

CHRISTCHURCH AND CANTERBURY QUARTERLY ECONOMIC REPORT

The economic transition continues



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Economic indicators in both Christchurch and Canterbury are transitioning to normality after several years of exceptionally strong performance. The earthquake rebuild which has stimulated the economy is at a plateau level, which means that although activity remains high, it is no longer providing impetus for growth. Going forward, it is the underlying economy which will drive prosperity for the region.

Unemployment and workforce participation rates are both beginning to converge with the national average. In the September 2016 quarter, the unemployment rate in Christchurch was 4.1 percent, below the New Zealand rate of 4.8 percent, with the gap continuing to close. Workforce participation remains high at 71.9 percent, above the national average of 69.6 percent, but is coming off recent highs.

The most recent GDP estimates from Infometrics show that growth is easing while activity remains high. Christchurch's GDP growth in the year to June 2016 was 0.8 percent, with activity worth \$18.8bn. Similarly, Canterbury's growth eased to 0.9 percent, with activity worth \$27.7bn.

A key contributor to the underlying economy, the manufacturing industry continues to grow, with the Performance of Manufacturing Index reporting near continuous expansion since 2012. Exports of machinery and mechanical equipment from Canterbury were worth \$249m this quarter.

The construction industry continues to perform at a high level, with activity sustained at \$1.2bn per quarter for the past two years. According to Ministry of Business, Innovation and Employment (MBIE), the rebuild is 55 percent complete, and the level of activity will begin to gently ease from now on. An increasing proportion of rebuild activity will be made up of commercial and public sector construction, with the recovery of housing and infrastructure well advanced.

The national housing market continues its strong performance, with prices rising 6.3 percent, compared to 3.4 percent in Christchurch in the year to September. Similarly, national rents grew by 3.8 percent whilst Christchurch rents fell by 2.5 percent over the same period. This represents an adjustment following years of very strong growth post-earthquake.



ECONOMIC TRENDS

Gross Domestic Product

Economic activity in the region remains at a very high level, but growth has settled at a low rate.

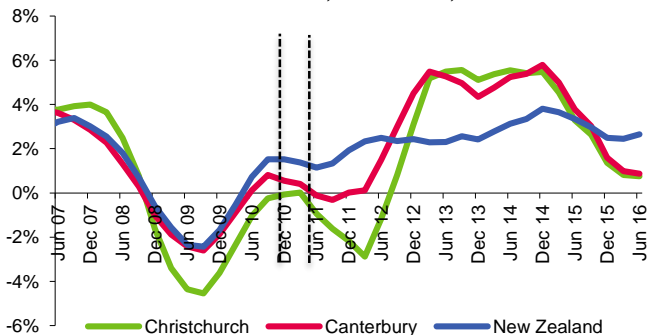
The value of economic output in Christchurch rose to \$18.8bn in the year to June (measured in 2010 prices – Infometrics estimates). That represents 8.3 percent of New Zealand GDP, down slightly from 8.5 percent in the year to June 2015. Output from Canterbury overall reached \$27.7bn in the year to June 2016. This equates to 12.3 percent of national output, down slightly from 12.5 percent in the year to June 2015.

Economic output from the construction sector has plateaued following a period of strong growth. While construction will maintain a high level of activity in the city, it will no longer contribute towards growth – this will instead come from the underlying economy.

GDP growth in the year to June 2016 was 0.8 percent for Christchurch and 0.9 percent for Canterbury, well below the New Zealand rate of 2.7 percent.

Gross Domestic Product
Annual Average Percent Change

Source: Statistics New Zealand, Infometrics, CDC



Retail Trade

Retail sales continue to ease after a period of very strong growth.

In the quarter to June 2017, retail spending in Canterbury fell 2.9 percent on the previous year, below the New Zealand growth rate (5.5 percent), for a fourth consecutive quarter.

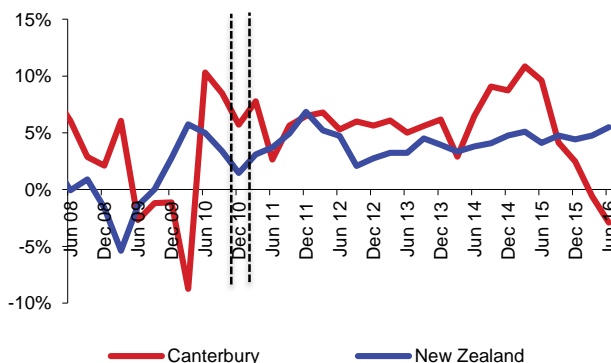
Within Christchurch, overall retail sales grew by 2.0 percent, including accommodation and food services which grew by 5.2 percent.

Strong growth in retail spend following the earthquake was likely due to spending on construction materials for earthquake repairs as well as migrant construction workers setting up their households. Going forward, tourism is likely to be a key driver of retail spending growth.

Spending by international tourists in Canterbury grew by 9.3 percent in the year to August 2016, ahead of domestic tourist spending which grew by 1.4 percent.

