

Local Knowledge

7 December 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 indicators were a mixed bag over October, though positive on balance. The burst of strength in activity over July and August has since receded, and the latest picture is more one of modest expansion, consistent with our forecast of 0.6-0.7% GDP growth over the last two quarters of this year.

To date, the economy appears to have weathered the dairying downturn reasonably well – no doubt helped by the fact that the milk price outlook is less dire now than it was a few months ago. But our view has always been that the low dairy payout would create an ongoing drag on spending in the rural regions, rather than a sudden downturn. A slowing housing market and the likelihood of El Niño bringing drought to some parts of the country this summer also argue against the economy gathering a fresh head of steam over coming months.

As we anticipated last month, the housing market indicators softened significantly in October, as new tax rules and foreign buyer requirements for property investors came into force. House sales fell by 7% in seasonally adjusted terms, unwinding some of the surge in sales ahead of the new restrictions. More surprisingly, the REINZ's stratified house price index fell by 4%, the biggest one-month fall on record. We would have expected a more delayed reaction in prices, and indeed the QV measure of house prices, which better accounts for the composition of sales, is more suggestive of a reduced rate of increase in October.

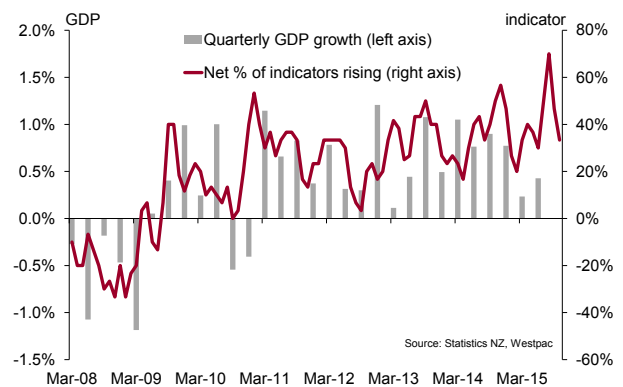
In keeping with the slower housing market, consumer spending had a more subdued month. Electronic card

spending in the core retail sectors rose by just 0.2%, and car registrations also rose slightly. Domestic tourist spending fell for a second month, leaning against the ongoing surge in overseas visitor spending.

Housing construction continued its upward trend, with a 2.5% gain in October (this figure includes additions and alterations). Auckland has maintained its much-needed upswing in construction, while in contrast earthquake-related homebuilding in Canterbury is clearly past its peak.

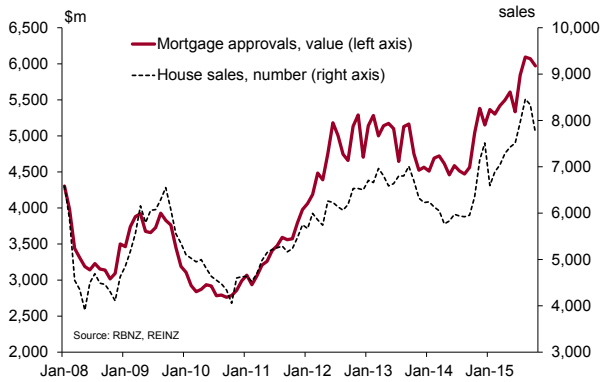
In the agricultural sector, milk production picked up a little after a slow start to spring, and the rate of cow culling slowed although it remains at unusually high levels. Full-season milk production is on track to be well below last year's levels. However, bear in mind that New Zealand's milk production reaches its seasonal peak in October, which implies we may have already passed the peak shortfall in milk flows as well. To date, production growth in Europe has been more than enough to make up for the shortfall from New Zealand.

