

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 domestic economy appears to have shaken off its slightly wobbly start to 2015, with 16 of our 20 main indicators registering growth in March – a share that has rarely been exceeded in any month. The soft start to the year, however, means that GDP growth for the March quarter as a whole is likely to fall a little short of the 0.8% rise recorded in the December quarter last year.

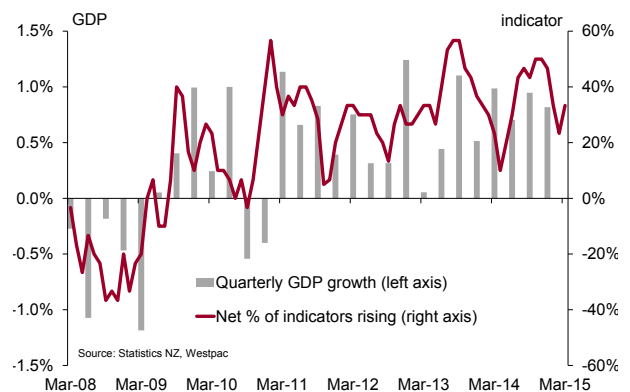
The household sector has been in particularly fine form in recent months. Core retail spending (excluding fuel) has accelerated since the start of the year, suggesting that lower fuel prices have given people leeway to spend more on other items. Imports of consumer goods have risen sharply, and domestic tourism has seen an uptick in the last couple of months, to go with the ongoing strength in overseas tourist spending. The housing market has probably also been a factor behind the consumer buoyancy; while it's well recognised that prices in Auckland have been running rampant, there's been a modest acceleration in prices in the rest of the country as well.

The building consents data for March provided more evidence that the building industry has reached an inflection point. The value of consents in the Canterbury region appears to have passed its peak, consistent with our view that quake-related housing construction would peak around the middle of this year, with commercial construction taking over as the driver of growth. Outside of Canterbury, the jump in consents in March, particularly in Auckland, provides some reassurance that the upward trend remains intact. There is some evidence that the building industry is hitting capacity constraints, which suggests that the quake rebuild work to date may have been 'crowding out' a much-needed lift in building activity in Auckland.

The agricultural sector had mixed results in March. Milk collection began to recover, while the early slaughter of some herds in January and February meant that meat production was distinctly sub-par in March. The economic impact of this year's dry summer has proven to be quite mild overall, although the effects have varied greatly by region: milk production in the North Island has powered ahead of last season's pace, more than offsetting the shortfall in the drought-stricken South Island.

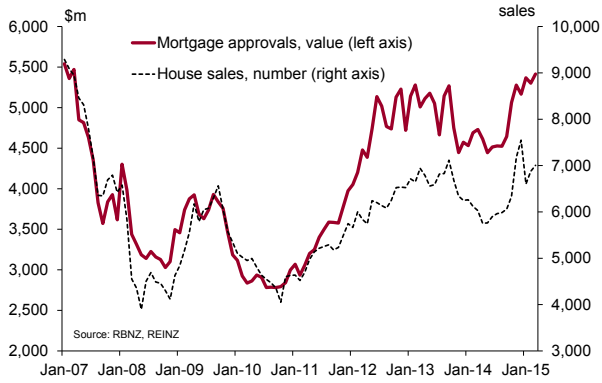
As we've noted before, the focus of the Local Knowledge indicators is on real activity rather than prices (we do include house prices, but we view this as a strong proxy for household wealth and hence spending). Consequently, they don't give us much of a sense about one of the most significant challenges for the New Zealand economy today: the steep fall in dairy export prices. Intuitively, the drop in dairying income will have an impact on consumption and business investment; in practice it's hard to identify an historic relationship, as it tends to get swamped by other factors and the usual noise in the data. For our upcoming quarterly *Economic Overview*, to be published next week, we've made some allowance in our GDP growth forecasts for the drop in dairy incomes, but we see this effect being outweighed by a stronger track for house prices.

