

CANTOMETER

ISSUE TWO // 18 December 2012 | CONSTRUCTION ACTIVITY DRIVES FURTHER IMPROVEMENT

The ASB Cantometer shows further increase in Canterbury activity. This is the second edition of the ASB Cantometer - an indicator designed to capture the pick-up in Canterbury activity as the earthquake rebuild progresses over the coming years. The Cantometer snapshot has improved since November, lifting to 0.2, suggesting activity remains above pre-earthquake levels of activity.

Construction continues to drive improvement

Continued improvement in construction activity has underpinned the increase in the Cantometer over December. In particular, the quarterly survey of building activity revealed a 34% increase in Q3 Canterbury construction work. In addition, October residential building consents remained firm, indicating further activity is in the pipeline. Meanwhile, non-residential building consents also picked up strongly.

Housing activity has lifted in Canterbury, although this lift does mirror the pick-up seen throughout the rest of the country. Nonetheless, anecdotes have implied the Canterbury housing market is supply constrained, and an increase in turnover is an encouraging sign the Canterbury market is recovering as uncertainty around the outlook has reduced.

Guest nights, car registrations and permanent and long-term migration have remained fairly steady over recent months.

We are looking for lifts in these indicators as a sign of increased employment in the region as the rebuild commences.

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 the next page.

Outlook

We expect Canterbury reconstruction activity to underpin the nationwide lift in residential construction over the coming year. However, for the time being, Canterbury activity beyond the construction sector has remained subdued.

At the December MPS, the RBNZ noted the recent progress made toward the Canterbury rebuild. However, the RBNZ also indicated increased concern about the upside risks to inflation stemming the rebuild. Over the coming year, the inflation pressures will become more apparent and we expect the RBNZ will begin to increase the OCR from September 2013.

Recent developments

[Real estate agents](#) report the Canterbury housing market has become "more dynamic" with renewed interest in earthquake damaged areas as demand continues to outstrip supply.

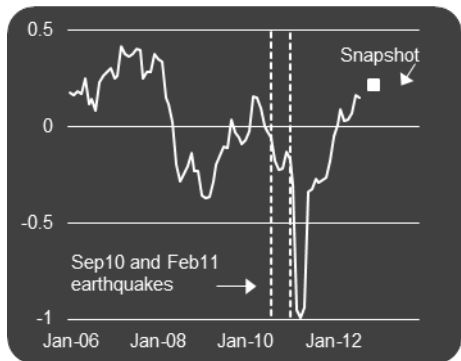
[EQC payouts](#) for Canterbury earthquake damage now exceed \$4 billion, with \$870 million spent on house repairs. EQC's total claim liability is estimated at \$12 billion.

[Fletcher Earthquake Commission Repairs \(EQR\)](#) is to provide affected home owners with indicative dates for repairs (under \$100,000). Fletcher EQR aims to have 80% of repairs done by the end of 2014.

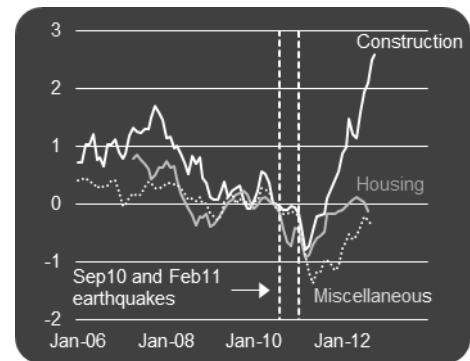
Meanwhile, for those with over \$100,000 damage, [major insurance companies](#) have set a 3-year deadline to complete repairs and rebuilding.

The [Reserve Bank of New Zealand](#) estimates the cost of reconstruction is now at \$30 billion (2011 dollars) at its December Monetary Policy Statement.

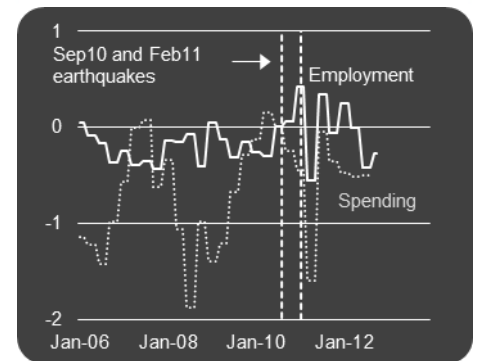
ASB CANTOMETER



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	1.7
Non-residential consents	4.3
Ready-mix concrete	2.9
Building work put in place	1.6
Construction Index	2.6
House sales	0.2
New Listings	-1.4
House price inflation	0.9
Housing Index	-0.1
Employment	-0.3
Hours worked	-1.4
Full-time equivalent employees	-0.2
Relative Wages	0.8
Employment Index	-0.3
Retail Trade Indicator	0.6
Consumer Confidence	-2.2
Consumer Spending Index	-0.8
Electricity	-1.0
Car registrations	0.0
Guest nights	-0.5
PLT net migration	-0.1
Miscellaneous	-0.4
Cantometer Snapshot	0.2

Above/below 0 means a higher/lower level relative to June 2012 (i.e. pre-earthquake level)

ASB ECONOMICS & RESEARCH

ECONOMICS

Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5660	
Economist	Christina Leung	christina.leung@asb.co.nz	(649) 301 5661	
Economist	Daniel Smith	daniel.smith@asb.co.nz	(649) 301 5853	

<https://reports.asb.co.nz/index.html>

ASB Economics, Level 9, 135 Albert Street, Auckland

IMPORTANT DISCLOSURES

ASB Institutional is an undertaking of ASB Bank Limited ("ASB") and Commonwealth Bank of Australia (incorporated in Australia, ABN 48 123 123 124) ("Commonwealth Bank"). This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice. We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB or Commonwealth Bank. We are under no obligation to, and do not, update or keep current the information contained in this document. No person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document. Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. No representation or warranty is made that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.