Retail Trade
Change in retail sales from same quarter a year ago

Source: CDC, Statistics New Zealand





Guest Nights

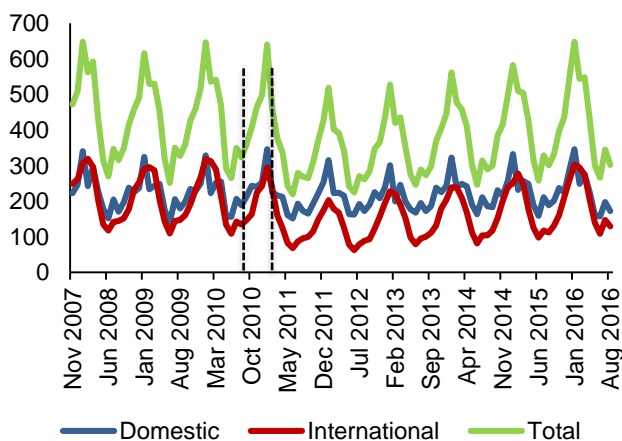
The region’s visitor sector is undergoing a steady recovery which is led by international tourists and a broadening season, driven by growth in Chinese tourists.

Strong growth in international guest nights have offset a relatively weak winter for domestic tourists in Canterbury. International guest nights in Canterbury were up 15.2 percent in August 2016 compared to August 2015, reaching 129,000. Domestic guest nights were down 8.5 percent over the same period, with 173,000 guest nights in August 2016.

In Christchurch specifically, guest nights have lagged the rest of the Canterbury, falling 3.4 percent between August 2015 and August 2016.

International tourist expenditure in Canterbury is up 7 percent in the three months to August 2016 compared to last year. Domestic tourist expenditure grew only 1 percent over the same period.

Guest Nights Canterbury (000s)
Domestic and International Guest Nights
Source: Statistics NZ



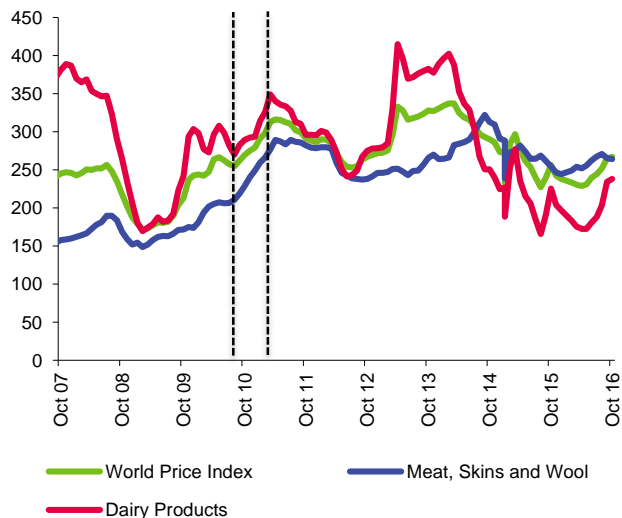
Global Commodity Prices

Global Commodity Prices have experienced an increase in over the past two quarters. However, a strong New Zealand Dollar has muted the impact for local commodity exporters.

The ANZ Commodity Price Index tracks six of New Zealand’s key export commodities – meat, skins and wool; dairy; horticultural; forestry; seafood; and aluminium. The overall world price index appreciated by 0.7 percent in October 2016, and was up 4.0 percent on October 2015. World prices for dairy; horticulture; forestry and aluminium have all appreciated in October. World prices for meat, skins and wool eased downwards, but are still ahead of October 2015.

The recovery of dairy product prices is well underway, with 5.6 percent growth in world prices over the past year. However, world prices remain 43 percent below the previous peak in 2013. Appreciation of the New Zealand dollar over the past year has hindered this gain for New Zealand exporters, so dairy farm expenditure is likely to remain tight.

World Price Index
Base July 1986=100
Source: ANZ Commodity Price Index





Commodity Exports and Imports

Exports and imports data provides a good indication of how Christchurch interacts with the rest of the world – although these indicators can be volatile. Exports and imports that traverse another New Zealand port will not be captured in the statistics for Canterbury (and similarly not all goods exported in Canterbury are produced in Canterbury).

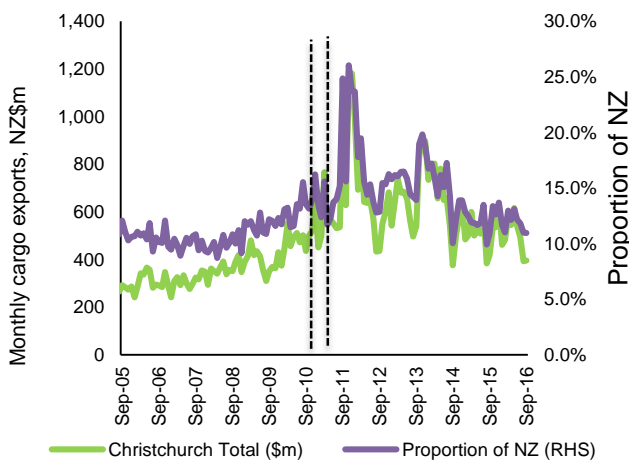
In the September quarter, the value of exports through Christchurch’s air and sea ports was \$1,280m, slightly less than the same quarter last year. Exports of machinery and mechanical appliances remain a very significant export for the region, with \$249m exported in the quarter. The value of dairy exports eased slightly to \$253m in the September quarter, down 5 percent from the September 2015 quarter.

