

CHRISTCHURCH AND CANTERBURY QUARTERLY ECONOMIC REPORT

Steady growth. Positive long term trends



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Christchurch and Canterbury's economies continue to exhibit positive signs, as they remain in a transition phase between earthquake recovery and business-as-usual. Construction activity is starting to ease off to a sustained plateau, however labour market indicators continue to portray a tight labour market and economic activity remains at a very high level.

Unemployment is moving closer to the national average. In the March 2017 quarter, the unemployment rate in Christchurch was 4.9 percent, only just below the national average of 5.2 percent.

Gross Domestic Product (GDP) remains at a very high level and continues to grow, albeit at a modest rate compared to recent highs.

Estimates from Infometrics indicate that GDP in Christchurch grew by 1.8 percent in the year to December 2016, reaching \$19.3 billion.

Canterbury grew by 1.4 percent, reaching \$28.3 billion. The national economy is buoyant, growing 3.2 percent over the same period. Growth in the year to September 2016 was similar for all three areas.

Both the manufacturing and service sectors are expanding, with performance indicators reporting a positive reading for both sectors in February. This follows a largely positive run since 2013.

The visitor sector has faced a subdued summer season following the disruption of the Kaikoura earthquakes and maturity of the Chinese market. Guest nights in the region remained at a similar level to the previous year, driven by easing growth in Chinese visitor arrivals.

House prices and rents in Christchurch and Canterbury remain subdued relative to New Zealand overall, and new construction remains very strong. Christchurch house prices have grown by 5.6 percent between March 2016 and March 2017, compared to 3.5 percent for Canterbury and 10.3 percent nationally. Rents in Christchurch continued a falling trend – dropping by 1.5 percent and 3.9 percent, whilst New Zealand rents grew 4.8 percent.

Residential building consents are a forward indicator of housing supply, and have fallen by 13 percent on between the March 2016 and March 2017 quarters in Christchurch. Nonetheless, with over 600 new dwellings consented in the March 2017 quarter, supply is still strong and will continue to suppress house price growth throughout 2017.



ECONOMIC TRENDS

Gross Domestic Product

Economic activity in the region remains at a very high level, but growth rates continue to settle.

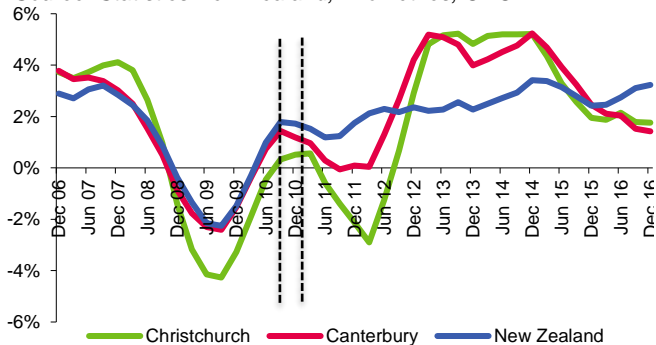
The value of economic output in Christchurch reached to \$19.3 billion in the year to December 2016 (measured in 2010 prices – Infometrics estimates). That represents 8.4 percent of New Zealand GDP, down slightly from 8.6 percent in the year to December 2015. Output from Canterbury overall reached \$28.3 billion in the year to December 2016. This equates to 12.4 percent of national output, down from 12.6 percent in the year to December 2015.

The preceding period of strong growth was largely due to the rebuild. Since construction activity is reaching a plateau, it is no longer as significant in driving growth. Weak growth may be seen in the region as the city transitions back to being driven by the underlying economy.

GDP growth in the year to December 2016 was 1.8 percent for Christchurch and 1.4 percent for Canterbury, well below the New Zealand rate of 3.2 percent.

Gross Domestic Product Annual Average Percent Change

Source: Statistics New Zealand, Infometrics, CDC



Guest Nights

The region’s visitor sector has been undergoing a steady recovery which is led by international tourists and a broadening season.

However, both international and domestic guest nights eased in March 2017, compared with the previous March. This follows the pattern seen across New Zealand, but was more profound in Canterbury. International guest nights in Canterbury were down 3.3 percent comparing March 2016 to March 2017, reaching 265,000 nights. Nationally, international guest nights were down 0.1 percent.

