



Monthly Economic Insights Brief

May 2023



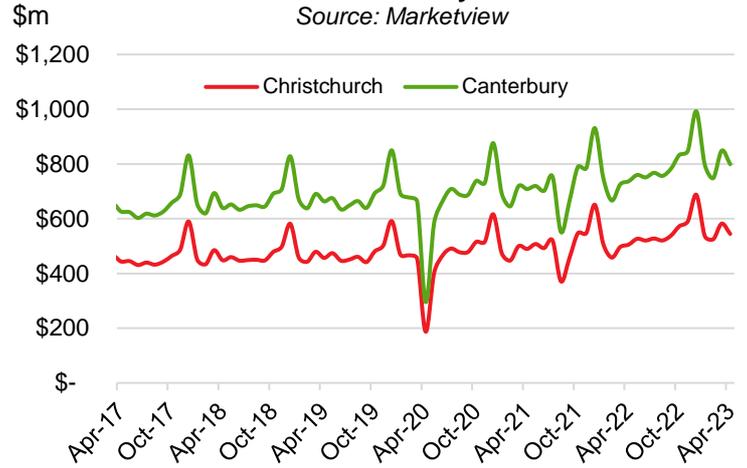
On-the-pulse analysis delivered monthly, with reporting that wraps around various economic issues and provides insight into areas of interest.



Retail Spending (April 2023)

- The value of retail spending in Christchurch during April 2023 came to \$544.5m, an increase of 7.7 percent from April 2022. The volume of retail spending (number of transactions) in Christchurch increased 9.4 percent over the same period. Year-on-year growth in transaction volumes was strongest in the central city (up 25.4%), at the airport (up 19.5%) and in Riccarton (up 15.2%).
- Compared to April last year, spending volumes increased across all store types except for home and recreation retail (down -1.2%). Growth was strongest in the 'other consumer spending' category, which largely captures tourism and recreation product (up 13.3%). Transactions at cafes, restaurants, bars and takeaways also recorded strong year-on-year growth (up 12.1% from April 2022).

Value of retail spending, Christchurch & Canterbury



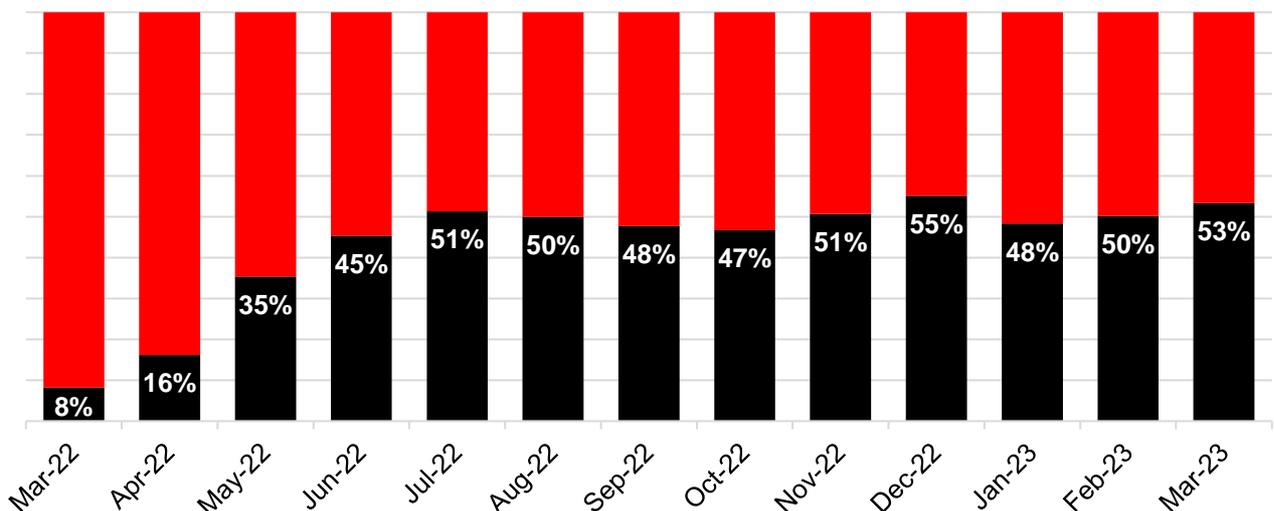
Update on International Visitation (March-April 2023)

