

THE CANTERBURY ECONOMY

Quarterly Report: October 2009

The recession has ended for New Zealand but some Canterbury industries, especially manufacturing, are continuing to suffer. The region's unemployment rate is still comparably low at 4.8 percent in the June quarter (5.8 percent nationally), although this is likely to increase further.



OVERVIEW OF THE REGION'S ECONOMY

The Canterbury economy is closely aligned with the national economy. Estimated gross domestic product for the Canterbury region between the 2008 and 2009 June years fell by 1.5 percent, slightly less than the 1.8 percent national fall. In the June 2009 quarter national economic activity increased by 0.1 percent, following five consecutive quarterly declines; this signals the end of the recession for New Zealand with moderate GDP growth expected ahead.

Figure 1: Gross Domestic Product

(annual average percentage change to June, constant prices)

Source: Statistics New Zealand, Infometrics

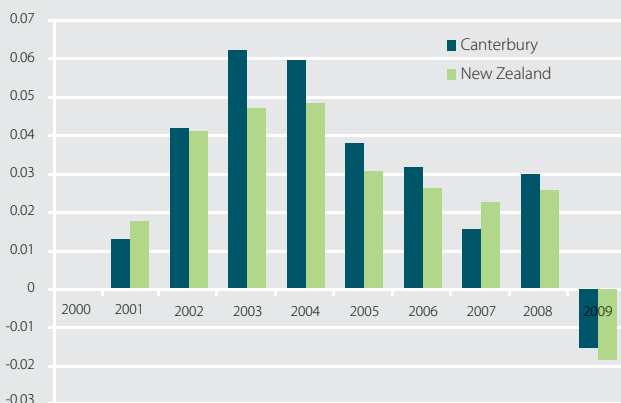


Figure 2: Industry Contributions to GDP

(estimated percent of Canterbury and New Zealand GDP, 12 months to June 2009)

Source: Statistics New Zealand, Infometrics

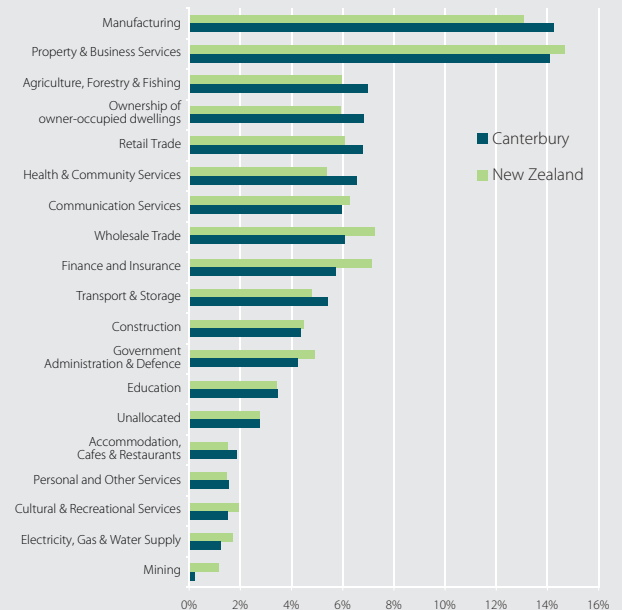


Figure 2 compares the industry contributions to GDP for Canterbury and New Zealand. The structure of the Canterbury economy is similar to the national structure. Manufacturing stands out as both the region's largest sector and a sector which is more significant in Canterbury than nationally. Property and Business Services is growing quickly in the region, although its contribution to the region still lags behind its national contribution.

