Monthly Economic Insights Brief

August 2022

ChristchurchNZ

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(Information released during July 2022)

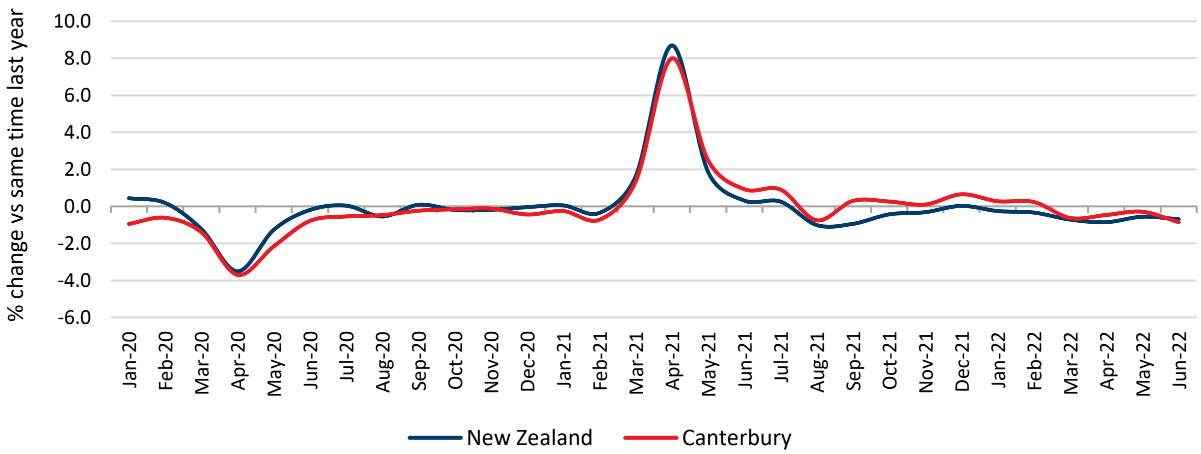
Canterbury Economic Activity Index (CEAI) (June 2022)

- In June 2022, the Canterbury Economic Activity Index (CEAI) was -0.9, while the national figure was -0.7. This means that economic activity in Canterbury during June 2022 was -0.9 percent lower than during the same month in 2021, while economic activity across New Zealand fell by -0.7 percent over the same period. June 2022 is the first month in a year in which the CEAI has scored lower than the national figure.

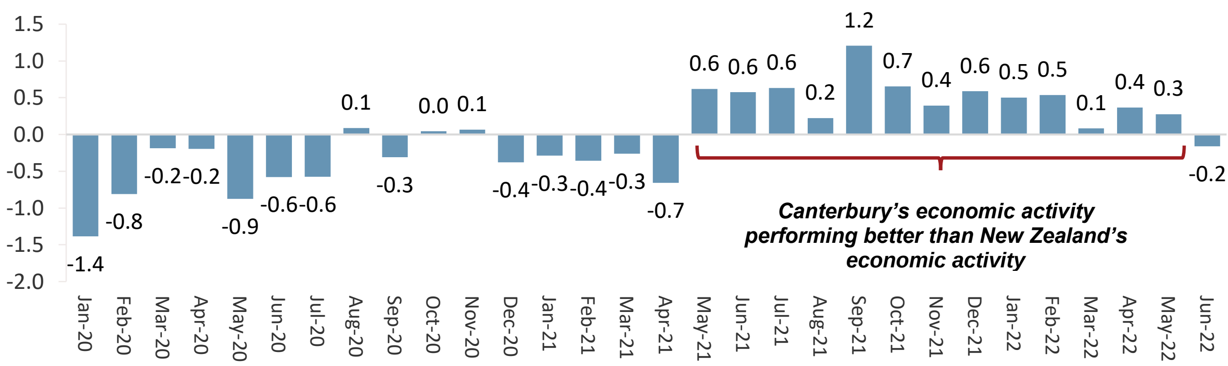
- The CEAI for Canterbury dropped -0.6 percentage points from the previous month of May, while the national figure fell -0.1 percentage points.