Local Knowledge indicators and quarterly GDP



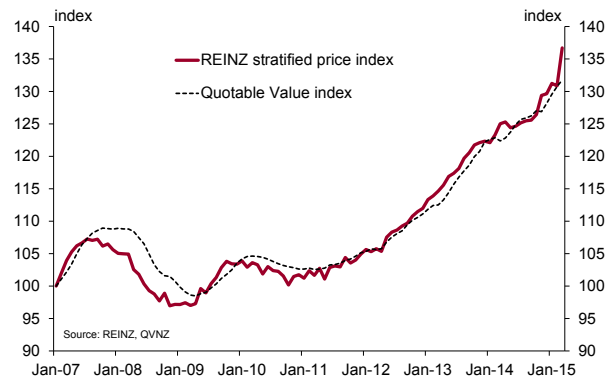
Michael Gordon
Senior Economist

Housing turnover



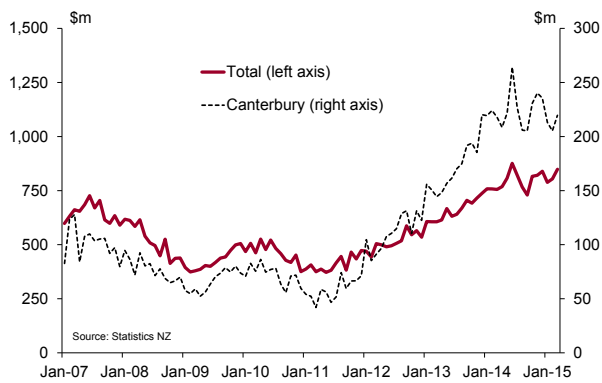
Mar mortgage approvals +2.2%
 Mar house sales +1.9%

House prices



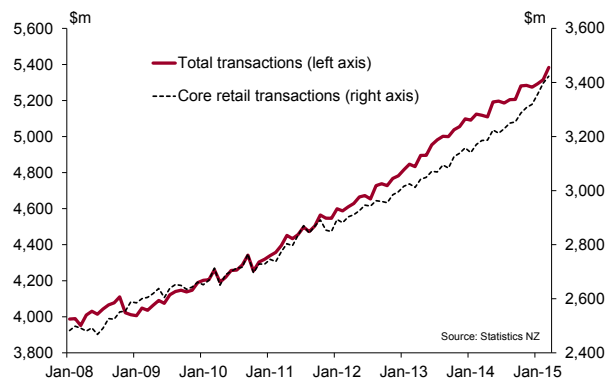
Mar REINZ price index +4.5%
 Mar QV price index +0.8%

Residential building consents, by value



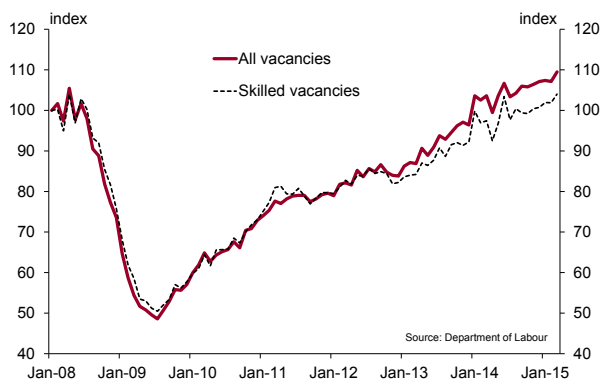
Mar building approvals +5.5%
 Mar Canterbury +7.0%

Electronic card transactions



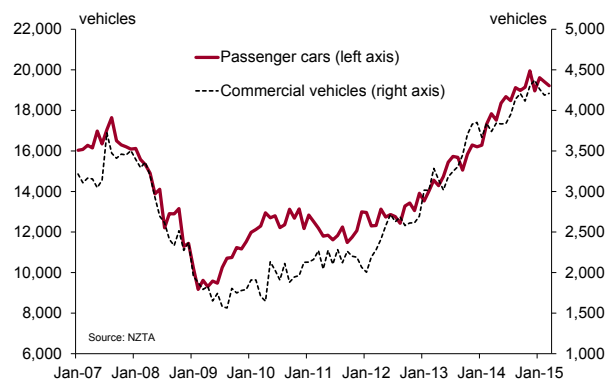
Mar total card transactions +1.3%
 Mar core retail sectors +0.8%

Online job advertisements



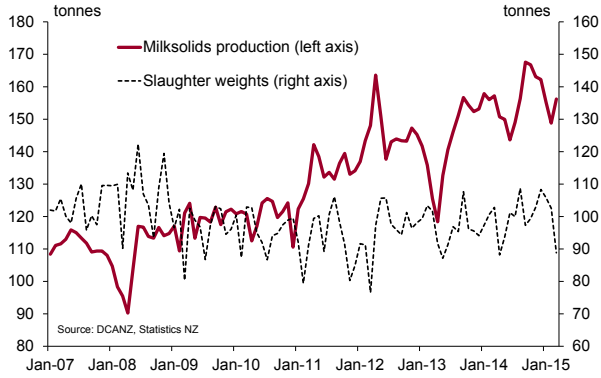
Mar online job advertisements +2.2%
 Mar skilled vacancies +2.1%

