

Christchurch and
Canterbury Quarterly

Economic Report



Canterbury economy ...

Christchurch and Canterbury's economies continue to trend in a positive way, despite growth rates adjusting due to the easing of rebuild and earthquake recovery activity. Construction activity has tapered off to a sustained level, although labour market indicators continue to show a tight labour market and economic activity remains at a very high level.

Unemployment continues to move closer to the national average following a sustained period of record lows. In the June 2017 quarter, the unemployment rate in Christchurch was 4 percent, just below the national average of 4.6 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 percent in the year to September 2017, reaching \$19.4 billion. Canterbury grew by 1.3 percent, reaching \$28.6 billion. The national economy is strong, growing 2.5 percent over the same period. Growth in the year to December 2016 was similar for all three areas.

Service and manufacturing sectors are expanding, with performance indicators expressing a

favourable reading following a predominantly positive run since 2013.

The visitor sector has seen a steady recovery, following some restrained activity caused by the Kaikoura earthquakes and maturing of the Chinese market. Guest nights in the region grew when comparing September 2016 to September 2017.

House prices and rents in Christchurch and Canterbury continue to diverge from the New Zealand overall average, and new construction remains strong. Christchurch house prices have fallen by 5 percent between September 2016 and September 2017, compared to a 1.9 percent increase nationally. Rents in Christchurch continued a falling trend – dropping by 6.6 percent, whilst New Zealand rents grew 4.2 percent.

Residential building consents are a forward indicator of housing supply, and have fallen by 26 percent year ending September in Christchurch. Nonetheless, with 2579 new dwellings consented in year ending August alone, general construction is still at high levels.

Capacity and occupancy rates are showing a positive upwards trend, with capacity rates returning to pre-earthquake levels.

ECONOMIC TRENDS

Gross Domestic Product

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

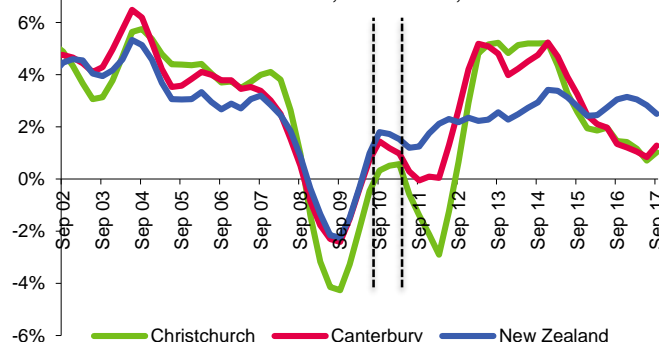
The value of economic output in Christchurch reached \$19.4 billion in the year to September 2017 (measured in 2010 prices – Infometrics estimates). That represents 8.3 percent of New Zealand GDP, down slightly from 8.4 percent in the year to September 2016. Output from Canterbury overall reached \$28.6 billion in the year to September 2017. This equates to 12.3 percent of national output, down from 12.4 percent in the year to September 2016.

The preceding period of strong growth was largely due to the rebuild. Construction activity is considered to have passed its peak and is no longer driving growth – being replaced instead by the underlying economy.

GDP growth in the year to September 2017 was 1 percent for Christchurch and 1.3 percent for Canterbury, well below the New Zealand rate of 2.5 percent.

Gross Domestic Product Annual Average Percent Change

Source: Statistics New Zealand, Infometrics, CDC



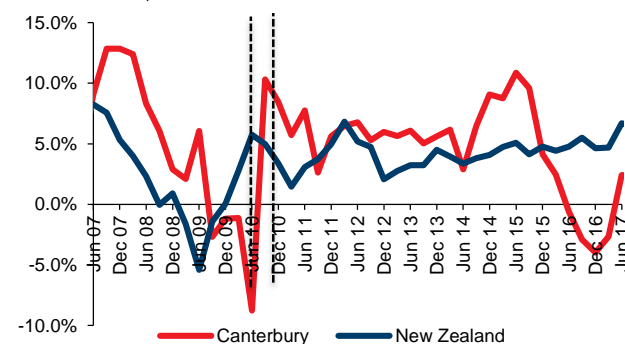
Retail Trade

Retail sales in Canterbury are beginning to stabilise following a slump after a period of very strong growth. In the year to June 2017, retail spending in Canterbury increased by 2.4 percent on the previous year, and has been below the New Zealand growth rate (6.4 percent) for over a year.