One of the pressures placed on many Canterbury exporters during the recession was a fall in commodity prices, as seen in Figure 3. The price of dairy products was hit especially hard with prices falling from as high as 291.9 in November 2007 to lows of 121.3 in February 2009. Initially exporters were insulated with a low New Zealand dollar; in February 2009 the TWI hit a recent low of 52.3 (and the NZD/USD rate was 0.5151). Recently prices for most commodities have appeared to stabilise. At the same time however,

Figure 3: World Price Index
(World Prices Indices, July 1986=100)

Source: ANZ Commodity Price Index

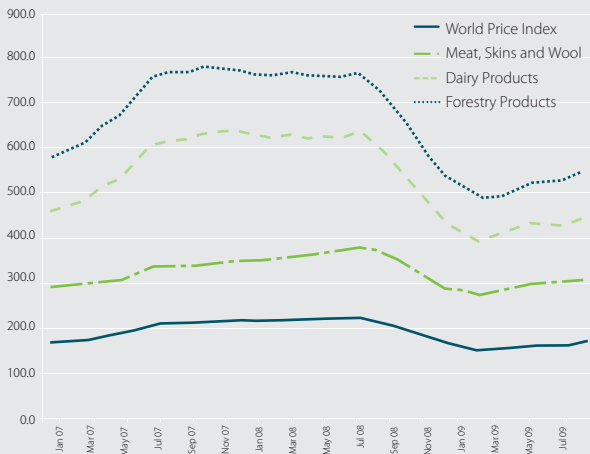
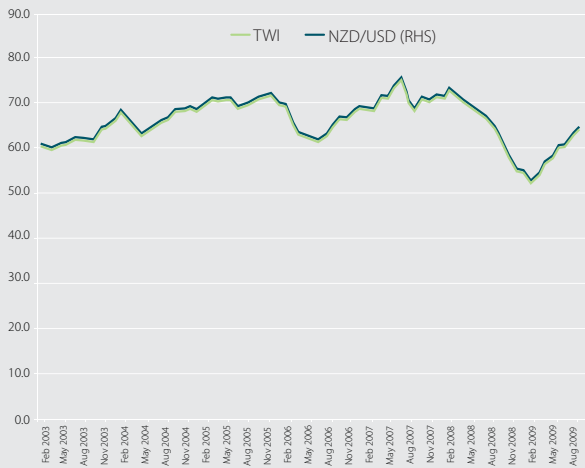


Figure 4: Exchange Rates
(Trade Weighted Index, July 1979=100 and NZD/USD)

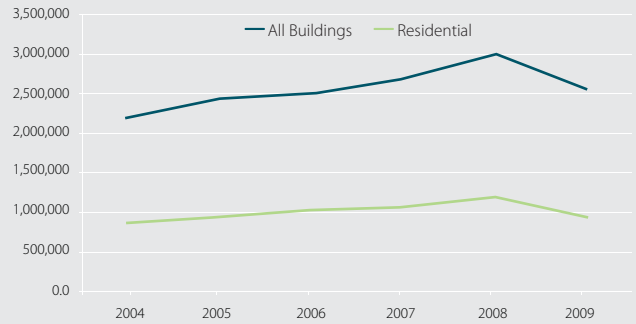
Source: Reserve Bank of New Zealand



the NZD has sharply appreciated, and is sitting above 70 US cents which is preventing exporters from getting the full benefit of increased prices. As prices continue to creep up following the recovery (and as long as the NZD does not continue aggressively appreciating), Canterbury exporters need to ensure they can meet increased world demand to put the region in a good position.

Figure 5: Value of Building Work in Canterbury
(Annual to June value of work put in place, \$000s)

Source: Statistics New Zealand



Construction was a sector that was hit particularly hard by the recession. The value of residential building work in Canterbury fell by 21 percent between the 2008 and 2009 June years, although growth in non-residential construction helped limit the reduction in total building to only 11 percent. An indication of how this sector will perform in the future is given by building consent numbers. Throughout the recession these fell for both Canterbury and New Zealand, as shown in Figure 6, hitting 221 for the region in January 2009. Since then consents have recovered slightly; 370 new building consents were issued in Canterbury in August 2009. This indicates that construction activity is likely to pick up slightly, although it is probably not going to see a significant boom in the near future. Factors that will drive increases in activity in future years include the current housing shortage which will become bigger with population growth through increased migration; low short term interest rates; increased spending on infrastructure projects; and, to some extent, preparations for the Rugby World Cup. This will be balanced against credit and labour constraints as we lose workers to Australia where there is a more severe housing shortage.

