

Christchurch and
Canterbury Quarterly

Economic Report



Economic growth strong for Canterbury

Christchurch and Canterbury's economies continue to trend in a positive way, despite 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 December 2017 quarter, the unemployment rate in Christchurch was 4.2 percent, just below the national average of 4.4 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 1.3 percent in the year to December 2017, reaching \$20.5 billion. Canterbury grew by 1.9 percent, reaching \$30.1 billion. The national economy is strong, growing 2.8 percent over the same period.

Service sectors continue to expand, following the pattern from 2013, except for October 2017. Manufacturing sectors have contracted for the first time since the start of 2017, following a positive long-term trend.

The visitor sector continues to grow strongly, 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, and new construction remains strong. Christchurch house prices have fallen by 1 percent between December 2016 and December 2017, compared to a 6.6 percent increase nationally. Rents in Christchurch continued a falling trend – dropping by 0.5 percent, whilst New Zealand rents grew 5.4 percent.

Residential building consents are a forward indicator of housing supply, and have fallen by 21 percent year ending December in Christchurch. Nonetheless, with 2,522 new dwellings consented in the year ending December 2017 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, following the recent completion of hotel accommodation.

ECONOMIC TRENDS

Gross Domestic Product

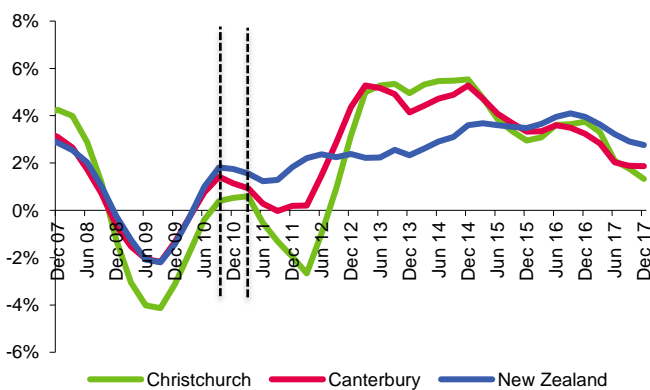
Economic activity in the region remains at a high level, but growth rates continue to flatten out.

The value of economic output in Christchurch reached \$20.5 billion in the year to December 2017 (measured in 2010 prices – Infometrics estimates). That represents 8.5 percent of New Zealand GDP, down slightly from 8.7 percent in the year to December 2016. Output from Canterbury overall reached \$30.1 billion in the year to December 2017. This equates to 12.5 percent of national output, down from 12.6 percent in the year to December 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 December 2017 was 1.3 percent for Christchurch and 1.9 percent for Canterbury, well below the New Zealand rate of 2.8 percent.

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

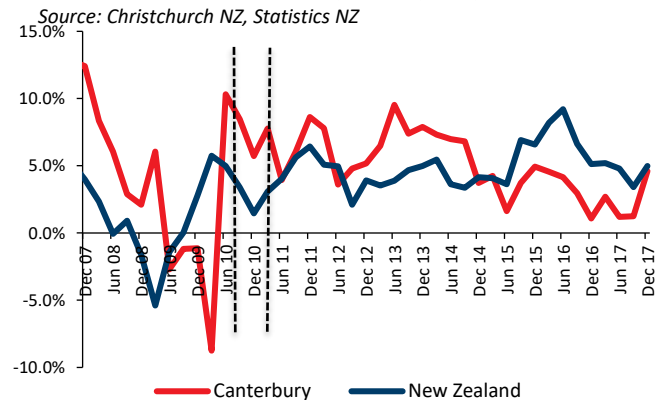


Retail Trade

Retail sales in Canterbury return to high levels, following an easing after a period of very strong growth. In the December 2017 quarter, retail spending in Canterbury increased by 4.6 percent on the December 2016 quarter, although has been below the New Zealand growth rate (5.0 percent) for over two years.

