



# economic well-being

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## Economic Well-being

Economic well-being shapes the affluence of a household's lifestyle. In addition, it affects social outcomes such as health, safety, education and housing. This section seeks to understand what contributes to the health of Auckland's economy and the firms within the region. It also considers the economic well-being of households and how inequality, poverty and other disadvantages are affecting the people of Auckland.

### Auckland's Economy – The Context

Auckland is New Zealand's commercial hub, contributing more than one-third of New Zealand's Gross Domestic Product (GDP) each year (ARC, 2010b, p. 7). Auckland has more than 35% of New Zealand firms, the majority of which are locally-owned small-to-medium enterprises (SMEs). Approximately two-thirds of New Zealand's top 200 companies operate out of Auckland (ARC, 2008, p. 45). These firms provide employment for more than half of the people who live in Auckland engaged in employment (ARC, 2010b, p. 7).

Auckland's productivity is currently at only 80% of the OECD average (Committee for Auckland, 2008a, p. ii). The health of Auckland's economy has significant impacts for those living there, particularly in terms of employment. It is not surprising that Aucklanders feel strongly about the economy. In the 2008 New Zealand Election Study, 32.7% of Aucklanders surveyed felt that the economy was the most important issue to them personally, while 55.6% felt it was also the most important issue facing New Zealand (NZES, 2008).

### Auckland's Economy – Economic Growth and Decline

For the past 10–20 years, Auckland's population growth has been the primary driver of economic growth in the region (Infometrics Ltd, 2009, p. 18). It is predicted that Auckland's demographic changes will continue to play a leading role in the region's economic growth (see *General Auckland Overview* section) (ARC, 2008, p. 47).

Auckland has seen a great deal of growth over the past two decades – the total number of jobs has increased by more than 40%. GDP growth peaked in 2003 at 8.1% (Infometrics, 2010, p. 2), but in recent years there has been economic decline in the region with the recession impacting on the employment and economic well-being of Aucklanders. This impact is still being felt with fewer businesses (a 1.8% decrease from 2009/10) and fewer jobs (a 2% decrease) across the region (Bascand, 2010, p. 5). Despite this, the economy is slowly picking up again, with a 0.6% increase in Auckland's GDP in 2010 compared with the previous year (Infometrics, 2010, p. 2)



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## Treaty Settlements

Treaty settlements and the investments that emerge from them are another potential avenue for growth in the Auckland economy, and they will see Auckland iwi play an increasingly important economic role. It is estimated that around \$259 million will be entrusted as claims are settled (ARC, 2010a, p. 22). The potential impact of these settlements on the Auckland economy should not be underestimated. For example, Ngati Whatua Orakei's wealth has grown over the last two decades ago to a current estimated value of \$300 million (ARC, 2010a, p. 23).

## Income

The average income earnings for those in paid employment was \$694 per week in the June 2010 quarter (Statistics New Zealand, 2010). However, using 'average' earnings figures has great limitations when it comes to understanding Auckland's social needs and opportunities because income inequality in Auckland is well over the OECD average (OECD, 2008). For example, employees who work in downtown Auckland earn 27% more than the Auckland average (Committee for Auckland, 2008b, p. 9). This boosts the Auckland average and disguises the gap between high and low earners. In addition, average earnings may be higher in Auckland than other parts of New Zealand, but household expenditure for Auckland households is around 10% higher than the rest of New Zealand (Smith, 2010, p. 21), meaning the income Aucklanders receive is not stretching as far as those in other parts of New Zealand.

## Spending and Consumption

Spending is higher in the Auckland region than in other regions, even once figures are adjusted for incomes and demographics (Smith, 2010, p. 39), and spending is increasing – over the past 20 years, household spending has increased by over 70% (Ministry for the Environment, 2009, p. 15). The growth in spending in Auckland can only partially be attributed to an increase in population – Auckland households are consuming more at a faster rate than population growth (Ministry for the Environment, 2009, p. 1). (For information about the environmental impact of Auckland's household spending and consumption, see the *Environment* section.)

