CHRISTCHURCH AND CANTERBURY QUARTERLY ECONOMIC REPORT

May 2012

The Christchurch and Canterbury economies have suffered from both the continuing global economic situation and the lingering effects of multiple earthquakes. The impacts of both are likely to be felt for the foreseeable future. Recent events in Europe have confirmed on-going global economic concern. Effects can be seen quickly, with the New Zealand dollar rapidly responding to major announcements. Global sentiment has caused commodity prices to continue to fall, however they have also reduced the value of the New Zealand dollar, which has insulated exporters from some of the decline in prices. As bad economic news continues, the New Zealand dollar should continue to fall as people invest in more secure assets, helping our exporters.

Economic indicators are starting to show a pickup in activity in the region. Estimates (Infometrics) of Gross Domestic Product show the annual decline has lessened in the year to December 2011. The December quarter was even slightly up on the previous quarter, although these numbers have not been seasonally adjusted. This has been reinforced into the first quarter of 2012 by an increase in Retail trade, which were up 1.0% from the previous quarter. Cargo exports continue to be strong, and the number of people employed increased significantly, with around 5% more people employed in the March quarter than the December quarter.

One key sector which will drive production going forward is the Construction sector. While the recovery may be yet to start in earnest, early indicators of a pickup are apparent. The value of building work increased by 19% between the third and fourth quarters of 2011; largely driven by non-residential building construction. Building consents are also on the up, suggesting increased building activity taking place soon. Employment in the construction sector was up 24% between December 2011 and March 2012.

It is not all full steam ahead for Canterbury, however. Guest nights continue to be lower which has flowed through to the Cultural and Recreational Services sector which had an 11% fall in activity in the last quarter of 2012. Migration also continues to be fickle. While the Household Labour Force Survey suggests a strong growth in population, international migration statistics still show that the region is losing people. NZIER is reporting that South Island firms are beginning to find it more difficult to source skilled labour. As the rebuild picks up, if migration continues to be strained, ensuring that a skilled and adequate workforce is available to enable the city and region to recover and grow is going to be vitally important.

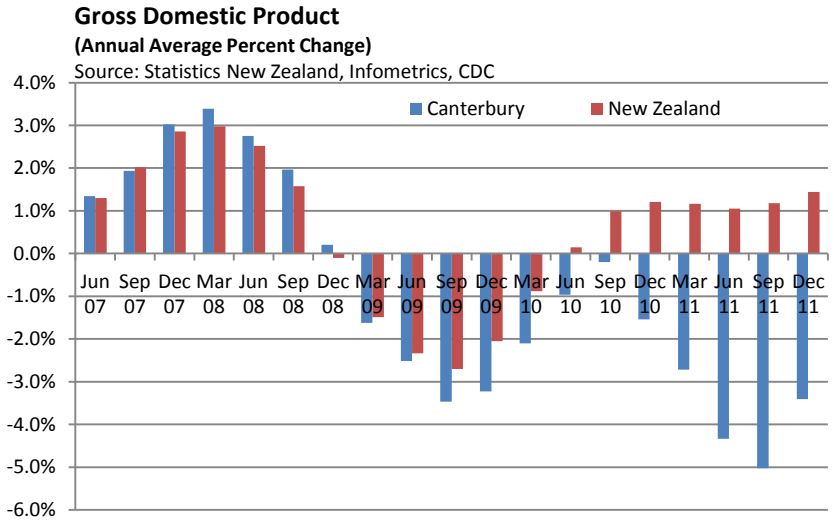
Key Indicators

Gross Domestic Product

The annual estimates of GDP in Canterbury (Infometrics' estimates) for the year ended December 2011 was down 3.4% from the year ended December 2010. There was estimated to be a slight increase in quarter-on quarter output between September and December, however this has not been seasonally adjusted.

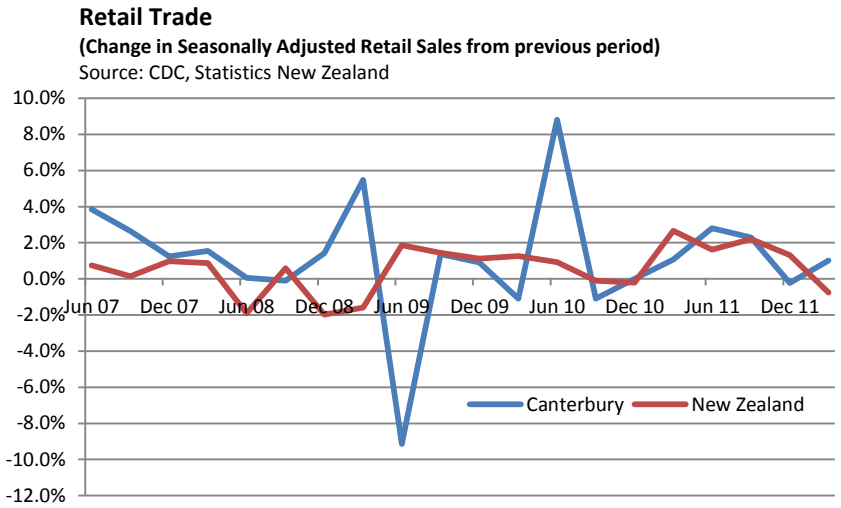
Some sectors performed better than others. Agriculture, Forestry and Fishing increased by 4.4% (year-on-year). The sector which has seen the biggest decline is Cultural and Recreational Services, which fell by 10.9% in Canterbury. This was even more profound in Christchurch city, where the sector saw a 12.7% fall between 2010 and 2011. Other tourism related sectors also saw a significant decline. Accommodation, Café and Restaurants fell by 8.0% in the region, and an 11.7% fall in Christchurch City. The earthquakes had a significant impact on guest nights and the capacity of accommodation and hospitality establishments in the city have declined significantly from the previous year. Personal and other services fell by 7.1% in the region, suggesting that people's disposable income may have been reduced, curbing their expenditure on extras.

These numbers show that any recovery seen before the earthquakes has been smothered by the impact of the earthquakes on the city and region's economy, as well as the continuing declining economic sentiment around the world. The numbers are, however, a slight improvement on the year to September suggesting growth is beginning to occur. Note these numbers are estimates only; no official measure for regional GDP exists, so they should be used with caution.



Retail Trade

Retail trade figures indicate that retail spend has not been as greatly impacted by the earthquakes as the Infometrics' GDP estimates might suggest. Seasonally adjusted sales in Canterbury were up 1.0% from the last quarter in the March 2012 quarter. Nationally seasonally adjusted retail sales fell by 0.8%. It appears that Canterbury sales have returned to their pre-earthquake trend.

