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TONY ALEXANDER

# Regional Property Insights

AUGUST 2023



## Contents

|                                   |    |
|-----------------------------------|----|
| Introduction.....                 | 2  |
| Northland.....                    | 3  |
| Auckland .....                    | 4  |
| Bay of Plenty .....               | 5  |
| Waikato.....                      | 6  |
| Gisborne .....                    | 7  |
| Hawke’s Bay.....                  | 8  |
| Manawatu-Wanganui .....           | 9  |
| Taranaki .....                    | 10 |
| Wellington .....                  | 11 |
| Nelson, Tasman, Marlborough ..... | 12 |
| West Coast.....                   | 13 |
| Canterbury.....                   | 14 |
| Dunedin City/Otago .....          | 15 |
| Queenstown Lakes .....            | 16 |
| Southland.....                    | 17 |



## Introduction

Welcome to the August issue of Regional Property Insights for 2023, prepared by Tony Alexander with the support of First Mortgage Trust.

In this month's Regional Property Insights I look at one of the key factors which influences demand for housing – employment growth. If the jobs market is strong then there will tend to be greater demand for housing, less selling, and more upward pressure on prices than in areas where the employment market is weak.

Recently Statistics New Zealand released data showing that in spite of the economy undergoing a technical recession over the turn of the year, job numbers have continued to rise on average 0.9% a quarter. This is the first job rich recession we have ever seen, and this situation will help account for the upturn in the housing market even as bank mortgage rates have continued to rise.

I look at the job growth situation for each region.

As with all the material presented in RPI, my aim is to provide information which can be collected up over time and used as input into one's property purchase and divestment decisions.

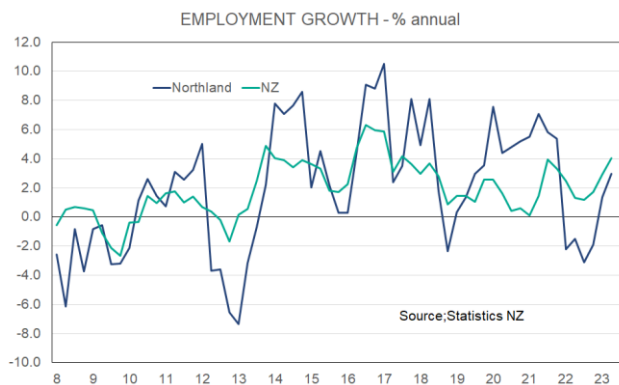
Previous issues of Regional Property Insights are available here. [First Mortgage Trust Articles](#)

Further extensive discussion of house price movements and factors affecting prices can be found in the weekly Tony's View publication available from [www.tonyalexander.nz](http://www.tonyalexander.nz)

## Northland

### Recent weakness

In the Northland region job numbers have risen by 3% in the past year. This is less than NZ-wide growth of 4%. Our first graph shows that since the start of 2022 the employment performance in Northland has been quite weak compared with the country overall. But this followed a period from 2016 when most of the time Northland jobs growth was superior to the entire country.

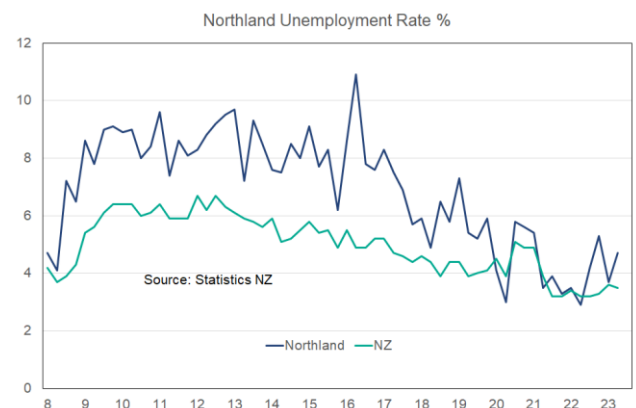


On this basis we might conclude that the recent situation is unlikely to be sustained, especially considering how the return of foreign tourists will be beneficial to the Northland region's economy. Note how the region tends to temporarily suffer more when the economy overall goes through a weak patch. Again, this suggests the recent situation will not last.

A key area of concern will be the extent to which damage to the region's roads from recent weather events curtails the rate of improvement in economic and therefore employment activity.

But putting this aside, if there is a short-term impact on the housing market from jobs growth, then a recent period of relative weakness up north may be on the cusp of disappearing – perhaps especially at the lower end of the price range.

This second graph shows the unemployment rate in Northland since 2008. It traditionally has sat well above the national average. But assisted by the generally firmer than average jobs growth from 2016 noted earlier, the gap has shrunk away very strongly in recent years.

