

CHRISTCHURCH AND CANTERBURY QUARTERLY ECONOMIC REPORT

Canterbury's economy is adjusting



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Canterbury has been through an exceptional period of high growth, with economic indicators well above their historic average levels. In 2016, the region is entering an adjustment phase, as these indicators begin to ease back to historic averages – bringing Canterbury back in line with the rest of the country.

The current growth rate easing, high-activity environment is reflected in the most recent GDP estimates from Infometrics. Christchurch's GDP growth in the year to December 2015 was 1.8 percent, easing from 5.5 percent in 2014.

Similarly, Canterbury's growth eased from 5.8 percent to 1.9 percent. However, the economy remains busier than usual and high levels of activity are expected for several years.

Soft commodity prices have been challenging in the rural sector, particularly for dairy and businesses supplying the sector, although the lower New Zealand dollar has mitigated this somewhat. The positive side of soft commodity prices has been reduced costs for some manufacturers.

House prices and rents have become more affordable in recent months because of growing incomes and housing stock numbers returning to pre-quake levels, bringing welcome news to renters and first home buyers.

The construction sector is now fully resourced and operating at a plateau level of \$1.2 billion per quarter. This extraordinary level of activity exceeds that of similar sized New Zealand city Wellington and Australian counterparts Newcastle and the Gold Coast.

The 2015/16 summer was a great season for the visitor sector, with international guest nights in February up 11 percent on February last year. CDC estimates the visitor sector employs 8,200 workers in Christchurch, a 12 percent increase in number since 2014.

The labour market remains strong, even as demand from construction has plateaued. The unemployment rate in the March quarter was 3.8 percent in Christchurch and 3.0 percent in Canterbury. Labour force participation remains at high levels, with 73.9 percent of the Christchurch population over the age of 15 engaged in the labour force, and 72.1 percent in Canterbury. This has been a real positive of the rebuild, with more people in the workforce there is a wider spread of economic benefits across the population.



Gross Domestic Product

Economic activity in the region is continuing at a high level, with a steady base of activity in the construction sector and the underlying economy offsetting softness in the dairy sector.

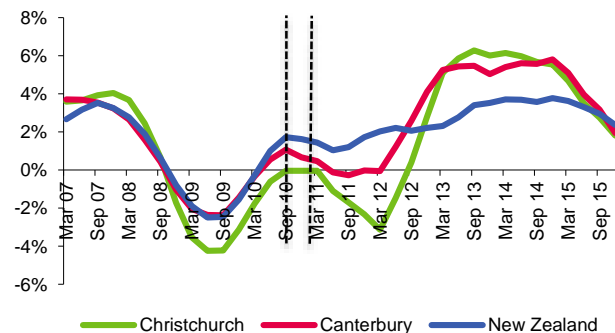
The value of economic output in Christchurch rose to a new high of \$18.9bn (measured in 2010 prices – Infometrics estimates) in the 12 months to December 2015. That represents 8.5 percent of New Zealand GDP, which has been steady for the past two years. Output from Canterbury overall reached \$27.7bn in the year to December 2015. This equates to 12.4 percent of national output, down slightly from 12.5 percent in the year to September 2015.

Strong construction activity has provided much of the impetus for growth in the past four years. However, the sector has reached a plateau level of output and is unlikely to grow further but maintain high levels during the peak years of the rebuild. This is to be expected given recent extraordinary growth rates.

GDP growth in the year to December 2015 was 1.8 percent for Christchurch and 1.9 percent for Canterbury. This was slightly below the New Zealand rate of 2.4 percent, for the first time since 2012.

Gross Domestic Product Annual Average Percent Change

Source: Statistics New Zealand, Infometrics, CDC



Retail Trade

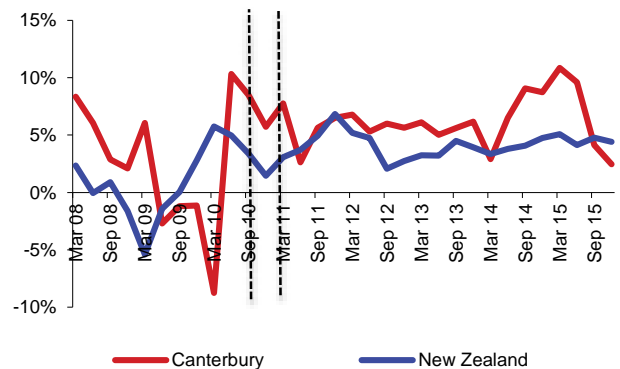
Retail sales continue to grow in the region, although growth rates are easing back from recent highs.

Retail spending in Canterbury for the quarter to December 2015 grew 2.5 percent on the previous year, below the New Zealand growth rate, of 4.4 percent, for the second consecutive reading. In Christchurch specifically, hospitality sales have grown 2.2 percent, while retail sales grew 5.5 percent over the past year.

International visitor arrivals in the 2015/16 summer were at bumper levels, meaning retail sales for the March quarter (not yet released) are expected to be strong. Low interest rates are also expected to promote strong domestic spending, although the weak exchange rate will reduce purchasing power for imported goods.