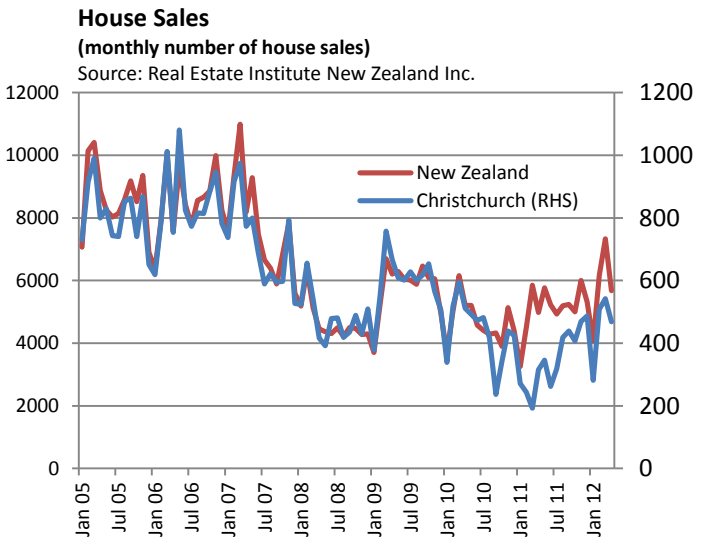


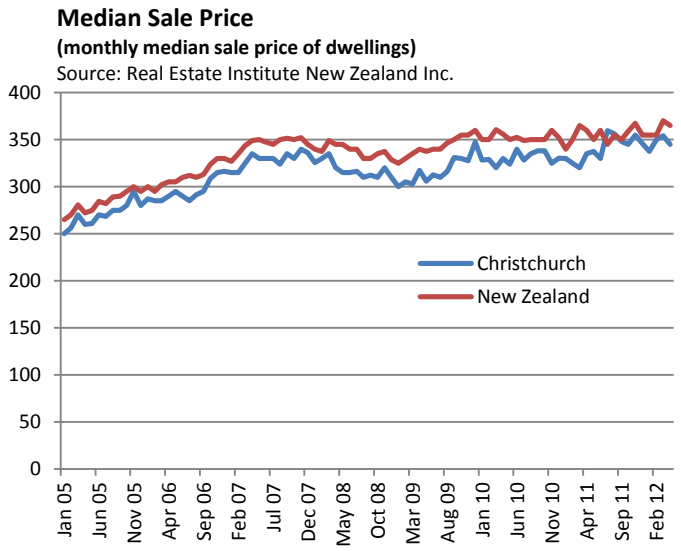
Note, however, Statistics NZ Retail Trade results are regional figures. Spending in Christchurch may have been redistributed to other areas of the region. However, Paymark data, which measures more than 75% of electronic transactions, shows that over the same quarter "Canterbury" (note, Paymark's definition of Canterbury is much smaller than Statistics NZ's) saw both increases and decreases in sales over the period, with a significant increase between the March 2011 and March 2012 months (13.5%).

Real Estate

One of the more obvious impacts of the earthquakes has been on the building stock in the city. As people in damaged houses begin to think about their future, as insurance pay-outs and government packages are made apparent, the real estate industry has really picked up. Real estate prices in Christchurch have continued to track upwards, following some stagnation throughout the recession. In April 2012 the median sale price in Christchurch was $345,000; an average of $347,000 so far for 2012 (compared to $341,000 on average in 2011). This remains below the national median of $365,000. As people in damaged houses begin to think about their future, and as insurance pay-outs and government packages are made apparent, people are pushing up prices in some areas of the city.

Activity is similar to its pre-earthquake levels with 469 houses sold in the city in April, and 542 in March, compared to lows of 193 in March 2011, following the February Earthquake. With the increased demand for housing that is likely to continue to be seen over the coming months as more housing decisions are made, activity is likely to stay high.

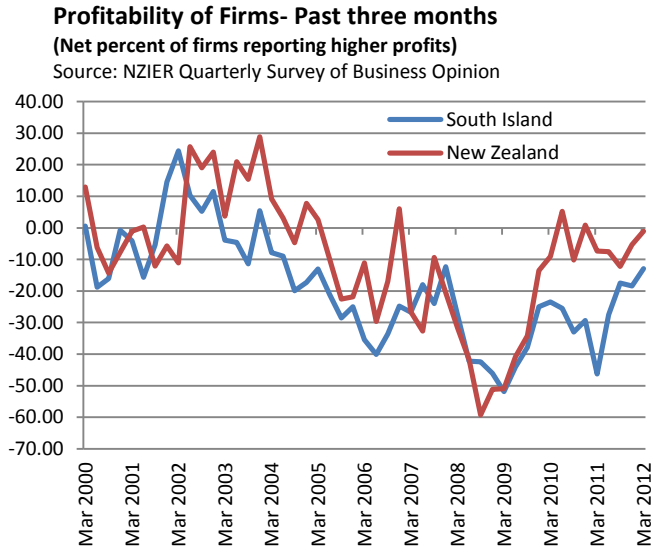


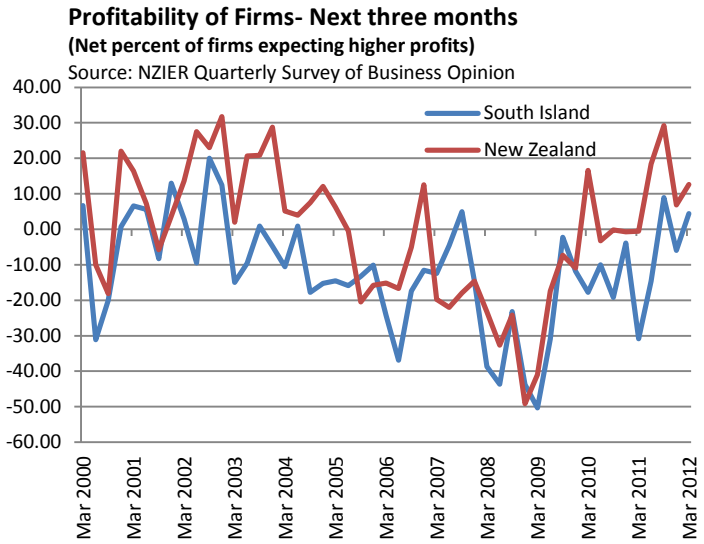


Firm Profitability

The profitability of South Island firms, as measured by surveying by NZIER, was slightly better than the previous quarter. In the March 2012 quarter, a net 13% of firms have reported lower profitability (compared to the three months prior). This was similar to the net 18% who saw lower profitability the previous quarter, but up from the net 46% in the March 2011 quarter. 18% of South Island firms saw increased profits in the quarter. Profitability of South Island firms is below New Zealand level, where a net 1% report to be seeing lower profits in the quarter.

