



**2024**  
**Q3 & Q4**

## Auckland's economy: taking stock

Five observations on Auckland's economy and their policy implications



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### Summary

- Auckland has been affected by the economic downturn in 2024
- The population increased, despite a net loss to other regions
- Housing affordability hinders retention and attraction of skills
- While relatively productive nationally, Auckland's low GDP premium suggests scope to improve
- The rise in remote working may reduce the cost to access work

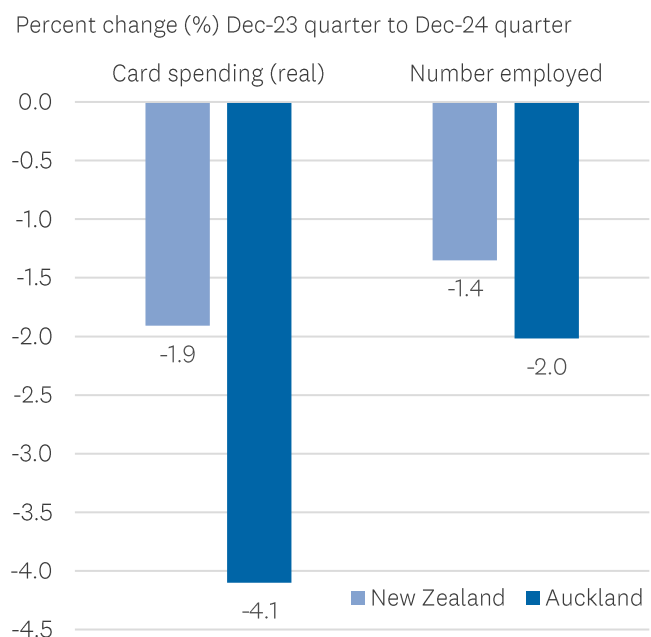
2024 was challenging for many Auckland businesses and households, with high interest rates dampening spending and investment. Those rates were underpinned by the Official Cash Rate being held high for much of the year to reduce inflation. Reflecting on the data, here are five observations on Auckland's economy.

### 1. Feeling the cycle

Nationally, economic activity contracted in mid-2024 and on some measures Auckland appeared more affected. Figure 1 shows card spending for the December quarter was down 4.1% in real terms on the prior year, compared to a 1.9% decline nationally. Employment in Auckland was down 20,000 or 2.0% lower, versus 1.4% nationally.

Auckland may be more sensitive to higher interest rates given its elevated house prices and household debt. Conversely, economic activity in Auckland tends to surge in an upturn, benefiting from its scale and international connectedness. Looking ahead, the recent interest rate cuts suggest a gradual pick-up in activity in 2025. This highlights how most public policy decisions to need look beyond near-term fluctuations and focus on trends.

Figure 1: Change in card spending and employment



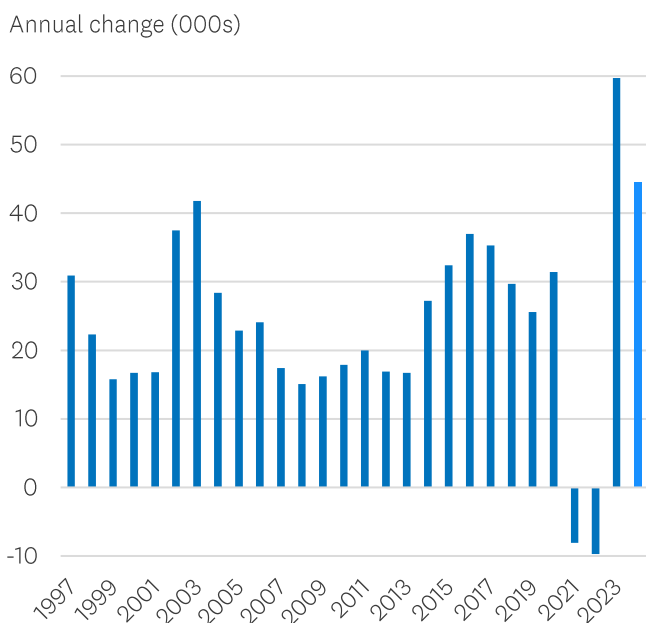
Sources: Stats NZ electronic card transaction data, Household Labour Force Survey; MarketView card transaction data

## 2. Auckland is still growing

Auckland’s population grew by 44,600 people, or 2.5%, in the year to June 2024, according to Stats NZ. That increase is the second highest on record, as Figure 2 shows. It confirms the population has been growing again after the disruption of the COVID-19 pandemic.

