

An Economic Development Strategy for Wellington

For the Wellington City Council

DRAFT

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1. BACKGROUND

The Economic Development Strategy outlined in this paper supports the City vision – “Creative Wellington – Innovation Capital”.

The completed paper will cover four key areas:

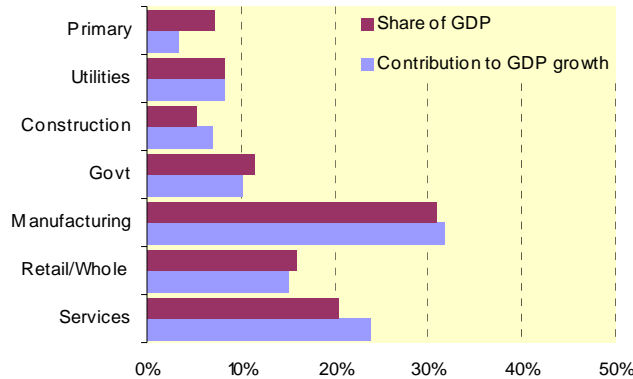
- The global economic context within which the Wellington economy will need to compete for businesses and people. What economic characteristics are likely to be important to future economic success?
- The current structure of the Wellington economy – what are the important characteristics, trends and attributes?
- The main sources of new jobs in the city over the next decade. What changes/investments in the labour market will be required to build on the strengths Wellington has and thus meet the Council’s economic development goals?
- What are the key roles and responsibilities (e.g. workforce development, immigration, infrastructure) for the Council in implementing the Economic Development Strategy?

2. GLOBAL CONTEXT

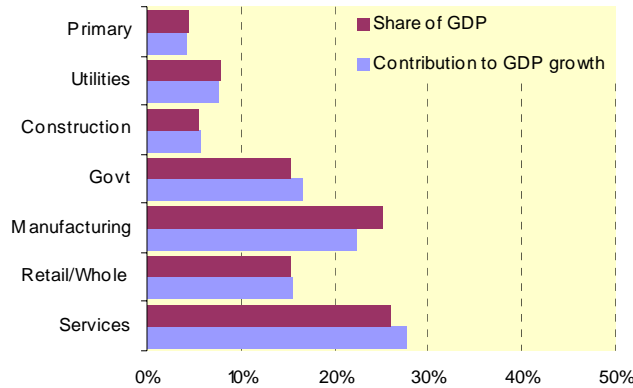
There has been a clear and substantial shift from manufacturing to service activities in most developed economies since the 1950s. The following graphs for the world's leading and largest economy – America – clearly demonstrate the changing character of economic activity.

Graphs 2.1

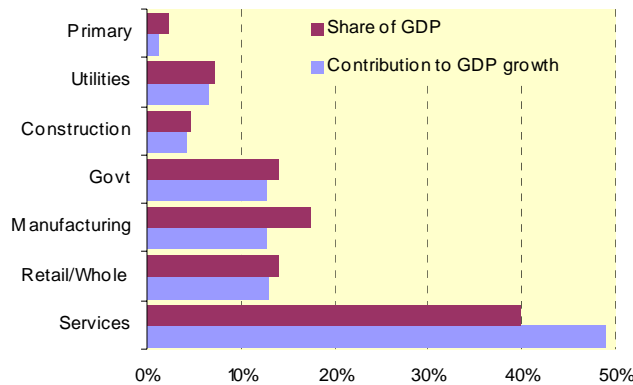
US economy, 1950s



US economy, 1970s



US economy, 1990s



Source: Table 6.1A. National Income, Bureau of Economic Analysis



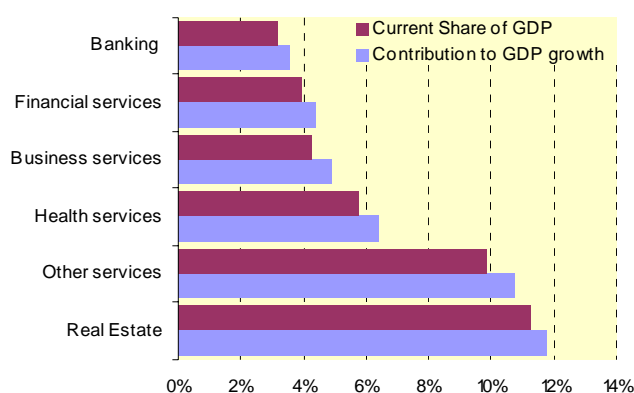
They show the composition of the economy over each of three decades as well as the contribution each key sector made to economic growth over the decade.

