

Post-Covid-19 Auckland City-Centre Economic Impact Scenarios

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1.0 Purpose:

To outline three scenarios which provide a basis for considering the potential economic impact of the 'Covid-19 Threat' to the Auckland city-centre economy.

2.0 Introduction:

Along with the rest of New Zealand, the Auckland city-centre must contend with the Covid-19 pandemic as a rare event that will have profound effects on economic and financial systems globally. In April 2020 the Treasury published a series of economic scenarios¹ showing that the sudden switching-on of the Level 4 Covid-19 control measures and allowing for lesser control measures to last a full 12 months, would result in far-reaching impacts that exceed those from the 2009-10 Global Financial Crisis (GFC).

For the city-centre the GFC impacts were concentrated in the finance and property development sectors, but now it is experiencing the almost complete shut-down of economic activity in a broad range of industry sectors including retail, accommodation, arts and entertainment, rental/hiring services and local government community facilities. Along with displacement of a large share of commercial services and public sector staff and thousands of tertiary students. Border closures and strict internal travel restrictions have virtually eliminated international and domestic tourism visitors.

This report outlines three scenarios to describe the potential economic impact of the 'Covid-19 Threat' to the Auckland city-centre economy. The scenarios show how rates of change in city-centre GDP and employment levels over 2020-24 could track 'with and without' the Covid-19 impacts, based on:

- a Baseline Scenario A (based on a continuation of growth rates over the past decade, since the GFC), and;
- two alternative 'recovery' scenarios – B: Quick Recovery and C: Delayed Recovery.

The report makes no statement about whether Scenario B or C is most likely. Actual impacts will depend on central government decisions on the duration and parameters of alert levels and stimulus packages over the next several months.

The scenarios are not forecasts but provide a basis for considering the scale of potential economic impacts and options for mitigating or responding to the challenge faced by city-centre businesses, public sector organisations and residents over the next few years.

3.0 The Scenarios:

The three scenarios are explained and presented below (refer Figure 1):

SCENARIO A BASELINE

Based on a simple linear projection of the past trend rate of growth in the city-centre over 2009-19. This provides a counterfactual against which the economic impacts of the Covid-19 impacts can be assessed, by indicating what GDP and employment levels could have been in the year to March 2020 and going beyond to 2024. While reduced international tourism has been evident since the beginning of 2020 the baseline scenario makes no allowance for that.

SCENARIOS B AND C

Based on different starting points with respect to the duration of each of the four Covid-19 alert levels/contact restrictions over the next 12 months to March 2021. The duration starting points are consistent with two Treasury scenarios at the national level so as to allow cross-check comparisons to be made with their results and reveal how the impacts on the city-centre economy might vary from the national picture². Estimates of the share of city-centre activity that can work remotely/on-line differ from Treasury's assumptions (refer Attachment A). These starting points are the main cause of variation in the estimates of severity of economic impact.

New Zealand's system of Covid-19 Alert Levels range from 1-4, with 4 being the most severe (refer Attachment B for details of the alert levels). While Level 4 applied to the whole country over April 2020 and it is due to reduce for an initial two week period to Level 3 on 27 April 2020, uncertainty remains about what levels will apply beyond then.

