

Local Knowledge

11 February 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.

The balance of activity indicators remained strong through November and December, suggesting that if anything the New Zealand economy was gaining further momentum into the year-end. The housing market in particular has exploded out of the blocks in the last few months. We suspect that the waning influence of LVR restrictions, lower fixed-term mortgage rates and a surge in population growth had created a high degree of pent-up demand, ready to be unleashed once the uncertainties around the September election were out of the way.

Our momentum indicator for the three months to December (see the chart below) is broadly consistent with our forecast of a 1% rise in December quarter GDP. At face value that's no different from the 1% rise recorded in the September quarter, but we'd argue that the underlying picture was stronger in the latest quarter. Growth in the September quarter was boosted by two factors that won't be repeated – a sharp rise in milk production and a burst of oil exploration. In contrast, the service sectors that make up 70% of the economy were relatively subdued in the September quarter and are due for a rebound.

The continued positive momentum in the New Zealand economy is worth emphasising in light of recent concerns that global growth is faltering again. It also provides a counter to market speculation that the RBNZ will be forced to join the pack and ease monetary policy like everyone else (a characterisation which conveniently ignores that the US economy has also been accelerating and is edging closer to interest rate hikes). It's horses for courses when it comes to each country's policy settings, and current conditions in New Zealand simply don't warrant an interest rate cut.

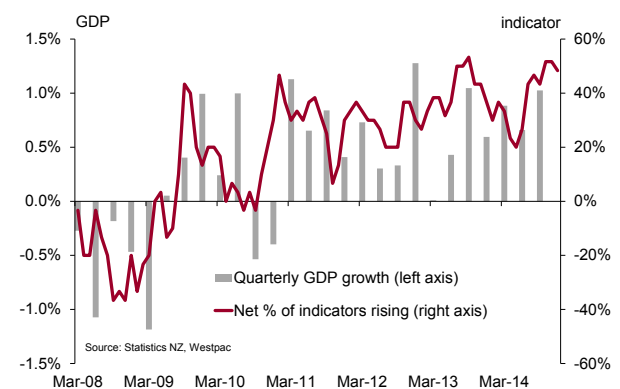
In our latest quarterly Economic Overview released this week, we highlighted two recent developments that could have a powerful impact on the economy over coming months: the

plunge in crude oil prices, and the growing risk of drought in many parts of the country. Our judgement is that the first, positive shock will be larger than the second, negative one (and is likely to have greater knock-on effects on spending and investment). Consequently, we've revised up our forecast of total growth over the next two years, but with the peak rate of growth coming a year later, as the drought temporarily depresses activity in 2015.

In terms of how these shocks will manifest in our monthly indicators, the effects of lower oil prices are likely to be subtle but widespread. Cheaper fuel lowers the cost of doing business for everyone, and leaves more money in consumers' pockets for other uses.

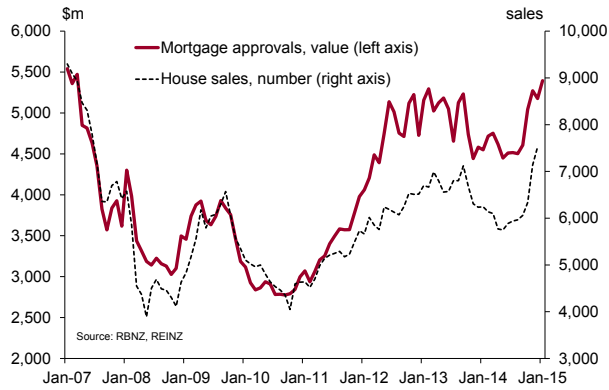
The drought will have a direct impact on two of our Local Knowledge indicators, with a sharp fall in milk production in coming months and lower total meat production this year (after an initial boost due to early culling). However, we don't expect the knock-on effects to be widespread across sectors. Hence our momentum indicator is likely to 'miss' the impact of the drought on total GDP over the first half of this year (a glance at the chart below demonstrates how much it missed the impact of drought in early 2013 as well). We're forecasting GDP growth to slow to 0.4% in each of the first two quarters of this year, offset by stronger growth in late 2015 and early 2016 as agricultural output returns to more normal levels.