Firms' expectations about future profitability improved, both in the South Island and in New Zealand. A net 4% of South Island firms believe their profitability will increase in the next three months. This follows a a net 6% believing they would fall in the December 2011 quarter. A net 13% of New Zealand firms see their profitability increasing in the next three months. These results show that firms are beginning to feel a little more confident about their future, although one quarter of South Island firms (27%) still believe their profits will fall in the next three months. Continuing poor economic sentiments worldwide will keep firms' expectations about the future pessimistic.

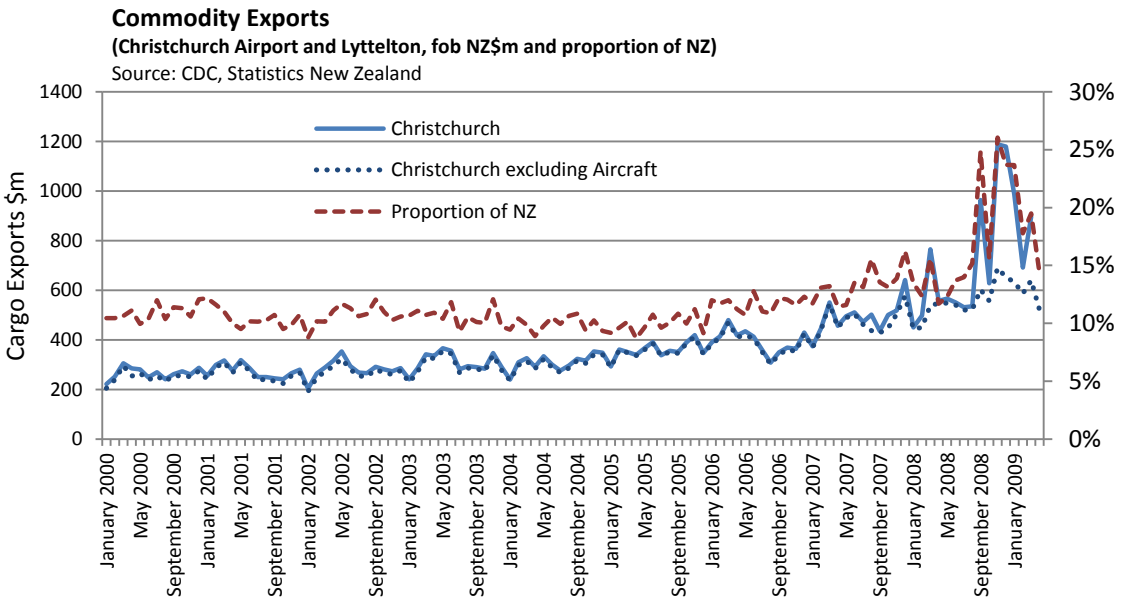




Commodity Movements and Prices

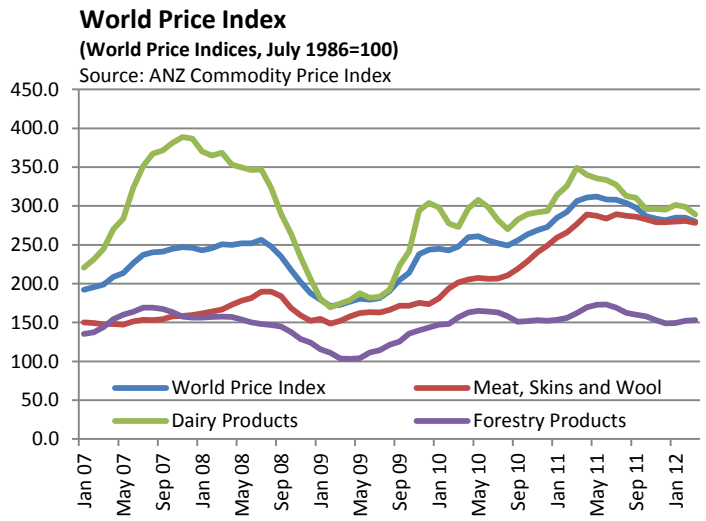
Commodity movements from the city (Christchurch Airport and Lyttelton) have continued to track upwards after holding relatively constant between 2000 and 2006 and have had several large spikes in recent months. Because the numbers below are in dollar terms, they are subject to commodity prices which have been enjoying an increase recently. Export numbers are also extremely variable due to days in the month and the number and size of craft going through the ports. Note additionally, these numbers do not measure exports in the true sense, but cargo moving in and out of a port. Therefore in recent months the additional number of airplanes coming into the city for servicing has caused the significant spikes, therefore they have been backed out of the time series below.. Additionally these numbers do not take into account where the good was produced.

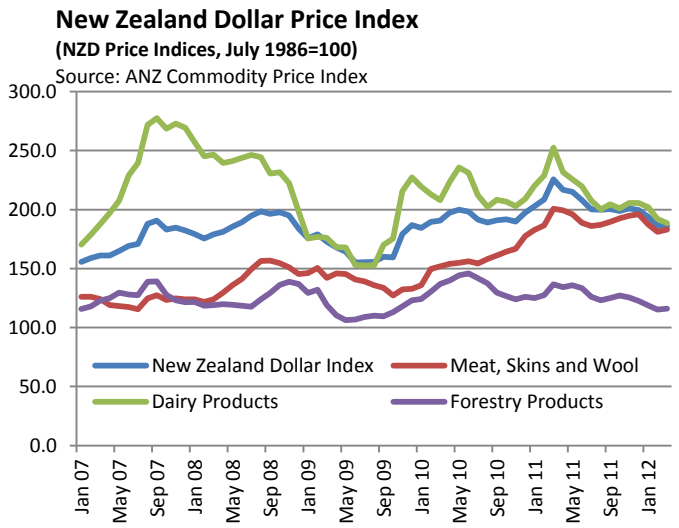
In April 2012 the most exported commodity was Dairy Products (and eggs and honey) at $151 million.



Commodity prices have declined slightly in the last quarter. The World Price Index (July 1986=100) in March 2012 was 280 compared to 281.7 in December 2011. This is still well above the 171.1 seen in February 2009. Over the period the price of dairy fell by 2.2% reaching 288. This is below the 2011 average (320) and is around the level seen in 2010. Other sectors which saw declines over the period were seafood (-4.5%) and meat, skins and wool (-0.2%). The price of aluminium increased by 8.3%.

The increased value of the New Zealand dollar has partially offset the fall in commodity prices over the period. That is because when foreign sales are converted back into New Zealand dollars from foreign currency, exporters get fewer dollars. The New Zealand dollar price index fell by 7.0% between December 2011 and March 2012, with all major commodities seeing a decrease in New Zealand dollar prices. The downward pressure on the New Zealand dollar which will be caused by economic uncertainty globally should help relieve some of the pressure from exporters.