A growing population increases demand for goods and services while also expanding the labour supply, which supports economic growth. However, population growth can also put pressure on infrastructure. This highlights the importance of effective policies for growth, including using pricing to get more from infrastructure networks and to incentivise efficient growth, allowing urban land to be used more productively, and prioritising spending towards projects with the best value for money.

Figure 2: Annual change in Auckland’s population



Source: Stats NZ; estimated resident population

## 3. Productivity questions remain

Auckland contributed \$149 billion, or 38%, to national GDP in the year to March 2023, according to provisional data released in 2024. While GDP data has a lag and is subject to revision, it reveals trends in productivity – how much more is produced from our resources over time.

For instance, Auckland’s GDP per capita was \$86,700, about 15% above the national average of \$75,300. That premium reflects Auckland’s density and scale, which enable ease of access, knowledge sharing, business specialisation, and economies of scale in infrastructure.

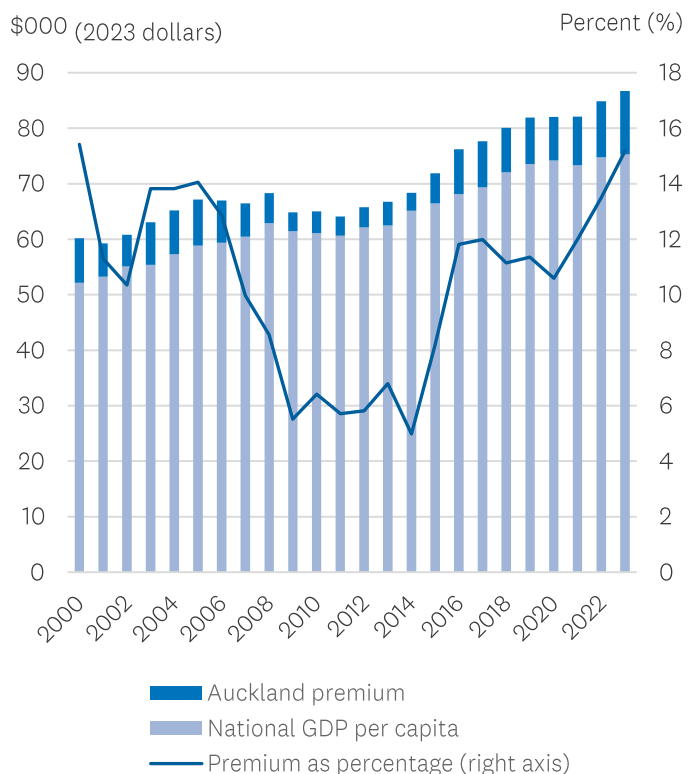
<sup>1</sup> A sample comprising: Austria, Belgium, Denmark, Finland, Ireland, South Korea, Norway, and Sweden

Auckland’s GDP per capita premium has fluctuated and is now similar, in percentage terms, to what it was at the start of the century, as Figure 3 shows. However, primary cities in prosperous small-to-medium size economies typically have a premium that is a quarter to a third higher than their national average.<sup>1</sup> This raises the question of whether Auckland could be doing better.

New Zealand has had low productivity growth and addressing this is critical to improving living standards, as the Treasury has noted.<sup>2</sup> Reasons for this may include a small domestic market, low capital intensity, the slow diffusion of innovation, low savings and a high exchange rate. Auckland’s performance also requires attention, as a boost to national productivity seems unlikely unless Auckland improves too.

The government is responsible for key policies on human capability, the business environment, and international connections. Auckland Council’s land use and transport policy settings also affect productivity by shaping where households and businesses can locate, and how people and goods can move around. This highlights the need for decisions on these policy settings to be informed by advice on their productivity implications.

Figure 3: Real GDP per capita with Auckland premium



Source: Stats NZ; regional GDP

<sup>2</sup> ‘The productivity slowdown: implications for the Treasury’s forecasts and projections’ New Zealand Treasury Paper, 2024;

## 4. Competing for skills

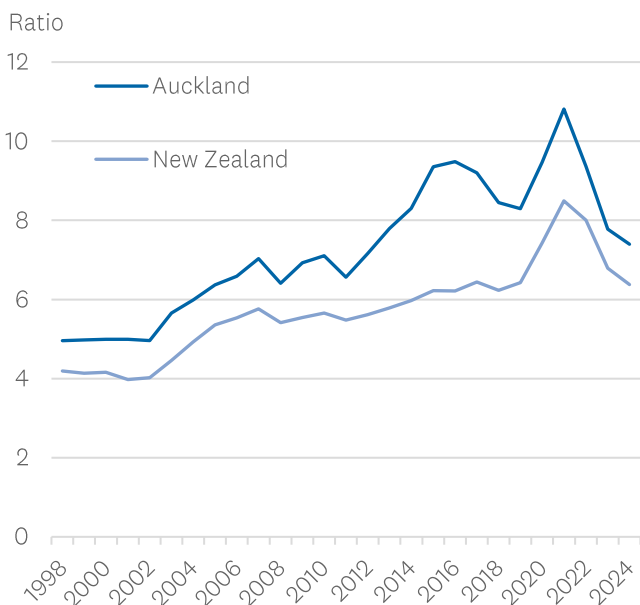
Cities compete to attract and retain people, businesses and investment. Income levels and housing costs are key to retaining and attracting skilled people, along with urban and natural amenities. As such, the affordability of housing matters for Auckland’s competitiveness.