The profitability of South Island firms has picked up over the past quarter. In the September 2009 NZIER Quarterly Survey of Business Opinion, a net 38 percent of firms believed they had lowered profits, down from 44 percent in the June Quarter. There was a big increase in expectations for the



upcoming quarter; only a net 2 percent of companies believe their profits will be worse, sharply down from the net 31 percent last quarter. In addition, a net 37 percent of South Island businesses surveyed expected business conditions to improve over the next six months, slightly higher than the national net 34 percent; confidence in economic conditions is growing in the South Island.

Figure 6: Building Consents
(Number of Consents, Total Building and Construction)

Source: Statistics New Zealand

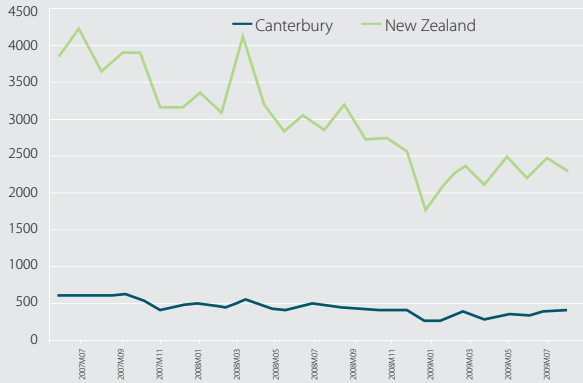


Figure 7: Profitability of South Island Firms
(Net percent of firms reporting higher or lower profits)

Source: NZIER Quarterly Survey of Business Opinion

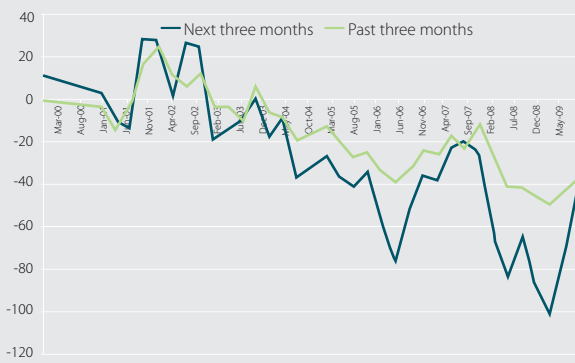
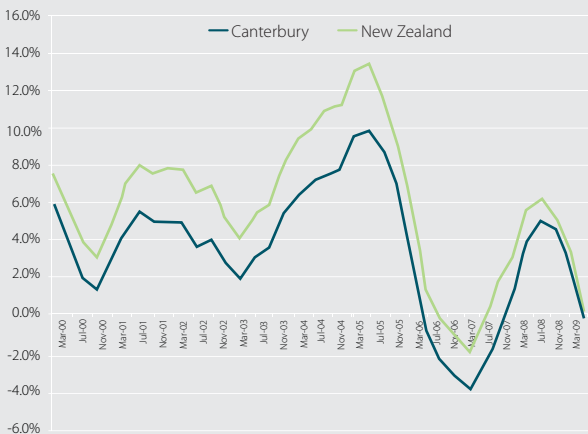


Figure 8: Employment
(annual percent change)

Source: Statistics New Zealand Household Labour Force Survey



WORKFORCE

For most of the last decade the growth in the number of people employed in the Canterbury region has been above the growth rate for the whole of New Zealand. Employment in Canterbury also closely follows changes in the working age population, which is shown in Figure 9. During 2007, the number of working age people in the region fell, coinciding with a reduction in employment numbers. The average number of people employed for the year ended June 2009 fell by 0.2 percent from the year ended June 2008.

Growth in the working age population has also been subdued; the year ended June 2009 saw only a 1.6 percent increase, compared to 4.9 percent and 3.7 percent in the years ended December and March respectively. The growth rate was still above the New Zealand growth rate however (1.2 percent) suggesting that Canterbury is merely converging with national growth following a period of especially strong growth (which in turn followed a period of retraction in working age people).