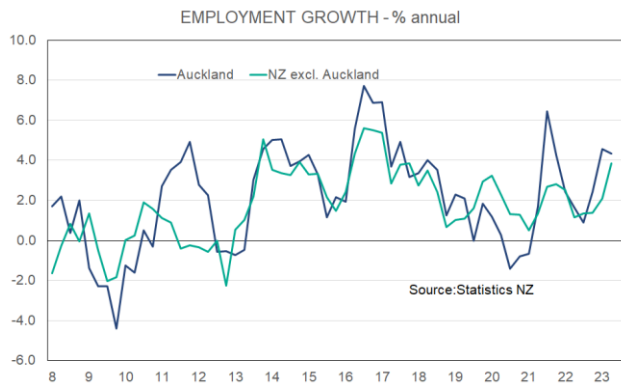


This suggests that the recent gap between Northland's unemployment rate of 4.7% and the country's of 3.5% may close again in the next 1-2 years. Again, to the extent relative jobs market weakness has been playing a role in the Northland housing market, that source of restraint relative to the country overall is unlikely to persist beyond perhaps the middle of next year.

## Auckland

### Tracking better than average

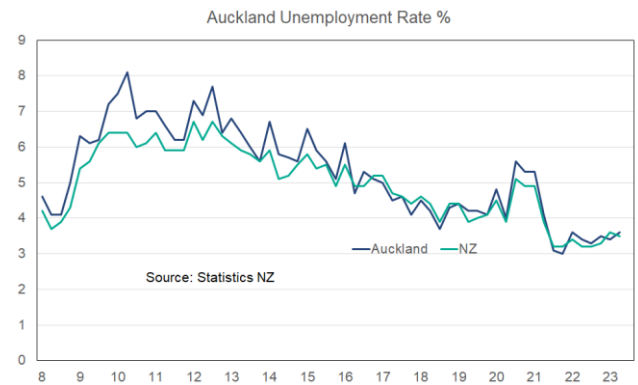
The first graph here shows that over time there is a very close relationship between the rate of growth in employment in the Auckland region and the rate of growth in the rest of the country. Our biggest city does not show a consistent pattern of out-performance. Perhaps one thing this means is that when looking at explanations for the extra average growth in house prices in Auckland compared with the rest of the country it is best to look beyond jobs growth. Land availability springs to mind.



Most recently, the annual rate of growth in employment in Auckland of 4.3% has exceeded non-Auckland growth of 3.8%. If short-term employment growth is relevant to short-term relative housing market performance, then this is a factor supporting my argument that Auckland will tend to lead the house price cycle upward this time around. But history warns us not to over-emphasis or over-extrapolate this factor.

Not all job-providing businesses need to stay in the Auckland region and there is strong growth in many sectors in the likes of Christchurch, Tauranga, and Hamilton.

With regard to unemployment, the latest rate in Auckland of 3.6% essentially matches the all-NZ rate of 3.5%. We do not have a rate for non-Auckland NZ.



Auckland's unemployment rate closely matches that for NZ overall which perhaps is not so surprising considering one-third of jobs are in our biggest city.

Auckland's CBD is currently challenged by employment at first glance. But this of course is because a lot of people now work some of their week at home. The jobs have not disappeared. As the rate of growth in the economy improves from the second half of 2024, growth in the services sector is likely to prove beneficial to Auckland overall and hopefully the CBD.

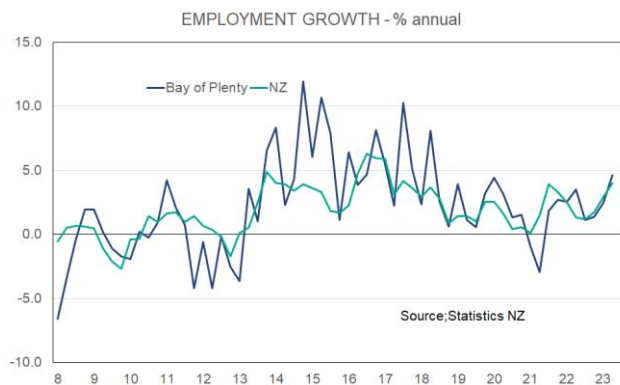
The return of foreign tourists and foreign students both also act as drivers of growth and employment in Auckland whilst also placing unique pressures on housing availability.

A key source of uncertainty for Auckland's housing market in the next three years is the extent to which multi-unit construction projects will stall in response to recent restraining factors.

## Bay of Plenty

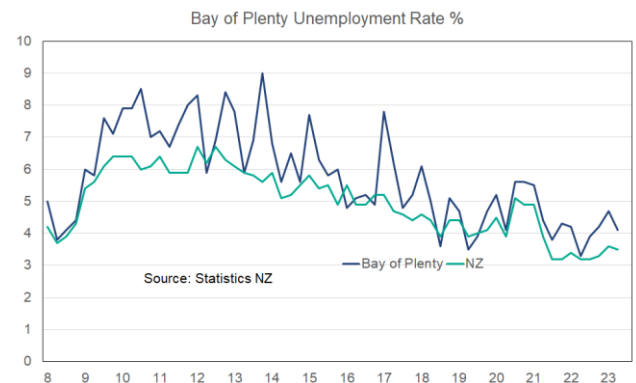
### Strong long-term jobs growth

In June this year the number of people employed in the Bay of Plenty region was 4.6% greater than a year earlier. This exceeded growth for the country overall of 4.0% but as our first graph shows this is not a situation which is likely to continue – not each quarter at least. Since 2014 there has been a tendency for the region to experience a surge in jobs growth then retreat to the country average before another surge comes along.