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

Source: CDC, Statistics New Zealand





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 may not be captured in the statistics for Canterbury (and similarly not all goods exported in Canterbury are produced in Canterbury).

In the March quarter, the value of exports through Christchurch’s air and sea ports was \$1,521m, about the same as the equivalent quarter last year. An easing exchange rate improved the competitiveness of exports and increasing sales, particularly for manufacturers. However, falling dairy prices meant the value of dairy exports out of Christchurch fell by 21 percent compared to the same quarter last year.

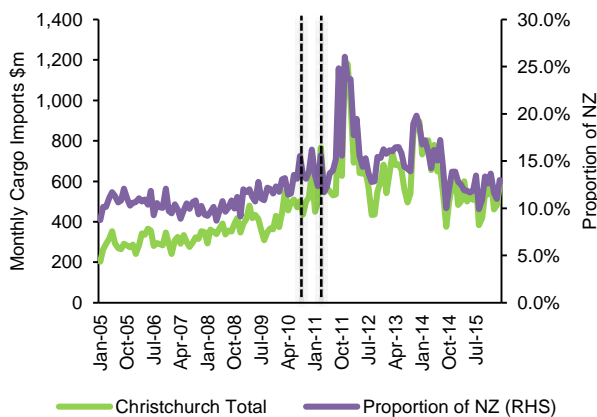
Turning to imports, the value through the airport and Lyttelton was \$1,001m in the March quarter, down from \$1,142m a year ago. It is important to note that not all of these imports are consumed in the city and region, while not all imported goods consumed locally come in via the airport or Lyttelton.

There was a trade surplus through the local ports of \$520m in March, up slightly from the same quarter last year, with a surplus of \$442m.

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

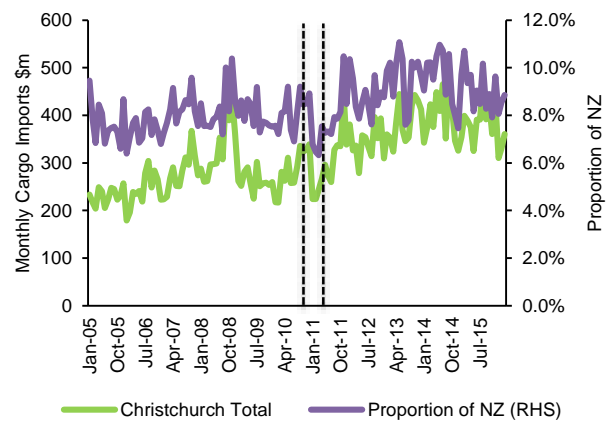
Commodity Exports Christchurch Airport and Lyttelton, fob NZ\$m and proportion of NZ

Source: CDC, Statistics NZ



Commodity Imports Christchurch Airport and Lyttelton, cif NZ\$m and proportion of NZ

Source: CDC, Statistics NZ





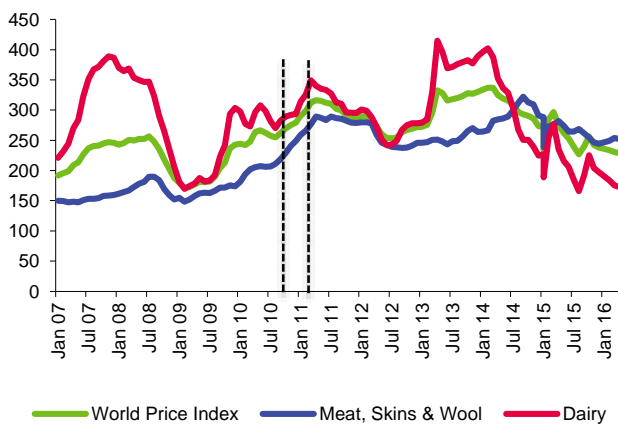
Global Commodity Prices

Global commodity prices have continued to decline, and have only partially been offset by an easing of the New Zealand dollar.

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 world prices of all six commodity groups have fallen in the year ending April 2016. The world price index was down 16.8 percent; however, the New Zealand dollar index was only down 8.5 percent as the easing New Zealand dollar cushioned the fall. The New Zealand dollar index is a better indicator of returns to New Zealand producers, whereas the world price index isolates the effect of currency fluctuations.

Dairy products have been hit hardest, with the world price index down 26.5 percent and the New Zealand dollar price index down 19.3 percent over the 12 months to April 2016. Meat, skins and wool have only fallen by 10.6 percent in world price terms, which translates to a fall of 2.9 percent in New Zealand dollar terms. Suppliers to the rural sector, particular those supplying plant and machinery, are likely to see soft demand as farmers tighten their belts.

