

Local Knowledge

9 October 2014

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 balance of the Local Knowledge indicators remained positive in August. In fact, it's been fairly consistent over the course of this year, with the exception of a short but widespread downturn in April that may have been affected by the timing of public holidays this year.

Our momentum indicator is calculated as a rolling three-month average of the balance, to align it with the quarterly reporting of GDP (see chart). The indicator gave broadly the right steer on the economy over the June quarter: the rate of GDP growth slowed, though not dramatically, compared to the rapid pace over late 2013 and early 2014. If anything, the indicator overstated the breadth of the slowdown during the quarter, which turned out to be limited to primary production (agriculture, forestry and mining). In contrast the services sectors, which make up about 70% of the economy, together had their strongest quarter of growth since 2006.

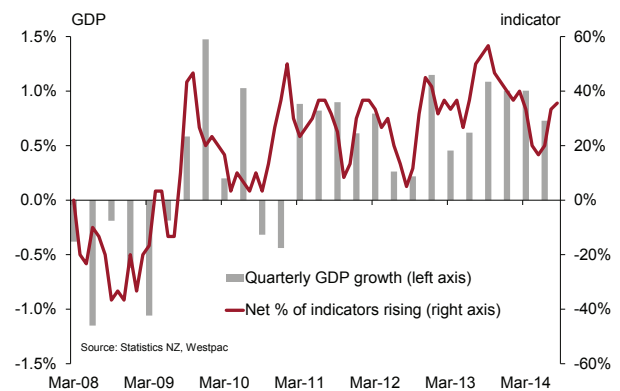
With the momentum indicator picking up in the three months to August, that suggests GDP growth over the September quarter is tracking at least as well as the 0.7% increase over the June quarter. This week's *Quarterly Survey of Business Opinion* also found that firms experienced quite similar results over the June and September quarters. So for now we're happy to stick with our GDP growth forecast of 0.7%, though with the risks slightly more to the upside given that agricultural output (which is not directly covered in the *QSBO*) looks to have rebounded from its June quarter dip.

The housing market continued its gradual strengthening in August, with sales up fractionally for a third straight month, and prices continuing to rise albeit at a slower pace than last year. Last month we noted a distinctly negative tone to the anecdotes from the real estate industry; more recently the tone has switched to extolling a post-election rebound in the housing market, though we haven't seen any hard data that would warrant such a conclusion.

To the extent that pre-election jitters were a factor for the economy, we might reasonably expect them to show up in 'intention'-type measures more so than in output. And the two measures which fit that bill most closely – building consents and job advertisements – were indeed substantially lower in August. But they've both been subject to an unusual degree of month-to-month volatility in the last few months, so it's not altogether clear what the latest figures are telling us.

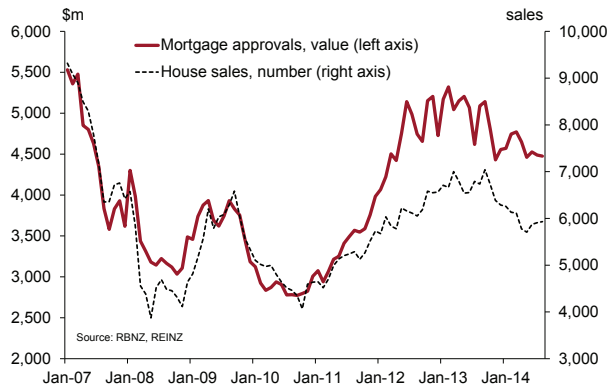
Local Knowledge's focus on activity rather than prices means that it doesn't reflect the most concerning development for the New Zealand economy in recent months: the steep fall in world dairy prices. We've revised down our forecast of Fonterra's milk price for this season to \$4.80/kg, which if realised would be the lowest since the 2008/09 season. Dairy farmers have yet to feel the brunt of the downturn from a cashflow point of view, but over the next year lower farm incomes are likely to weigh on spending and investment, especially in the rural regions.

