



Christchurch and
Canterbury Quarterly

Economic Report





Economic growth stable in Christchurch and Canterbury

Christchurch and Canterbury's economies continue to show positive trends. Construction activity has tapered off to a sustained level, while the underlying economy begins to take control. 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 March 2018 quarter, the unemployment rate in Christchurch was 4.4 percent, just below the national average of 4.6 percent.

Gross Domestic Product (GDP) remains at a 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 1.4 percent in the year to March 2018, reaching \$20.6 billion. Canterbury grew by 12.1 percent, reaching \$30.3 billion. The national economy is strong, growing 2.7 percent over the same period, reaching \$241.9 billion.

Service sectors continue to expand, following the pattern from 2013, except for October 2017 and January 2018. Manufacturing sectors contracted for the first time since the start of 2017, in December 2017 following a positive long-term trend. However, the following months have returned to the previous pattern of expansion.

The visitor sector continues to grow strongly following a strong summer season, with measures surpassing pre-earthquake levels. The Chinese market is contributing to large growth in the visitor market, with guest nights in the region continuing to increase.

House prices and rents in Christchurch and Canterbury continue to diverge from the New Zealand overall average but recently rent is showing signs of stabilising, and new construction remains strong. Christchurch house prices have fallen by 1.6 percent between March 2017 and March 2018, compared to a 2.6 percent increase nationally. Rents in Christchurch had been following a falling trend since early 2015 however over the last couple of months the trend has been reversed. March 2018 saw rent in Christchurch increase by 1.3 percent, whilst New Zealand rents grew 4.8 percent.

Residential building consents have fallen by 20 percent year ending March in Christchurch, showing the fall in residential construction. Nonetheless, with 2,487 new dwellings consented in the year ending March 2017 alone, general construction is still at high levels.

Capacity and occupancy rates are showing a positive upwards trend, with capacity returning to pre-earthquake levels, following the recent completion of hotel accommodation.



ECONOMIC TRENDS

Gross Domestic Product

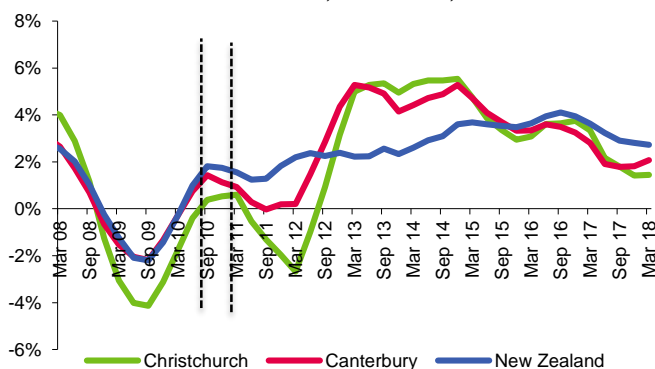
Economic activity in the region remains at a high level, but growth rates continue to flatten out.

The value of economic output in Christchurch reached \$20.6 billion in the year to March 2018 (measured in 2010 prices – Infometrics estimates). That represents 8.5 percent of New Zealand GDP, down slightly from 8.6 percent in the year to March 2017. Output from Canterbury overall reached \$30.3 billion in the year to March 2018. This equates to 12.5 percent of national output, down from 12.6 percent in the year to March 2017.

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 March 2018 was 1.4 percent for Christchurch and 2.1 percent for Canterbury, below the New Zealand rate of 2.7 percent.

Gross Domestic Product Annual Average Percent Change
Source: Statistics New Zealand, Infometrics, CDC

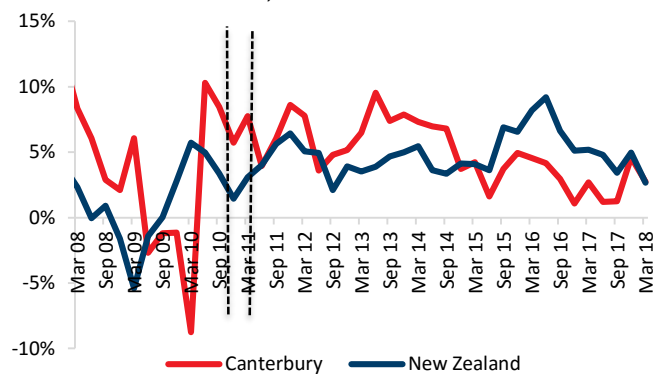


Retail Trade

Retail sales in Canterbury return to high levels, following an easing after a period of very strong growth. In the March 2018 quarter, retail spending in Canterbury increased by 2.8 percent on the March 2017 quarter, outperforming growth in New Zealand (2.7 percent) for the first time in three years.