Not only did the services sector account for a much bigger share of economic activity over the 1990s (40%) than the 1970s (25%), the contribution of services to overall economic growth was nearer 50%. In fact services were the only sector to contribute above their share of GDP.

Within the services sector the main contributors to growth since the 1970s have been real estate and other services. The latter include a wide range of activities, although the most important are recreation and entertainment services.

Graph 2.2

US Services sector 1970-1999



Source: Table 6.1A. *National Income*, Bureau of Economic Analysis

Services

The shift to services activities reflects:

- Rising incomes
- Technology (computers, telecommunications)
- Increasing specialisation of labour/ productivity
- More intense use of leisure time

The application of technology and improvements in business management produce economic growth. That in turn leads to higher incomes, which eventually lead to most people having all the material goods they need. They then turn to spending their discretionary income on services such as better health care, holidays abroad and meals out. Rising incomes in combination with the increasing pace of life encourage people to “buy” time (fast food, instant lawns).

These trends create the demand for a wide range of service businesses, including banks, insurance companies and investment businesses, to manage and protect household wealth.

The service economy covers virtually anything that involves the production of a physical good such as butter or a car. As the service

sector has become such a dominant share of economic activity people and businesses have sought a clearer idea of what is at the leading edge of economic development – what are the emerging consumer demands and business attributes that constitute success/growth?

The government sector

In the US the size of government, as measured in the above graphs, reached a peak of around 15% of GDP by the 1970s and has held at that level over the past 30 years. In Europe, government outlays (according to OECD data) peaked at around 50% of GDP over the first half of the 1990s, but have since slipped back to around 45% of GDP.

Trends in the size of government vary considerably, even amongst developed countries. However, what is increasingly clear is that the size of governments is either stable or shrinking. Over the 1990s many developed economy governments withdrew from owning key businesses including telecommunications, energy and significant parts of the transport system (in some cases roads).

Economic labels

Economists, management consultants and policy advisors constantly seek to define the essence of the “new” economy. The following cover some of the more recent definitions.

Knowledge economy

The knowledge economy has been the most popular recent label and one that governments and others have bought in to. However, the glibness of the label compromises its usefulness as a concept to shape economic strategies. Knowledge has been a crucial aspect of what drives economies/ communities forward for thousands of years.

Nonetheless, the concept of a knowledge-driven economy can provide some useful pointers to what is important to economic development and performance:

- Ideas will be more valuable than physical resources
- Smart software will be more important than fast computers
- Economic power will shift from producers to consumers
- Businesses will be less hierarchical and rigid and more flexible and team driven
- Understanding markets will enhance profits more than production prowess

Experience economy

Another concept that helps describe what is happening at the leading edge of modern economies is the experience economy. The majority of new consumer markets relate in some way to experience rather than a specific product or service.

Tourism is perhaps the most obvious experience business that has been embraced by national and local economies.



Experiences, of course can be directly associated with traditional consumer goods. Harley Davidson motor bikes, for example, are now as much about the experience as the quality, performance and degree of innovation of the product.

The experience economy is a logical outcome of two key drivers of the economic shift to services activities – higher incomes and more intensive use of leisure time. As incomes rise, people will tend to direct their additional spending to the “experience” aspects of the goods and services they purchase.

Reading Cinemas are good example of how a traditional business can profit from creating a new “experience”. By offering better seating, including their “Regency Cinelounge”, they have identified and exploited a new source of demand. Or, put another way, they have created a successful new offering that is destroying some older business models.

Creative economy

The creative economy is centred around “activities which have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property”¹.

The term ‘creative industries’ was first articulated as a way of integrating sectors of the British economy in which creative intangible inputs add significant economic and social value. Adopting the framework of the creative industries, then, presents a way of viewing the role of culture within economic development². Four characteristics combine to define activity within the creative industries³:

- they involve activities which have their origin in individual creativity, skill and talent and have the potential for wealth and job creation through generation and exploitation of intellectual property;
- they have creative intangible inputs which add more economic and social value than is added by manufacturing;
- they encompass and link the traditional cultural industries (such as the performing arts) with the new economy ‘info-intensive communication and cultural industries’ (such as computer game design).

