

Horowhenua Economic Strategy Workshop

What are the preconditions needed for achieving aspirational growth scenarios?

26 June 2020



SENSE PARTNERS

DATA LOGIC ACTION

Context



- Sense Partners were invited to work with The Horowhenua Company to identify growth scenarios based on expert economic narratives and our modelled demographic projections.
- We identified preconditions to reach the growth potential before collaborating with a small group from Horowhenua on what needs to be done next.
- Sense Partners facilitated the workshop on Friday 26 June 2020 via zoom

1 The economic outlook: COVID-19 & Beyond Implications for HDC

Once in a lifetime: risk & opportunity



Once in a 100-year event



Orthodox policy tools impotent



Three stages of economy



Tactical agility to deal with recession



Strategic focus on structural risks.

Waves of infections & economic disruption possible

Figure 1: New Covid Cases per Million

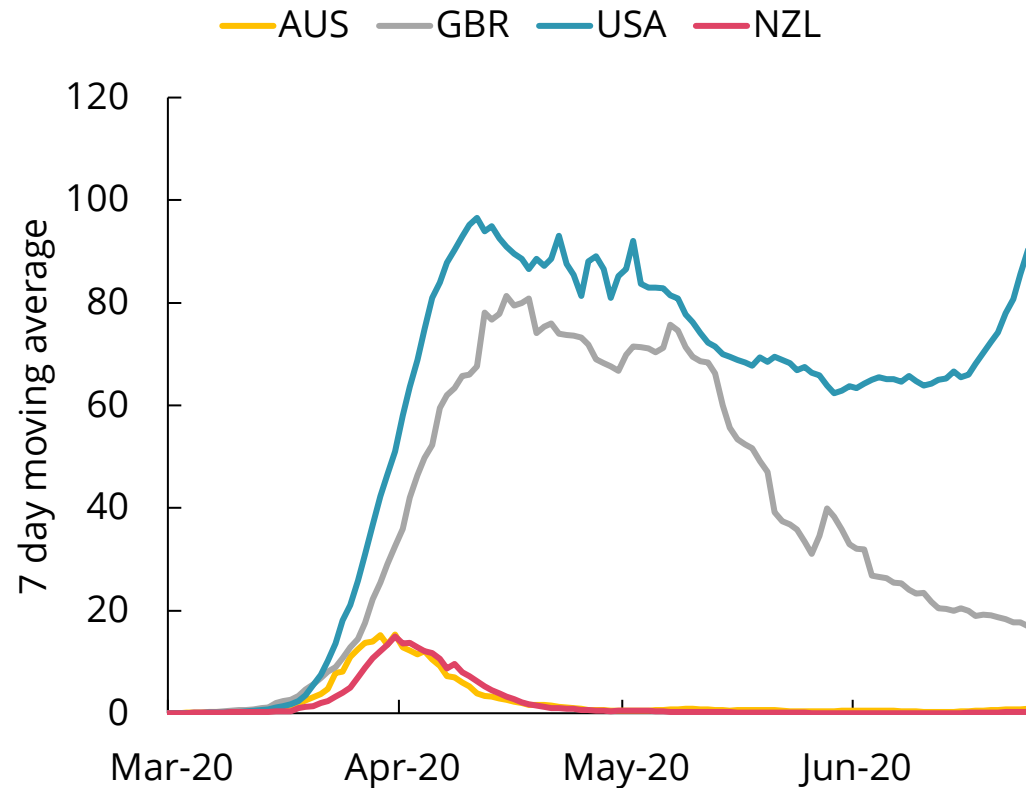
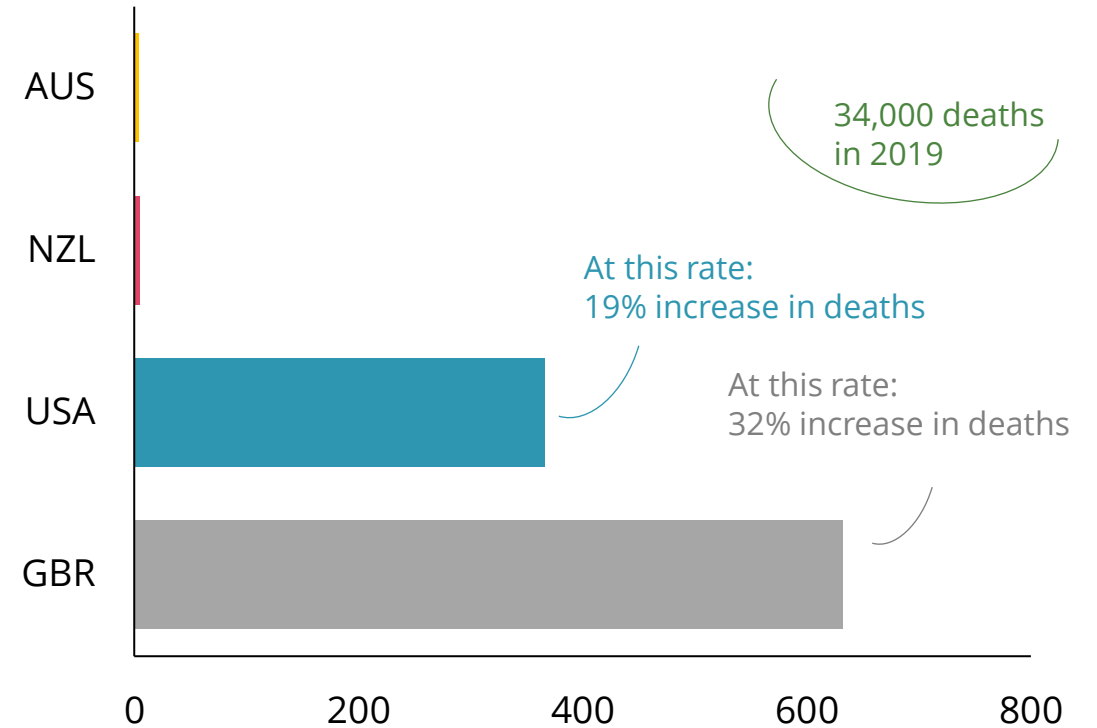


Figure 2: Total deaths per million (as at 24.06.20)



Source: Sense Partners analysis of OurWorldInData.org

We are past wave 1...



Figure 3: NZ Policy Loosening & Mobility

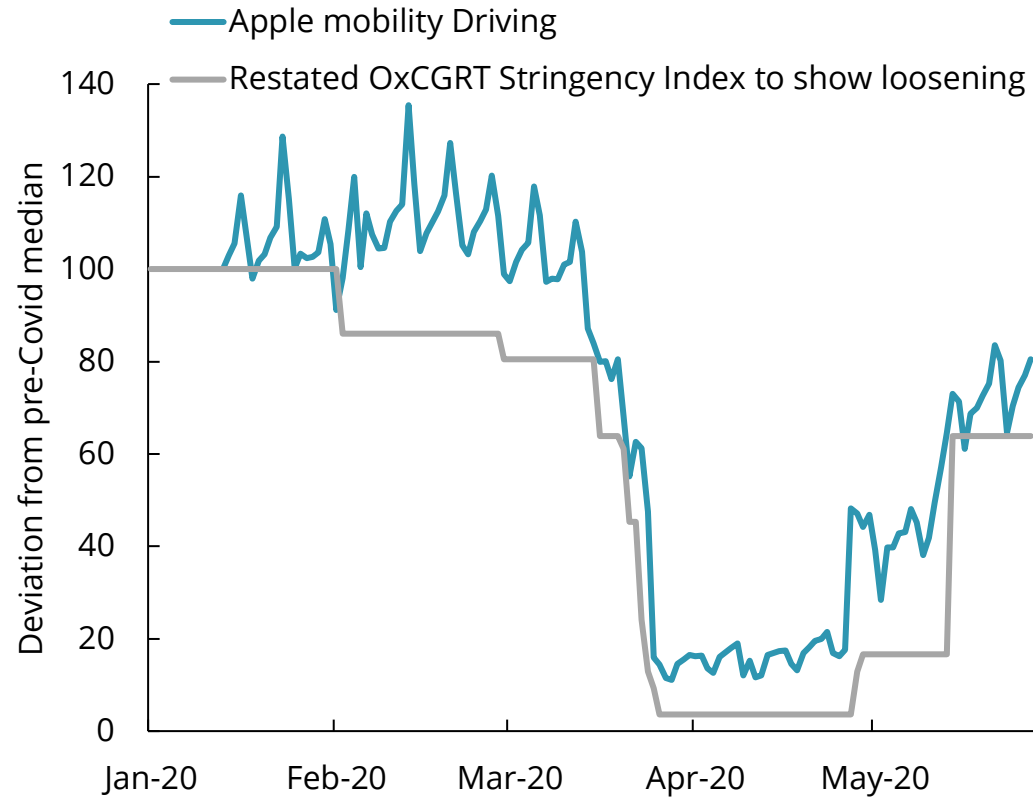
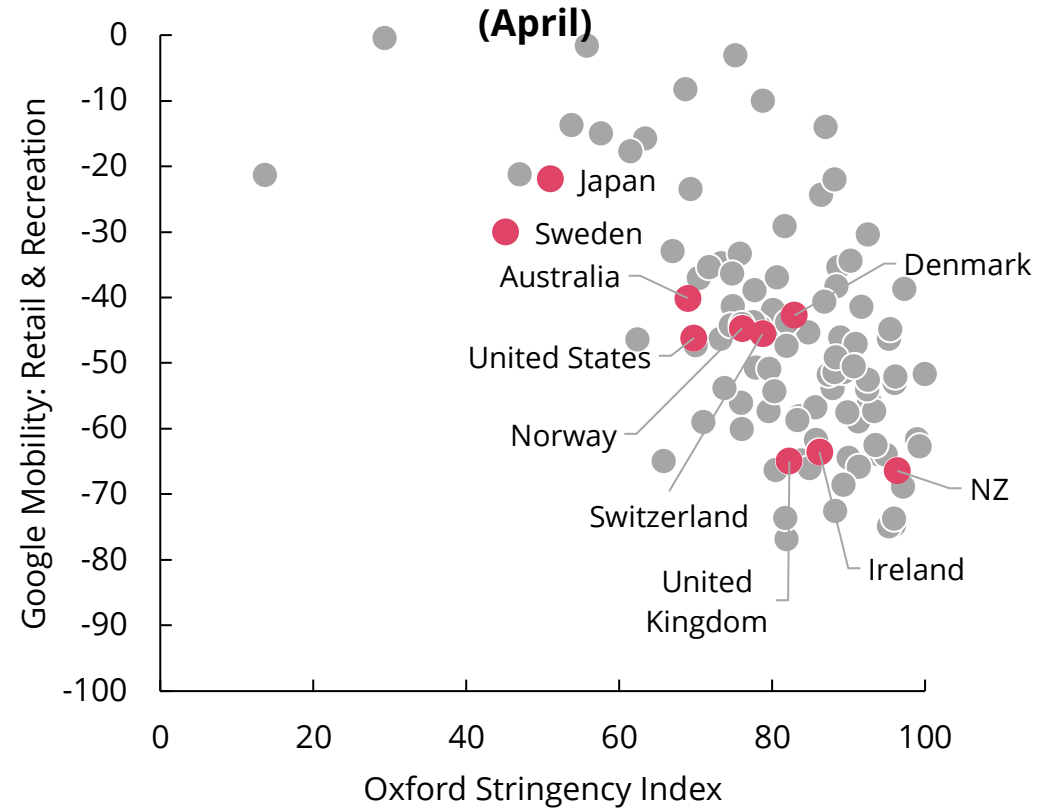


Figure 4: Policy Stringency & Economic Impact (April)



Source: Sense Partners analysis of Apple Mobility data and Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