Local Knowledge indicators and quarterly GDP



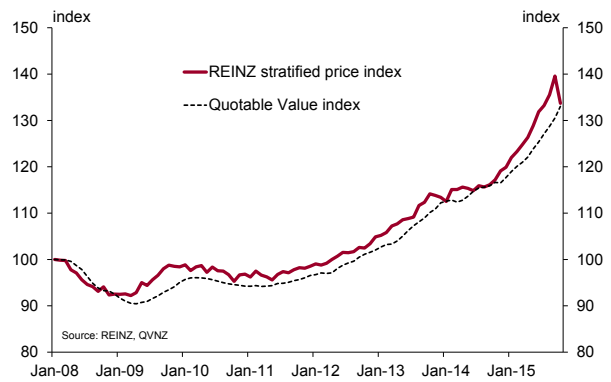
Michael Gordon
Senior Economist

Housing turnover



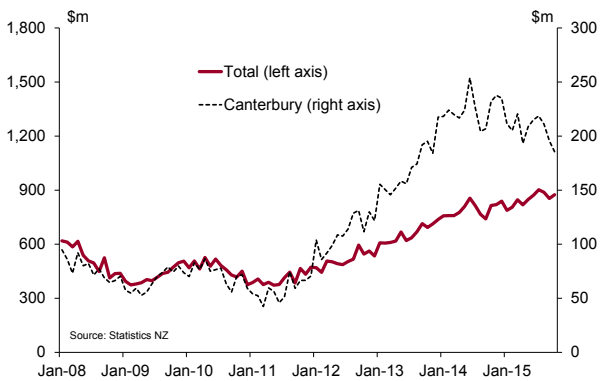
Oct mortgage approvals -1.7%
 Oct house sales -7.2%

House prices



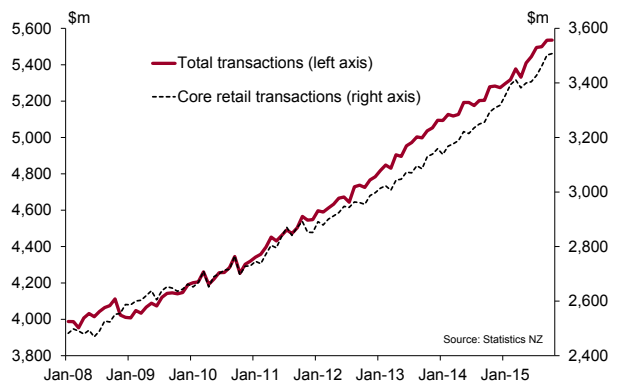
Oct REINZ price index -4.2%
 Oct QV price index +1.9%

Residential building consents, by value



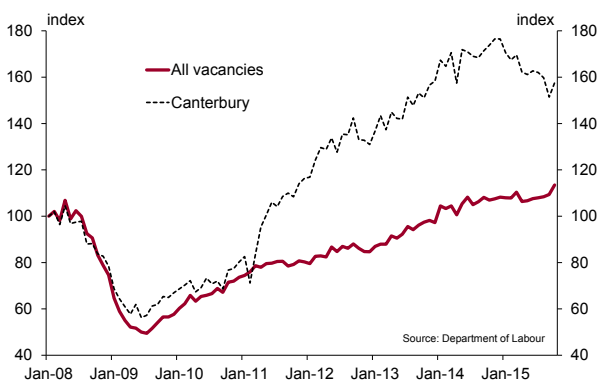
Oct building approvals +2.5%
 Oct Canterbury -5.2%

Electronic card transactions



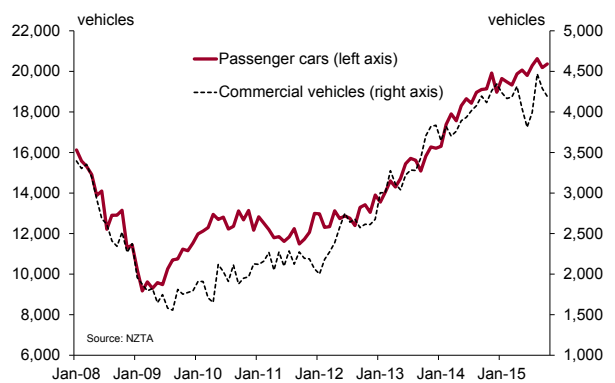
Oct total card transactions 0.0%
 Oct core retail sectors +0.2%

Online job advertisements



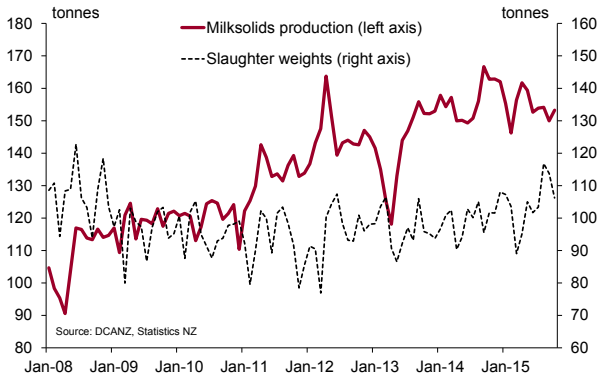
Oct online job advertisements +3.8%
 Oct Canterbury +4.0%