Retail Trade

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

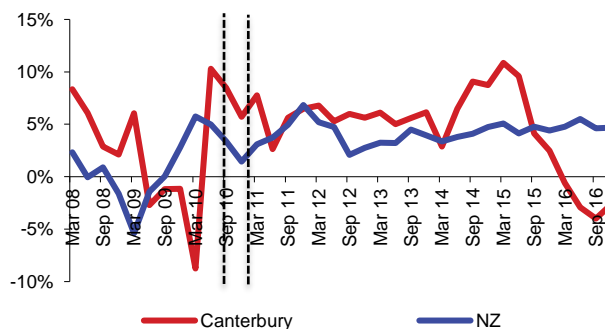
In the quarter to December 2016, retail spending in Canterbury fell by 2.7 percent on the previous year, and has been below the New Zealand growth rate (4.7 percent) for over a year.

Strong growth in retail spend following the earthquake was possibly due to spending on construction materials for earthquake repairs as well as migrant construction workers setting up their households. As this has waned, the visitor economy will be a key driver of retail spending growth in future.

Spending by international tourists in Canterbury grew by 7.3 percent in the year to March 2017, ahead of domestic tourist spending which fell by 0.1 percent. Within Christchurch City specifically, domestic tourist spending grew by 0.7 percent, and international tourist spending grew by 5.7 percent (source: MBIE).

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

Source: CDC, Statistics New Zealand



International arrivals from China and Australia have been soft over summer. The November Kaikoura earthquake may have disrupted forward bookings for Canterbury and the South Island.

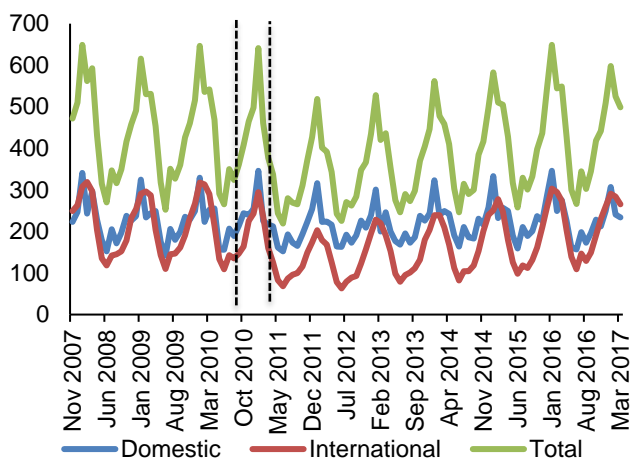
Domestic guest nights fell by 14.9 percent between March 2016 and March 2017, compared to a 5.6 percent fall nationally.

In Christchurch specifically, guest nights have fallen by 4.4 percent over the past year, reaching 276,000 in March 2017.

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



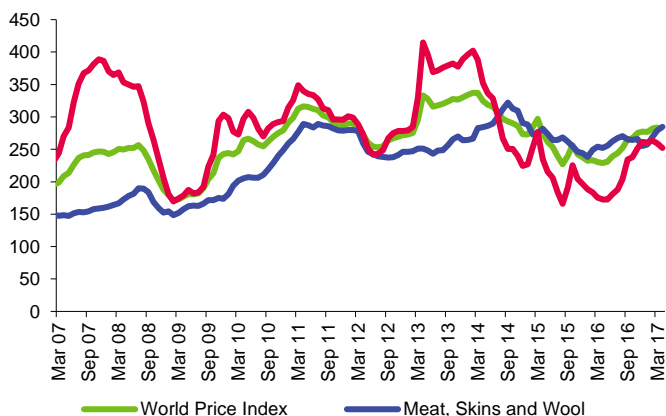
Global Commodity Prices

Global Commodity Prices have grown strongly over the past year, however a strong New Zealand Dollar softened the impact for commodity exporters over summer. The New Zealand dollar fell in April 2017 which improved receipts for 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 depreciated by 0.2 percent in April 2017, but has appreciated by 23.7 percent since April 2016. In the past month, world prices for dairy eased slightly, pushing the overall index negative. Nonetheless, all six commodity categories have appreciated over the past year.

Dairy prices have recovered strongly in the past year, with world prices up 46.0 percent since April 2016. An appreciating exchange rate over the same period has wound back this increase slightly to 44.4 percent. This is a welcome improvement to farm incomes.

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



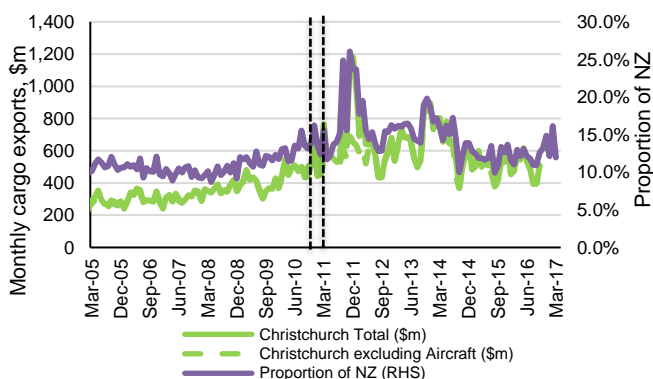
Commodity Exports and Imports

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).