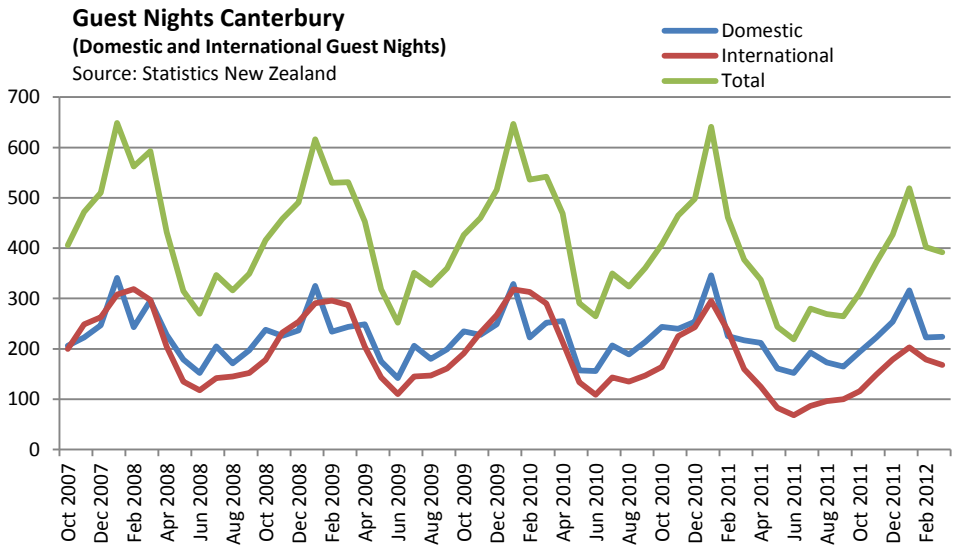




Guest Nights

Guest nights in Canterbury continue to sit below their pre-earthquake levels. In March 2012, there were 392,000 guest nights down from 542,000 in March 2010. The proportion of international visitors is still significantly lower than before the earthquakes; 43% of visitors are international, compared with an average of 46% throughout 2010. This has, however, improved from only 31% of international visitors in June and July 2011. This has a significant flow-on to hospitality providers with international visitors typically spending more than domestic visitors. Additionally, it is difficult to know whether domestic visitors are tourists or are visitors related to the recovery or displaced residents, the latter of which are less likely to have significant spending flow-ons to other parts of the economy.

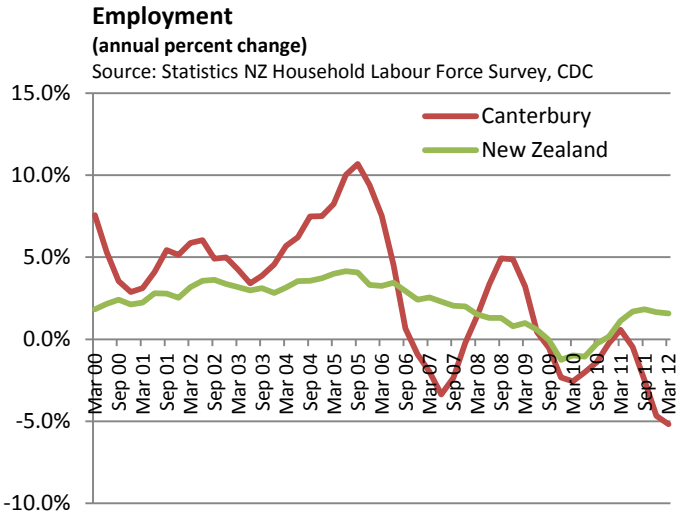
Canterbury's proportion of all NZ's visitors was 13% in March 2012, down from 17% in March 2010. Our place as a major tourist destination in the country has declined.

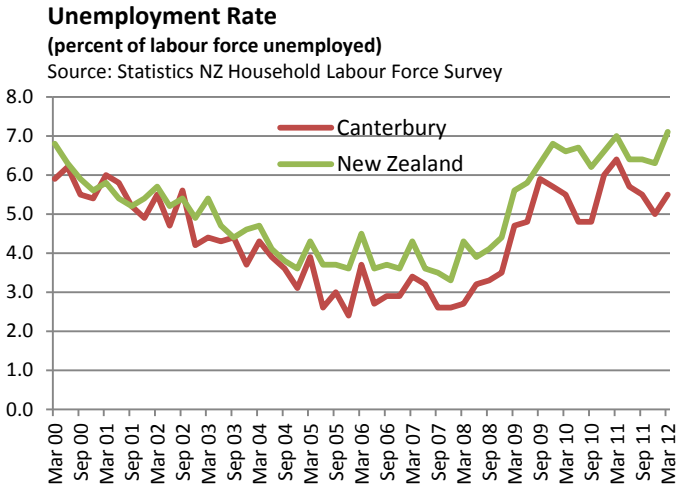


Workforce

Employment and Unemployment

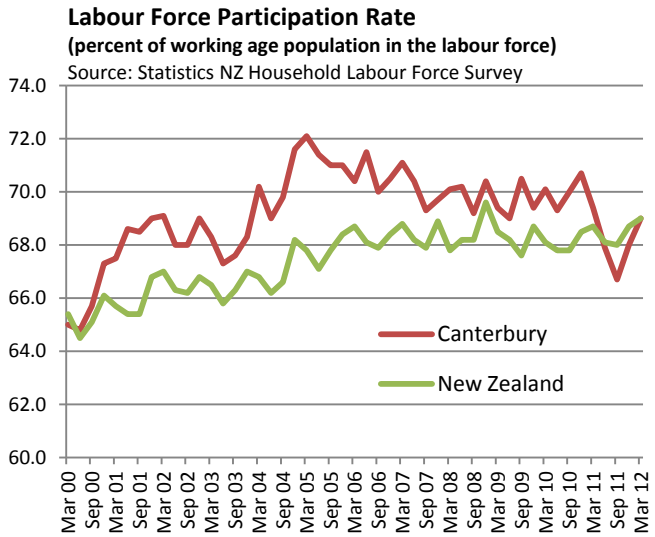
The number of people employed in the region increased significantly in the March 2012 quarter. In March 2012 there was an estimated 325,600 people employed in Canterbury, up 5.1% from 309,700 in December 2011. The sectors which saw the biggest percentage increases between December and March were Rental, hiring and real estate services (41%) Construction (up 24%), and Arts, recreation and other services (22%). These numbers have not been seasonally adjusted. Public administration and safety fell by 14%, following strong increases immediately after the earthquakes in 2011.

