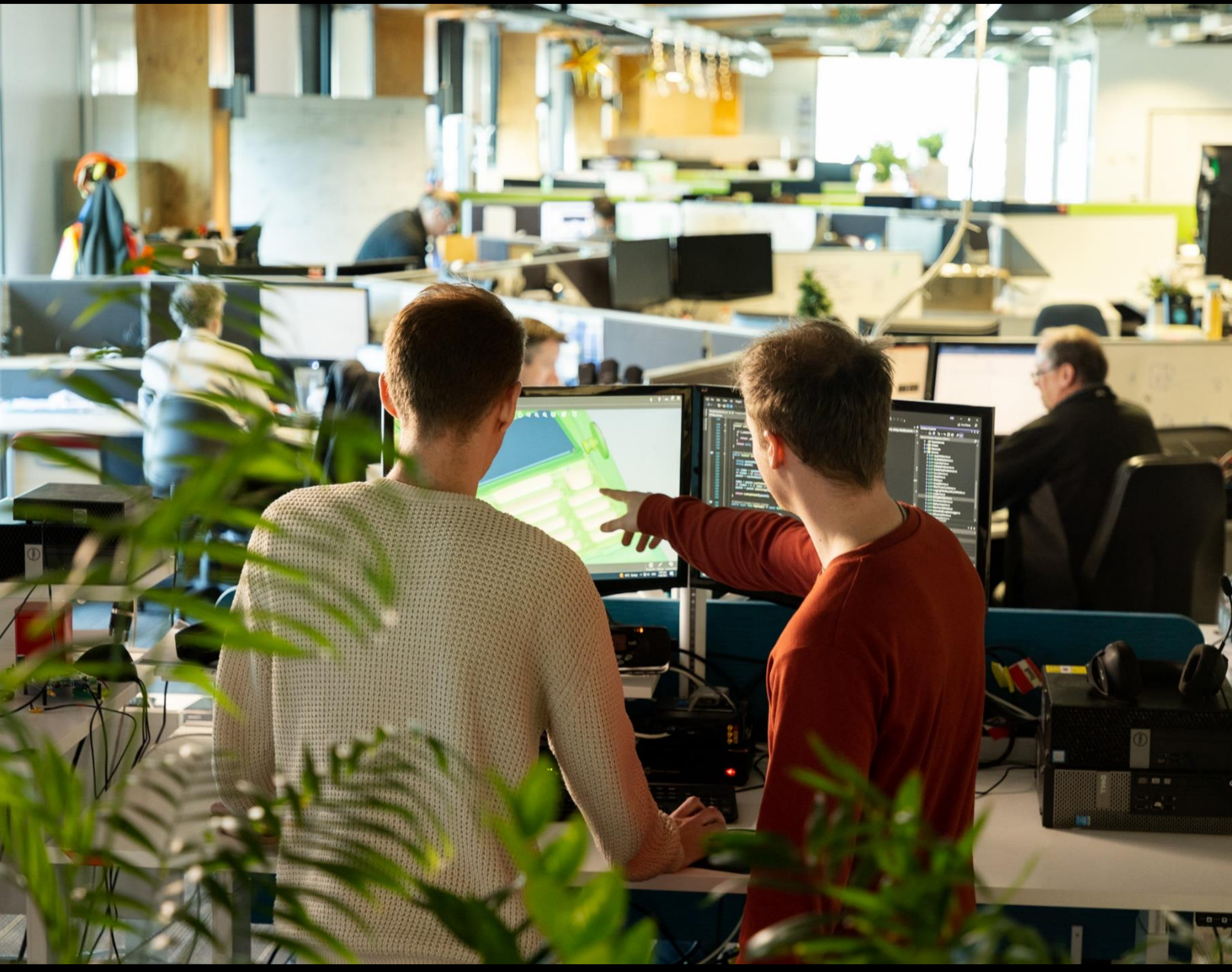
Monthly Insights Brief

June 2024

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



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Key economic trends during May

Sentiment and youth employment

Consumer confidence declined during the second quarter of 2024, with cost-of-living pressures and uncertainty about the economic outlook continuing to weigh on household sentiment.

Westpac data indicates that national consumer confidence took an 11-point tumble during the June quarter, undoing the gains it had made over the previous six months. This decline was more contained in Canterbury, falling by just over -3 points. As a result, national and regional consumer confidence are now sitting at roughly the same level.

