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Q1 & Q2



Boosting Auckland's productivity

Drivers, barriers, and policy directions for impact



Gary Blick – Chief Economist
gary.blick@aucklandcouncil.govt.nz

Local policy choices can help boost Auckland's productivity. Three directions stand out.

- Enabling more productive use of urban land – to support more homes near jobs, transport, and services
- Using infrastructure pricing – to ease peak demand and support growth in efficient places
- Prioritising spending to deliver the most value – through greater use of cost-benefit analysis

Auckland is relatively productive, but could it do better? Stronger productivity growth is key to lifting wages and living standards – and local policy choices can help.

Why productivity matters

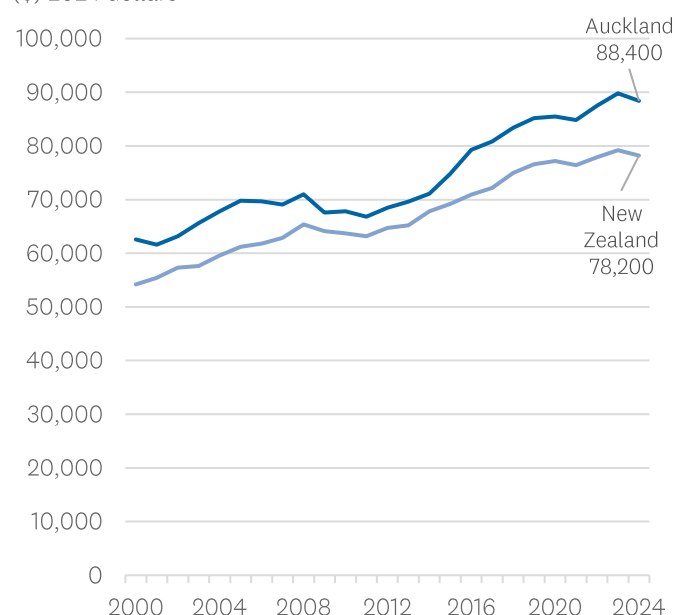
Productivity – the ability to produce more goods and services from the same resources – drives economic growth. Higher productivity means more output per worker, enabling higher incomes and living standards.

Gross domestic product (GDP) measures the economy's output and is part of tracking productivity. GDP doesn't capture everything we value and can be subject to time lags, but it reveals important trends over time.

So how is Auckland performing?

In the year to March 2024, Auckland's GDP was \$157 billion, or 38% of the national total. That's \$88,400 per person compared with the national average of \$78,200, as Figure 1 shows. Auckland's GDP per capita premium has ranged from 11–13% in recent years (2016–2024), similar to levels seen in the early 2000s after dipping to 5–9% between 2008 and 2015.

Figure 1: Real GDP per capita, Auckland and New Zealand
(\$) 2024 dollars



Sources: Stats NZ regional GDP data to March 2024; adjusted using CPI; Auckland Council Chief Economist Unit

Auckland's GDP per capita partly reflects its younger population and higher labour force participation. GDP per hour worked, which measures labour productivity, shows Auckland had a 9% premium over the national average in the year to March 2024.

What drives Auckland's productivity

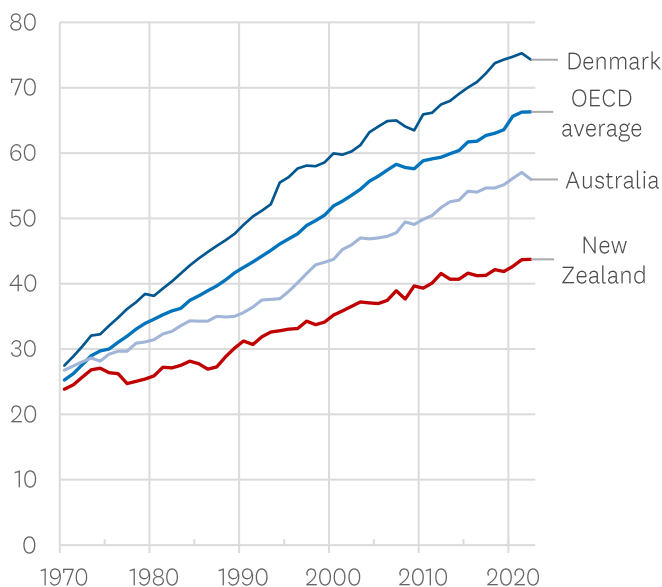
Auckland's premium partly reflects its strengths in highly productive industries. But even after adjusting for industry mix, Auckland businesses tend to be more productive than those in other New Zealand cities.¹ This points to the benefits of scale and density. When more people and businesses locate closer together, it's easier to share infrastructure and ideas. People can live near jobs and services such as shops, while businesses gain better access to workers and customers. Specialist services are more likely to emerge and attract skills.