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: Christchurch NZ, Statistics NZ



Global Commodity Prices

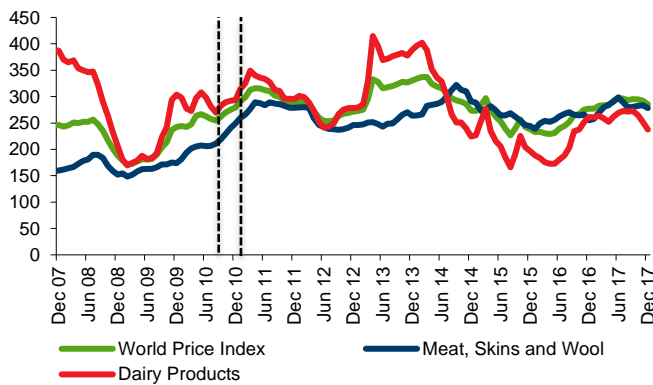
Global Commodity Prices have grown strongly over the past year.

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 depreciated by 2.2 percent in December 2017, but has appreciated 3 percent since December 2016. In the past month, forestry products are the only commodity to appreciate. Nonetheless, all commodity categories have appreciated over the past year excluding dairy, depreciating 9.3 percent.



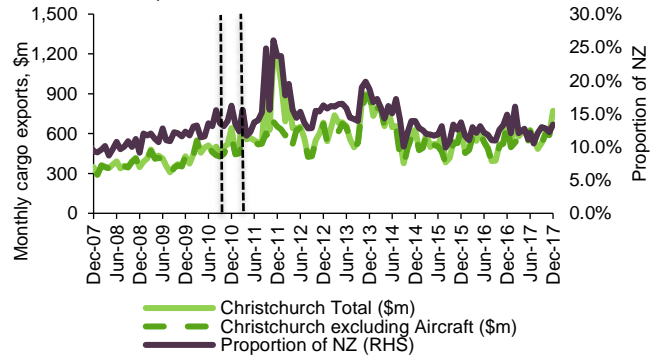
World Price Index Base July 1986=100

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

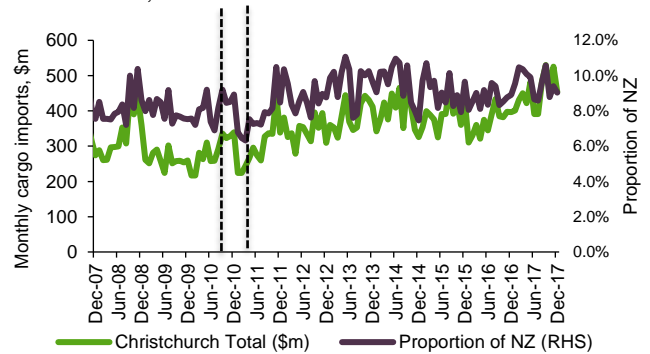
Exports and imports data provides a good indication of how Christchurch interacts with the rest of the world, although these indicators can be volatile. Exports and imports that traverse another New Zealand port will not be captured in the statistics for Christchurch (and similarly not all goods exported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

In the December quarter, the value of exports through Christchurch's air and sea ports was \$1974 million, an increase of 13.7 percent on the same period last year. Most of this increase was due to an increase in exports of dairy produce; birds' eggs; natural honey and edible products of animal origin.

The value of imports through the airport and Lyttelton was \$1442 million in the December quarter, up 22.6 percent from the same period last year. Most of the increase was due to an increase in imports of nuclear reactors, boilers, machinery and mechanical appliances and parts thereof.

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

Source: CDC, Statistics New Zealand



Building Activity

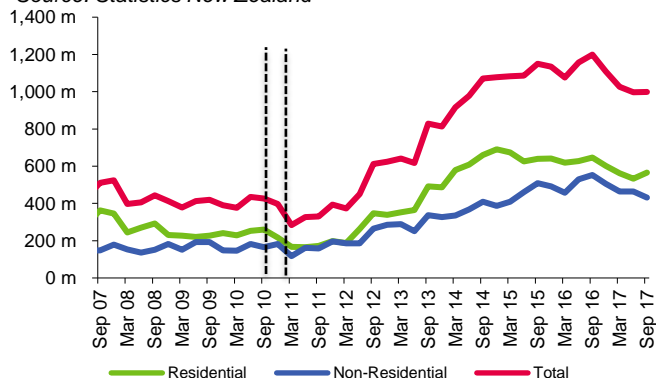
Building activity in the region remains at a high level, but is showing signs of easing in the September 2017 quarter.