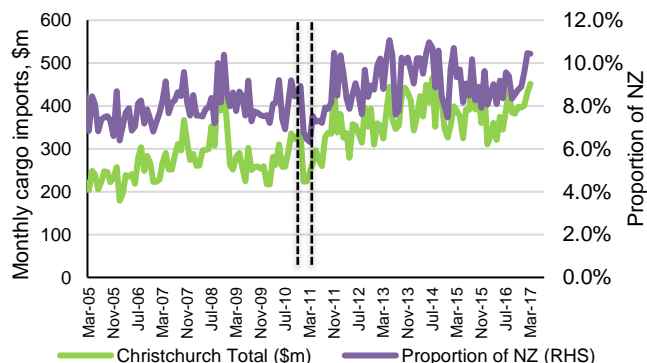
In the March 2017 quarter, the value of exports through Christchurch's air and sea ports was \$1,783 million, an increase on the same quarter last year.

The value of imports through the airport and Lyttelton was \$1,284 million in the March quarter, up 28 percent from the same quarter last year. Most of the increase was due to an increase in imports of mineral fuels, oils and associated products.

Commodity Exports
 Christchurch Airport and Lyttelton, (free on board)
 NZ\$m and proportion of NZ
 Source: CDC, Statistics NZ



Commodity Imports
 Christchurch Airport and Lyttelton, (cost, insurance and freight) NZ\$m and proportion of NZ
 Source: CDC, Statistics NZ





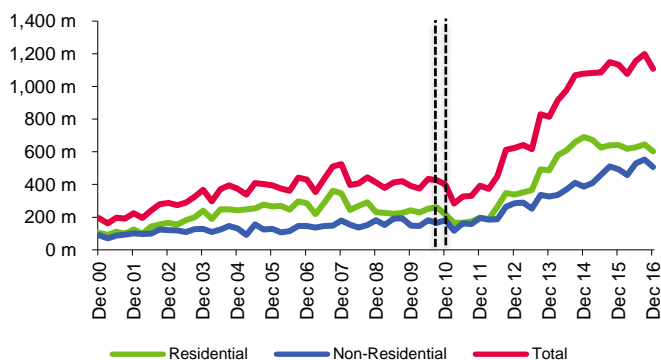
CONSTRUCTION AND HOUSING

Building Activity

Building activity in the region remains at a very high level, but is starting to show signs of easing in the December 2016 quarter.

This level has been maintained for the past three years, but will continue gently slowing in 2017, ahead of more substantial easing in 2018 and beyond as rebuild activity is completed. The composition of rebuild activity continues to change, with commercial construction expanding at the same time as residential building is easing back.

Value of Building Work in Canterbury
Quarterly value of work put in place, \$m
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 \$391 in March 2017, 1.5 percent lower than March 2016. Mean rents in Canterbury were \$384 in March 2017, exactly the same as in March 2016.

Rents have been declining on an annual basis for the past two years, but the rate of decline is easing, which suggests that rents are stabilising. The market continues to adjust as the residential rebuild is completed.

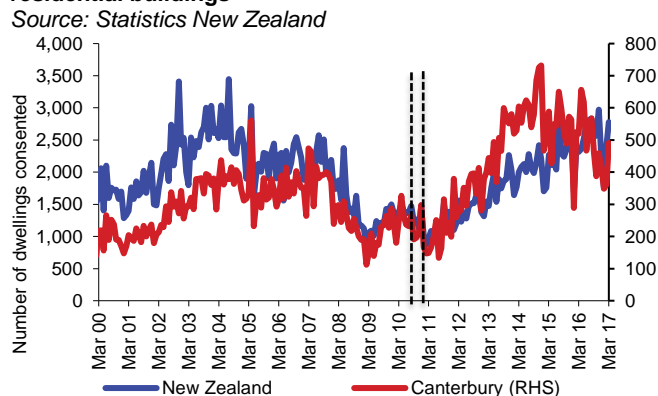
New Zealand rents grew 4.8 percent over the past year, reaching \$433 per week in March 2017. Although this is increasing, it remains well below house price growth, which suggests that residential property investors in other regions are focussed on capital gain rather than yield.