Exceptional growth in retail spend following the Canterbury earthquakes could be attributed to spending on construction materials for earthquake repairs. Recent growth corresponds with the development and re-opening of major retail outlets within the CBD, igniting more retail spending from residents and visitors.

Retail Trade
Change in retail sales from same quarter a year ago
Source: Christchurch NZ, Statistics NZ



Global Commodity Prices

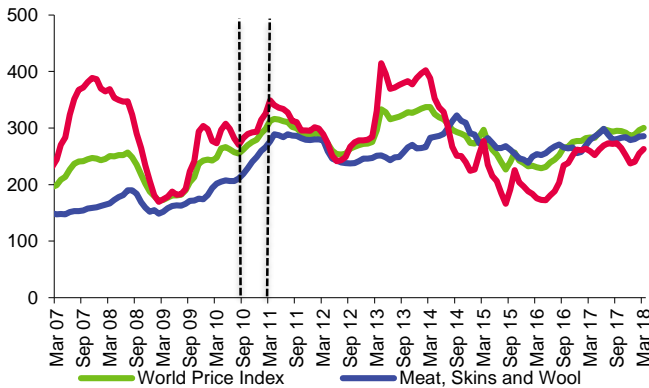
Global Commodity Prices have grown strongly over the past year.

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 1.2 percent in March 2018, and has appreciated 5.8 percent since March 2017. In the past month, dairy increased the most, while aluminium was the only commodity to fall. All commodity categories have appreciated over the past year.



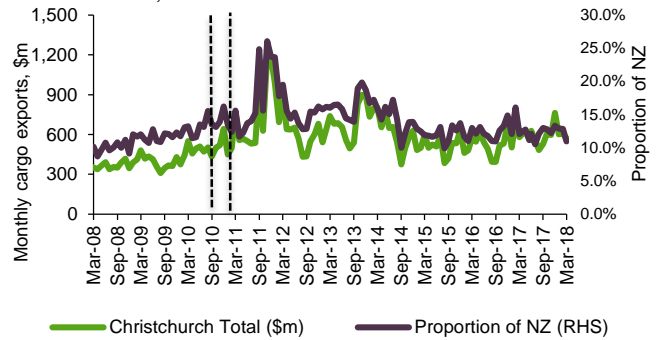
World Price Index Base July 1986=100

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

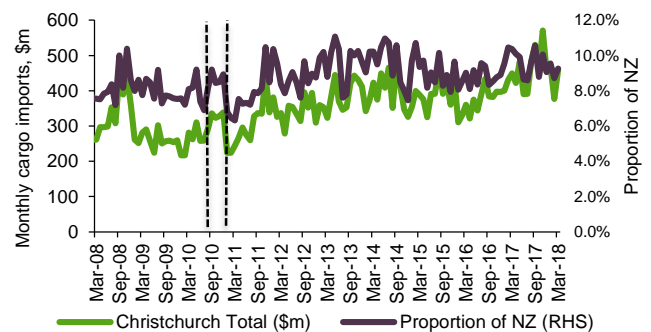
Despite exports and imports data being, at times, volatile they can provide a good indication of how Christchurch interacts with the rest of the world. Exports and imports that traverse another New Zealand port will not be captured in the statistics for Christchurch (and similarly not all goods exported in Christchurch are produced in Christchurch).

In the March quarter, the value of exports through Christchurch's air and sea ports was \$1780 million, a decrease of 0.3 percent on the same period last year. Machinery and mechanical appliances, preparations of cereals, preparations of vegetables appreciated the most out of all commodities while dairy products suffered a significant loss of 6.4 percent.

The value of imports through the airport and Lyttelton was \$1,306 million in the March quarter, up 1.9 percent from the same period last year. Most of the increase was due to an increase in furniture, electrical machinery and equipment and iron and steel articles.