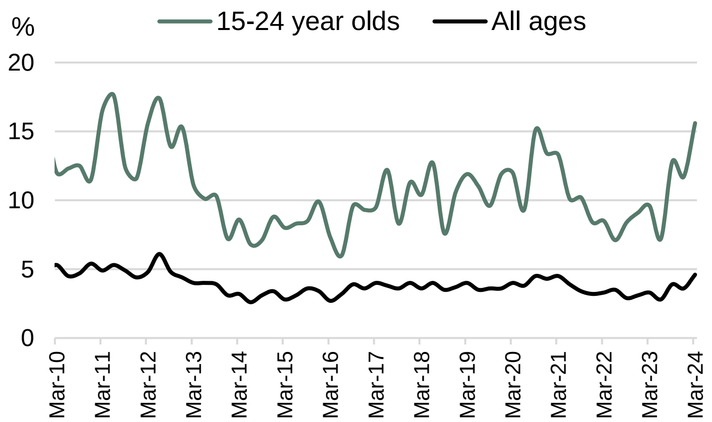
Westpac- Consumer confidence by region (June 2024)	
Waikato	88.7
Northland	85.6
Gisborne/Hawke's Bay	85.1
Taranaki, Manawatu, & Whanganui	85.1
Canterbury	82.8
New Zealand	82.2
Otago	82.1
Auckland	81
Nelson, Marlborough, & West Coast	80.3
Wellington	79.3
Bay of Plenty	77.6
Southland	76.5

Concerns about financial pressures have remained front and centre for households, with 42% of surveyed New Zealanders reporting that their financial position has deteriorated over the last year compared to just 14% for whom it has improved. Cost pressures have been coming from all angles, particularly through things like rent, council rates, insurance, and mortgage servicing.

Although confidence is low across all age groups, the most significant downturn in national confidence has been among young people. Confidence fell by just under -13 points for the 18–29 year-old age group during the June quarter, compared to a decline of -3.3 points for those aged over 50. This is likely a reflection of the fact that young people are more likely to be renting or paying off a mortgage (compared to owning their home outright) and therefore facing stronger financial pressures.

Westpac notes that this sharp decline in sentiment among young people is also likely to reflect the state of the employment landscape. Labour market conditions have softened across the board over the last year, but dynamics have changed most rapidly for our youngest workers. Nationally, the unemployment rate for people aged 15-24 has increased by 4.7 percentage points since early 2023- compared to an average of 0.4 points for age groups over 24. Youth unemployment in Canterbury has followed a similar trajectory, increasing from 9.6% in March 2023 to 15.6% one year later.

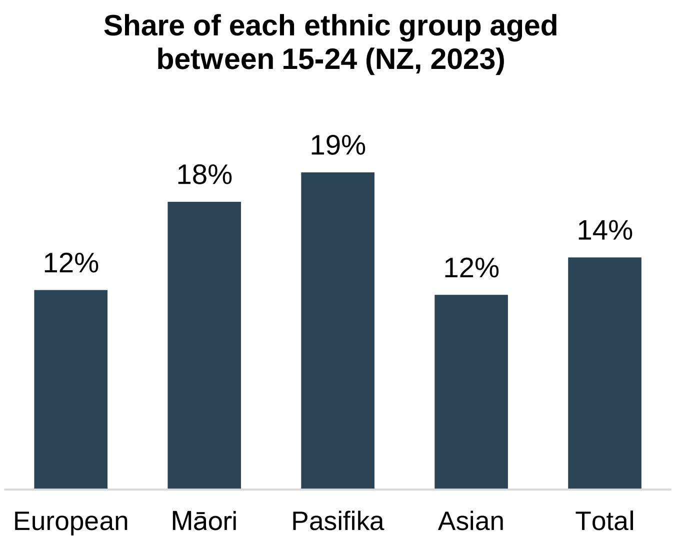
Unemployment rate, Canterbury Region

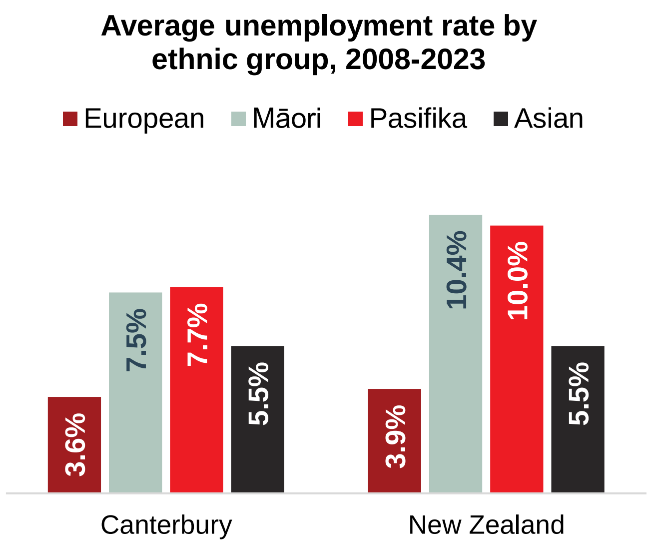


Young people are more vulnerable to weakened labour market conditions during recessions. Career progression is slower for people that enter the workforce during downturns, and young people experience higher rates of cyclical unemployment (that also persist for longer periods) than other age groups. It can be difficult for young people to compete with more experienced jobseekers when applying for jobs, especially when they are entering the workforce for the first time. Young people are also more likely to be working in less secure forms of employment- for example in temporary, low-skilled, or part-time roles, and in industries that are more exposed to job losses in recessions like hospitality, retail, and construction.