Turning to imports, the value through the airport and Lyttelton was \$1,211m in the September quarter, down 3 percent from the same quarter last year.

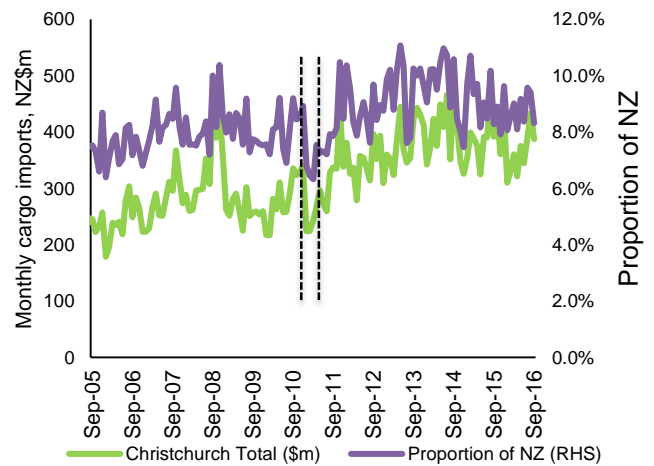
There was a trade surplus through the local ports of \$69m in the September quarter, down slightly from \$148m in the same quarter last year.

Both imports and exports are likely to remain steady in the coming year given the modest growth outlook for the global economy.

Commodity Exports
Christchurch Airport and Lyttelton
Source: CDC, Statistics NZ



Commodity Imports
Christchurch Airport and Lyttelton
Source: CDC, Statistics NZ





CONSTRUCTION AND HOUSING

Building Activity

Building activity in the region remains at a very high level, with \$1.2bn of activity underway in the June 2016 quarter.

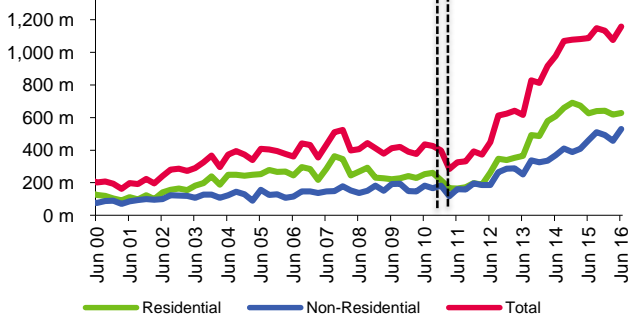
This level is expected to be maintained for the next two to three years, however the mix of buildings is changing.

Residential construction activity has held steady over the past year, however falling residential consents mean that activity will also fall in the near future. Non-residential construction has been creeping upwards, but is likely to remain at a similar level for the time being. A number of major commercial and government projects are currently underway or being designed, which will provide a steady non-residential workflow.

Value of Building Work in Canterbury

Quarterly value of work put in place, \$m

Source: Statistics New Zealand



Building Consents

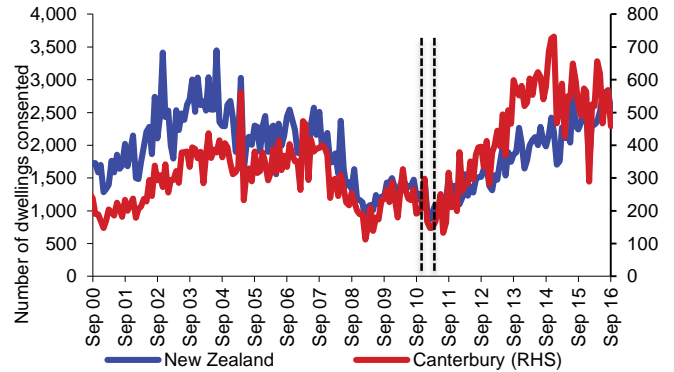
In the September 2016 quarter there were 1,569 new residential building consent approvals for Canterbury, down 11 percent from the September 2015 quarter. Within Christchurch, 807 new residential buildings were consented, down 29 percent from September 2015.

Residential consents reached record highs in 2014, however the rebuild emphasis is shifting from residential to non-residential construction. Residential consents are still considerably higher than their historic average but are likely to fall further in the coming year.

Dwellings Consented

Number of dwellings consented, all new residential buildings

Source: Statistics New Zealand



Residential Rent

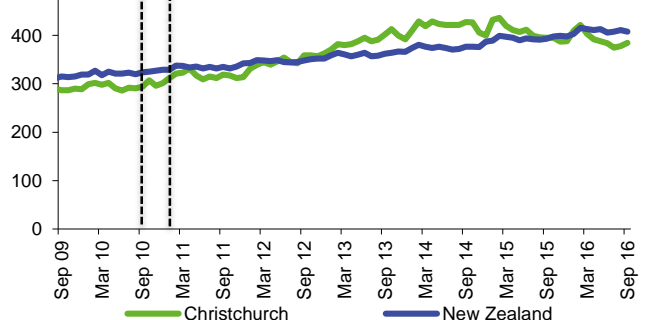
An increased supply of housing and relatively steady demand has led to easing rents in Christchurch and Canterbury. Private sector mean weekly rents in Christchurch were \$385 in September 2016, 2.5 percent lower than September last year. Annual rent growth has been consistently negative for the past 18 months, and is likely to continue as the market continues to adjust as the residential rebuild is completed.