In 2024, Auckland’s ratio of median house price to median household income was 7.5 whereas the national ratio was 6.4, as Figure 4 shows. The gap has closed a bit since 2016 when Auckland’s ratio was 9.5, or 50% above the national ratio of 6.2. Even so, if Auckland still had a ratio of 5 – as it had in 2000 – the median price would be around \$680,000 instead of \$1 million.

Auckland’s relatively poor housing affordability makes it harder to retain skilled people. While Auckland is growing, due to international migration, there are large international outflows and an annual net loss to other regions averaging 10,000 people in recent years.

Improving housing affordability is key to retaining more skilled people, especially mobile young people. It will require land-use policies to enable more flexible use of urban land, to allow more homes – and more choice – in high-demand locations near jobs and transport options.

Figure 4: Ratio of median house price to median household income, Auckland and New Zealand



Sources: Stats NZ; HLFS; REINZ

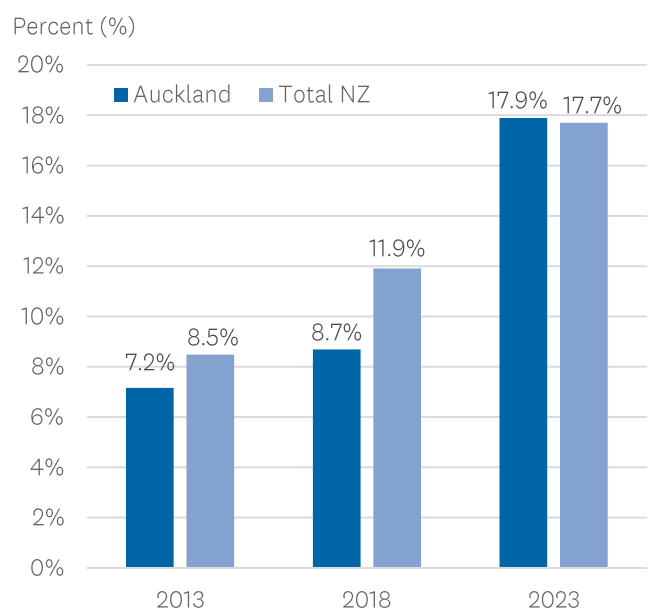
## 5. The rise of remote working

The uptake of remote working sped up with the COVID-19 pandemic. Census data released in 2024 shows 17.9% of workers in Auckland mostly worked from home in 2023, double the 8.7% seen in 2018, as Figure 5 shows.

The option to work from home can reduce travel time and cost for workers and improve work-life balance and job satisfaction. Businesses with hybrid working models may be able to reduce their floor area. However, shifts in where work is performed can alter spending patterns and affect businesses that rely on worker patronage.

The outlook for remote working will depend on whether it suits both businesses and workers. Not all roles can be done remotely, and businesses must prioritise their productivity. Still, lowering the cost of accessing work may support labour force participation, skill retention, and productivity. Any further shifts are likely to be gradual and occur within a growing population, which suggests the role for policy is one of ongoing monitoring.

Figure 5: Proportion mostly working from home



Source: Stats NZ; Census data

## Take-aways

Auckland was affected by the downturn in 2024. The population grew, despite a net loss to other regions. Poor housing affordability continues to hinder retention and attraction of skills. While relatively productive nationally, Auckland’s GDP premium is still lower than other primary cities, suggesting scope to improve. The rise in remote working may reduce the cost of accessing work.

Of these issues, the challenges of population growth, poor housing affordability and low productivity are interrelated and amenable to policy responses. Allowing more flexible use of existing urban land, using pricing to get more from infrastructure networks and to incentivise efficient growth, and prioritising on the basis of best value for money would all lead to better outcomes.

# Economic commentary

James Stewart – Economist

The recent economic downturn has been apparent in quarter-on-quarter contractions in national GDP in June (-1.1%) and September (-1.0%). The Treasury’s half-year update in December showed a weaker economic outlook.

