

Local Knowledge

7 July 2016

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 May, with only slightly more rises than falls. Putting it another way, the local economy has largely held its ground after a rip-roaring April. The three-month rolling sum of our indicators (see the chart below) suggests a pickup in the pace of GDP growth compared to the 0.7% increase over the March quarter. The latest Quarterly Survey of Business Opinion, released earlier this week, paints a similar picture.

The steady pace of economic growth masks some of the challenges that New Zealand has faced over the last couple of years. World dairy prices have swung from very high to very low, leading to a sharp drop in export income and cutbacks in on-farm spending and investment. And the Canterbury earthquake rebuild, which ramped up sharply in 2013-14, appears to have plateaued in late 2015. While there is still billions of dollars of work to be done, it's no longer a driver of growth in incomes.

Those two negatives have been offset to some degree by some positive factors, which are more apparent in our indicators. The first is rising house values, which underpins household wealth and supports household spending. Admittedly, household spending didn't really feature in our May indicators. And in Auckland at least, it may be that rising house values are causing as much angst as joy. But with rising house prices increasingly becoming a nationwide feature, we'll be watching the impact on consumer confidence and spending with interest.

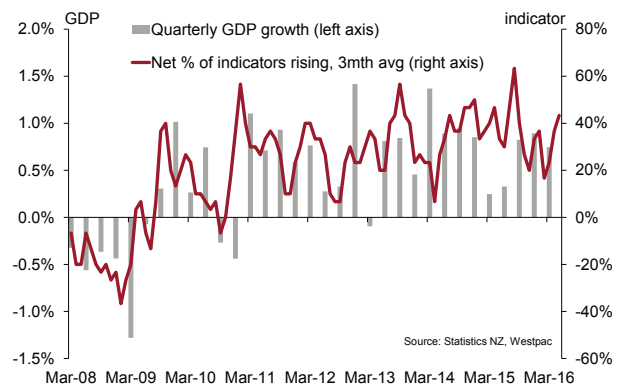
The second factor is that construction activity outside Canterbury is on a roll, and again is becoming a nationwide trend. Auckland has actually proven to be the laggard in homebuilding in recent months. This may reflect a pause ahead

of the city's Unitary Plan, which should be finalised in the coming months. The Plan is meant to allow for more intensive housing development, but the details remain unresolved.

Finally, strong population growth has helped to sustain the rate of growth in the overall economy, even as per-capita growth has clearly slowed. (Of course, population growth will tend to give an upward tilt to our activity indicators as well.) Net migration has been a major source of population growth in the last couple of years, and it's worth noting there are reasons to believe that this inflow has passed its peak.

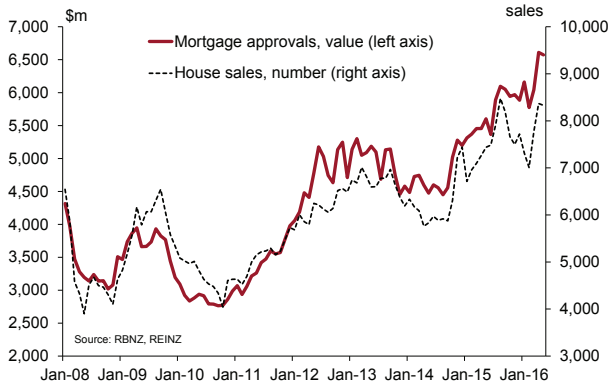
We'll finish with a brief comment on the Brexit vote, which has injected an additional note of uncertainty into a global economy that is still fragile in some respects. Our suite of indicators focuses on the domestic economy, rather than New Zealand's trade performance which is dictated more by international conditions. So to the extent that there is any fallout from Brexit for New Zealand, it may be hard to discern from these indicators. We'd suggest commodity prices, the exchange rate, and the cost of overseas funding as the areas to watch for any signs of Brexit-related tensions.

