

Local Knowledge

10 June 2014

Welcome to the first issue of **Local Knowledge**, a monthly compilation of activity indicators for the New Zealand economy. The aim of this report is to build up a picture of what's happening in the domestic economy, by presenting monthly activity data across a broad range of sectors.

The indicators presented here – 20 unique series, plus a few subsets and variations – are some of the timeliest information we have. But many of them receive little or no attention on their initial release, which means the information they convey can end up being 'localised' to those who pay particularly close attention to the details of the New Zealand economy.

To the extent that the economy can be treated as the sum of these various parts, we've put together a simple momentum indicator based on the net proportion of the Local Knowledge indicators that reported growth in each month – that is, the share that saw gains minus the share that saw declines. That figure is then averaged over the last three months, to line up with the quarterly reporting of GDP. As the chart to the right shows, this simple indicator has provided an early signal of changes in the pace of GDP growth over recent years.

While we could certainly improve the fit to quarterly GDP by making the indicator more complex (weighting each series, adding lags and so on), we've chosen to take this simple approach as it provides an unfiltered summary of what's going on in the economy right now, for those who want to see the bottom line from this myriad of data.

As for what the indicator is telling us now... after a strong run in the second half of 2013 that continued into the early part of this year, there was a marked slowdown seen almost across the board in April. We've noted before that there may not be anything sinister behind this – the late timing of Easter this year, with Easter Monday falling in the same week as Anzac Day, created a three-day workweek that many people are likely to have turned into a week-long break. If so, then the level of activity over April would have fallen by more than usual this year (the data presented here are all seasonally adjusted, but that process won't account for irregular events).

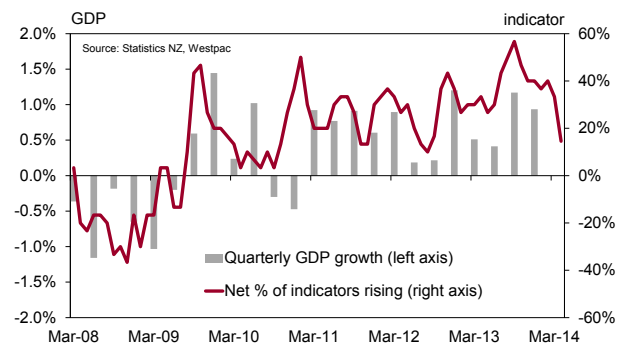
Of course, to confirm whether there really was an unusual Easter effect this year, we'd need to see a solid rebound across a range of activity indicators in May. There is tentative evidence that this happened in 2003, the last time that Easter Monday and Anzac Day created a three-day workweek. But we're reluctant to draw too much from a sample of one.

We also have to bear in mind that some sectors were showing signs of slowing even before April. In particular, house sales have fallen substantially since the LVR restrictions came into force last October (though sale prices have remained relatively perky). This may have already had a cooling effect on household spending, where growth has flattened out since the start of the year.

We may also be seeing growing caution in the agricultural sector; farm sales have slowed since the start of the year as the prospect of a lower dairy payout this year has become apparent. And borrowing by businesses, which was on an already-weak uptrend, has all but flattened out this year.

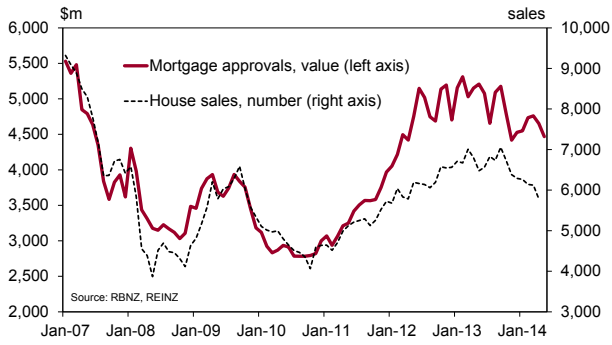
So while the Local Knowledge indicators broadly support our expectation of GDP growth in excess of 1% for the March quarter – we'll be finalising our forecast on Wednesday – there are signs that we should be bracing for something slower than that in the June quarter. Even if the April slowdown does prove to be an Easter-related blip, the activity 'lost' during that period won't necessarily be made up at a later date.