New Zealand rents grew 3.8 percent over the past year, reaching \$408 per week in September. This is notably less than house price growth, suggesting that residential property investors in other regions are focussed on capital gain rather than yield.

Mean Residential Weekly Rent

Private Sector Landlords, Rent \$

Source: Min. Business, Innovation & Employment





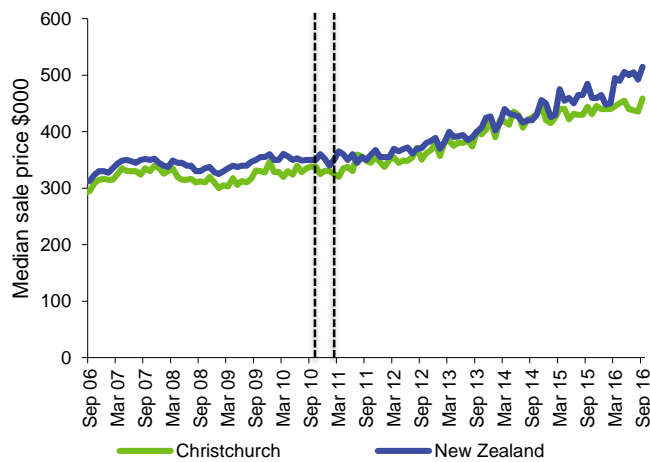
House sales

Growing house sale volumes are keeping a lid on house price growth in the city and region. The number of houses sold during September 2016 in Christchurch was 5.3 percent higher than September 2015. For Canterbury, the growth in sales volumes was even stronger, with September 2016 sales 10.2 percent higher than September 2015.

House prices continue to grow, but at a decreasing rate. The median house price for Christchurch was \$459,000 in September 2016, 3.4 percent higher than September 2015. The median sale price for Canterbury was \$434,250, also up 3.4 percent compared to last year. Price growth is suppressed by an increasing number of completed repairs and rebuilds.

The rest of New Zealand is experiencing faster growth in house prices. The median house price for New Zealand was \$515,000 in September 2016, up 6.3 percent on September 2015. The number of houses sold dipped in September 2016, but sales for the year to September were 5.0 percent higher than the year to September 2015.

Median Sale Price
Monthly median sale price of dwellings
Source: Real Estate Institute of New Zealand



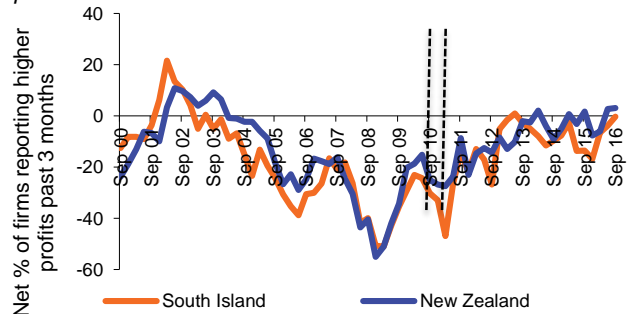
CONFIDENCE AND BUSINESS TRENDS

Firm profitability

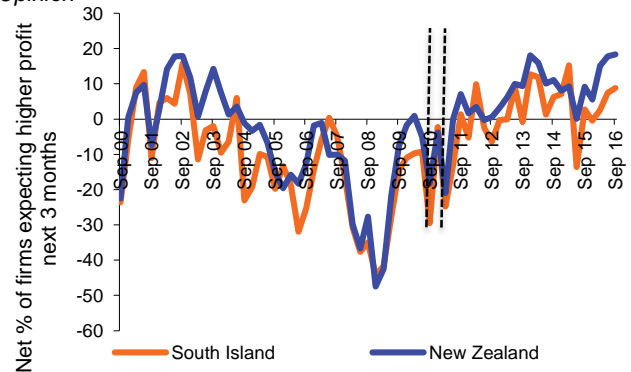
New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion for the September quarter showed that profitability has been steady on average for South Island businesses in the past quarter. Across New Zealand there were a net 3 percent of firms that reported an increase in profits.

Looking ahead, a net 9 percent of South Island businesses expect higher profits in the coming quarter, compared to a net 18 percent of businesses across New Zealand. The South Island has performed well by this measure for some time due to rebuild activity, however the rebuild plateau means that this will ease.

Profitability of Firms- Past three months
Net percent of firms reporting higher profits
Source: NZIER Quarterly Survey of Business Opinion



Profitability of Firms- Next three months
Net percent of firms expecting higher profits
Source: NZIER Quarterly Survey of Business Opinion





Performance of Manufacturing

The BNZ-Business NZ Performance of Manufacturing Index (PMI) continues to paint a positive picture of manufacturing in the region.

The non-seasonally adjusted index averaged 53.1 in the September quarter, above the rise/fall mark of 50, and continuing a largely positive run since late 2012.