The majority of Auckland's household spending is on housing and household utilities (27%), food (17%) and transport (13%) (See Appendix table A9). Spending on housing costs is increasing for those who rent and those who own. For those who rent, 19% are spending more than 40% of their income on housing costs, while 44% are spending 25% or more (Bascand, 2009, p. 5). Home owners are also spending high proportions of their income on housing costs. Young home owners are disproportionately affected with more than 45% paying more than 30% of their income on housing costs (MSD, 2008, p. 15). Increased

spending on housing means less money for education, health care, transport, food, household goods, recreation and other needs and wants.

## ***Having Enough Money***

In the General Social Survey, Aucklanders were asked about whether they had enough money to meet their needs. Of those surveyed, 17.3% felt they didn't have enough, 32.1% felt they had just enough, 37.2% felt they had enough, and 13.4% felt they had more than enough (see Appendix table A1). In the Quality of Life Survey, findings were similar and there was a clear relationship between income and the personal perception of how well one is able to meet their needs. Households with incomes under \$40,000 were significantly more likely to feel they do not have enough money (Reid, 2009, p. 14). Income also appears to influence how people rate their lives more generally: those with a household income of \$100,000 or more were more likely to rate their quality of life as extremely good or good (Reid, 2009, p. 7).

## **Poverty and Disadvantage**

There are many groups of Aucklanders who are overrepresented in poverty and disadvantage statistics, with clear patterns with regard to age, ability, ethnicity, household characteristics and geographic area.

### ***Poverty and Disadvantage – Age***

Approximately one in five Auckland children live in low-income households and experience material hardship (MSD, 2009, p. 2; Social and Economic Research and Monitoring Team, 2008b, p. 6). This rate has been increasing over the last 25 years and is comparatively high for countries in the OECD. Poverty among younger adults (18–40 years) is also increasing, but to a lesser degree. Elder poverty is around 2%, which is one of the lowest levels for OECD countries (OECD, 2008). However, Auckland's aging population and increasing life expectancy is likely to see an increase in elder poverty.

### ***Poverty and Disadvantage – Disabled Aucklanders***

Current estimates suggest that approximately half of disabled Auckland adults have personal incomes of less than \$20,000. For the most part, income is from benefits and part-time, casual, low-paying employment. There is a need for more information on how poverty impacts the disabled community in Auckland, as the current source of information is a national post-census survey conducted every five years (Auckland Disability Research Group, 2009, p. 3).

## ***Poverty and Disadvantage – Geographic Areas***

According to 2006 census data, 32% of Aucklanders lived in areas of higher deprivation, with a decile 8, 9 or 10 deprivation rating (Social and Economic Research and Monitoring Team, 2008a, p. 6). i Higher deprivation is concentrated in Manukau (49%), Papakura (43%) and, to a lesser degree, Franklin (18.3%) (Committee for Auckland, 2008a, p. 10). Inequality – the difference between the wealthiest and poorest Aucklanders – is particularly high in central Auckland. In central Auckland, average income is the highest in the region (see Appendix table A3) but there are also pockets of high deprivation (RCAG, 2009, para. 2.52).

## ***Poverty and Disadvantage – Ethnicity***

There are strong correlations between poverty, ethnicity and geographic area. Areas with high proportions of multiple ethnic groups or Pacific Aucklanders having the lowest household income (around \$33,000), followed by areas with a high proportion of Maori Aucklanders (around \$38,000). Areas with a high proportion of Asian Aucklanders have higher average household income at around \$46,000. Areas with a high proportion of New Zealand European/Pakeha have the highest average household income at around \$52,500 (see Appendix table A3).

While poverty and disadvantage affect people of all ethnicities, Maori and Pacific Aucklanders have hardship rates 2–3 times that of those in other ethnic groups (RCAG, 2009, para. 2.52). This is reflected in Auckland's food-bank usage, with Maori Aucklanders making up 50% of food-bank users, and Pacific Aucklanders making up 25% (St John and Wynd, 2008, p. 41).

## ***Poverty and Disadvantage – Other Factors***

Despite receiving government assistance, beneficiary families are significantly more likely to face hardship. For example, 51% of beneficiary families with children experience hardship, while 11% of working families with children experience hardship. Even so, working does not automatically protect families from poverty: approximately 50% of Auckland's children experiencing hardship come from working families (MSD, 2009, pp. 2–3).