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

Source: CDC, Statistics New Zealand



Building Activity

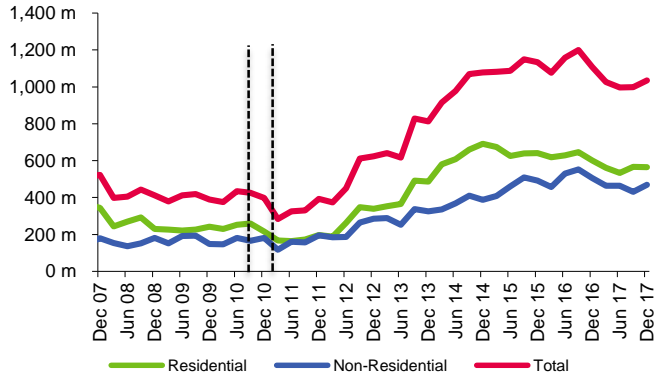
Building activity in the region remains strong however it has shown signs of contraction over the December 2017 quarter.

This growth rate has remained stable for the past three years, but building activity is likely to slow substantially over 2018 as rebuild activity winds down. The composition of rebuild activity continues to change, with commercial construction expanding at the same time as residential building is easing back.



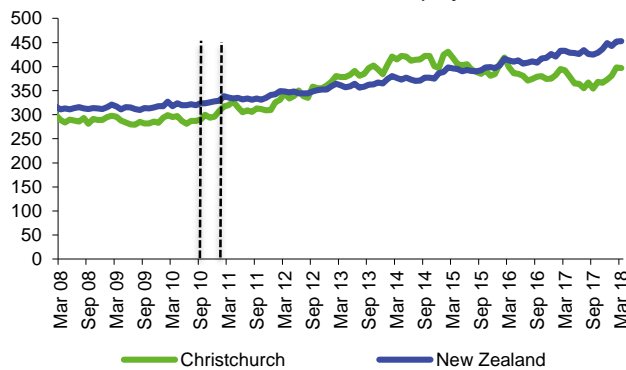
Value of Building Work in Canterbury Quarterly value of work put in place, \$m

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 comparatively steady demand has led to easing rents in Christchurch and Canterbury in recent years. However, in recent months rents in Christchurch have increased – although at a lower rate than nationally. Private sector mean weekly rents in Christchurch were \$397 in March 2018, 1.3 percent higher than March 2017. Mean rents in Canterbury were \$391 in March 2018, up from \$384 in March 2017.

Rents have been declining on an annual basis for the past two years, however with the degree of decline easing and recent slight increases, it would appear rents are beginning to stabilise. The growing gap between New Zealand and Christchurch rents is an interesting phenomenon to note. As the residential rebuild reaches completion we see the market continue to adjust.

New Zealand rents grew 4.8 percent over the past year, averaging \$454 per week in March 2018. Although this is increasing, it remains lower than house price growth, which suggests that residential property investors in other regions are focussed on capital gain rather than yield.

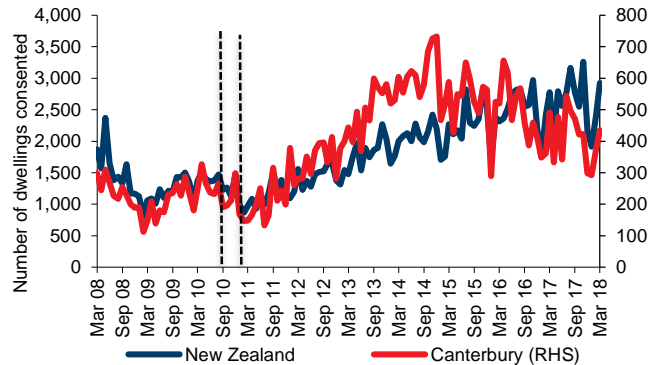
Building Consents

In the year ending March 2018 there were 4,906 new residential building consent approvals for Canterbury, down 15 percent from the previous year. Within Christchurch, 2487 new residential buildings were consented in the year ending in March, down 23 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

The post-quake rebuild and strong greenfield has resulted in a strong supply of houses, which in turn has softened house price growth in the city and region.

The number of houses sold during March 2018 in Christchurch has fallen 3.5 percent when compared with March 2017.