Youth unemployment not only creates social and economic barriers for young people throughout the duration of their unemployment- it has also been linked to poor employment outcomes over the longer-term. For example, young people who enter the benefit system early have a higher risk of remaining on benefits long-term, and past experience with unemployment is associated with higher rates of unemployment in the future. There are also multiple channels through which unemployment can carry a wage-scarring effect, which is when people earn less over their working life than they would have otherwise. This can occur due to wages lost during unemployment, as well as through people accepting lower-paid work to get back into employment. Unemployed people have been found to earn 10% less (or worse) upon re-entry to the workforce. Recovery from wage scarring also varies by age group, with young people facing greater impacts from reduced work experience and wage losses.

This relationship between labour market conditions and youth employment also carries disproportionate implications for Māori and Pasifika communities. As noted by Sense Partners, the younger demographic profile of these groups means that there are more Māori and Pasifika in peak labour market entry ages than other ethnic groups. For example, 2023 Census data shows that 18% of Māori and 19% of Pasifika across New Zealand are aged between 15-24, compared to 14% of the overall population. Māori and Pasifika also experience higher rates of unemployment in general, and have been found to be more vulnerable to labour market contractions during downturns.





Productivity in Christchurch

Productivity is a measure of economic performance that compares the amount of goods and services produced with the amount of inputs used in their production. Improvements in productivity means that the economy is delivering more for less, because goods and services are produced using fewer inputs. This means that businesses can operate more efficiently, people can earn higher incomes and improve their living standards without working longer hours, and our relationship with the environment can become less extractive.

Productivity estimates from Infometrics monitor labour productivity, or GDP per filled job. This can also be understood as the average amount of economic activity that's generated by each person working in a particular industry or geographic area.

Which industries have the highest labour productivity?

Labour productivity varies by sector. In 2023, the five industries in Christchurch City with the highest labour productivity were:

- Utilities services- electricity & gas supply, water & waste services
- Information media & telecommunications- this includes activities like publishing, broadcasting, telecommunications services, and internet service providers
- Rental, hiring, & real estate
- Mining
- Financial & insurance services

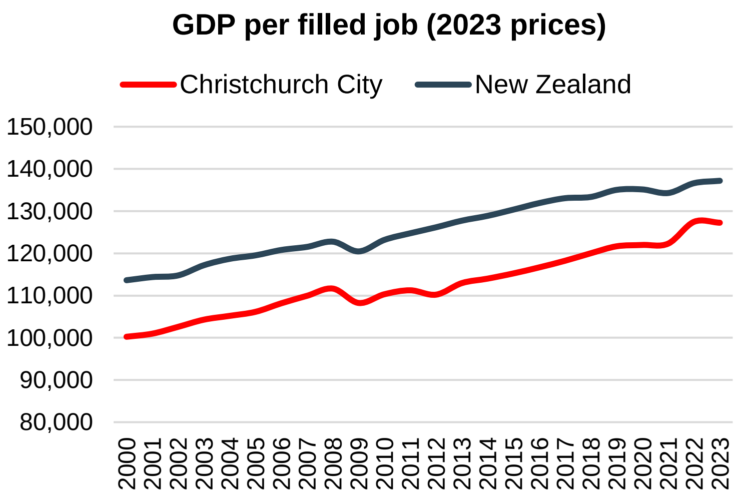
These are also the industries with the highest labour productivity at the national level. Output per employee can vary by industry because of different skills and efficiencies, as well as differences in non-labour inputs to production like capital.

Capital intensity is the proportion of capital such as machinery, equipment, technology, land, and buildings that's used in the production process compared to the amount of labour. It varies widely across different sectors. Increasing capital intensity within an industry tends to lead to improvements in labour productivity. The five industries mentioned above also have some of the highest rates of capital intensity.

How does local labour productivity stack up to the national average?

In line with historic trends, Christchurch's labour productivity was below the national average in 2023. This gap between national and local labour productivity has generally become smaller over time as local labour productivity has improved faster than it has nationally.

