Monthly Insights Brief

April 2024

On-the-pulse analysis delivered monthly, providing insight into the Christchurch & Canterbury economies.

ChristchurchNZ

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Key economic trends during April

Consumer spending trends

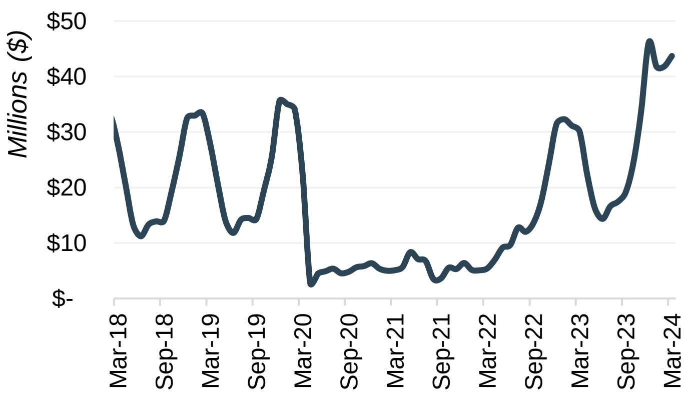
International visitors continue to provide a boost for the local retail sector, as spending by locals and domestic visitors remains subdued.

February & March were both bumper months for international tourism in Christchurch, with monthly international visitor arrivals in February hitting their second highest level since pre-COVID. 48,500 international visitors touched down at Christchurch Airport throughout the month, 57% more than in February last year. Accommodation occupancy sat at 84.2%, the highest level recorded in Christchurch over the post-COVID period.

Two visitor markets were particularly strong during February- China and the USA. Chinese visitor arrivals lifted significantly across New Zealand, coinciding with Chinese New Year. As a result, Chinese visitor arrivals at Christchurch Airport were at 73% of pre-COVID levels in February (vs 44% in January). Meanwhile, the number of visitors to Christchurch from the USA continued to climb, hitting their highest level since November 2009.

Visitor spending data indicates that strong performance in international tourism also continued in March, with monthly international visitor spending in Christchurch hitting its second highest level on record at $43.7m.

International visitor spending, Christchurch

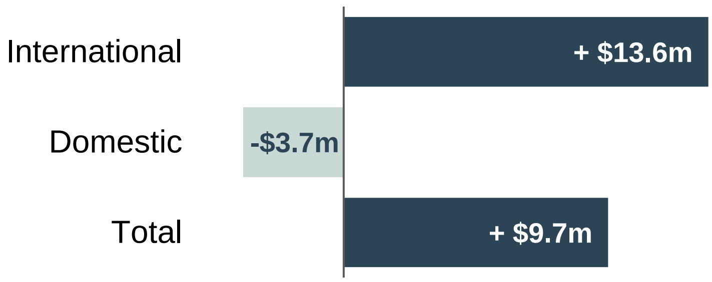


Source: Marketview

The four months to March 2024 have been the four highest spend months on record for international visitor spending in Christchurch, in terms of both spending value and the number of transactions.

Strength in international visitor spending has been offsetting the impact of reductions in domestic tourism activity on overall visitor spend levels. $64.7m was spent by domestic visitors in Christchurch during March 2024, down -6% or -$3.7m from March 2023. International visitor spending increased 45% or $13.6m over the same period, leading to a net uplift in total visitor spending of 10% or $9.7m compared to March last year.

