

# Local Knowledge

2 April 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.

Overall, the indicators for February were substantially more positive than in January. Nevertheless, the soft start to the year means that GDP growth for the March quarter as a whole is likely to register a slowdown – an idea that's captured in our momentum indicator (below), which is calculated on a rolling three-month basis.

The dry weather over summer is the main reason we've been anticipating a temporary slowdown in the pace of GDP growth over the first half of this year. However, recent information suggests that the impact of the weather hasn't been as severe as it threatened to be late last year, when signs of an El Niño pattern were developing. We recently revised up our forecast of March quarter GDP growth from 0.4% to 0.6%.

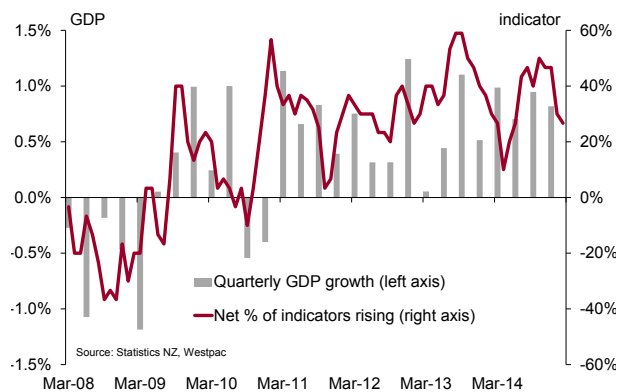
The Local Knowledge indicators shed some further light on the likely profile for GDP growth. While milk production has slowed sharply in the last few months, recent rainfall makes it likely that February will mark the low point for the year (in seasonally adjusted terms). If that proves to be the case, the impact of this year's dry spell on the dairying industry will have been smaller than in the previous drought in 2013.

Meat processing is another area that can have a significant on the growth profile during droughts: an earlier slaughter tends to boost GDP in the March quarter (partly offsetting the fall in milk production), but then acts as a drag on growth in the June quarter. However, the seasonally adjusted slaughter figures are actually running closer to flat for the March quarter – the reason being that cattle slaughtering was already unusually high at the end of 2014, in order to take advantage of very high beef prices in the US.

Elsewhere, the indicators of household activity have generally been solid, with an uptick in house sales, continued gains in house prices, and a strong lift in spending in the core retail sectors – partly due to lower fuel prices leaving more money in consumers' pockets. Spending by tourists will have provided a further boost: February included the first half of the Cricket World Cup.

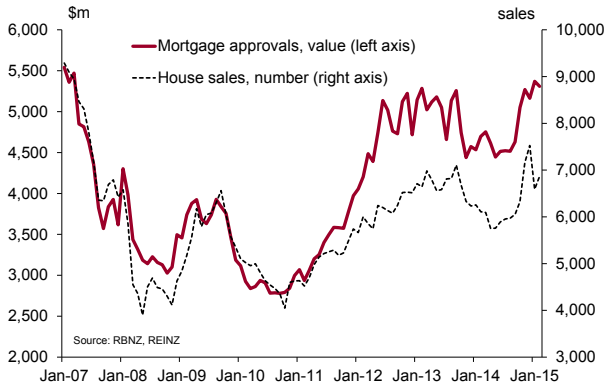
The February data provided further evidence that the building industry has reached an inflection point. While the value of residential building consents ticked up in February (we use a broad measure that includes alterations as well as new dwellings), the overall trend appears to have stalled in the last six months. Much of that is due to a drop-off in consents in Canterbury, which fits with our long-held views on the profile of the quake rebuild: we've been expecting the level of residential building work to peak over the second half of this year and steadily decline over the next few years, with commercial construction now taking over as the source of growth.