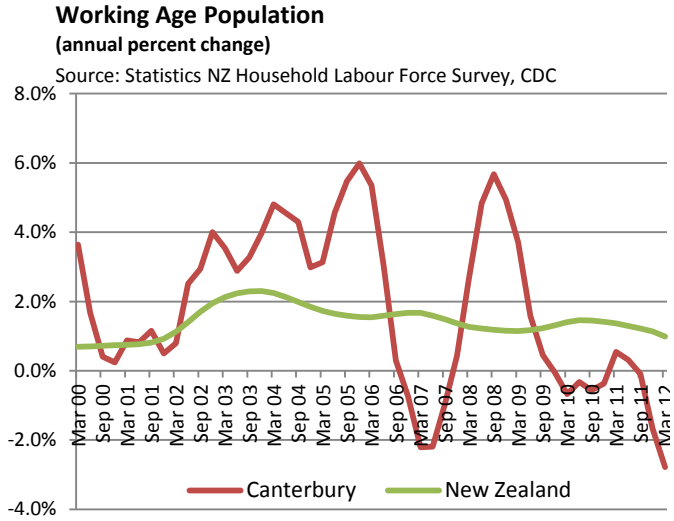




The unemployment rate in the region increased in the March 2012 quarter, following a decrease in the December 2011 quarter. 5.5% of the labour force is now unemployed, compared to 7.1% in New Zealand (up from 6.3%, not seasonally adjusted). The increase in the unemployment rate, despite the increase in the level of employment was caused by an increased participation rate and a significant rise in the working age population. The participation rate increased from 68.0 in December 2011 to 69.0. Since the earthquakes began, the participation rate has been very variable depending on people's feelings about the likelihood of finding work, childcare issues and health. Note the working age population is a very variable series.

Christchurch also saw an increase in the unemployment rate, from 5.6% to 6.4%, although this is well below the 8.1% seen in the March 2011 quarter. The city, however saw a significant increase in employment, with an estimated 16,700 more people employed in the March 2011 quarter than the December 2011 quarter.

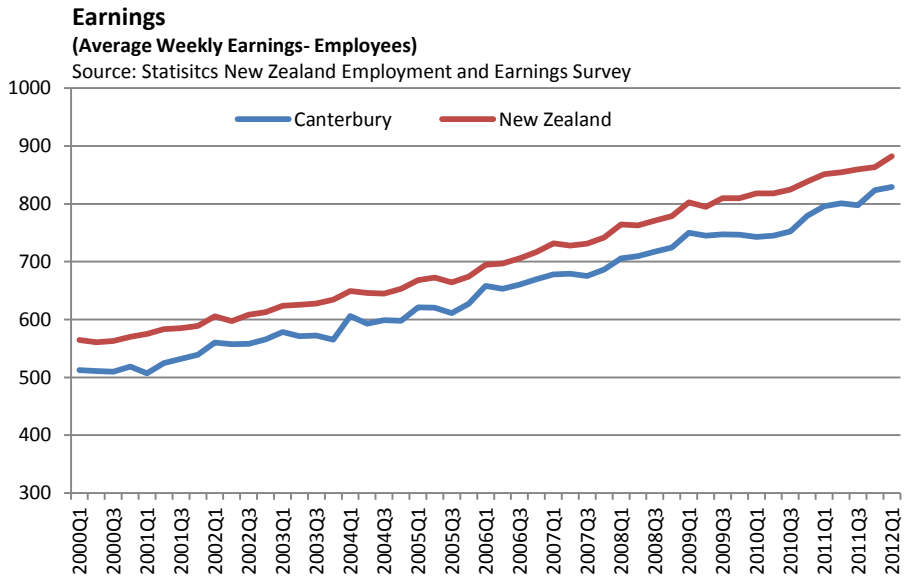




Earnings

Weekly earnings in Canterbury remain around $50 below national weekly earnings. In the March quarter 2012, total weekly earnings in Canterbury were $829.03, down slightly from the December 2011 quarter ($823.63) and up 4.2% from the March 2011 quarter. The gap between NZ and Canterbury has increased, by $13.43 between quarter four 2011 and quarter one 2012.

Canterbury workers worked slightly fewer ordinary time hours than the rest of the country. In the March 2012 quarter, Canterbury workers on average worked 31.05 hours, compared to 31.97 hours nationally. This was a slightly less than the March 2011 quarter (31.42) in Canterbury. The fewer hours worked is likely to contribute to the lower average income.



Migration

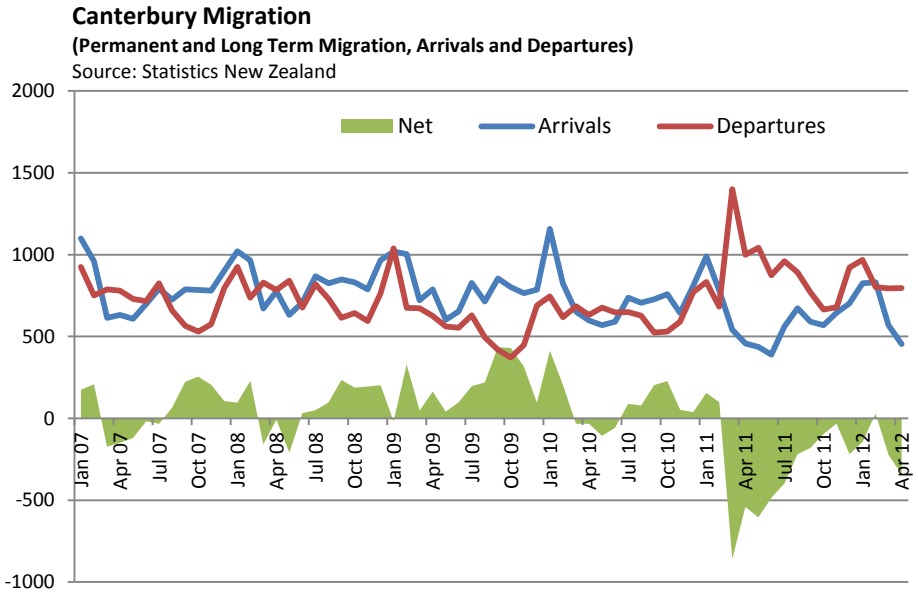
Following the earthquakes, migration (international permanent and long term) fell to both Christchurch and Canterbury. Since March 2011, Canterbury has lost a net total of 4,316 people overseas, an average of 308 more people leaving than arriving each month. In 2010, 90 more people arrived than left the region each month. The higher leaver of net departures appears to be falling back, with 29 more people arriving than leaving in February 2012, but the trend reversed in March and April 2012 with the region loosing 225 and 342 people, respectively.

Since March 2011 Christchurch has lost a net 227 people on average each month. This is largely due to an increase in departures, especially in March 2011. The number of departures has since fallen and is closer to pre-earthquake levels. The number of arrivals also fell significantly; down to only 282 people arriving in the city in June 2011, but has also seen some recovery. In February 2012 82 more people called Christchurch home than left (internationally), but March and April again saw more departures than arrivals.

Migration is threatened by world economic sentiment. The risk adverse nature of people may promote a conservative approach to migration, with life in New Zealand preferable to unemployment overseas.

It is difficult to get a good gauge on domestic population movements. The HLFS suggests the working age population has increased by almost 20,000 in the city over the last quarter. However this series is particularly volatile; the population has simply moved back to where it was a year ago. Education statistics suggests enrolment in Primary and Secondary schools in 2011 was around 3,000 people less than 2010, suggesting significant movement from the city did occur.