Could Auckland be doing better?

While Auckland is relatively productive within New Zealand, the country overall lags its peers. As Figure 2 shows, New Zealand's labour productivity growth has fallen behind many OECD countries. Explanations include imbalances from low savings and reliance on borrowing offshore, low capital intensity, a small domestic market, and slow diffusion of innovation.²

Figure 2: Real GDP per hour worked, OECD comparison

GDP per hour worked (USD 2015, PPP)



Sources: OECD; Auckland Council Chief Economist Unit

¹ Maré, David C. 2016. *Urban Productivity Estimation with Heterogeneous Prices and Labour*. Motu Working Paper 16-21. Motu Economic and Public Policy Research.

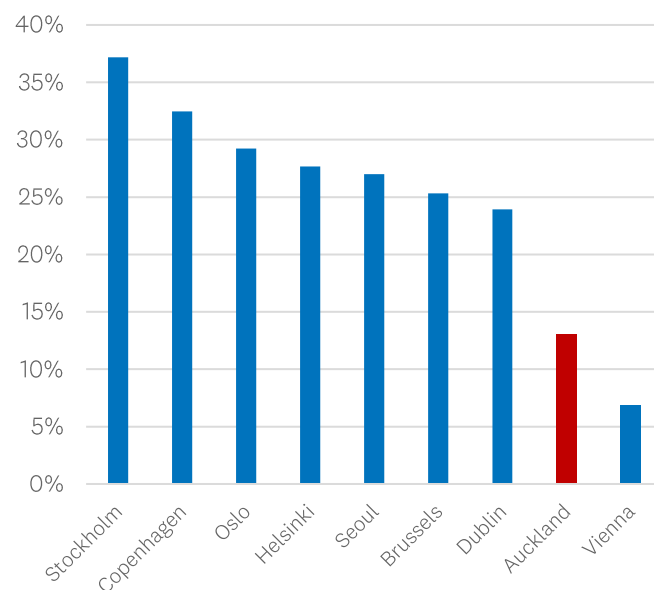
² Janssen John et al. 2022. *New Zealand's Productivity Performance*. New Zealand Treasury Analytical Note 22/05.

As New Zealand's largest city, Auckland plays a key role in national productivity. Yet it may not be realising its potential. In small-to-medium economies, primate cities like Auckland often have GDP per capita 25–35% above the national average, as Figure 3 shows.

A city's premium will reflect several factors, including its own productivity and that of other regions. Although not conclusive evidence, Auckland's relatively low premium of 13% raises questions about how well its advantages of scale and density are translating into productivity gains.

Figure 3: GDP per capita premium of primate cities

GDP per capita premium, 2021-22



Sources: Eurostat; Seoul Metropolitan Government; Stats NZ; Auckland Council Chief Economist Unit

Warning lights on the dashboard

What might be holding Auckland back? The evidence points to several constraints on how the region's people, capital, and land combine to drive productivity growth.

1. High housing costs drive away talent

High housing costs make it harder to attract and retain skilled workers. Poor affordability encourages people to leave for more affordable places, leading to skill loss. Research finds that restrictive land use in Auckland has contributed to rising house prices and reduced national GDP by 0.9–1.8%³ by limiting people's ability to live in Auckland where their productivity would be higher.

³ Nunns, Peter. 2019. *The Causes and Economic Consequences of Rising Regional Housing Prices in New Zealand*. Economic Policy Centre Working Paper No. 003

2. *Too much capital tied up in housing*

High land and housing prices distort investment choices. If house-price-to-income ratios had stayed at 2000 levels, today's median price would be around \$680,000 rather than \$1 million. More financial capital is now required for the same housing services. As housing absorbs more savings, less is available for productive investments.

