

**Local Knowledge** is our monthly compilation of activity indicators for the New Zealand economy. The aim 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 on economic activity in New Zealand. Yet unlike their overseas equivalents, many of them receive little or no coverage on an individual basis.

The Local Knowledge indicators clearly show that the economy has regained its momentum after a mid-year lull. In fact, our momentum indicator for the three months to September was among the highest readings in recent history – just shy of the levels seen during the second half of last year, when GDP was growing at a pace of 1% or more per quarter.

Currently our forecast for September quarter GDP is for a slightly more modest 0.8% increase. We'll firm up this estimate over the next month as more data arrives, but there's a fairly consistent message coming through that the result is likely to be stronger than the 0.7% increase reported for the June quarter. The monthly activity data has generally picked up, and the September quarter labour market surveys released last week showed further solid growth in employment. The main thing restraining our GDP forecast is that business confidence has fallen substantially since the start of the year, though this was arguably overstating the pace of growth in the first place.

The handful of data now available for October suggests a strong start to the final quarter of the year as well, with gains in mortgage approvals, car sales and electronic card spending.

There's a case to be made that uncertainty ahead of the 22 September election had a disruptive effect on economic activity – especially in the property market, given that a change of government would have resulted in a broader capital gains tax and the removal of ring-fencing for investment properties. That could certainly explain the slump in building consents over the last few months, breaking a long-running upward trend. Of course, we'll need to see the October figures to determine whether this simply represents a delay in consent applications ahead of the election, or the start of something more serious.

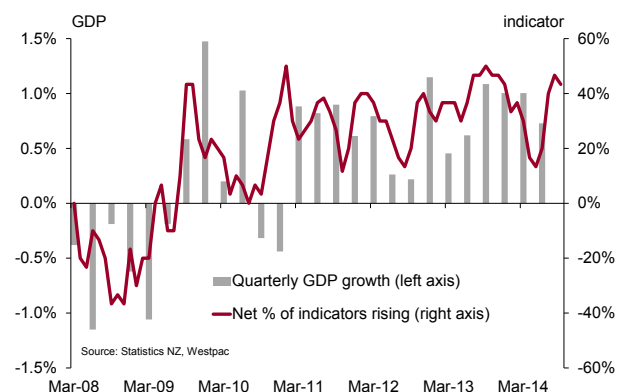
Meanwhile, house sales were close to flat over the three months to September – despite surging net immigration, falling term mortgage rates and greater utilisation of the RBNZ's cap

on high-LVR mortgage lending. The post-election signs have been more promising, with a surge in both mortgage approvals and new property listings in October. However, the reports from a few large realtors don't strongly suggest that this has translated into a bounce in sales yet. The REINZ nationwide figures due later this week will give us a better steer.

In our latest quarterly *Economic Overview*, published last week, we noted the New Zealand economy's ability to grow without producing much in the way of inflation to date. The Local Knowledge indicators suggest that the growth side of the story is still firmly on track; it's less obvious what they might tell us about inflation. Firms continue to import more (presumably productivity-enhancing) capital equipment, though the upward trend has looked shaky at times. Job advertisements have returned to pre-recession levels, but much of the growth has related to the Christchurch rebuild, and outside of that region the jobs market doesn't look particularly tight. Neither of those factors argues for a pickup in home-grown inflation pressures in the near term.

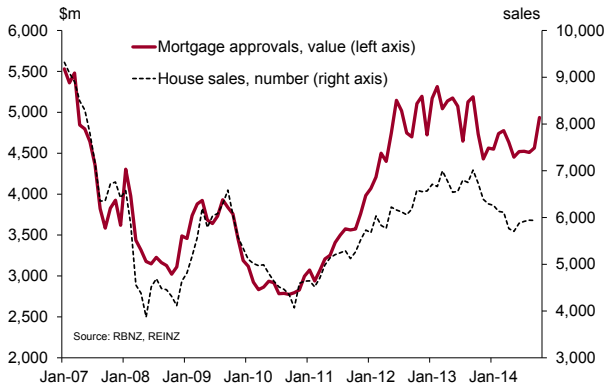
In contrast, it's possible (though too soon to tell) that the strong rise in electronic card spending in October could be the first sign that the lower New Zealand dollar is starting to filter through to prices. For the September quarter at least, it's clear that the flatness (in dollar terms) of card spending was in large part due to falling retail prices; we're expecting next Monday's retail trade survey to show a strong lift in spending in real terms.