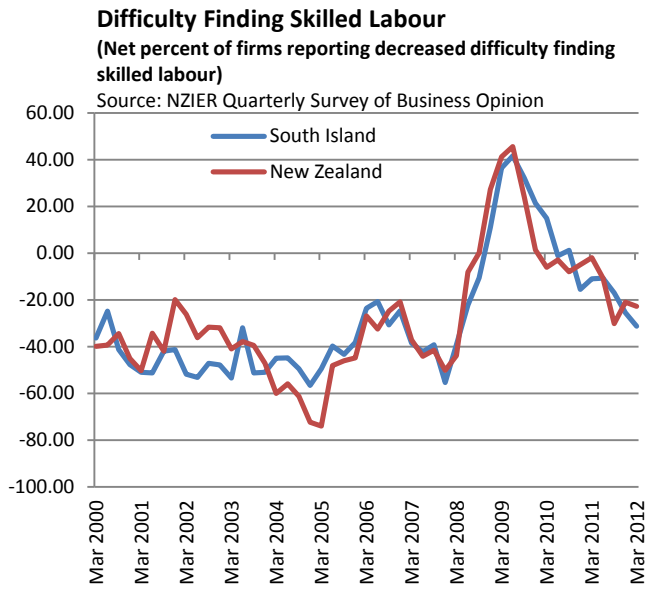
When construction begins in earnest, long term builders may arrive in the city boosting numbers. Of particular importance to the economy is the skill level of those leaving the city; if it is biased towards higher skilled workers this could further the skill shortage in the future, impeding growth.

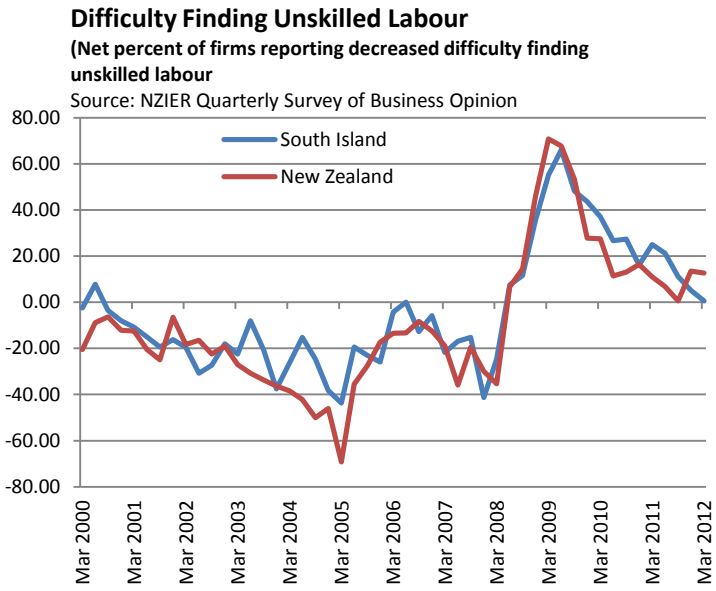


Ease of Finding Labour

During the recession firms found it significantly easier to find skilled and unskilled labour. The increased difficultly to source skilled labour suggests early signs of growth. In the March 2012 quarter, a net 31% of firms in the NZIER Quarterly Survey of Business Opinion in the South Island found it harder to source skilled labour than in the previous quarter (38% found it harder, 9% found it easier). This may be the result of changing demand from businesses or changing supply from workers, with significant movements in the labour force seen in the Household Labour Force Survey. If those choosing to leave the city or not seek work are highly skilled, this could present a challenge for businesses finding suitable staff. The problem is less profound in New Zealand as a whole, with a net 23% finding it more difficult to source skilled labour.

Finding unskilled labour is not yet problematic, with 1% of South Island firms finding it easier than the previous quarter (although this too was lowest level since 2008). Going forward skilled labour could be a key constraint to growth.