Local Knowledge indicators and quarterly GDP



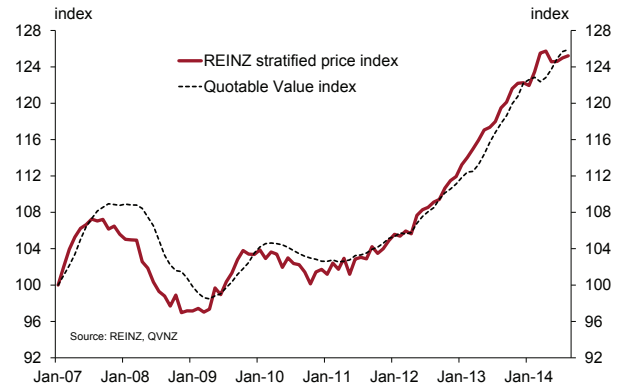
Michael Gordon
Senior Economist

Housing turnover



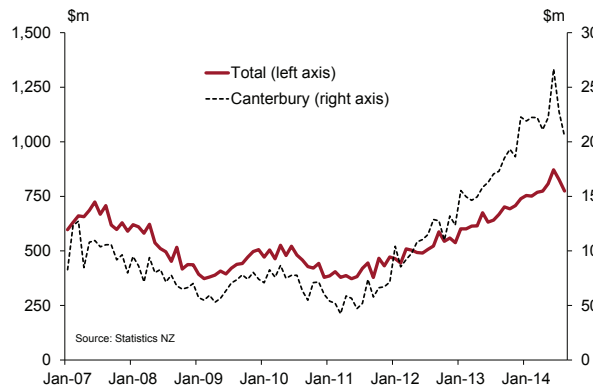
Aug mortgage approvals -0.3%
 Aug house sales +0.4%

House prices



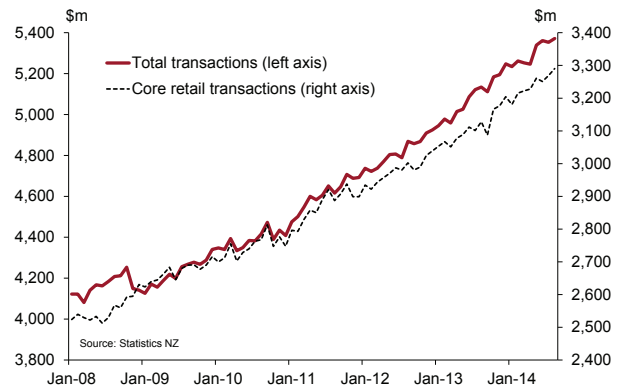
Aug REINZ price index +0.2%
 Aug QV price index +0.2%

Residential building consents, by value



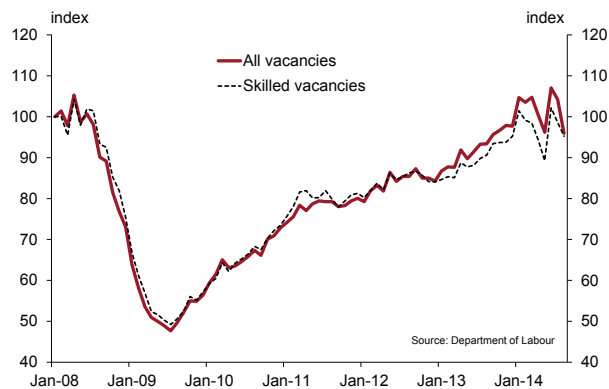
Aug building approvals -6.3%
 Aug Canterbury -9.9%

Electronic card transactions



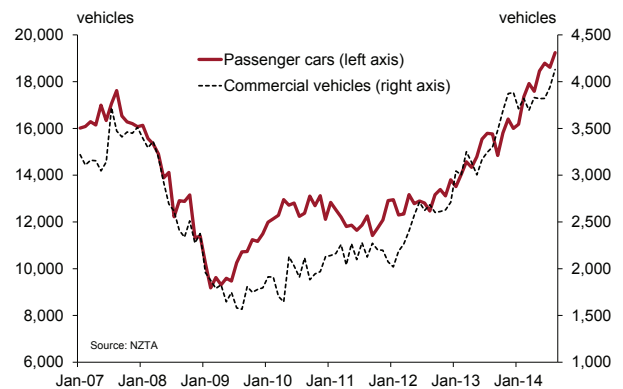
Aug total card transactions +0.3%
 Aug core retail sectors +0.6%

Online job advertisements



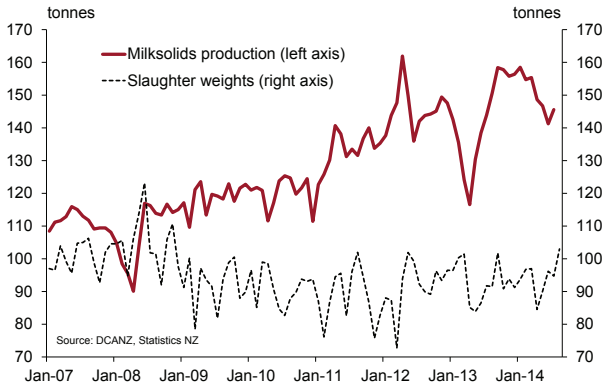
Aug online job advertisements -8.0%
 Aug skilled vacancies -3.5%