The outcome since 2014 has been total jobs growth of 39% versus 28% for all the country. This is the strongest pace of jobs growth for this nine year period of all regions, with only Northland coming close at just under 39%. Auckland's growth has been 30%, Canterbury 20%, Wellington 25%. On the face of it there seems no obvious reason why this tendency towards jobs growth out-performance will not return as the economy eventually experiences normal ups and downs removed from the effects of the pandemic.

With regard to the unemployment rate we can see that despite superior jobs growth the Bay of Plenty tends to run a rate higher than average.



This situation might reflect a mismatch between the skills which many people have to offer, and those which businesses are requiring. This then becomes a challenge for local education and perhaps other bodies as well.

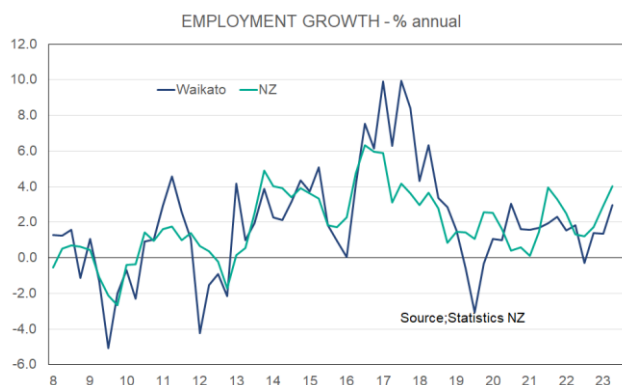


## Waikato

### Not far from average

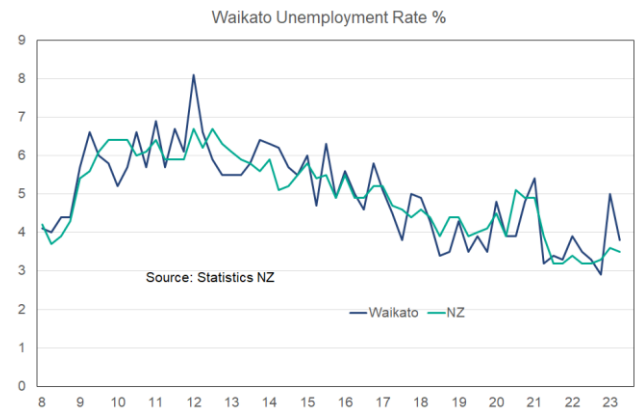
Whereas since mid-2014 the growth in employment in Bay of Plenty has been a stellar 39%, in Waikato it has been slightly weaker at 32%. However, this is still above all-NZ jobs growth over this period of time of 28%. The four most northerly regions in NZ have shown the strongest jobs growth over the past nine years. But it pays to note Manawatu-Wanganui has also enjoyed above average growth of 28%.

In the past year in the Waikato region employment has grown by 3% which is good, but not as good as 4% growth nationwide.



Since 2019 the region has been going through a pattern of below average jobs growth then above average then below average. As the graph shows, this follows the period of 2017-2018 when jobs growth in the region was stronger than average.

For the moment the rate of unemployment in Waikato is higher than the NZ rate of 3.5% at 3.8%. But the difference is minor and historically the rate tends to track closely with the country overall.



To the extent that jobs market strength influences the housing market, there is not enough divergence underway currently in the Waikato region to suggest any particular strength or weakness versus the national average situation.

One thing to keep an eye on is the traditional spillover of movements in Auckland's housing market into the Waikato region.



## Gisborne

### No data

The employment and unemployment data provided by Statistics New Zealand in the Household Labour Force survey do not include Gisborne as a separate region. This is because of its small size and low statistical reliability one could ascribe to changes in numbers from one quarter to the next. Gisborne's survey data are included with those discussed below for Hawke's Bay.