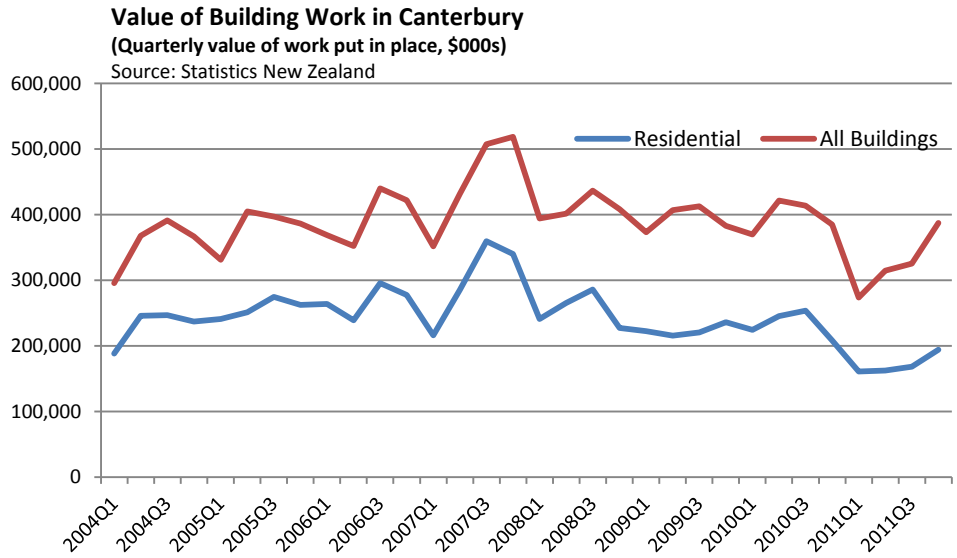




Construction, Manufacturing and Services

Building Activity and Consents

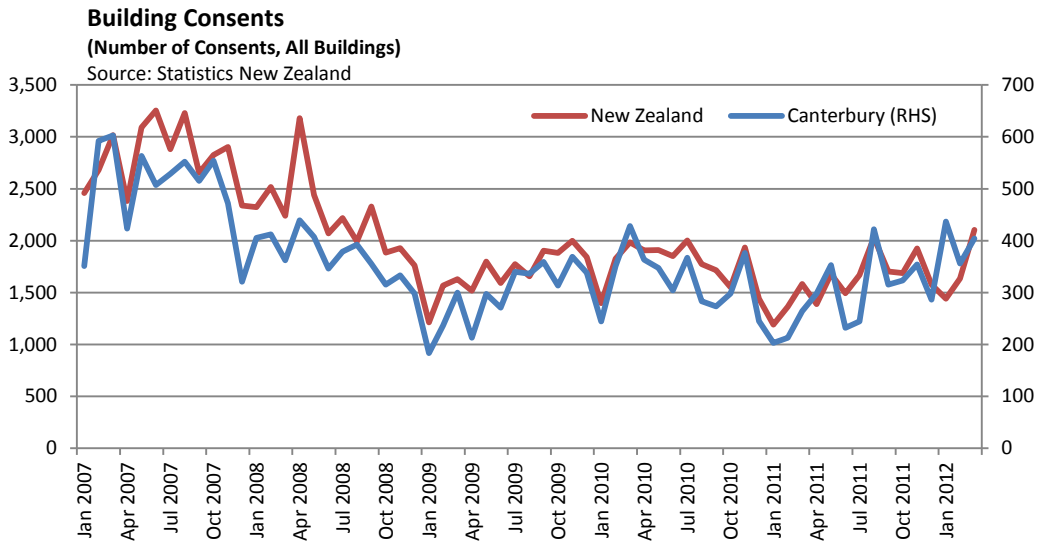
The damage to building stock has also been reflected in building activity and consents. The value of building work has increased by 19% between the third and fourth quarters of 2011. This was largely driven by (implied) non-residential building construction which increased by 23%, however residential construction also increased by 15%. This was the largest increase for both series since the earthquakes. Residential building activity is, however, still sitting below pre-earthquake levels.



The building consent figures are showing improvement. The number of building consents in Canterbury in March 2012 were 13% higher than in February and 53% above March 2011. This was largely driven by non-residential building consents, which grew from 96 in February to 123 in March. Only 33 (27%) of these were tagged as Earthquake related. Residential consents in the region grew by only 8% to 281 consents in March 2012. Over half of these (54%) were tagged as related to the earthquakes, up from 42% in February 2012.

Consents in Christchurch city fell back between February and March from 127 to 105. This follows 227 consents issued in January.

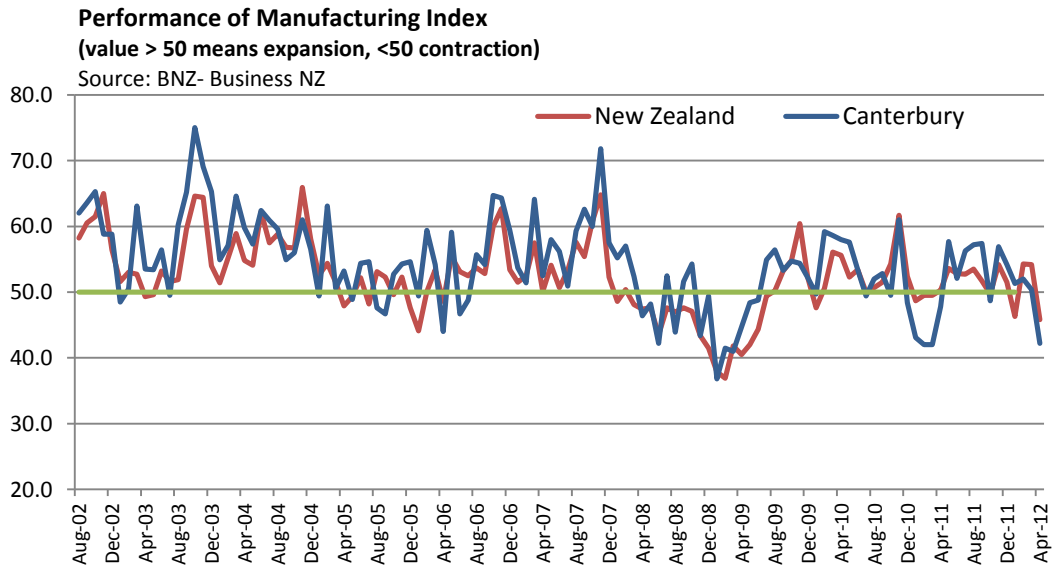
Consents have been quite erratic since the February Earthquake, probably timed with land decisions, insurance payments and the capacity at the Christchurch City Council to process consents. On average since February 2011, 322 consents have been issued each month, almost the same as the 323 on average in the 2010 year. These numbers suggest that while building activity will occur in the region in the near future, there are still plans to be developed before the significant pick up will occur in the construction sector that is expected for the rebuild.



Performance of Manufacturing

The BNZ- Business NZ Performance of Manufacturing Index measures activity in the manufacturing sector. The April 2012 figure showed slightly retraction nationally, after increases in December through to March. The index for the country sits at 48.0, seasonally adjusted (anything over 50 indicates expansion).

The Canterbury story is similar, with a decrease in the index to 42.2 (from 50.4 in March). These numbers are not seasonally adjusted. Challenges to the manufacturing industry have been the high New Zealand dollar, which limits exporter income and decreasing sentiment about the world economy. As construction in Canterbury picks up, contributing manufacturing components should see a boost.

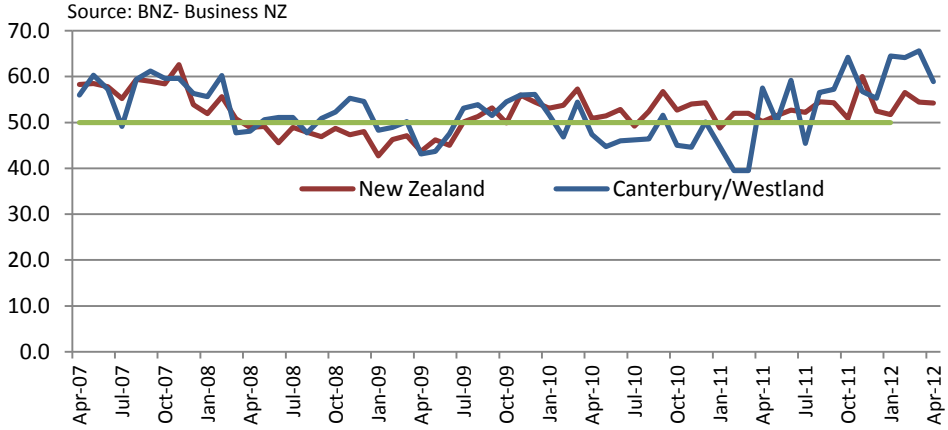


Performance of Services

BNZ- Business NZ surveys the performance of services, providing an estimate of the level of activity. In April 2012, the national index saw an increase, from 54. 2to 56.7 (seasonally unadjusted). As for the manufacturing index, a value above 50 indicates expansion, and below 50 contraction. The New Zealand index has been in expansion since July 2010.

The Canterbury index is more volatile. While April saw a decline in the index, it is still in expansion mode, coming down from a high of 65.6 in March to 58.9 in April (unadjusted). The Canterbury index was performing poorly in early 2011. Services activity related to the earthquakes, including many planning roles, will see a boost when the rebuild begins.