FIGURE 1: AUCKLAND CITY-CENTRE SCENARIOS

SCENARIO	A BASELINE	B QUICK RECOVERY	C DELAYED RECOVERY
STARTING POINTS	<ul style="list-style-type: none"> GDP \$21,153m and 138,700 jobs in 2019³ Estimate growth over the next 4 years (2020-24) based on past trend rate over 10 years (2009-19) 	<ul style="list-style-type: none"> Lockdown has desired effect of containing the rate of spread Alert L4 maintained until end of April 2020: Non-essential businesses closed or working from home/on-line. Move to L3 for May 2020 and then Levels 2/1 for 10 months Contact restrictions and border closures relaxed from March 2021 58% of City-centre workers (83,700) able to work from home or in essential services under L4; 64% under L3 (92,750)⁴ City-centre GDP activity falls by 34% (less than Treasury estimate of 40%) under L4, and by 30% under L3 (more than Treasury estimate of 25%) Under L2 or L1 GDP falls in the range of 10-15% depending on sector 	<ul style="list-style-type: none"> Lockdown has delayed effect of containing the rate of spread Alert 4 or L3 maintained for up to 3 mths. each, and Levels 2/1 for 6 months over an elapsed period of 12 months Non-essential businesses closed or working from home/on-line during Levels 4 or 3 Contact restrictions and border closures relaxed from Mar. 2021 58% of City-centre workers able to work from home or in essential services under L4; 64% under L3 City-centre GDP activity falls by 34% (less than Treasury estimate of 40%) under L4, and by 30% under L3 (more than Treasury estimate of 25%) over a longer duration of lockdown Under L2 or L1 GDP falls in the range of 10-15% depending on sector
ECONOMIC IMPACTS	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Majority of retail, food & accommodation and public venues (courts, town hall, art gallery, etc.) mostly closed for 2 months Offices and education sectors mainly working from home until mid-2020 Construction occurs under Level 3 at reduced productivity or in split shifts Under Levels 2/1 the city centre is 'open for business' but 'closed to transmission'. Retail operations and offices have to manage social distancing and public contact Public transport picks up slowly from mid-2020 Majority of businesses and jobs retained, partly due to government support package but significant reduction in food, accommodation and retail operations Short-term spike in vacancy rates for retail & commercial premises over 2020-21 Gatherings of up to 100 people indoors and 500 outdoors allowed from June 2020 (while maintaining physical distancing and contact tracing). Restrictions on mass gatherings until Mar. 2021 Domestic tourism picks up from mid-2020 but border restrictions inhibit overseas visitors/students until after Mar. 2021 Government support package capped at \$20b 	<ul style="list-style-type: none"> 'Non-essential businesses' closed or working from home over 6 months total Many small retail and services businesses close down or shed staff Significant employment loss in city-centre Higher vacancy rates in retail & commercial premises persist into 2021-22 Some professional services firms re-negotiate/exit commercial leases or down-size (no longer able to hold on to all personnel or a large share prefer to work from home) Public transport use picks up slowly from late 2021 Public events/gatherings restricted until Mar. 2021 Domestic tourism picks up from early 2021 Overseas tourists and students can return from 'safe' countries after Mar. 2021; occupancy of hotels picks up Government support package capped at \$20b
ECONOMIC OUTCOMES	<ul style="list-style-type: none"> City-centre GDP est. \$22,426m in year to Mar.2020, and grows at rate of 4.6-5.8% pa to 2024 Total employment est. at 144,302 (Mar. 2020) and grows at rate of 3-4% pa to 2024 	<ul style="list-style-type: none"> Total GDP falls in year to Mar. 2021 to \$19,316m (-13.9%) City-centre jobs (full-time and part-time) fall in year to Mar. 2021 to 131,900 (by -8.6%) GDP and jobs get back to 2020 baseline level early in the Mar. 2022-23 year Normal growth rates resume in 2023/24 	<ul style="list-style-type: none"> Total GDP falls to \$17,685m in year to Mar. 2021 (-21.1%). City-centre jobs fall to 125,390 (by -13.1%) in year to Mar. 2021 GDP and jobs get back to 2020 baseline level in the middle of the Mar. 2022-23 year Normal growth rates resume in 2023/24

SOURCE: STRATEG.EASE LTD.

Key Conclusions:

Under the Scenario A baseline 'without Covid-19,' the city-centre's economy could have reasonably been expected to increase its GDP to \$23,735million (or 5.8%) and total jobs (full-time and part-time) to 150,470 (or 4.3%) in the year to March 2021;

Due to the city-centre's particular mix of essential and non-essential businesses and their varying ability to operate remotely/on-line city-centre GDP activity is estimated to fall by 34% under Alert L4, and by 30% under L3. The former is less than Treasury's national estimate of 40% at L4 and the latter is more than Treasury's estimate of 25% at L3. The reason being that a higher than average share of city-centre non-essential businesses can work remotely but shifting to L3 does not change anything much for those that can't. And while construction and manufacturing can resume under L3, these are not actually major sectors in terms of the way city-centre GDP is calculated. Stating the obvious, the city-centre has more to gain the quicker that the alert levels move out of Alert Level 3;

Based on assuming the same alert level assumptions as two of the Treasury's relatively moderate scenarios for the country as a whole, the city-centre could face a reduction in GDP of -13.9% to -21.1%, and a loss of jobs (unemployment) of -8.6% to -13.1% over the next 12 months.

