

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.

Activity indicators were mixed in June, with slightly more rises than falls. This is a similar picture to what we saw in May. And while not inspiring results in isolation, they come on the back of a strong result in April and combined suggest that GDP growth picked up in Q2 from 0.7% in Q1. This lines up with an improvement in firms' confidence over the quarter, although may not have translated into stronger employment growth, which is shaping up as an area of softness for the quarter. We will get a more complete picture of the labour market when additional data is released next week.

Two months of so-so readings across our indicators suggest that we need an improvement in July and August to put growth in Q3 on good footing. But looking in the rear-view mirror for now highlights a solid starting point for growth, with construction and housing firmly in the driver's seat.

New Zealand's construction sector is on a roll, as momentum outside of Canterbury continues to build. The value of residential consents nationwide rose 15% over May and June after a lull earlier in the year. A bounce in Auckland consents was a welcome change, with further growth in building needed to work off the current housing shortfall and meet future population growth. Developers in Auckland may be holding back until the city's Unitary Plan is signed off, which will allow for increasing housing intensification. The proposed plan has now been delivered and Auckland Council will decide later this month whether to adopt it in whole or part.

Other building hotspots include Hamilton and Tauranga, while residential consents in Canterbury have been declining as the residential rebuild has now passed its peak. Non-residential consents aren't in our suite of indicators, but are worth a mention with growth running at a strong pace. While this adds to the fortunes for the construction sector, it also adds to the challenge of meeting increases in demand going forward. Indeed, in the latest QSBO survey, builders reported that difficulty of finding skilled workers was at its highest in 20 years.

New Zealand's red hot housing market also showed through in our indicators in June. House prices are continuing to rise at an eye-watering pace, translating into strong growth in mortgage approvals and credit. This dynamic has seen the

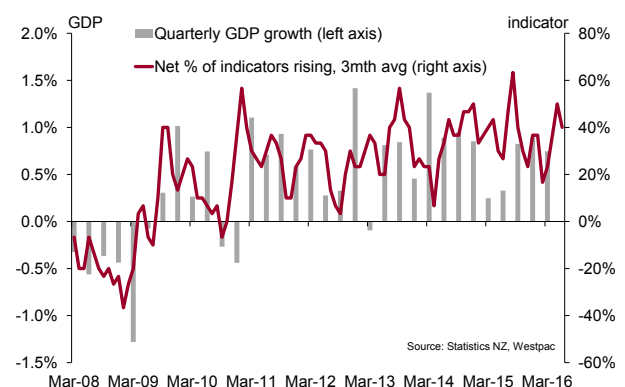
RBNZ become increasingly concerned about financial stability, with new lending restrictions announced last month in an effort to take the edge off. House sales had already taken a breather over the past couple of months, and the new lending restrictions will likely put a dent in sales going forward.

The boost to household wealth from rising house prices would typically translate into strong growth in household spending. And while our indicators, such as electronic card transactions and consumer imports, point to solid growth in aggregate household spending, spending remains weak on a per-capita basis – pointing to a smaller-than-usual translation from rising house prices. Instead, it is strong population growth, courtesy of high net migration inflows, that is underpinning aggregate household spending, and helping to sustain the overall pace of GDP growth.

The slow pace of per-capita growth reflects a number of headwinds buffeting the NZ economy, especially for externally-focused firms. Ongoing pressure on dairy sector incomes on the back of low global prices has translated to cutbacks in on-farm spending and investment. The number of farms sales dropped in the month, although these can be volatile, and dairy farm prices are under pressure, down 18% from a year ago. There was a small consolation on the volume side of the ledger, with dairy and meat volumes seasonally strong in Q2, which will help boost GDP growth.

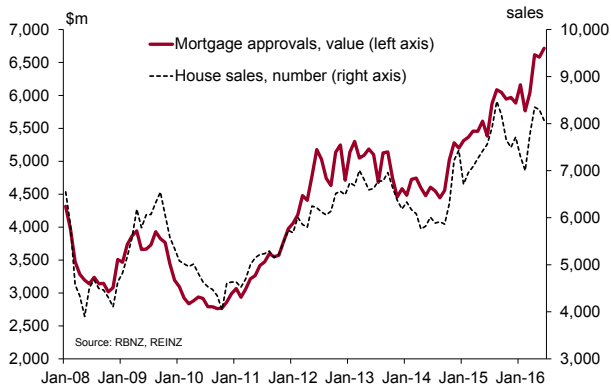
The NZ dollar found a lease of life in June, and has since surged higher. While the appreciation in June will have been too early to have a material impact on our indicators, we did see a resurgence in consumer and capital imports in the month. The PMI suggests that manufacturing firms were relatively upbeat in June, although the recent strength in the NZD could weigh on import-competing and export manufacturers in coming months.

