

CANTOMETER

ISSUE SIX // 23 April 2013

CANTERBURY RECOVERY BROADENING BEYOND CONSTRUCTION

The ASB Cantometer is an indicator designed to capture the pick-up in Canterbury activity as the earthquake rebuild progresses over the coming years. The ASB Cantometer lifted over April. In particular, consumer confidence and spending continued to lift strongly, indicating construction-led growth is spilling over to broader demand.

Consumer confidence picks up in Canterbury.

The Cantometer snapshot index improved over April, lifting to 0.6 from 0.5.

Driving much of the improvement was a lift in the consumer spending index, to 0.7 from 0.3. Over the past month, we have received fresh data for Q4 Canterbury retail spending and Q1 Canterbury consumer confidence. Both showed improvement on the previous quarter, underpinning an increase in the Cantometer index. The outlook remains encouraging; the lift in consumer confidence along with continued population growth should support retail spending growth going forward.

The miscellaneous index also improved over April, lifting to flat from -0.2. Driving this improvement was a strong lift in car registrations and PLT net migration. These indicate continued growth in population and activity in Canterbury, as the rebuild attracts resources from around the country and offshore.

The lifts in consumer spending and other areas indicate a broadening in Canterbury economic activity. Strong construction activity is now spilling over into demand elsewhere in the Canterbury region.

The construction index did ease back over April, but remains at a high level. We continue to expect further growth in construction activity in Canterbury over the coming year. However, there are indications that resource constraints are starting to bite in Canterbury. This may limit the growth in construction activity going forward as supply may struggle to keep up with demand.

The Canterbury housing market remains supply constrained. Canterbury house prices grew sharply over Q4, outperforming nationwide growth. Demand continues to increase, supported by the inflows of labour from around the country and offshore. However, supply remains limited. The tight supply is also evident in the rental market, with Canterbury rents spiking 2.1% over the March quarter.

The Cantometer is a simple summary of regional economic data and is published monthly. For more detail on the design of the Cantometer please refer to page 2.

Outlook

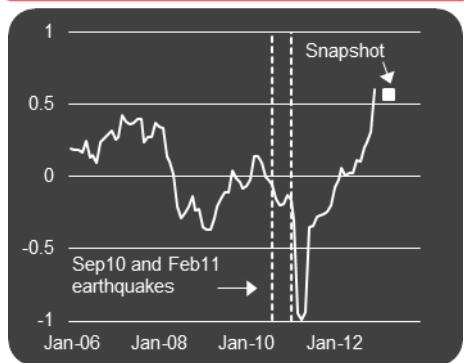
The RBNZ will balance the Canterbury construction-led lift in activity and intensifying housing market pressures against the impact of the elevated NZD. We continue to expect the RBNZ will leave the OCR unchanged until March 2014.

Recent developments

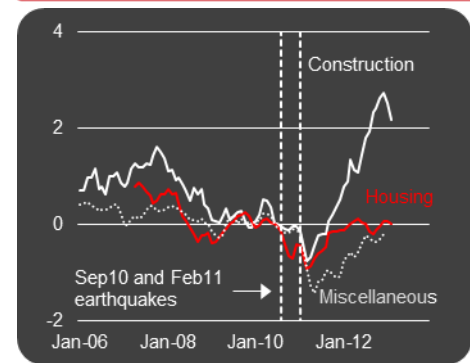
Canterbury [construction costs](#) lifted strongly over Q1 2013, rising 3.3% qoq and 12.2% yoy. This acceleration in construction cost inflation suggests capacity constraints are now starting to impact the rebuild.

There is speculation increased competitiveness in the reinsurance market may result in [cheaper premiums](#). The [Q1 CPI data](#) indicate insurance premium growth is starting to slow.

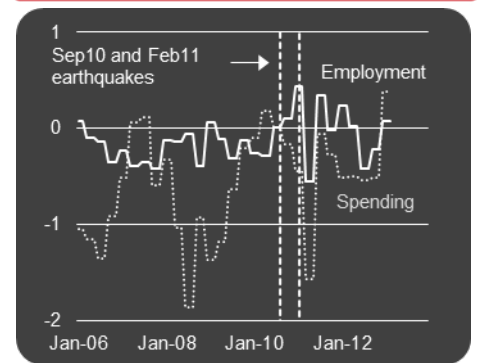
ASB CANTOMETER



ASB CANTOMETER SUB INDICES



ASB CANTOMETER SUB INDICES



About the Cantometer

The Cantometer is designed to summarise activity in Canterbury. In particular, we expect the indicator to provide a guide to the progress of the rebuild. We take a range of publically available regional economic data, which we then standardise and finally aggregate into a summary measure. We have rebased the standardised series equal to zero in June 2010 (the last full quarter prior to the first earthquake) such that a positive number represents activity being above pre-earthquake levels.

Along with the aggregate Cantometer index, we have also created five sub categories: Construction, Housing, Employment, Consumer spending and Miscellaneous*. These sub-indices will provide some insight into which sectors are driving the rebuild activity at a given point in time. We can see that rebuild activity has already been led by the construction index. We expect over time, activity will filter through to other segments of the Canterbury economy.

For most activity data we have used the level of activity. However, when incorporating wages and house prices into the index, levels are less informative. Instead we use prices relative to the rest of the country. An increase in relative prices is a signal resources are being reallocated to the Canterbury region.

The Cantometer is designed as a simple indicator of activity to give some insights into the recovery progress in different types of economic activity. It is not designed to measure economic growth in Canterbury.

The Cantometer Snapshot is a simple average of all our regional indicators based on the most recent data available for each. We call this a snapshot as the data set will be uneven, e.g. some data will be October, September or even June, due to differing lags in data publication.

The historical Cantometer series represented on our charts is a simple average of the complete set of data for each month. This has its limitations as different indicators will pick up at different stages of the recovery. For example, some data will lead actual activity (i.e. building consents, relative house prices, relative wages), others may be more contemporaneous (electricity usage, construction activity) and some indicators will lag the rebuild (employment, consumer spending). We have not made an explicit adjustment for this difference in timing.

*The miscellaneous category includes electricity, car registrations, guest nights and permanent and long-term net migration. A common factor driving these areas will be population growth, and we expect all these indicators to increase as the rebuild gathers momentum.

CANTOMETER SUMMARY

Residential consents	2.1
Non-residential consents	1.6
Ready-mix concrete	3.3
Building work put in place	1.7
Construction Index	2.2
House sales	0.6
New Listings	-1.5
House price inflation	1.1
Housing Index	0.0
Employment	-0.2
Hours worked	0.1
Full-time equivalent employees	0.2
Relative Wages	0.2
Employment Index	0.1
Retail Trade Indicator	1.1
Consumer Confidence	0.2
Consumer Spending Index	0.7
Electricity	-1.0
Car registrations	0.6
Guest nights	-0.6
PLT net migration	0.5
Miscellaneous	0.0
Cantometer Snapshot	0.6

Above/below 0 means a higher/lower level relative to June 2010 (i.e. pre-earthquake level)

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