Scenarios B and C imply that city-centre employment (full-time and part-time jobs) estimated at over 144,000 in 2020 will be set-back 4-5 years. Under Scenario B total jobs would be wound back to around 132,000 in 2021 (just above 2017's level of 130,000) and under Scenario C, it would be 125,400 (just under 2016's level of 127,100);

The more severe impacts associated with Scenario C compared to B, reflect that the longer the level 4 and level 3 restrictions apply, the greater the pause in economic activity with consequential business failures, layoffs, and supply chain disruption. An extension of wage subsidies and other forms of stimulatory support would buy more time, but a net loss in economic activity in the city-centre cannot be avoided when many suppliers of goods and services remain closed;

Scenarios B and C assume that different patterns of alert level will apply, and borders to both international and domestic travellers will remain closed or severely restricted for the full duration of the 12 month period. If those assumptions are relaxed so will be the severity of economic impacts. The city-centre might then track closer to the relatively more optimistic forecasts of the major banks of NZ GDP falling by -6-7%, and national unemployment rates reaching around 8-10% in 2020/21;

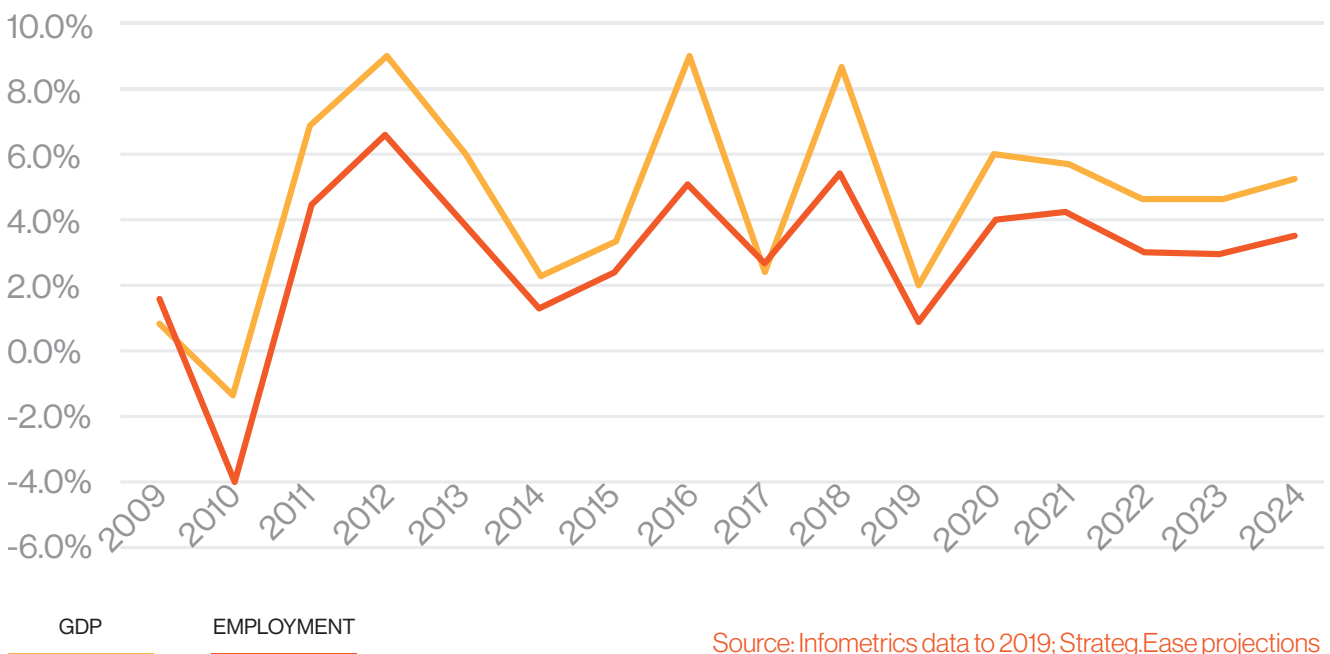
Like the Treasury scenarios, B and C are also 'V' shaped suggesting a relatively speedy recovery, after sharp declines in 2020/21. Even though the city-centre contains a high degree of so-called 'non-essential businesses' and retail and tourism activity has been hit-hard, its major professional services, finance, property, legal and education sectors can operate remotely to a significant degree. The city-centre can therefore avoid a deep shut-down and be resilient to worst case contractions in GDP and employment. That is why the Scenario C outcomes in GDP and employment terms are less severe than Treasury's Scenario 4 (e.g. a -21.1% decline in city-centre GDP compared to Treasury's -27.5% for NZ as a whole);

While during Alert Level 4 the distinction between essential and non-essential business was effectively a licence to operate, as we move through Levels 2 and 1 to 'none', for many businesses (including retail, food services, and arts and entertainment) that licence will instead be determined by the rate at which workers, students and visitors return to the city-centre and restore demand for goods and services.