Change in visitor spending in Christchurch March 2024 vs March 2023



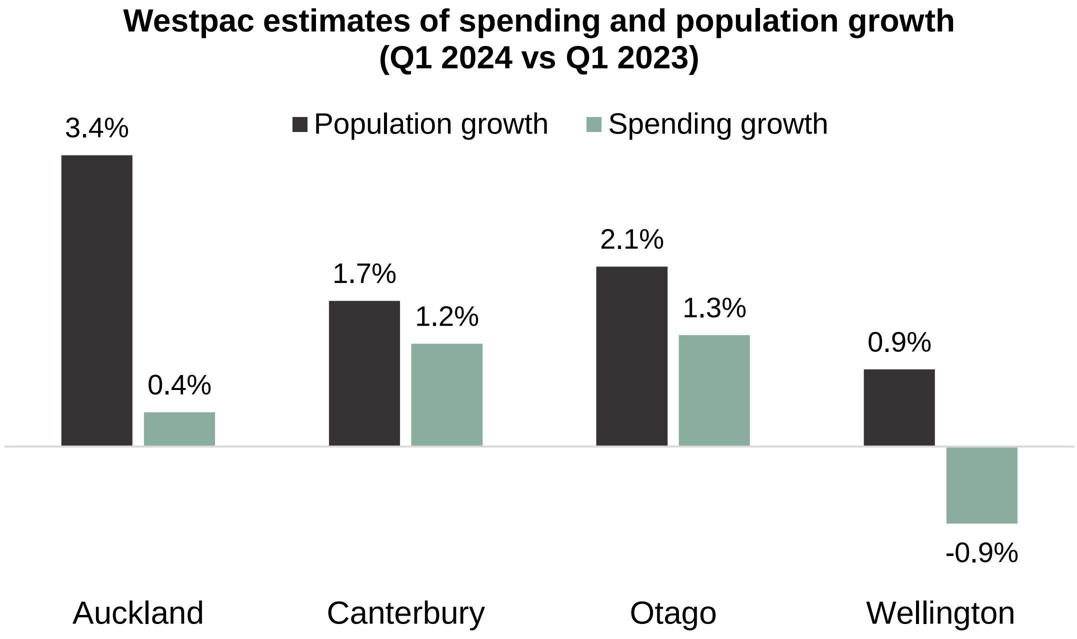
Source: Marketview

Domestic visitor spend has been declining on a year-on-year basis over most of the past year. There are likely two factors driving this. For some New Zealanders, the impact of cost-of-living pressures on household budgets will have made domestic travel less affordable. Meanwhile, those who can still afford to travel now have the option to travel overseas after years of restrictions. Domestic tourism activity surged across the country in the initial post-pandemic period. This trend has softened over the last year- with increased options for travel, it appears that more Kiwis are setting their sights on overseas. According to Infometrics, departures of New Zealanders on holidays lifted to 2.96m departures over the year to February 2024. That's equivalent to 96% of pre-pandemic levels, which is proportionately ahead of overseas tourist arrivals into New Zealand, at 80% of pre-COVID levels.

Variations in spending behaviour means that the impact on retailers will depend on the extent to which international tourists feature in their customer base. Businesses reliant on domestic demand will be feeling the pinch more than others, as retail spending by locals has trended in a similar fashion to domestic visitor spend. This reflects the impact of weakened consumer confidence and cost-of-living pressures on attitudes toward spending.

The value of spending in Christchurch by locals declined -3.5% in March 2024 from the same month last year. The only store category to record an uplift in the value of spending was groceries & liquor (+2.3%), while spending on discretionary or 'non-essential' categories recorded negative growth. The largest annual contraction in local spending took place in apparel & personal (down -9.3% from March 2023), which captures spending on clothing, footwear & jewellery. This was followed by 'other consumer spending' (down -8.5%), which reflects spending on a range of leisure and recreation products/activities.

Reductions in domestic demand have been felt across New Zealand, despite strong population growth over the last year. This points to a decline in per capita spend, where retail spending growth has not kept up with population growth. Westpac estimates that Canterbury's regional population increased by 1.7% in Q1 2024 compared to the same time in 2023, while spending lifted by a smaller 1.2% over the same period. In Auckland, the population has grown by 3.4% while spending has lifted just 0.4%, while in Wellington spending has fallen -0.9% over the last year despite a 0.9% expansion in its population.



Source: Westpac

Innovation trends

Business spending on R&D increased significantly in 2023, led by the services sector.

Innovation is a key driver of productivity growth, as it allows businesses to generate more while consuming less resources. Investing in R&D supports innovation by allowing firms to generate new ideas about products and processes. It also generates spillover benefits for other firms and society more broadly as innovative knowledge is spread throughout the business community.