The manufacturing sector is a key driver of economic momentum outside of the rebuild and employed over 35,000 people in the region in 2015.

Performance of Services

The BNZ-Business NZ Performance of Services survey provides a gauge on the performance of the services sector. In the Canterbury-Westland region, the sector has been in sustained expansion for the past two and a half years.

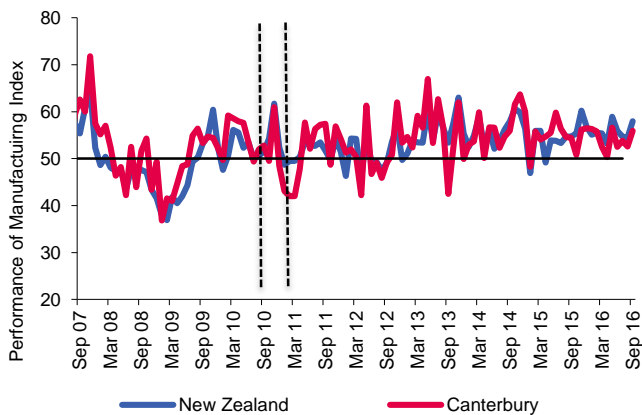
The PSI indicator averaged 55.0 during in the September quarter of 2016, down slightly from 56.4 in the June quarter. Values over 50 indicate the sector is expanding and the index has remained well above this threshold since 2013.

The sector has been very strong at a national level too, averaging 55.3 in the September quarter, continuing a positive run since 2011.

Performance of Manufacturing Index (non-seasonally adjusted)

Value > 50 means expansion, <50 contraction

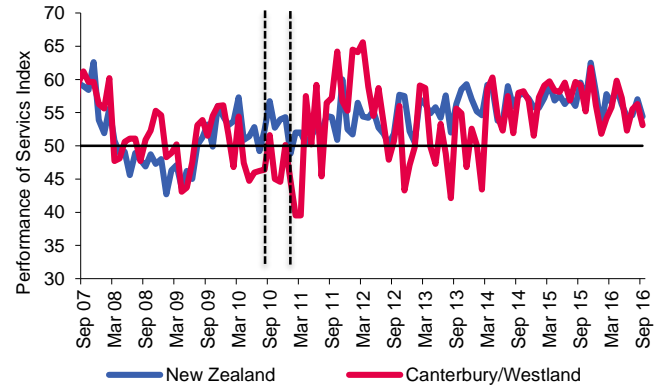
Source: BNZ- Business NZ



Performance of Services Index (non-seasonally adjusted)

Value > 50 means expansion, <50 contraction

Source: BNZ- Business NZ



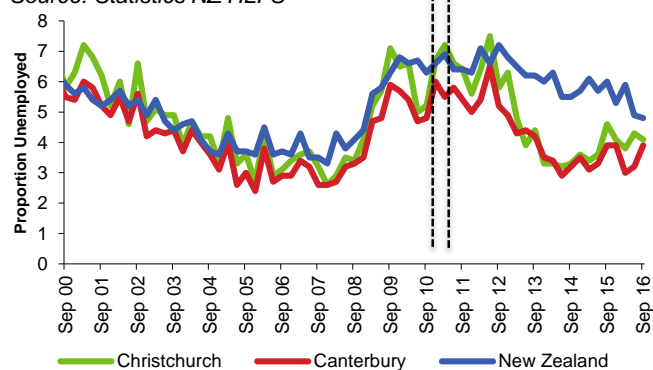


WORKFORCE

Unemployment

The unemployment rates in Christchurch and Canterbury remain at low levels. In the September 2016 quarter, 4.1 percent of the Christchurch labour force was unemployed, compared to 3.9 percent for Canterbury and 4.8 percent for New Zealand. Unemployment in Christchurch and Canterbury are likely to slowly rise as rebuild activity eases, converging with the New Zealand level.

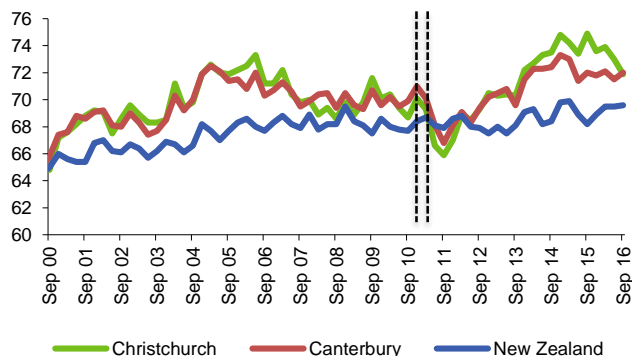
Unemployment Rate
Percent of labour force unemployed
Source: Statistics NZ HLFS



Participation

Labour force participation in Christchurch and Canterbury reached record highs as the rebuild scaled up; however, it is now easing as the rebuild passes its peak. In the September 2016 quarter, the labour force participation rate for Christchurch was 71.9 percent. This figure represents the proportion of the population aged 15 years or older that is either working or actively looking for work. For Canterbury, the rate was 72.0 percent, and New Zealand 69.6 percent.

