

# Local Knowledge

7 July 2015

**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. Unlike their overseas equivalents, many of them receive little or no coverage on an individual basis.

Sentiment on the New Zealand economy seems to have turned awfully gloomy awfully fast. Business confidence has plunged, consumer confidence is down, and there is growing angst about the ongoing decline in dairy prices and its potential knock-on effects. And all of this was underway even before the release of the surprisingly weak March quarter GDP figures, which will only have served to reinforce the sense of pessimism.

Our suite of indicators, however, suggest that economic activity in New Zealand has held up well to date, though the momentum has clearly passed its peak. Our rolling three-month momentum indicator (see the chart below) is roughly consistent with underlying GDP growth of around 0.6% for the June quarter. Consider that, on top of this, some of the factors that dragged down growth in the March quarter – a drought-driven fall in milk production, and a temporary shutdown in oil extraction – will go into reverse in the June quarter, and we could well be heading towards quite a chunky GDP number just as market pessimism is reaching a peak.

Admittedly there are some weak spots in our suite of indicators that warrant some attention. For instance, manufacturing sentiment has fallen sharply in the last couple of months, though it remains slightly positive on balance. Notably, the last couple of surveys were conducted at a time when the New Zealand dollar was flirting with parity against the Australian dollar. We'll be interested to see how sentiment fares now that the cross rate has dropped back to around 0.88, which we would regard as fair value.

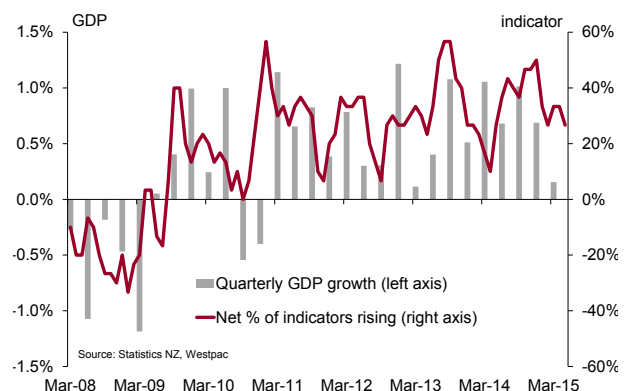
Another point of concern is that imports of capital equipment were weak again in May. We noted a sharp fall in business investment in the March GDP figures, and based on the import figures to date, it's shaping up to be flat to down again in the June quarter. Weak business investment not only hinders actual growth, but also potential growth over the medium term.

And despite the ongoing weakness of inflation, it's far from clear that the New Zealand economy has an issue with excess capacity – today's NZIER business opinion survey showed capacity utilisation at its highest on record going back to 1961.

The positive indicators in May were, once again, largely based around the housing market. House prices continued to rise sharply, especially in Auckland, the value of building consents ticked up, and housing lending had its biggest monthly increase since January 2008. It's debatable whether the May housing figures would have captured the two significant policies announced during the month: a tightening of loan-to-value limits for property investors in Auckland, and a firming up of the tax rules for investors who buy and sell within two years. But the partial data that we have for June suggests more of the same; neither buyers nor sellers appear to be rushing to the door ahead of these new policies.

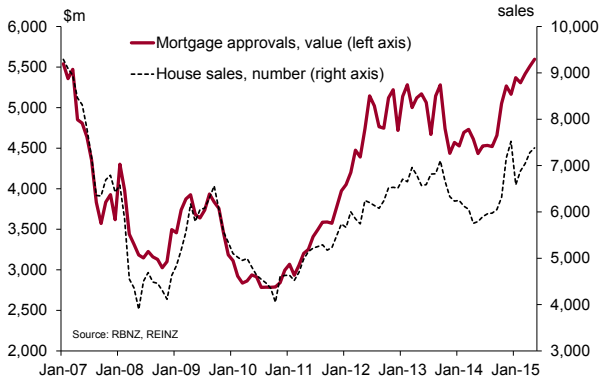
Retailers came across as particularly gloomy in the NZIER business opinion survey. That doesn't seem to be supported by the retail sales figures to date (unless Thursday's electronic card figures for June turn out to be exceptionally poor). Earlier in the year, the plunge in fuel prices freed up cash to spend on other things, resulting in a surge in 'core' retail spending. With fuel prices having reversed most of their fall, that effect is now waning. But it still seems more credible to say that retail spending has returned to its previous upward trend, as opposed to slowing sharply.