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.



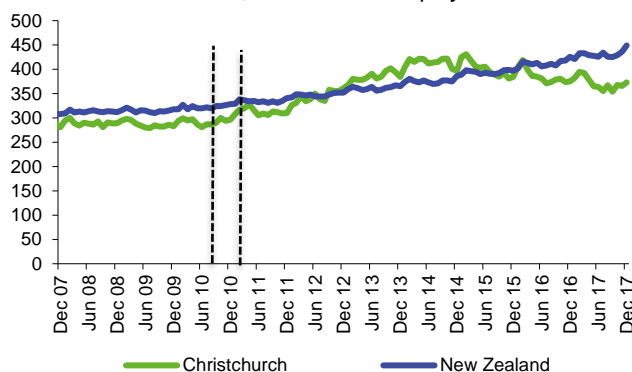
Value of Building Work in Canterbury Quarterly value of work put in place, \$m

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 comparatively steady demand has led to easing rents in Christchurch and Canterbury. Private sector mean weekly rents in Christchurch were \$369 over the December 2017 quarter, 1.9 percent lower than December 2016. Mean rents in Canterbury were \$366 over the December 2017 quarter, down from \$369 in December 2016.

Rents have been declining on an annual basis for the past two years, however the degree of decline is easing suggesting 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 4.2 percent over the past year, averaging \$438 per week over the December 2017 quarter. 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.

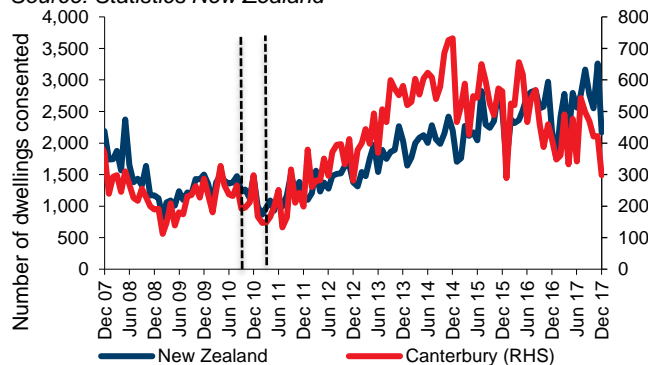
Building Consents

In the year ending December 2017 there were 5,004 new residential building consent approvals for Canterbury, down 15 percent from the previous year. Within Christchurch, 2522 new residential buildings were consented in the year ending in December, down 21 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

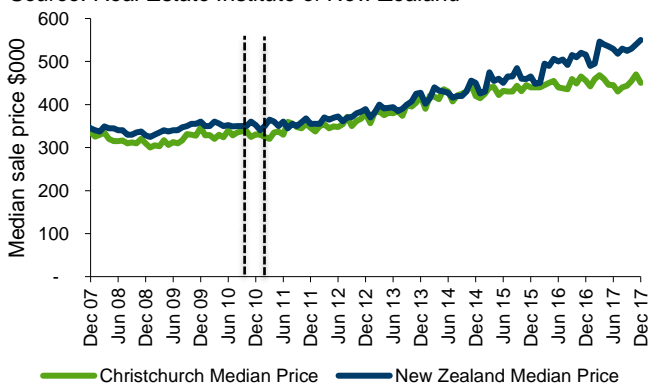
The post-quake rebuild and strong greenfield has resulted in a strong supply of houses, which in turn has softened house price growth in the city and region.

The number of houses sold during December 2017 in Christchurch was 18.9 percent lower than December 2016.

House prices express a similar trend. The median house price for Christchurch \$450,000 in December 2017, 1.3 percent lower than December 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 \$550,000 in December 2017, up 6.6 percent on December 2016. The number of houses sold fell by 9.6 percent compared to December 2016.