Performance of Services Index (seasonally unadjusted)
(value > 50 means expansion, <50 contraction)
Source: BNZ- Business NZ



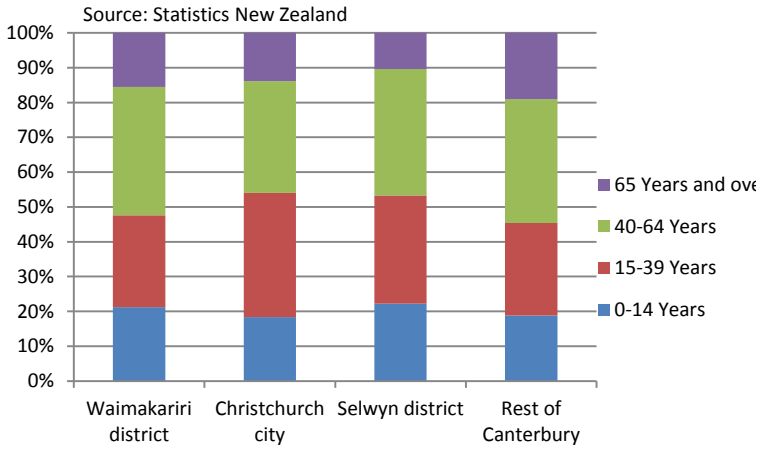
Overview of Region's Economy

Population

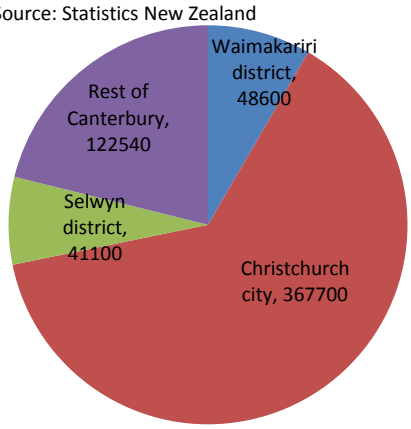
In 2011, two thirds (66%) of the population in the Canterbury region was based in Christchurch, around 367,700 people. The second biggest Territorial Authority was Waimakariri (48,600) followed by Timaru (44,700). Christchurch has a slightly younger population than Canterbury; 53% of people are below 40 years, compared to 51% for Canterbury (but 54% nationally).

Between 1996 and 2011 the Canterbury region grew by an estimated 17%. The faster growing areas in Canterbury were Selwyn (61% growth) and Waimakariri (47% growth). Christchurch growth was around 13%. It is difficult, however, to estimate the current Christchurch population due to earthquake related displacement.

Estimated Population Age Breakdown (2011)
Source: Statistics New Zealand

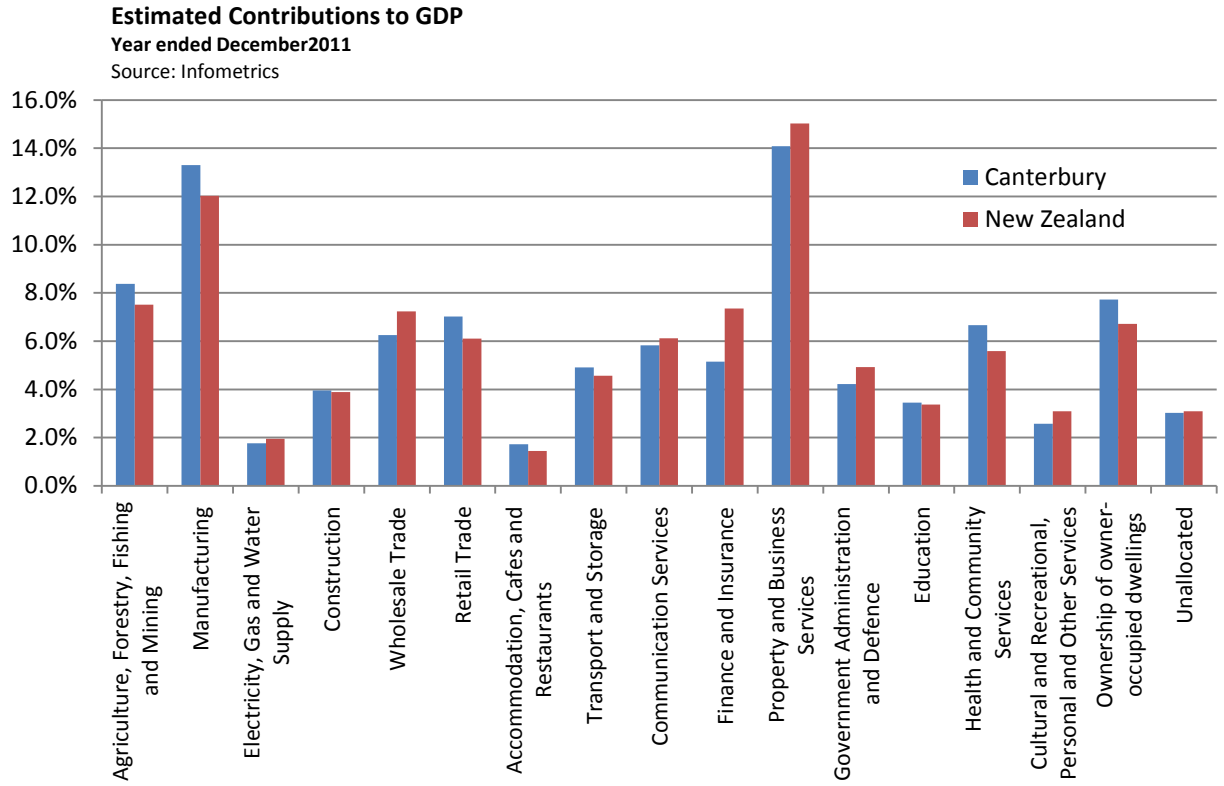


Canterbury Estimated Population Breakdown (2011)
Source: Statistics New Zealand



Structure

The Structure of the Canterbury economy is similar to the national economy. No official measure of regional GDP exists but Infometrics provides an estimate broken down by sector. The estimated most significant contributor to GDP, in the year ended December 2011, was Property and Business Services, at 14.1% (compared to 15.0% nationally). This was followed by Manufacturing (13.3% in Canterbury, 12.0% in New Zealand). Manufacturing includes Food and Beverage Manufacturing (including milk), a significant sector in Canterbury. Agriculture directly contributes an estimated 8.2% of the region's economy, but more in processing, service and distribution.



Data Sources

ANZ: http://www.anz.co.nz/commercial-institutional/economic-markets-research/

BNZ- Business NZ: http://www.businessnz.org.nz/surveys/501

Infometrics Ltd: http://www.infometrics.co.nz/

New Zealand Institute of Economic Research Inc (NZIER): http://nzier.org.nz/n

Paymark: http://www.paymark.co.nz/cms_display.php

Real Estate Institute New Zealand: https://www.reinz.co.nz/

Statistics New Zealand: http://stats.govt.nz/

Feedback and suggestions

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