

**Hutt City
is poised
to take advantage
of the technological
revolution**



HUTT CITY
COUNCIL



City outlook

Message from Mayor John Terris, QSO, JP

It is pleasing to see that in this first City Outlook, Hutt City is poised to take advantage of the technological revolution that has already positively affected the United States economy.

The City has long had a substantial presence in high-end manufacturing, as well as in research and development facilities. There is also a growing software development industry. Added to these are efficient communications and distribution networks, and proximity to several tertiary education institutions.

It is unfortunate that over the last five years growth in the manufacturing industry – the biggest industry in the city – has been half of the national average. The key to turning this performance around will be to combine Hutt City's various strengths, encouraging co-ordination between researchers, manufacturers and infrastructure providers. Council is already working to address this.

Hutt City has a relatively young and ethnically diverse population. Young families are drawn here because of reasonably priced housing, recreational opportunities and proximity to major employment centres. A high skill base means that city residents are, on average, reasonably affluent.

Hutt City's population has been static for nearly fifteen years. The manufacturing sector has previously struggled to grow and this may constrain our economic growth in the short-term. However, high-end manufacturers are expected to be amongst the fastest growing businesses in New Zealand in future years and the research and education sectors will be the focus of government initiatives to develop the 'knowledge economy'.

The overall outlook is for economic growth somewhere below the national average (and on a par with the average for the Wellington Region) over the year to March 2001. With improved co-ordination amongst key players in the local economy, Hutt City's growth rate will more closely match the better national outcomes predicted.

I invite you to read this analysis more closely in the following pages, and see why I am so proud of our city.



John Terris
Mayor
Hutt City Council

the people

population

and labour market

An overview

Hutt City had 98,200 residents in June 1999, making it the second largest city in the Wellington Region. However, the population has remained static since 1986.

It is a city of young families with a high proportion of residents under ten years of age (16.6%) and a correspondingly high proportion of people (many parents) in the 20-40 age bracket (31.9%).

Young families are attracted to Hutt City by a combination of:

- Lower house prices than neighbouring Wellington City
- Proximity to employment and services, both in Hutt City and in Wellington City
- Proximity to recreational areas (parks, swimming pools, the Hutt River and so on)
- Larger sections and houses providing a more suitable environment for children.

Having more children is often associated with a greater degree of economic hardship, but this does not appear to be the case here. The average resident has a higher individual income than the average New Zealander. Hutt City residents are over-represented in all income brackets above \$20,000 and under-represented in income brackets below that. Many residents are employed in Wellington City's high-wage government and business/financial sectors, partly explaining why incomes are so high.

Recent employment movements

Over the year to March 1999, the number of people employed by businesses located in Hutt City rose 4% to 37,510. Employment by businesses located in the whole of the Wellington region rose 1%, and national employment was unchanged over the same period.¹

Employment rose strongly in the service sector, especially in the business and financial services sector. This was not the case nationally.

Employment fell in the important manufacturing sector and in the electricity industry. This was the case nationally.



¹ Figures do not include agricultural employment, which in any case amounted to just 70 people in Lower Hutt when last measured in 1998.



the structure of the economy

The sectors of Hutt City's economy that employ the most people are:

- Community, social and personal services (26% of all jobs as at February 1999)
- Retail trade, wholesale trade, hotels and restaurants (22%)
- Manufacturing (20%)
- Business and financial services (14%)

The sectors that contribute most of the city's total gross regional product (total value-added) are:

- Manufacturing (21% of total value-added in the year ended March 1999)
- Community, social and personal services (16%)
- Business and financial services (15%)
- Retail trade, wholesale trade, hotels and restaurants (14%)

Hutt City's economy is differentiated from the New Zealand economy by a greater relative presence in:

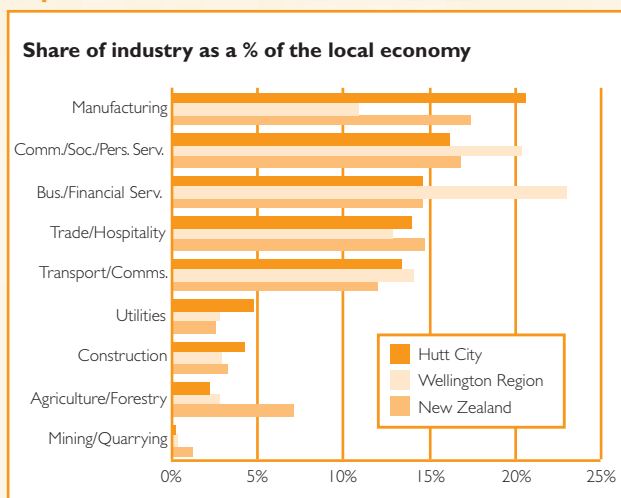
- manufacturing
- transport and communications
- electricity and gas retailing
- construction