International visitor arrivals (March 2023)

- Approximately 28,900 visitor arrivals landed at Christchurch Airport during March 2023, a -6.5 percent decrease from the previous month. 52 percent of international arrivals were visiting for a holiday, 30 percent to visit friends & relatives and 6 percent for business.
- International arrival numbers were equivalent to 53 percent of pre-COVID levels during March 2023. After rapid recovery in the first half of 2022, arrival numbers have largely hovered around 50 percent of pre-COVID levels in the last few months. Sustained recovery past 50 percent is assumed to have been hindered by a couple of factors, including the closure of the Chinese border until recently. Pre-COVID, visitors from China made up 11 percent of international arrivals at Christchurch Airport. Airline capacity constraints over the summer season have also been a limiting factor, with Air New Zealand reporting in February that international flight capacity was sitting at 60 percent of pre-COVID levels.

International visitor arrivals at Christchurch airport, equivalence to pre-COVID levels

Source: Statistics NZ, ChristchurchNZ



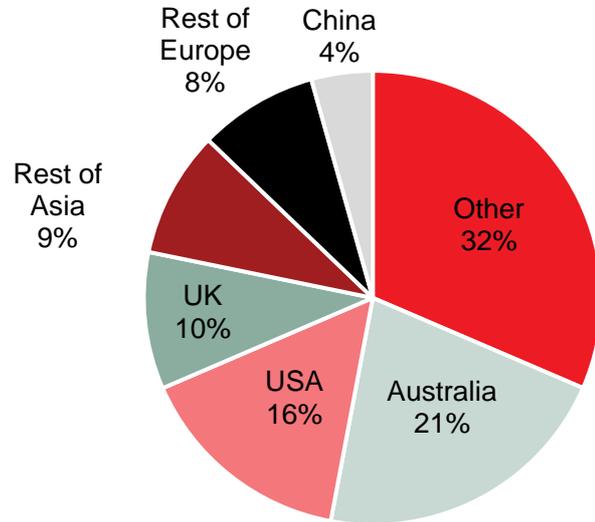


International Visitor Spending (April 2023)

- International visitor spending in Christchurch City in April 2023 was \$27.6m, down -19 percent from the previous month of March. This aligns with pre-COVID seasonal trends in international visitor activity.
- International visitor spending on accommodation, arts & recreation and transport & travel were down on pre-COVID levels (by -7.0%, -15.3% and -23.0%, respectively). Meanwhile, spending on food & beverage services and retail trade increased over the same period (up 55.6% and 55.9% from April 2019, respectively). Note that price inflation will have impacted these growth rates.
- Visitors from Australia and the United States were the two highest spending international visitor markets in Christchurch during April 2023, making up 21 percent and 16 percent of international spend, respectively.