4.0 How The Scenarios Compare:

Scenario A: Baseline

Figure 2: Auckland CBD GDP and employment annual rate of change 10 years to 2019 (and pre-Covid forecast to 2024)



Source: Infometrics data to 2019; Strateg.Ease projections

Scenario B:

Figure 3: Auckland CBD GDP annual change to 2024

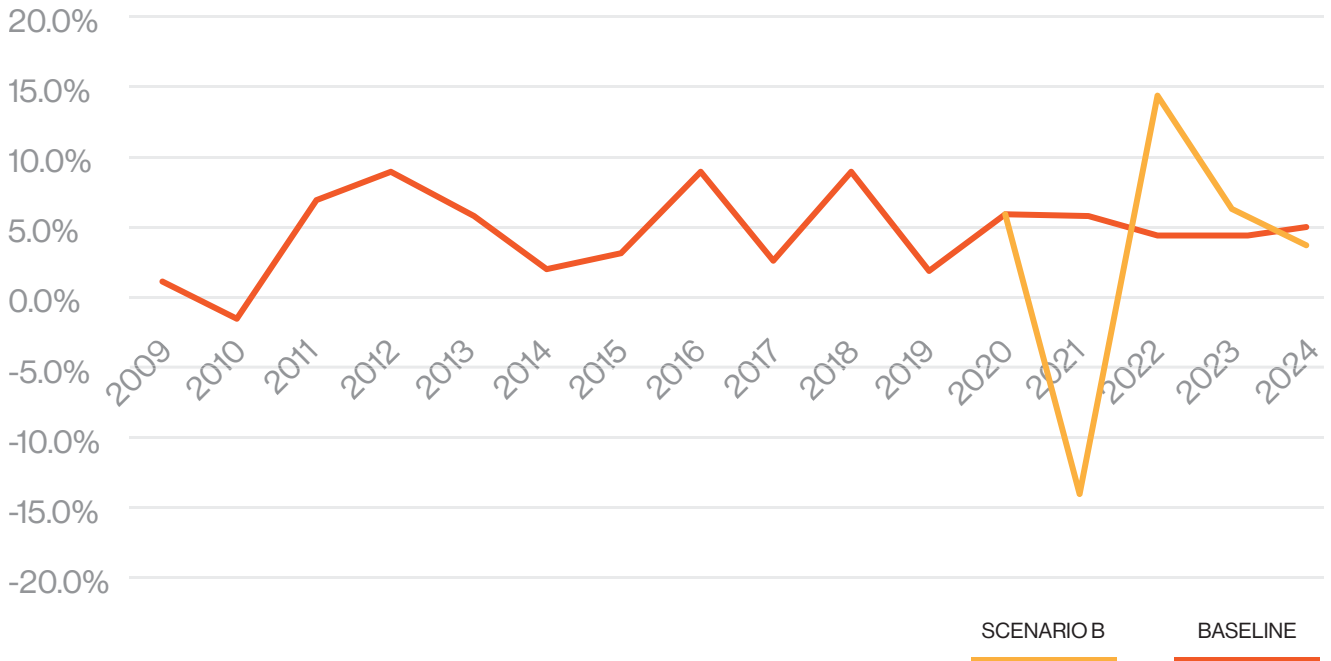
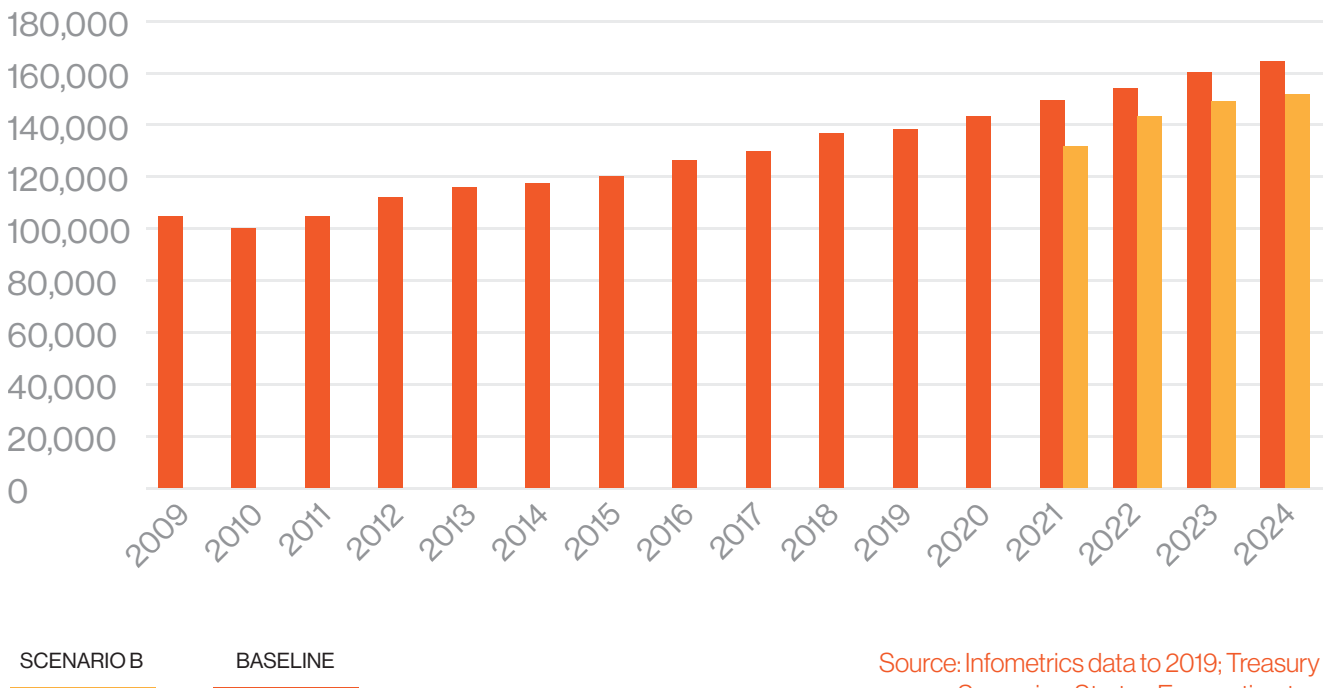