Exceptional growth in retail spend following the Canterbury earthquakes could be attributed to spending on construction materials for earthquake repairs. Migrant construction workers setting up their households may have also played a part in this growth.

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

Source: CDC, Statistics New Zealand



Global Commodity Prices

Global Commodity Prices have grown strongly over the past year; however, election uncertainty has caused the NZD to fall to a four-month low.

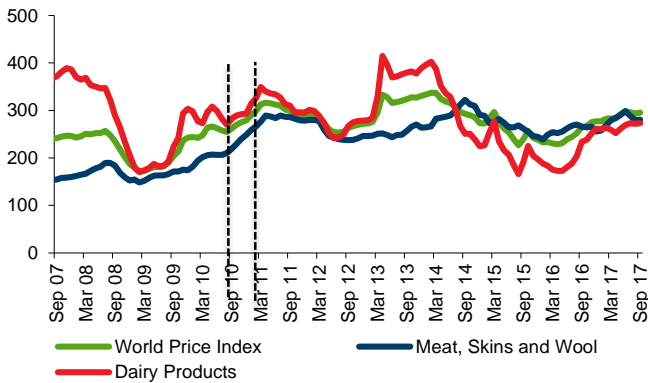
The ANZ Commodity Price Index tracks six of New Zealand's key export commodities – meat, skins and wool; dairy; horticultural; forestry; seafood; and aluminium. The overall world price index appreciated by 0.7 percent in September 2017, but has appreciated 11.5 percent since September 2016. In the past month, world prices for Aluminium have increased the most. Nonetheless, all six commodity categories have appreciated over the past year.

Dairy prices have recovered well in the past year, with world prices up 16.5 percent since September 2016.



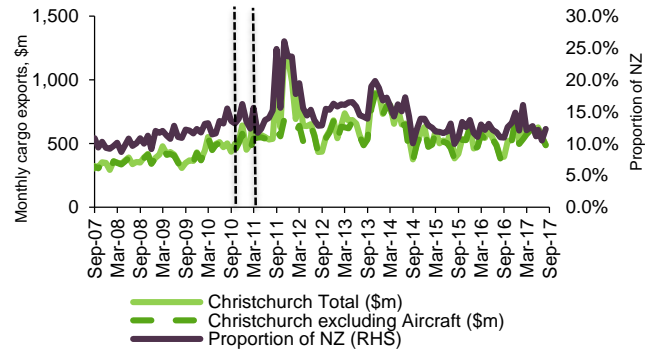
World Price Index Base July 1986=100

Source: ANZ Commodity Price Index



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

Source: CDC, Statistics New Zealand



Commodity Exports and Imports

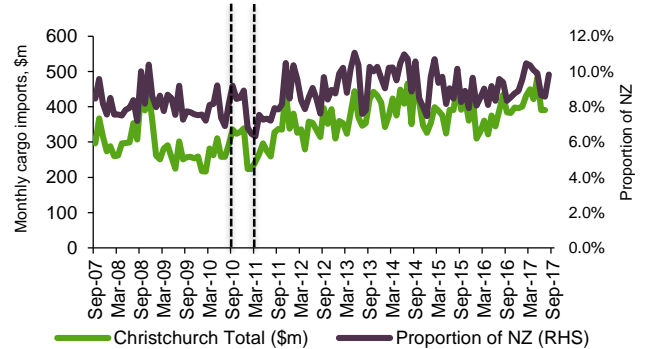
Exports and imports data provides a good indication of how Christchurch interacts with the rest of the world, although these indicators can be volatile. Exports and imports that traverse another New Zealand port will not be captured in the statistics for Christchurch (and similarly not all goods exported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

In the September quarter, the value of exports through Christchurch’s air and sea ports was \$1579 million, an increase of 23.3 percent on the same period last year. Most of this increase was due to an increase in exports of nuclear reactors, boilers, other machinery and mechanical appliances.