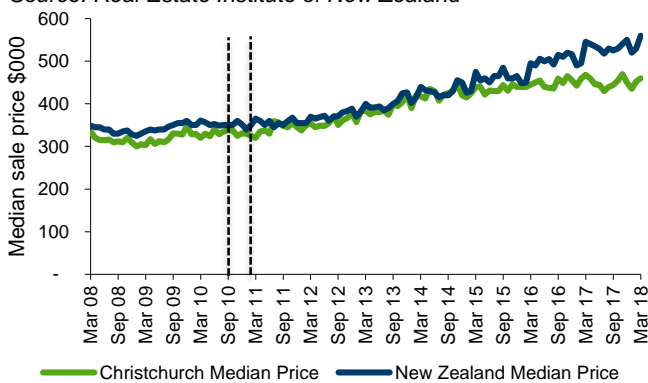
House prices express a similar trend. The median house price for Christchurch was \$460,000 in March 2018, 1.7 percent lower than March 2017.

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 \$560,000 in March 2018, up 2.6 percent on March 2017. The number of houses sold fell by 9.7 percent compared to March 2017.

Median Sale Price

Monthly median sale price of dwellings

Source: Real Estate Institute of New Zealand





BUSINESS CONFIDENCE

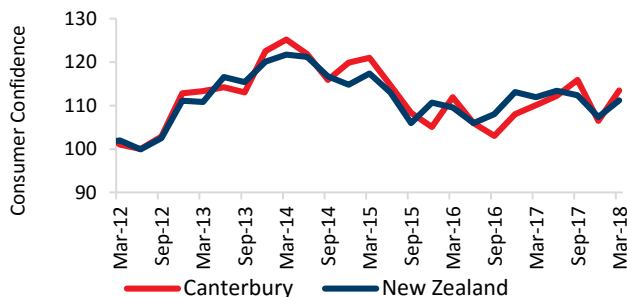
Regional Economic Confidence

Regional economic confidence reflects the difference between the percentage of people that expect economic conditions in Canterbury to improve and those that expect conditions to worsen over the next 12 months. A net 23 percent of Canterbury households are optimistic regarding the economic prospects of the region for the March 2018 quarter. This is a 21 percent increase on the previous quarter.

Consumer confidence is an indication of households' expectations about their own financial situation, their expectations for the New Zealand economy and their inclination to buy a large household item. This indicator improved by 7 percent for Canterbury in March quarter, compared to a 4 percent increase nationally. The improvement in consumer confidence is not surprising as confidence usually dips before a national election and then recovers afterwards.

Consumer Confidence

Source: Westpac McDermott Miller, ChristchurchNZ



Performance of Manufacturing

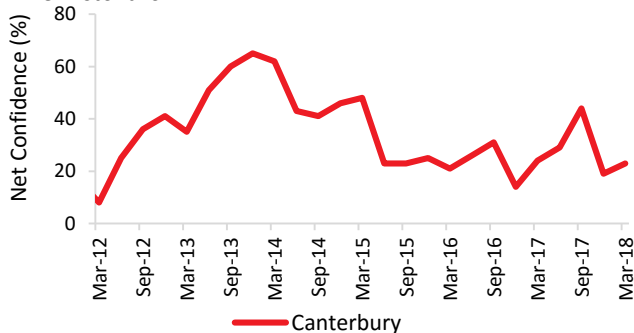
The BNZ-Business NZ Performance of Manufacturing Index for the March 2018 quarter suggests a continued expansion.

The non-seasonally adjusted index recorded 53.2 in March 2018, with an average of 52.9 for the quarter. The quarterly index has been expanding since 2013.

The manufacturing sector is a key driver of economic drive outside of the rebuild and employed over 35,600 people in the region in 2017.

Canterbury Regional Economic Confidence Net confidence (%)

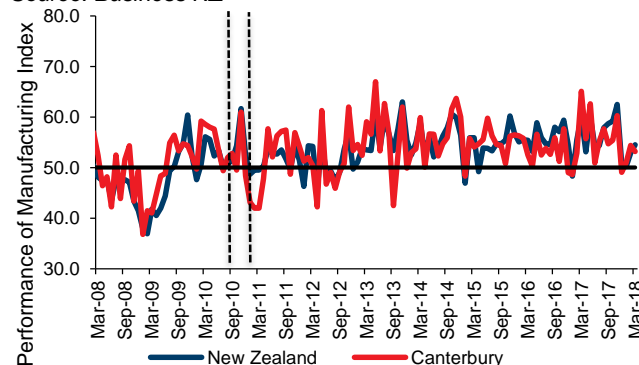
Source: Westpac McDermott Miller, ChristchurchNZ