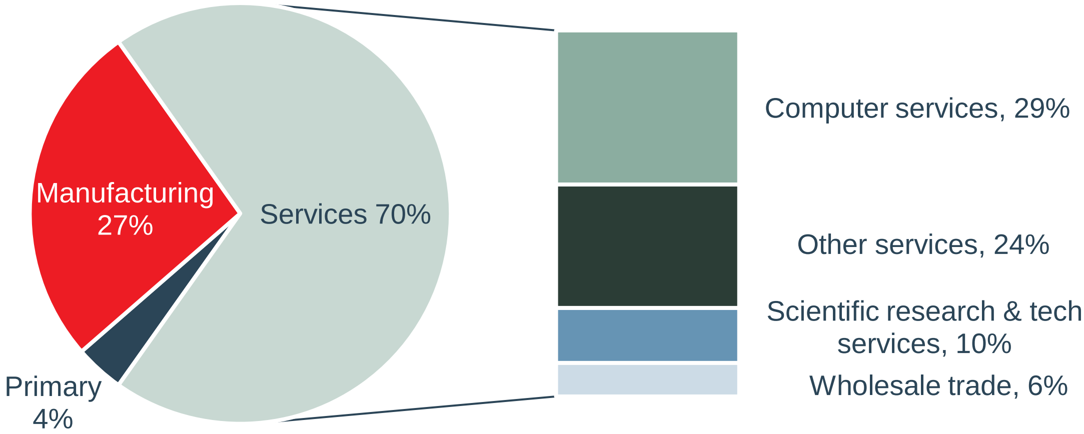
Business spending on research & development (R&D) in New Zealand is measured on a yearly basis. R&D spending by business increased to $3.7 billion in 2023, a 17% lift from the previous year. This was the largest annual increase since 2018 and saw business R&D spend as a share of GDP lifting from 0.87% in 2022 to 0.95% in 2023.

New Zealand typically lags well below the OECD average for R&D expenditure as a share of GDP. In 2021, the OECD average for business expenditure on R&D was 1.99% of GDP (New Zealand's was 0.87% in the same year).

The number of full-time equivalent staff working on R&D increased 4% from 2022, to a total of 21,000. This uplift in R&D expenditure and staff numbers took place despite a -2.3% decline in the number of businesses performing R&D, indicating that businesses that are doing R&D are investing more. Businesses were largely performing R&D to either gain entry to new markets (33%) or maintain their position in the market (31%). Another 25% were investing in R&D to become a dominant player within their market.

Businesses in the services sector made up the largest share of R&D spend at 70%. This was led by computer services, which made up 29% of total R&D spend by business.

Business spending on R&D by industry, 2023



Source: Statistics NZ

R&D expenditure isn't monitored at the sub-national level, although research has been carried out on the Research, Science, and Innovation (RSI) workforce across the country. This research indicates that around 22% of New Zealand's RSI workforce was employed in Canterbury in 2022. This is an over-representation compared to Canterbury's share of the population, due to the concentration of universities and crown research institutes within the region.

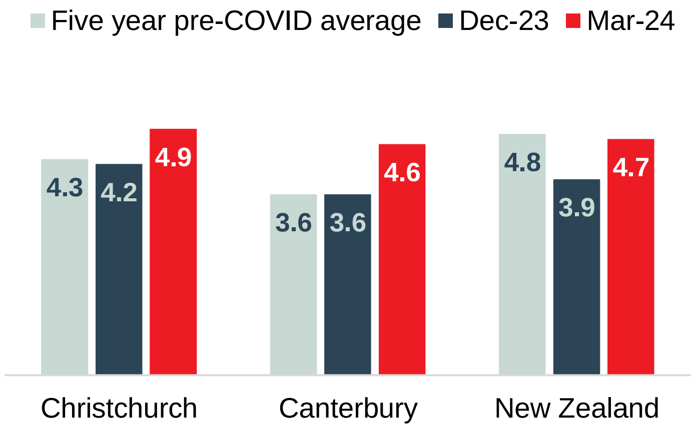
Labour market trends

Demand for labour has clearly cooled. Job ads have reduced from 2022 levels across all sectors and Jobseeker numbers are trending upward.

Demand for labour continued to soften during the first few months of 2024, with the unemployment rate lifting locally and across New Zealand.* Christchurch's unemployment rate lifted to 4.9% in Q1 (from 4.2% in Q4 last year), while the national unemployment rate increased to 4.7% (from 3.9%).