...but not everywhere in the economy



Figure 5: Consumer Spending

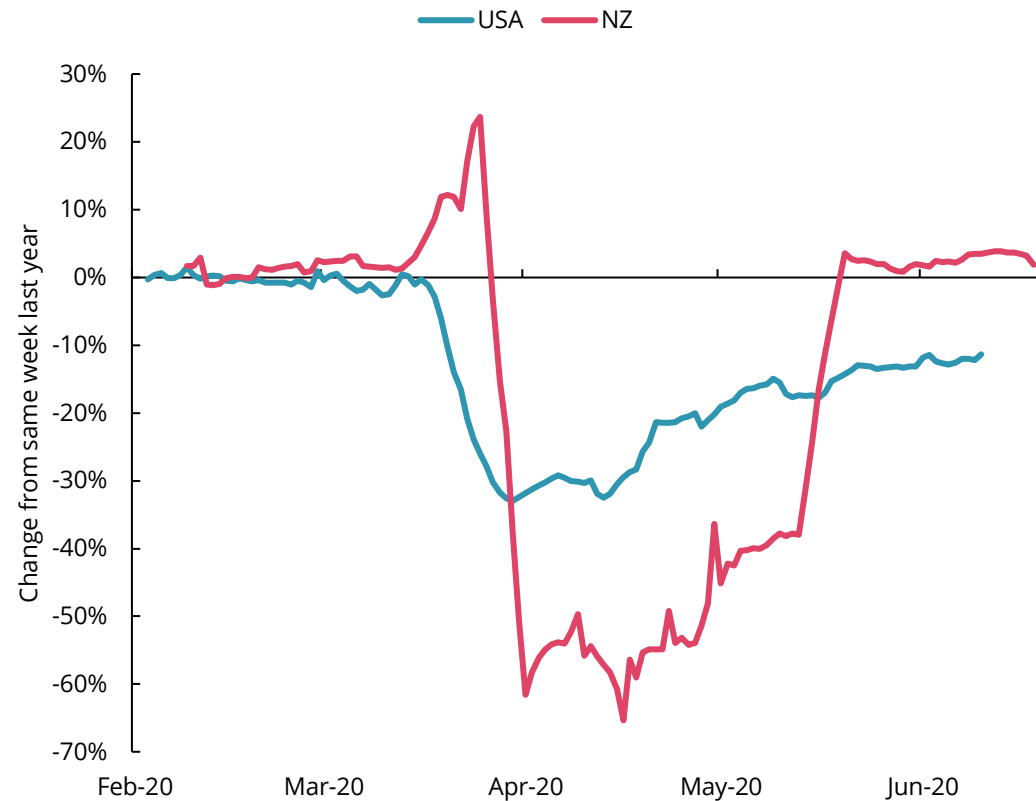
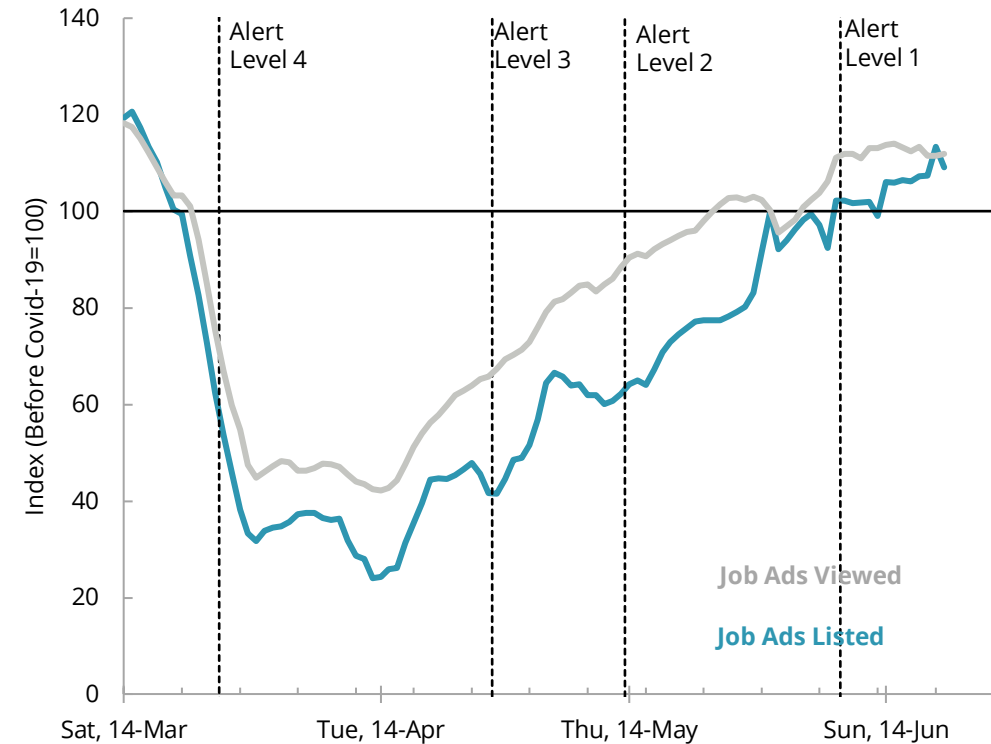


Figure 6: Trade Me Job Ads



Source: Sense Partners Economy Tracker

Recession is already exceptional



Figure 7: Unemployment: Official & Job Seeker

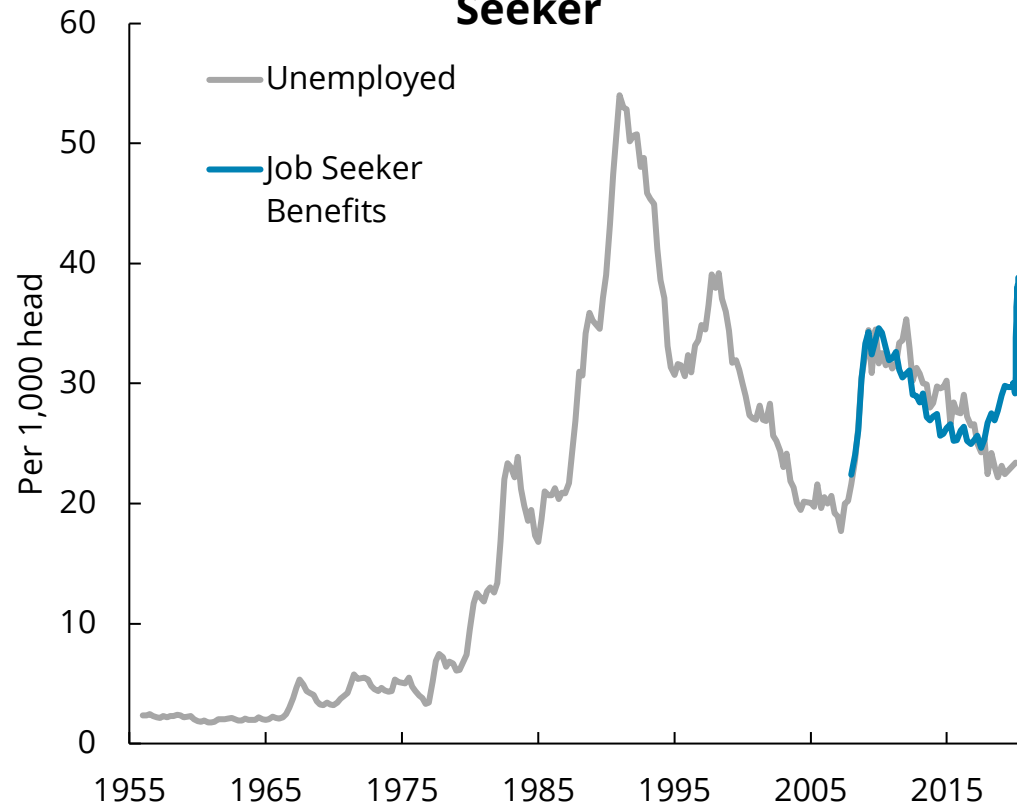
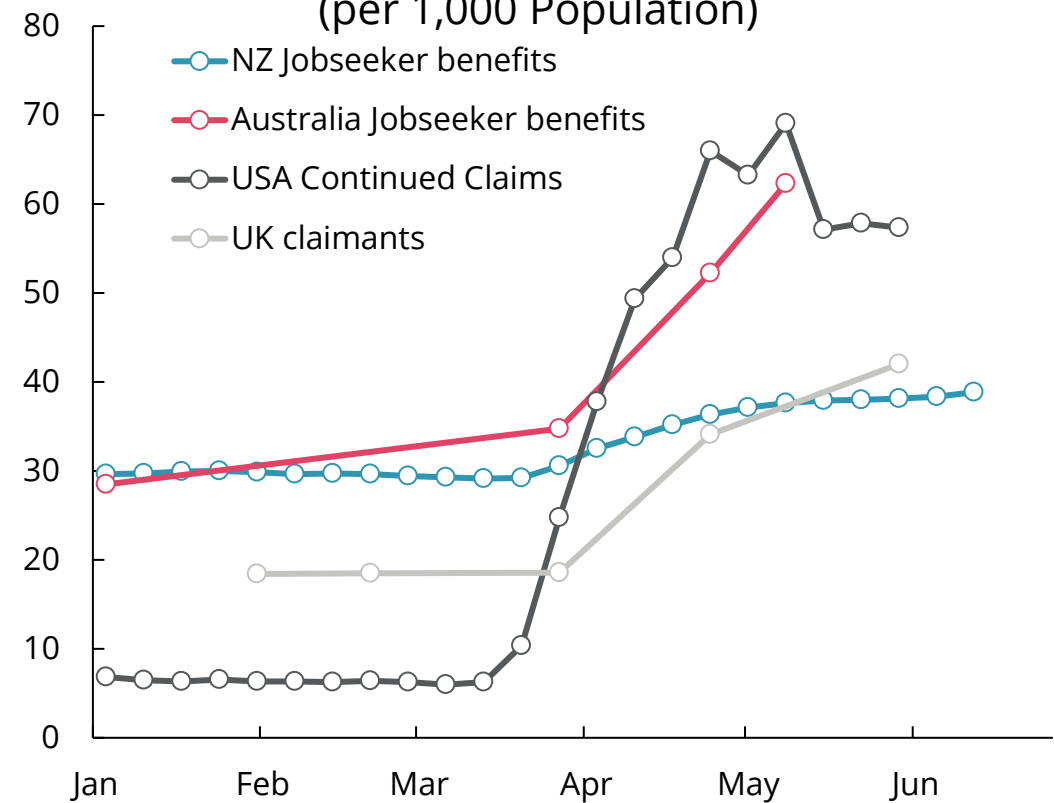


Figure 8: Unemployment Benefits (per 1,000 Population)

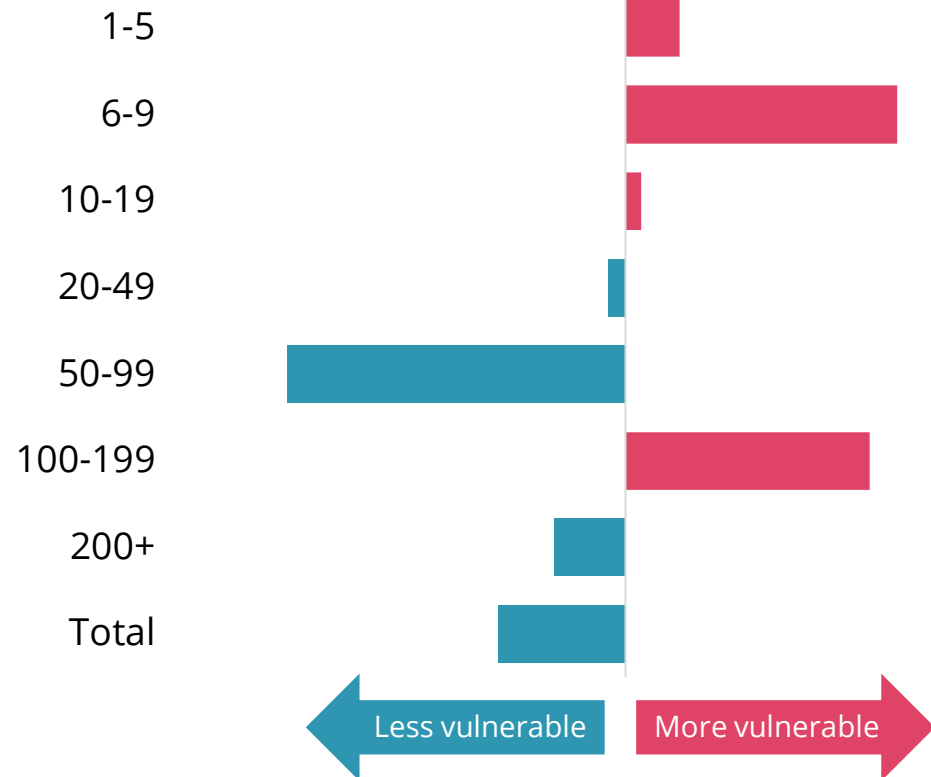


Source: MSD, Statistics NZ, Sense Partners

Wave 2 is coming...

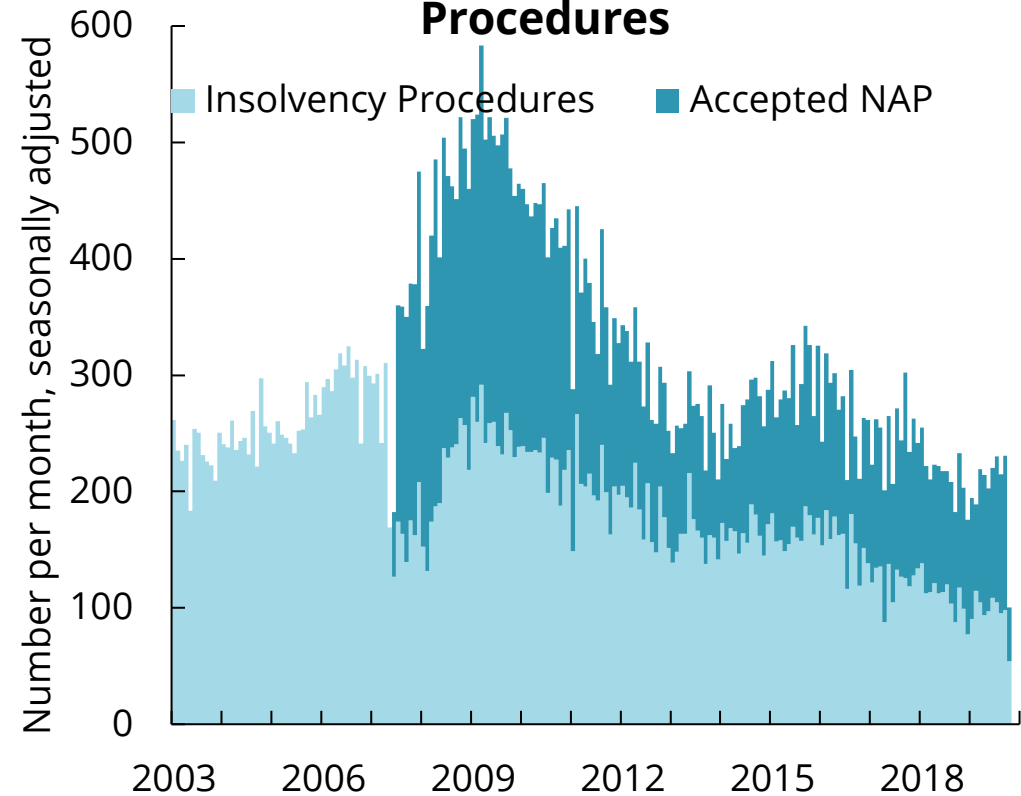


Figure 9: Financial Vulnerability by Firm Size



Source: Sense Partners

Figure 10: Insolvency & No Asset Procedures

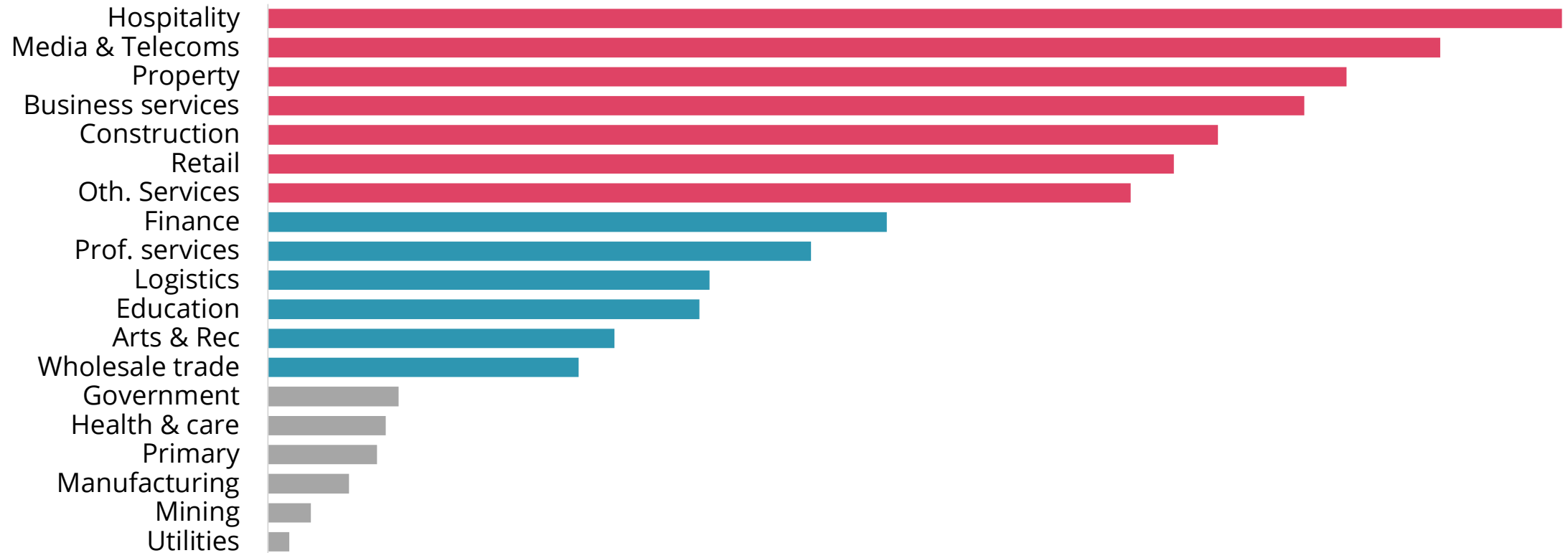


Source: insolvency.govt.nz

...and industry exposure varies...