The value of imports through the airport and Lyttelton was \$1390 in the September quarter, up 15.1 percent from the same period last year. Most of the increase was due to an increase in imports of mineral fuels, oils and associated products.

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

Source: CDC, Statistics New Zealand



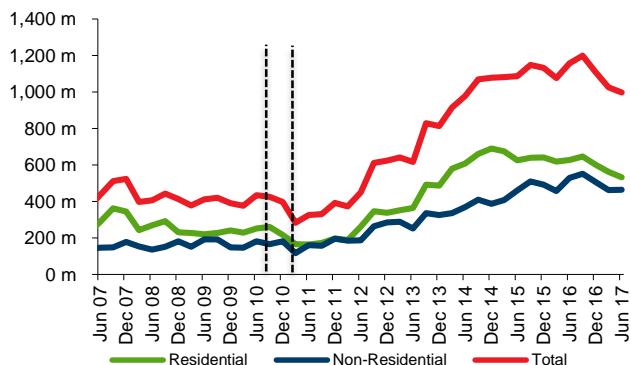
Building Activity

Building activity in the region remains at a very high level, but is showing signs of easing in the June 2017 quarter.

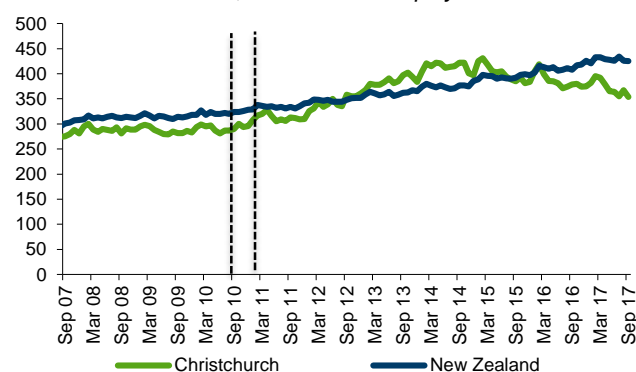
This level has remained constant for the past three years, but will continue to gradually slow in 2017, ahead of more substantial easing in 2018 and beyond as rebuild activity winds up. The composition of rebuild activity continues to change, with commercial construction expanding at the same time as residential building is easing back.



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



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



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 \$354 in September 2017, 6.6 percent lower than September 2016. Mean rents in Canterbury were \$355 in September 2017, down from \$370 in September 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. What is interesting to note is the growing gap between New Zealand and Christchurch rents. The market continues to adjust as the residential rebuild is completed.

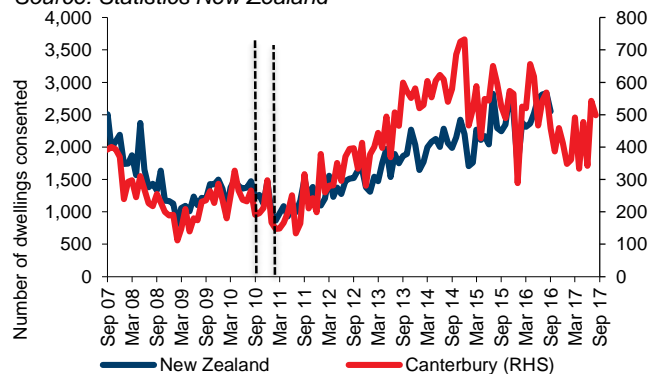
New Zealand rents grew 4.2 percent over the past year, reaching \$425 per week in September 2017. Although this is increasing, it remains significantly lower than house price growth, which suggests that residential property investors in other regions are focussed on capital gain rather than yield.

Building Consents

In the year ending September 2017 there were 5,122 new residential building consent approvals for Canterbury, down 18 percent from the previous year. Within Christchurch, 2,579 new residential buildings were consented in the year ending in September, down 26 percent from the previous year.

