 continues to spread further causing bottlenecks in projects, which can have a domino effect, disrupting project plans. Also, social distancing on construction sites will likely reduce worker output and the speed of construction. Secondly, house prices will likely soften this year. Lower house prices may give those contemplating construction pause for thought. The financial viability of projects may not stack up if there is the potential that the house is worth 5-10% less after the build.

In the longer term the underlying need for civil, residential and commercial/industrial construction remains. The Government stimulus coming online in the medium to long term will bolster civil construction. Government build programmes through Kāinga Ora will also likely ramp up over the medium term to soak up any unutilised residential construction capacity. Within two years it is anticipated that the medical effects of COVID-19 will be under control. Population growth over the long term is projected to return to the strong pre-COVID-19 levels.

Hamilton has seen demand for housing increase significantly in recent years. Council data shows that there is a gap between the number of houses consented, the number of houses under construction and the number of completed homes, suggesting that there may be a labour supply shortage within the market. If demand did soften, there is expected to be sufficient projects underway across the city that would ensure construction remains strong (so long as these consented or underway projects remain viable).

Disclaimer
Information contained in this paper was researched from a range of sources by the Growth Funding & Analytics Unit. Our best efforts have been made to ensure the information in this document is correct and that any conclusions are based on the information available at the time. This information will be continuously changing as the situation changes almost daily. COVID-19 has had a massive impact on the local, national and global economies. The disruption is unprecedented, which makes predicting what will happen at a national level difficult let alone for Hamilton. This report will be updated fortnightly to include the latest information and projections from leading sources.