#### Local Knowledge indicators and quarterly GDP



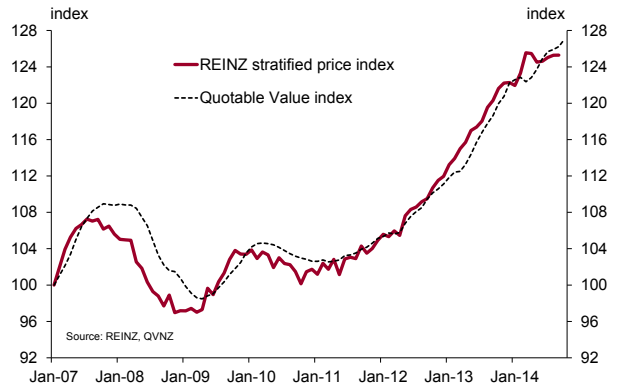
**Michael Gordon**  
Senior Economist

### Housing turnover



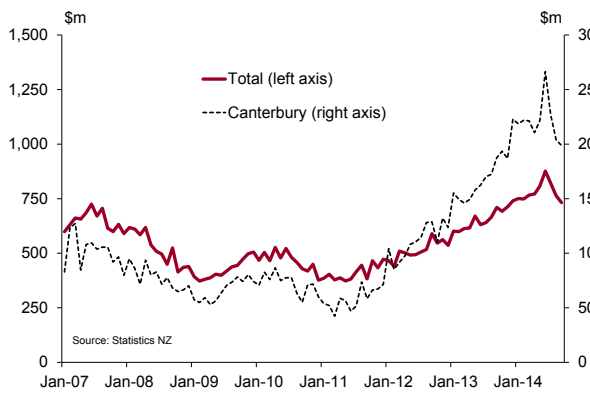
Oct mortgage approvals +8.2%  
 Sep house sales -0.1%

### House prices



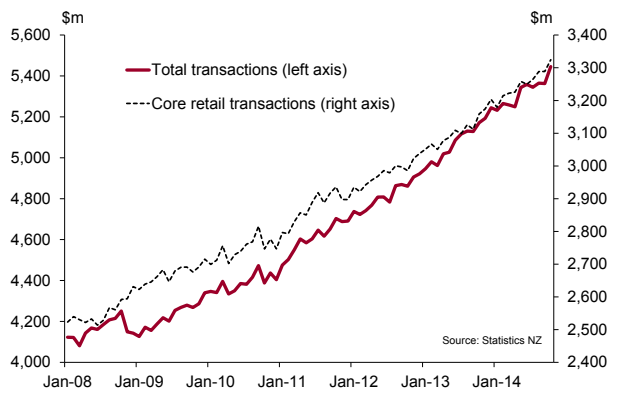
Sep REINZ price index 0.0%  
 Oct QV price index +0.6%

### Residential building consents, by value



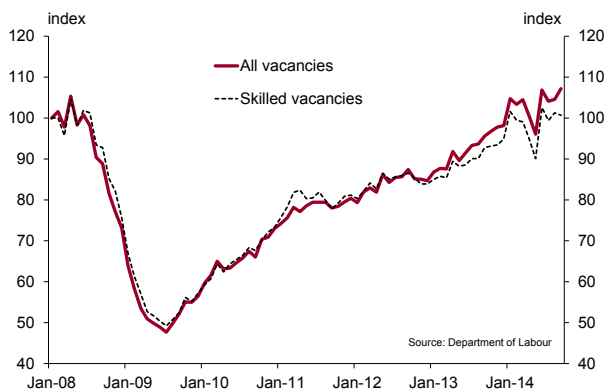
Sep building approvals -4.1%  
 Sep Canterbury -2.5%

### Electronic card transactions



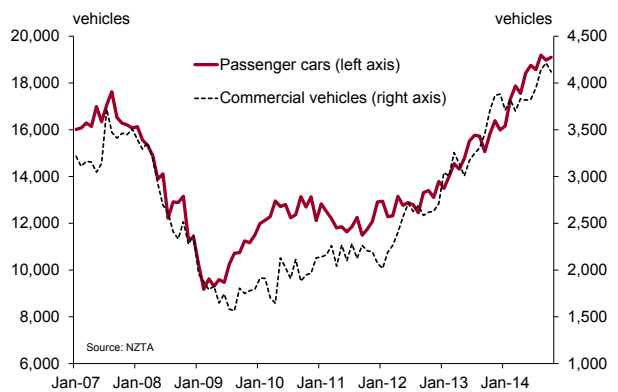
Oct total card transactions +1.5%  
 Oct core retail sectors +1.1%

### Online job advertisements



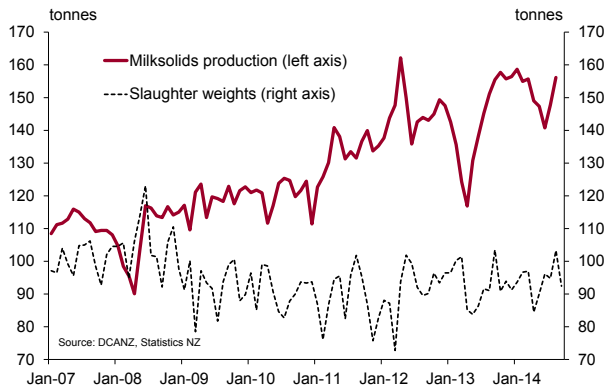
Sep online job advertisements +2.5%  
 Sep skilled vacancies -0.6%