The unemployment rate can lift when people are entering the labour force faster than the rate of job growth. This appears to have driven the majority of the increase in local unemployment that took place during Q1. For example, unemployment in Canterbury increased by 4,000 people in the March quarter, with the unemployment rate increasing to 4.6% (from 3.6%). Employment fell by -1,000 people over the same period. The rest of the increase in the unemployment rate was due to a 3,000-person expansion in the size of the labour force, as the number of jobs available did not increase in line with the number of people newly seeking work within the region.

Unemployment rate % (unadjusted)



Source: Statistics NZ

**It's important to note that Q1 labour force figures do not capture the impact of job cuts recently proposed in the public sector, with the impact of this likely to show up in the second half of the year.*

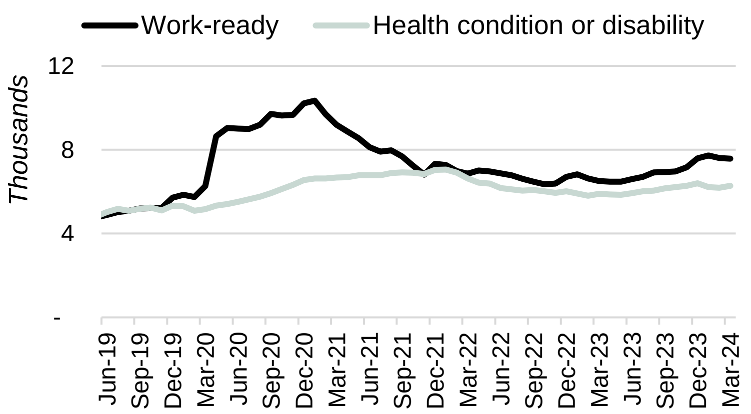
This continued expansion in the size of Canterbury's regional labour force differs from the other major regions. Both the Auckland and Wellington regions experienced reductions in the size of their labour forces during Q1, despite growth in their respective work-age populations. These regions also experienced greater declines in employment levels from the previous quarter, with employment falling -1.2% in Auckland and -2.2% in Wellington, compared to -0.3% in Canterbury. Reductions in labour force participation may be due to an uplift in discouraged jobseekers.

Both the national and local labour force expanded rapidly over 2023 due to strong migration inflows. This expansion is expected to slow as New Zealand labour market conditions soften and as government changes to immigration settings start to impact on migration inflows. The government has recently made changes to the Accredited Employer Work Visa. This visa is the main temporary work visa in New Zealand and is used by employers to hire migrants on visas for up to five years. The changes include introducing English language requirements for low-skilled roles, minimum skills and work experience thresholds and increased engagement between employers and WINZ.

Changes in labour market dynamics can also be observed in Jobseeker numbers. Jobseeker support is split into two categories- Jobseeker support for 'work-ready' recipients, and Jobseeker support for recipients with health conditions or disability. Work-ready recipients made up 55% of Jobseeker support recipients in Christchurch during March 2024. In total, just under 13,900 people in Christchurch were receiving Jobseeker support in March. This was an 11.7% increase from March 2023, in line with national trends over the same period (Jobseeker numbers increased 11.6% across New Zealand as a whole).

This increase in Jobseeker support recipients in Christchurch is equivalent to an additional 1,460 people. Work-ready Jobseekers lifted 16.7%, making up 74% of the overall increase in Jobseeker recipients. This indicates that labour market conditions are making it more difficult for people to find and retain work compared to the same time last year. This uplift in Jobseeker recipients in Christchurch was above the average increase across New Zealand (11.8%) but in line with increases in the other major centres over the same period (up 16.5% in Auckland and up 21.0% in Wellington).