3. *Dispersed growth raises infrastructure costs*

Restrictions on higher-density development in central areas push growth to the urban fringe. A more dispersed pattern of growth raises infrastructure costs, lengthens commutes, and underuses existing networks of roads, pipes, and public transport. It also means forgoing the well-documented productivity benefits of a denser, more compact urban form.⁴

4. *Congestion wastes time and restricts access*

Demand for road use often exceeds capacity, causing congestion that increases travel times and costs. This reduces productivity by limiting high-value business and freight trips and restricting access to jobs. The annual economic cost of congestion is estimated at \$0.7 billion per year, equivalent to almost 0.5% of Auckland's GDP.⁵

Policy directions for impact

Tackling these challenges requires local policy choices to get the foundations right – in land use regulation, infrastructure charging, and investment prioritisation. These policies shape how Auckland grows, where people live and work, and how people and goods move around. They can help attract and retain skills, enable more productive land use, and support efficient movement.

Three policy directions stand out for their potential to enable a more productive economy – outlined in the text (right). They share some important advantages.

- Foundational – they create the conditions for productivity growth across all industries and places.
- Cost-effective – they do not require major new spending; where investment is needed, it can be funded by revenue from charges.
- Clear mandate – they align with local government's core responsibilities. Councils already have – or soon will have – a legislative requirement to do them well.

This is not to overlook other policies that can influence region-wide productivity; however, many of these sit with central government – such as education, skills, and tax.

Policy directions to boost productivity

1. *Enable more productive use of urban land*

Enabling more housing in high-demand places gives people choices to live closer to jobs, transport, and amenities. This boosts productivity by reducing travel times, retaining skills, and improving job matching. Land use policy reform, such as the Auckland Unitary Plan, has supported more homes, better affordability, and less dispersed growth. Government direction to enable intensification near centres and rapid transit a chance to build on these gains and may prompt a reassessment of investment priorities.

2. *Use infrastructure pricing to manage demand*

Charges act as prices and influence people's choices, such as when to travel or where to build. By signalling the true cost of using or expanding networks, they can help ease peak demand or support development in efficient places. Upcoming reforms will enable new tools. Auckland Council will be able to apply time-of-use road charges to address congestion. Development levies could simplify growth charging and allow more use of averaging across areas; care is needed to avoid prices that subsidise and encourage growth in high-cost places. Clearer signalling of cost uncertainty before growth charges are set could also help guide market decisions, such as Private Plan Changes.

3. *Prioritise spending to deliver the most value*

With limited public funds and competing demands, prioritisation is vital. Cost-benefit analysis identifies proposals with the highest net benefit by weighing all costs and benefits, including productivity and wider impacts. Proposals that improve access and support density may boost productivity and rank well. This analysis clarifies trade-offs and helps decision makers maximise public value. Elected Members have clear expectations that advice includes evidence of costs and benefits being weighed up, especially for higher-value proposals.⁶ There are good examples of this already, with opportunities to extend this practice.

Good for Auckland, good for the country

A more productive Auckland means more intensive use of high-value land and more reliable transport networks. This would support better access to jobs, improved skill retention and higher wages. The benefits would spill over to other regions, through specialised services, knowledge sharing, supply chain gains, and higher tax revenues – all helping to lift living standards nationally.

⁴ Ahlfeldt, Gabriel M., et al. 2018. *Demystifying Compact Urban Growth: Evidence from 300 Studies from Across the World*. OECD Regional Development Working Papers No. 2018/03.