Local Knowledge indicators and quarterly GDP



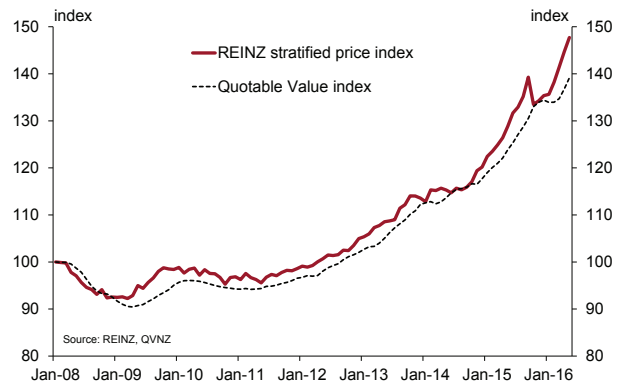
Michael Gordon
Acting Chief Economist

Housing turnover



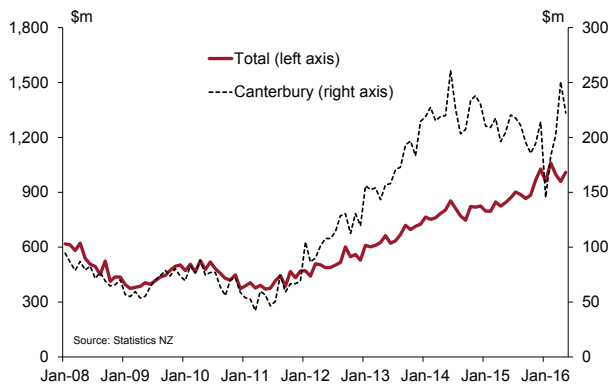
May mortgage approvals -0.5%
 May house sales -0.5%

House prices



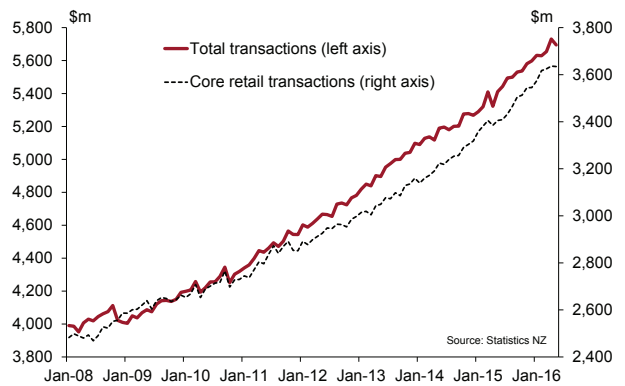
May REINZ price index +2.1%
 May QV price index +1.8%

Residential building consents, by value



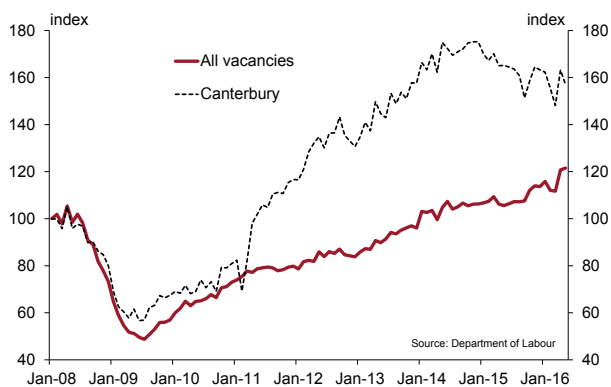
May building approvals +5.2%
 May Canterbury -11.4%

Electronic card transactions



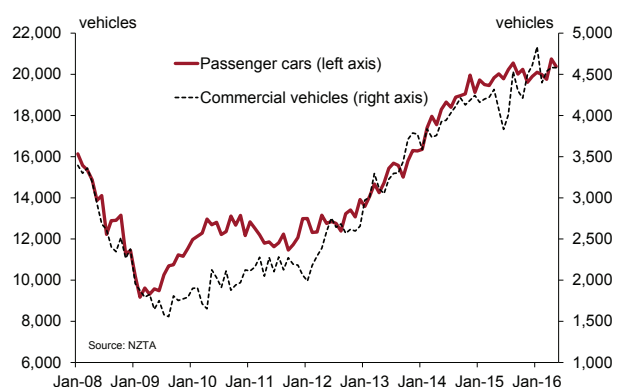
May total card transactions -0.6%
 May core retail sectors -0.1%

Online job advertisements



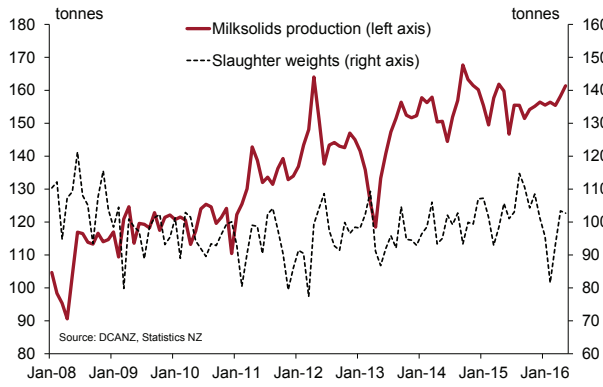
May online job advertisements +0.7%
 May Canterbury -3.9%