¹ Stuart Cunningham, The evolving creative industries: from original assumptions to contemporary interpretations, 9 May 2003, Queensland University of Technology, Brisbane.

² Brisbane’s creative industries 2003, Professor Stuart Cunningham (Director, Creative Industries Research and Applications Centre, Creative Industries Faculty, Queensland University of Technology), et al

³ Creative Industries Task Force, 1998, retrieved from http://www.culture.gov.uk/creative/creative_industries.html

and UK Creative Industries Promotion and Export Group
<http://www.tradepartners.gov.uk/creative/profile/index/overview.shtml>

In Australia the eight areas of economic activity that lie at the heart of the creative economy are:

- Literature and print media
- Performing arts
- Music composition and publishing
- Visual arts and crafts
- Design
- Broadcasting, electronic media and film
- Other arts
- Heritage

The Queensland University of Technology has set out, for Brisbane, the key infrastructure, links, inputs and markets for the eight sectors:

- *Key Infrastructures* in support of creative industries include physical objects such as buildings, studio spaces, (post)-production suites, offices, and the full range of technological artefacts contained in these physical locations, such as telecommunications and equipment used directly in the production of or support of creative activities.
- *Links* include the major supply chains and other interdependencies, both formal and informal, of the sector.
- *Factor Inputs* refers to the full range of associated human skills that collectively constitute the ecology of creative activity. By our own definition, these include intellectual property (IP), planning and other conceptual skills (pre-production), and technical skills that directly or indirectly flow into creative output in the form of tangible creative products.
- *Markets* for Brisbane's creative industries are fragmented and uneven and, therefore, must be considered in terms of individual sub-sectors.

Implications for Wellington

The point of trying to put a label on what sort of economic activity will produce the desired growth is that it might help identify the businesses and activities that will matter most.

The global trends clearly indicate that businesses in the services sector are the primary source of economic growth. But the services sector is too broad to be useful and governments, including New Zealand's, have sought greater focus. The widespread consensus is that biotechnology, information technology, communications, and creative businesses will constitute the leading industries/ activities over the next decade or more. These industries/activities align closely with the creative economy concept that underpins Wellington City's vision.

The very fact that there is a consensus about what businesses are likely to lead economic growth highlights the difficulty of developing a genuinely different economic strategy. Put another way the consensus emphasises the need to:



- take the concept further
- implement it better/faster
- focus on just one or two key aspects

Irrespective of how we label the economy that we think will deliver the desired growth, the actual realisation of that growth will come from firms identifying and exploiting new consumer markets. That process is the essence of business growth. Expanding businesses create jobs, wealth and taxes for their local community.

A key issue for Wellington's economic development strategy is to identify and nurture businesses at the leading edge of the local economy. In doing so, the Council must be aware that businesses the world over are looking for some, or all, of the following attributes:

Implications for the Council

- | | |
|---------------|-----------------------------|
| • speed | don't bottleneck businesses |
| • agility | be flexible where possible |
| • consistency | helps build your reputation |
| • acuity | smart thinking |
| • innovation | lead by example |

Business and economic growth is not a smooth process: as new markets, products and services are created, some old ones are destroyed.

3. WELLINGTON'S ECONOMY

Wellington City accounts for roughly 60% of the Wellington Region's economic output, although just 40% of the Region's population reside in the City. That highlights the fact that the City is the focal point of the Region's economy.

- Wellington City's population grew 3.9% between 1996 and 2001. That compares to 2.3% growth in the region's population and 3.3% nationally over the same period.
- Employment (full-time equivalent) has risen more slowly in Wellington City (5.5%) over the past three years to February 2002 than nationally (7.3%).
- Incomes are on average higher in Wellington than nationally – the average weekly income as at June 2002 was \$597 in the Wellington region compared to \$518 nationally⁴.

Service industries account for around 60% of the Region's economic output, compared to around 40% nationally. That suggests Wellington's economy has important attributes that attract and sustain service businesses (discussed in more detail below).

