

Local Knowledge

6 October 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.

After a soft run over the first half of this year, the activity data for the September quarter has shown a renewed lease of life. Of our 20 main indicators, 19 of them recorded growth in August, and the only one that fell – building consents – was coming off a big gain in July. That's the highest proportion in the history of our dataset, which goes back to 2008.

You could argue that this isn't a very representative period for the economy, given that it only encompasses the Global Financial Crisis and an abnormally slow recovery. So for this issue of Local Knowledge we've conducted a little exercise: by eliminating five of the series with shorter histories, we can take our rolling three-month momentum indicator back to 2004 (see the chart to the right). Even on this basis, the latest result is one of the strongest on record, matched only by late 2014.

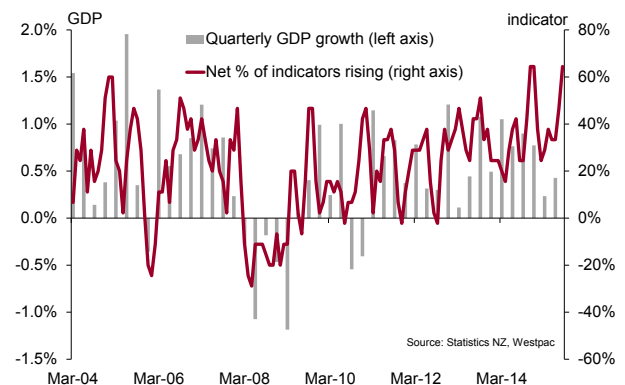
This result isn't entirely inconsistent with the recent gloom on the outlook for the New Zealand economy. For instance, today's *Quarterly Survey of Business Opinion* showed that while firms have become more concerned about general conditions, they were actually more positive about their own situation compared to three months ago. The prospect of a second tough season for dairy farmers is certainly cause for concern – albeit less so now than a couple of months ago – but we'd expect it to act as a persistent drag on economic activity, rather than as a sudden shock.

Overall, it's fair to say that the risks to our forecast of a 0.5% rise in September quarter GDP are to the upside. A strong outturn for the September quarter would help to make up for the disappointing growth results over the first half of this year. But it wouldn't alter our view that the economy is set to grow at a below-potential pace over the next year or two.

Indeed, there are a couple of areas where we would expect to see a downturn in our indicators over the coming months. Firstly, the housing market has been running strong ahead of the introduction of restrictions on property investment. The impact of new tax rules (from October) is difficult to predict. But the impact of tighter loan-to-value limits in Auckland (from November) is likely to lead to a temporary slowdown in housing turnover and house price inflation, judging by past experience in New Zealand and elsewhere.

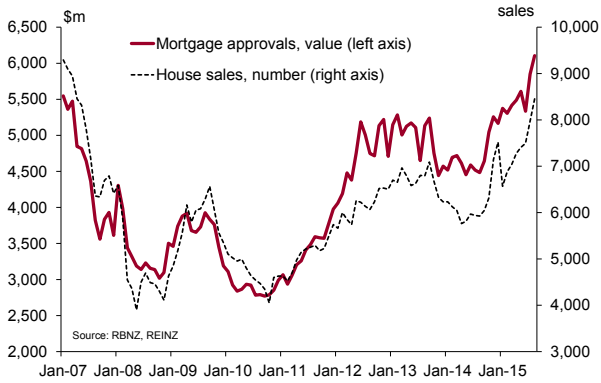
Secondly, weakness in agricultural output is likely to become more apparent as the dairying season gets into full swing. In August we saw the first real surge in cow slaughter numbers, which followed Fonterra's forecast of a very low milk price of \$3.85/kg for this season. We're not convinced that culling will continue at this pace now that the outlook for the milk price is improving. But the culling to date sets the stage for both lower milk and meat production over the remainder of the season – even before we consider the risk of a drought this summer as El Niño settles in.