Vehicle registrations



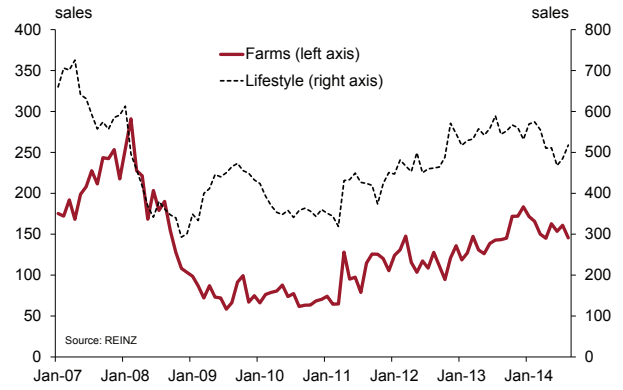
Aug passenger cars +3.4%
 Aug commercial vehicles +4.8%

Agricultural output



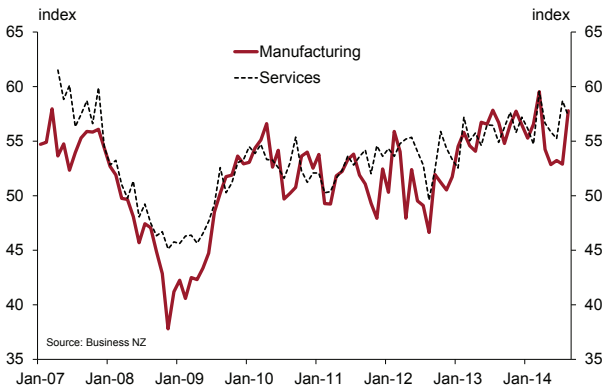
Jul milk production +3.1%
Aug slaughter weights +8.7%

Rural land sales



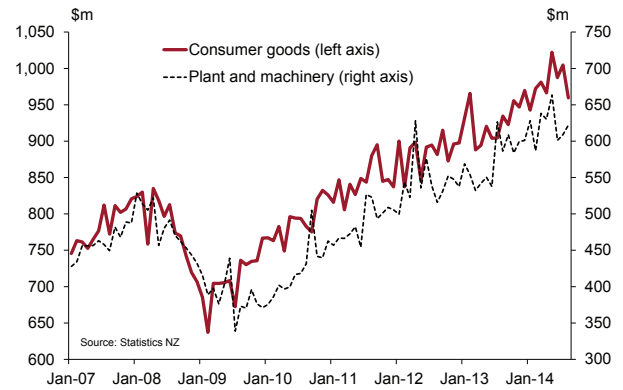
Aug farm sales -9.5%
Aug lifestyle property sales +6.8%

PMI surveys



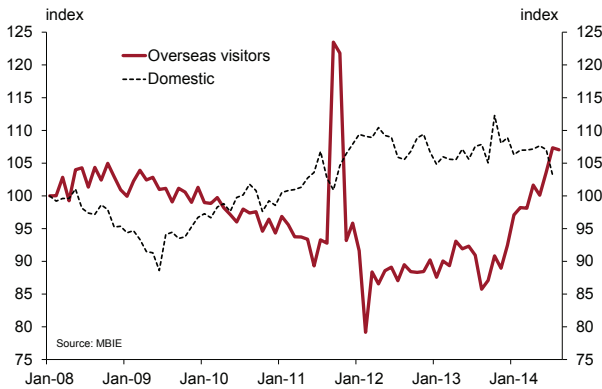
Aug manufacturing PMI 57.8
Aug services PMI 57.3

Imports, priced in foreign currency



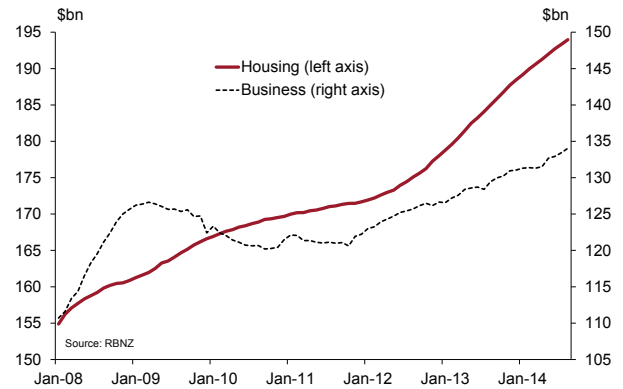
Aug consumer goods -4.5%
Aug plant and machinery +2.2%

Tourism spending



Aug overseas visitor spending -0.3%
Jul* domestic tourism spending -3.6%
*Aug data not available

Credit aggregates



Aug housing credit +0.3%
Aug business credit +0.5%

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