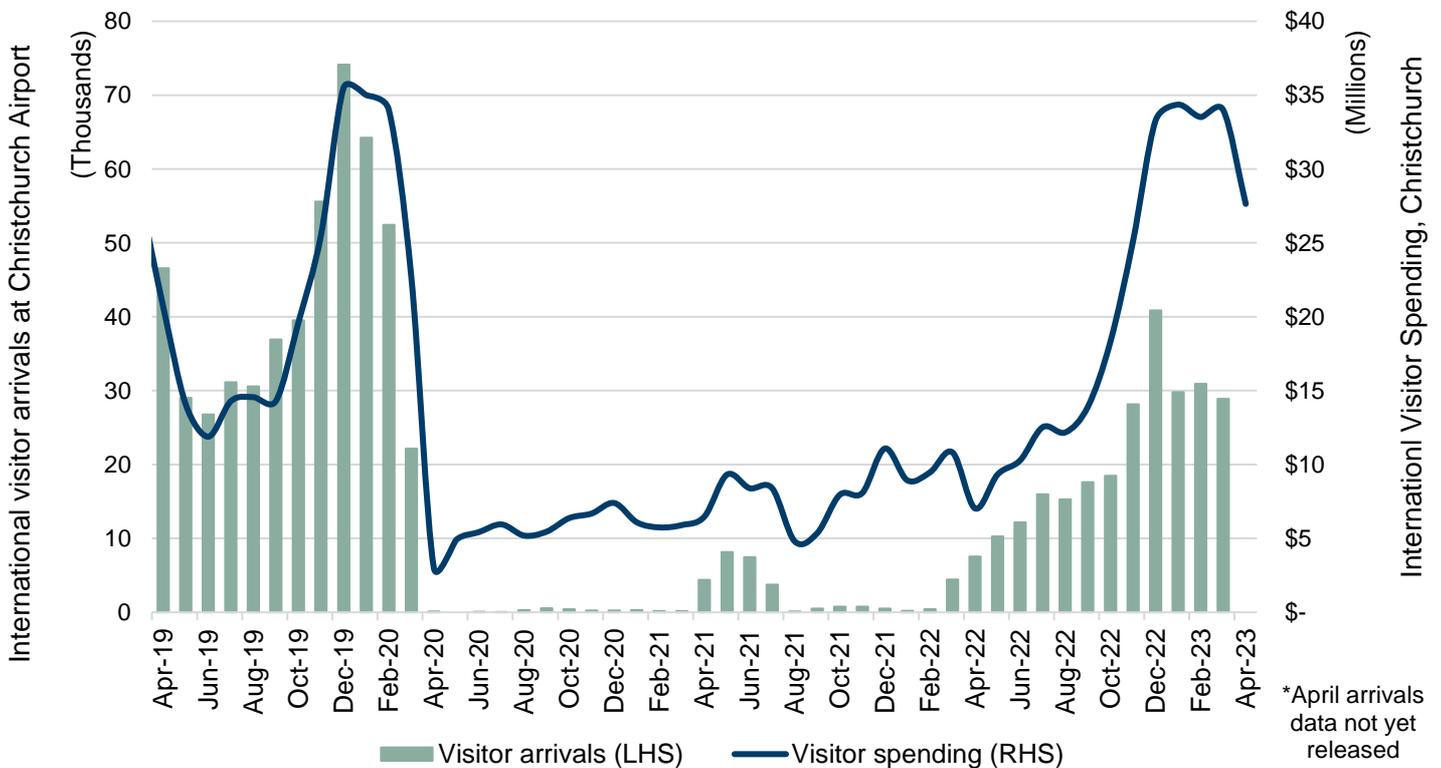
International visitor spending in Christchurch by market, April 2023