## Local Knowledge indicators and quarterly GDP



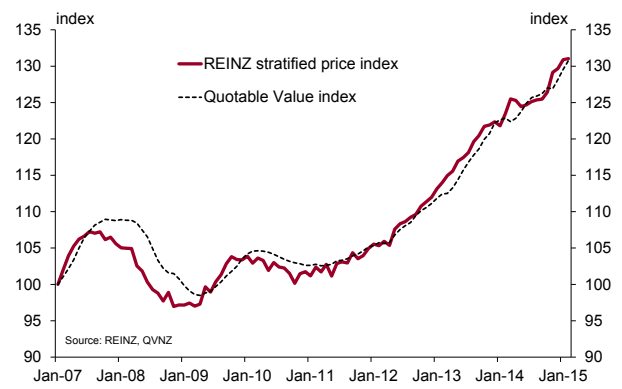
**Michael Gordon**  
Senior Economist

### Housing turnover



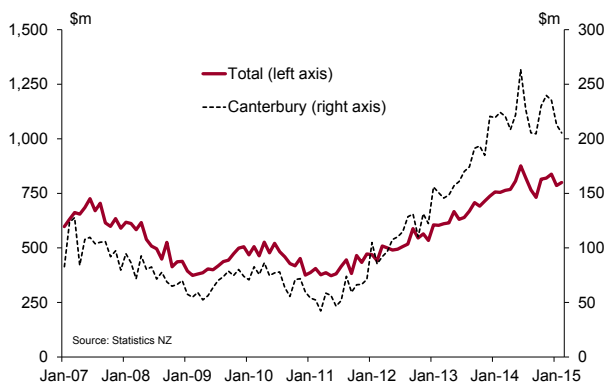
Feb mortgage approvals -1.2%  
Feb house sales +4.1%

### House prices



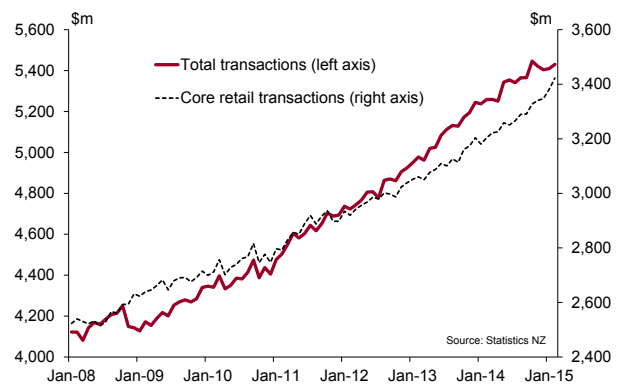
Feb REINZ price index +0.1%  
Feb QV price index +0.9%

### Residential building consents, by value



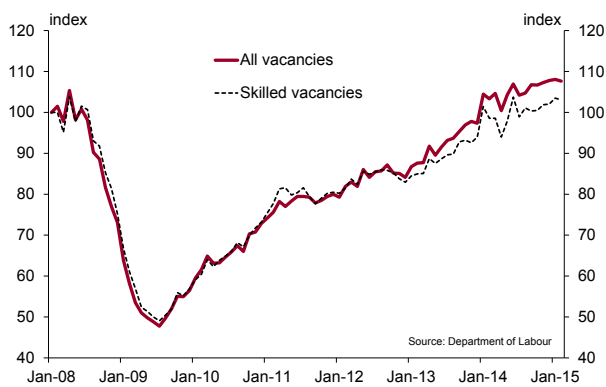
Feb building approvals +1.9%  
Feb Canterbury -3.5%

### Electronic card transactions



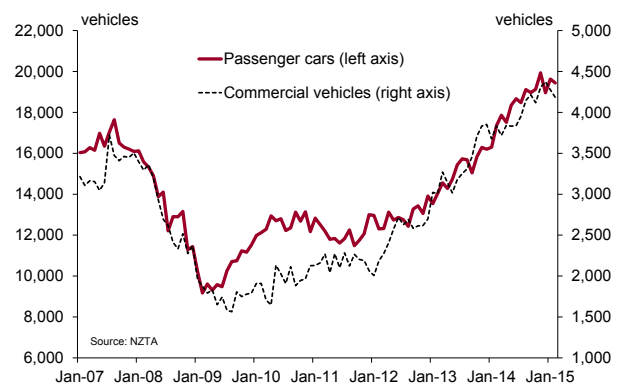
Feb total card transactions +0.4%  
Feb core retail sectors +1.2%

### Online job advertisements



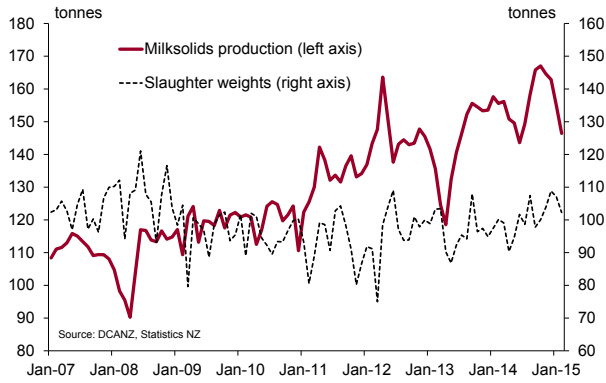
Feb online job advertisements -0.4%  
Feb skilled vacancies -0.4%