Figure 3a: Auckland CBD Total Employment: Baseline and Scenario B (estimates from 2020-2024)



Source: Infometrics data to 2019; Treasury Scenarios; Strateg.Ease estimates

Scenario C:

Figure 4: Auckland CBD GDP annual change to 2024

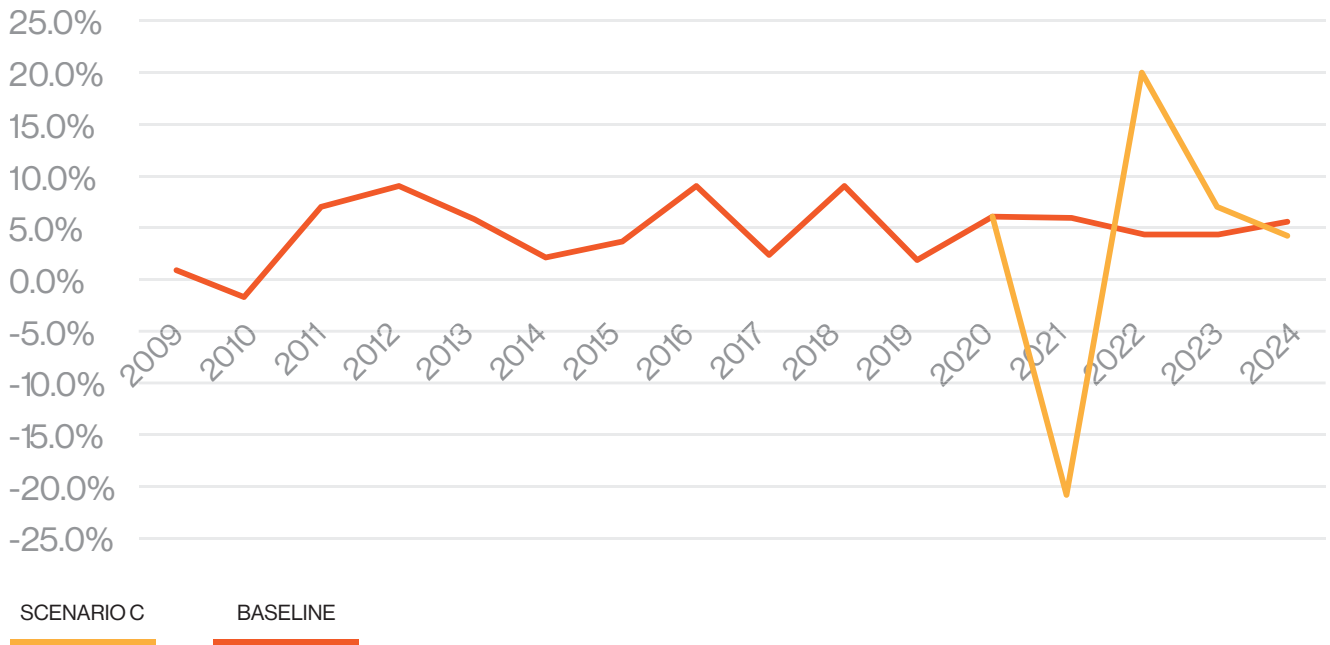
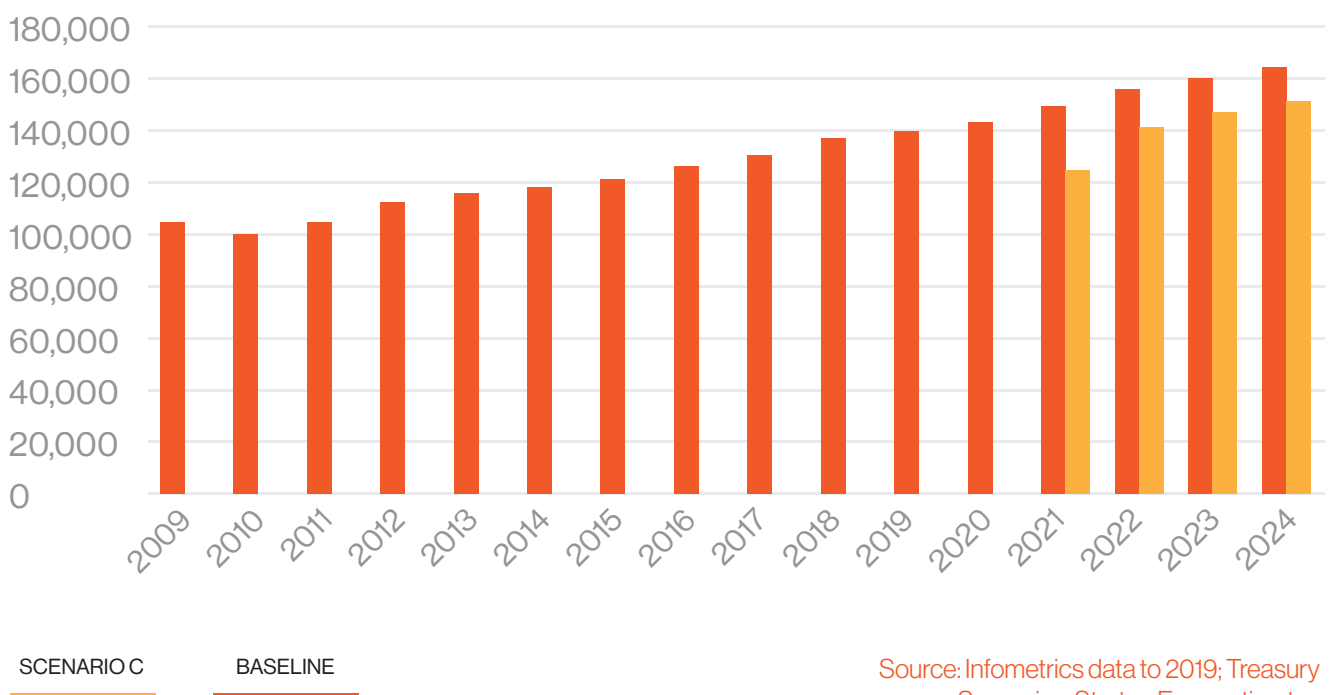


Figure 4a: Auckland CBD Total Employment: Baseline and Scenario B (estimates from 2020-2024)



Source: Infometrics data to 2019; Treasury Scenarios; Strateg.Ease estimates

Table 1: Scenarios B and C impacts on City-centre GDP (Year to Mar.2021)

	Scenario B	Scenario C
GDP (\$m)	\$19,316.2	\$17,684.5
Loss of GDP (\$m) ¹	\$3,110.0	\$4,741.6
Rate of change in GDP	-13.87%	-21.14%

¹ based on baseline estimate of \$22,426m in Mar. 2020

Table 2: Scenarios B and C impacts on City-centre jobs (Year to Mar.2021)

	Scenario B	Scenario C
Total jobs	131,895	125,391
Loss of jobs ¹	12,407	18,911
Rate of change in jobs	-8.60%	-13.10%

¹ based on baseline estimate of 144,302 in Mar. 2020

5.0 Upside and Downside Risk

Factors that could shift the outcomes of Scenarios B and C up or down are identified below. It is of course possible that a combination of both sets of factors could come to bear during the year ahead and cause the recovery to take on more of a 'U' shape, with a less steep and more gradual return to stable economic conditions.