Residential consents reached record highs in 2014, however the rebuild emphasis is shifting from residential to non-residential construction. Residential consents are still 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





House sales

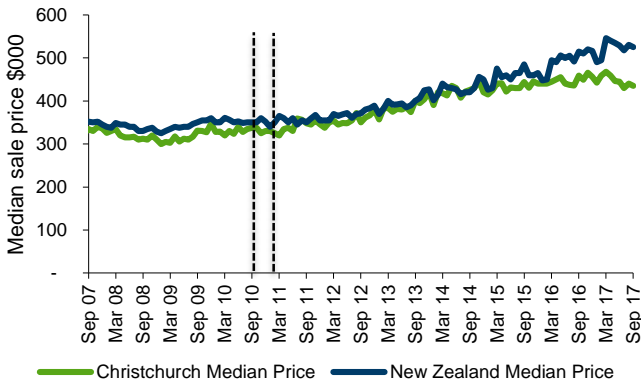
A strong supply of houses because of the post-quake rebuild and strong greenfield supply softened house price growth in the city and region.

The number of houses sold during September 2017 in Christchurch was 25.7 percent lower than September 2016.

House prices express a similar trend. The median house price for Christchurch \$435,000 in September 2017, 5 percent lower than September 2016.

Much of New Zealand continues to experience growth in house prices despite the cooling of the housing market in Auckland. The median house price for New Zealand was \$525,000 in September 2017, up 1.9 percent on September 2016. The number of houses sold dipped by 26.6 percent compared to September 2016.

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



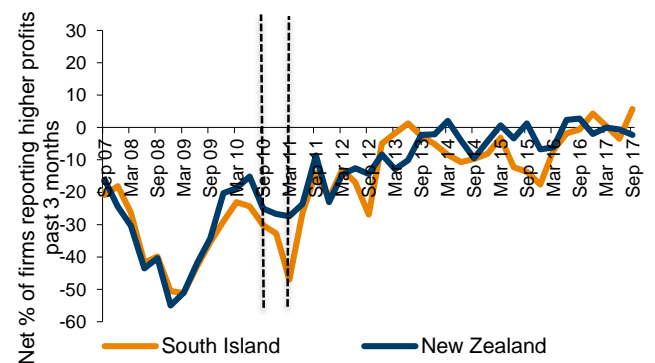
BUSINESS CONFIDENCE

Firm profitability

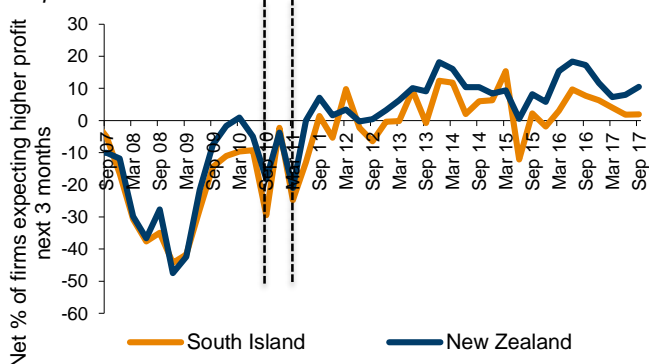
New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion for the September 2017 quarter showed that there was a net increase in businesses reporting improved profitability in the past three months, within the South Island. Across New Zealand as a whole however there was a net decrease in businesses reporting improved profitability over the past quarter.

Looking ahead, a net 2 percent of South Island businesses expect higher profits in the coming quarter, compared to a net 10 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 is beginning to 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





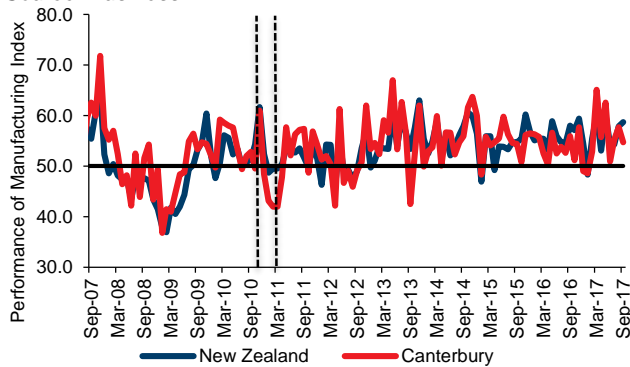
Performance of Manufacturing

The BNZ-Business NZ Performance of Manufacturing Index for the September quarter suggests a continued expansion.