Performance of Manufacturing Index (non-seasonally adjusted)

Value > 50 means expansion, < 50 contraction

Source: Business NZ



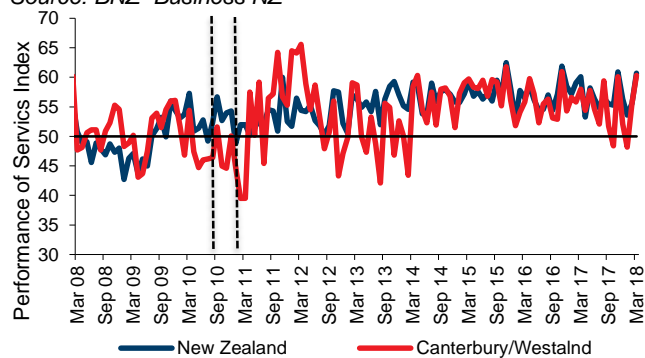


Performance of Services

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 54.7 in the March 2018 quarter, up slightly from 53.5 in the December 2017 quarter. Values over 50 indicate the sector is expanding and the index has remained above this threshold since 2013. The sector has been very robust at a national level, averaging 56.6 in the March 2018 quarter, continuing a positive run since 2011.

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



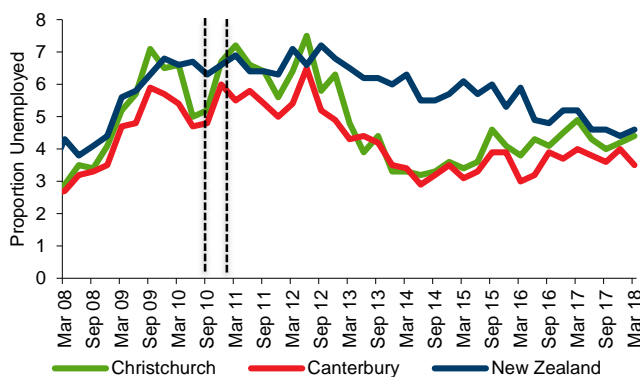


LABOUR

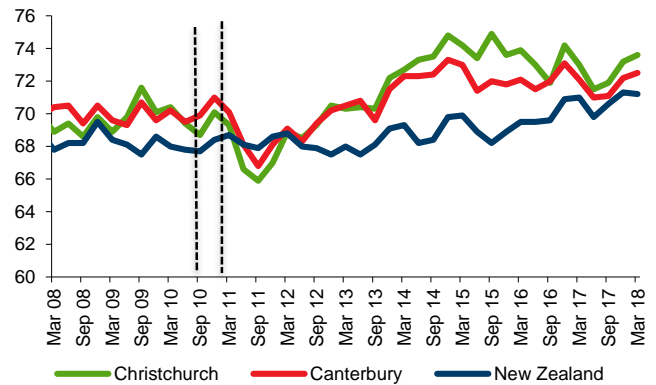
Unemployment

The unemployment rates in Christchurch and Canterbury are moving closer to the national average. In the March 2018 quarter, 4.4 percent of the Christchurch labour force was unemployed, compared to 3.5 percent for Canterbury and 4.6 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

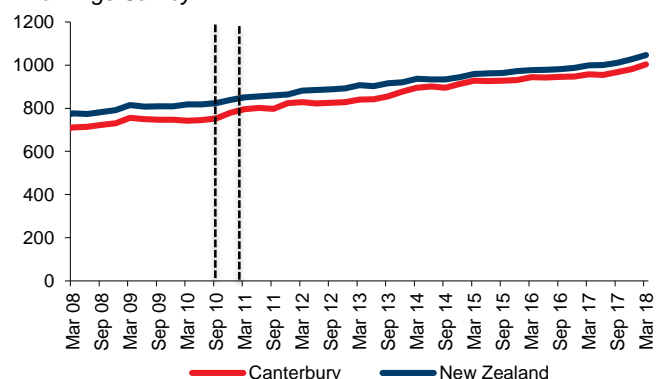


Earnings

Canterbury earnings are beginning to grow at a similar rate to the national level, however earnings in the region remain below the national average.