## Local Knowledge indicators and quarterly GDP



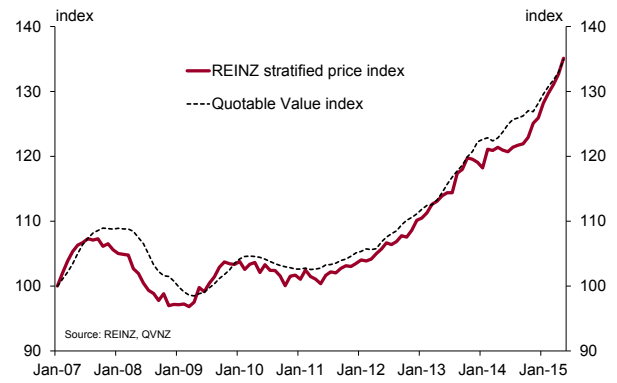
**Michael Gordon**  
Senior Economist

### Housing turnover



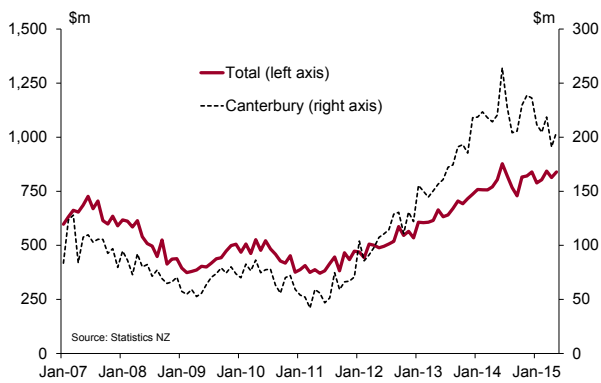
May mortgage approvals +1.6%  
 May house sales +1.4%

### House prices



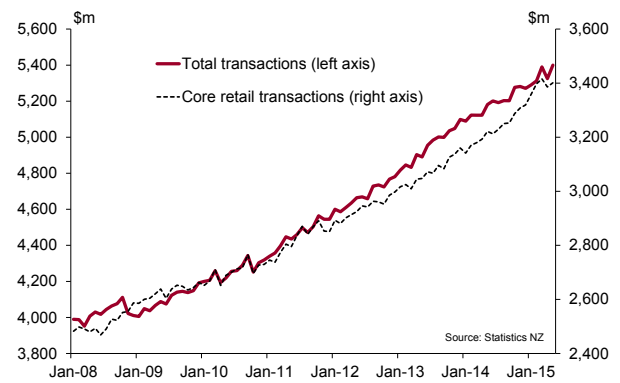
May REINZ price index +1.9%  
 May QV price index +1.4%

### Residential building consents, by value



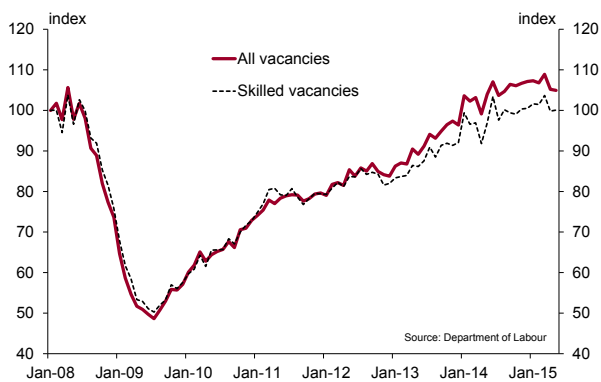
May building approvals +3.2%  
 May Canterbury +7.3%

### Electronic card transactions



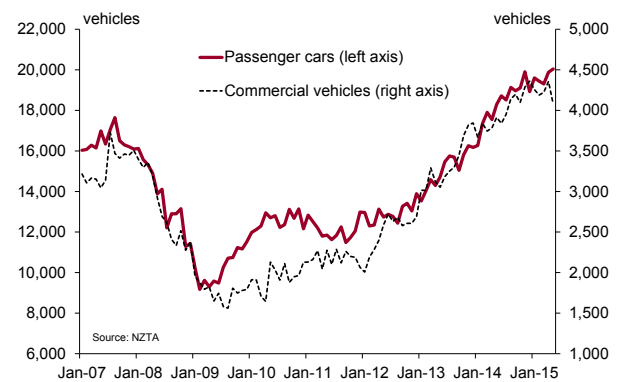
May total card transactions +1.4%  
 May core retail sectors +0.4%

### Online job advertisements



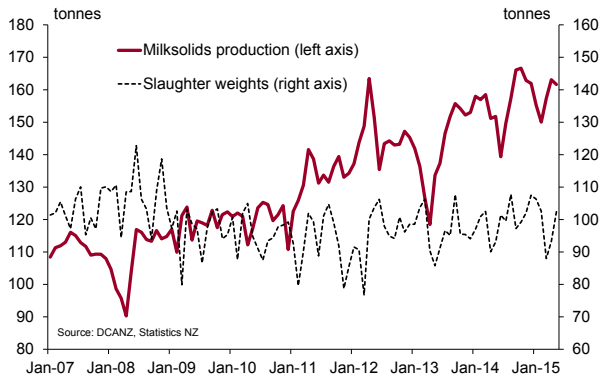
May online job advertisements -0.3%  
 May skilled vacancies +0.3%