Source: Marketview, ChristchurchNZ



International visitation, Christchurch

Source: Statistics NZ, Marketview





Research & Development Survey 2022

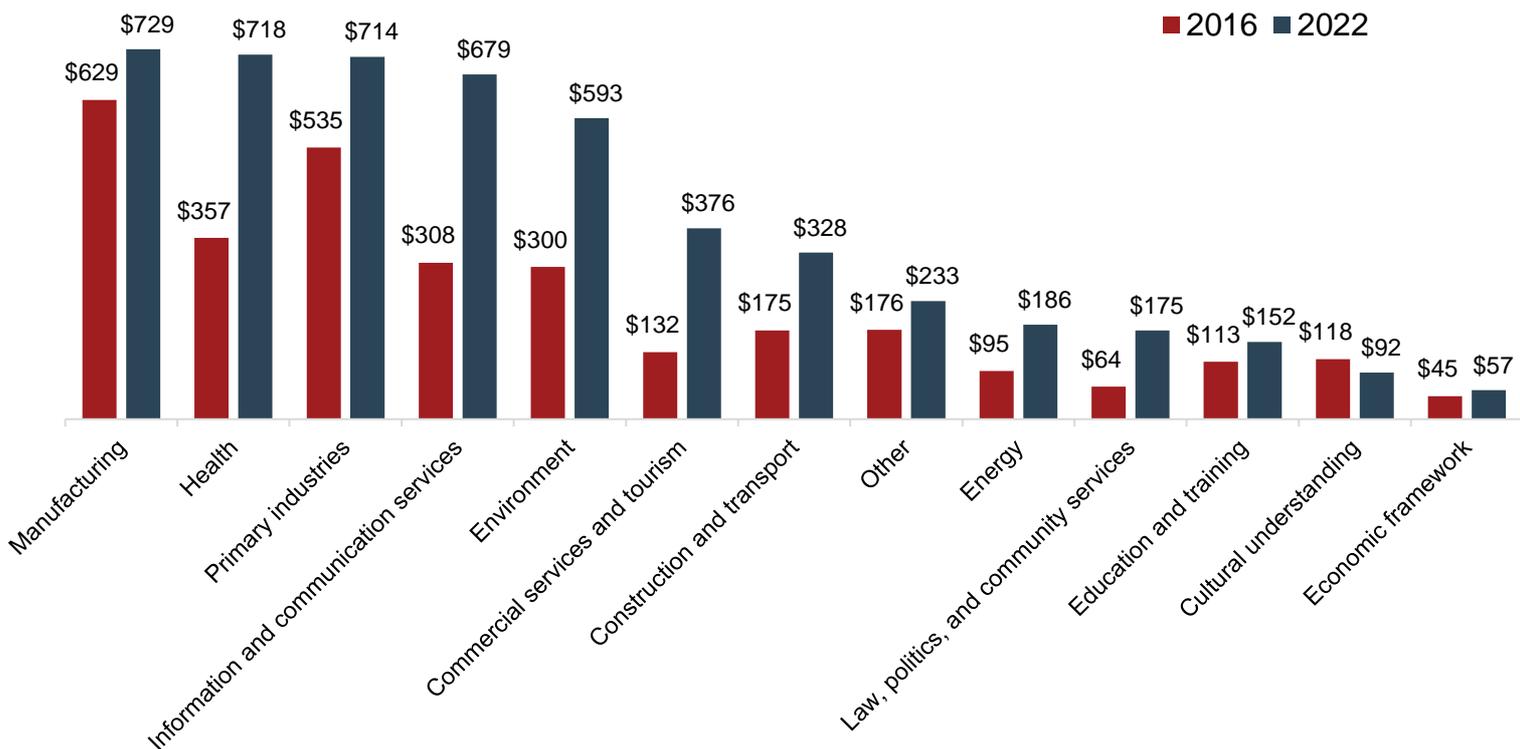
- Statistics NZ’s research and development (R&D) statistics report on R&D expenditure and related employment across the business, government, and higher education sectors. The business sector is surveyed annually, while all three sectors are surveyed bi-annually.
- R&D expenditure during 2022 was \$5.2 billion, up 11 percent from 2020. The business sector made up the largest share of R&D expenditure in 2022 at 59 percent, followed by the higher education sector (24%) and the government sector (including crown research institutes) at 17 percent.
- 2,400 entities carried out R&D expenditure during 2022. Large entities with over 100 employees made up most of the R&D spending (almost 75%), but only 15 percent of entities.

Business sector

- In the business sector specifically, R&D expenditure lifted 9 percent in 2022 from 2021. The sector employed 21,000 FTE’s to work on R&D activity, with over one-third of businesses reporting that the primary reason for carrying out R&D was gaining entry into new markets.
- 44 percent of businesses reported that they expected to increase the amount of R&D they carry out in the next year, while 36 percent expected it to stay the same.
- Businesses within the scientific and tech services sub-sector have been growing their expenditure on R&D much faster than the total business sector (up 59% in 2022 from the previous year, compared to 9% across the business sector).
- When a business carries out R&D, the purpose of the research can be for the benefit of its own business, or it can be for other businesses or industries. E.g., two-thirds of R&D carried out by the manufacturing sector in 2022 was to benefit other sectors, such as primary industries. Since 2016 the largest share of total R&D expenditure has been for the purpose of the manufacturing sector. Meanwhile, expenditure on R&D for the health sector has experienced a significant increase since 2016 and has since overtaken primary industries as the second largest benefactor of R&D spending.

R&D expenditure by purpose/benefiting sector

Source: Statistics NZ





Labour Force Statistics (Q1 2023)

- The latest release of the Household Labour Force survey indicated that labour market tightness persisted in the March quarter, despite small movements in employment indicators.