Local Knowledge indicators and quarterly GDP



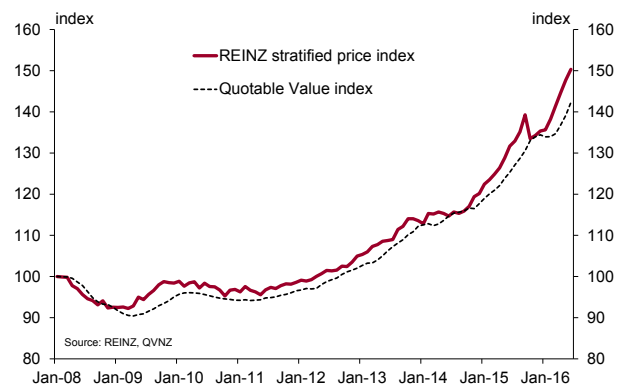
Sarah Drought, Economist

Housing turnover



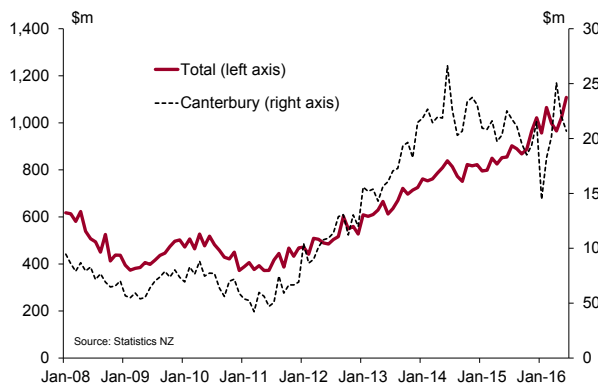
June mortgage approvals +2%
June house sales -2.7%

House prices



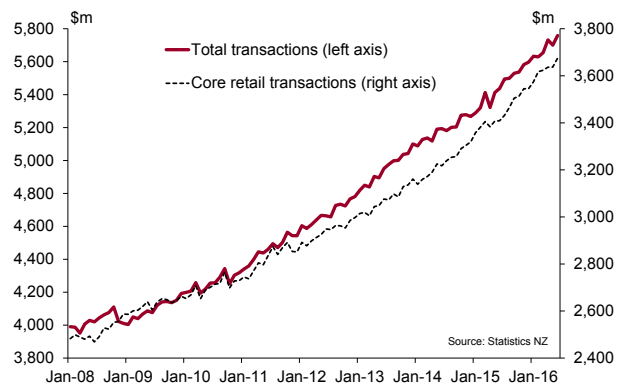
June REINZ price index +1.8%
June QV price index +1.7%

Residential building consents, by value



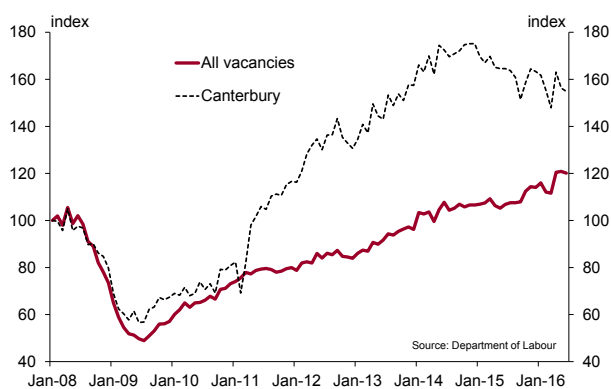
June building approvals +8.5%
June Canterbury -6.1%

Electronic card transactions



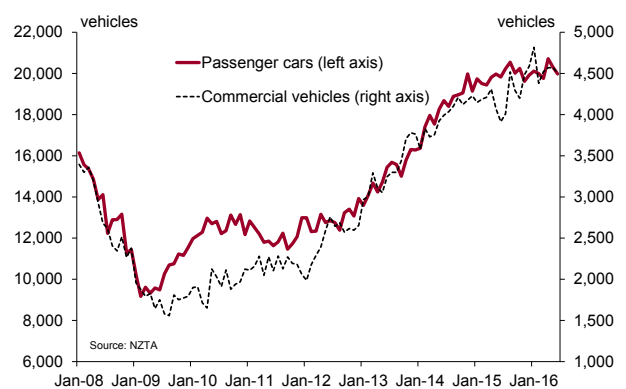
June total card transactions +1%
June core retail sectors +1%

Online job advertisements



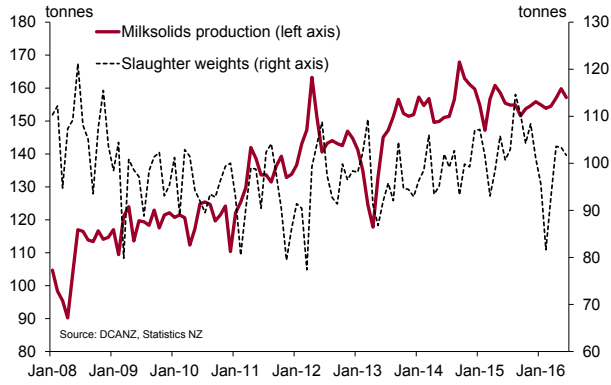
June online job advertisements -0.6%
June Canterbury -0.9%

