Economic effects of the Canterbury earthquakes
December 2011

The Canterbury earthquakes of 2010 and 2011 have had a major economic and fiscal impact on the region itself and on New Zealand as a whole. The earthquakes rank as one of the most costly natural disasters for insurers worldwide, since 1950. Treasury’s assumption is that the rebuild will cost the equivalent of around 10 percent of Gross Domestic Product (GDP), which represents a ‘very large shock’ in relative terms. As a comparison, the March 2011 earthquake and tsunami in Japan is estimated to have caused damage equivalent to around 3 to 4 percent of Japan’s annual GDP.

The Christchurch rebuild is forecast to start in earnest during the second half of 2012, continuing through to at least 2016. While employment and population trends are a particular concern for the region, business and consumer confidence and retail sales improved in late 2011, albeit from a low starting point. This paper provides a brief overview of some of the issues affecting the region.

Economic costs
Treasury’s Pre-Election Fiscal and Economic Update released in late October 2011 notes that ‘disruption to economic activity has been less than anticipated’. Conversely, ‘damage estimates are higher, partly owing to continuing aftershocks’. Damage estimates have increased from $15 billion in the 2011 budget to $20 billion and possibly up to $30 billion if ‘business disruption or additional costs from inflation, insurance administration or rebuilding to higher standards than before the earthquake’ are included. The $20 billion includes $13 billion for the residential sector, $4 billion for the commercial sector and $3 billion for infrastructure. The estimated total net cost to the Crown is now $13.5 billion. Commentary from the New Zealand Institute of Economic Research (NZIER) in November states that ‘the immediate clean-up and reconstruction is boosting demand in certain sectors like utilities, construction, safety, healthcare and social assistance. These have not fully offset reduced activity in other sectors’. The NZIER report notes that, anecdotally, regulatory and insurance risks are key barriers to retaining skills, jobs and businesses in the Canterbury economy.

Canterbury Rebuild profile

Source: The Treasury
Employment

Employment in the construction industry increased by 4,500 (18 percent) in Canterbury over the year to September 2011. Demand for tradespeople and other construction workers will continue to increase once the rebuild is fully underway later in 2012. This may lead to possible labour or skills shortages in some trades. Total employment in the Canterbury region decreased by 26,800 (8 percent) in the year to the September 2011 quarter. Part-time, youth and female employment have been particularly badly affected. This may reflect the sectors (accommodation, food services and retail) which have been hit hardest, with a fall in employment in these sectors of 12,600 people (22.4 percent) during the year. The fall in employment in Canterbury is substantially more than other regions, although it has not flowed through to a large rise in people unemployed, with rates still comparable to the rest of New Zealand. Instead, it appears that people have either left Canterbury or left the labour force, with the number of people not in the labour force increasing significantly, up 12,500 (8.3 percent). Manufacturing has remained relatively resilient although there was a fall in activity in October 2011. Internet-based job advertising was much higher in the last quarter so conditions in some areas of the labour market may be starting to improve.

Population

Prior to the earthquakes, Christchurch city's population was growing by around 1 percent per year. However the latest population estimates indicate that Christchurch city's population decreased by 8,900 (2.4 percent) in the year to June 2011 while the Canterbury region's population decreased by 5,000 people (0.9 percent). Conversely, population growth in a number of South Island cities and districts accelerated as people relocated from the earthquake-affected areas. Since the 22 February earthquake, there have been 5,500 departures from Christchurch, compared with 3,300 during the same period in 2010. Arrivals to Christchurch have totalled 2,800 since the February earthquake, compared with 3,700 during the same period in 2010.

Building Activity and House Sales

So far, earthquake-related building consents remain at a low level in Canterbury partly due to insurance issues, continuing aftershocks and the necessary decisions around land viability. The National Bank Regional Trends survey states that 'internally, we are starting to see a flow of insurance money for significantly damaged properties, with owners taking the indemnity sum while they decide what to do. Most have indicated they will invest again but are waiting at least 12-18 months, with the insurance pay-out being used to reduce debt'. In the latest building activity figures for the quarter ending September 2011, Statistics New Zealand comments that building activity in Canterbury has fallen along with the rest of New Zealand. Building consents identified as being earthquake-related totalled $80 million in the September 2011 quarter. This comprised $63 million for non-residential building consents, and $17 million for residential building consents. The residential consents included 97 new dwellings, of which 78 were relocatable units intended to house displaced residents.

The latest National Bank Regional Trends survey noted that the Canterbury region recorded a large rise in house sales in the quarter (from 1,653 in June to 2,021 in September).

Tourism

The overall accommodation capacity of the Canterbury region has decreased since the earthquakes, particularly hotels and backpacker accommodation. International guest nights were down 32 percent in the Canterbury region in September 2011 (compared with September 2010) and domestic visitors down 23 percent.

Further reading: Statistics New Zealand Earthquake Information Portal

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