Average earnings for employees (including overtime) grew by 4.9 percent in Canterbury over the past year, reaching \$1,004 per week for the March quarter. Across New Zealand, earnings grew by 4.8 percent, reaching \$1047 in March. Canterbury employees worked 32.9 hours on average in the March 2018 quarter, compared to 33.7 hours nationally.

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



Participation

Labour force participation in Christchurch and Canterbury reached record highs as the rebuild scaled up; however, while still higher than the national level, it is trending downwards as the rebuild passes its peak. The labour force participation rate represents the proportion of the population aged 15 years or older that is either working or actively looking for work, with the figure for Christchurch in the December 2017 quarter a relatively high 73.6 percent. For Canterbury, the rate was 72.5 percent, while the national rate was 71.2 percent.



International Migration

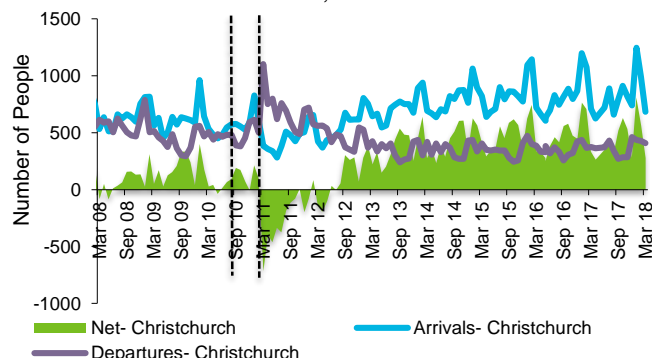
Net migration into Christchurch and Canterbury remains at a very high level.

In the March 2018 quarter, 2,920 people arrived in Christchurch, which – after accounting for those that departed – is a net gain of 1,649 people. For Canterbury, there were 3,614 arrivals for a net gain of 1,846. Across New Zealand, 37,616 arrived for a net gain of 19,901.

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. 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 could 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

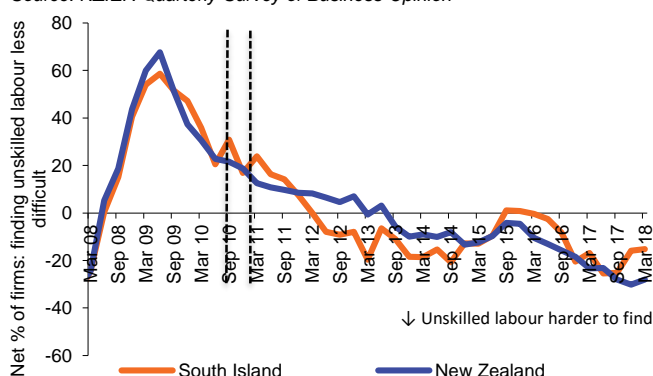


Ease of Finding Labour

In the March quarter of 2018 a net 38 percent of South Island firms reported increased difficulty finding skilled labour, and a net 15 percent reported increased difficulty in finding unskilled labour. Both South Island indicators have followed the national indicator for some time.

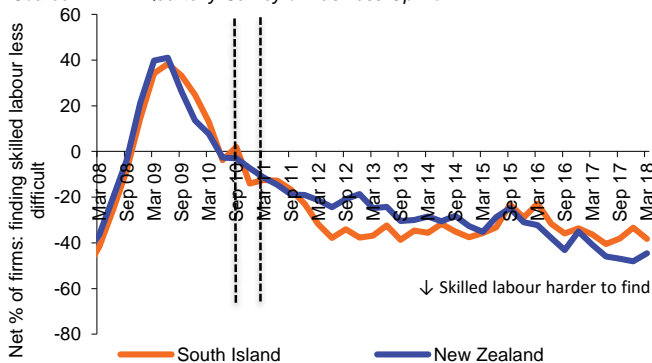
Difficulty Finding Unskilled Labour Net percent of firms reporting decreased difficulty finding unskilled labour