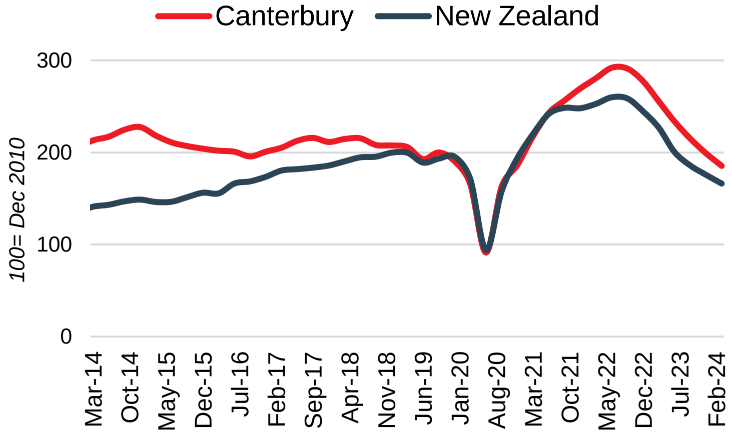
Jobseeker recipients, Christchurch



Source: MSD

Forward-looking indicators suggest that labour market indicators will continue to soften over 2024. The number of jobs advertised online have been trending downward since peaking in mid-2022 as demand for labour readjusted to more typical pre-pandemic levels. Labour shortages meant that job ads initially remained above long-term average levels until late 2023. In more recent months, job ads have started to fall below average levels, with economic activity slowing and labour shortages easing in response to strong migration inflows. Online job ads in

Online job ads (indexed to 2010)



Source: MBIE

Canterbury were -19% below average levels during the March quarter.

Changes in job ads have been most pronounced in the IT sector, with ads down -30% from average March levels. This is followed by the primary sector (down -23% from average levels) and construction (down -22%). Labour demand has been more resilient in sectors linked to population growth, with education and health jobs ads up 29% and 13% respectively compared to average levels for March. However, even these sectors have declined on a year-on-year basis. Overall, job ads in Canterbury were down -27% in March compared to the same quarter in 2023 (and down by the same extent across New Zealand as a whole).

Variances in labour demand by industry broadly align with changes in employment levels in previous economic downturns. During the GFC, the industries that experienced the largest contractions in employment in New Zealand were construction and manufacturing. Employment in health & community services, and education provided to be more resilient, with both sectors experienced slow and steady employment growth over the same period.

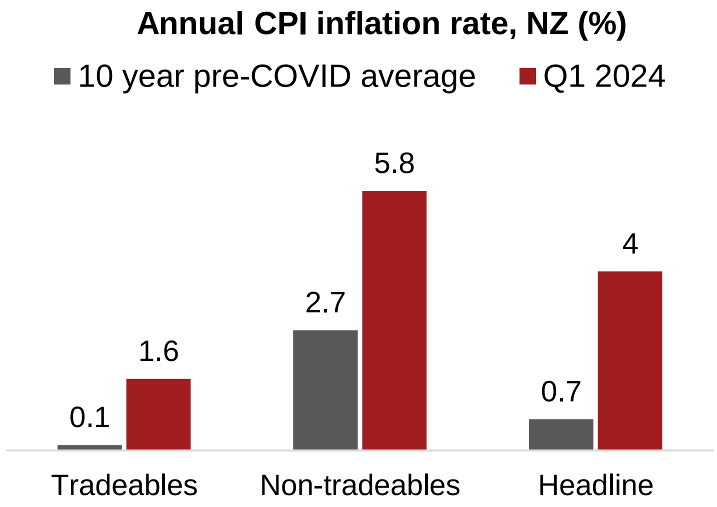
Pricing trends

Inflationary pressure is easing due to reductions in international prices, while domestically generated inflation is proving more difficult to rein in.

At the headline level, inflation is cooling. Annual CPI inflation fell to 4.0% in the March quarter, down from 4.7% in the December quarter.

In a continuation of trends observed in the previous two quarters, regional figures indicate that inflation in Canterbury sat slightly lower, at 3.7%. This is partly because annual increases in the cost of new housing were smaller in Canterbury (1.9% in Canterbury vs 3.3% nationally).

Reductions in inflationary pressure were largely due to an easing in annual tradeable inflation (goods and services that are influenced by foreign markets), which fell from 3.0% in the previous quarter to 1.6% in March. Meanwhile, domestically generated, or non-tradeable inflation came in at 5.8%. This was almost unchanged from the December quarter (5.9%) and above expectations held by analysts and the Reserve Bank. This suggests that underlying inflationary pressure may be stickier than previously thought. Non-tradeable inflation was driven by increases in the cost of rent, construction of new homes, and cigarette and tobacco prices (due to annual excise tax increases).