Vehicle registrations



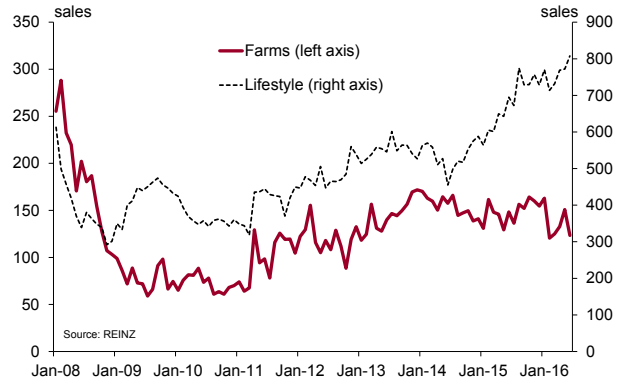
June passenger cars -1.6%
June commercial vehicles -1.4%

Agricultural output



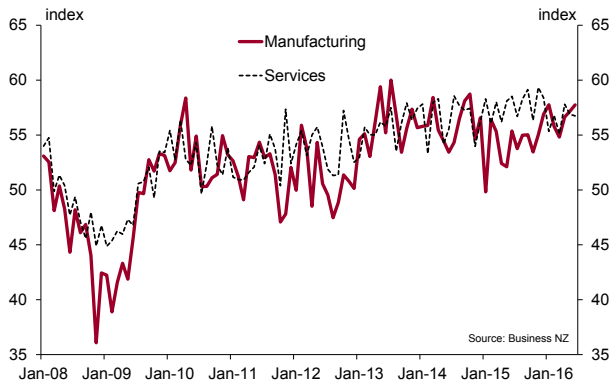
June milk production -1.7%
 June slaughter weights -1.6%

Rural land sales



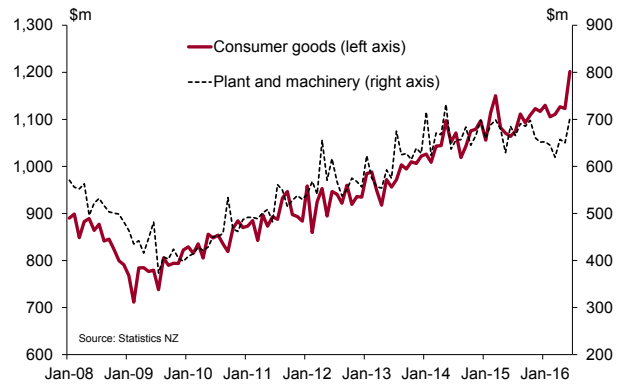
June farm sales -18.2%
 June lifestyle property sales +4.7%

PMI surveys



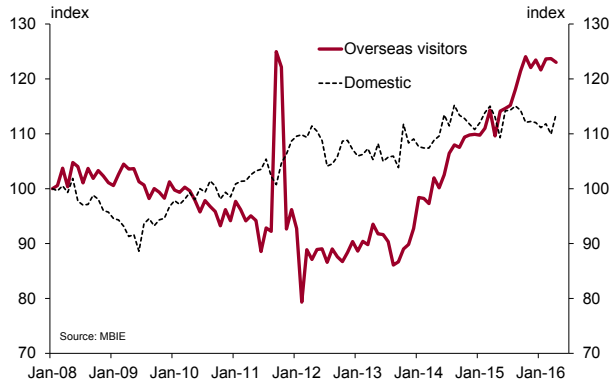
June manufacturing PMI 57.7
 June services PMI 56.7

Imports, priced in foreign currency



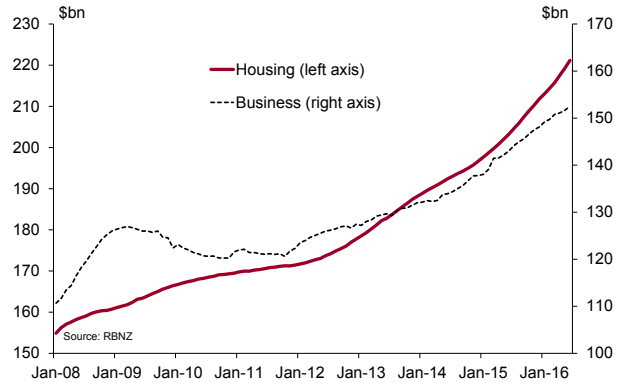
June consumer goods imports +7%
 June plant and machinery imports +8.1%

Tourism spending



Apr* overseas visitor spending -0.5%
 Apr* domestic tourism spending +3.3%

Credit aggregates



June housing credit +0.9%
 June business credit +0.5%

*No new data.

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