Building Consents

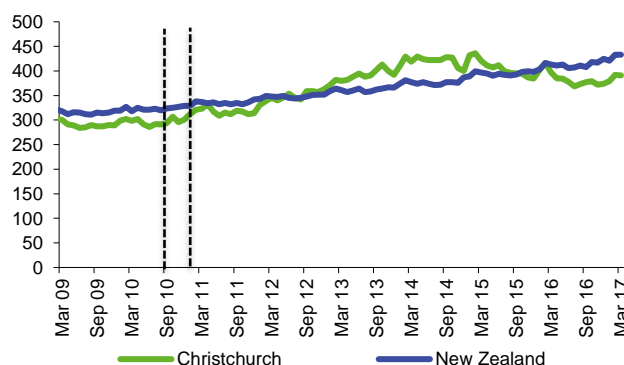
In the March 2017 quarter there were 1,200 new residential building consent approvals for Canterbury, down 10 percent from the March 2016 quarter. Within Christchurch, 631 new residential buildings were consented, down 13 percent from the March 2016 quarter.

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 continue falling in the coming year.

Dwellings Consented
Number of dwellings consented, all new residential buildings
Source: Statistics New Zealand



Mean Residential Weekly Rent
Private Sector Landlords, Rent \$
Source: Min. Business, Innovation & Employment





House sales

A strong supply of houses as a result of the post-quake rebuild and strong greenfield supply has kept a lid on house price growth in the city and region.

The number of houses sold during March 2017 in Christchurch was 11.1 percent lower than March 2016. Sales volumes in Canterbury-Westland fell by a similar magnitude, 8.3 percent lower than March 2016.

House prices continue to grow, but at a decreasing rate. The median house price for Christchurch was \$470,000 in March 2017, 5.6 percent higher than March 2016. The median sale price for Canterbury was \$440,000, up 3.5 percent compared to last year.

The rest of New Zealand is experiencing faster growth in house prices. The median house price for New Zealand was \$546,000 in March 2017, up 10.3 percent on March 2016. The number of houses sold dipped by 10.7 percent compared to March 2017.

CONFIDENCE AND BUSINESS TRENDS

Firm profitability

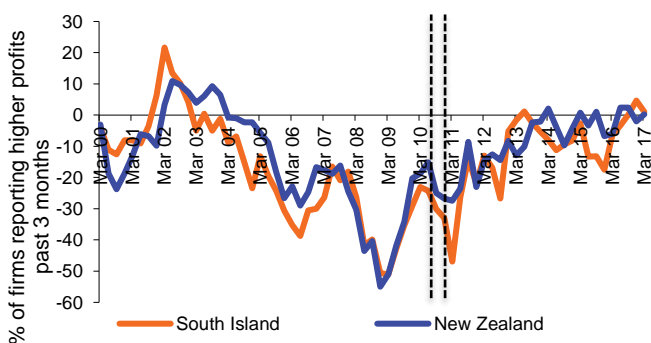
New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion for the March 2017 quarter showed that there was a slight net increase in businesses reporting improved profitability in the past three months, both within the South Island and across New Zealand as a whole.

Looking ahead, a net 3 percent of South Island businesses expect higher profits in the coming quarter, compared to a net 7 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 this will ease.

Profitability of Firms- Past three months

Net percent of firms reporting higher profits

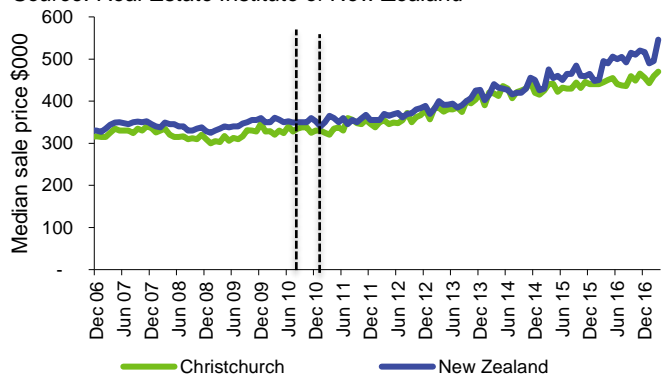
Source: NZIER Quarterly Survey of Business Opinion



Median Sale Price

Monthly median sale price of dwellings

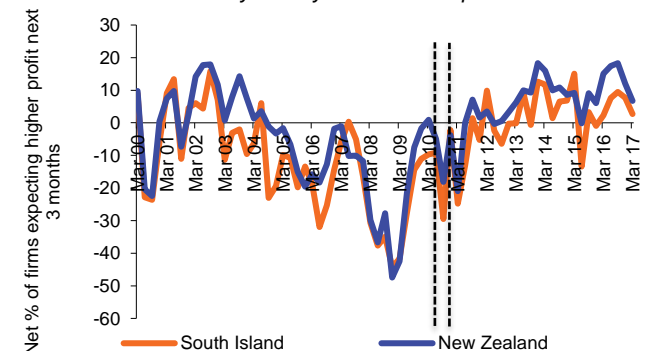
Source: Real Estate Institute of New Zealand



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) for the March 2017 quarter indicates an expanding industry in Canterbury, in line with the rest of the country.