### Vehicle registrations



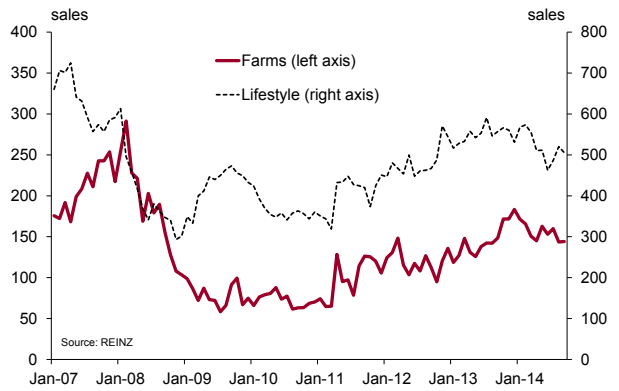
Oct passenger cars +0.6%  
 Oct commercial vehicles -2.3%

### Agricultural output



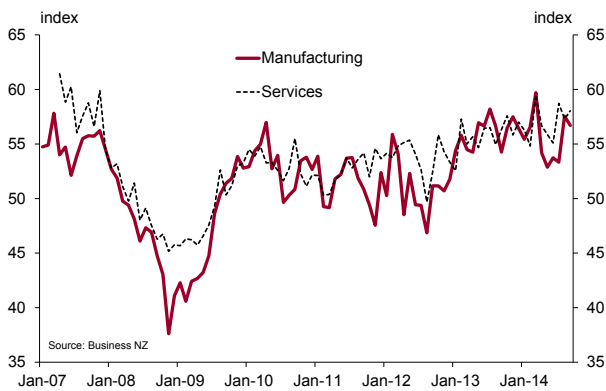
Aug milk production +5.7%  
Sep slaughter weights -10.5%

### Rural land sales



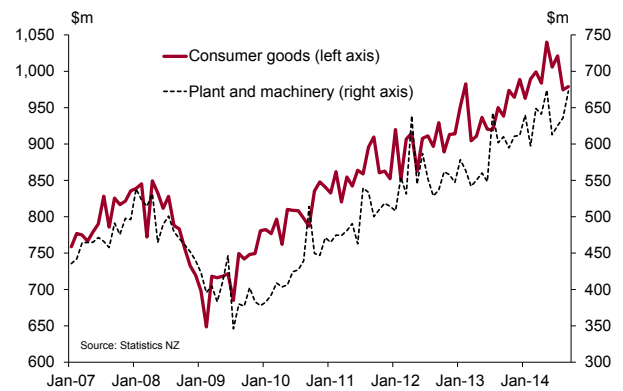
Sep farm sales +0.3%  
Sep lifestyle property sales -2.8%

### PMI surveys



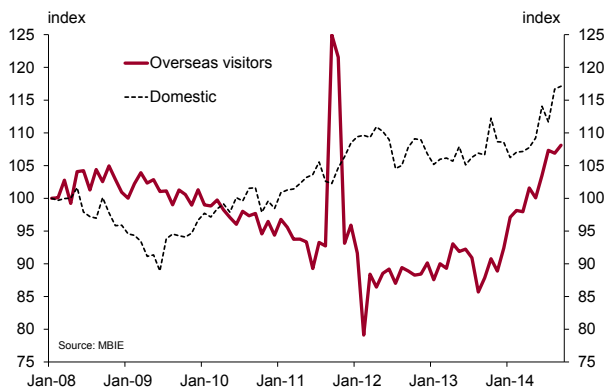
Sep manufacturing PMI 56.7  
Sep services PMI 58.0

### Imports, priced in foreign currency



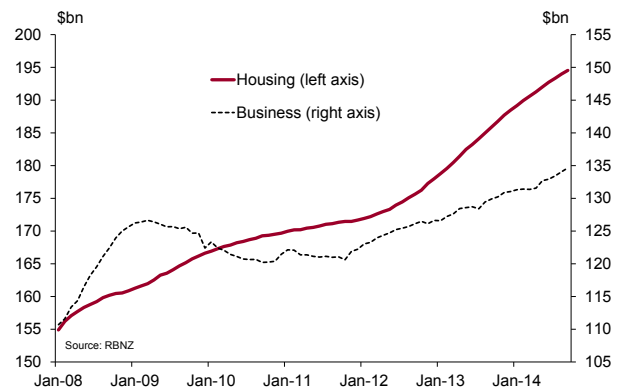
Sep consumer goods imports +0.5%  
Sep plant and machinery imports +5.8%

### Tourism spending



Sep overseas visitor spending +1.1%  
Sep domestic tourism spending +0.4%

### Credit aggregates



Sep housing credit +0.3%  
Sep business credit +0.5%

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