Local Knowledge indicators and quarterly GDP



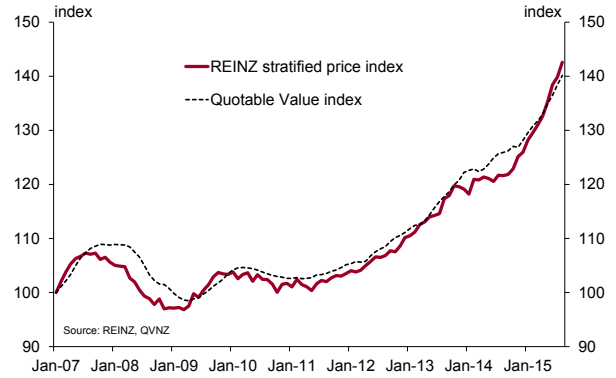
Michael Gordon
Senior Economist

Housing turnover



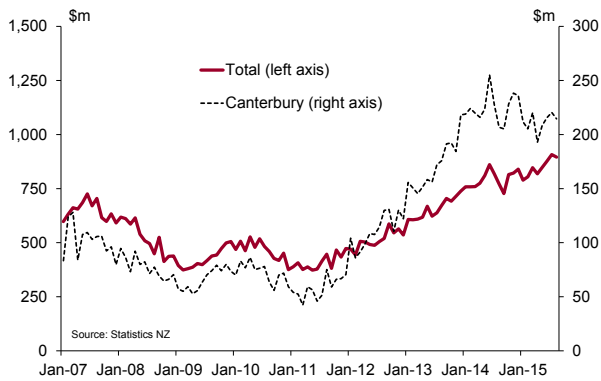
Aug mortgage approvals +4.4%
 Aug house sales +6.2%

House prices



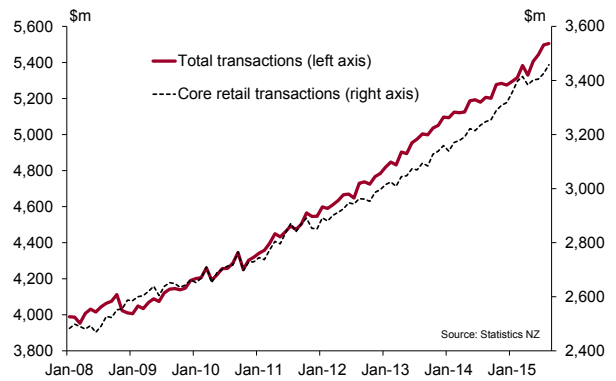
Aug REINZ price index +1.9%
 Aug QV price index +1.2%

Residential building consents, by value



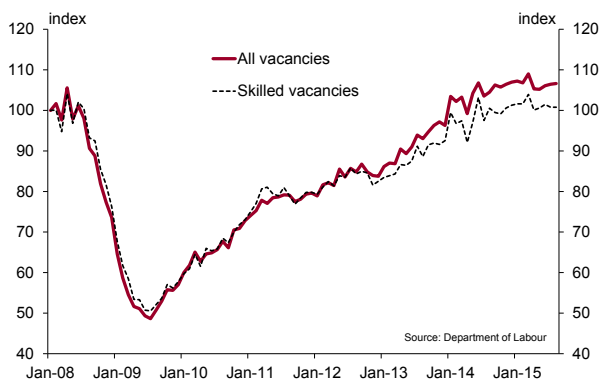
Aug building approvals -1.3%
 Aug Canterbury -2.6%

Electronic card transactions



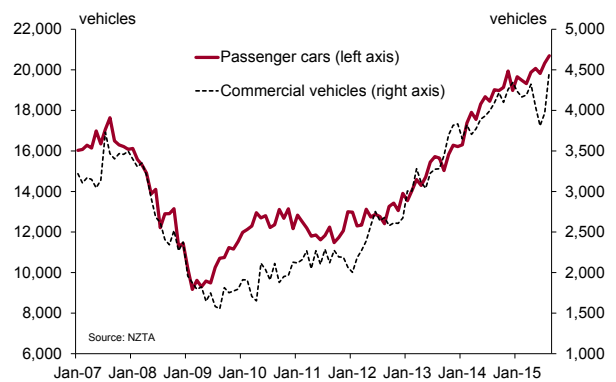
Aug total card transactions +0.1%
 Aug core retail sectors +0.9%

Online job advertisements



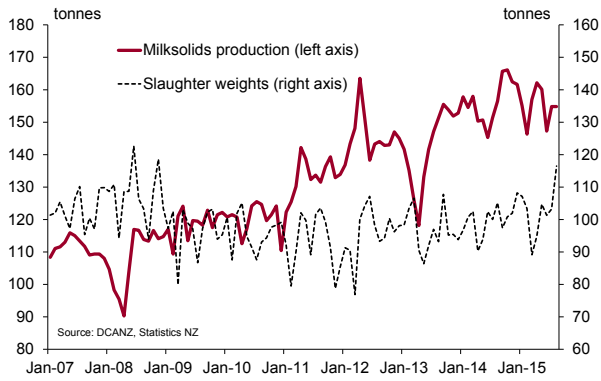
Aug online job advertisements +0.2%
 Aug skilled vacancies 0.0%