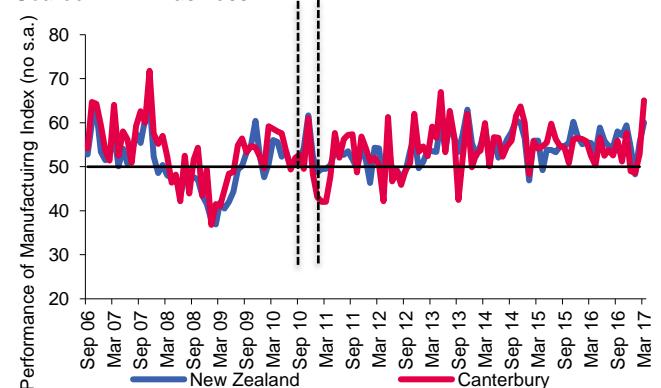
The non-seasonally adjusted index recorded 65.1 in March, with an average of 55.5 for the quarter. The quarterly index has been expanding since 2013.

The manufacturing sector is a key driver of economic momentum outside of the rebuild and employed over 35,400 people in the region in 2016.

Performance of Manufacturing Index

Value > 50 means expansion, <50 contraction

Source: BNZ- Business NZ





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 three years.

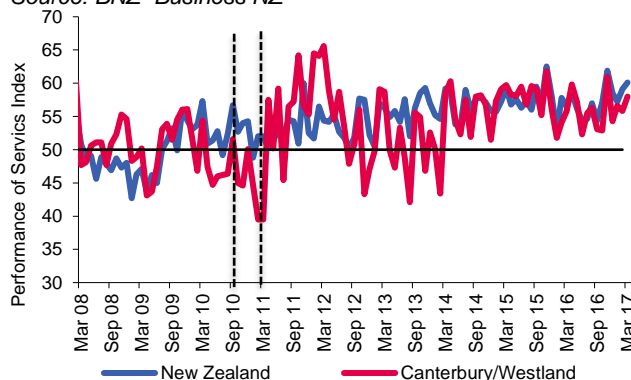
The PSI indicator averaged 56.8 in the March quarter of 2017, up slightly from 56.1 in the December quarter of 2016. Values over 50 indicate the sector is expanding and the quarterly index has remained well above this threshold since 2014.

The sector has been very strong at a national level too, averaging 58.8 in the March quarter, continuing a positive run since 2011.

Performance of Services Index (non-seasonally adjusted)

Value > 50 means expansion, <50 contraction

Source: BNZ- Business NZ



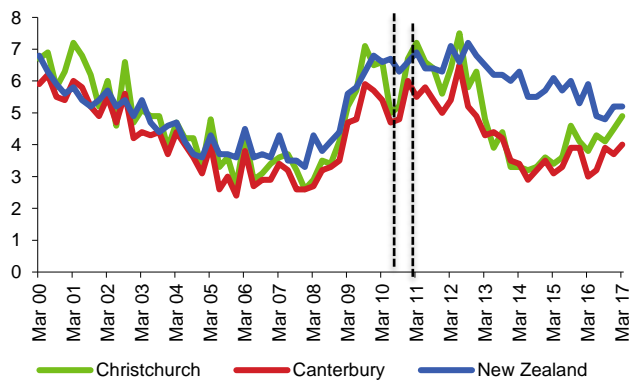
WORKFORCE

Unemployment

The unemployment rates in Christchurch and Canterbury are moving closer to the national average. In the March 2017 quarter, 4.9 percent of the Christchurch labour force was unemployed, compared to 4.0 percent for Canterbury and 5.2 percent for New Zealand.

Unemployment Rate Percent of labour force unemployed

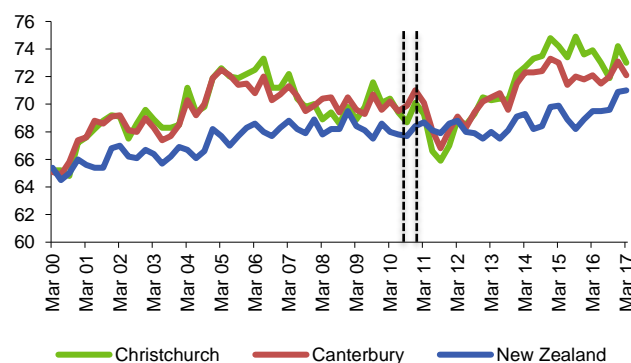
Source: Statistics NZ HLFS



Labour Force Participation Rate

Percent working age pop.n in labour force

Source: Statistics NZ HLFS



Participation

Labour force participation in Christchurch and Canterbury reached record highs as the rebuild scaled up; however, it is trending downwards as the rebuild passes its peak. Much like unemployment, participation rates in Christchurch and Canterbury are also converging with the national average. In the March 2017 quarter, the labour force participation rate for Christchurch was a relatively high 73.0 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 72.1 percent, and New Zealand 71.0 percent.