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





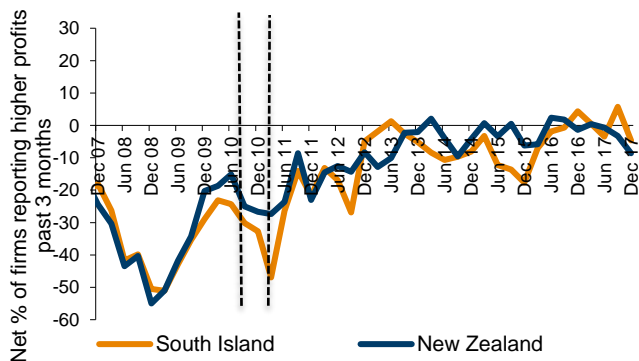
BUSINESS CONFIDENCE

Firm profitability

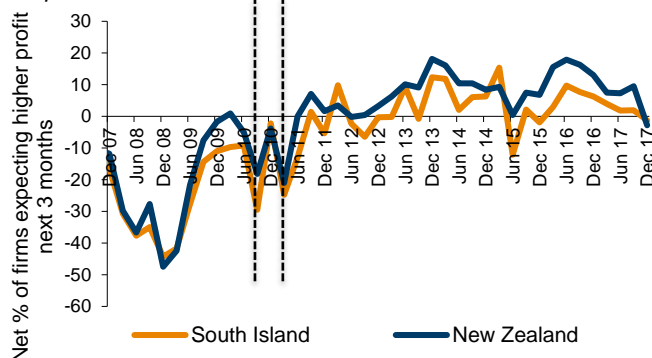
New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion for the December 2017 quarter showed that there was a net decrease in businesses reporting improved profitability in the past three months, within the South Island. Likewise, across New Zealand with a net decrease in businesses reporting improved profitability over the past quarter.

Looking ahead, a net decrease of 1.3 percent of South Island businesses expect higher profits in the coming quarter, compared to a net decrease of 2.8 percent for businesses across New Zealand. The South Island has previously performed well by this measure 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



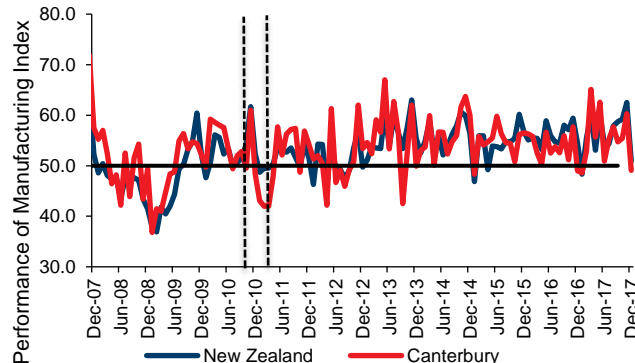
Performance of Manufacturing

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

The non-seasonally adjusted index recorded 49.1 in December, with an average of 54.9 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.

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



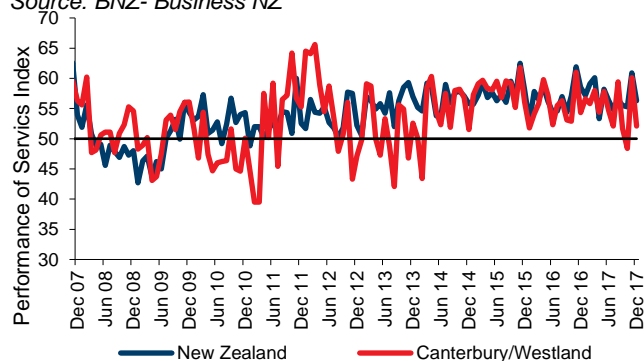


Performance of Services

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 53.5 in the December quarter, down slightly from 54.4 in the September 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 robust at a national level, averaging 57.5 in the December quarter, continuing a positive run since 2011.