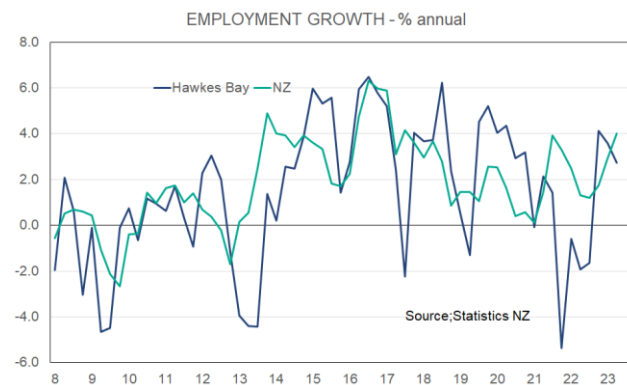


## Hawke's Bay

### Slightly above average unemployment long-term

Being a smaller region it is not surprising that the blue line in the first graph showing the annual rate of employment growth in the Hawke's Bay + Gisborne region should show high volatility. Periods when job numbers fall in the region tend not to be sustained and that is something people should keep in mind when the occasional negative number comes along. The risk is that one over-reads the true significance of the decline and becomes excessively pessimistic about the economy and therefore the housing market.

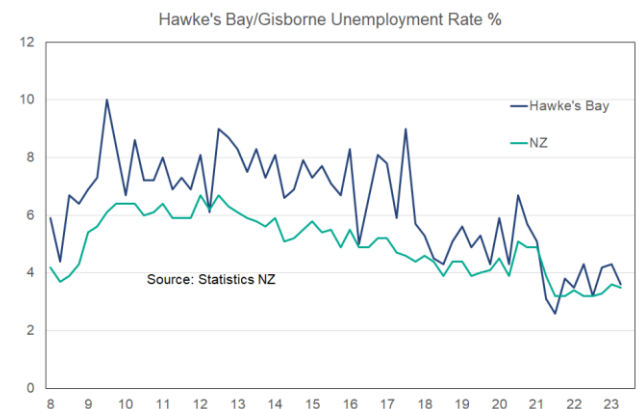
The latest annual rate of jobs growth in the region of 2.7% is below nationwide growth of 4% but this follows the opposite situation three months earlier when regional growth of 3.6% exceeded NZ growth of 2.9%. Our best interpretation of the data perhaps is that a period of unusually weak jobs growth in the region has now finished.



There is likely to be some benefit to the region's jobs growth going forward from the return of international visitors. However, the flooding earlier this year while creating something of a housing shortage and boosting employment of those involved in repair and reconstruction, could lead some jobs to disappear permanently. It is difficult to figure out what the net impact might be especially as decisions about replacement, relocation etc. remain clouded.

For now there seems to be little reason for believing that the flooding will have a sustained deleterious impact on the region's housing market. After all, all locations in the country are vulnerable one way or the other to the effects of climate change. Weakness in demand for properties in locations specifically at risk of nearby flooding would however seem to be a reasonable expectation to have.

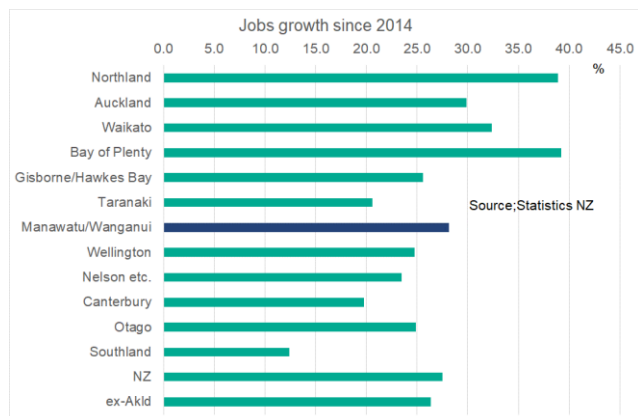
The unemployment rate in the Hawke's Bay/Gisborne region traditionally sits above the national average. The latest rates are essentially the same at 3.6% and 3.5% respectively. In fact, since 2021 the extent of extra unemployment has tended to be lower than in earlier years.



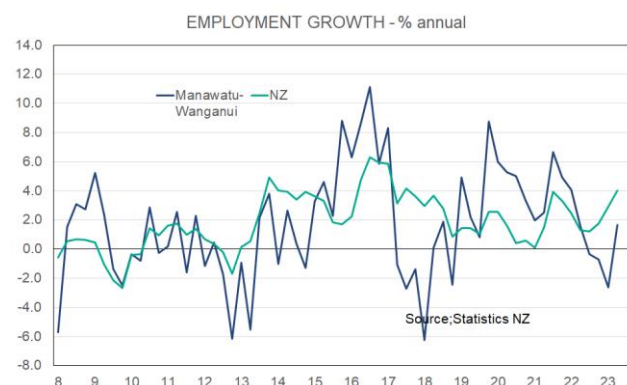
## Manawatu-Wanganui

### Good affordability

As noted in one of the sections above, the growth in employment for the Manawatu-Wanganui region over the past nine years has been the fifth strongest of all regions and above the national average of 27.5% at 28.1%.