Earnings

Earnings are beginning to grow much faster at a national level than they are in Canterbury, and earnings in Canterbury remain below the national average.

Average earnings for employees (including overtime) grew by 1.4 percent in Canterbury over the past year, reaching \$957.61 per week. Across New Zealand, earnings grew by 2.3 percent, reaching \$999.00. Canterbury employees worked 32.48 hours on average in the March 2017 quarter, compared to 33.35 nationally.

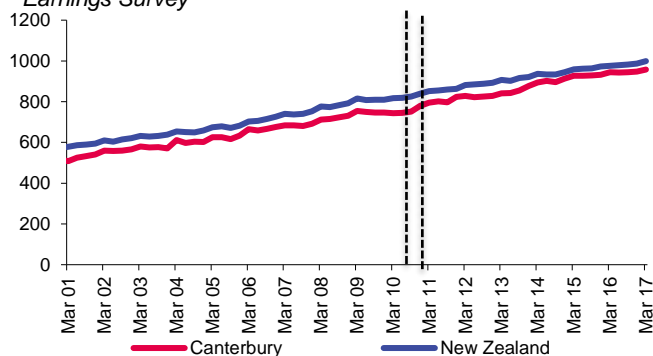
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Earnings

Average Weekly Earnings \$ - All Employees

Source: Statistics New Zealand Employment and Earnings Survey



International Migration

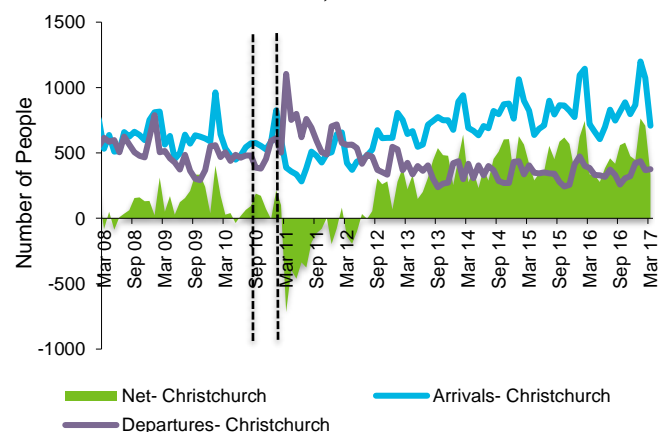
Net migration into Christchurch and Canterbury remains at a very high level.

In the March quarter, 2,981 people arrived in Christchurch, which – after accounting for those that departed – is a net gain of 1,803 people. For Canterbury, there were 3,717 arrivals for a net gain of 2,052. Across New Zealand, 38,337 arrived for a net gain of 21,933.

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

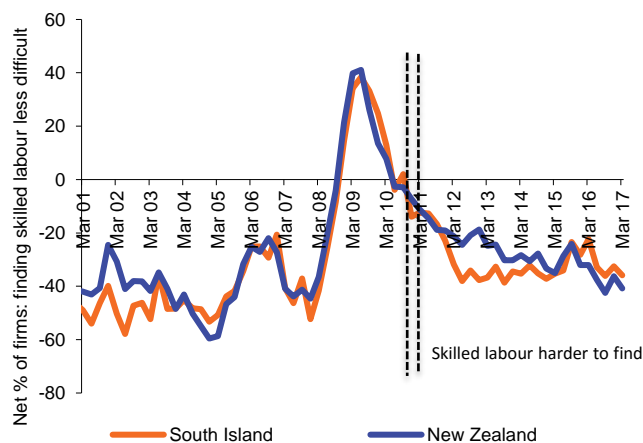


Ease of Finding Labour

In the March quarter of 2017, a net 36 percent of South Island firms reported increased difficulty finding skilled labour, and a net 16 percent reported increased difficulty in finding unskilled labour. Both South Island indicators have followed the national indicator for some time.