The non-seasonally adjusted index recorded 54.7 in September, with an average of 55.9 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 (non-seasonally adjusted)
Value > 50 means expansion, < 50 contraction
Source: 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 and a half years.

The PSI indicator averaged 54.4 in the September quarter, down slightly from 55.6 in the June quarter. Values over 50 indicate the sector is expanding and the index has remained well above this threshold since 2013.

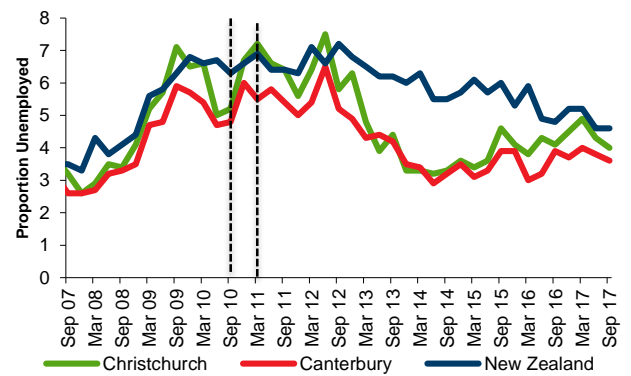
The sector has been very strong at a national level, averaging 55.6 in the September quarter, continuing a positive run since 2011.

LABOUR

Unemployment

The unemployment rates in Christchurch and Canterbury are moving closer to the national average. In the September 2017 quarter, 4 percent of the Christchurch labour force was unemployed, compared to 3.6 percent for Canterbury and 4.6 percent for New Zealand.

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

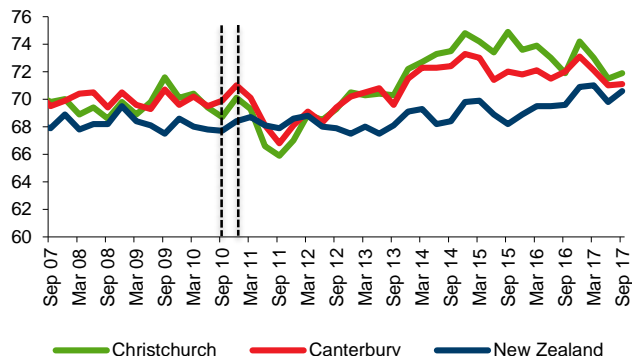


Participation

Labour force participation in Christchurch and Canterbury reached record highs as the rebuild scaled up; however, it is 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 September 2017 quarter, the labour force participation rate for Christchurch was a relatively high 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 71.1 percent, and New Zealand 70.6 percent.



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

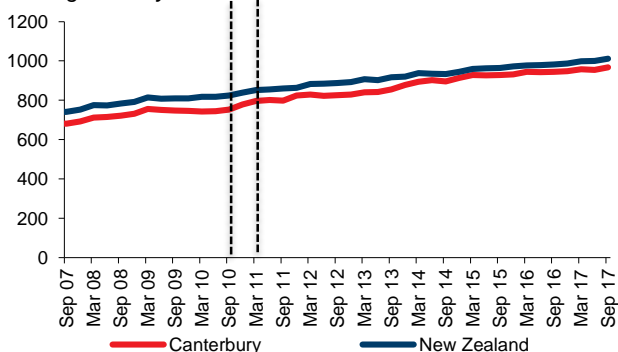


Earnings

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 2.4 percent in Canterbury over the past year, reaching \$967.96 per week. Across New Zealand, earnings grew by 3 percent, reaching \$1010. Canterbury employees worked 32.49 hours on average in the September 2017 quarter, compared to 33.13 nationally.