### Vehicle registrations



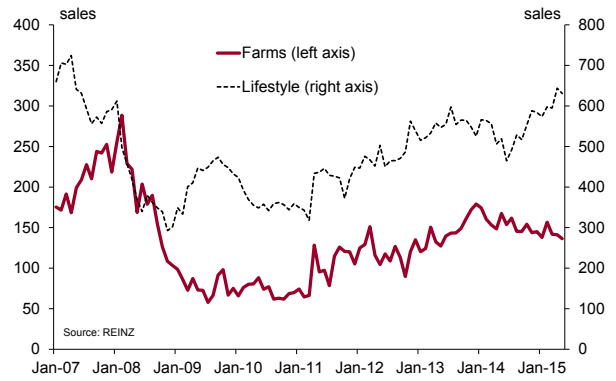
May passenger cars +0.8%  
 May commercial vehicles -6.4%

### Agricultural output



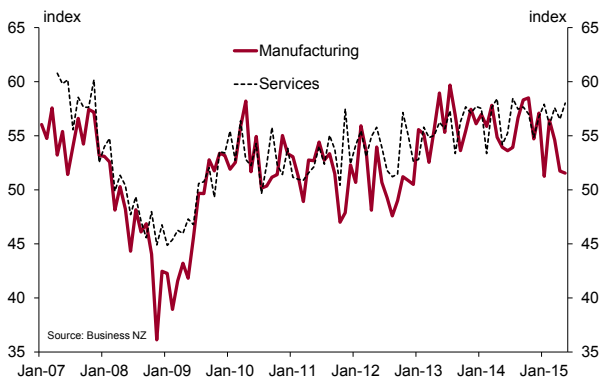
May milk production -0.9%  
 May slaughter weights +9.7%

### Rural land sales



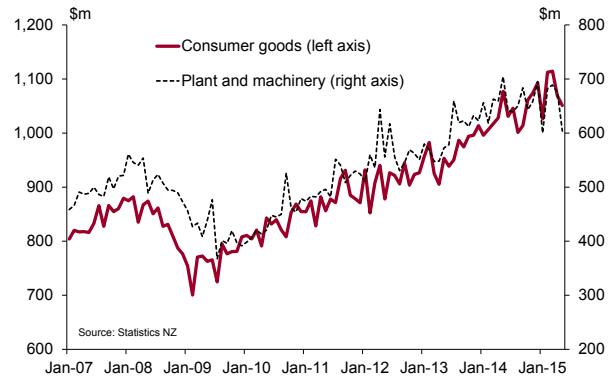
May farm sales -3.5%  
 May lifestyle property sales -2.0%

### PMI surveys



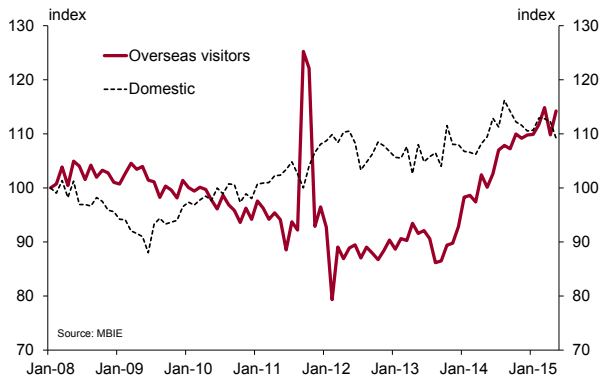
May manufacturing PMI 51.5  
 May services PMI 58.0

### Imports, priced in foreign currency



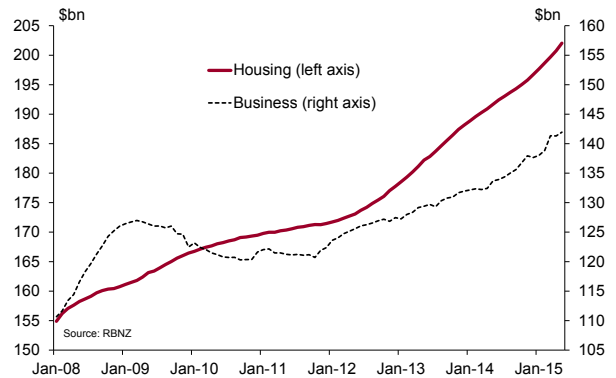
May consumer goods imports -1.7%  
 May plant and machinery imports -10.6%

### Tourism spending



May overseas visitor spending +4.0%  
 May domestic tourism spending -2.8%

### Credit aggregates



May housing credit +0.6%  
 May business credit +0.5%

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