As for the rest of New Zealand, the recession has led to increases in the unemployment rate for the region. The percentage of the workforce unemployed in Canterbury grew to 4.5 percent in the June 2009 quarter (unadjusted), compared to lows of 2.6 percent in late 2007. The rate continues to track below the New Zealand rate (5.8 percent unadjusted) with the rural component of Canterbury keeping people working. Despite recent economic growth the unemployment rate is expected to continue to rise.

Figure 9: Working Age Population
(annual percent change)

Source: Statistics New Zealand Household Labour Force Survey

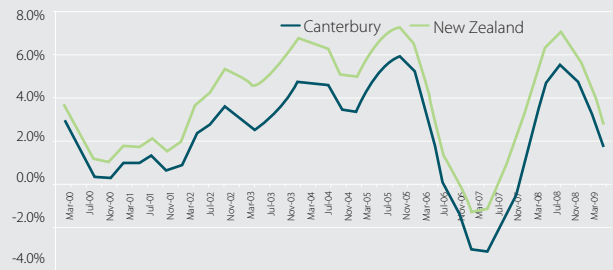


Figure 10: Unemployment Rate
(percent of workforce unemployed)

Source: Statistics New Zealand Household Labour Force Survey

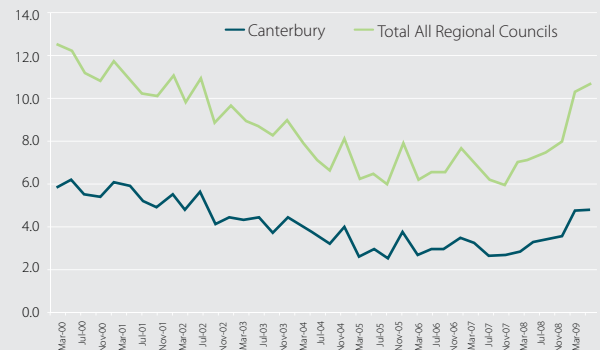


Figure 11: Participation Rate
(percent of working age population in workforce)

Source: Statistics New Zealand Household Labour Force Survey

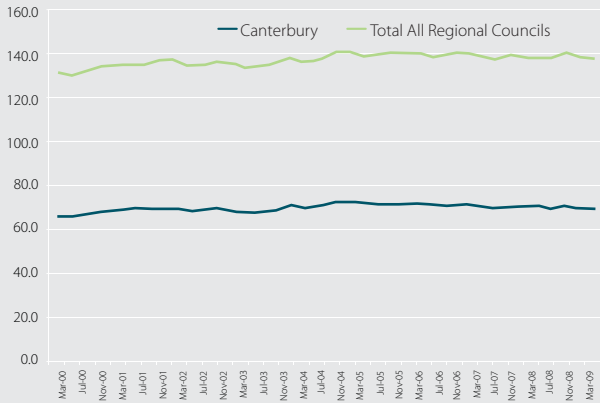
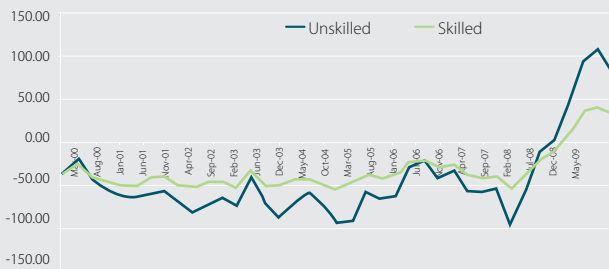


Figure 12: Ease of finding Labour in the South Island
(net percent of firms finding labour easier to source)