### Vehicle registrations



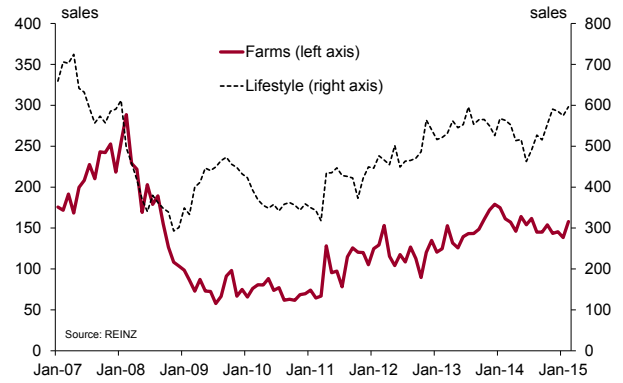
Feb passenger cars -0.9%  
Feb commercial vehicles -2.2%

### Agricultural output



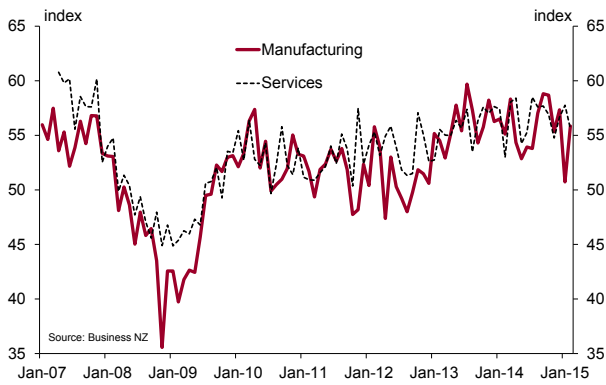
Feb milk production -5.5%  
 Feb slaughter weights -4.4%

### Rural land sales



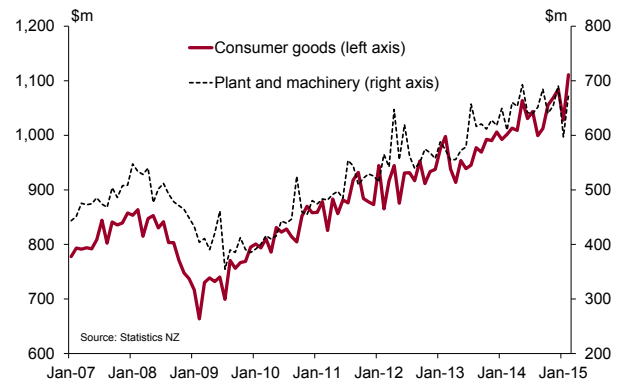
Feb farm sales +14.2%  
 Feb lifestyle property sales +3.8%

### PMI surveys



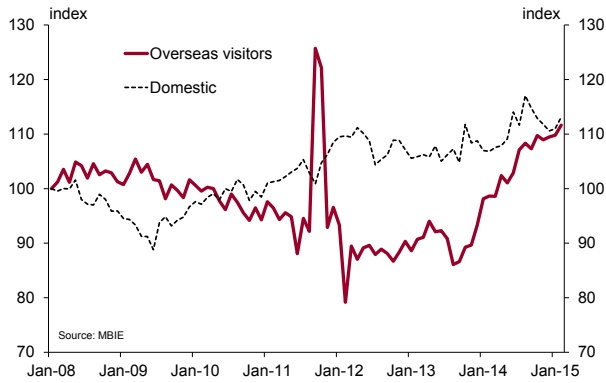
Feb manufacturing PMI 55.9  
 Feb services PMI 55.6

### Imports, priced in foreign currency



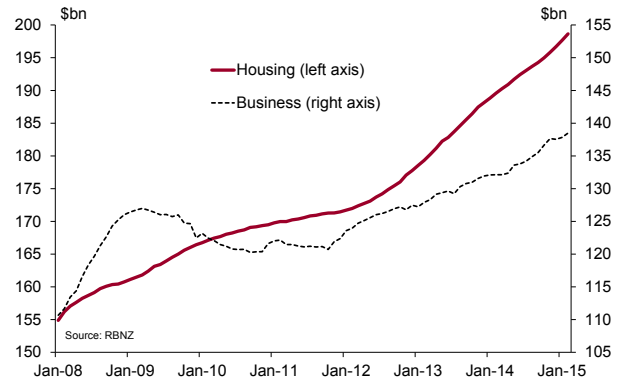
Feb consumer goods imports +8.1%  
 Feb plant and machinery imports +13.0%

### Tourism spending



Feb overseas visitor spending +1.7%  
 Feb domestic tourism spending +1.9%

### Credit aggregates



Feb housing credit +0.5%  
 Feb business credit +0.5%

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