⁵ EY (2025) *Auckland's Cost of Congestion*

⁶ Auckland Council Long-term Plan 2024-2034, p.198

Economic commentary

A look at economic conditions in Auckland

Gary Blick
Chief Economist

James Stewart
Economist

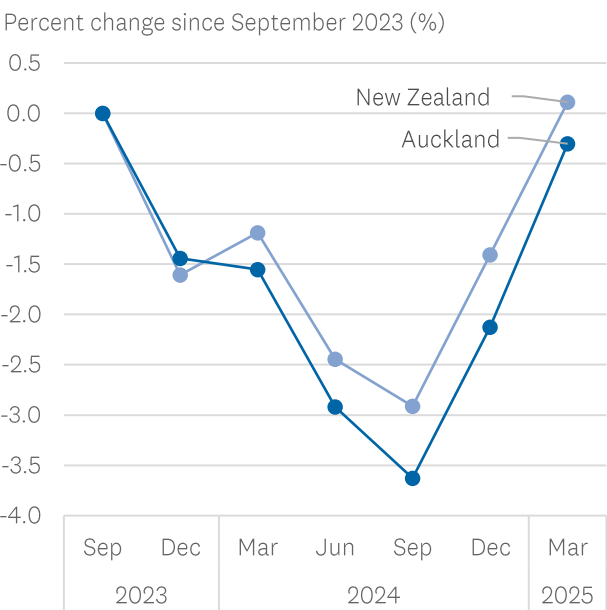
The expected recovery in activity in 2025 is taking longer to materialise, as consumer and business caution persists, the full effects of lower interest rates take time to flow through, and global trade uncertainty remains high. In Auckland, a mild uptick in spending contrasts with the labour market, where employment continues to decline.

An uptick in consumer demand

There are some early signs of a pickup in consumer demand in Auckland. Retail sales rose by 1.9% in the March 2025 quarter and 1.6% in December 2024 on a seasonally adjusted basis. These increases follow a period of contraction since September 2023. While these recent gains do not fully offset earlier declines, which were more pronounced in Auckland than for the country overall, as Figure 1 shows.

This uptick has likely been supported by increased discretionary spending power among mortgage holders who have recently refixed at lower interest rates. However, once Auckland’s population growth and inflation are considered, retail spending remains lower on a real per capita basis than before the downturn.

Figure 1: Change in retail sales, seasonally adjusted



Source: Stats NZ Retail Trade Survey

Investment activity remains subdued

Investment activity in Auckland remains subdued. Production of ready-mixed concrete, a key input into construction, fell by a seasonally adjusted 7.8% in the June 2025 quarter, following modest increases of 1.7% in March and 0.6% in December 2024.

The seasonally adjusted value of non-residential building work consented in Auckland has continued to decline in recent quarters, albeit at a slower rate. This moderation suggests the decline could be stabilising.

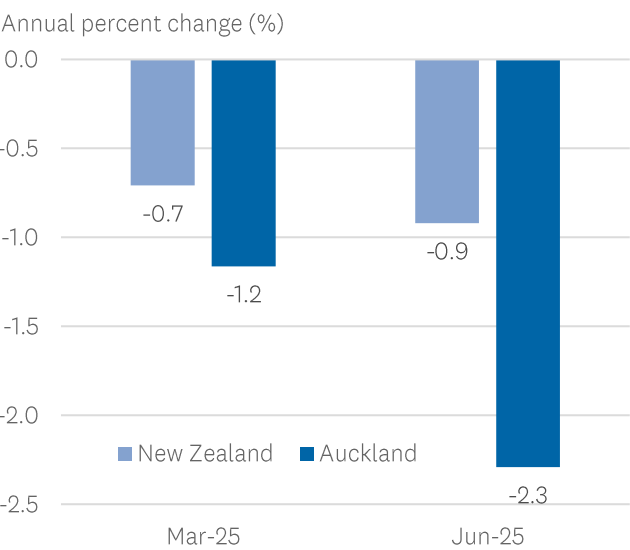
Labour market weakness

In the June 2025 quarter, employment in Auckland was estimated at 985,000 – a decline of 2.3% or 23,000 fewer people compared to a year earlier. This fall was larger than the national decrease of 0.9% over the same period, as Figure 2 shows. The sharper fall in Auckland may reflect exposure to industries where job losses have been more pronounced in recent times.

A quarter-on-quarter comparison with March 2025 shows no sign of a pick-up in demand for labour yet. Employment in Auckland fell by 0.9%, compared with a 0.4% decline nationally. These figures are not seasonally adjusted, but they provide a useful indication of the relative momentum in employment levels.