Vehicle registrations



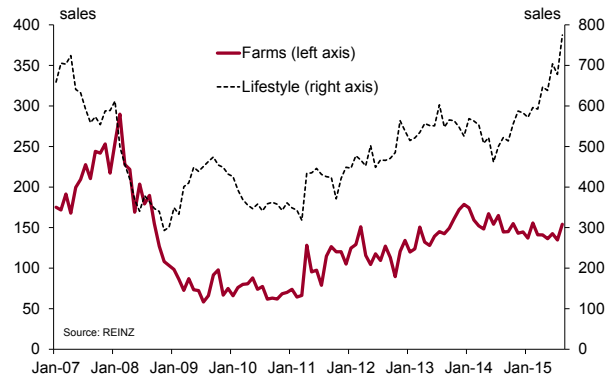
Aug passenger cars +1.8%
 Aug commercial vehicles +12.9%

Agricultural output



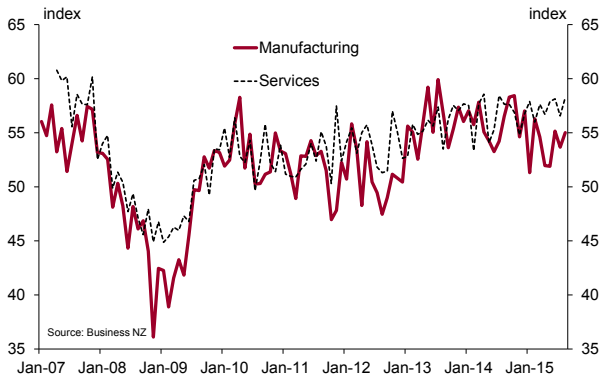
Aug milk production +0.1%
 Aug slaughter weights +12.9%

Rural land sales



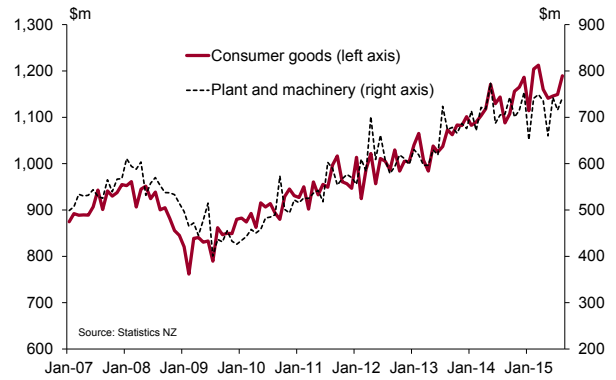
Aug farm sales +14.4%
 Aug lifestyle property sales +14.3%

PMI surveys



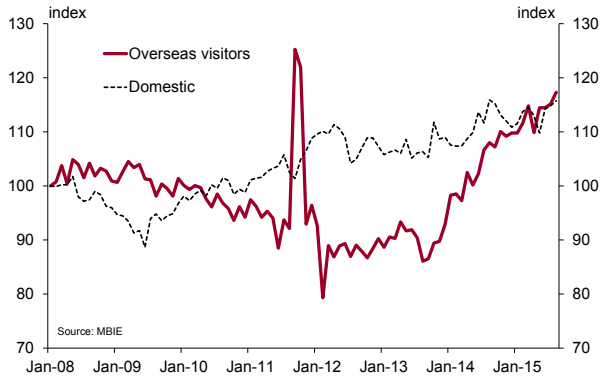
Aug manufacturing PMI 55.0
 Aug services PMI 58.2

Imports, priced in foreign currency



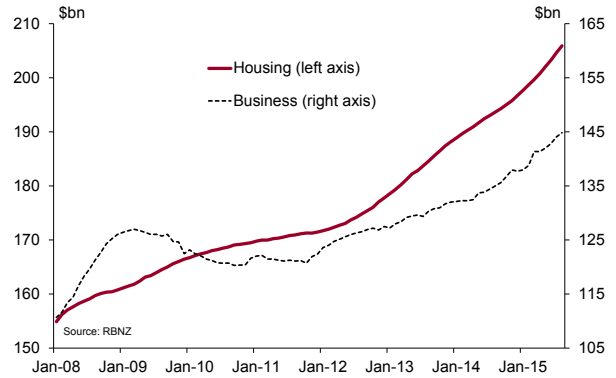
Aug consumer goods imports +3.5%
 Aug plant and machinery imports +3.7%

Tourism spending



Aug overseas visitor spending +1.9%
 Aug domestic tourism spending +0.8%

Credit aggregates



Aug housing credit +0.6%
 Aug business credit +0.5%

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