Local Knowledge indicators and quarterly GDP



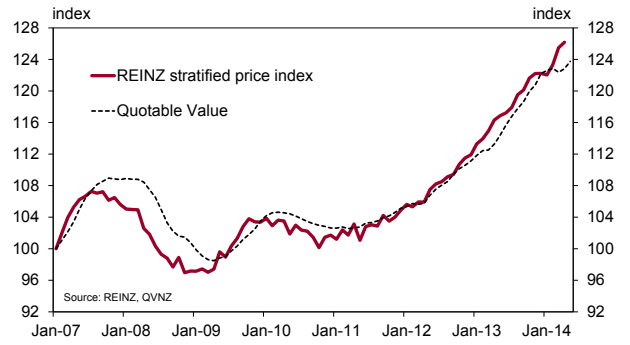
Michael Gordon
Senior Economist

Housing turnover



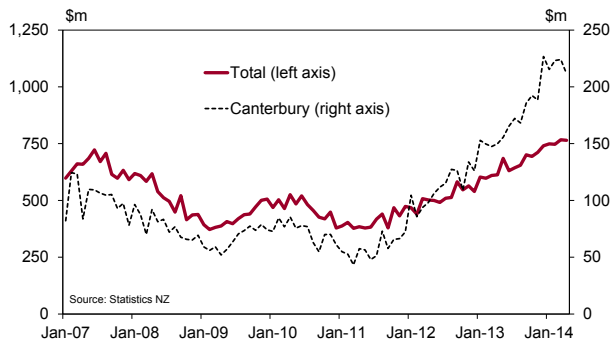
May Mortgage approvals -4.0%
Apr House sales -5.5%

House prices



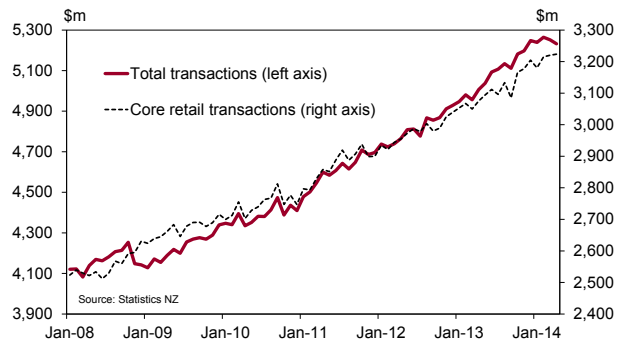
Apr REINZ house price index +0.6%
May QV price index +0.8%

Residential building consents, by value



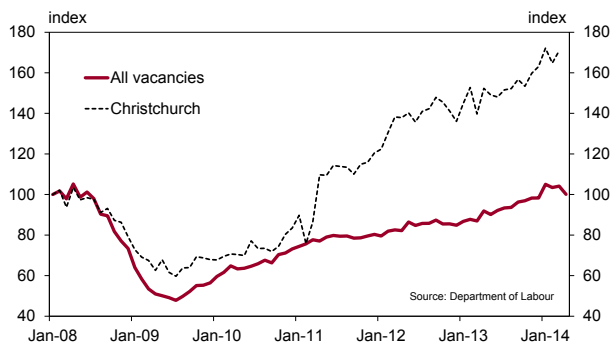
Apr Building approvals -0.3%
Apr Canterbury -5.5%

Electronic card transactions



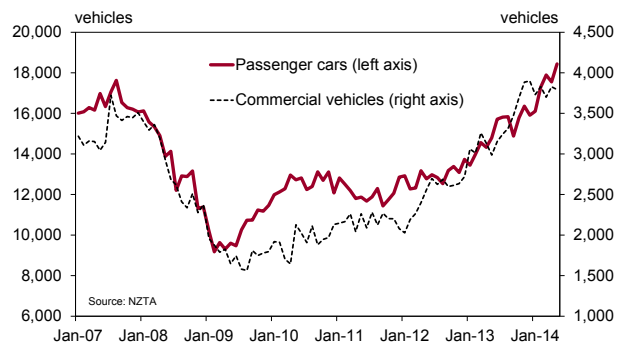
Apr Total card transactions -0.4%
Apr Core retail sectors +0.1%

Online job advertisements



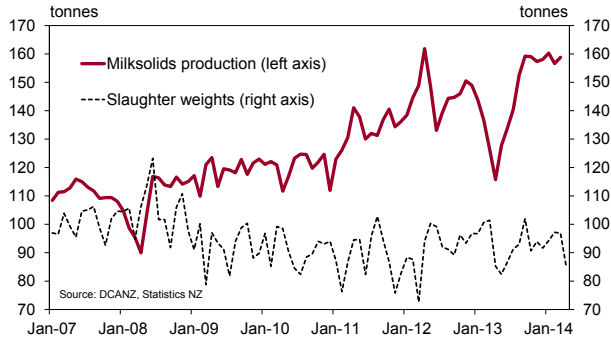
Apr Online job advertisements -3.9%
Mar Canterbury +3.6%