- During June 2022, Canterbury experienced negative year-on-year growth in heavy traffic volumes, the value of exports and the Performance of Manufacturing Index (PMI). The PMI fell into contractive territory during June 2022, with supply-side challenges remaining a key barrier for manufacturers. Nationally, a softening in demand also saw the new orders index fall into contraction for the first time since August 2021. The number of Jobs Online remained 10 percent above that of June last year but dipped from the record highs seen in May.

Economic Activity Index New Zealand and Canterbury
January 2020- June 2022 (in %)
Source: ChristchurchNZ



Difference between New Zealand and Canterbury Economic Activity Indices
(>0: Canterbury higher than New Zealand, <0: Canterbury lower than New Zealand
January 2020- June 2022 (in %)
Source: ChristchurchNZ



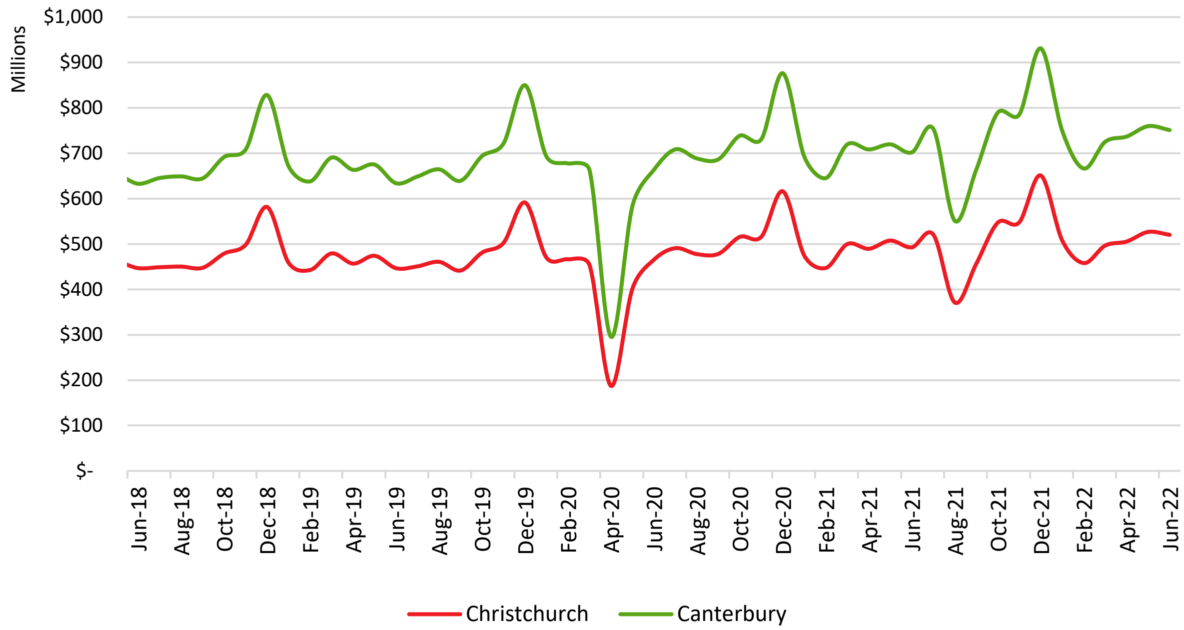
Retail spending

- The value of retail spending in Christchurch increased 5.6 percent in June 2022 compared to the same time in 2021. However, the number of transactions (i.e., the volume of spending) declined by -4.4 percent over the same period. This indicates that price inflation continued to offset the impact of a reduction in spending volumes during June. Central city retail spending was up slightly (1.1%) from June last year, while transactions fell -12.0 percent.

- Retail spending across the Canterbury region also increased in value but decreased in volume compared to June 2021. The value of retail spending increased 7.0 percent from the same time in 2021, while the number of transactions declined by -3.7 percent over the same period.

- Spending at cafes, restaurants, bars and takeaways took the largest hit compared to June last year, with spending falling in terms of both value and volume across the central city, Christchurch and Canterbury. Hospitality spending in the central city experienced the largest contraction, with transactions at cafes, restaurants, bars and takeaways declining -16.3 percent from June 2021.