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



International Migration

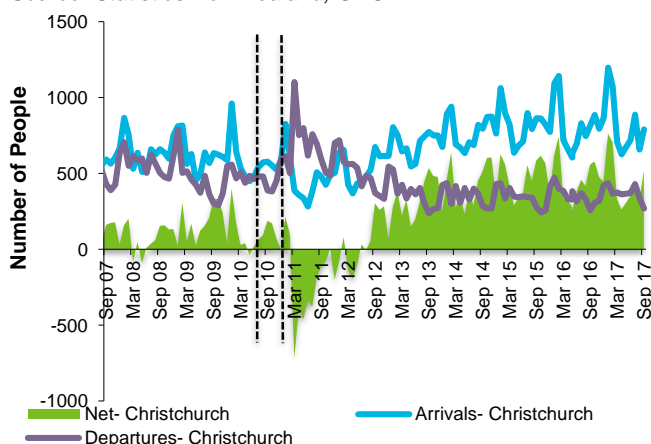
Net migration into Christchurch and Canterbury remains at a very high level.

In the September quarter, 2,337 people arrived in Christchurch, which – after accounting for those that departed – is a net gain of 1296 people. For Canterbury, there were 3,103 arrivals for a net gain of 1,657. Across New Zealand, 33,525 arrived for a net gain of 18,485.

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 (is this still relevant) 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, the easing of rebuild activity combined with the recently elected government’s policies on reducing immigration 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



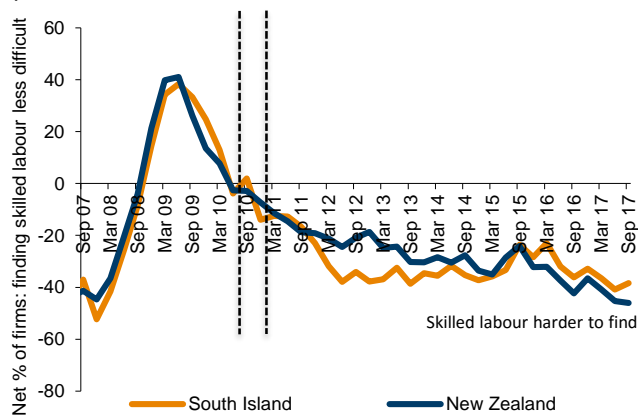


Ease of Finding Labour

In the September quarter of 2017, a net 38 percent of South Island firms reported increased difficulty finding skilled labour, and a net 26 percent reported increased difficulty in finding unskilled labour. Both South Island indicators have followed the national indicator for some time.

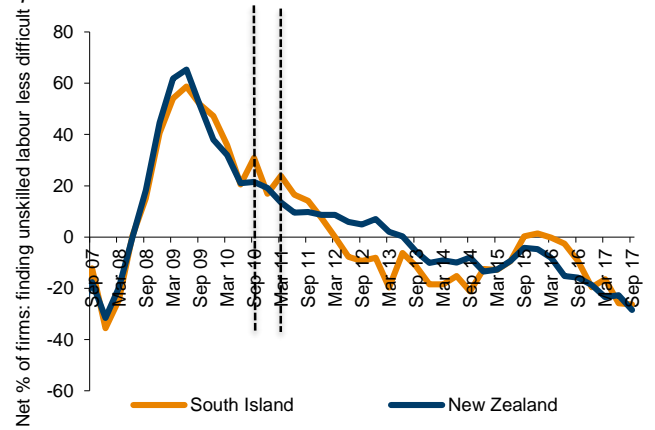
Difficulty Finding Skilled Labour Net percent of firms reporting decreased difficulty finding skilled labour