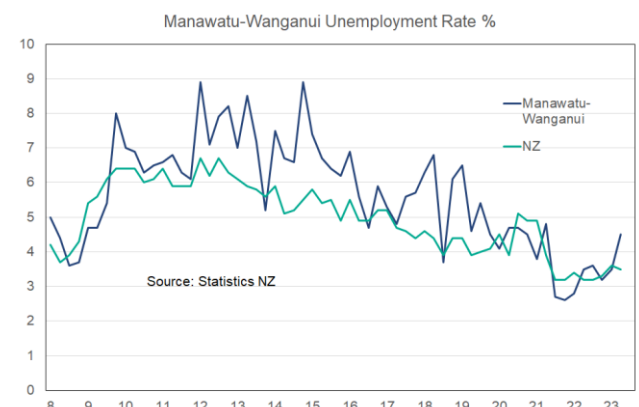


Recently however, jobs growth has been relatively weak at just 1.7% compared with 4% for the NZ economy overall in the past year.



For some regions the recovery in international tourism will be of strong benefit to jobs growth. But the Manawatu-Wanganui region tends not to feature highly on the list of places foreign visitors go to, beyond perhaps passing through when travelling between Auckland and Wellington. The early relocation of the Spanish football team during the recent world cup probably has not helped the international image of at least Palmerston North.

The region has a high dependency on the farming sector, distribution, defence forces, and education. The defence sector is struggling to maintain personnel numbers, the education sector is right-sizing downward to reflect fewer tertiary students after a temporary pandemic-surge. However, the distribution and industrial sector generally has scope to benefit long-term from the improving road link with Wellington. The region is also well known as offering a very good level of housing affordability in standalone houses. It also over the past three years has attracted a good number of older people leaving the main cities.



On the face of it, while the divergences from NZ outcomes can endure for some time as shown in the second graph in this section, the current weakness may not persist too long.

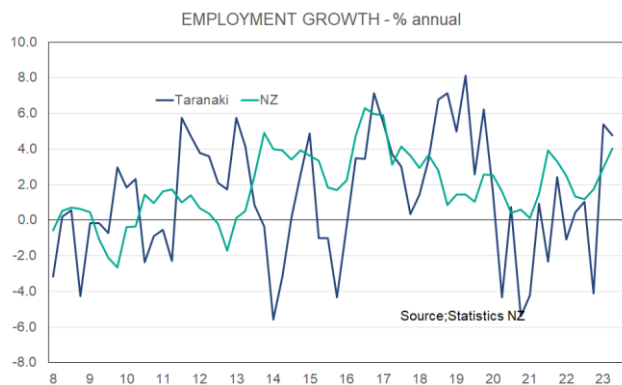
## Taranaki

### Weak jobs growth over 3 years

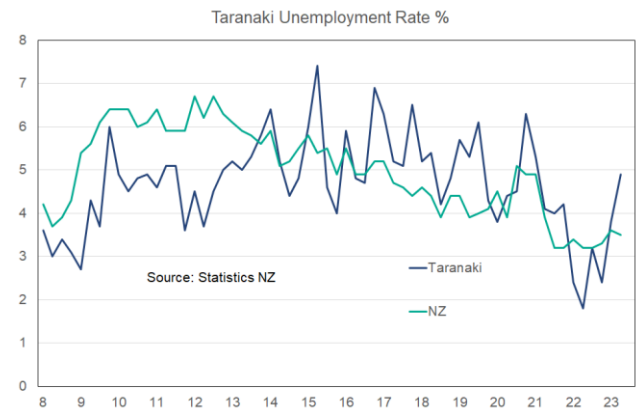
Jobs growth in the Taranaki region over the past nine years has been 15% which compares poorly with NZ-wide growth of almost 28%. There are challenges from the apparent peaking of dairy production and difficulties in expanding the energy sector amidst moves aimed at curtailing climate change from carbon emissions.

The region is the only one in the North Island not to have experienced a surge of growth in house prices to above-trend levels in recent years, implying that relative downside from potentially weak jobs growth in the near future may be minor if present at all.

Over the past year job numbers in the Taranaki region have grown by 4.8% which exceeds NZ-wide growth of 4%. But this follows an extended period of weak to negative jobs growth.



The weak jobs growth over an extended period of time has taken some time to manifest itself as a jump in the unemployment rate but it has just happened. The latest rate of 4.9% is well ahead of 1.8% a year earlier and the NZ average of 3.5%.



Taranaki is not on the main foreign tourist travel route although should there be a return of the extreme surge in free independent travellers (FITs) as happened in the years before the pandemic then the region may see some extra benefit.

Current downward pressure on dairy farm profitability will tend to constrain the pace of economic growth. However, the region has not been the scene of multiple high debt conversions of land use to dairying in the past two decades as has been the case in some other locations like Southland, Canterbury and the central North Island. Therefore, the implied lower than average levels of indebtedness may produce less of a cutback in local spending than could occur in some of those other areas.