Figure 11: Likely pain by industry





Wave 3: recession proper



Ongoing border restrictions



Global recession affecting exports



Supply chains disruptions affecting imports, production & retail



Expect trade barriers and hoarding to increase



Feedback loop of job losses.

A way to think about the economic impacts

Indicator	Significance in economy	Lockdown	Recession	Recovery	Notes
Consumption	62%	▼	▼	▲	
Private	43%	▼	▼	▲	Spending halved during lockdown. 10-20% lower after. Should keep spending. Rates increase + relief for those in need.
Public	19%	▬	▬	▬	
Investment	24%	▼	▼	▲	
Private	19%	▼	▼	▲	GFC -13%. Public +45% required to offset. Will ramp up, ensure strategic fit.
Public	5%	▬	▲	▲	
Exports	29%	▼	▼	▲	
Goods	20%	▬	▼	▲	Ok now, global recession will hit trade. Int tourism very weak; benefit if Oz deal.
Services	9%	▼	▼	▲	
Imports	34%	▬	▼	▲	
Goods	26%	▬	▼	▲	Supply chain disruptions. Opportunity to shift some of it to domestic spend.
Services	8%	▼	▼	▲	
Jobs	2.66m	▼	▼	▲	Wave 1: During lockdown. Wave 2: Business failures post lockdown. Wave 3: Recession proper.
Business	0.55m	▬	▼	▲	Firm deaths to rise; births to slump.

Source: Sense Partners

Trade is disrupted



Figure 12: Exports

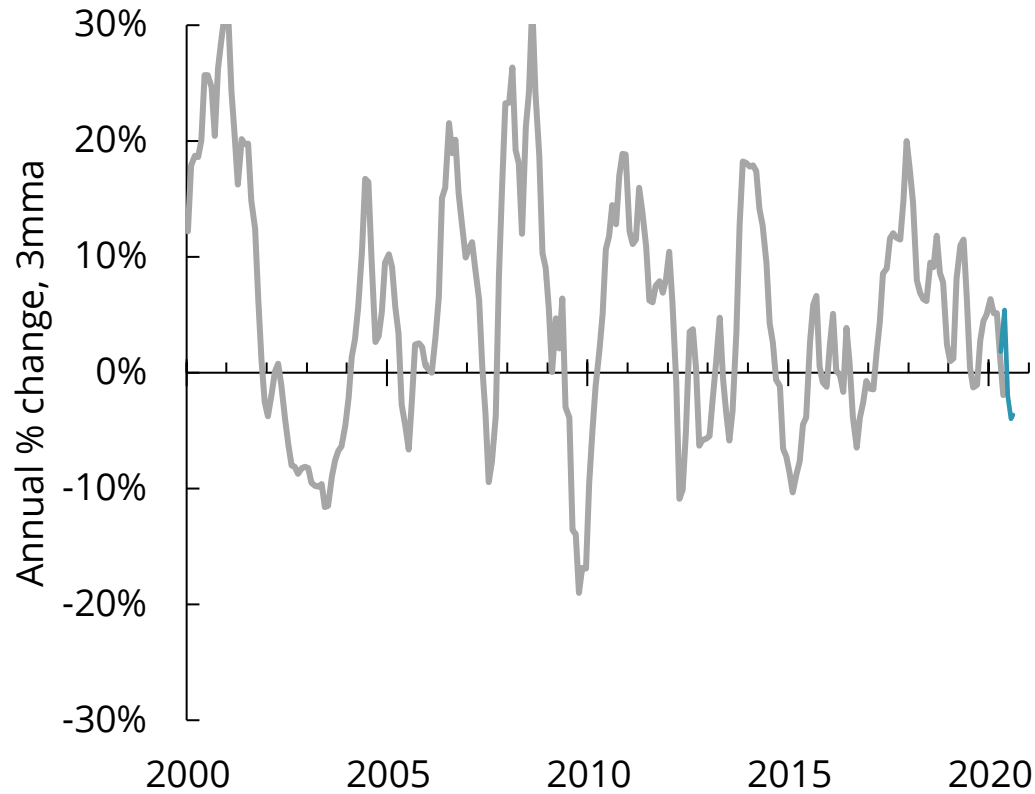
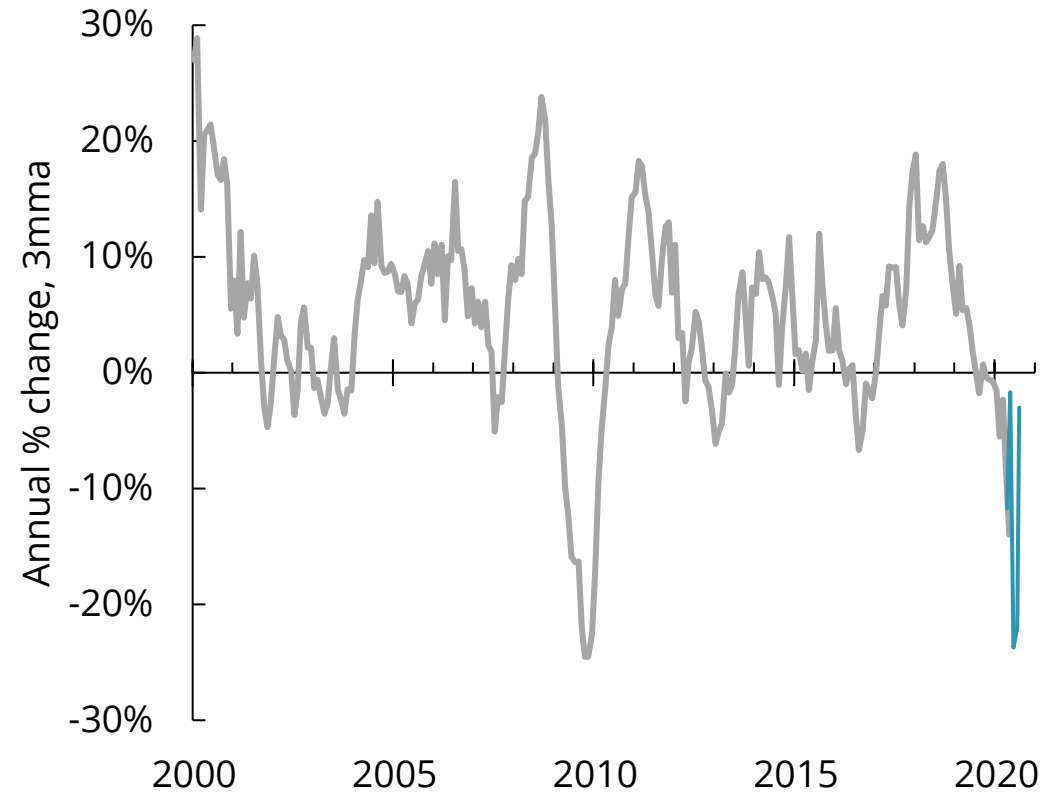