Compared to the rest of the Wellington Region, Hutt City has a larger relative presence in most of these sectors, but a vastly smaller relative presence in:

- community, social and personal services
- business and financial services

In the following sections, the sectors of importance to Hutt City's economy are considered in detail.

Important industries



Source: Infometrics estimates based on Statistics NZ National GDP and Annual Business Directory Update data

sectors of most importance:

Manufacturing

Hutt City is the only part of the Wellington Region where manufacturing's share of total Gross Domestic Product (GDP) exceeds the national average.²

Hutt City manufacturing employment

Full-time equivalents, February 1999	Hutt City	% of total	NZ	% of total
Fabricated Metal products, machinery and equipment	2337	32%	65558	28%
Petroleum, coal and basic chemical manufacture	1498	20%	18895	8%
Food, beverages and tobacco	997	14%	62170	27%
Pulp and paper products, printing and publishing	806	11%	23883	10%
Textiles, clothing and footwear	588	8%	21115	9%
Wood and wood products	354	5%	25471	11%
Non-metallic products	348	5%	7120	3%
Basic metal products	320	4%	6070	3%
Other manufacturing	79	1%	3760	2%
Total manufacturing	7327		234042	

Source: Statistics NZ Annual Business Directory Update

Hutt City has a broad representation of businesses in most parts of the manufacturing industry, although compared to other parts of the country, it is characterised by a mix of high-technology industries:

- Chemical manufacturing
- Metal building materials
- Electronics

With the exception of some tobacco and wool processing, there is very little basic primary product manufacturing.

The mix of manufacturing in the city bodes well for the future, because high-technology manufacturers are, on average, expected to be the fastest growing in New Zealand in coming years. The United States experience over the last decade suggests this is a promising area – the fastest growth of any industry occurred in electronics and industrial machinery manufacturing, both of which are strongly represented in here.

However, a look at recent history does not inspire confidence. Hutt City's manufacturing GDP has increased at only half the rate of New Zealand's over the last five years, and that in turn cannot hold a candle to the United States industrial expansion. Why has Hutt City not matched the American performance, or even New Zealand's?

Firstly, manufacturers suffered from a high real exchange rate over the mid-1990s, driving up the price of exported products to foreigners and acting to reduce sales. But this was no more the case here than elsewhere in New Zealand. The reasons for sluggish growth must therefore lie elsewhere.

The fact that a small number of large-scale manufacturers dominate some parts of the industry may be one explanation. If one of these businesses fails, leaves the city, or generally performs poorly it will have a major effect on total manufacturing production.

A lack of marketing and management expertise may also have contributed to poor performance in the manufacturing sector. It is certainly not unheard of that an engineer produces a high-quality product but is not particularly gifted at mass-producing or selling it.

A third possibility for the slow rate of growth in manufacturing is that there has been less than perfect co-ordination between researchers, educators, manufacturers and infrastructure providers.

Hutt City has a strong research presence and its telecommunications and transport infrastructure appear strong. Education appears to be a weak link, with anecdotal evidence that it is hard to attract skilled workers, but this on its own does not appear to explain low growth (there is a skills shortage nationwide, not just in Hutt City).

Perhaps then it is the links between the sectors that have been the problem. The Wellington Region Economic Forum in 1998 looked at economic development issues. One of

² This assumes that the Masterton, Carterton and South Wairarapa are taken to be a single "Wairarapa" area, as is generally the case.

the conclusions of that seminar was that “competition” between important players in the economy would be positive.

Prospects for the future depend largely on whether the obstacles of the last five years can be overcome. Clearly, the small scale of manufacturing in Hutt City (meaning that a small number of big players have a dominant influence on total production) will not be easily rectified in the short term. Development finance recently promised by the Labour government may be of some assistance in turning small manufacturers into medium-size or large manufacturers, but such policies take time to implement and even longer to bear fruit.