Vehicle registrations



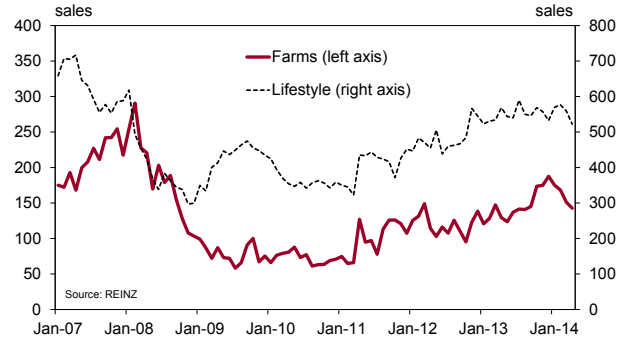
May Passenger cars +5.0%
May Commercial vehicles -0.9%

Agricultural output



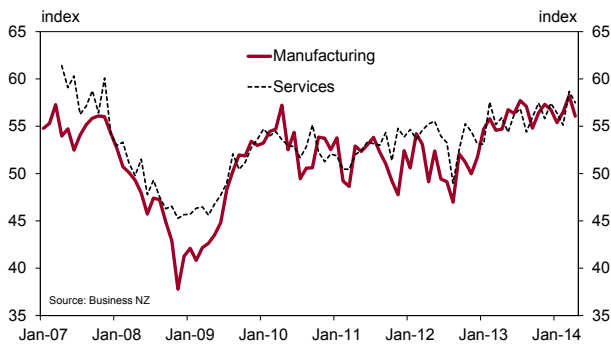
Mar Milk production +1.4%
Apr Slaughter weights -12.5%

Rural land sales



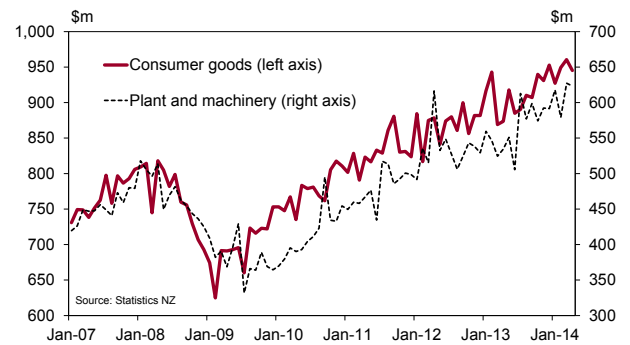
Apr Farm sales -5.6%
Apr Lifestyle property sales -6.6%

PMI surveys



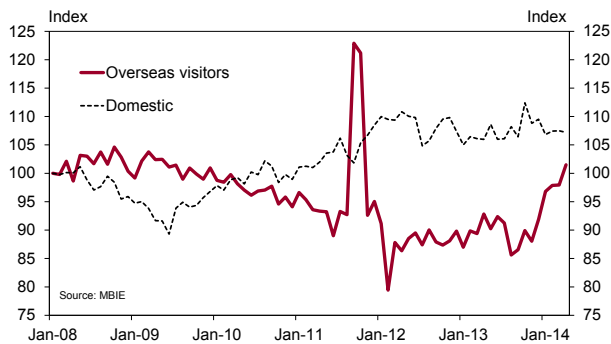
Apr Manufacturing PMI 56.1
Apr Services PMI 57.5

Imports, priced in foreign currency



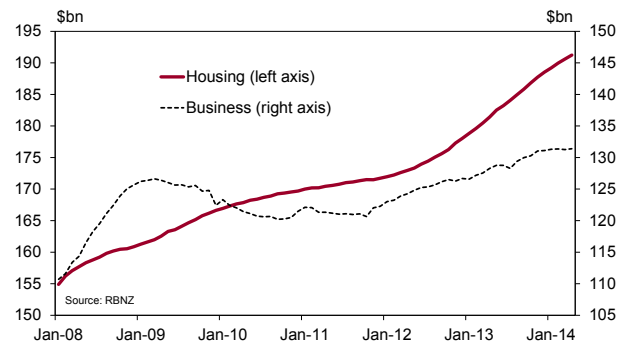
Apr Consumer goods -1.6%
Apr Plant and machinery -0.6%

Tourism spending



Apr Overseas visitor spending +3.6%
Apr Domestic tourism spending -0.3%

Credit aggregates



Apr Housing credit +0.3%
Apr Business credit +0.1%

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