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



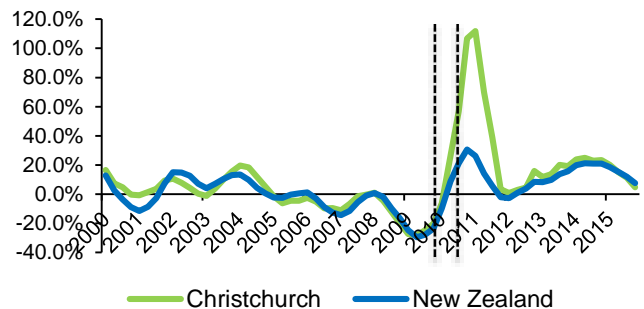
Car Registrations

Registrations of new cars continue to grow, although the pace of growth is easing. Annual registrations in Christchurch to December 2015 grew by 4.8 percent in Christchurch, compared to 7.7 percent for New Zealand overall.

Infometrics data shows there were 16,974 new car registrations (covering new vehicles and first-time registrations of used imports) in Christchurch in the fourth quarter of 2015, the second-highest quarterly figure on record. The New Zealand total was the highest on record, with 70,357 in the quarter.

Strong migration into the region and insurance settlements for earthquake damaged cars have driven strong registrations over the past five years, however, this is now easing, with Christchurch growing slower than New Zealand overall.

Car Registrations Growth
Percent change from a year ago, new vehicles and first time regos of used imports
Source: Infometrics, CDC

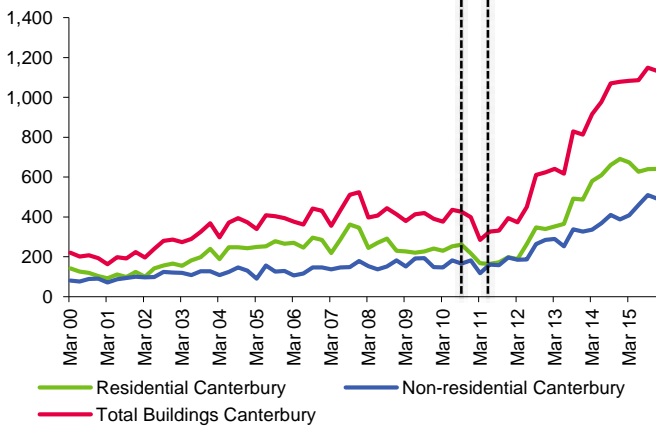




Construction

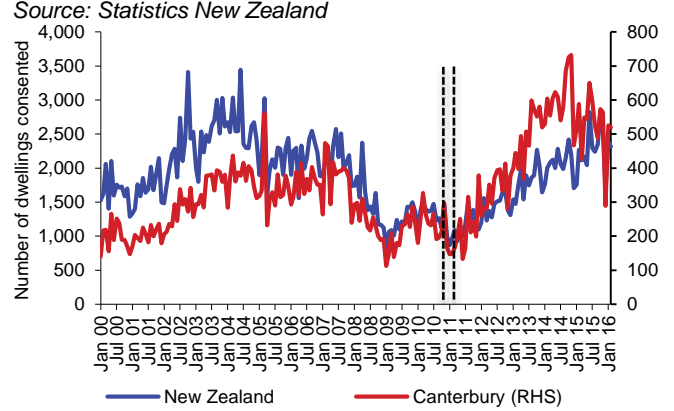
Building activity in the region remains at a very high level, with \$1.2bn of activity underway in the December 2015 quarter. This level is expected to be maintained for the next two to three years, however the mix of buildings is changing. Residential construction has eased slightly over the past year and is expected to decrease further as the city’s housing stock is restored. Non-residential construction continues to grow, representing 43 percent of all construction activity in the December quarter. This includes commercial and government projects and will be buoyed by upcoming anchor projects.

Value of Building Work in Canterbury
 Quarterly value of work put in place, \$m
 Source: Statistics New Zealand



In the March 2016 quarter there were 1,334 new dwelling approvals for Canterbury, down 15 percent from the same time in 2015. Consent numbers reached record highs in 2014, and we are now entering an expected period of easing as the rebuild emphasis shifts 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.

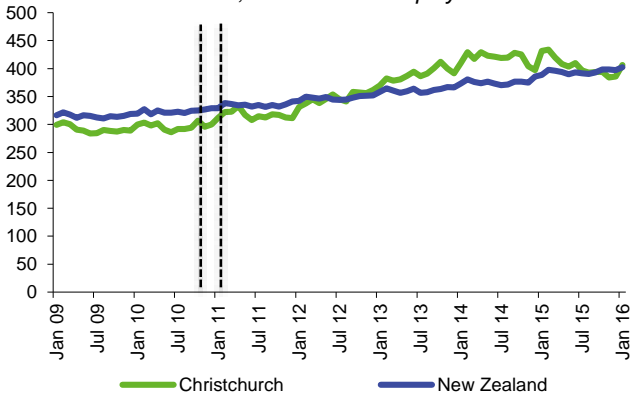
Dwellings Consented
 Number of dwellings consented, all new residential buildings
 Source: Statistics New Zealand



Residential Rent

Improved availability of housing and reduced demand from displaced households continues to push rents downward. Private sector mean rents in Christchurch were \$400 in March 2016, 4.7 percent lower than March last year. Annual rent growth has remained negative for the past year, signalling a correction following strong rent growth in the 2012-14 period.