Solo-parent families' hardship rates are 28% higher than those of two-parent families. Nevertheless, many two-parent families are also struggling; for example, 25% of Auckland City Mission's food-bank users are two-parent families (St John and Wynd, 2008, p. 41).

Increased gambling, particularly on gaming machines, is another factor that contributes to poverty. In September 2010, there were 3634 gaming machines at approved venues across the Auckland region (Department of Internal Affairs, 2010b). Between July and September 2010, Aucklanders spent over \$48

million playing these gaming machines, with the vast majority of money coming from south and central Auckland (Department of Internal Affairs, 2010a). Under The Gambling Act 2003, a minimum of 37.12% of the gross proceeds must be used for community grants. However, this community benefit does not mitigate the damage problem gambling can cause (Ministry of Health, 2009, p. 20).

## Over-indebtedness

Over-indebtedness is where those with debt are unable to meet the cost of paying the money and interest owed, and consequently their social and economic well-being may suffer (MSD, 2008, p. 16). Over-indebtedness in Auckland has increased significantly over the past decade (RCAG, 2009, para. 2.72) with a rise in inequality, easier access to credit, increased gambling and higher costs of living.

Over-indebtedness makes obtaining bank loans challenging and Aucklanders who are struggling to meet everyday expenses turn to friends and family or fringe lenders. MSD research shows that around 13% of those who are struggling borrow money from friends or family (MSD, 2009, p. 4), and many are increasing their over-indebtedness through borrowing from fringe lenders.

### **Mobile Shops and Fringe Lenders**

Mobile shops involve door-to-door operators who sell goods on credit, targeting those who can least afford it (RCAG, 2009, para. 2.72). They are reported to charge around 3-4 times the retail value of everyday goods, appliances and clothing (MSD, 2008, pp. 16–17).

Fringe lenders are also referred to as cash loan companies, loan sharks and money lenders (Cagney and Cossar, 2006, p. 13). They are characterised by charging extremely high interest rates with high penalty interest. The most common reasons for borrowing from fringe lenders is to pay everyday household expenses, and to a lesser degree, for cars and other big items, and to meet cultural and social obligations (Auckland Uniservices Limited, 2007, p. 105). The most recent fringe-lending study by the Ministry of Consumer Affairs was in 2006. At this time there were 71 fringe lenders operating in Auckland, with the majority in Manukau (23%), Otahuhu (14%), North Shore (14%) and West Auckland (8%) (Ministry of Consumer Affairs, 2007, p. 2). Fringe lenders deliberately and aggressively target Pacific Aucklanders by advertising in community and ethnic newspapers and by using Pacific Aucklanders to front services (Auckland Uniservices Limited, 2007, pp. 7–8). Marketing techniques play on people's concerns over meeting *faalavelave* (social obligations) (Ministry of Consumer Affairs, 2007, p. 3). There have even been reports of fringe lenders printing names and photos of defaulters in newspapers such as *Taimi o Tongan* (Auckland Uniservices Limited, 2007, p. 8).



## Social Enterprises and Social Lending

Social enterprises are those which often have some form of income and combine the use of business techniques with strong socially oriented objectives. They occupy an interesting space as they ‘look like charities to commercial businesses, but look like businesses to charities’ (Saunders, 2009, p. 2). As social enterprises increase in Auckland, so does their need for investment and capital. Social lending is ‘providing finance to social enterprises or not-for-profit organizations’ (Benedict, 2010, p. 4). While New Zealand’s oldest social lender has been lending since 1983 (including loans to Auckland-based enterprises), social lending is still an emerging and young aspect of Auckland’s economic landscape (Benedict, 2010, p. 67).



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## Endnotes

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<sup>i</sup> Decile ratings from the Deprivation Index are from 1 (lowest levels of deprivation) to 10 (highest level of deprivation). They should not be confused with school decile ratings, which are from 1 (students from low socio-economic communities, i.e. high levels of deprivation) to 10 (students from high socio-economic communities).