Vehicle registrations



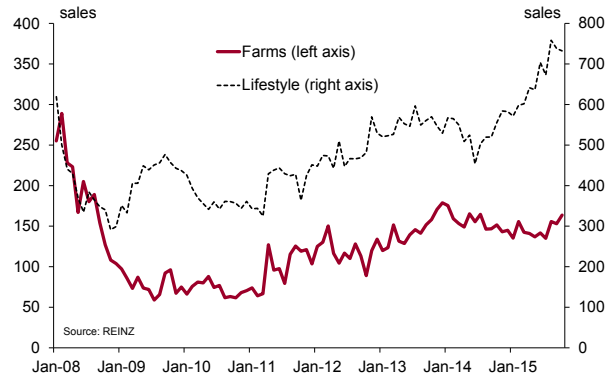
Oct passenger cars +0.9%
 Oct commercial vehicles -2.3%

Agricultural output



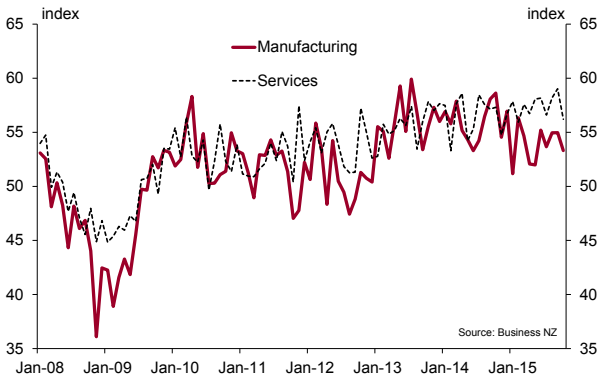
Oct milk production +2.2%
 Oct slaughter weights -6.6%

Rural land sales



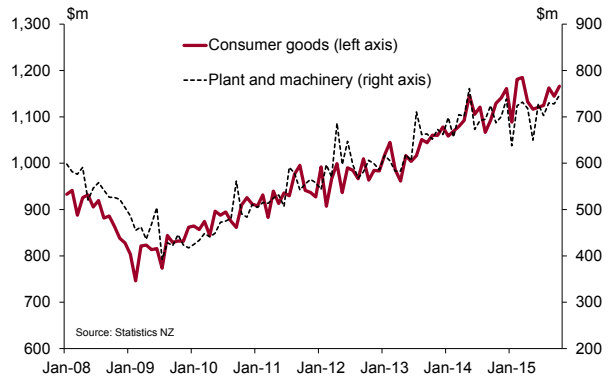
Oct farm sales +7.1%
 Oct lifestyle property sales -0.8%

PMI surveys



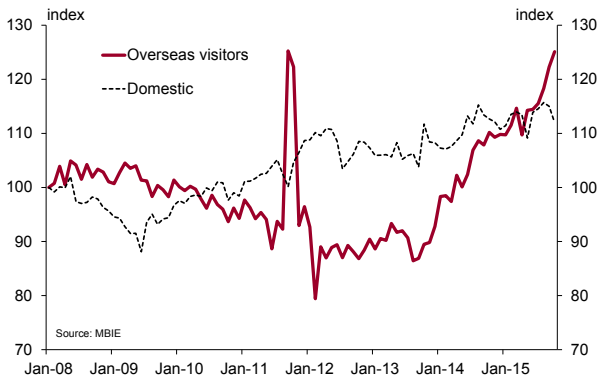
Oct manufacturing PMI 53.3
 Oct services PMI 56.2

Imports, priced in foreign currency



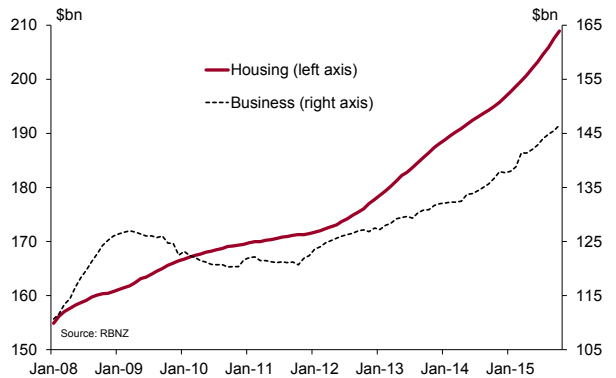
Oct consumer goods imports +1.9%
 Oct plant and machinery imports +2.6%

Tourism spending



Oct overseas visitor spending +2.3%
 Oct domestic tourism spending -2.6%

Credit aggregates



Oct housing credit +0.7%
 Oct business credit +0.7%

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