Retail spending via electronic card transactions
Source: Marketview



Christchurch Retail Spending, June 2022 vs June 2021		
Category	**Spending Value**	**Transactions**
Fuel & Automotive	30.2%	4.5%
Other Consumer Spending	23.5%	-0.9%
Apparel & Personal	5.6%	5.3%
Total	5.6%	-4.4%
Groceries & liquor	3.9%	-4.5%
Home & Recreation Retail	-2.1%	-0.6%
Cafes, Restaurants, Bars & Takeaways	-3.4%	-11.0%

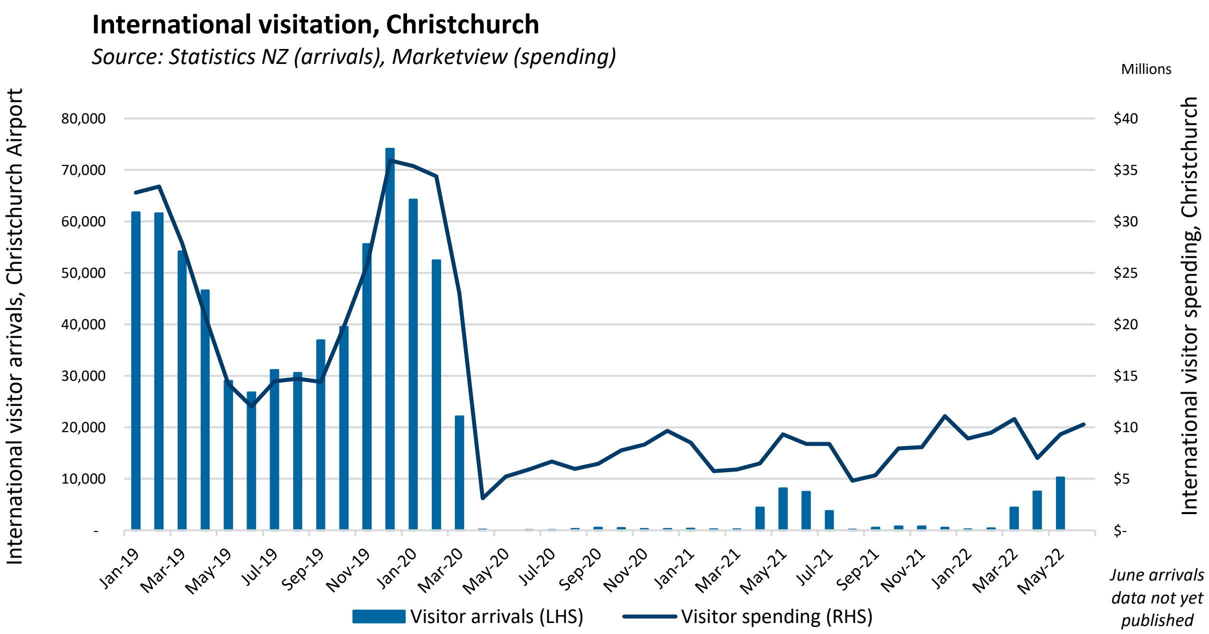
International Visitation

International visitor arrivals (May 2022)

- From 2nd May the border has been open to vaccinated travellers from 60 visa waiver countries.
- There were just over 10,000 international visitor arrivals at Christchurch Airport during May 2022, the highest monthly figure since March 2020.
- 54 percent of international visitor arrivals at Christchurch Airport were travelling to visit friends and relatives, and 70 percent of visitor arrivals were from Australia.
- International visitor arrivals at Christchurch Airport sat at just over one-third of pre-COVID levels (vs May 2019).
- By country, arrivals from Australia were the closest to pre-COVID levels at 53 percent of that of May 2019. This was followed by arrivals from the UK, at 52 percent of pre-COVID levels.
- Visitors travelling for the purpose of visiting friends and family sat at 76 percent of pre-COVID levels, followed by those visiting for business (36% of pre-COVID levels) and holiday/vacation (16% of pre-COVID levels).