Falling employment has led to more unemployment and reduced labour force participation. The unemployment rate in Auckland remains elevated relative to the national average at 6.1% (63,700 people) compared with 5.1% nationally (not seasonally adjusted).

Figure 2: Annual change in people employed



Source: Stats NZ Household Labour Force Survey

Interpretation: cyclical effects persist

The data indicates Auckland's economy continues to show the aftereffects of earlier interest rate hikes. Put in context, Auckland tends to experience economic downturns more acutely than the national economy, just as it tends to outperform during periods of growth.

The Interest rate-driven contraction in demand has been reflected in lower consumption and investment. Retail and hospitality have been affected by weaker household spending. This is visible in the city centre, where cyclical weakness has been compounded by the structural shifts towards working from home and online retail, and disruption from public infrastructure works.

Falling employment highlights how the labour market can lag broader conditions. Businesses generally need to be confident that demand is recovering before hiring. A slower recovery raises the risk for further job losses.

This economic context matters for Auckland Council's near-term planning and decision-making. However, the Council's ability to influence current conditions is limited. Its spending represents only a small share of the regional economy, and it does not control policy levers to deliver timely and targeted counter-cyclical support. Responsibility for stabilising the economy sits primarily with the Reserve Bank, through the Official Cash Rate, and central government via fiscal policy.

That said, Auckland Council plays a critical role in shaping the region's medium-term productivity potential – a theme explored in this issue's lead article.

Outlook

Recent cuts to the Official Cash Rate (OCR) should support a gradual recovery in demand and activity, as more mortgage holders roll over into lower rates. The OCR was cut by 25 basis points to 3.00% in August, with further cuts now more likely before the end of the year, as updated forecasts show a weaker near-term outlook for economic activity.

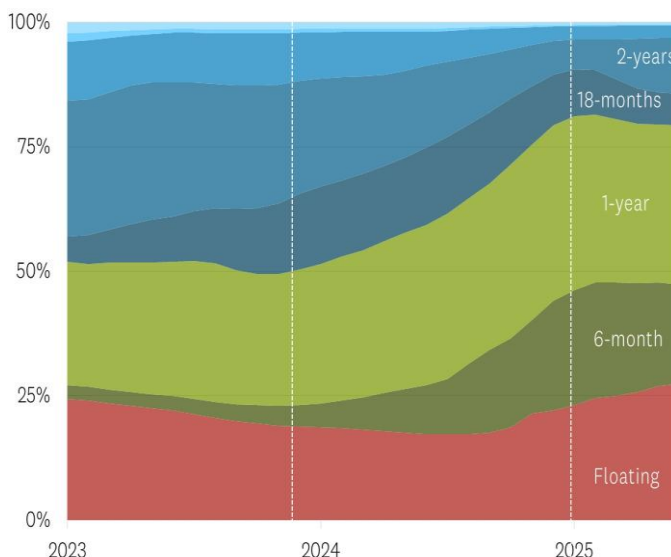
Nationally, new mortgages for owner occupiers remain weighted towards floating and shorter fixed terms. Of the 63,300 new mortgages for owner occupiers issued over the last 12 months, 79% were floating or fixed for one year or less, as Figure 3 shows.

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This marks a shift in the share of short-term mortgages from 2023 when it was 50% over the year. This preference for shorter terms suggests homeowners could be anticipating further rate cuts and are holding off on committing to longer terms.

Figure 3: Term breakdown of new owner-occupier mortgages nationally (12-month total)



Source: RBNZ

Summary points

- Consumer demand in Auckland is showing early signs of picking up, but remains below pre-downturn levels in real per capita terms.
- Investment activity remains weak, with falling ready-mixed concrete production and ongoing declines in non-residential building consents.
- Employment in Auckland continues to fall, with job losses outpacing the national average.
- While current conditions reflect the lagged effects of earlier interest rate hikes, demand will gradually recover as recent cuts flow through, and more mortgage holders refix at lower rates.
- Auckland Council has limited influence over short-term conditions but plays a key role in shaping the region's medium-term productivity potential.

Find out more: visit the [Auckland Council Chief Economist webpage](#) or contact: chief.economist@aucklandcouncil.govt.nz