

Natural selection: Firm performance following the Canterbury earthquakes

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For the full paper, please see:

http://motu-www.motu.org.nz/wpapers/14_08.pdf

Abstract

The Canterbury earthquakes in September 2010 and February 2011 caused major upheaval to the people of the region. The second quake killed 185 people, forced many from their homes, and closed Christchurch's central business district. This paper examines the consequential effects on business in the region, paying particular attention to heterogeneity in firm-level outcomes. Consistent with aggregate statistics, we quantify substantial variation in firm outcomes by industry and by location. In addition, we show that firms' prior financial viability heavily influenced their chance of survival. Conditional on continuing to operate, average profitability returned to pre-quake levels relatively quickly, albeit subject to reduced inputs. Taken together, these effects support economic models where firm exit is driven by selection on profitability.