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



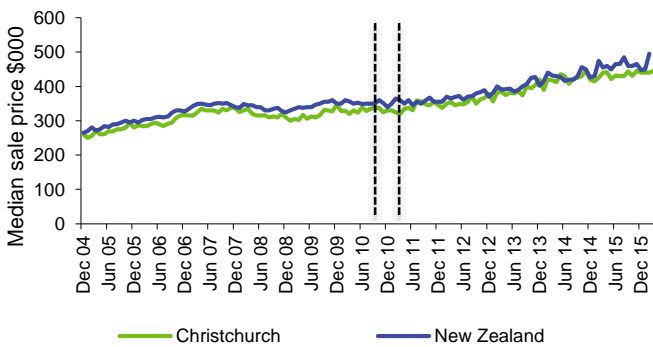


House sales

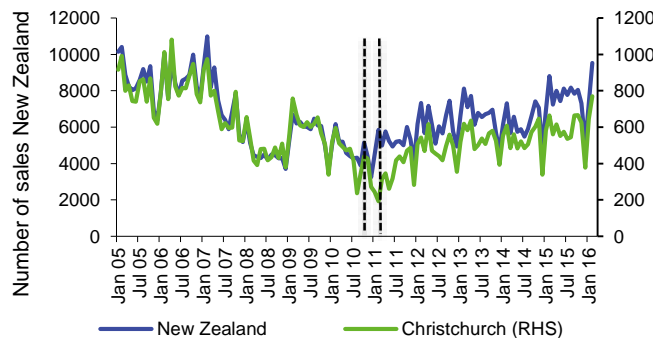
The real estate market in Christchurch has seen weak price growth as an increasing number of houses are coming to market as new builds and repairs are completed. The median sale price for Christchurch was \$445,000 in March 2016, with average annual growth of 2.6 percent. Average annual volume growth was 10.6 percent. For Canterbury, the median house price was \$425,000, and similarly average annual price growth of 2.9 percent was overshadowed by sale volume growth of 9.6 percent on average over the past year.

The median sale price for New Zealand grew 6.6 percent on average in the past year, up to \$495,000. A heated housing market in Auckland continues to drive the national average upwards.

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



House Sales
Monthly number of house sales
Source: Real Estate Institute of New Zealand



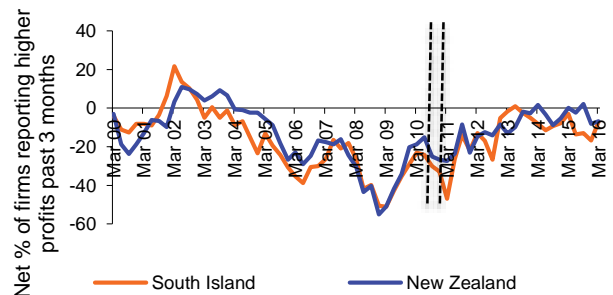
CONFIDENCE AND BUSINESS TRENDS

Firm profitability

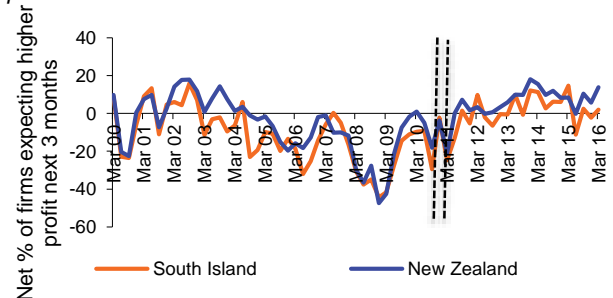
New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion for the March quarter showed a net 7 percent of businesses in the South Island reported a fall in profits from the previous quarter. Although negative, this is an improvement on the previous three quarters. Across New Zealand there were a net 7 percent of firms that reported a decrease in profits.

Looking ahead, a net 2 percent of South Island businesses expect higher profits in the coming quarter, suggesting a relatively stable outlook for the next 12 months. A net 14 percent of New Zealand businesses expect a rise in profitability. The South Island has exceeded New Zealand on this measure for some time due to rebuild activity, however the rebuild plateau and growing confidence across the rest of New Zealand means that these roles are likely to remain reversed for some time.

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





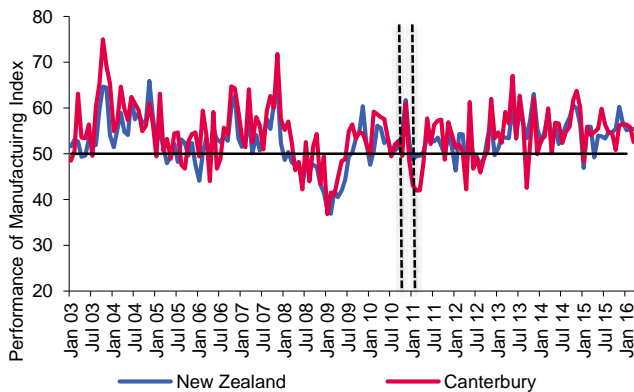
Performance of Manufacturing

The BNZ-Business NZ Performance of Manufacturing Index (PMI) indicates sustained expansion for manufacturing in the Canterbury region.