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

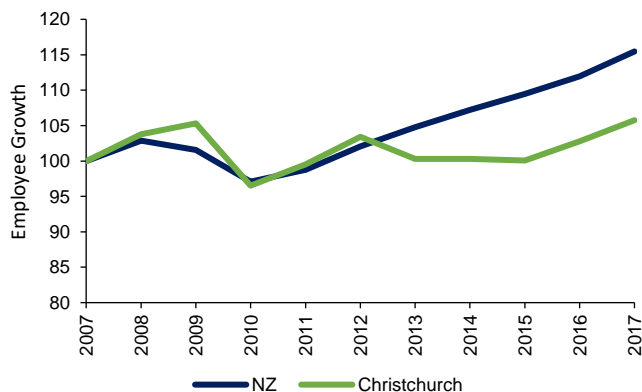


Tech sector

It is encouraging to see employment numbers for the Christchurch tech sector* moving back on track, with growth aligning with the national trend (2016-17 – NZ growth 3.1 percent and Christchurch 2.9 percent). This pick-up follows the significant downturns of the Global Financial Crisis and earthquake impacts and sees employment numbers back at its previous high point prior to these two dips. Growth in Christchurch has primarily come from strong growth in high value manufacturing (8 percent), driven primarily by supplying the construction sector and by software development (5.5 percent) which has regained some of the bounce it had pre-quakes when Christchurch was growing much more rapidly than the national average.

*Measured by ICT (software & telecoms), high value manufacturing, medium high value manufacturing and services (with lawyers and accountants removed).

Tech Sector - growth in number of employees (Index year = 2007 = 100)
Source: Statistics New Zealand



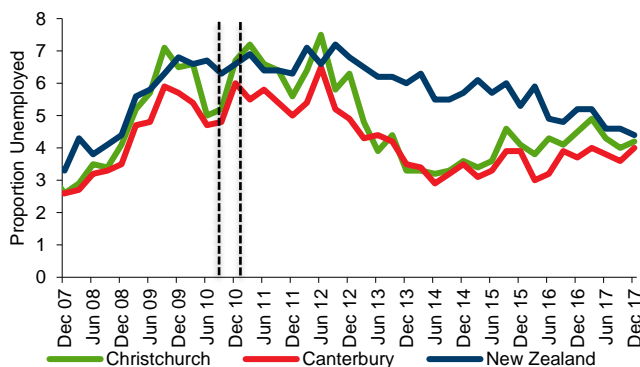


LABOUR

Unemployment

The unemployment rates in Christchurch and Canterbury are moving closer to the national average. In the December 2017 quarter, 4.2 percent of the Christchurch labour force was unemployed, compared to 4.0 percent for Canterbury and 4.4 percent for New Zealand.

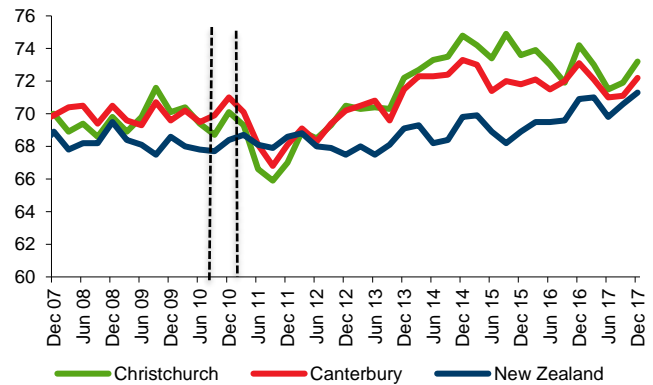
Unemployment Rate
Percent of labour force unemployed
Source: Statistics NZ HLFS



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. Over the December quarter, Christchurch and Canterbury participation rates followed the upwards national trend. The labour force participation rate for Christchurch was a relatively high 73.2 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 72.2 percent, and New Zealand 71.3 percent.