Figure 13: Imports

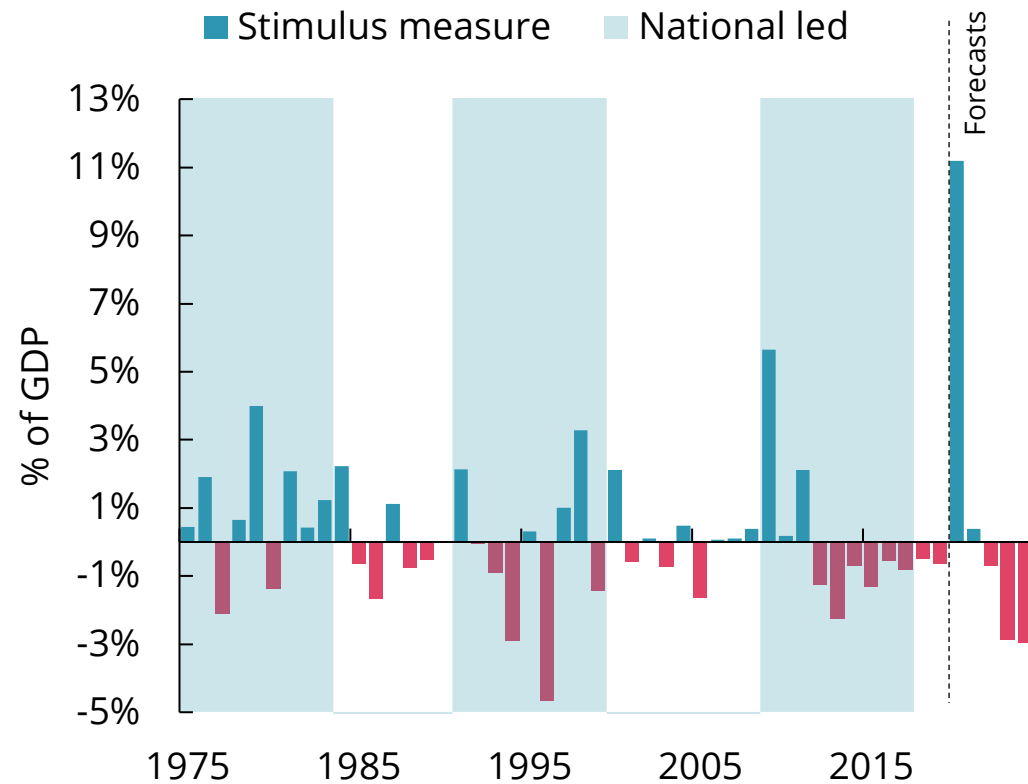


Source: Statistics NZ, Sense Partners

Government borrowing more; RBNZ printing money

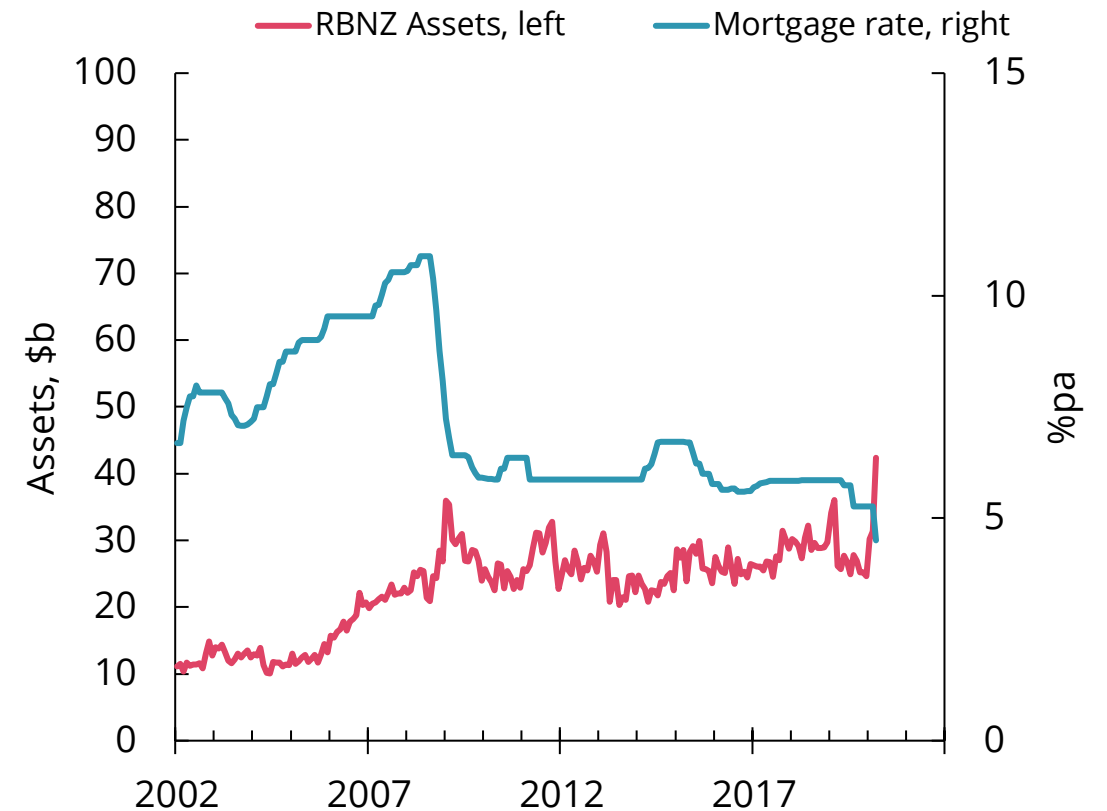


Figure 14: Fiscal Stimulus



Source: Treasury, Statistics NZ, Sense Partners

Figure 15: Monetary Policy

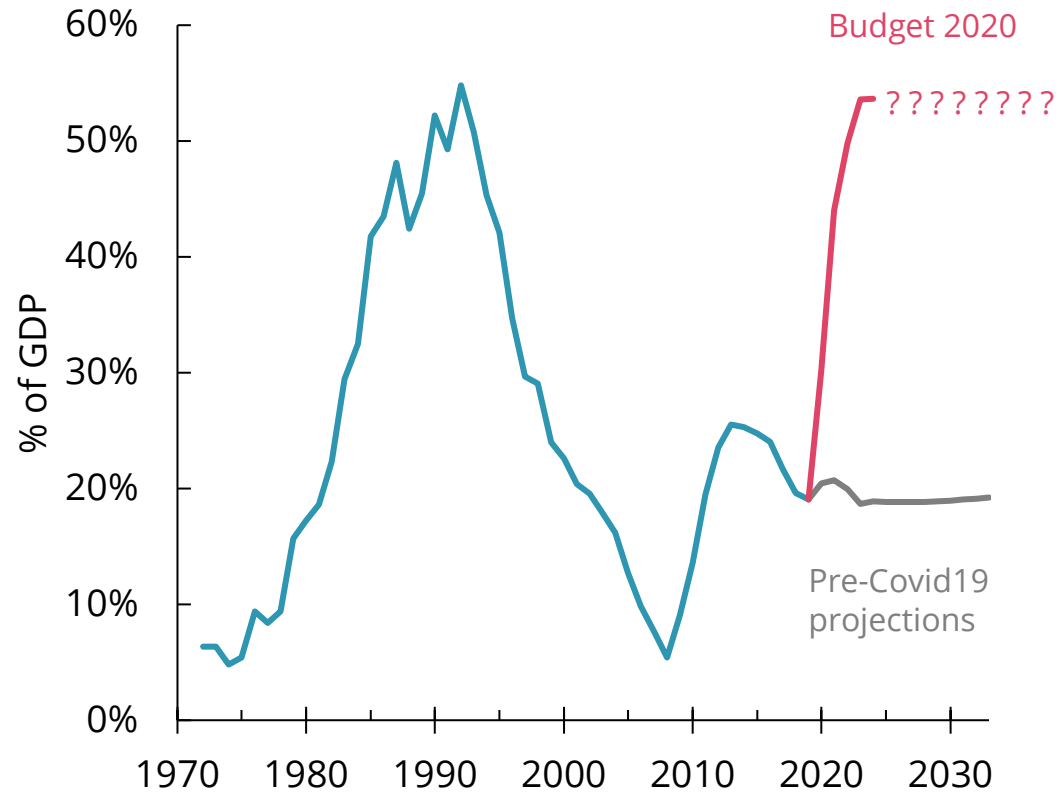


Source: RBNZ, Statistics NZ, Sense Partners

Huge borrowing, but have time

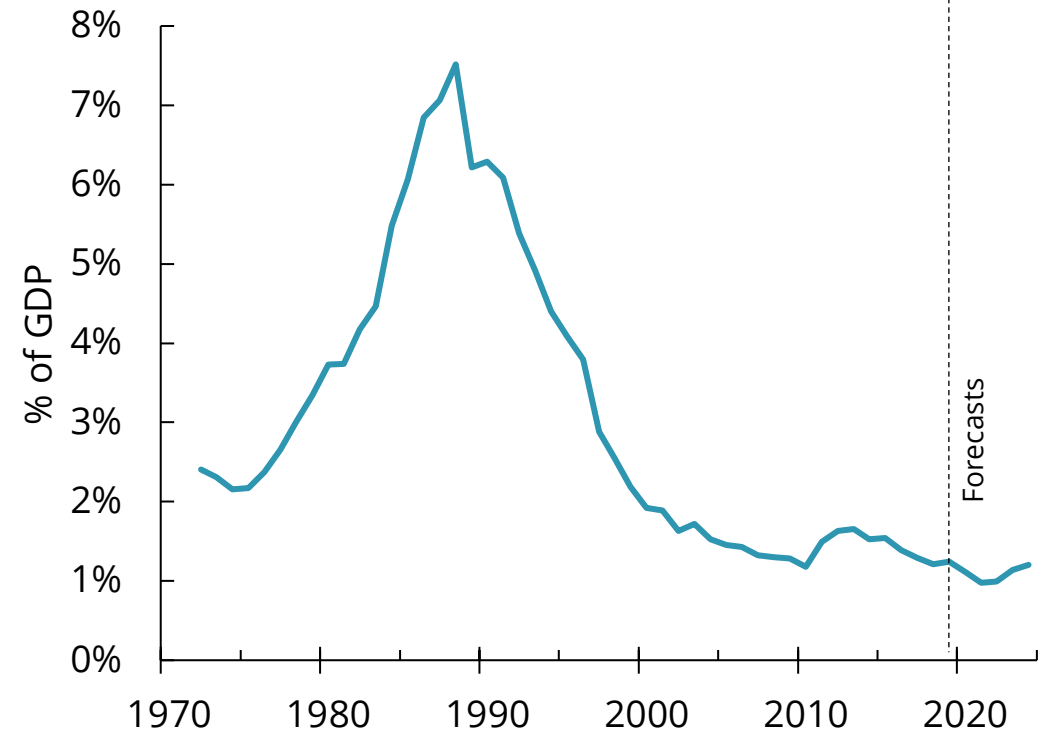


Figure 16: Net Core Crown Debt



Source: NZ Treasury, Sense Partners

Figure 17: Government Debt Servicing Cost



Source: NZ Treasury, Sense Partners

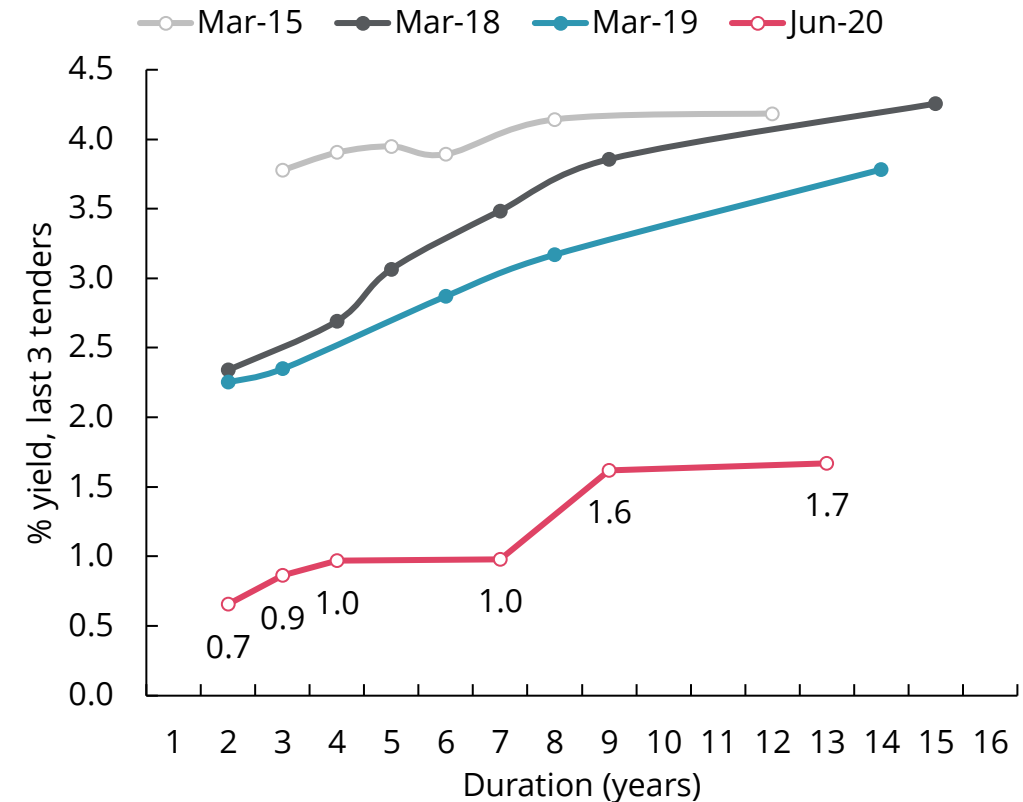
Some local govt benefits...



Figure 18: LGFA Bond Yields – 5Y



Figure 19: LGFA Coupon Rates

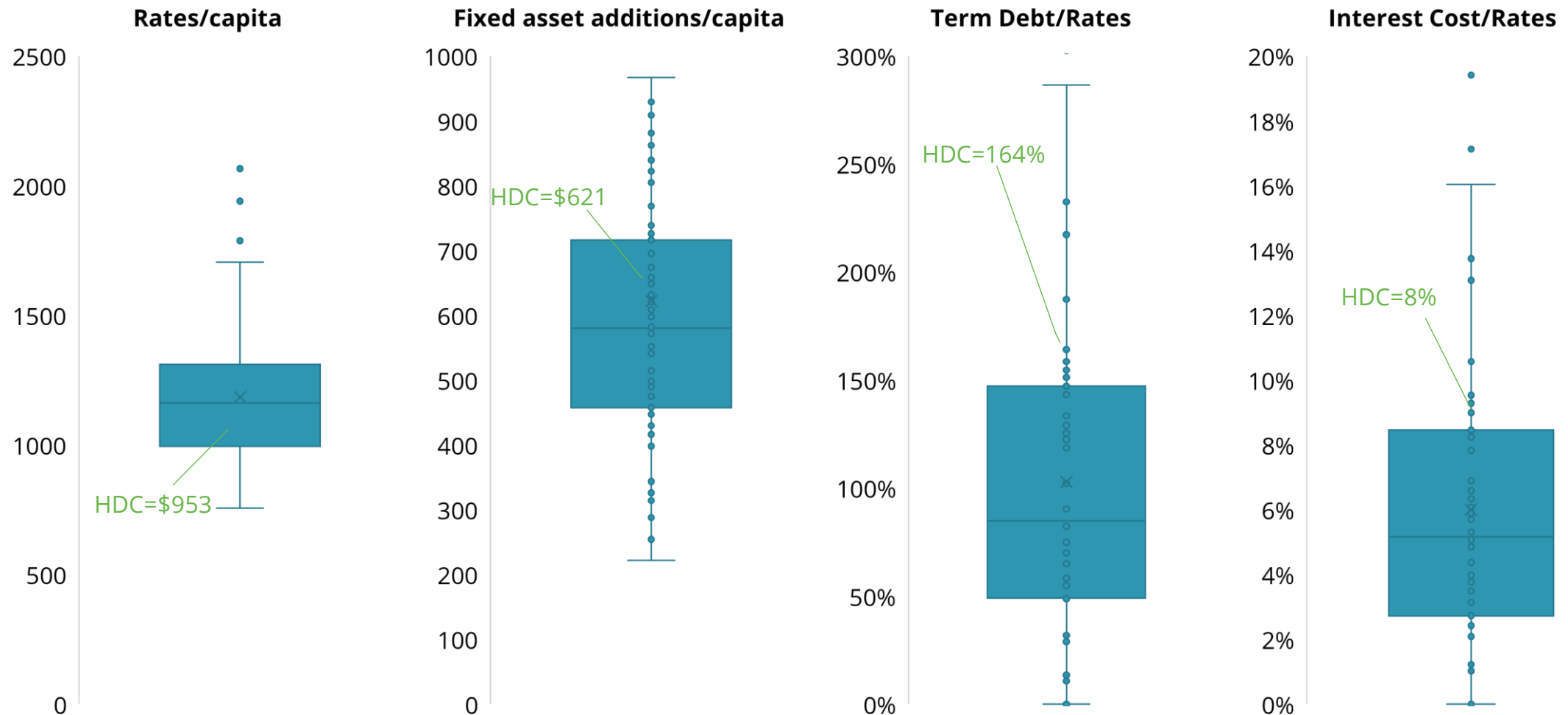


Source: LGFA, Sense Partners

..but constraints and choices



Figure 20: Local government finance metrics(2018)

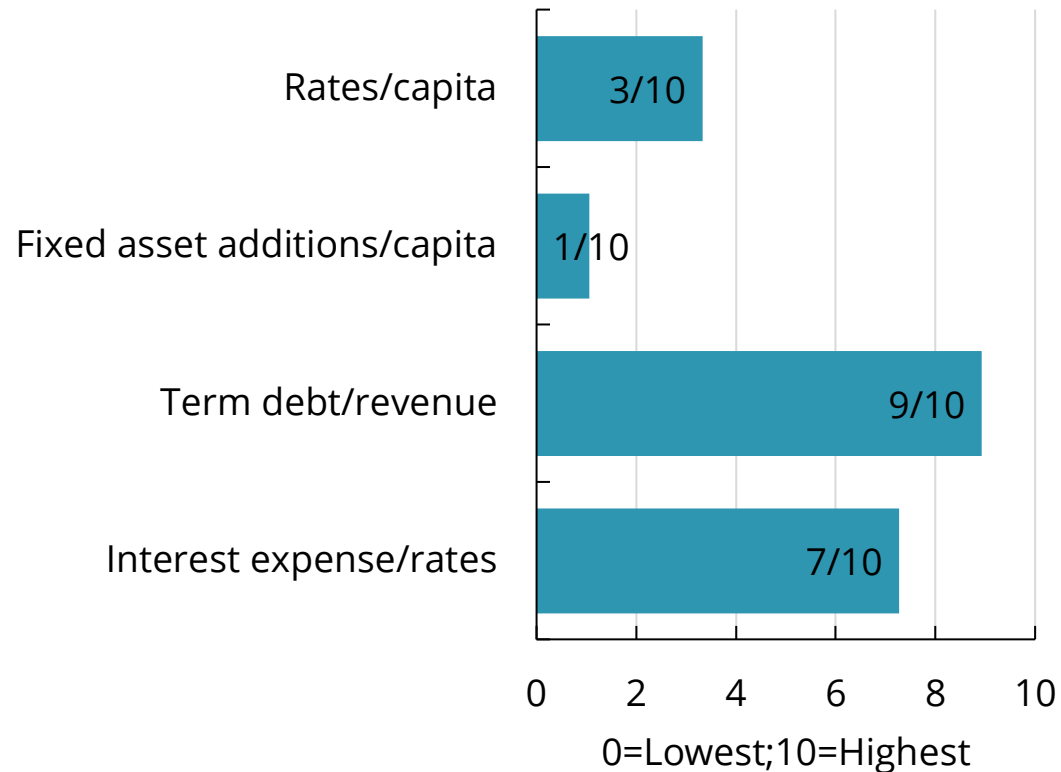


We cannot follow history blindly



Figure 21: Summary finance metrics

HDC Position Among all TLAs



- Role of council
 - Essential services
 - Rates relief for those who need it
 - Raise rates to fund ambitions
 - Spatial planning
 - Invest in infrastructure (prioritised projects)
 - ED funding & support
- Role of ED
 - Co-ordinate & communicate
 - Ruthlessly prioritise what works
 - Don't lose sight of strategic priorities.