The index recorded 52.5 in March, above the rise/fall mark of 50, which continues a positive run since 2013 – bar a negative blip in January 2015.

The manufacturing sector is a core component of the City's underlying economy and is a key driver of economic momentum outside of the rebuild.

Performance of Manufacturing Index (non-seasonally adjusted)
Value > 50 means expansion, <50 contraction
Source: BNZ- Business NZ



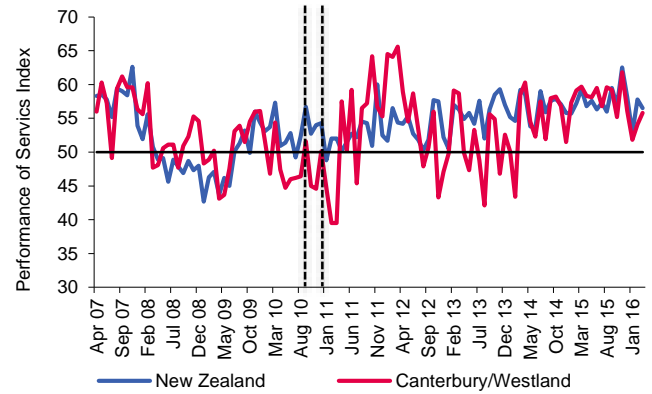
Performance of Services

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 past two years.

The PSI indicator averaged 53.9 during the first quarter of 2016, down slightly from 57.7 for final quarter of 2015, although this was a particularly high value. 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 55.7 in the past quarter, continuing a positive run since 2011.

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



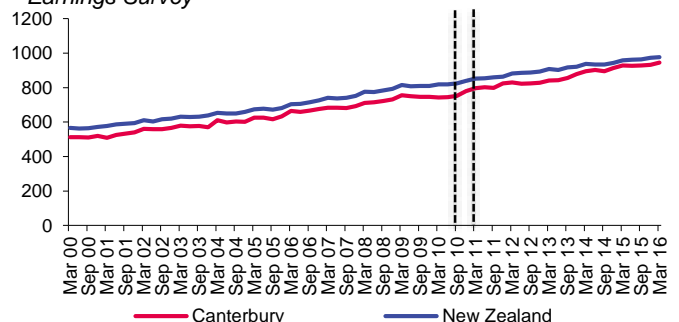
WORKFORCE

Earnings

Earnings in Canterbury grew 1.8 percent in the past year, compared to a national growth rate of 1.9 percent. Reduced labour market pressure from rebuild activity will provide a headwind to earnings growth in Canterbury, while a growing national economy is likely to provide a tail wind for national incomes.

On average, Canterbury workers now earn \$944.36 per week (including overtime). Although Canterbury workers have historically earned less than the New Zealand average, the difference has narrowed to \$32 in the March 2016 quarter.

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





Employment

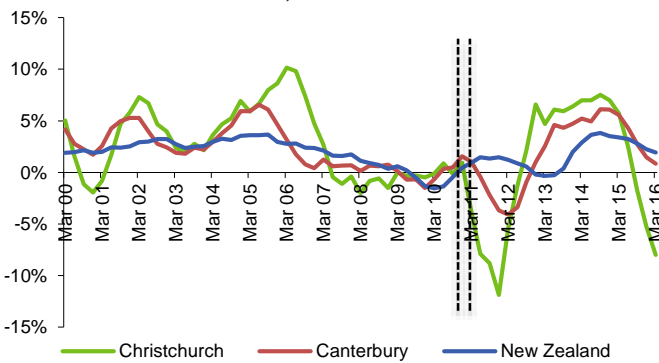
The Canterbury labour market is showing signs of maturity after expanding for the rebuild, however several indicators remain detached from historic levels.

The number of Canterbury residents employed has grown by 0.9 percent on average over the past year, whilst the number of Christchurch residents employed has eased slightly. The household labour force survey records workers based on where they live, not where they work.

This means that Christchurch employment has eased as an increasing number of workers are choosing to live in Selwyn and Waimakariri Districts while continuing to work in Christchurch City.

This trend is also evident in the working age population, which has eased in Christchurch over the past 18 months while Canterbury overall has grown. This underscores the importance of considering the region's labour market holistically.

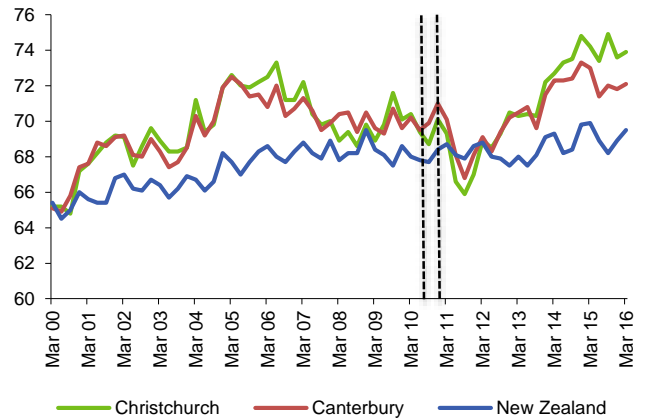
Employment Annual percent change
Source: Statistics NZ HLFS, CDC



Participation

Workforce participation rates have remained relatively steady in Christchurch and Canterbury, at 73.9 percent and 72.1 percent respectively. Both remain at historically high levels.