A possible lack of management or marketing skills, however, can potentially be fixed quite quickly. This may involve looking further afield than just Hutt City. Bringing in outside expertise from neighbouring Wellington City or even further afield is a possibility.

As for co-operation between different sectors in the local economy, the need for this has clearly been recognised.

In summary, the outlook for Hutt City manufacturers is relatively positive. The mix of high-technology manufacturers in the area is favourable, and its manufacturers have the potential to be amongst the fastest growing in the country over the longer term. However, because it will take some time to implement new management techniques and to obtain necessary cross-industry efficiencies, and because of the small scale of the local industry, growth here is unlikely to catch up to the national average within the next two years.

Research

Scientific research organisations employ a far higher percentage of all workers in Hutt City than they do nationally.

The government dominates scientific research in the City, as it was home to part of the former Department of Scientific and Industrial Research. When that organisation was split into a number of competing Crown Research Institutes, the City retained several.

They are:

- IGNS (Institute of Geological and Nuclear Sciences)
- Industrial Research Ltd, specialising in high-technology product development
- ESR (Institute of Environmental Science and Research Ltd).

Further research expertise is available in neighbouring cities. There are also a number of tertiary education institutions within the Wellington Region that are able to undertake or support research. The proximity of all these resources gives the research sector a critical mass in the region and supports the researchers based in Hutt City.

Over the year to February 1999, 90 jobs were lost in the sector in Hutt City, compared to 570 nationally, so the city is in step with national trends.

The new government has indicated it will provide additional funding for the research sector as part of its industry development policy. It may also make research and development an expense (reducing the tax payable on profits) and remove the requirement for Crown Research Institutes to make a profit.

The policies, while unlikely to have a major impact in the short term, will eventually cause this sector to expand.

Telecommunications and post

This is the fastest-growing industry in the City. The sector has grown faster locally than nationally, as well as faster than in the Wellington Region as a whole. The share of local employment in telecommunications is high (4.4%) compared to the national average (2.0%).

Major players in this sector currently include New Zealand Post and Saturn Communications, both based in Petone. There are also a number of private courier companies situated in the city.

The presence of Saturn Communications in the city has clearly been a driving factor in telecommunications output, but this industry has been growing fast throughout New Zealand and the rest of the developed world over the last decade. Increased data traffic as households and businesses embrace Internet communications, and the adoption of cell-phone technology, explain why.

Hutt City will need to rely on the trend to more digital communication continuing in the future.

Other sectors of interest:

Software development/other IT

Hutt City is home to a small but fast-evolving cluster of software developers. 2.5% of the City's employment was in this industry in February 1999, double the figure for New Zealand and higher than the figure for Auckland City. (Wellington City has a marginally higher share of total employment in this area: 3%.)

The rapid development of computer technology has created opportunities for businesses to reduce costs and improve productivity. Software development is at the heart of these opportunities and the relatively immature state of technology means that there will be considerable scope for expansion in the industry in coming years. The existing skill base in the Wellington Region means that some of that expansion can be captured within Hutt City. The key to maximising that capture, as in the manufacturing industry, will be to ensure liaison between key sectors and to embrace marketing and management expertise.

Electricity and gas

Hutt City is home to nation-wide power and gas retailer TransAlta, explaining the over-representation of this sector in the city compared to the national average.

Nationally, this sector is predicted to have little or no growth in the immediate future. Output in the electricity sector has been shrinking, although the presence of a major player has boosted Hutt City's growth over the last five years. Tight competition in the retail market will constrain further increases in the city.

Construction

A sizeable number of building tradespeople and their associated wholesale and retail suppliers have their home in Hutt City. The majority of building activity in the Wellington Region takes place in Wellington City (with the Kapiti Coast the next biggest source). Very little building is actually done in Hutt City.

Likely reasons for builders, plasterers and drain-layers living away from the area where most of their work is:

- Close proximity to Wellington City
- Costs of living are lower in Hutt City
- Business costs are lower in Hutt City



overall outlook for growth

Hutt City's Gross Domestic Product will grow at about the same rate as the Wellington Region's over the next two years, which means that it will grow more slowly than New Zealand's. This is despite the City being well represented in those industries that are expected to grow fastest at a national level.