Vehicle registrations



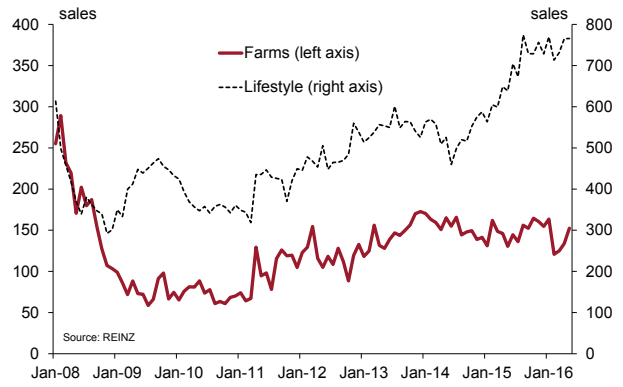
May passenger cars -1.8%
 May commercial vehicles -0.1%

Agricultural output



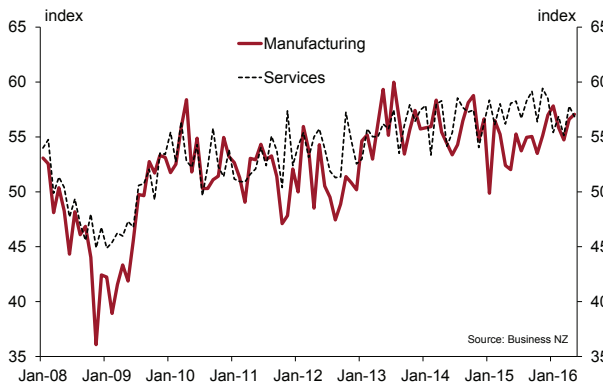
May milk production +2.0%
 May slaughter weights -0.7%

Rural land sales



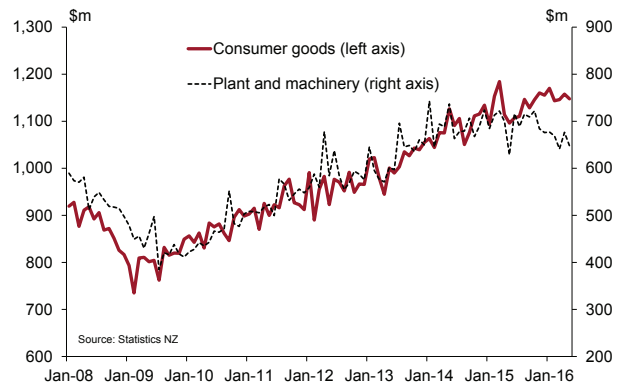
May farm sales +13.9%
 May lifestyle property sales +0.1%

PMI surveys



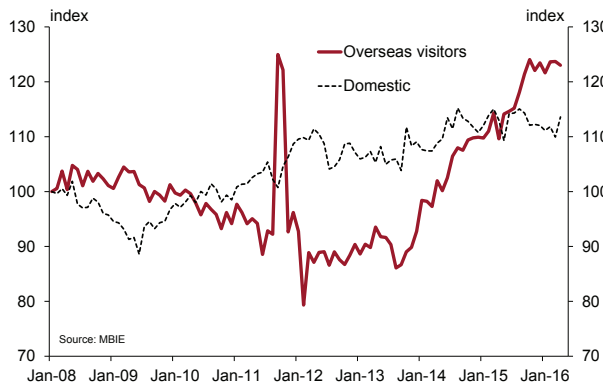
May manufacturing PMI 57.1
 May services PMI 56.9

Imports, priced in foreign currency



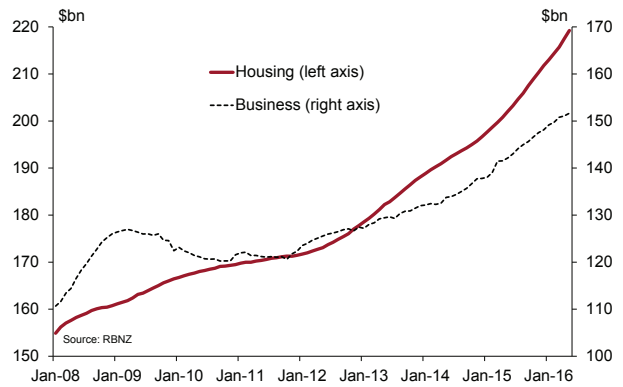
May consumer goods imports -0.9%
 May plant and machinery imports -4.3%

Tourism spending



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

Credit aggregates



May housing credit +0.8%
 May business credit +0.4%

* No new data

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