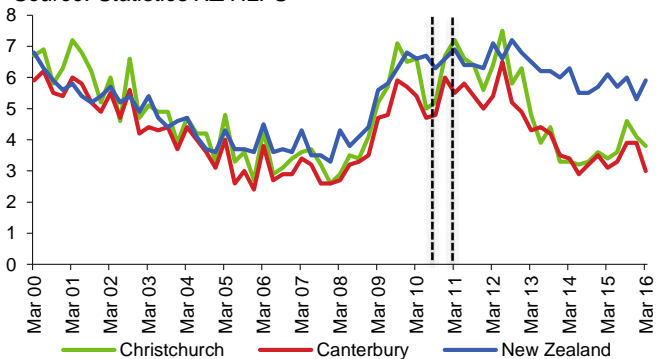
Labour Force Participation Rate
Percent working age pop.n in labour force
Source: Statistics NZ HLFS



Unemployment

Unemployment remains relatively low in the city and region, with the unemployment rate in Christchurch at 3.8 percent and Canterbury dropping down to 3.0 percent. This measure can be volatile, however it is slowly trending upwards in the city and region. Nevertheless, the unemployment rate in Christchurch and Canterbury is expected to remain below the New Zealand level for at least the next year.

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





International Migration

Net migration continues to grow across New Zealand, although growth into Christchurch and Canterbury is easing following the record levels reached last year.

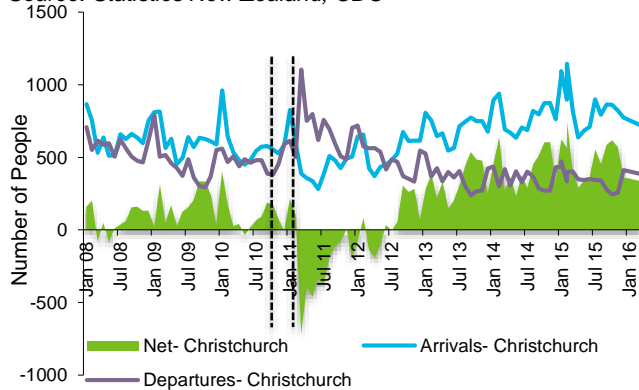
In the March quarter, 2,959 people arrived in Christchurch, which – after accounting for those that departed – is a net gain of 1,703 people. For Canterbury, there were 3,203 arrivals for a net gain of 2,002. Across New Zealand, 36,124 arrived for a net gain of 20,589.

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.

Recent high migration into the region is associated with the rebuild scaling up, however as the rebuild is now fully resourced in net terms easing net migration is expected going forward.

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

Source: Statistics New Zealand, CDC



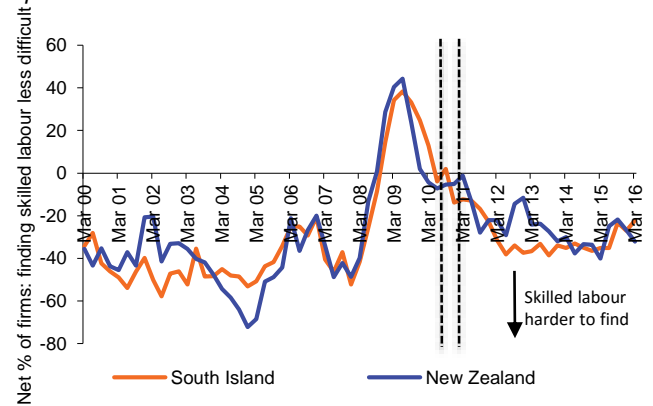
Ease of Finding Labour

In the March quarter of 2016, a net 22 percent of South Island firms reported increased difficulty finding skilled labour. This has been consistently improving over the past year as rebuild activity has become fully resourced. This is a positive for businesses, as it provides confidence that suitable skilled workers are available for expansion.

The ease of finding unskilled labour has remained steady, with a net 1 percent of firms finding it more difficult. This relatively neutral result indicates a mature and stable labour market and that unskilled labour is generally available when needed.

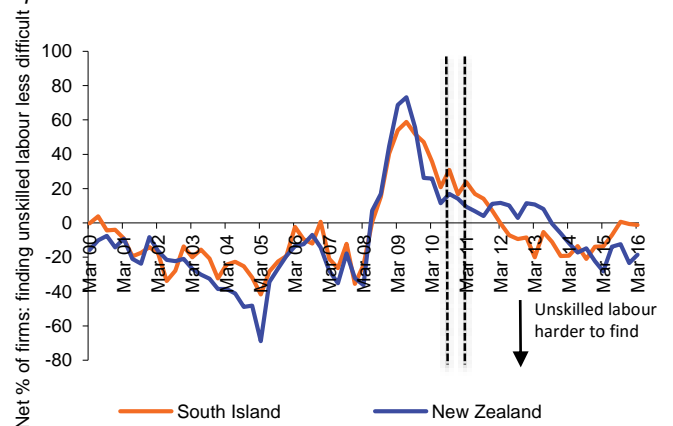
Difficulty Finding Skilled Labour Net percent of firms reporting decreased difficulty finding skilled labour

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 March 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 (Q4 2016) is shown by the dotted line.