And long term trends will reassert

- Trans-Pacific tensions
- Asian century
- Eurozone breaks up?
- Politics of inequality
- Immigration & politics
- Debt – how will we deal with so much?
- Crisis as the mother of invention?

2 Drivers of Population Growth

Summary of projected HDC population growth



	5th percentile	25th percentile	50th percentile	75th percentile	95th percentile
2019	34,956	34,956	34,956	34,956	34,956
2029	39,983	41,022	41,896	42,941	44,968
2039	40,822	44,138	47,006	50,913	59,010
2049	39,542	45,188	51,862	59,250	79,243
2059	37,741	45,443	55,626	69,501	105,044
2068	35,301	45,185	59,172	78,168	131,741

Compound annual average growth rate

	5th percentile	25th percentile	50th percentile	75th percentile	95th percentile
2019					
2029	1.4%	1.6%	1.8%	2.1%	2.6%
2039	0.2%	0.7%	1.2%	1.7%	2.8%
2049	-0.3%	0.2%	1.0%	1.5%	3.0%
2059	-0.5%	0.1%	0.7%	1.6%	2.9%
2068	-0.7%	-0.1%	0.6%	1.2%	2.3%

- Updated model estimates suggest next 10 years, 1.8% p.a.
 - Faster than national, 1.2%
 - Faster than past 10 years, 1.5%
 - Slower than past 6 years, 2.1%
 - Much faster than previous projections, 0.5%
- Key driver is domestic migration



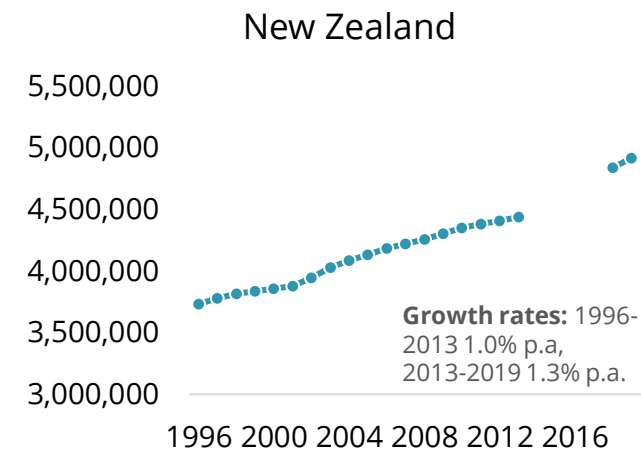
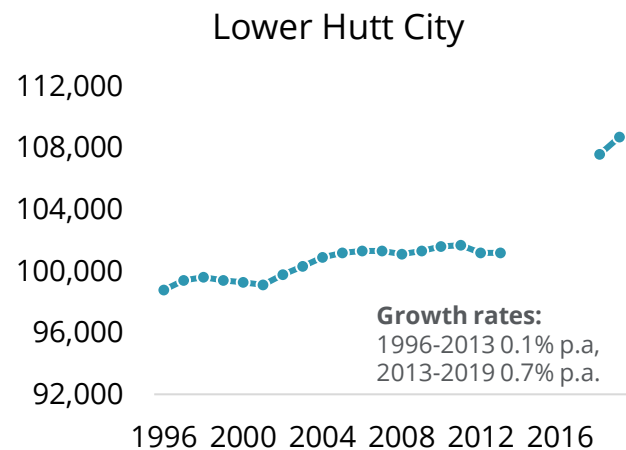
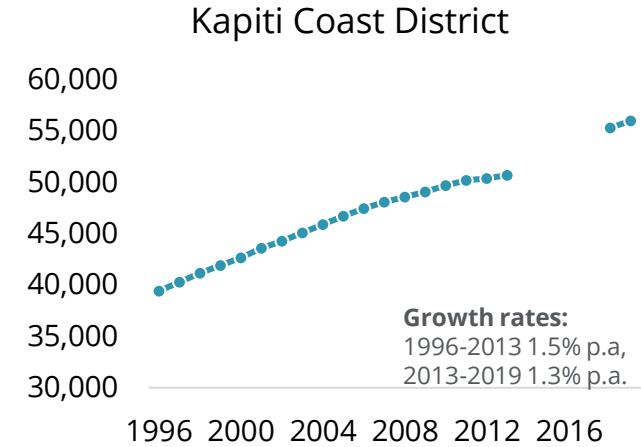
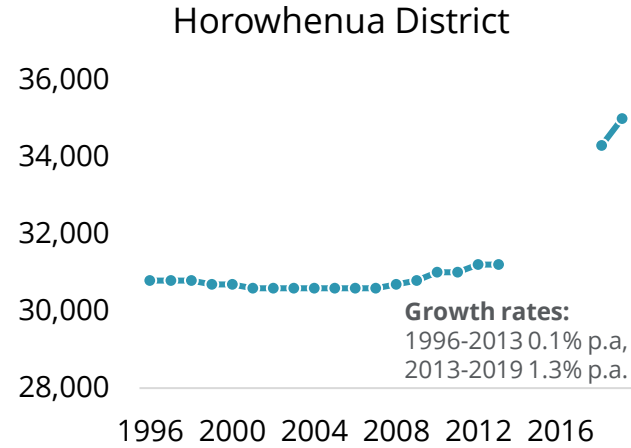
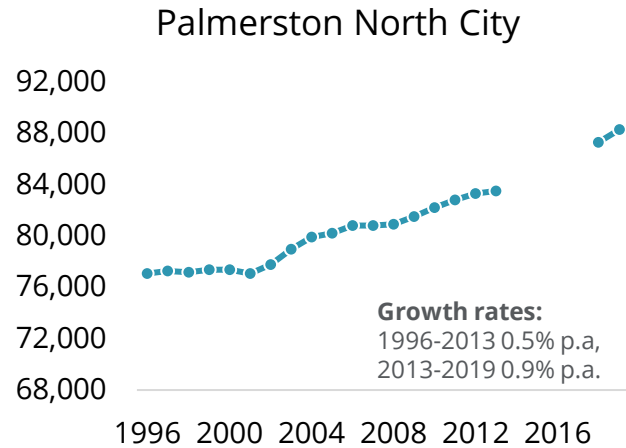
Population patterns driven by gravity

- Forces of gravity have been weakening
 - Population growth has been strongest in peripheries
 - Expect strong growth in the future due to ageing populations and relative price changes
- But dispersion vs concentration is a fractal phenomenon
 - a **matter of perspective** and scale (what is a periphery?)
 - a **result of relativities** i.e. strength of push and pull factors, that can easily change
- So, relative performance is key.

Population growth in peripheries like Horowhenua



Figure 22: Resident population estimates

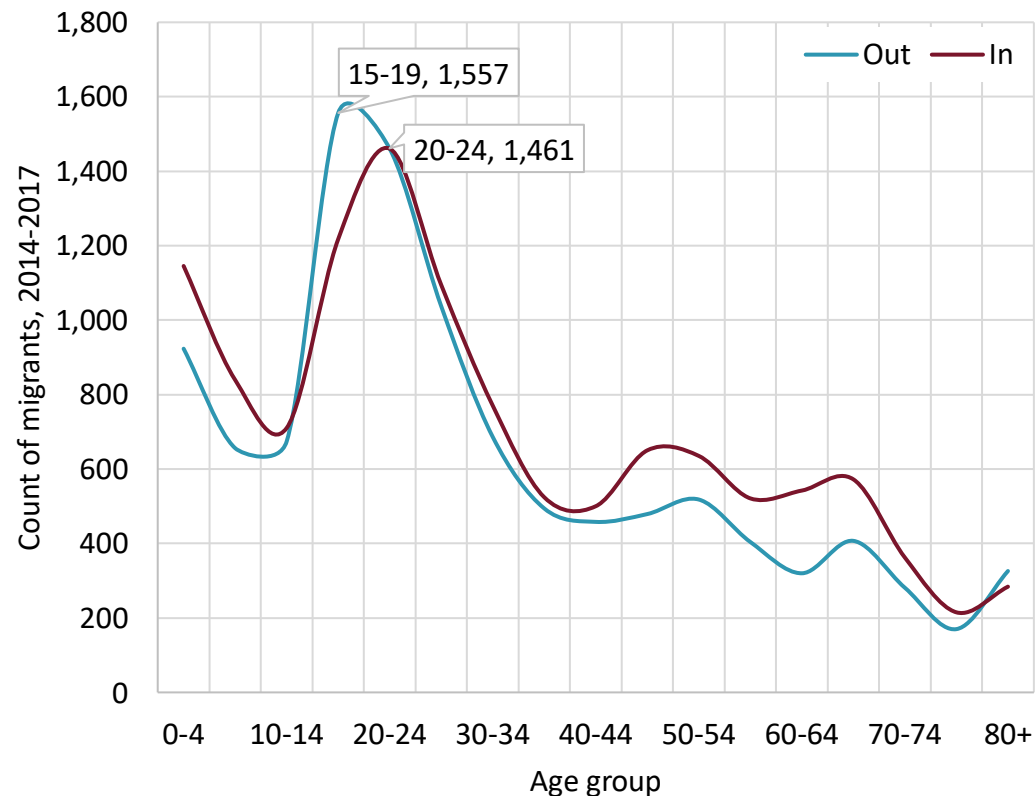


*No official data available for the years from 2014 to 2017.

Domestic migration dominated by the young...



Figure 23: Horowhenua, domestic migration (2014-'17)

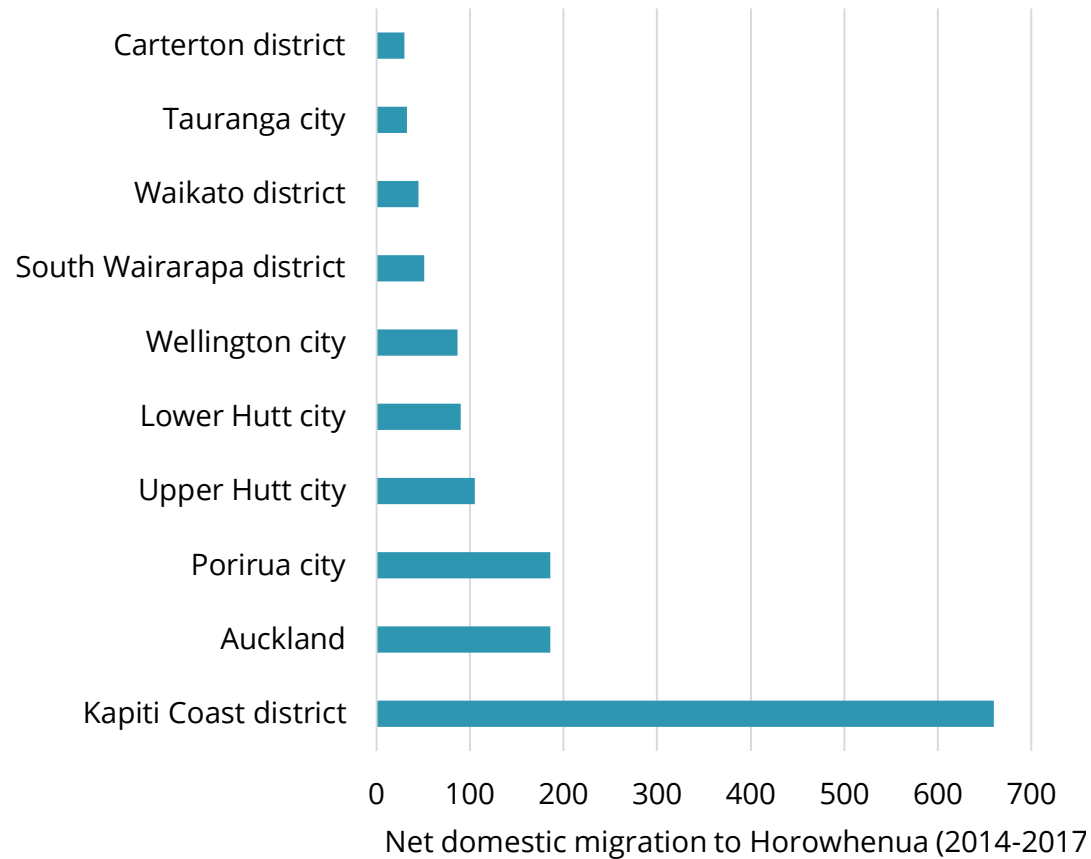


- Net outflow amongst teens, a pattern repeated across New Zealand
- Net inflow at almost all other ages
- Estimated inflows 12,060
- Estimated outflows 10,870
- Net inflow of ~300 people per year
- Pre 2014, average net inflow of 50-100 people per year