Source: NZIER Quarterly Survey of Business Opinion



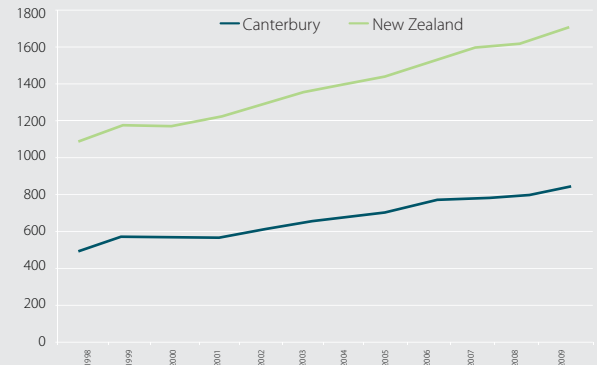
Canterbury has also enjoyed a high participation rate for most of the past decade, as shown in Figure 11. In recent times, however, the Canterbury rate has been trending towards the New Zealand rate. In the June 2009 quarter 69 percent of the Canterbury Working Age Population were part of the labour force. With a high participation rate and a low unemployment rate, for Canterbury to grow employment and therefore production further, the region will need to concentrate on attracting more working age people or extending the working hours of those currently underemployed.

The downturn had a significant impact on the ability of firms to attract staff. Before the recession many Canterbury firms struggled to meet their labour requirements. However, by June 2009 a net 42 percent of South Island firms found it easier to find skilled labour and a net 66 percent found it easier to find unskilled labour. The recovery has already had an impact on labour availability; in the September 2009 quarter these numbers had reduced to 32 percent and 48 percent respectively. Access to labour is likely to be a key business constraint in the future.

Employees in Canterbury earn below the national average (Figure 13). However, in the year ended June 2009 the difference in weekly earnings for those in paid employment decreased from \$47 to \$26 with Canterbury workers earning on average \$842 and New Zealand workers earning \$868.

Figure 13: Earnings
(average weekly earnings - people in work)

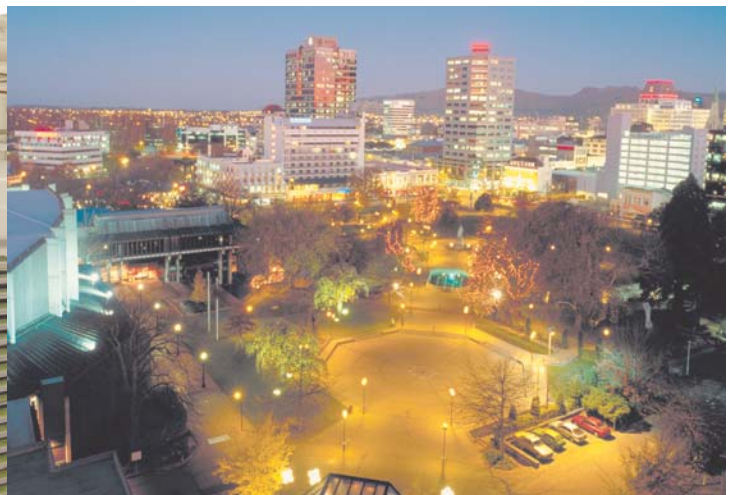
Source: Statistics New Zealand Employment and Earnings Survey



OTHER INDICATORS

Consumer spending in Canterbury declined during the recession, although it appeared to lag the reduction in spending experienced by the rest of New Zealand, as shown in Figure 14. This may have been because the effect of the recession on household budgets was delayed in Canterbury. The reduction in spending in Canterbury was off a high base as retail spend prior to the recession was elevated with extremely low unemployment and high expenditure from farmers who enjoyed good commodity prices. Between July and August 2009 retail trade in Canterbury recovered by 1.2 percent, slightly more than the 1.1 percent recovery felt nationally (both seasonally adjusted). It is likely to be some time before retail sales normalise as households will continue to face the lagged effects of the recession such as the higher rate of unemployment.

Along with retail sales, house prices in both Christchurch and New Zealand came down during the recession following very strong growth. The median sale price for Christchurch reached \$340,000 in November 2007 and by January 2009 fell to \$300,000 (a 12 percent fall). Statistics released by the Real Estate Institute New Zealand Inc suggest that the decline in house prices is over, with prices improving since early 2009. In September 2009 the median house price for Christchurch city was back up to \$331,000, 5 percent lower than the national median price of \$350,000.