The key reasons why growth is predicted to lag behind the national average are:

- Parts of the city's manufacturing industry are still dealing with structural problems that have prevented growth from reaching its full potential in recent years
- The telecommunications sector is about to see its major player, Saturn Communications, relocate out of the City (although remaining in the Region).

However, this is a city that has all the resources required to embrace the technological revolution. Quality research facilities, manufacturing expertise, a growing IT sector and adequate supporting infrastructure. Longer term prospects are therefore for growth to catch up with and surpass the national average, conditional on good co-ordination between different sectors in the economy and appropriate management and marketing skills.

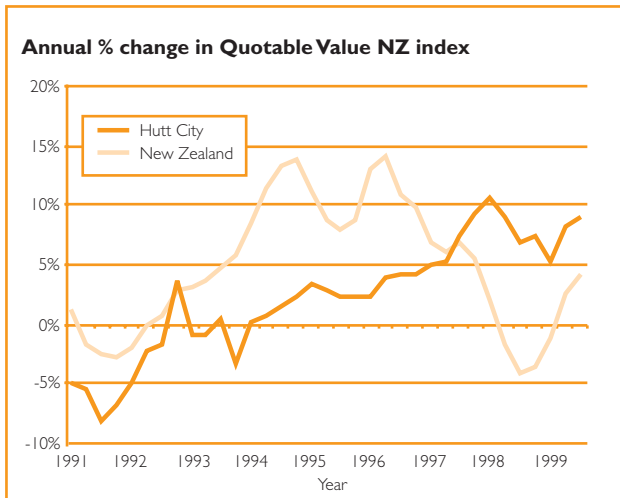


the building and property market

Housing

Recent times have seen a change in fortune for investors in the Hutt City housing market.

Hutt City house prices



Source: Statistics NZ Building Consent Statistics

As population estimates show the number of people in the city is not rising, demand for accommodation should not be either.

Possible reasons for the positive performance in recent times include:

- The median Hutt Valley house price was \$11,000 lower than the median New Zealand house price in November 1999, and yet the income of residents was higher than the national average. The potential for good rental returns may be driving up demand for investment property.
- Building activity has been slow in Hutt City since the early 1990s. On average, only 11 new houses per month are constructed. There has been a small increase of late, but not enough to affect the conclusion that the stock of housing is increasing only slightly if at all. A constrained housing supply in Hutt City is boosting prices.

The static population logically implies house prices should not increase by more than the general rate of inflation. Hutt City housing may have been undervalued to begin with because of lower house price increases until 1997.

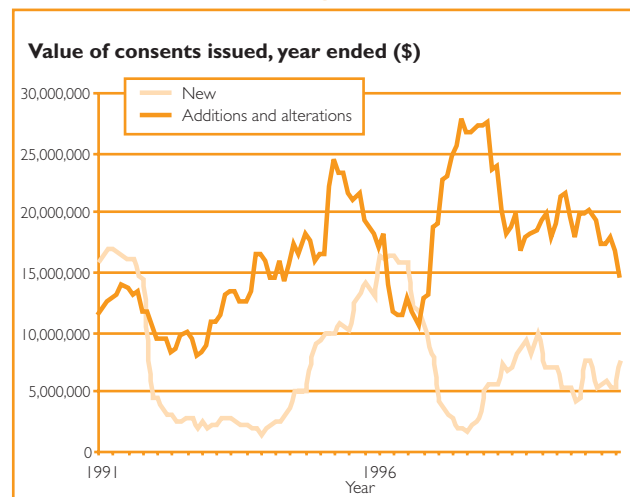
The likely outlook for the future is therefore for a gradual slowing of house price inflation.

Commercial building

Since a spurt of new building in 1996 and a run of alterations and additions to existing buildings in 1997, commercial construction activity in Hutt City has fallen away somewhat.

Increasing retail competition from other parts of the Wellington Region is likely to have dampened the demand for new retail complexes in the city, while the relatively small size of the city's business and financial services industry means that the need for major office projects is limited. In the industrial sector, slow growth in manufacturing is responsible for few new major factory-building activities.

Hutt commercial building activity



Source: Statistics NZ Building Consent Statistics

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Internet Version: This document is also available on the Hutt City Council's website at <http://www.huttcity.govt.nz>

We welcome your feedback or further information on the City economy, to help us improve future editions of City Outlook. Please contact the Developers Policy Section of the Hutt City Council Private Bag 31912 Lower Hutt or telephone 04 570 6920.