
Economic and Fiscal Impacts of the Canterbury Earthquakes

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Outline

- Damage estimates
- Economic implications (for NZ)
- Fiscal costs (central government)
- Updated information
- Questions

Damage Estimates

- Half Year Economic and Fiscal Update assumed:
 - \$5 billion total damage
 - \$3.25 billion housing/contents (total damage)
 - \$1 billion infrastructure
 - \$0.75 billion commercial

Note: 5 November forecast date

Economic Impacts

- Impact on GDP:
 - Negative impacts from lost production in the aftermath of the earthquake. Businesses closed, people unable to work, shop etc
 - Some lost production will be made up, for example, one large manufacturer had existing orders that needed to be met so was planning on maintaining higher levels in a later low seasonal period
 - Repair/rebuild will provide considerable boost

Economic Impacts - continued

- Hard to identify how much of the 0.2% decline in September quarter GDP was due to the earthquake
- Our best estimate was that the earthquake may have reduced NZ's GDP by 0.4% but that it was possible that not all of this would show up in GDP estimates

The impact of rebuilding on real activity

- Convert damage estimates into 1995/96 prices
- Allow for some rebuilding work to either not occur or “crowd out” work that would have occurred
- “shock” forecast model so that wider economic impacts are incorporated

Some estimated growth impacts

March Years	2011	2012	2013	2014	2015
Private consumption	0.0	0.3	0.2	0.0	0.0
Residential investment	3.9	8.6	-6.0	-2.5	-1.7
Other investment	0.6	0.0	-0.4	-0.1	0.1
Exports	-0.2	0.1	0.1	-0.1	-0.1
Imports	0.4	1.4	-0.4	-0.4	-0.4
Real GDP	0.1	0.4	-0.2	-0.1	-0.1
Employment	0.0	0.5	0.1	-0.2	-0.2
Unemployment Rate	-0.1	-0.3	-0.2	-0.1	0.0
CPI Inflation	0.0	0.3	0.1	0.1	0.1

Fiscal Impacts

- In the Half-Year Update the Government expected the following costs
 - EQC (\$1.5 billion, provided damage covered by the Commission does not exceed \$4 billion)
 - 60% of the cost of repairing essential infrastructure (lacked a reliable estimate so treated as an unquantified risk)
 - \$66 million contribution to repairing local roads
 - Additional assistance (<\$100 million)

Latest information - houses

building claims	166,435
contents claims	55,964
land claims	24,385

* 14 February 2011, EQC

- More than “one event”
- Overall damage to houses and contents likely to be greater than \$3.25 billion assumed

Economic implications (latest)

- Economic estimates subject to considerable uncertainty
- Upside risk to damage estimates but probably not enough to substantially change the estimated **magnitude** of the impacts.
- **Timing** of recovery boost slightly later than assumed (ie pushed out a quarter or so)
 - Continued aftershocks
 - Sheer scale of organisation required

Fiscal implications (latest)

- aftershocks more than a month after the initial quake are not covered by EQC's reinsurance, so EQC will face the costs of damage caused by these (e.g. the 26 December aftershock)
- Updated estimates will be included in the 2011 Budget (to be released 19 May)
- Central Government's costs will probably exceed \$2 billion

The end

- Any questions/comments?