Labour Force Participation Rate
Percent working age population in labour force
Source: Statistics NZ HLFS

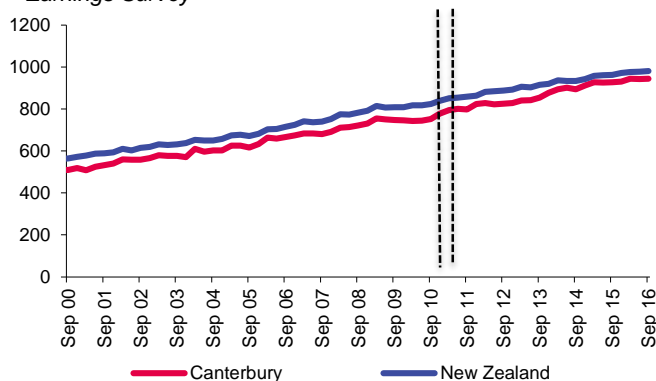


Earnings

Earnings have grown by a similar rate in both Canterbury and New Zealand over the past year, although earnings in Canterbury remain below the national average.

Average earnings for employees (including overtime) grew by 1.8 percent in Canterbury over the past year, reaching \$945.09 per week. Across New Zealand, earnings grew by 1.9 percent, reaching \$981.82. Canterbury employees worked 32.47 hours on average in the September 2016 quarter, compared to 32.9 nationally.

Earnings
Average Weekly Earnings \$ - All Employees
Source: Statistics New Zealand Employment and Earnings Survey





International Migration

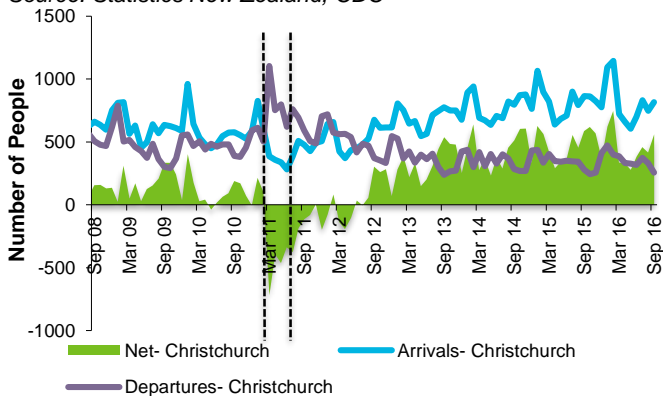
Net migration into Christchurch and Canterbury remains at a high level, although there are indications of a gentle easing underway.

In the September quarter, 2,394 people arrived in Christchurch, which – after accounting for those that departed – is a net gain of 1,434 people. For Canterbury, there were 3,146 arrivals for a net gain of 1,818. Across New Zealand, 33,282 arrived for a net gain of 19,804.

High levels of net migration are a combination of both high arrivals and low departures. This is driven by a range of migrant types – New Zealanders returning home, international students arriving to study and migrants arriving to work. A growing construction workforce and increasing popularity of New Zealand as a place to work and live has spurred on migration of returning New Zealanders and migrant workers in recent years. However, easing rebuild activity will lead to a softening of migration in the near future.

Christchurch International Migration Permanent and Long Term Migration, Arrivals and Departures

Source: Statistics New Zealand, CDC

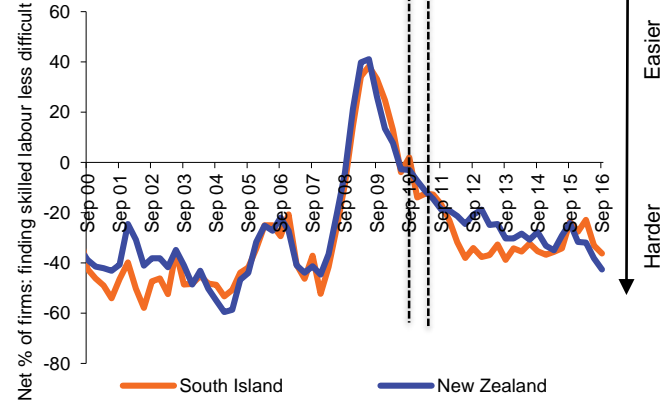


Ease of Finding Labour

In the September quarter of 2016, a net 36 percent of South Island firms reported increased difficulty finding skilled labour, and a net 8 percent reported increased difficulty in finding unskilled labour. Businesses reported that the difficulty of finding skilled and unskilled labour increased as the rebuild scaled up in 2012.