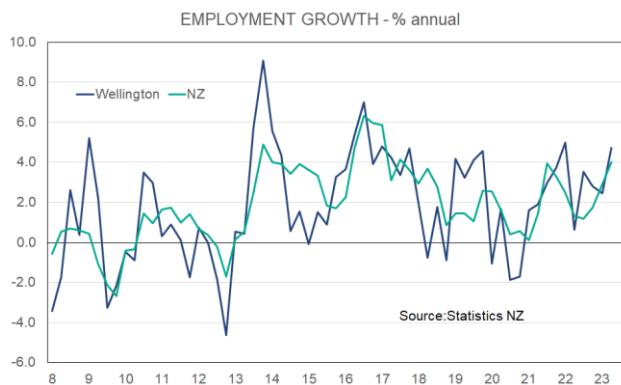
Ultimately, Taranaki is a location of good housing affordability but without the same potential for employment growth as other similarly well-priced locations perhaps such as Manawatu-Wanganui.

## Wellington

### More unemployment stability than elsewhere

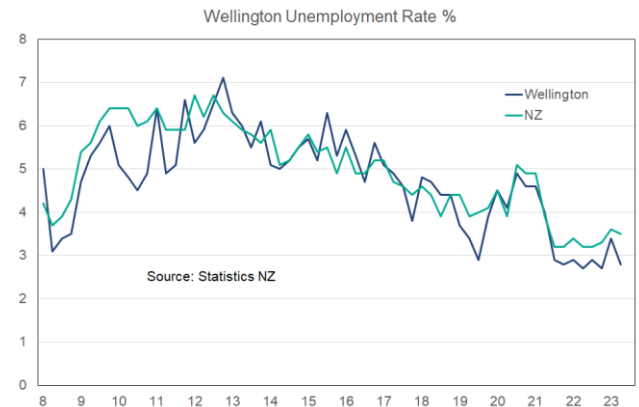
The pace of growth in employment in the Wellington region doesn't tend to diverge as much from the national average as a lot of other regions. This reflects the absence of a high dependence on the primary sector, middle of the road exposure to the sometimes up and down foreign tourism sector, the steadying influence of the public sector, and close commercial service sector linkages with the Auckland economy and jobs market.

Over the past year job numbers in the region have risen by 4.7%. This exceeds NZ-wide jobs growth of 4%.



Since 2014 while the number of people employed nationwide has increased by 27.5%, Wellington region has achieved growth slightly below that at 24.8%. The difference is not great enough to allow an argument of ongoing under-performance to any great degree. On that basis, to the extent that jobs growth can affect growth in house prices we should not expect much sustained divergence of the region's price rises from the national average.

Looking at the unemployment rate in the next graph we see that the Wellington region has a tendency towards below average unemployment.



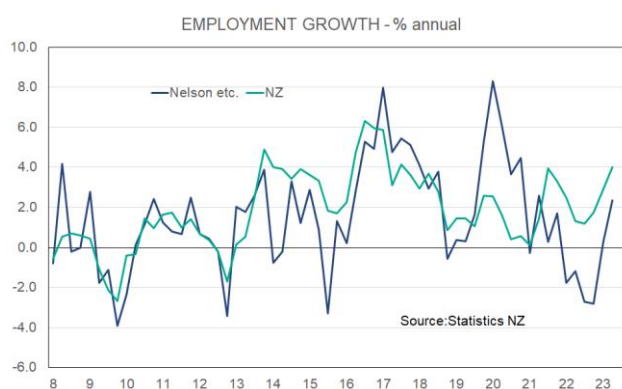
The latest unemployment rate of 2.8% is below the NZ-wide rate of 3.5%. One might attempt an argument that the pandemic has produced a slightly superior jobs market situation in the capital than across the country all up. The question is will this be sustained? Perhaps not once we see the rate of growth in the New Zealand economy accelerating anew hopefully over the second half of 2024.

Nonetheless, we already have data in hand showing a worsening shortage of property available for purchase in the Wellington region and there is a risk that prices have overshot on the downside since the correction started late in 2021.

## Nelson, Tasman, Marlborough

### Sustained low unemployment

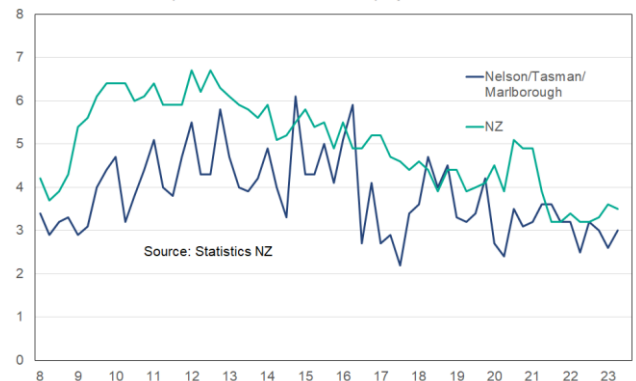
At the top of the South Island our first graph tells us that jobs growth over the past two and a half years has been inferior to that for the country as a whole. But this followed strong employment growth out-performance over 2019-20 and means that compared with the start of 2019 jobs growth 7.5% was close to NZ-wide growth of 8.7%.