From this chart we can see 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.

But Canterbury is performing much better than New Zealand as a whole in terms of its unemployment rate and job advertisements.

Notes:
Unemployment rate - HLFS March 2016 quarter
Participation rate - HLFS March 2016 quarter
Weekly Earnings - QEX - Average Weekly Earnings (Employees) by Regional Council and Sex for March 2016 quarter
Hours Worked - QEX - Average Weekly Paid Hours (Employees) by Regional Council and Sex for March 2016 quarter
% School Leavers L3 - Education Counts - School Leavers by Highest Attainment and Regional Council 2014
Jobs Online - Ministry of Business, Innovation and Employment Skilled Job Vacancy Index (May 2007 = 100) average for January-March 2016
Difficulty finding labour - NZIER QSBO South Island Seasonally adjusted figures for March 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

Canterbury Labour Market - Q1 2016

Source: Statistics New Zealand, Education Counts, NZIER, Department of Labour



FOCUS ON VISITORS

Visitor sector employment

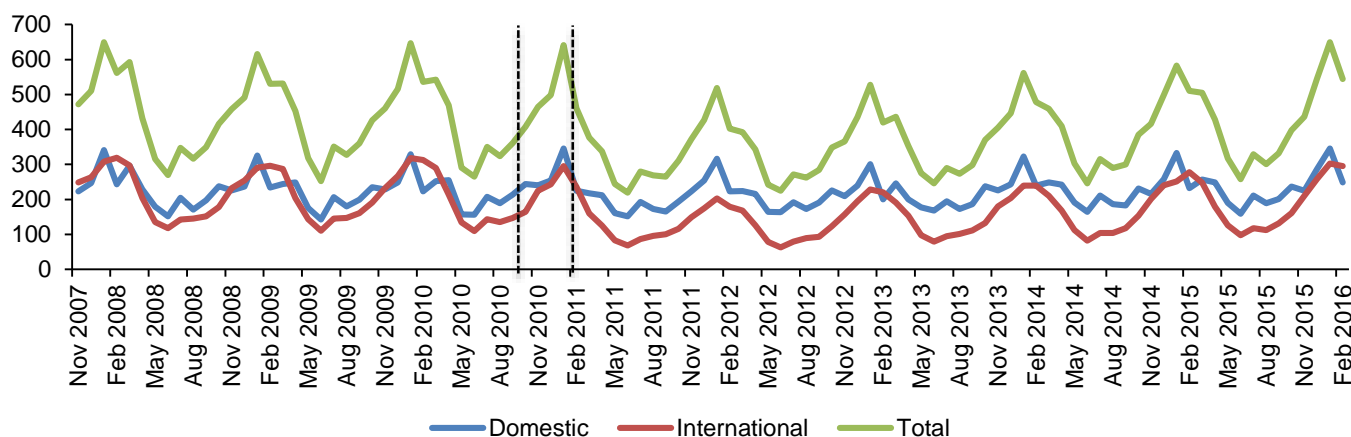
Visitor-related employment is spread across a range of service sectors, including accommodation, hospitality, transport and international education. The visitor sector is estimated to support 8,200 jobs in Christchurch, amounting to four percent of all jobs in the city. This figure has grown by 12 percent over the past year as the sector continues to recover from the earthquakes. The sector overall contributes positively to New Zealand's current account balance by earning considerable export receipts. The amenities enjoyed by visitors are typically also used by residents, so a strong visitor economy supports quality of life for residents too.

Guest Nights

The region's visitor sector has experienced a bumper season in the 2015/16 summer, with 544,000 guest night stays in the Canterbury region in February 2016. This was 6.7 percent higher than February 2015. This growth in guest nights has been enabled by the highest number of beds available since 2011.

International visitors have underpinned much of the recent growth in the region, with guest nights from international visitors growing 11 percent over the past year on average, compared to four percent for domestic tourists. This boost can be partly attributed to a lower New Zealand dollar which improves purchasing power for visitors, and growing popularity among Chinese visitors.