Source: Statistics NZ

While a cooling in international prices has had a welcome dampening effect on inflation in New Zealand, it has also meant that local exporters receive lower prices for their goods in foreign markets compared to recent years. According to ANZ's commodity price index, world prices for commodities peaked in March 2022 at around 37% above pre-COVID levels. Growth was particularly high for dairy products (up 50% vs March 2019). Changing conditions in the international market have since seen commodity prices cooling from the highs of 2022 and are currently sitting around 14% above pre-COVID levels.

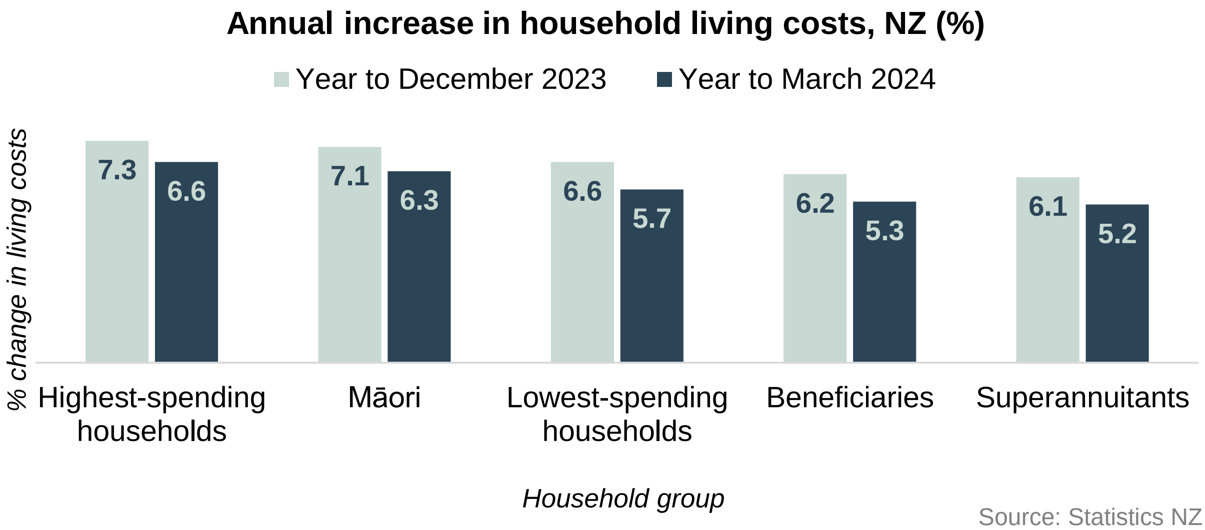
On an annual basis, ANZ's average world price index for the year to March 2024 was down by around -8% compared to the previous twelve-month period. Dairy prices fell -13% over the same period. This corresponds with lower revenue estimates for the dairy sector during the 2023/24 season, with Infometrics estimating that Canterbury's dairy payout will be $152 million lower than the 2022/2023 season's $3.4 billion payout. Declines in world prices are also evident in export data, with the value of exports from Canterbury ports down -16% in the March 2024 quarter compared to the same period in 2023. Debt-servicing costs are also weighing on exporters, with the agricultural sector facing lower commodity prices and higher interest rates at the same time.

Debt-serving costs are also continuing to have an impact back at the household level. CPI inflation measures do not capture changes in the cost of interest payments, the key mechanism through which changes to the OCR flow through to impact on households with mortgages and other debt. When the cost of interest payments is taken into account, the cost of living for the average Kiwi household rose 6.2% over the year to March. This includes a 28.2% increase in the cost of interest payments over the same period.

Increases in the cost of living over the past year have impacted on different household groups to varying degrees. The highest-spending households have experienced the largest increases in the cost of living at 6.6%, due to increases in the cost of interest payments, insurance, and private transport. Highest-spending households are more likely to own their own home (83% vs 67% of households on average) and are therefore more sensitive to changes in mortgage interest rates.

Māori also experienced a slightly above-average increase in the cost of living over the year to March (6.3%), driven most strongly by an increase in the cost of interest payments, rental prices, and private transport.

While increases in the cost of living over the last year remained high for all household groups over the year to March, annual increases did also fall from the previous quarter across all groups. This indicates that upward pressure on living costs is slowing.



Source: Statistics NZ

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