From 2000 to 2019, Christchurch's labour productivity averaged at about -11% below that of New Zealand as a whole, maxing out at -13% in 2012 following the Christchurch earthquakes. This had shrunk back to about -10% by 2019, and as of 2023 was sitting around -7% below the national average.



Comparatively high labour productivity in Auckland tends to push up the New Zealand average. When Auckland is excluded from comparisons in labour productivity the gap between Christchurch and the rest of New Zealand shrinks to around -3% for 2023.

Labour productivity has increased at an average of 1.3% per year in Christchurch over the last ten years, and by about 0.7% per year across New Zealand as a whole. By industry, the largest increases in labour productivity over the last ten years have been in information media & telecommunications, retail trade, and professional services.

Labour productivity growth by industry, Christchurch	Average annual growth 2013-2023
Information media & telecommunications	11.8%
Retail trade	3.1%
Professional, scientific & technical services	2.9%
Administrative & support services	2.1%
Wholesale trade	1.9%
Agriculture, forestry, & fishing	1.5%
Accommodation & food services	1.5%
Total economy	1.3%
Health care & social assistance	1.2%
Arts & recreation services	1.2%
Other services	0.8%
Manufacturing	0.5%
Financial & insurance services	0.4%
Construction	0.3%
Public administration & safety	0.2%
Transport, postal & warehousing	0.2%
Rental, hiring & real estate services	-0.4%
Education & training	-1.4%
Utilities services	-2.3%
Mining	-2.6%

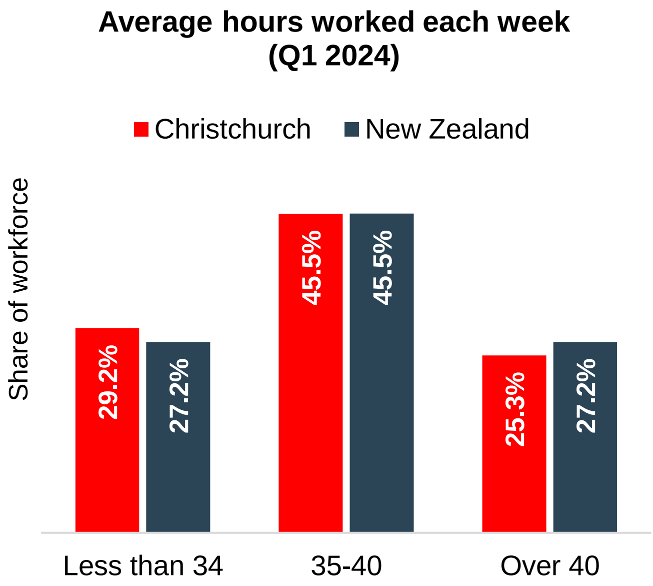
Why does labour productivity tend to be lower in Christchurch?

Some of the difference in overall labour productivity can be explained by Christchurch's economic structure. A strong concentration of local employment in high-value industries that pay higher wages will lead to increased GDP-per-capita. The ten industries with the highest labour productivity employ about 41% of New Zealand's workforce, whereas Christchurch has a lower share of employment in its ten most productive industries at about 33%. Because industries with lower labour productivity make up a bigger share of employment in Christchurch, this pulls overall labour productivity down compared to the national average.

What this doesn't explain however, is the gap between national and local labour productivity within each industry. Labour productivity within each industry was higher nationally than it was in Christchurch for most industries during 2023. There were three industries with higher labour productivity in Christchurch: utilities services (11% higher); professional, scientific & technical services (3% higher); and healthcare & social assistance (0.3% higher).

At the other end of the spectrum, labour productivity in Christchurch lagged the national average most significantly in financial & insurance services (-30% lower); and arts & recreation (-17% lower).

Some of this gap might be linked to working patterns. People in Christchurch tend to work less hours than the national average. For example, in Q1 this year a higher proportion of people in Christchurch worked for less than 35 hours per week, and a lower proportion worked for over 40 hours (compared to the national average). Filled jobs data captures both full-time and part-time jobs, which means we are talking about the average level of economic activity generated by each job- even if the hours worked by each employee varies. We would expect output per person to be lower in an area where people are working less hours, which might account for some of this difference in labour productivity levels.



Other reasons for differences in local and national labour productivity could be linked to:

- Variations in levels of capital investment- this can also be linked to the ability of businesses to attract investment from overseas, which can be influenced by things like business opportunities, city amenities, and population size (and therefore talent pools).
- Differences in a city's ability to compete internationally for skilled workers e.g., through higher wages. Market rates for salaries are higher in places like Auckland and Wellington than they are in Christchurch.
- Economies of scale- Cities with big populations (like Auckland) and large, high-revenue businesses are more likely to benefit from economies of scale, which allows businesses to operate more efficiently.

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