Source: NZIER Quarterly Survey of Business Opinion



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

Source: NZIER Quarterly Survey of Business Opinion





VISITOR ECONOMY

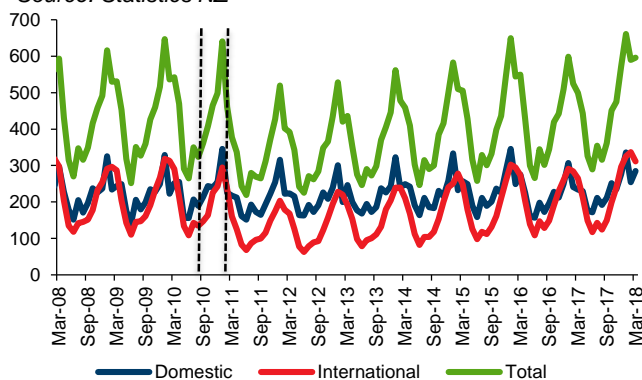
Guest Nights

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 21.8 percent in March 2018, compared to the same month the previous year. International guest nights in Canterbury grew 17.4 percent comparing March 2017 to March 2018. Nationally, international guest nights were up 8.6 percent.

Total guest nights in Canterbury grew by 19.4 percent between March 2017 and March 2018, compared to an 8 percent increase nationally. In Christchurch, specifically, guest nights have increased by 18.7 percent over the past year, reaching 328,334 in March 2018.

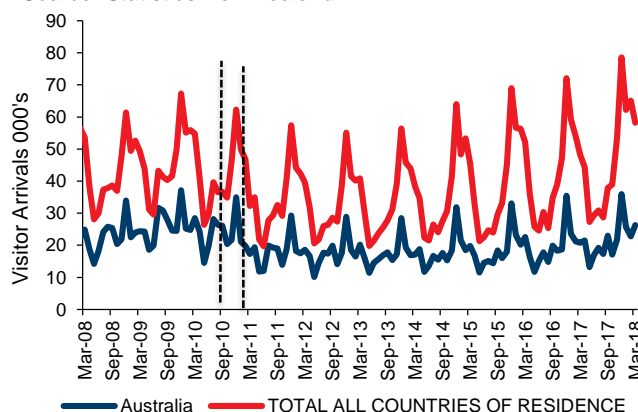
Guest Nights Canterbury (000s)
Domestic and International Guest Nights
Source: Statistics NZ



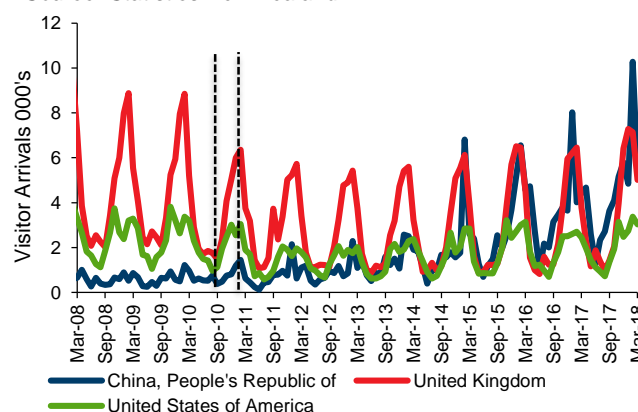
International Arrivals

Christchurch visitor arrivals numbered 58,256 in the month of March 2018 and were up 21 percent from March 2017. The biggest changes in Christchurch visitor arrivals by country of residence between year-end March 2017 and 2018 were China, up 22 percent, and Canada, up 20 percent, while visitors from Japan fell by 6 percent.

Christchurch Visitor Arrivals
Source: Statistics New Zealand



Christchurch Visitor Arrivals
Source: Statistics New Zealand



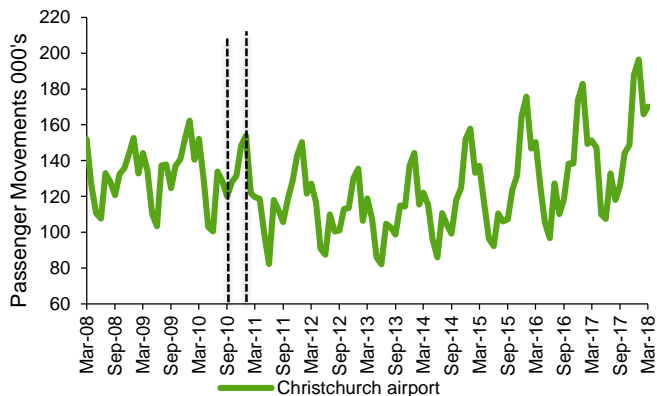


Passenger Movements

Passenger movements at Christchurch airport are following an increasing trend, with 170,135 movements for the March 2018 month, which is a 12.5 percent increase on the previous year. Passenger movements increased from 165,951 in the February 2018 month.