International visitor spending (June 2022)

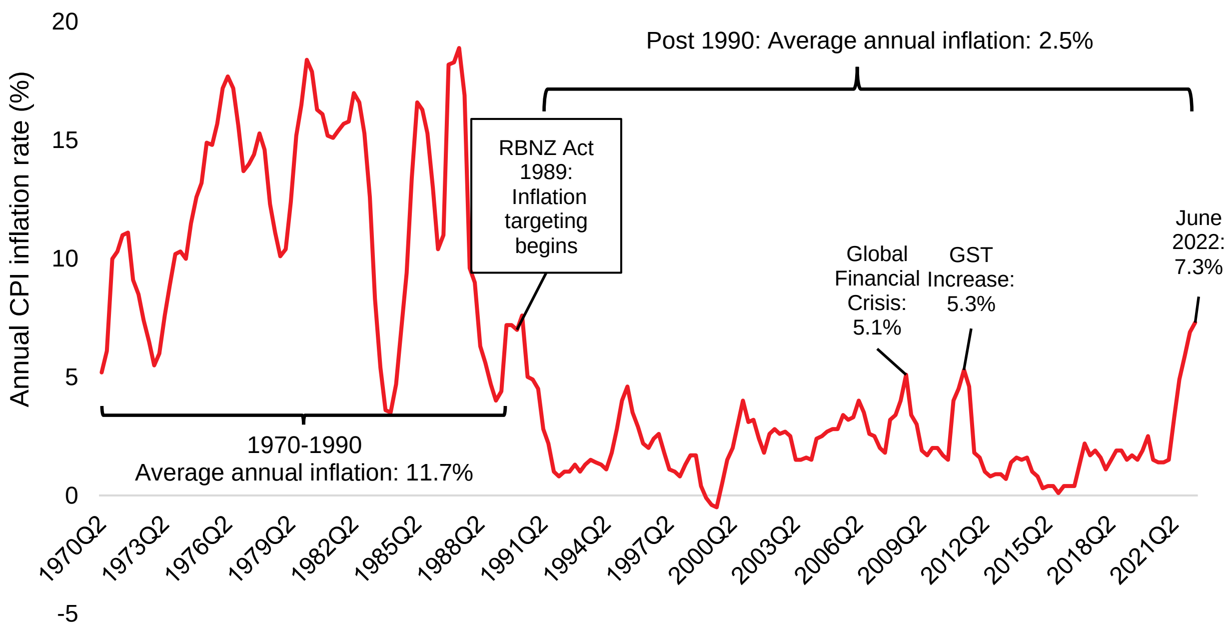
- The value of international visitor spending in Christchurch during June 2022 sat at 87 percent of pre-COVID June 2019. The number of transactions by international visitors sat at 94 percent of June 2019 levels. International visitor spending during June 2022 was the third highest monthly spend in the post-COVID period, following December 2021 and March 2022.
- International visitor spending on apparel & personal, fuel & automotive and groceries & liquor increased from June 2019, while spending on tourist-focussed categories like accommodation, arts & recreation services and transport & travel services declined. Spending patterns like this are unsurprising when a high proportion of travellers are visiting friends and relatives (VFR). VFR visitors are more likely to stay in private homes and make greater use of free and home-based activities than leisure tourists. Headline spending figures for June 2022 are therefore likely to overstate the injection into the tourism sector from international visitation.
- It is important to note that June was typically the quietest month for international visitation pre-COVID, meaning that that baseline for comparison in June 2019 is lower than an average pre-COVID month.



Inflation

- The annual Consumer Price Index (CPI) inflation rate hit a thirty-two year high of 7.3 percent during the June quarter. This was up from 6.9 percent in the March quarter, and above the expectations of the major New Zealand banks (with forecasts of 7.0 – 7.1% for June 2022).

Consumer Price Index (CPI) Inflation Rate, annual percentage change
Source: Reserve Bank of New Zealand, ChristchurchNZ



In context:

- The Reserve Bank Act 1989 mandated inflation targeting as a priority for monetary policy, thus establishing the role of the Reserve Bank in maintaining price stability.
- The introduction of the Act was followed by a rapid decline in the inflation rate to within the target band of the time, where it largely remained until 2021.
- While the Global Financial Crisis (GFC) saw inflation rising above the 1-3% target band for a total of five consecutive quarters in 2007-2008, inflation peaked at 5.1 percent and remained at or below 4 percent during four of these five quarters.
- Post-GFC, the annual inflation rate remained largely at the lower end of the target band, rising above 2 percent in just seven of the 48 quarters between 2009 and the end of 2020. A period of variance between 2012-2016 saw inflation registering outside of the target band for a total of twelve quarters, due to the annual inflation rate falling below 1 percent.
- June 2022 marked the fifth consecutive quarter with an inflation rate above the 1-3% target band, with the Reserve Bank forecasting it will remain above 3 percent until the second half of 2023.
- If the RBNZ forecast rings true, inflation would have run above the target band for nine consecutive quarters- an unprecedented stretch in the inflation targeting era.