Vehicle registrations



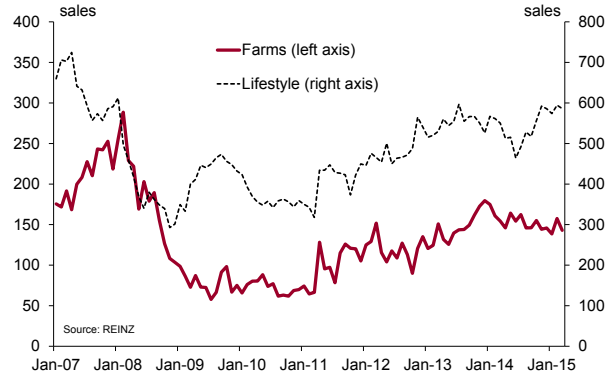
Mar passenger cars -1.0%
 Mar commercial vehicles +0.5%

Agricultural output



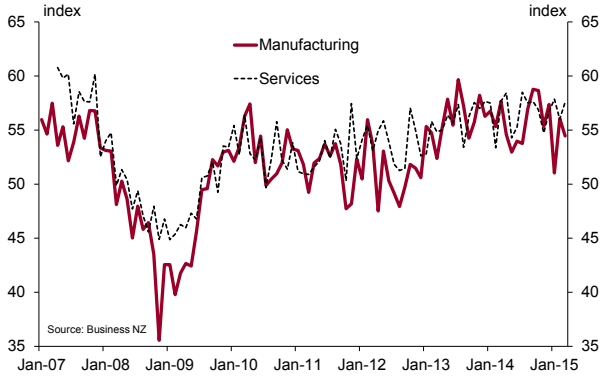
Mar milk production +5.0%
 Mar slaughter weights -13.4%

Rural land sales



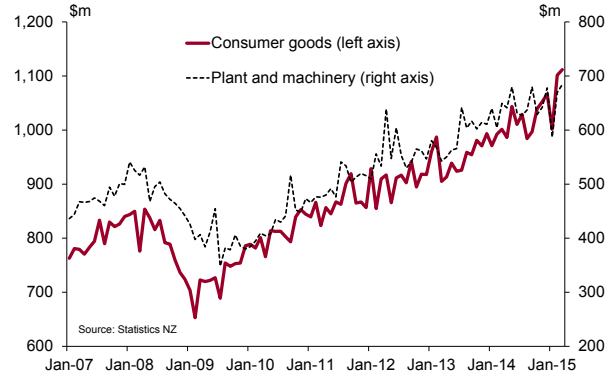
Mar farm sales -9.3%
 Mar lifestyle property sales -1.4%

PMI surveys



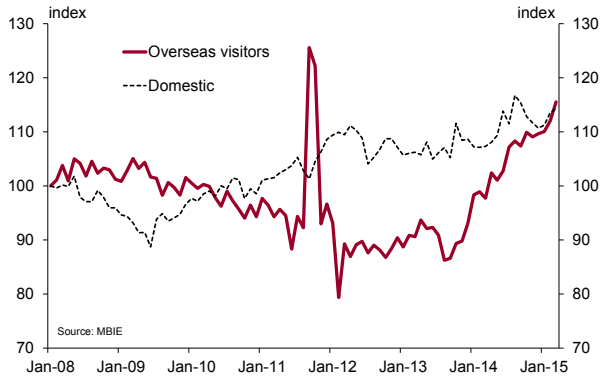
Mar manufacturing PMI 54.5
 Mar services PMI 57.6

Imports, priced in foreign currency



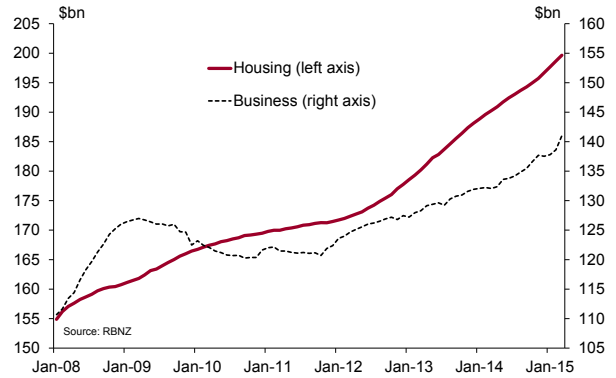
Mar consumer goods imports +0.9%
 Mar plant and machinery imports +2.2%

Tourism spending



Mar overseas visitor spending +3.2%
 Mar domestic tourism spending +0.9%

Credit aggregates



Mar housing credit +0.5%
 Mar business credit +1.7%

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Satish Ranchhod, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

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