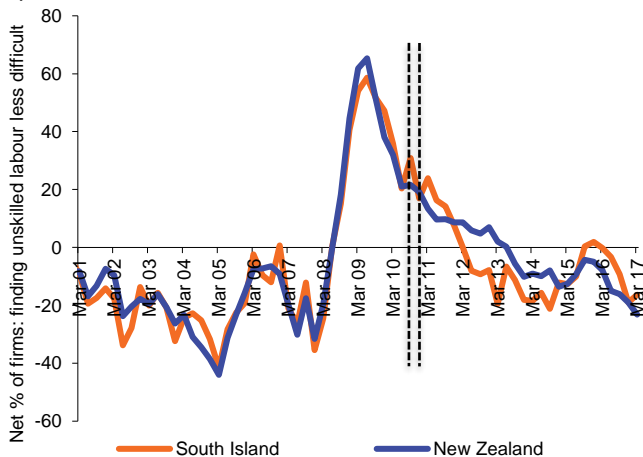
Difficulty Finding Skilled Labour

Source: NZIER Quarterly Survey of Business Opinion



Difficulty Finding Unskilled Labour

Source: NZIER Quarterly Survey of Business Opinion





CDC Labour Market Spider Graph

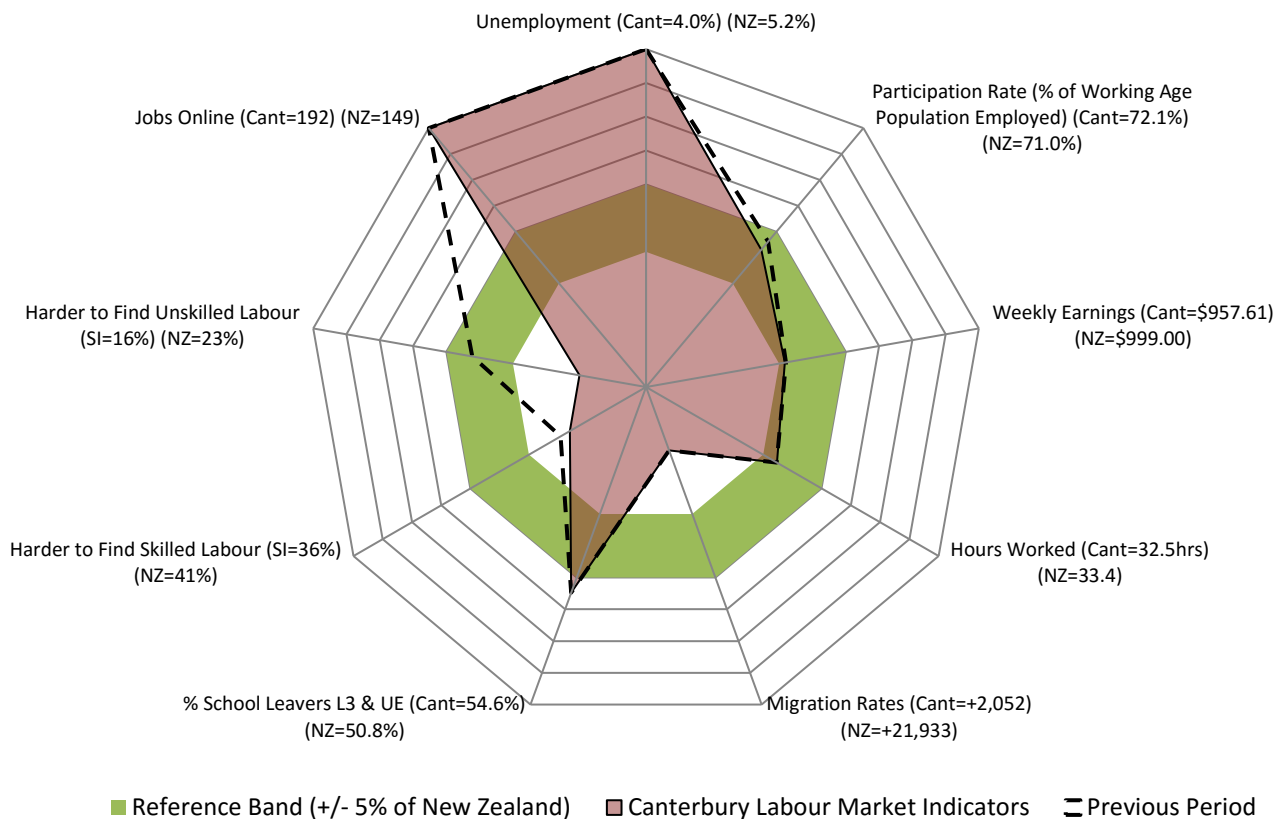
This graph examines various labour market measures for the Canterbury region in the March quarter of 2017, comparing them to a reference band which is set at plus or minus five percent of the New Zealand level. The previous level for Canterbury (December 2016) is shown by the dotted line.