Main sources and destinations for domestic migration to/from Horowhenua

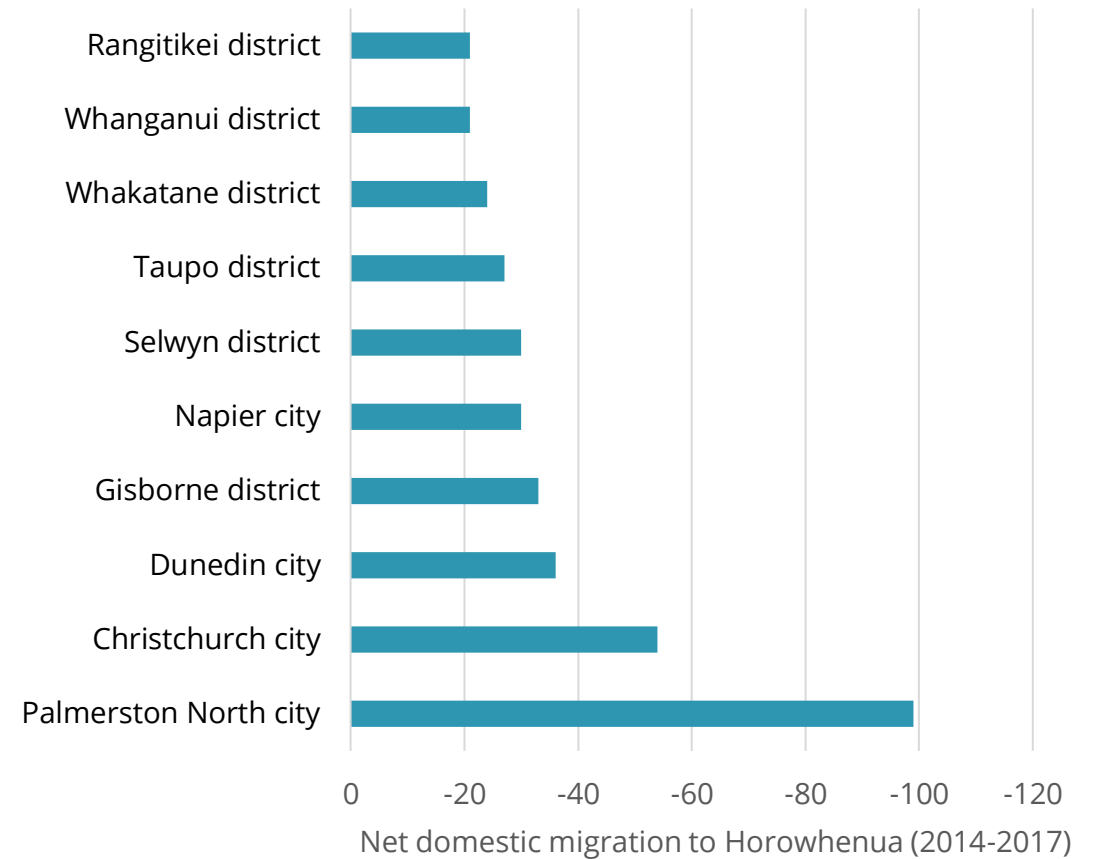


Figure 24: Top 10 net sources of inflows



Average age of immigrants is 35

Figure 25: Top 10 net outflow destinations



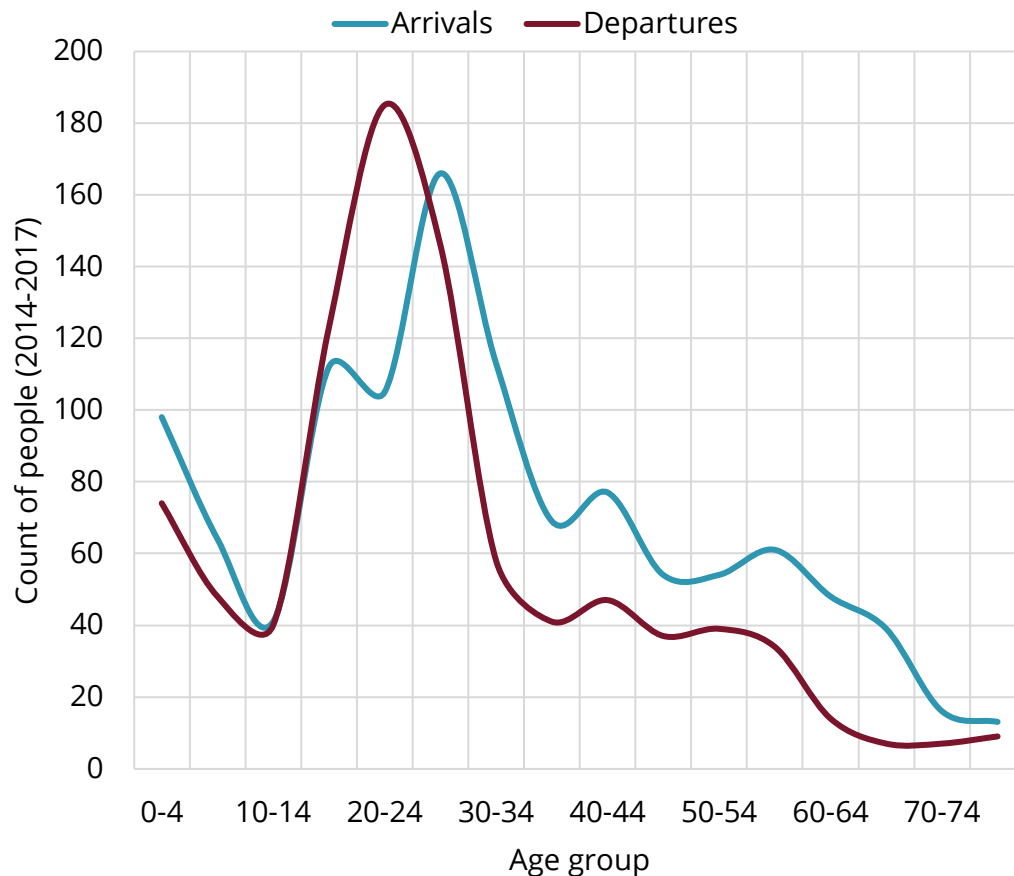
Average age of emigrants is 31

Average age of domestic migrants in NZ is 29. Average age of population in NZ is ~39

International migration, positive but tends to make the population older



Figure 26: Horowhenua, migrant age profile



- Small flows relative to domestic migration (1/10th the scale of domestic migration)
- Positive for all age groups except 15-24, reinforcing the net domestic outflow for people aged 15-24
- Net inflow ~50 people per year
- Pre 2014, net outflow ~90 people per year (at almost all ages)

International migration has had a significant effect on demographic change



Figure 27: International migration, Horowhenua

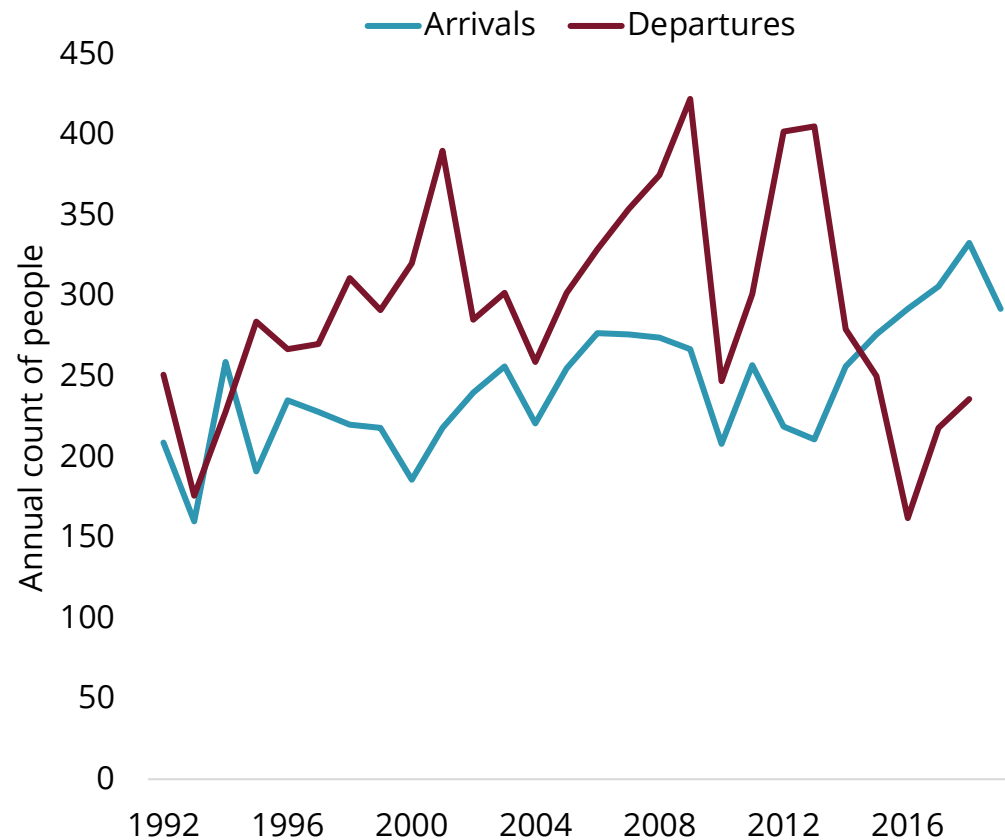
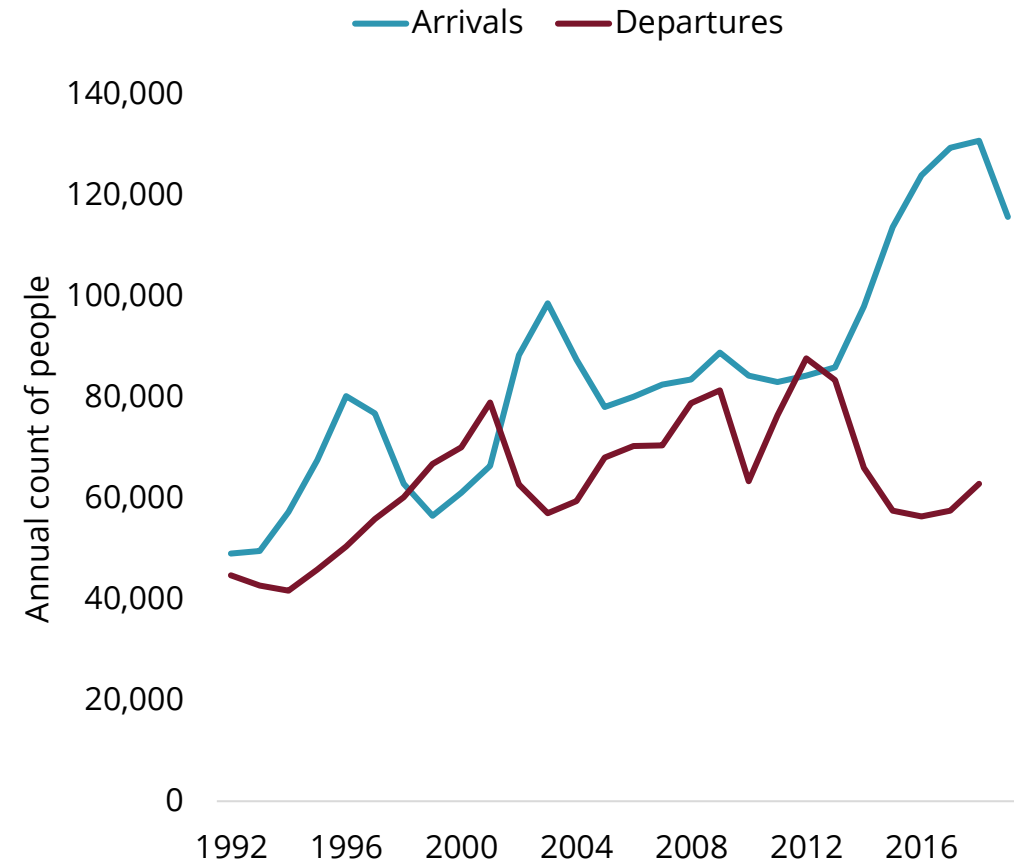


Figure 28: International migration, New Zealand



Note: these series are permanent and long-term migration which tend to over-estimate net migration but provide greater detail around historical age and location of migrants.

Continuation of recent trends requires



- Moderate or declining growth in transport costs
- Moderate or declining growth in land prices
- Local commercial opportunities that keep pace with national opportunities
- Spatial development and amenities that suit older ages, but not necessarily retirees
- Out-performing neighbouring districts in all of the above
- Net national population growth, though this appears quantitatively less important than attractiveness of Horowhenua relative to other districts.