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





VISITOR

Guest Nights

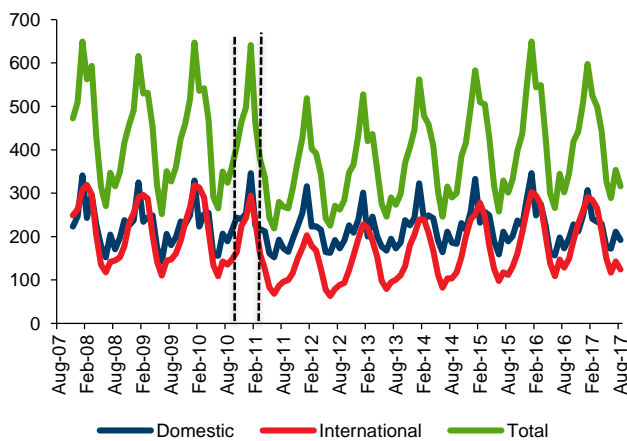
The region's visitor sector has been undergoing a steady recovery which is led by international tourists and a broadening season.

Domestic guest nights in Canterbury grew in September 2017, compared to the previous year. International guest nights in Canterbury grew 0.7 percent comparing September 2016 to September 2017. Nationally, international guest nights were up 3.4 percent.

Total guest nights in Canterbury grew by 5.4 percent between September 2016 and September 2017, compared to a 1.4 percent increase nationally.

In Christchurch, specifically, guest nights have increased by 6 percent over the past year, reaching 201,326 in September 2017.

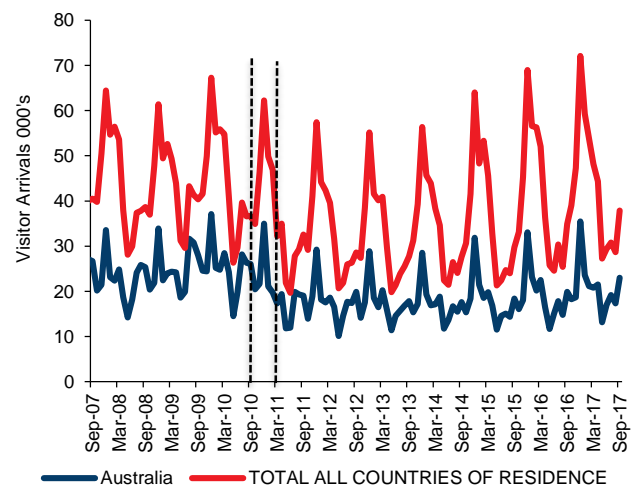
Guest Nights Canterbury (000s)
Domestic and International Guest Nights
Source: Statistics New Zealand



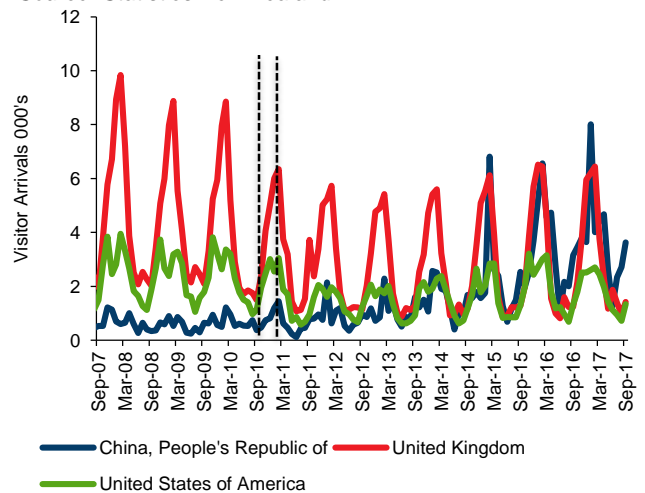
International Arrivals

Christchurch visitor arrivals numbered 37,904 in the month of September 2017 and were up 6.0 percent from year ending September 2016. The biggest changes in total numbers in Christchurch visitor arrivals by country of residence between year ending September 2016 and 2017 were China up 10 percent and the Australia up 8 percent while visitors from Japan fell by 13 percent.