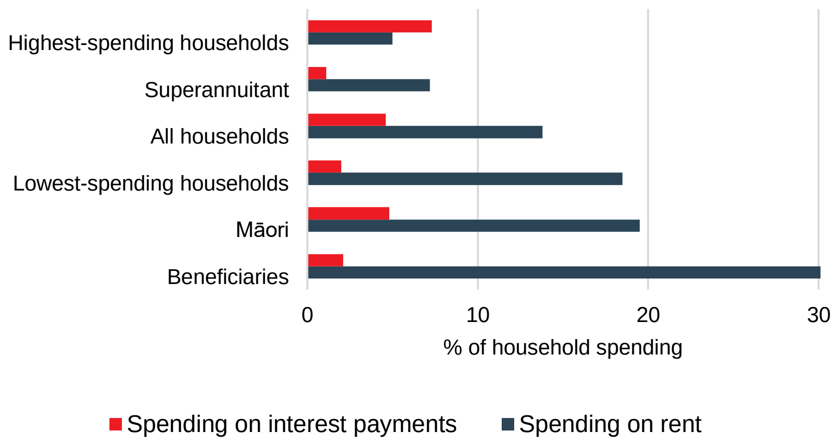
Household Living-Costs Price Indexes

- The Household Living-Costs Price Indexes (HLPI's) measure how inflation affects different household groups, such as the lowest, middle and highest spending households.

- The HLPI's differ from the CPI in that they capture mortgage interest payments, while the CPI captures the cost of building a new home. Measuring the impact of mortgage costs on households is important when the Official Cash Rate (OCR, the Reserve Bank's primary tool for managing inflation) is increasing. In the HLPI's, interest payments increased 31 percent for the average household in the year to June 2022.

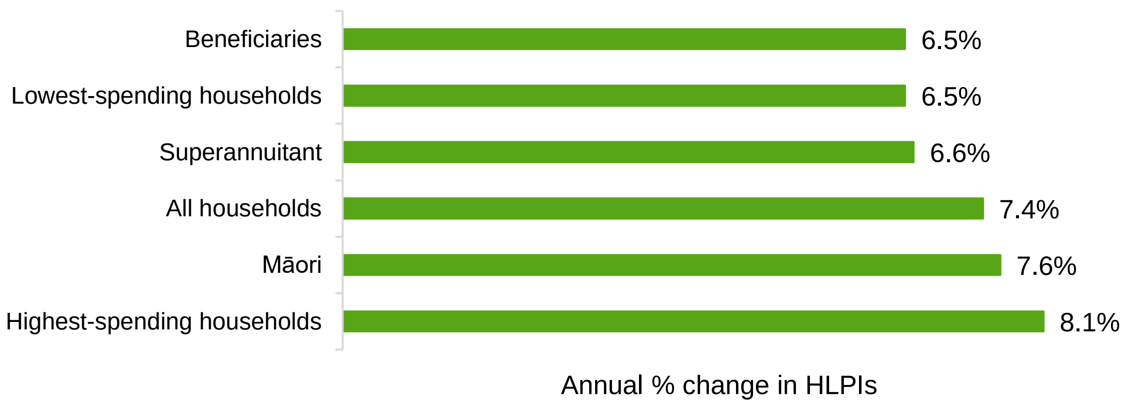
- Highest-spending households spend the largest proportion of their expenditure on interest payments compared to other groups, meaning that rising interest rates impact more on their cost-of-living. Meanwhile, beneficiaries, Māori households and lowest-spending households spend a higher proportion of their expenditure on rent than the average household. As a result, increases in rental prices impact more on these households than other groups.

Share of household spending spent on housing costs, by household group
Source: Statistics NZ



- The cost of living for an average household, as measured by the HLPI's, increased 7.4 percent in the June 2022 quarter compared to the same time last year. By household group, the highest spending households experienced the largest annual increase in their cost of living at 8.1 percent. Māori households also experienced an above average rise in living costs of 7.6 percent. While the strength of inflationary pressure varied across different household groups, all groups experienced the largest annual increase in the cost of living since 2008, when the series began.