Local Knowledge indicators and quarterly GDP



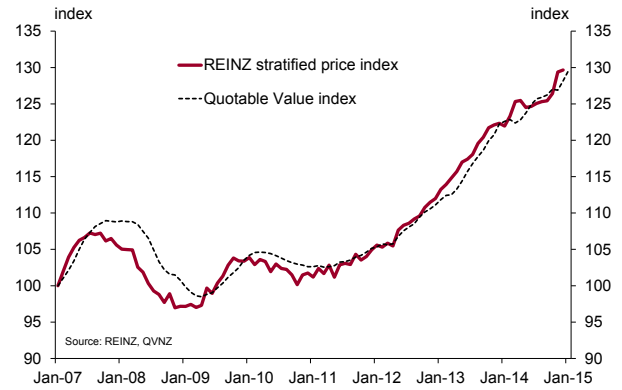
Michael Gordon
Senior Economist

Housing turnover



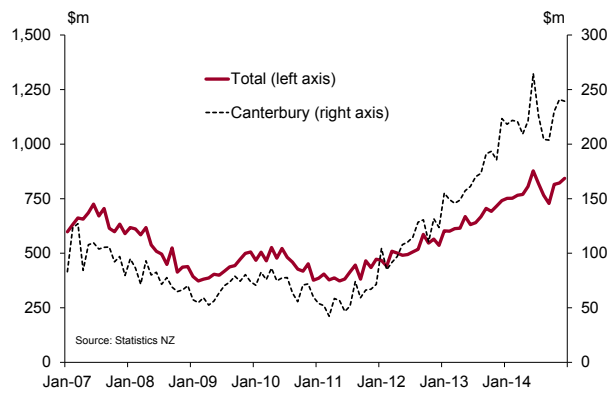
Jan mortgage approvals +4.2%
Dec house sales +5.5%

House prices



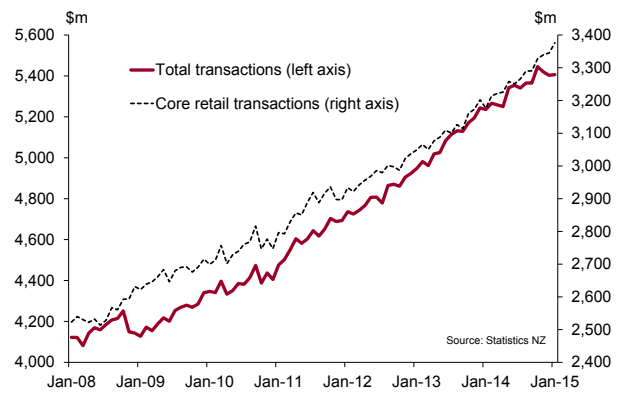
Dec REINZ price index +0.2%
Jan QV price index 1.1%

Residential building consents, by value



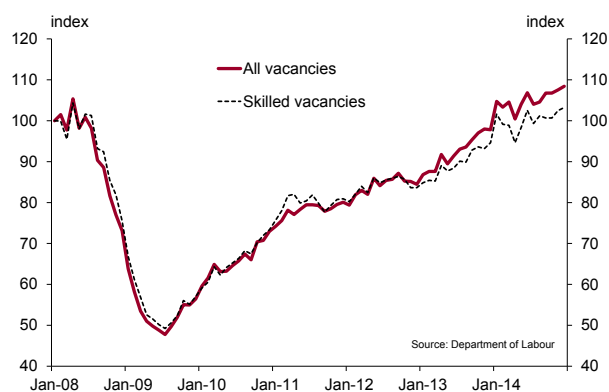
Dec building approvals +2.6%
Dec Canterbury -0.6%

Electronic card transactions



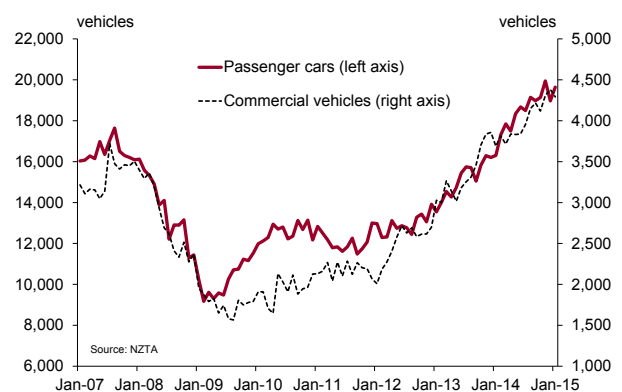
Jan total card transactions +0.1%
Jan core retail sectors +0.9%

Online job advertisements



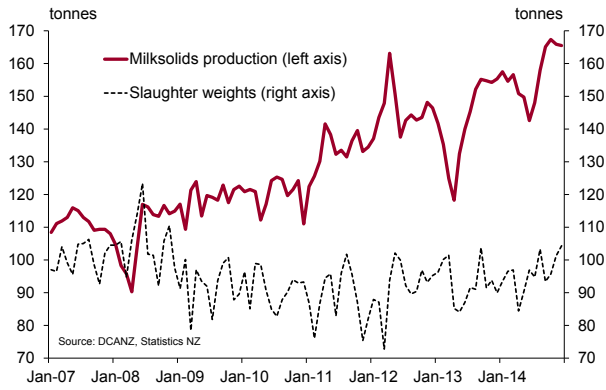
Dec online job advertisements +0.8%
Dec skilled vacancies +0.7%