Throughout 2008 and into 2009 there was also a marked reduction in the number of houses being sold but this has also recovered in early 2009 with 758 houses being sold in March, the highest number since November 2007. People took advantage of lower house prices and record-low interest rates. Long term fixed rates have since begun to rise again and are close to their long term averages. This increased credit cost, along with the recovering house prices, should stabilise real estate activity.

Since 2000 Canterbury has gained on average a net 120 people per month from permanent and long term migration. Decreased offshore opportunities caused by the recession has led to fewer New Zealanders leaving Canterbury which has helped keep net migration high. In September 2009 the region gained 219 people with the decrease in arrivals offset by the decrease in departures. Increased migration will allow Canterbury's workforce to grow and will help the construction industry with increasing demand for housing.

Figure 14: Retail Trade
(Seasonally Adjusted Retail Sales)

Source: Statistics New Zealand

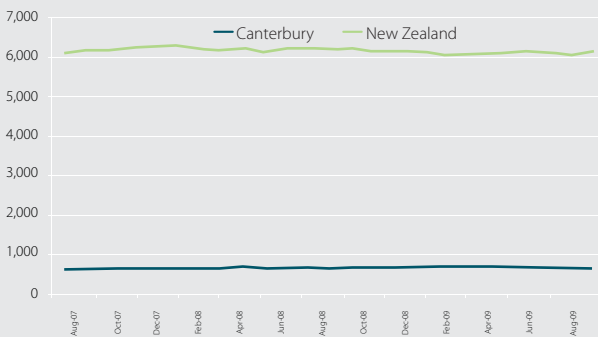


Figure 15: Median Sale Price
(monthly median sale price of dwellings)

Source: Real Estate Institute New Zealand Inc.

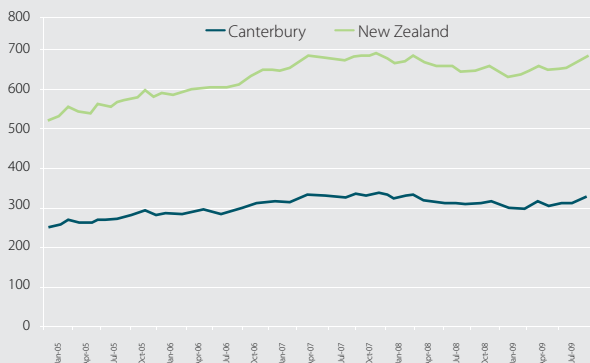
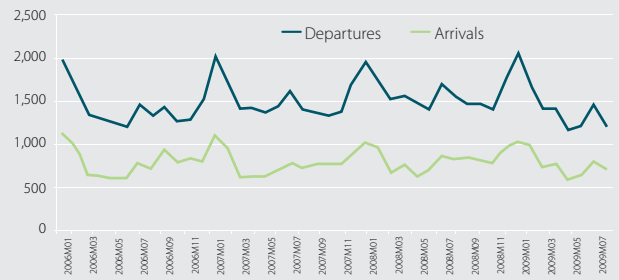


Figure 16: Canterbury Migration
(Permanent and Long-Term migration)

Source: Statistics New Zealand



SUMMARY

The New Zealand economy entered a recession at the start of 2008 but with economic growth of just 0.1 percent in the June Quarter this has now ended. Activity was boosted by the primary sector with goods-producing industries continuing to retract. Unlike in the past, the New Zealand dollar has appreciated ahead of commodity prices meaning that exporters are unable to enjoy the full benefit of increased world demand. This, along with continual downward pressure from the international tourism industry, will dampen growth rates as the recovery begins; in particular unemployment is expected to remain above its record lows seen in 2007 for some time.

In Canterbury, the downturn saw estimated output fall by 1.5 percent between the 2008 and 2009 June years, slightly smaller than the national fall. The region may have benefited from its higher reliance on the agricultural sector and the delay in the reduction of retail spending. Companies saw a sharp increase in the ease of finding skilled and unskilled labour. As Canterbury businesses now enjoy increased world demand, labour shortages may quickly become a key constraint again. Additionally capital availability is likely to be more costly and constrained than before the recession. These factors may need to be overcome to allow the region's economy to grow.