Christchurch Visitor Arrivals
Source: Statistics New Zealand



Christchurch Visitor Arrivals
Source: Statistics New Zealand



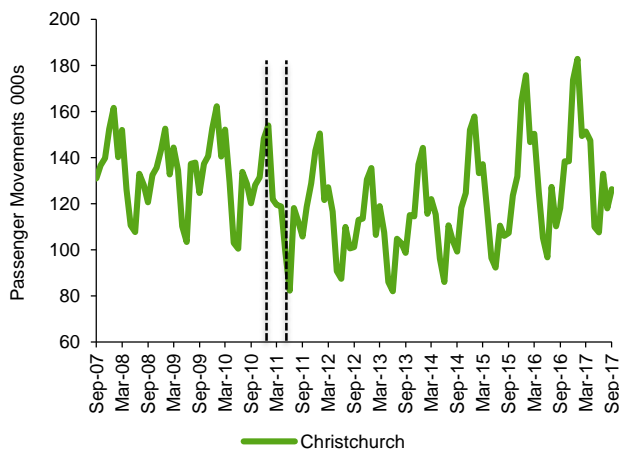


Passenger Movements

Passenger movements at Christchurch airport are following an increasing trend, with 126,342 movements for the September month, this is a 7 percent increase on the previous year. The figure increased from 118,015 in the August month, this is reflective of seasonality as opposed to a decrease in movements.

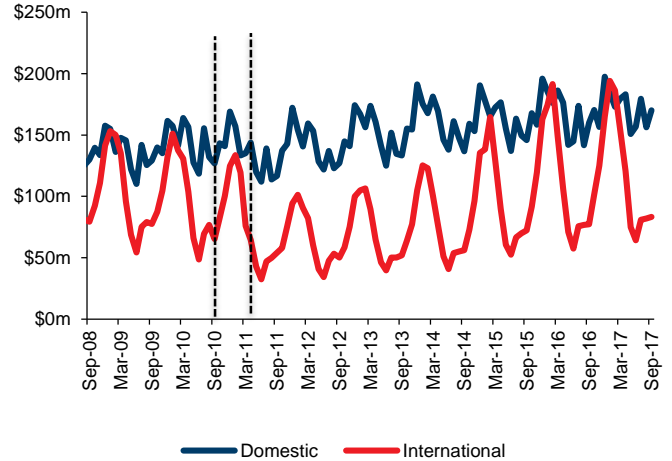
Passenger Movements Christchurch

Source: Statistics New Zealand



Visitor Spending Canterbury NZ\$m

Source: Statistics New Zealand



Capacity

The occupancy rate for Christchurch increased in September to 48 percent, up from 41 percent in August. This is a increase on September 2016, with a figure of 49 percent.

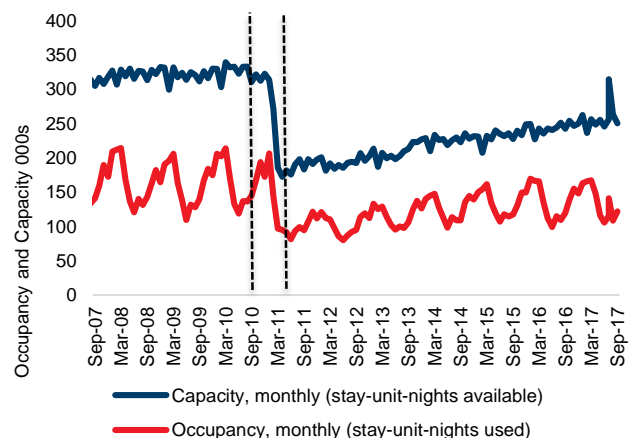
Capacity within Christchurch has fallen from 263,000 in August to 250,000. Capacity levels are returning to their pre-earthquake levels of 333,000 in July 2010. Occupancy levels have increased only slightly from 119,000 in September 2016 to 122,000 in September 2017.

Visitor Spending

Christchurch international visitor spending was \$56m for the month of September, up 10 percent on September 2016 as per the latest data sourced from Statistics New Zealand. Growth of spending follows the trend of the visitor economy, with guest nights and arrivals increasing. However, spending growth exceeds that of arrivals, implying spend per visitor is increasing.

Christchurch Monthly Occupancy and Capacity

Source: Statistic 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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