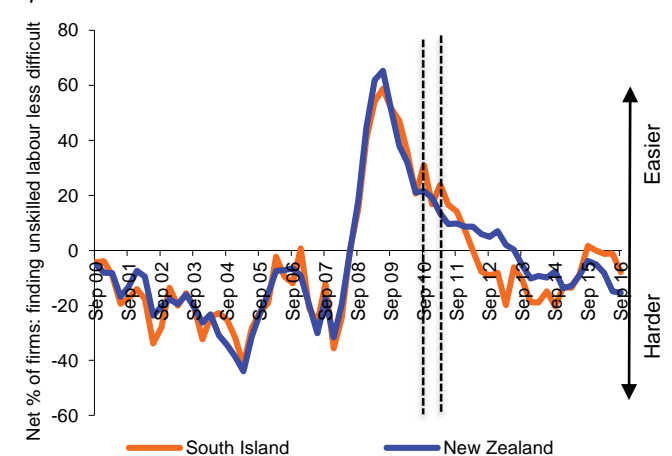
Difficulty Finding Skilled Labour Net percent of firms reporting decreased difficulty finding skilled labour

Source: NZIER Quarterly Survey of Business Opinion



Difficulty Finding Unskilled Labour Net percent of firms reporting decreased difficulty finding unskilled labour

Source: NZIER Quarterly Survey of Business Opinion



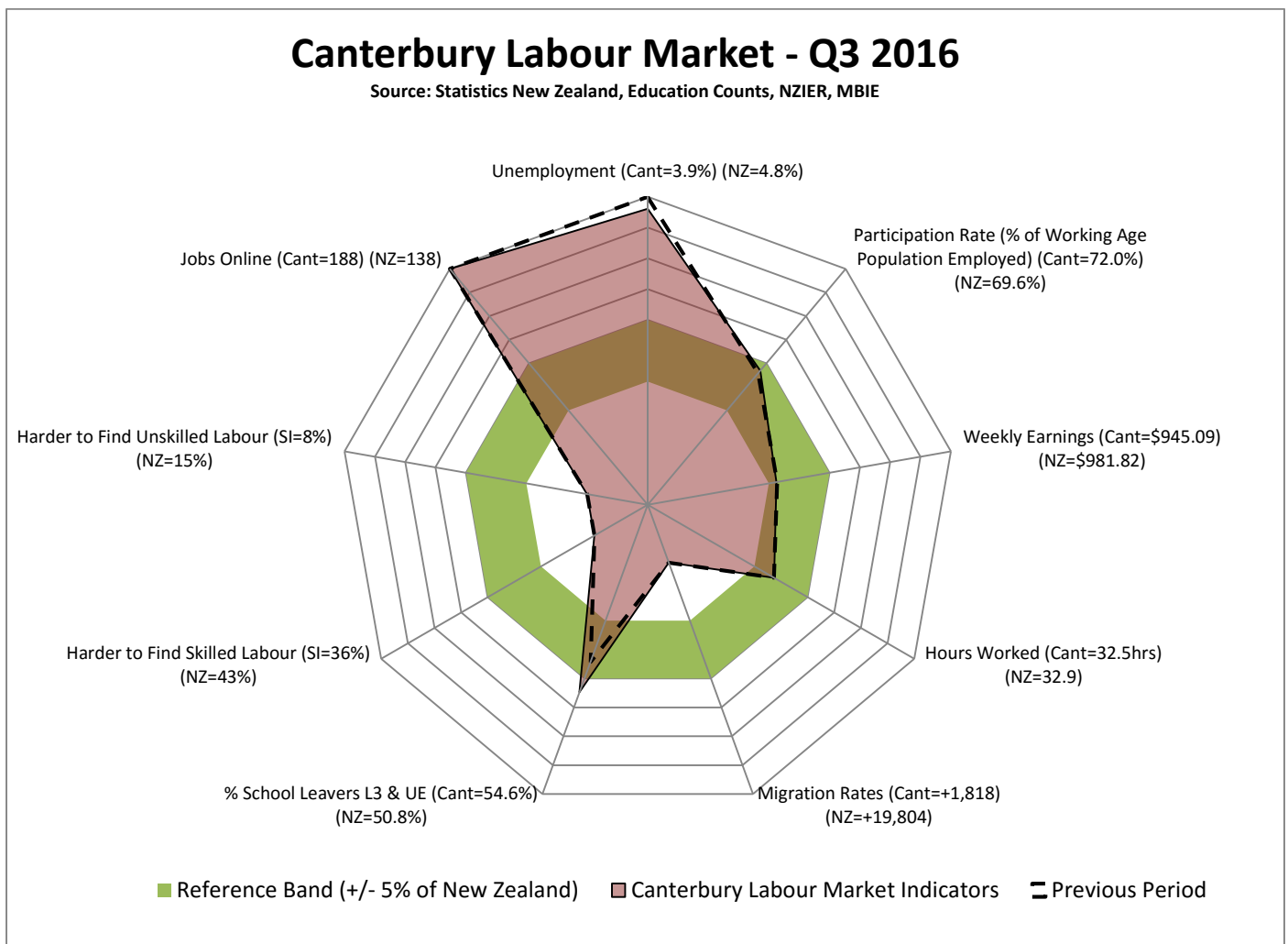


CDC Labour Market Spider Graph

This graph examines various labour market measures for the Canterbury region in the September quarter of 2016, comparing them to a reference band which is set at plus or minus five percent of the New Zealand level. The previous level for Canterbury (June 2016) is shown by the dotted line.

This chart shows that Canterbury is broadly in line with the New Zealand average for indicators such as hours worked, weekly earnings, participation rate and school leaver achievement. Canterbury is below the New Zealand average in terms of migration and difficulty finding labour. Canterbury performs strongly in terms of unemployment and job advertisements.