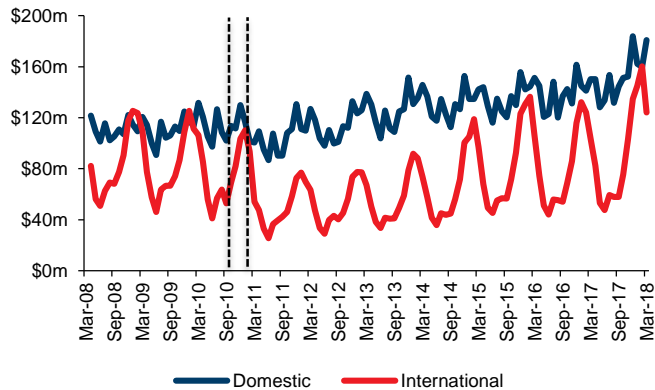
Passenger Movements Christchurch

Source: Statistics New Zealand



Visitor Spending - Christchurch NZ\$m

Source: MBIE



Capacity

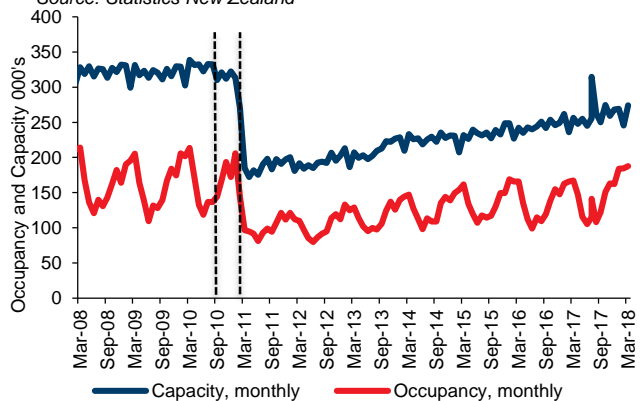
The occupancy rate for Christchurch in March 2018 was 68 percent, down from 75 percent in February 2018. This is an increase on March 2017, with a figure of 65 percent. Capacity within Christchurch has increased from 256,277 in March 2017 to 274,350 in 2018. Capacity levels are returning to their pre-earthquake levels of 333,000 in July 2010. Occupancy levels have increased from 167,262 in March 2017 to 187,585 in March 2018.

Visitor Spending

Christchurch international visitor spending was \$124m for the month of March, up 21.5 percent on March 2017 as per the latest data sourced from MBIE. 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: Statistics New Zealand





International Education

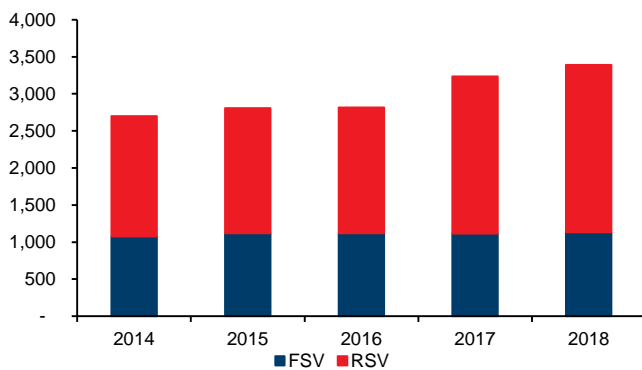
Student visas are a good indication for the forward pipeline of international students and in the 2018 year to date there have been 1,132 first-time student visas applications in Canterbury up 1.3 percent on the same period last year. While a further 2,258 returning student visas were issued, a 6.7 percent increase on 2017. The highest number of valid student visas came from China, India, Japan and the USA.

Total student visas issued for 2017 numbered 8,412, a 4.9 percent increase on 2016 (8,016).

International education, according to Infometrics, contributes \$242m to national GDP.

Canterbury First-time Student Visas and Returning Student Visas by YTD

Source: ENZ, ChristchurchNZ





Data sources

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

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

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

Education New Zealand: <https://intellilab.enz.govt.nz/>

Immigration New Zealand:
<https://www.immigration.govt.nz/about-us/research-and-statistics/statistics>

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/>

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

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

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Westpac: <https://www.westpac.co.nz/>

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