Annual increase in HLPI's by household group, June 2022
Source: Statistics NZ

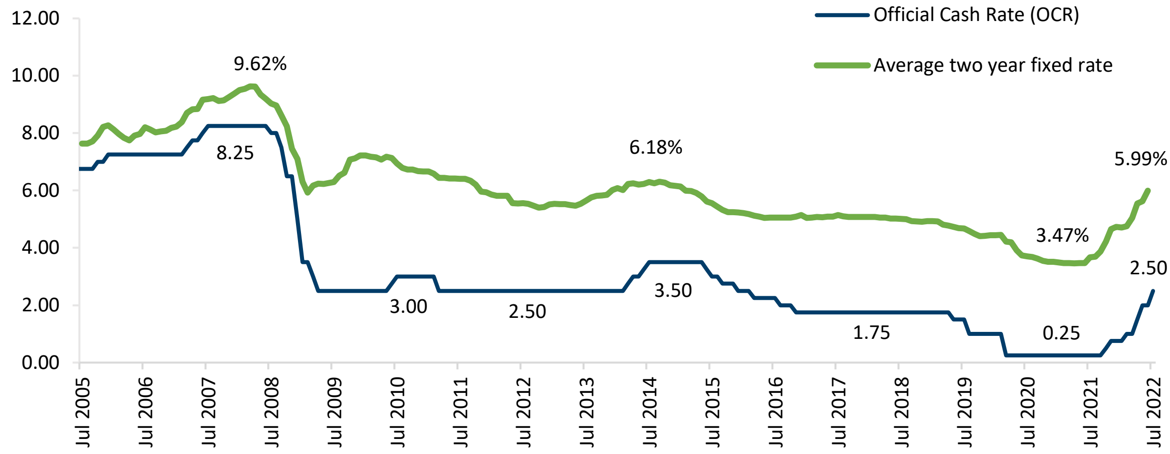


Official Cash Rate (OCR)

- On July 13th the Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) to 2.50 percent, continuing to tighten monetary conditions due to ongoing inflationary pressures. This 50-point increase was widely expected and has pushed the OCR above the RBNZ's most recent estimate of a 'neutral' rate of 2 percent.

Official Cash Rate (OCR) and average 2-year mortgage rates, New Zealand

Source: RBNZ



- The OCR is the lever used by the RBNZ to manage price stability through its influence on interest rates. Increases to the OCR make it more expensive for banks to borrow from the Reserve Bank. Banks pass on these increased costs to their customers through higher lending interest rates, increasing the cost of servicing a mortgage or loan.

- Consumers typically reduce their demand for something as its price increases. However, mortgage holders can't opt out of their mortgage payments and so must reduce their spending in other areas. Inflationary pressure is eased by pushing down consumer demand for these other goods and services, because when demand falls, prices follow suit.

- Increasing the OCR to push prices down works when inflation is generated domestically (non-tradeable inflation) through its dampening effect on domestic demand. However, the OCR cannot influence inflation that is generated externally by demand for internationally traded goods (tradeable inflation). The New Zealand economy is currently experiencing both forms of inflation.

- The prominence of tradable inflation has been a topic of concern in recent months, due to the inability of monetary policy to influence external factors like global supply shortages and high oil prices. However, June 2022 inflation figures indicated that domestic inflation was running higher than expected, with non-tradeable inflation at 6.3 percent. This is the highest non-tradable inflation rate since the series began in 2000 and is above the 5.7 percent figure expected by the RBNZ.

- The strength of the most recent inflation figures has led some major banks to upwardly revise their forecasts, with predictions for where the OCR will peak now ranging from 3.5 - 4.0 percent (up from 3.0 – 3.5%).

- 88 percent of the value of residential mortgages in New Zealand has been borrowed at a fixed rate, meaning that many mortgage holders aren't faced with rising interest rates until they re-fix for their next term. As of May 2022, 52 percent of fixed-rate mortgages were due to be re-fixed within the next 12 months, and 26 percent within the next six months. It is therefore expected that the pinch of higher mortgage rates will be felt widely, with the effects flowing through to dampen consumer demand.