Labour market indicator (Q1 2023)	Christchurch	Canterbury	New Zealand
Unemployment rate (unadjusted)	3.9% ▲	3.3% ▲	3.2% ▼
Labour force participation rate	74.3% ▲	74.1% ▲	72.2% ▲
Annual employment growth	3.5% ▼	3.2% ▼	2.1% ▲
<i>Direction of arrow indicates change from previous quarter</i>			

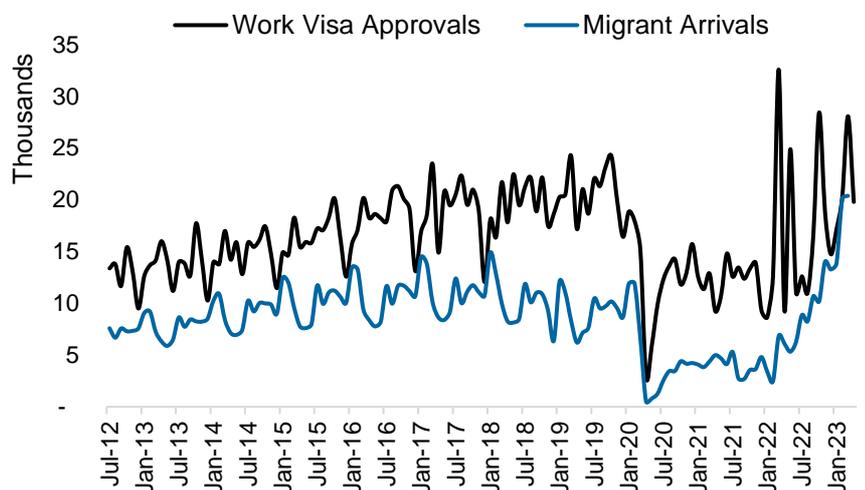
- The unemployment rate increased slightly from the December quarter in Christchurch and Canterbury. However, the number of people employed within these areas also increased over the same period, as did the labour force participation rate. This suggests that this rise in unemployment is driven by a lag between people entering the labour force and finding employment, as opposed to employed people losing their jobs.
- The share of the working age population participating in the labour force continued to grow during Q1. In Canterbury, the labour force participation rate reached a record high of 74.1 percent, well above the average rate of 71.7 percent recorded in the five years pre-COVID. Labour force participation also reached a record high across New Zealand during Q1, at 72.2 percent.

Migration (Q1 2023)

- Migration data for the beginning of 2023 shows that migration inflows have been very strong, both locally and nationally. The release of pent-up demand following the reopening of the border, and the loosening of immigration rules in response to labour shortages have seen monthly migration figures rise to unprecedented levels. February and March were record-breaking months in terms of permanent and long-term migration arrivals for Christchurch, Canterbury and New Zealand.
- There is a reasonable degree of uncertainty as to how long this surge in migration will continue. Since February, the Reserve Bank has tripled its forecast for net working-age migration over 2023 from 25,000 to 75,000. In these forecasts, this surge is then expected to fall back and return to pre-COVID levels by 2025. Meanwhile, Westpac is forecasting a net migration gain of 100,000 people over 2023 (83,000 of which are estimated to be working-age) which would add almost 2 percent to New Zealand's population.
- The significant volume of visas that were approved while the borders were closed and since they have reopened means that the pool of potential arrivals is very large (see graph). Note the surge in visa approvals in early 2022 was due to the re-issuing of working holiday (WH) visas in March 2022. These were re-issued to the almost 20,000 people offshore who previously held a WH visa but were unable to use them due to the border closures.