FIGURE 5: SCENARIO UPSIDE AND DOWNSIDE RISKS

SCENARIO	B QUICK RECOVERY	C DELAYED RECOVERY
UPSIDE RISKS	<ul style="list-style-type: none"> Alert level 3 period abbreviated to less than 1 month, and levels 2 and 1 abbreviated to 3 months (so retail and education premises reopen but domestic travel/discretionary visits still discouraged) NZ ex-pats return from Australia and Europe in high numbers (and many seek to live and work in the city-centre) Domestic tourists substitute overseas holidays with stays in Auckland Tran-Tasman bubble enacted mid-2020 Contact restrictions and border closures relaxed earlier than March 2021 Government stimulus package increased by a further \$20b Retail operators adjust to on-line offering and successfully spread food services over the day/night to flatten peak demand Growth in demand in sectors such as ICT, education and business advisory services may offset some of the net loss in activity/jobs in other sectors 	<ul style="list-style-type: none"> Alert levels 4 and 3 abbreviated to 3 months total over 2020-21 Contact restrictions and border closures relaxed earlier than March 2021 International students, migrants and long-stay tourists favour NZ as a safe haven (and are willing to incur 2 week quarantine) from Mar 2021 Control success means no need to go back into alert level 4 after May 2020 Government stimulus package increased by a further \$40b Domestic tourists substitute overseas holidays with stays in Auckland Retail operators adjust to on-line offering and successfully spread food services over the day/night to flatten peak demand Growth in demand in sectors such as ICT, education and business advisory services may offset some of the net loss in activity/jobs in other sectors
DOWNSIDE RISKS	<ul style="list-style-type: none"> Control outbreaks push Auckland back to level 4 or 3 for some weeks late 2020 Overseas countries struggle to control outbreaks and border restrictions remain in place post Mar 2021 from traditional market sources (USA, Europe, Australia) Auckland resident visitors and city-centre workers are uneasy about returning to the city-centre until late 2020, even under alert levels 2 or 1 (which reduces the usefulness of stimulatory support to the city-centre) 	<ul style="list-style-type: none"> Overseas countries struggle to control outbreaks and border restrictions remain in place post Mar. 2021 from traditional market sources (USA, Europe, Australia) Auckland resident visitors and city-centre workers are uneasy about returning to the city-centre until early 2021, even under levels 2 or 1 (which reduces the usefulness of stimulatory support to the city-centre)



6.0 Next Steps:

The scenarios provide a guide to the range of potential impacts of the Covid-19 event and control measures on the city-centre economy. They also indicate there are a large number of unknowns, and emerging impacts will need to be tracked over time. The upside and downside risks should be monitored and may prompt taking action to reduce the negatives and accentuate the positives. HOTC will no doubt draw on other information at its disposal (e.g. retail sales data, property vacancy rates) and communication with member organisations to enhance its understanding of impacts, and inform consideration of options for mitigating and responding to them.

Attachment A: Data Sources & Assumptions

Auckland city-centre baseline 2019 GDP and employment figures sourced from Infometrics Ltd. (<https://ecoprofile.infometrics.co.nz/Auckland%20CBD>)

Projections to 2024 based on aggregate GDP and employment trend rates over 2009-19

Scenario B and C starting points for alert levels consistent with NZ Treasury Scenarios 1 and 4 respectively

NZ Treasury scenarios – Key results from Treasury modelling include:

Assumptions are made about the extent to which different industry sectors activity (GDP) is directly affected at each alert level based on the proportion of essential services in each industry and the extent of activity that is able to be conducted at home;

Most scenarios assume Government fiscal support measures remain at \$20 billion (but two scenarios 1a and 1b allow for increased support which reduces the negative impacts on GDP and employment);

Falls in modelled annual GDP are highest in the year to March 2021, and vary from a decline

of 13.5% in Scenario 1, the least restrictive of the scenarios, to closer to one third in the worst case Scenario 3 which involves tight restrictions throughout the year;

Peaks in the unemployment rate vary from 9.5% in Scenario 1 to nearly 24.5% in worst case scenario 3;

Economic growth resumes relatively quickly in either 2020 or 2021, but deep falls in international tourism are assumed to lead to 'services exports' still being around 10% below previously forecast levels at the end the forecast period (2024).