Employment

Furthermore, service businesses have made a substantial contribution to overall employment growth in the City and Region since 1996. The first three occupation categories in the table below contributed 114% to overall employment growth in Wellington City between 1996 and 2001. That compares with 95% for the Wellington Region and 92% nationally.

Thus services have increased their share of Wellington City's economy at a faster rate than elsewhere in New Zealand. That is mainly because Wellington has reduced employment in other areas of its economy.

Table 3.1

Contribution to employment growth by occupation 1996-2001

	Wellington City	Wellington Region	New Zealand
Legislators, administrators & managers	18.0%	18.3%	28.4%
Professionals	97.2%	72.7%	49.9%
Technicians & associate professionals	-1.0%	4.5%	13.8%
Clerks	-14.7%	-8.4%	-0.1%
Services & sales	16.8%	17.9%	17.1%
Agriculture & fishery	1.3%	0.1%	-16.7%
Trades Workers	-0.4%	0.3%	-4.0%
Plant & machine operators	-1.8%	1.8%	8.8%
Elementary occupations	-15.5%	-7.2%	2.9%
Total	100.0%	100.0%	100.0%

Source: BERL, *Workforce development in Wellington Region, July 2003, Figure 1.4*
Statistics New Zealand Census data

⁴ Statistics New Zealand, New Zealand Income Survey

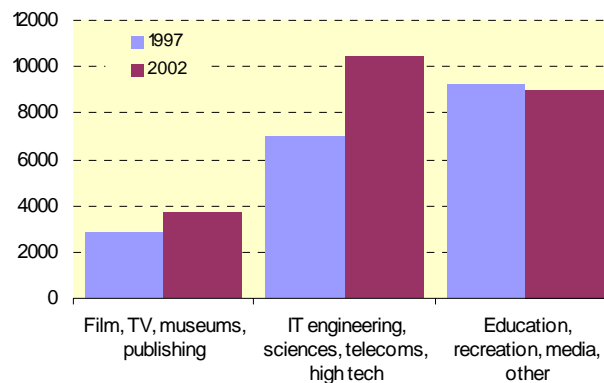


Within the service sector, the creative industries make a big contribution to overall employment. Data for Wellington show that around a third of people are employed in creative businesses and that ratio rises to 43% in the CBD area⁵. Within what is referred to as the super-creative core, education and computer services are the two biggest specific creative industries.

The graph below shows that growth in creative employment has been strongest in the broad IT, engineering, sciences, telecommunications group of activities between 1997 and 2002.

Graph 3.1

Super-creative core employment



Source: FTE employment, Statistics New Zealand Business Demographic Survey, using classification developed by Richard Florida; see Ernst Zollner, University of Auckland Nov 2002.

Businesses

Business demographic data show that the majority (73% as at February 2002) of the Wellington Region's businesses are in service industries. There has been a slight (3 percentage points) increase in the proportion of service related businesses since 1997.

⁵ Ernst Zollner, University of Auckland, Nov 2002

Table 3.2

Number of geographic units by industry			
<i>Wellington Region</i>			
ANZSIC Division	% Change 1997-2002	Contribution to Growth	Share 2002
Property & Business Services	42.3%	65.6%	34.0%
Construction	19.1%	11.8%	11.4%
Cultural & Recreational Services	39.9%	8.6%	4.7%
Health & Community Services	20.2%	5.1%	4.7%
Accommodation, Cafes & Restaurants	23.5%	3.6%	2.9%
Personal & Other Services	11.9%	3.6%	5.2%
Agriculture Forestry & Fishing	27.7%	2.8%	2.0%
Finance & Insurance	5.2%	2.0%	6.1%
Education	6.2%	0.9%	2.5%
Transport & Storage	0.8%	0.2%	3.5%
Electricity Gas & Water Supply	-12.5%	-0.1%	0.1%
Mining	-25.4%	-0.3%	0.1%
Government Administration & Defence	-5.7%	-0.4%	0.9%
Manufacturing	-2.4%	-0.8%	5.1%
Wholesale Trade	-2.5%	-0.8%	4.8%
Communication Services	-9.6%	-0.8%	1.2%
Retail Trade	-1.3%	-0.9%	10.8%
Total	18.2%	100.0%	100.0%

Source: Statistics New Zealand Business Activity statistics

Data in Table 3.2 show that property and business services account for around a third of all businesses in Wellington (February 2002), and they have accounted for around two thirds of the growth in the number of businesses between 1997 and 2002.