Since 2014 jobs growth has been 23.5% which is similarly just below NZ-wide growth of 27.5%.

The region is strongly influenced by the fortunes of the international tourism sector and that explains the bulk of the jobs weakness until recently. Now, foreign tourists are returning, and it seems reasonable to expect that in the near future job growth will be superior to the NZ average.

Top of the South Island Unemployment Rate %



The Tasman and Marlborough portions of the widely defined region have enjoyed good house construction growth in recent years as land has been available to respond to population growth – especially assisted by international migration during the pandemic which hopefully one day we will have data on. Nelson's expansion is limited by lack of land to develop to date.

Our second graph above shows that the unemployment rate in the Nelson/Tasman/Marlborough region is almost always below the national average. That situation has continued most recently with the rate of 3% sitting below 3.5% for all of the country.

To the extent that strength in the labour market supports house prices we can reasonably say that good support exists and is in the offing for the top of the South Island region as long as the tourism recovery continues. The downturn in forestry may have some weakening impact in the near future, however. That downturn reflects new weakness in demand from China which could be sustained for some time given the presence of millions of empty dwellings.



## West Coast

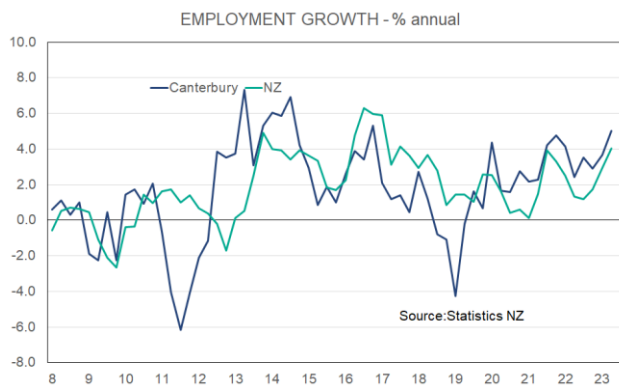
### No data

The employment and unemployment data provided by Statistics New Zealand in the Household Labour Force survey do not include West Coast as a separate region. This is because of its small size and low statistical reliability one could ascribe to changes in numbers from one quarter to the next. The West Coast's survey data are included with those discussed below for Canterbury.

## Canterbury

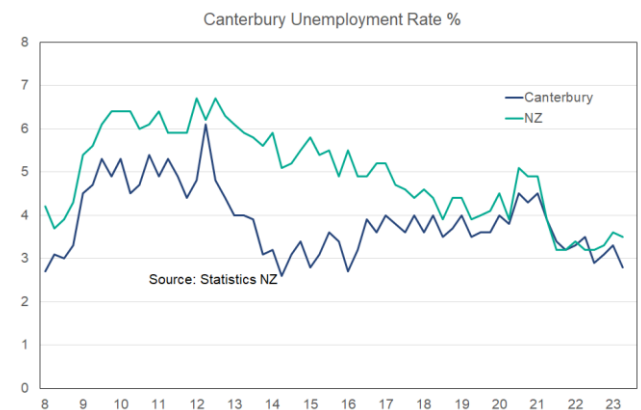
### Strong employment

Since the pandemic started the annual rate of growth in employment in the Canterbury region (including the West Coast) has exceeded the NZ-wide average. This follows a period of weaker than average growth from 2015 – 2020 perhaps caused by the completion of demolition work after the 2011 earthquake and lack of tourism sector facilities to accommodate growth in visitor numbers over that period of time.



Now that those visitor numbers are climbing and the facilities including accommodation are largely in place, the region has capacity for continued jobs growth out-performance. This may be especially so when we take into account a continuing flow of people into Christchurch's Selwyn and Waimakariri environs taking advantage of good housing affordability.

My personal experience is that the city is seeing an unusually high number of nationwide conferences being held there which is good for the hospitality sector.



The unemployment rate tracked substantially below the NZ average in the post-quake years due to a combination of many people initially leaving the city and substantial building sector activity. The gap has now closed up but continued tracking below average looks possible.

For the housing sector the strong labour market will be supportive of current prices and rises through the upward leg of the cycle now just getting underway.





## Dunedin City/Otago

### Very strong jobs growth

The employment and unemployment data provided by Statistics New Zealand in the Household Labour Force survey do not allow disaggregation of Otago data into our usual classification of Otago excluding Queenstown Lakes and the latter on its own. Therefore, the discussion this month covers all of Otago and readers should keep that in mind when considering what the numbers and graphs may be showing.