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 performs strongly in terms of unemployment and job advertisements. Canterbury is below the New Zealand average in terms of migration and difficulty finding labour,

Notes:
Unemployment rate – HLFs March 2017 quarter
Participation rate – HLFs March 2017 quarter
Weekly Earnings - QEX - Average Weekly Earnings (Employees) by Regional Council and Sex for March 2017 quarter
Hours Worked - QEX - Average Weekly Paid Hours (Employees) by Regional Council and Sex for March 2017 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 January-March 2017
Difficulty finding labour - NZIER QSBO South Island Seasonally adjusted figures for March 2017 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.

Canterbury Labour Market - Q1 2017

Source: Statistics New Zealand, Education Counts, NZIER, MBIE



FOCUS ON EARTHQUAKE RECOVERY

Six years on from the 2010-11 earthquakes, this section assesses the progress of Canterbury's earthquake recovery.

Population

Christchurch's population fell after the earthquakes, reaching a low of 355,100 in 2012, before recovering to 374,900 in 2016, back to the pre-earthquake levels. The initial population loss largely represented a movement of people to the surrounding districts of Selwyn and Waimakariri, so the greater Christchurch population recovered by 2014.

Residential insurance

Both EQC and private insurers have been responsible for resolving insurance claims. EQC is responsible for minor to moderate damage under \$100,000, and has completed all 67,747 of its managed repairs, with only remedial work outstanding. The majority of EQC's cash settlements have been settled, with less than one percent outstanding.

Private insurers are responsible for moderate to major damage over \$100,000, which includes repairs and rebuilds, and have settled 88 percent of their over-cap property claims. 6,927 of these were settled by the insurer managing the repair or rebuild, and 16,427 were cash settled, leaving the owner to reinstate the property at their leisure, or on-sell the property on an as-is where-is basis. Sales of as-is where-is dwellings have thrived since 2013, with sales comprising approximately 7 percent of all Christchurch City sales in 2016.

Anchor projects

The anchor projects are key facilities or precincts aimed at anchoring the economic recovery of the CBD and wider city through partnership of Christchurch City Council, Ōtākaro on behalf of the government, and private sector investors. The anchor project programme has faced considerable delays, but construction is underway or completed for all but one project.

Project	Progress
Bus Interchange	Opened 2015
Canterbury Earthquake National Memorial	Opened 2017
Justice and Emergency Services Precinct	Opening late 2017
Retail precinct	Partially completed
Innovation precinct	Partially completed
Christchurch Convention Centre	Groundworks underway, completion 2019
Metro Sports Facility	Groundworks underway, completion 2020
South Frame	Work underway in some areas
East Frame	Work underway, public spaces completion 2018
Health Precinct	Work underway
Avon River Precinct	Work underway, some sections completed
An Accessible City	Work underway, some sections completed
The Stadium	Yet to be finalised

Visitors

Visitors to the city fell dramatically after the earthquakes, but have recently returned to pre-earthquake levels. Total Canterbury guest nights in 2010 were 5.2 million, falling to 4.1 million in 2012, before recovering to 5.1 million in 2016. International guest nights were hardest hit, falling from 2.4 million in 2010 to 1.6 million in 2012, before recovering to 2.4 million in 2016.

As the region has recovered, the visitor sector has developed higher value markets. Expenditure in Canterbury by domestic and international tourists fell from \$2.9 billion in 2010 to \$2.2 billion in 2012, before rising to \$3.4 billion in 2016, well ahead of the pre-quake level.

International education

The international education sector was badly impacted by the earthquakes, but has mounted a very strong recovery through industry partnership. The number of international students in Canterbury fell from 8,975 in 2011 to 6,145 in 2012, before recovering to 9,340 in 2015. India and China have played a large role in the recovery of international students, particularly as Canterbury's traditional markets of Japan and Korea have only weakly recovered. The sector partnership has an ambitious goal to host 25,000 students in the region by 2025.

Overall construction progress

MBIE monitors and produces quarterly estimates of rebuild progress in greater Christchurch, including residential repairs and rebuilds, infrastructure work, and commercial work (including anchor projects). As of September 2016, MBIE estimates that 63 percent of the total rebuild has been completed. The residential rebuild is most advanced, estimated to be 76 percent complete, with the outstanding remainder included cash settlements received by households that are yet to be spent on construction. The heavy commercial rebuild, which includes all non-residential buildings over the value of \$10 million has the most work remaining, with only 39 percent complete so far. This includes major anchor project such as the Christchurch Convention Centre and Metro Sports facility.

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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