Monthly work visa approvals & permanent and long-term arrivals, New Zealand

Source: ChristchurchNZ





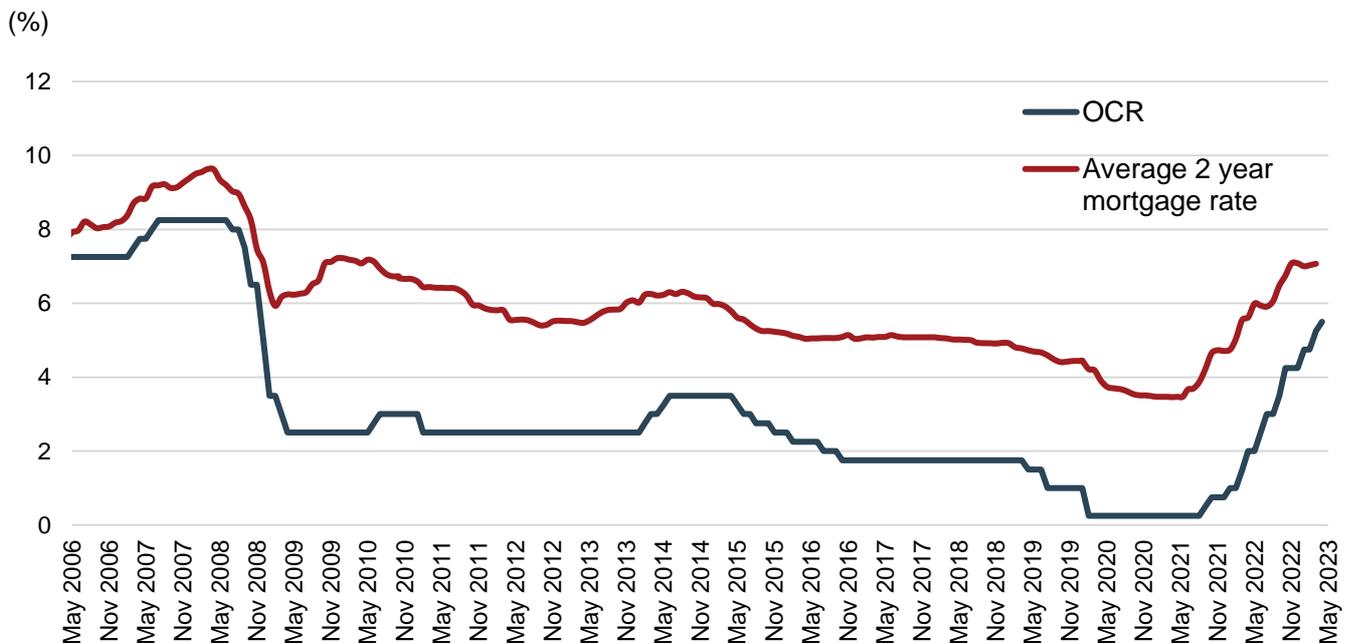
- The impact of increased migration on the economy is complex as it influences both supply and demand. The strength of migration so far has seen many forecasts for economic growth revised upward because of expected increases to demand. This can have an inflationary impact until productive capacity has time to adjust, for example in the housing sector. Meanwhile, having a larger pool of workers will provide a much-needed boost to a tightly stretched labour market, which is expected to take some of the heat out of wage inflation. The overall impact of this depends how these forces of supply and demand weigh against each other.

Monetary Policy Review & Statement (May 2023)

- The Reserve Bank's Monetary Policy Committee has increased the Official Cash Rate (OCR) by 25 basis points to a fifteen-year high of 5.5 percent.
- The OCR is now at the same level as the Reserve Bank's own forecasted peak. The accompanying Monetary Policy Statement (MPS) indicates that based on current conditions, the OCR is expected to remain at 5.5 percent until the second half of next year. A gradual decline is then forecast from September 2024 onwards.
- The Committee considered making no change to the OCR against increasing it by 25 basis points. For the first time in its relatively short history, a split decision within the Committee meant that a vote was held to determine the preferred course of action. The decision to lift the OCR was won by a five-to-two vote. Those that voted against the increase were in favour of pausing hikes while waiting to observe how economic conditions play out over the coming months. Overall however, it was agreed that spending needs to slow further to match supply capacity and reduce inflationary pressure, thus the decision to increase the OCR a further 0.25%.
- The Reserve Bank has updated its outlook for GDP growth to forecast a slightly milder recession than previously expected. The updated outlook also includes a lower peak in the unemployment rate than in the previous MPS (5.4% instead of 5.7%).

Mortgage lending environment, New Zealand

Source: Reserve Bank, ChristchurchNZ



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