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



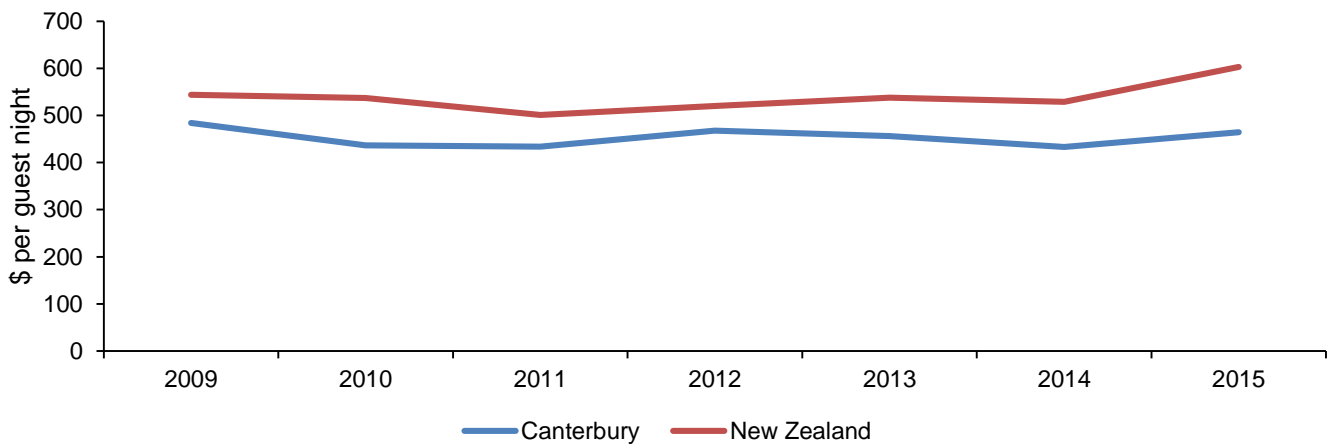
Expenditure

International visitor expenditure has grown over the past year, although expenditure in Canterbury has grown slower than for New Zealand overall. In 2015, international visitors to Canterbury spent an average \$465 for every night stayed in Canterbury, compared to \$603 for New Zealand overall. This figure includes expenditure on accommodation, transport, retail, hospitality and attractions. Visitor expenditure increased between 2014 and 2015, although Canterbury increased at a slower rate than

New Zealand overall. A slow recovery of commercial tourism attractions in Christchurch and relatively high emphasis on the natural environment as an attraction across Canterbury may underlie lower spending in the region.

International tourist expenditure

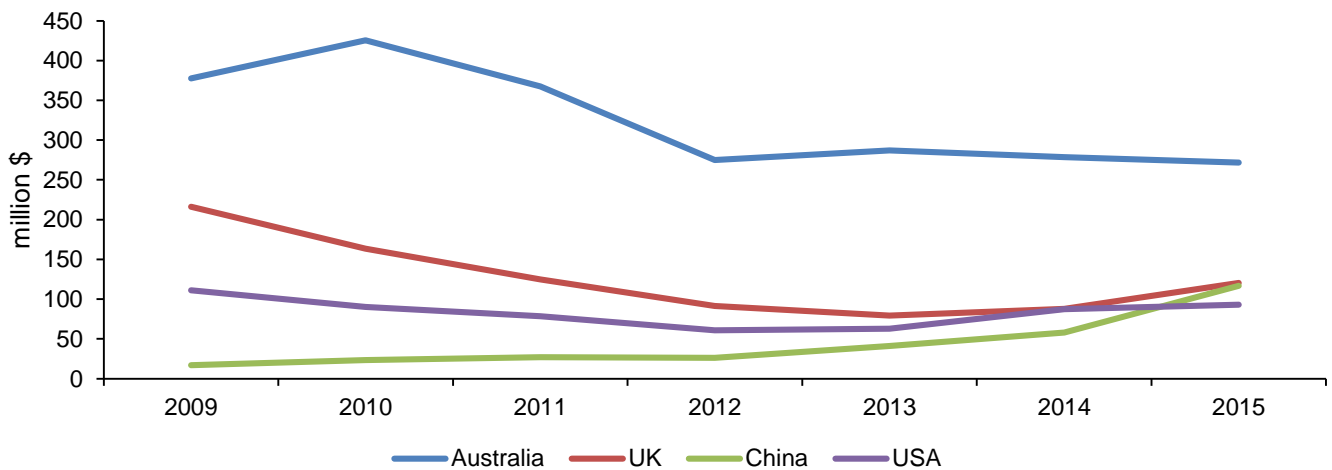
Source: CDC, MBIE, StatsNZ



Australia is by far the most significant tourism market for Canterbury, with total expenditure of \$272 million in Canterbury by Australian cardholders in 2015. This is typically made up by a high number of short visits, with a lower average spend per day. By contrast, Chinese cardholders spent \$117 million in the region during 2015, up from \$58 million in the previous year. This market is growing quickly and is generally made up of fewer, but higher-spending, visitors. Attracting higher value tourists can ease pressure on infrastructure.

International tourist expenditure in Canterbury

Source: MBIE



International education

International education in the region is also recovering strongly, with first time student arrivals growing 14 percent from 2014 to 2015. Total student visa arrivals, which includes both first time and returning students, grew 15 percent. The sector was estimated to be worth \$253 million to the region's economy in 2014, a figure that will have risen with rising student numbers. International students add to the pipeline of skilled workers in the region and often attract relatives from overseas to visit the country.

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/>

Insurance Council of New Zealand: <http://icnz.org.nz/>

Ministry of Business, Innovation and Employment: <http://www.dbh.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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