Notes:
Unemployment rate – HLFs September 2016 quarter
Participation rate – HLFs September 2016 quarter
Weekly Earnings - QEX - Average Weekly Earnings (Employees) by Regional Council and Sex for September 2016 quarter
Hours Worked - QEX - Average Weekly Paid Hours (Employees) by Regional Council and Sex for September 2016 quarter
% School Leavers L3 - Education Counts - School Leavers by Highest Attainment and Regional Council 2015
Jobs Online – Ministry of Business, Innovation and Employment Skilled Job Vacancy Index (May 2007 = 100) average for July- September 2016
Difficulty finding labour - NZIER QSBO South Island Seasonally adjusted figures for September 2016 quarter. Net finding more difficult than previous three months
The graph only extends to 25% above or below the New Zealand rate. Any figure outside this range is shown graphed at the limit.



FOCUS ON DEMOGRAPHY

Christchurch's diverse future

The demographics of Christchurch are ever-evolving, however the earthquakes and subsequent rebuild have accelerated this evolution. The city's population is more diverse than ever, and will become more so. Migration from developing countries will be a lifeline to maintain the workforce, as developed countries around the world are all facing the same challenge of an ageing workforce that reduces domestic labour supply.

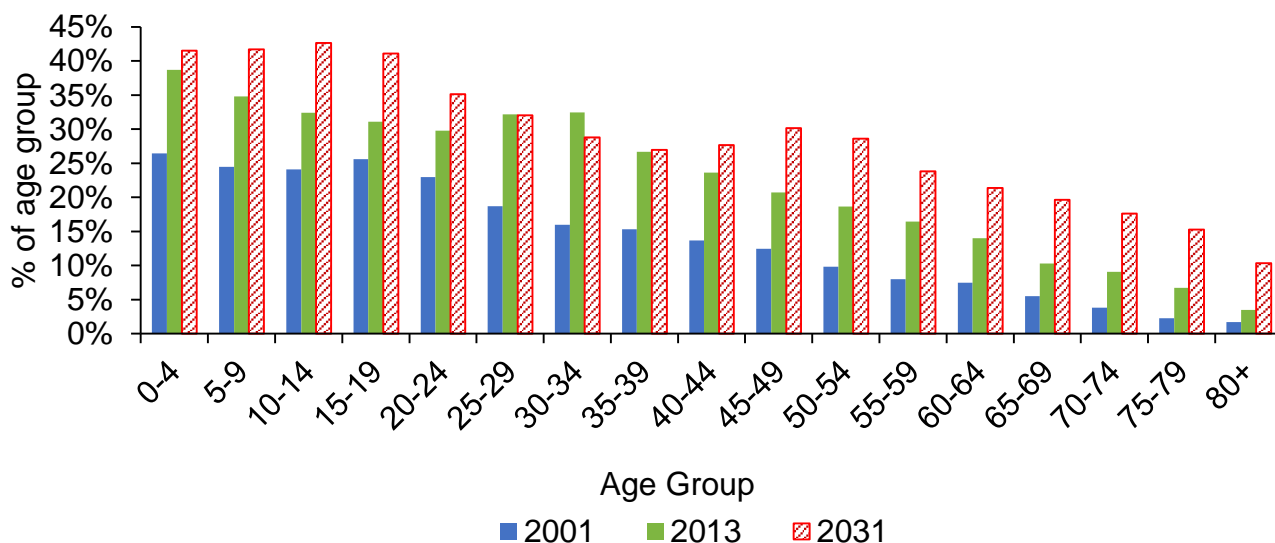
Diversity is led by the young, with 29 percent of Christchurch's population under the age of 35 identifying with non-European ethnicity. This is set to rise to 37 percent by 2031. The following graph illustrates how diversity has grown over time, as highly diverse young cohorts grow older, gradually increasing diversity in older age groups, supplemented by further migration. For now, diversity is most visible in playgrounds, schools and tertiaries; however, by 2031 the change will be apparent in workplaces too. The proportion of non-Europeans in the Christchurch workforce is set to increase from 27 percent in 2015 to 39 percent in 2031.

The overall population will in turn experience a similar change, with the proportion of Christchurch residents of all ages identifying with non-European ethnicities will grow from 22 percent in 2015 to 29 percent in 2031.

Even after accounting for this necessary migration, the median age of the population will continue to increase, and many people are likely to continue working beyond the traditional retirement age of 65. Projections from Statistics NZ indicate that the workforce participation rate for people aged 65-59 is projected to rise from 38 percent in 2011 to 59 percent in 2031. For those aged 80 years and older, this is projected to grow from 8 percent to 20 percent. Altogether, this means that the proportion of the workforce over the age of 65 will grow from 7 percent to 12 percent by 2031.

Non-European ethnicity in Christchurch

Source: Statistics New Zealand



Data sources

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

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

Education New Zealand: <http://enz.govt.nz>

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

Ministry of Business, Innovation and Employment: <http://www.mbie.govt.nz/>

New Zealand Institute of Economic Research Inc (NZIER): <http://nzier.co.nz/>

BusinessNZ: <http://www.businessnz.org.nz>

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

Statistics New Zealand: <http://www.stats.govt.nz/>

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