Other service-oriented industries that have made a significant contribution to the overall increase in business numbers are the cultural and recreational, and health and community service firms.

Key attributes

In the above analysis it is clear that service activities dominate Wellington's economic activity. This implies that the City/Region has some fundamental attributes that attract and sustain service businesses.

Central government

The most obvious attribute is that Wellington is the seat of government and home for a wide range of national institutions and associations. There are two important points here:

- These activities are largely funded from outside the region and create substantial demand for supporting services (professional, computing, finance, etc).
- Those employed directly in government and government-related activities also constitute an important source of demand for a wide range of services and creative industry outputs.

It is not clear whether or not the supporting services and creative industries have become self-sustaining. That is, how reliant are they on



the existence of government and government-related activities and their people?

In the absence of a clear answer, it is probably safe to conclude that the government and its related institutions are central to any economic development strategy for Wellington.

Central location

Another important and immutable characteristic is Wellington's central geographic location. The advantages that flow from it include:

- a convenient/ logical location for government and other institutions
- a potentially important *national* transport hub for air, sea and land traffic
- a commercially attractive location for meetings and conferences.

Geography played a part in the original decision to locate the government in Wellington. Because it was both the central, and the capital, businesses had a strong case to set up their headquarters in Wellington. However, as the economic centre of gravity has shifted to Auckland so the rationale for businesses to remain in Wellington has weakened.

But geography and the location of government still create a strong rationale for many businesses to remain in Wellington or retain a presence in the capital.

Social Cultural

Wellington City's compactness in combination with a well-educated high-income population are key factors sustaining a vibrant social/cultural industry. The fact that national cultural institutions (the national orchestra and ballet company, as well as Te Papa) are located in Wellington add to the City's social/cultural reputation.

The economic importance of this reputation is that it is capable of attracting businesses and people to the City, thereby generating economic growth. Increasingly, service and creative businesses can be located anywhere in an economy.

A city with high quality education, health care and recreational facilities, as well as a wide variety of good quality entertainment will help attract new (or new branches of existing) service and creative businesses and their prospective employees, as well as wealthy individuals and retirees. Hence the importance of the social/ cultural aspects of Wellington City to its economic growth.

Appendix I

The experience economy

In a recent article, Pine and Gilmore⁶ offer five key ingredients to successful experience activities:

- Create a consistent theme
- Layer the theme with positive cues (helpful signs, explanations)
- Eliminate negative cues – don't have plastic flowers at the hangi!
- Offer memorabilia to reinforce the memory
- Engage all five senses – to help trigger the memory and therefore reinforce the value of the experience

⁶ Welcome to the Experience Economy; B J Pine II J H Gilmore; Harvard Business Review; July-August 1998



Appendix II

Property and business services sub industries:

ANZIC industry code

- L77111 Residential Property Body Corporates
- L77119 Residential Property Operators nec
- L77121 Commercial Property Body Corporates
- L77129 Commercial Property Operators and Developers nec
- L77200 Real Estate Agents
- L77301 Holder Investor Farm Animals
- L77309 Non-Financial Asset Investors nec
- L77410 Motor Vehicle Hiring
- L77420 Other Transport Equipment Leasing
- L77430 Plant Hiring or Leasing
- L78100 Scientific Research
- L78210 Architectural Services
- L78220 Surveying Services
- L78230 Consultant Engineering Services
- L78290 Technical Services nec
- L78310 Data Processing Services
- L78320 Information Storage and Retrieval Services
- L78330 Computer Maintenance Services
- L78340 Computer Consultancy Services
- L78410 Legal Services
- L78420 Accounting Services
- L78510 Advertising Services
- L78520 Commercial Art and Display Services
- L78530 Market Research Services
- L78540 Business Administrative Services
- L78550 Business Management Services
- L78610 Employment Placement Services
- L78620 Contract Staff Services

- L78630 Secretarial Services
- L78640 Security and Investigative Services (except Police)
- L78650 Pest Control Services
- L78660 Cleaning Services
- L78670 Contract Packing Services nec
- L78690 Business Services nec