Vehicle registrations



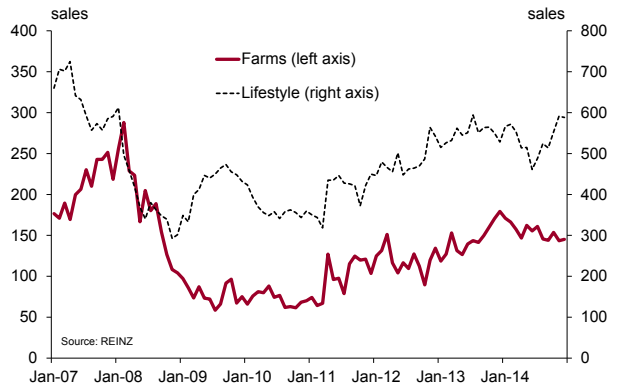
Jan passenger cars +3.5%
Jan commercial vehicles -2.1%

Agricultural output



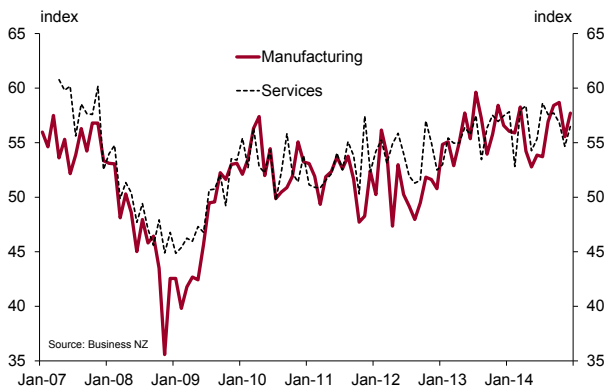
Dec milk production -0.2%
Dec slaughter weights +3.0%

Rural land sales



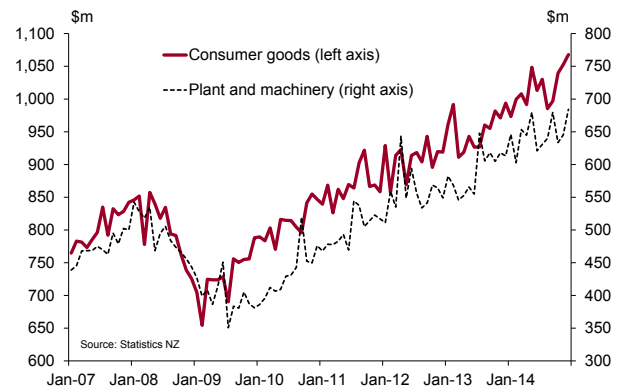
Dec farm sales +1.2%
Dec lifestyle property sales +0.5%

PMI surveys



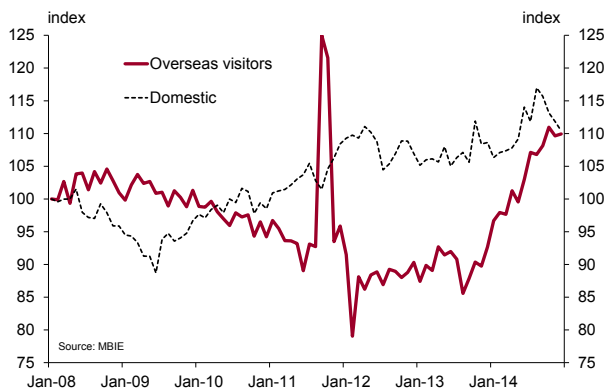
Dec manufacturing PMI 57.7
Dec services PMI 56.5

Imports, priced in foreign currency



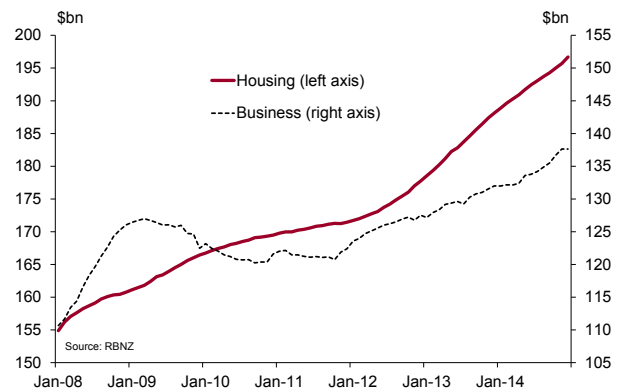
Dec consumer goods imports +1.4%
Dec plant and machinery imports +6.1%

Tourism spending



Dec overseas visitor spending +0.3%
Dec domestic tourism spending -1.3%

Credit aggregates



Dec housing credit +0.5%
Dec business credit 0.0%

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