City-centre Scenario B and C estimates based on assumptions about the share of workers in different industries in the city-centre able to operate under alert levels either as essential businesses or remotely/on-line. The ratios are then applied to city-centre GDP values to indicate economic activity impacts as shown below:

TABLE 1: AUCKLAND CITY-CENTRE REAL GDP (MAR 2019) BY SECTOR WITH ESTIMATED ACTIVITY LEVELS UNDER ALERT LEVELS 4 AND 3

SECTOR	GDP (\$m)	Percentage share that can still work (L4)	GDP (\$m)	Percentage share that can still work (L3)	GDP (\$m)
Financial and Insurance Services	5,842.0	85	4,965.7	85	4,965.7
Professional, Scientific & Technical Services	3,696.0	55	2,032.8	63	2,328.5
Information Media and Telecommunications	2,852.0	90	2,566.8	90	2,566.8
Rental, Hiring and Real Estate Services	2,029.0	40	811.6	40	811.6
Unallocated	1,717.0	52	892.8	52	892.8
Transport, Postal and Warehousing	713.0	85	606.1	90	641.7
Public Administration and Safety	703.0	85	597.6	85	597.6
Administrative and Support Services	626.0	55	344.3	70	438.2
Education and Training	601.0	80	480.8	80	480.8
Arts & recreation	388.0	20	77.6	20	77.6
Food and accommodation	467.0	7	32.7	15	70.1
Retail trade	347.0	20	69.4	25	86.8
Wholesale trade	341.0	38	129.6	50	170.5
Health care and social assistance	264.0	95	250.8	95	250.8
Construction	233.0	20	46.6	90	209.7
Other services	187.0	10	18.7	15	28.1
Manufacturing	110.0	48	52.8	70	77.0
Utilities	24.8	100	24.8	100	24.8
Other	12.8	28	3.6	28	3.6
Total	21,140.8		14,005.0		14,722.5
Proportion			66.2%		69.6%

Attachment B: Description of Covid-19 NZ Alert Levels:

LEVEL FOUR THREAT: MINIMAL TRAVEL

Borders closed to international travellers other than to accommodate NZ residents returning or overseas residents leaving. People instructed to stay home and severely limit close contact with others outside the home. Schools and other educational institutions closed. Physical business premises closed with the exception of those providing essential services, including supermarkets, pharmacies and clinics. Healthcare services heavily reprioritised and domestic travel (private and public transport) severely limited.

LEVEL THREE THREAT: LIMIT TRAVEL, PUBLIC VENUES CLOSED, SOME SCHOOLS CLOSE

Borders stay closed. Travel limited in areas where there are clusters of infection or transmission. Schools and other educational facilities affected by the outbreak close, but there will not be wholesale closures of schools.

Mass gatherings continue to be cancelled, public venues closed, and the government will advise people to use alternative ways of working as well as the closure of some non-essential businesses.

LEVEL TWO: REDUCE CONTACT, LIMIT NON-ESSENTIAL TRAVEL, WORK FROM HOME

Borders open but strengthened (e.g. medical testing of arrivals from certain countries). Restrictions of mass gathering and advice to physically distance on public transport. The Government will also advise people to limit non-essential travel around the country, and for employers to encourage alternative ways of working, like working from home or in shifts. People considered to be at high-risk are advised to remain at home.

LEVEL ONE: PREPARE; MASS GATHERINGS CANCELLED, BORDER RESTRICTIONS

Borders open but not necessarily to all countries. At threat level one, the spread of the virus is believed to be contained, but the people are on alert to prepare for an outbreak. The Government may implement contact tracing, self-isolation and quarantine for new arrivals. Physical distancing still encouraged. Mass gatherings of over 500 people are prohibited.

Footnotes:

¹ Refer <https://treasury.govt.nz/system/files/2020-04/c19-4265378-t2020-973-economic-scenarios-v2.pdf>

² Scenario B is consistent with Treasury's best-case Scenario 1 and Scenario C is consistent with Treasury's Scenario 4, which is an intermediate scenario between Scenario 2 and the worst case Scenario 3.

³ Source Infometrics data <https://ecoprofile.infometrics.co.nz/Auckland%20CBD>

⁴ The L4 ratio of 58% is higher than Auckland Council's estimate of 52% for the region's workforce as a whole, reflecting the higher share of professional services sectors in the city-centre and other factors such as tertiary education being able to operate remotely. Refer <https://knowledgeauckland.org.nz/publications/auckland-economic-update-jobs-in-lockdown-april-2020/>.

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