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

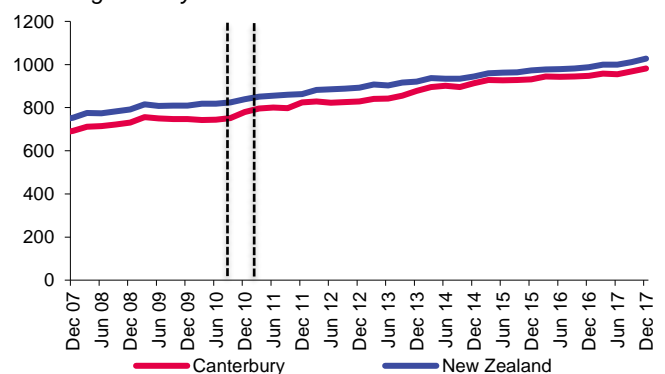


Earnings

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 3.6 percent in Canterbury over the past year, reaching \$981.58 per week for the December quarter. Across New Zealand, earnings grew by 4.1 percent, reaching \$1027.34 in December. Canterbury employees worked 32.51 hours on average in the December 2017 quarter, compared to 33.42 nationally.

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





International Migration

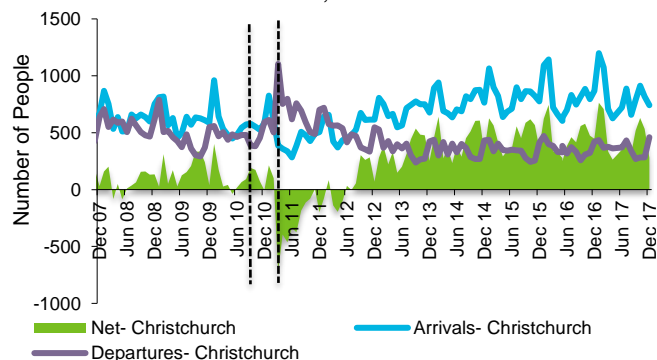
Net migration into Christchurch and Canterbury remains at a very high level.

In the December quarter, 2,471 people arrived in Christchurch, which – after accounting for those that departed – is a net gain of 1,443 people. For Canterbury, there were 3,258 arrivals for a net gain of 1,817. Across New Zealand, 33,523 arrived for a net gain of 19,062.

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 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

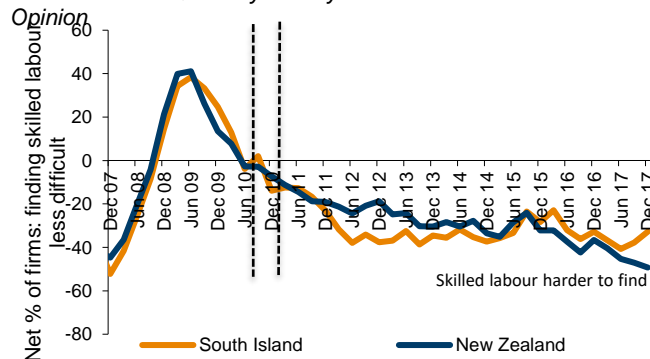


Ease of Finding Labour

In the December quarter of 2017, a net 33 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.

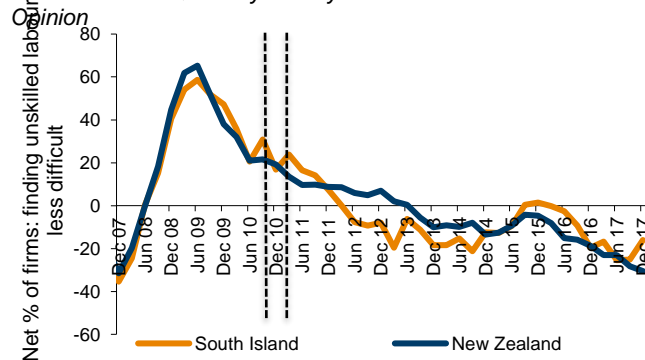
Difficulty Finding Skilled Labour Net percent of firms reporting decreased difficulty finding skilled labour