Lower living costs have helped, until now



Figure 29: Residential land prices increasing

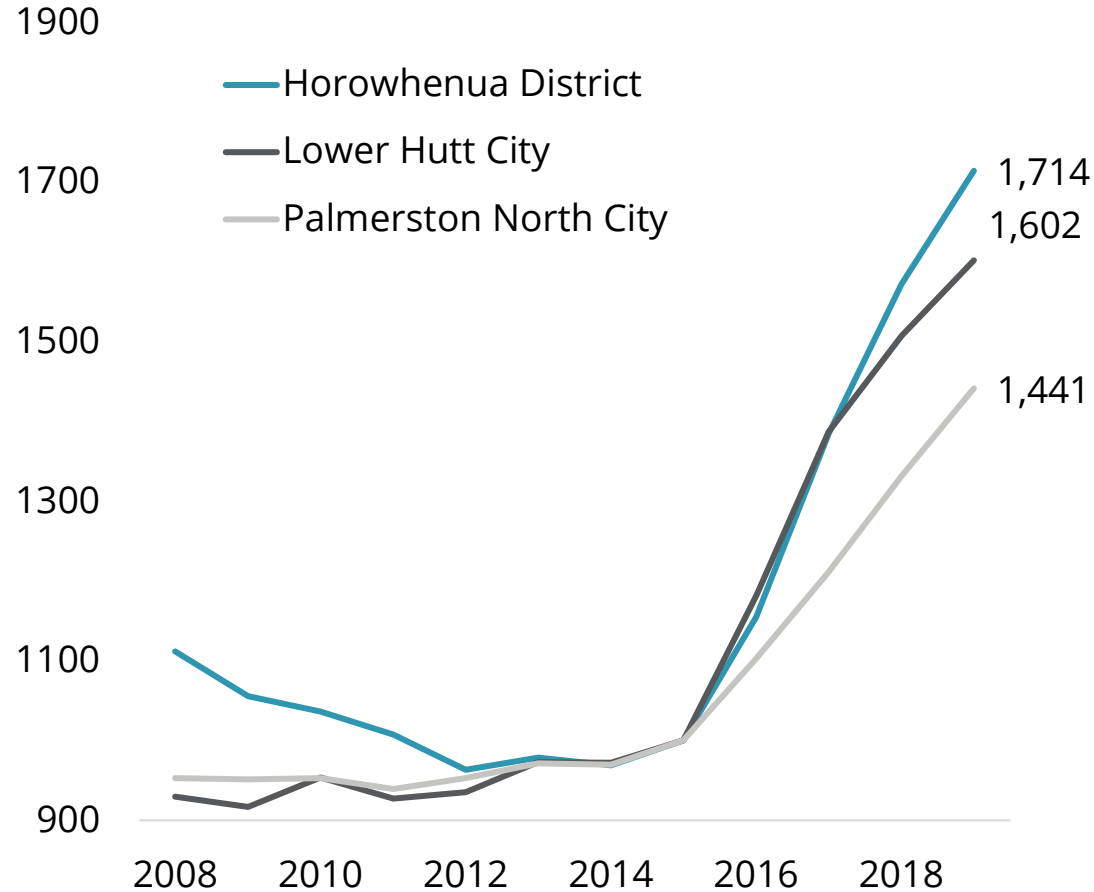
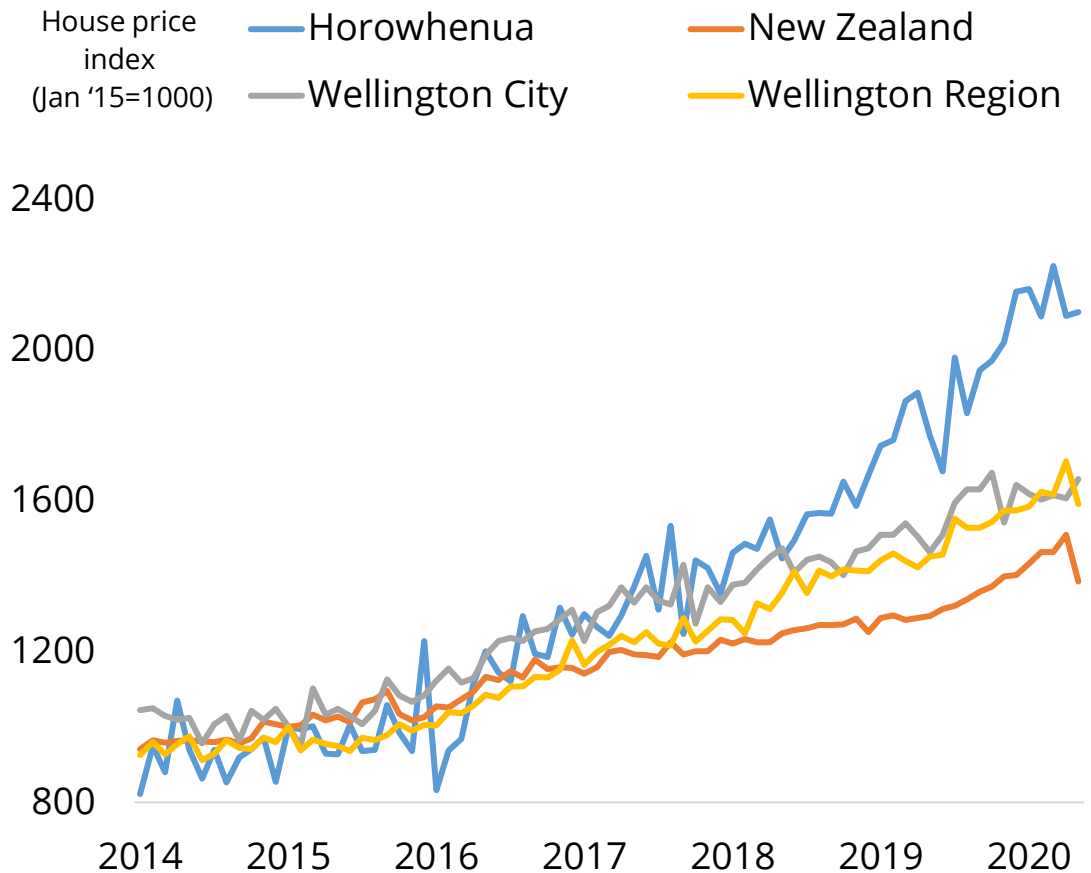


Figure 30: House price inflation higher than elsewhere



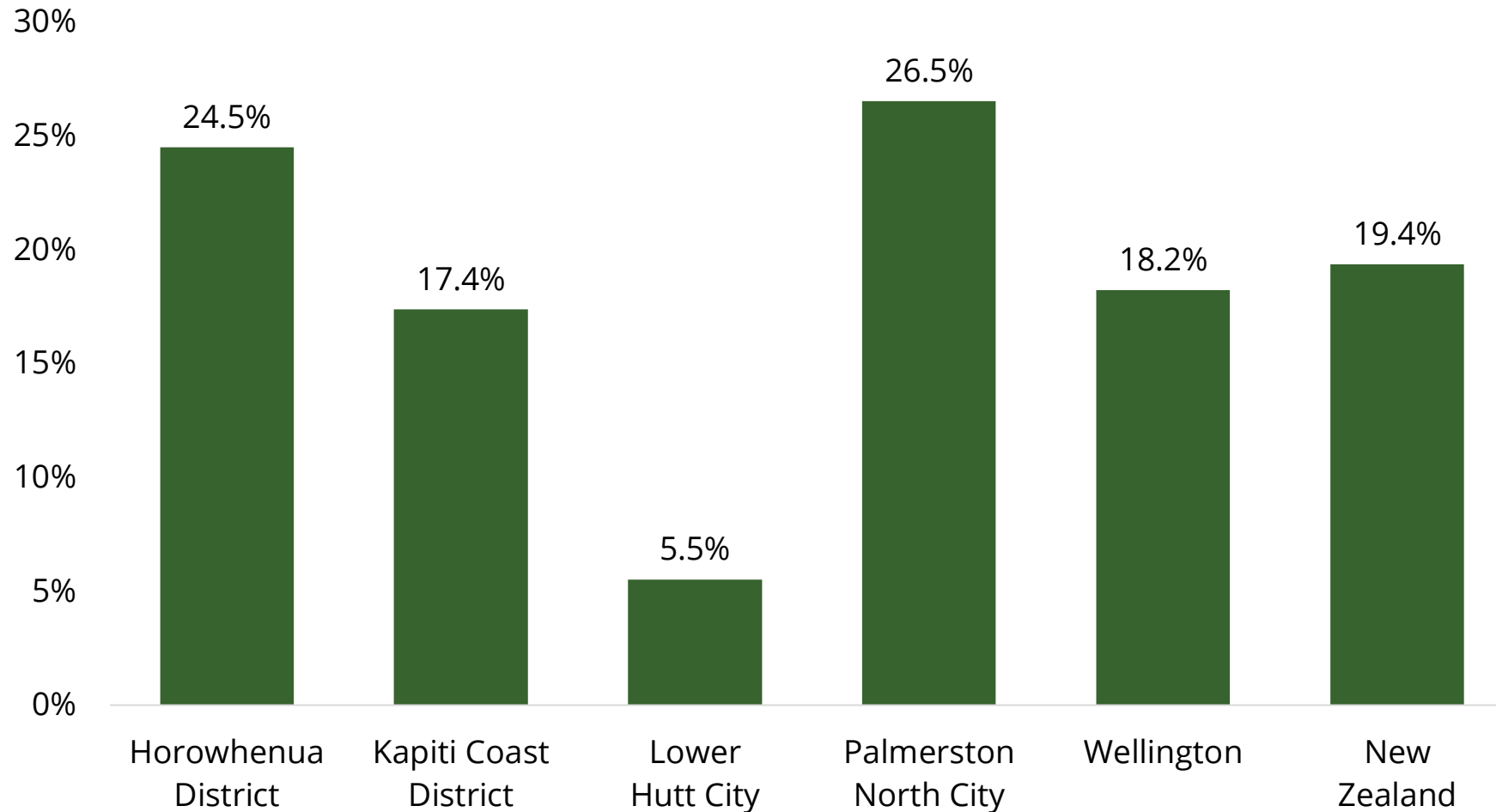
3 Growth and Connectivity

Economic growth outpaces national growth...



Figure 31: Economic growth, regional neighbours

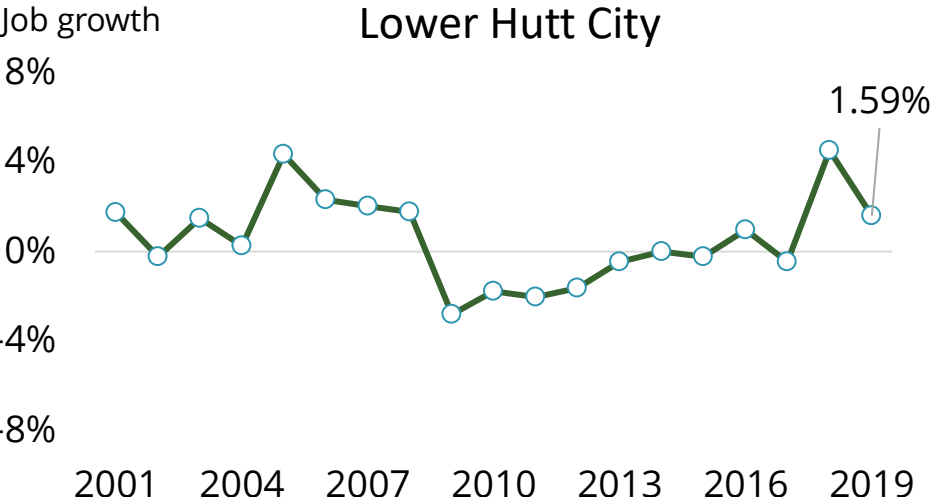
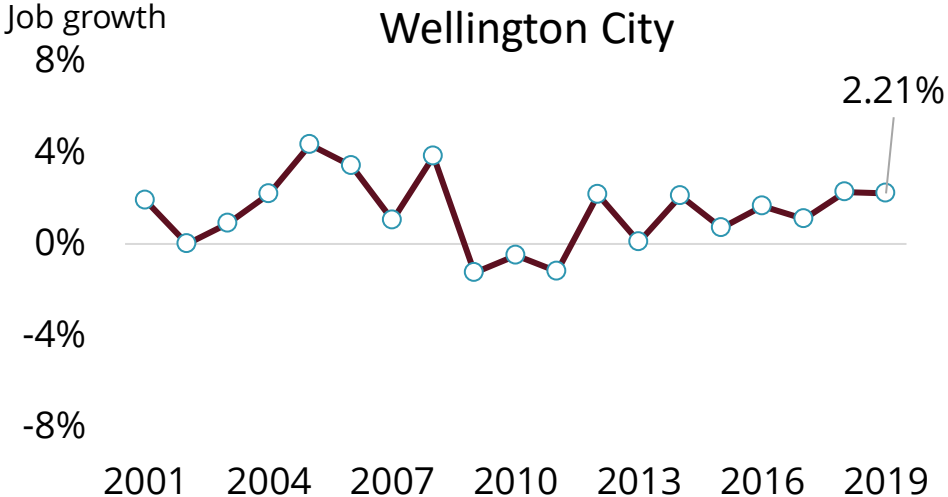
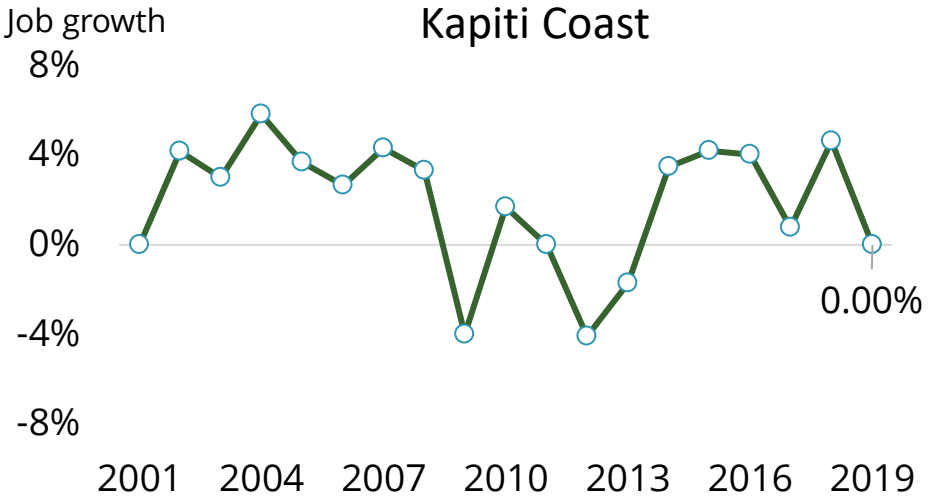
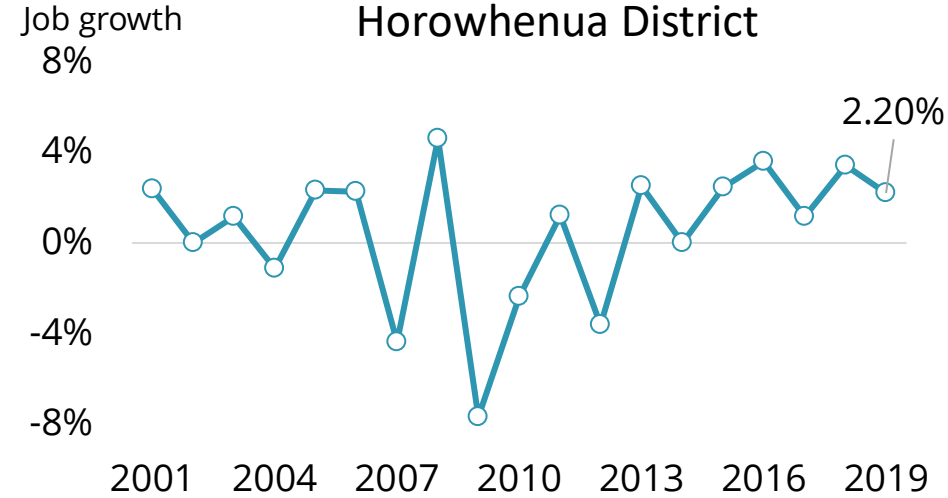
GDP growth ,
2012-17 (%)



...bringing many more jobs in recent years



Figure 32: Job growth, regional neighbours



Transport improvements will lift growth...