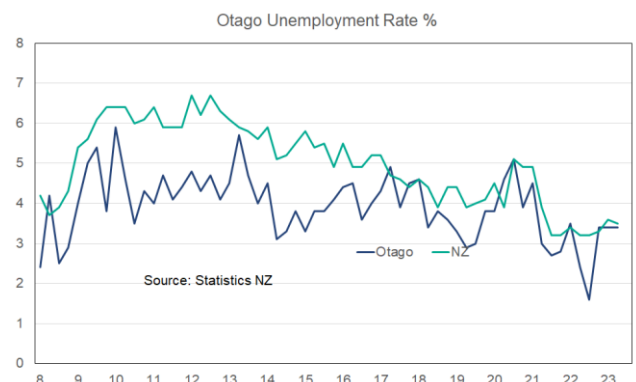
Over the past year job numbers in Otago have risen by 5.8%. This well exceeds NZ-wide growth of 4% and is the strongest increase across all regions. In the Otago region there is a high employment dependence upon the primary sector and tourism. Recovery in the inbound tourism market is likely to explain the surge in employment which will primarily be in Queenstown in percentage terms but will also be seen in Dunedin with its many attractions.



We have already seen in recent issues of Regional Property Insights how the Queenstown Lakes property market has rebounded strongly since the borders were reopened. There has been substantial growth in new house supply there in recent years, but media reports make clear that extreme shortages still exist. The house price implications are clear as is the potential upside for jobs growth if sufficient accommodation can be found.

For Wanaka there will be strong carry-over effects from the returned strength of Queenstown. But the strong surge in prices for building materials over the past two years may have come as a nasty surprise for many looking to build there as costs traditionally are much higher than elsewhere anyway.

The following graph shows that the unemployment rate traditionally is well below average in the Otago region. It is a cold location to be unemployed so movement out of the region is likely to be a contributing factor.





## Queenstown Lakes

### No data

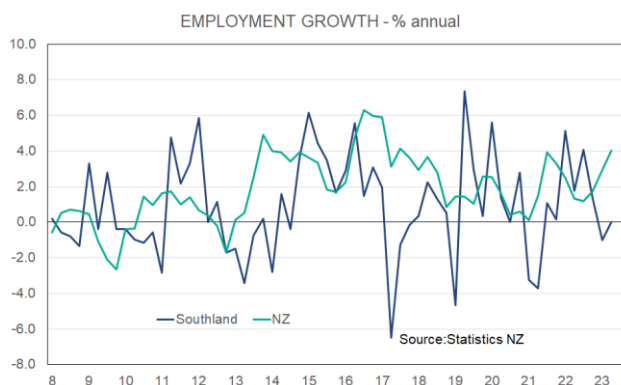
The employment and unemployment data provided by Statistics New Zealand in the Household Labour Force survey do not include Queenstown Lakes as a separate region. This is because of its small size and low statistical reliability one could ascribe to changes in numbers from one quarter to the next. The West Coast's survey data are included with those discussed above for Otago.

## Southland

### A quiet achiever

Since the middle of 2014 the number of jobs in our most southerly region has grown by 12%. This is less than half the NZ-wide growth of almost 28% and reflects and is reflected in a population growth rate traditionally well below average.

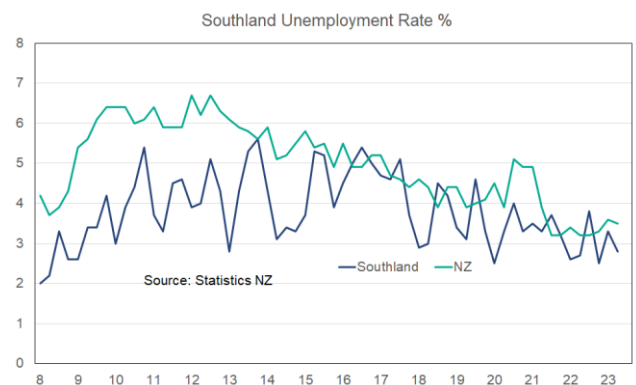
Our first graph shows that in the past year job numbers in the Southland region have shown no growth as compared with 4% nationwide. This sort of difference in growth rates is not a normal situation and it would be unreasonable to expect that zero growth will continue.



Challenges to primary sector incomes due partly to the weakness of China's economy alongside recent strong cost increases means there will be some restraint on the pace of economic growth this year and next. But the return of international visitors is a clear positive for the region.

If I am right about Auckland leading the housing market upturn this cycle, then for the next couple of years investor and home purchasing attention will tend to be there and other main centres. But with a lag this strength will spread to the regions and that includes Southland. Every cycle we reach a point where attention is paid to the better yields which investors can get in Southland than further north, and the strong affordability advantage for first home buyers.

The unemployment rate in Southland is currently 2.8% which is below 3.5% for the country overall.



The gap between Southland's traditionally low unemployment rate and that for all NZ shrunk ten years ago but is still generally there and likely to stay that way going forward.


This publication is written by Tony Alexander, independent economist. You can contact me via LinkedIn or email [tony@tonyalexander.nz](mailto:tony@tonyalexander.nz)

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# TONY ALEXANDER Regional Property Insights

AUGUST 2023

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