Source: NZIER Quarterly Survey of Business



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

Source: NZIER Quarterly Survey of Business





VISITOR

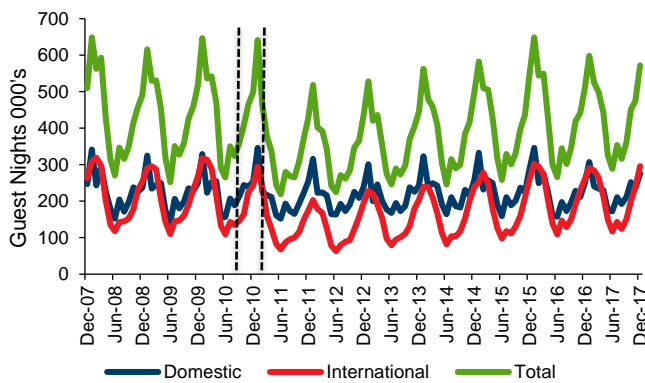
Guest Nights

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 10.8 percent in December 2017, compared to the same month the previous year. International guest nights in Canterbury grew 13.8 percent comparing December 2016 to December 2017. Nationally, international guest nights were up 6.2 percent.

Total guest nights in Canterbury grew by 12.4 percent between December 2016 and December 2017, compared to a 4.0 percent increase nationally. In Christchurch, specifically, guest nights have increased by 11.4 percent over the past year, reaching 301,491 in December 2017.

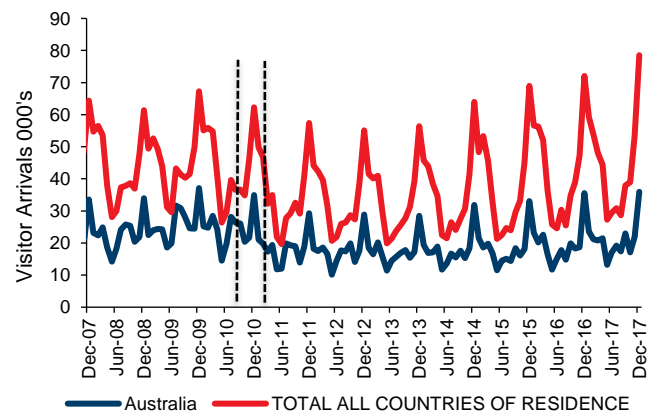
Guest Nights Canterbury (000s)
Domestic and International Guest Nights
Source: Statistics NZ



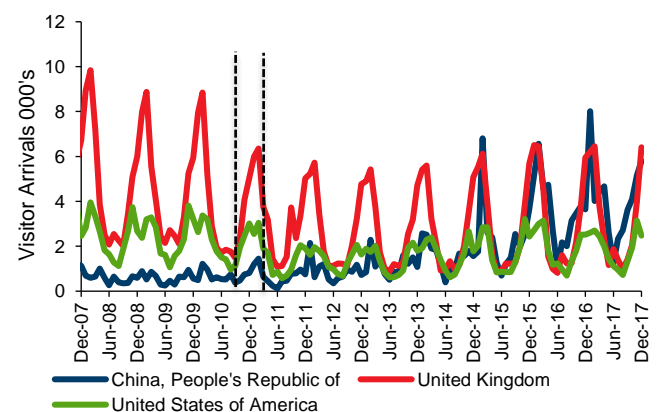
International Arrivals

Christchurch visitor arrivals numbered 78,528 in the month of December 2017 and were up 6.0 percent from year ending December 2016. The biggest changes in total numbers in Christchurch visitor arrivals by country of residence between year ending December 2016 and 2017 were China, up 13 percent, and Australia, up 7 percent, while visitors from Japan fell by 17 percent.

Christchurch Visitor Arrivals
Source: Statistics New Zealand



Christchurch Visitor Arrivals
Source: Statistics New Zealand



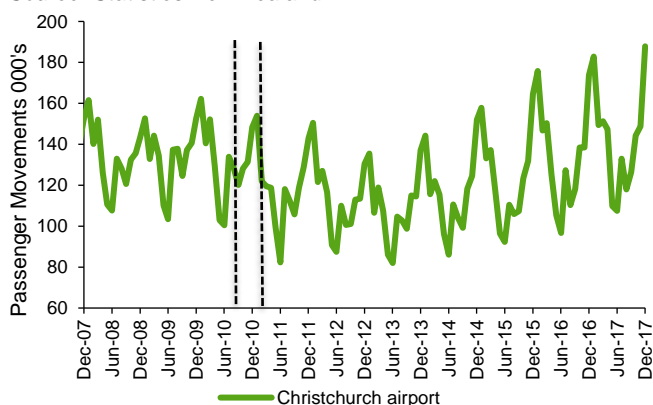


Passenger Movements

Passenger movements at Christchurch airport are following an increasing trend, with 187,853 movements for the December month, this is an 8 percent increase on the previous year. The figure increased from 148,749 in the November month.