Expect a suite of transport infrastructure investments – including Transmission Gully and Otaki to Levin – to improve drive times across the region

Figure 33: Indicative travel time improvements from regional infrastructure improvements

	Horowhenua	Kapiti Coast	Upper Hutt	Lower Hutt	Wellington City	Palmerston North
Horowhenua	0	29 mins (7 mins)	68 mins (7 mins)	63 mins (10 mins)	55 mins (22 mins)	43 mins
Kapiti Coast	29 mins (7 mins)	0	35 mins (10 mins)	37 mins (10 mins)	30 mins (15 mins)	68 mins (7 mins)
Upper Hutt	68 mins (10 mins)	35 mins (10 mins)	0	19 mins	31 mins	100 mins (17 mins)
Lower Hutt	63 mins (10 mins)	37 mins (10 mins)	19 mins	0	19 mins	99 mins (17 mins)
Wellington City	55 mins (20 mins)	30 mins (15 mins)	31 mins	19 mins	0	98 mins (22 mins)
Palmerston North	43 mins	65 mins (10 mins)	92 mins (25 mins)	91 mins (25 mins)	98 mins (22 mins)	0

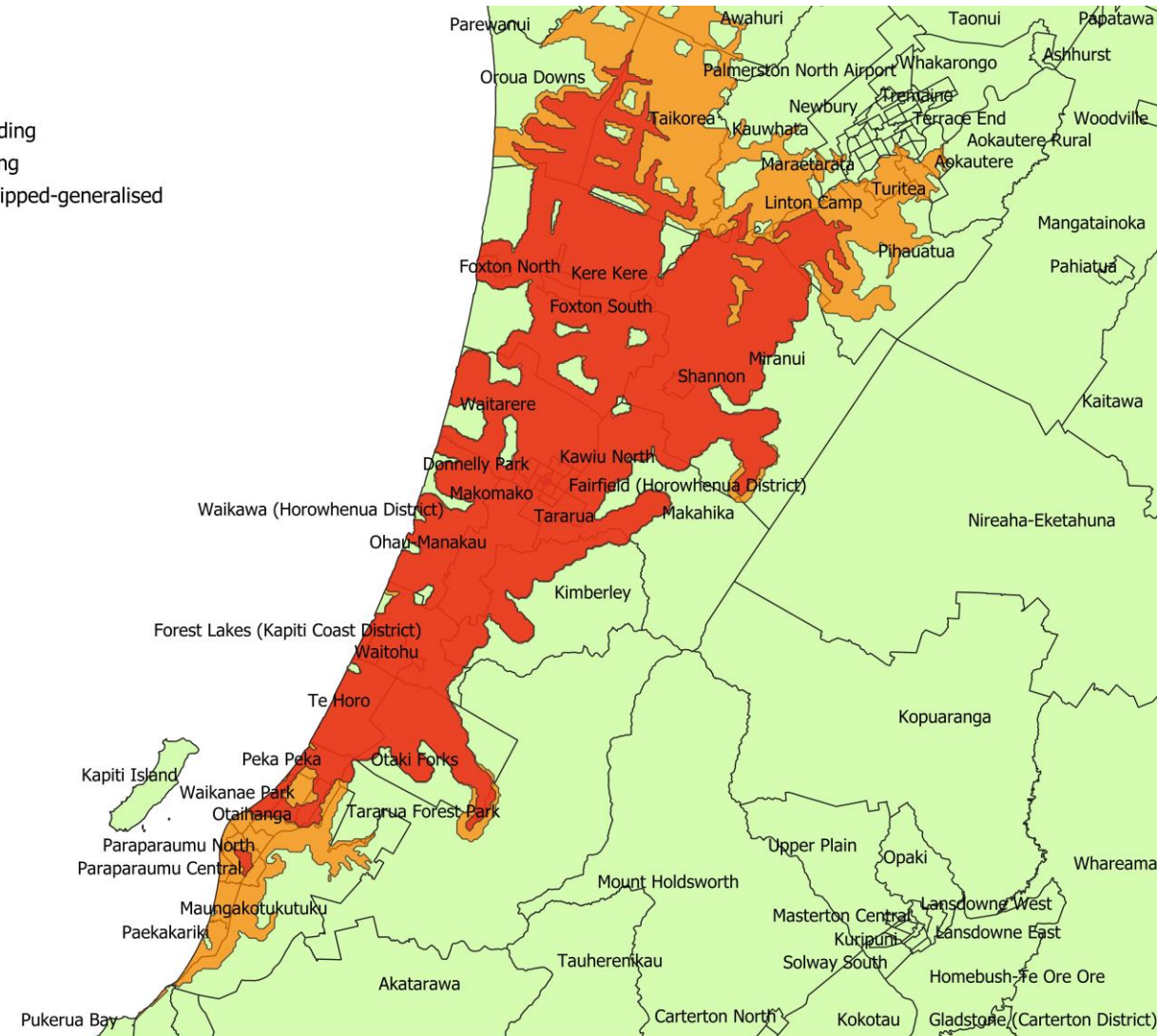
...deepening local labour markets

Investments in transport infrastructure deepen local labour market, enabling better matches between firms and workers that lift productivity

Figure 34: Indicative local labour market: old vs new infrastructure

Legend

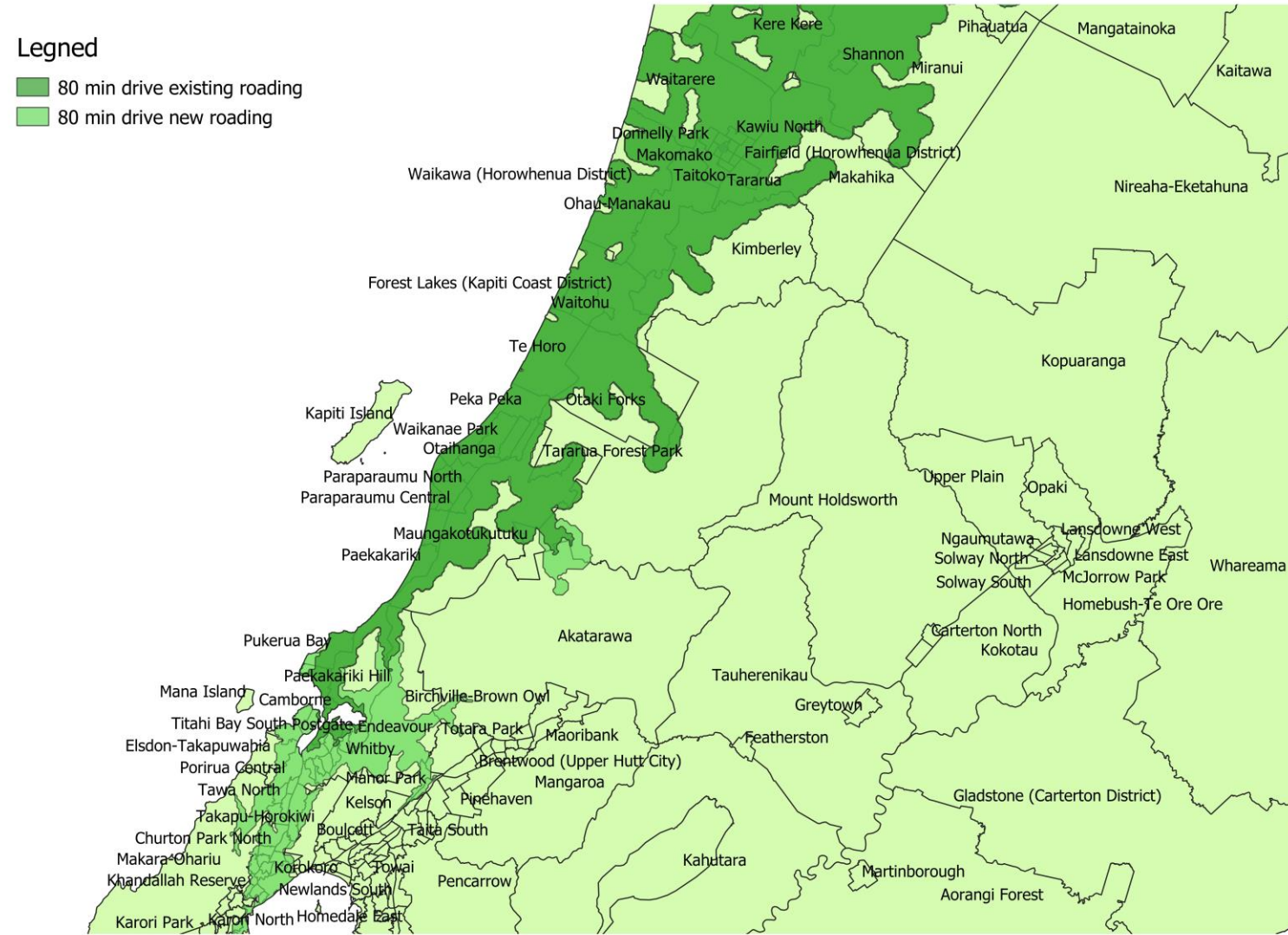
- 30 minute drive new roading
- 30 minue drive old roading
- statistical-area-2-2020-clipped-generalised



...and broadening consumer linkages

Transport infrastructure also lifts growth by broadening local markets increasing the number of accessible consumers

Figure 35: Indicative consumer market: old vs new infrastructure



Expect transport links to lift regional growth

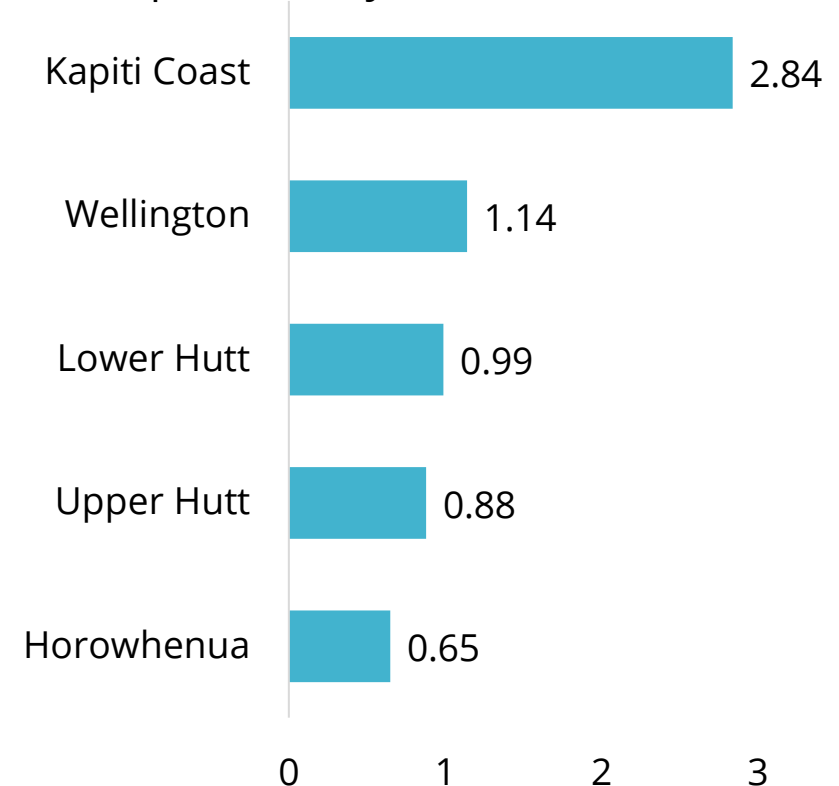


NZTA research suggests productivity improvements driven by three key factors:

- Improvements in travel times,
- Population in new accessible markets
- Underlying economic structure of each region

Figure 36: Indicative productivity improvements from suite of transport improvements

One-off productivity boost to GDP (Percent)



4 Summary



Your high-level guiding points

- Businesses and families want to be in Horowhenua because:
 - It's easy to do business
 - Job opportunities
 - It's easier to retire and raise a family than elsewhere
 - It's affordable



What does it mean for you?

- Shocks outside your control
 - Export shock (risk for businesses and jobs)
 - Migration shock (reduced arrivals, reduced departures)
 - Government borrowing & spending priorities (fast-track big projects; but slow others; LG more conservative)
- But much inside your control: how to retain comparative advantage to prefer living and working here rather than elsewhere
 - Land use: Make sufficient serviced and flexibly zoned land available to accommodate growth & retain affordability advantage
 - Skills & support: Connect young people not leaving during recession to jobs and businesses; regularly survey and respond to issues facing local businesses; address labour shortage issues; quantify and communicate your business advantages
 - Leverage central government: Leverage government programmes to facilitate development

Some ideas



Competitive advantage	Control	Impact	Approach
Cost of living	High: Land use planning & infrastructure provisioning	High: quantity, restrictions and capacity	Land use planning (LG): Use land use planning to ensure sufficient supply of land, with flexible permitted use (collaborate with ED), and capability to deliver infrastructure
Raising families	Medium: affordability and employment opportunities	High: more people living and working in HDC	As above + as below.
Retiring	Medium: affordability and access to services	Medium: more people living in HDC	As above
Dormitory suburb	Medium-Low: affordability and travel times/connectivity	High: More people living in HDC + family	As above + engaging in central government infrastructure investment processes ideally led by political arm of LG (supported by ED)
Cost of doing business	Medium: affordability; access to labour; logistics	High: Local jobs & population	Skills investment & matching: long term labour upskilling (education and training) and matching (business-labour interface); short term connecting young people not emigrating due to recession (ED) Affordability: sufficient and flexible land use planning; infrastructure provision (LG)