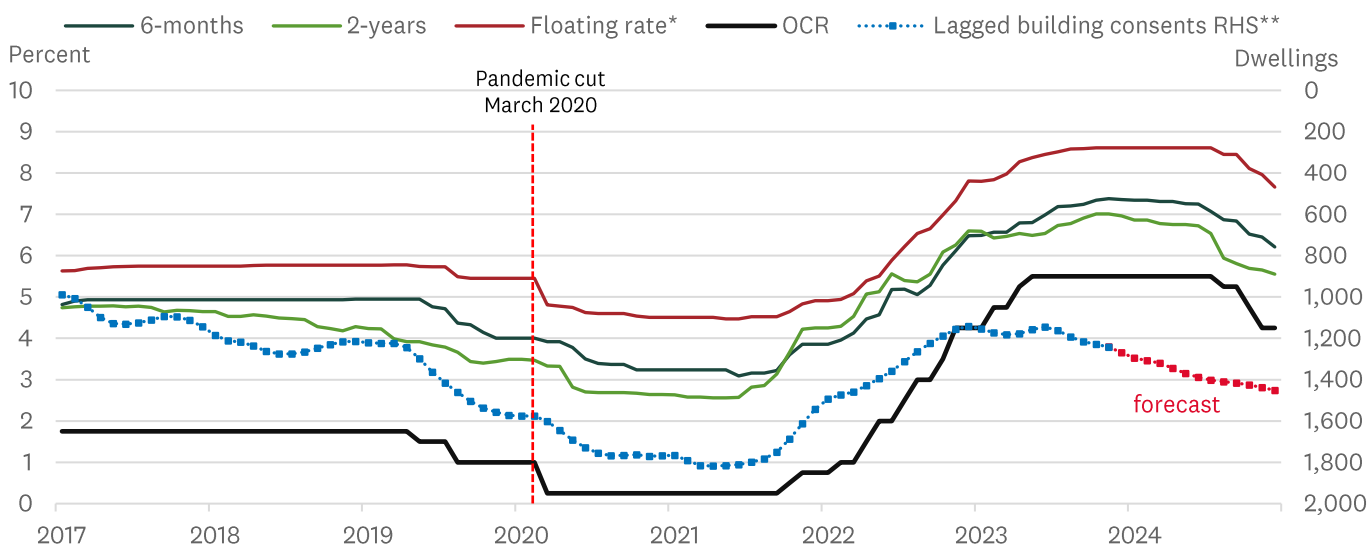
Headline inflation has eased and is back within the target band of 1-3%, with annual CPI inflation in the December quarter remaining at 2.2%. The Official Cash Rate (OCR) was cut by 50 basis points on 19 February, as widely expected, from 4.25% to 3.75%. The Reserve Bank is signalling further OCR reductions in the near term on the back of low inflation and weak conditions.

Business sentiment is improving, with the December Quarterly Survey of Business Opinion finding a net 9% of firms expecting conditions to improve in coming months – up from -4% in the prior quarter. Refinancing data shows owner-occupiers are choosing shorter fixed mortgages or floating rates, in anticipation of OCR cuts.

## Interest rates and residential construction

Interest rate fluctuations have a strong influence on the appetite of households and developers to proceed with new housing projects. The recent cuts in interest rates point to building construction picking up during 2025. Building consents are a good indicator of construction, as nearly 95% of consents for new homes are completed.

Figure 1: Residential mortgage rates and dwelling consents



\*Floating rate is non-special rate

\*\*Building consents lagged 12-months, seasonally adjusted and inverted

Special rates are lower than standard rates but have specific lending requirements e.g., 20% deposit and salary direct credited to transaction account

Building consent forecast based on internal modelling by Chief Economist Unit.

Source: RBNZ, Stats NZ, Chief Economist Unit

Figure 1 shows retail interest rates for new residential mortgages and monthly building consents in Auckland on a seasonally adjusted, 12-month lag basis. The building consent axis (right hand) has been inverted to show the strong inverse relationship with interest rates. The cut in interest rates at the onset of the pandemic in March 2020 led to a surge in consents for new homes. As interest rates began to climb again from October 2021, monthly consents levelled off and began falling.

## Outlook for building consents

Auckland Council needs to forecast near-term building construction to inform building consent functions and revenue forecasts. The Chief Economist Unit has generated a forecast path of building consents for new homes in Auckland over the coming months. It factors in the interest rate outlook, historic building patterns, and underlying assumptions about growth in house prices, population, construction costs and rents.

The forecast indicates that monthly residential building consents will begin to pick up over the next 12 months as household demand improves. A total of 13,900 new homes were consented in the year to November 2024. Our forecast is for more dwellings to be consented in the year ending November 2025, in the range of 16,000-17,000. Auckland’s housing pipeline will be examined more closely in a forthcoming Insights Paper.