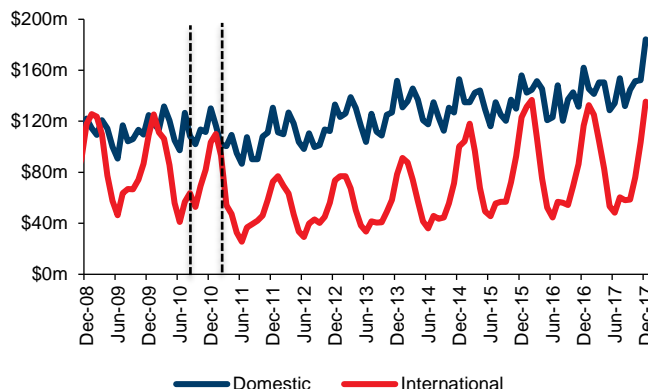
Passenger Movements Christchurch

Source: Statistics New Zealand



Visitor Spending - Christchurch NZ\$m

Source: MBIE



Capacity

The occupancy rate for Christchurch in December 2017 was 60 percent, down from 63 percent in November. This is an increase on December 2016, with a figure of 59 percent.

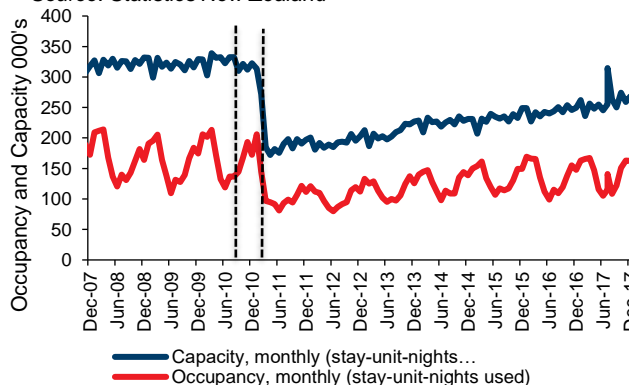
Capacity within Christchurch has increased from 249,364 in December 2016 to 268,150 in 2017. Capacity levels are returning to their pre-earthquake levels of 333,000 in July 2010. Occupancy levels have increased only slightly from 147,852 in December 2016 to 162,200 in December 2017.

Visitor Spending

Christchurch international visitor spending was \$135m for the month of December, up 16 percent on December 2016 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

Canterbury's international education industry has been undergoing a slow but steady recovery with enrolment numbers in Canterbury institutions rising 8 percent to 11,394 in 2016 when compared with the previous year.

Student visas are a good indication for the forward pipeline of international students.

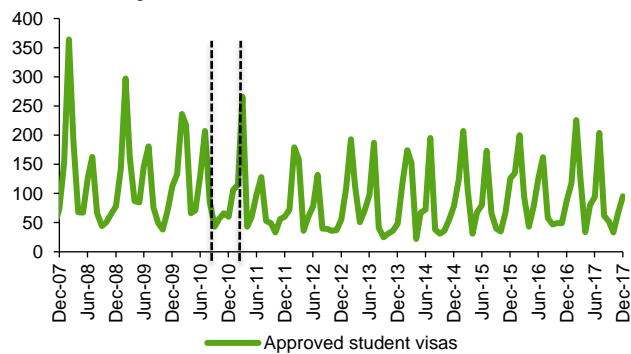
In 2017 there were 1,191 student visas approved in Canterbury, with the highest number of approved student visas coming from China, India, USA and Japan

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

Approved student visas

Number of international students in the forward pipeline, Canterbury

Source: Immigration New Zealand, 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: <http://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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