

Local Knowledge

10 May 2017



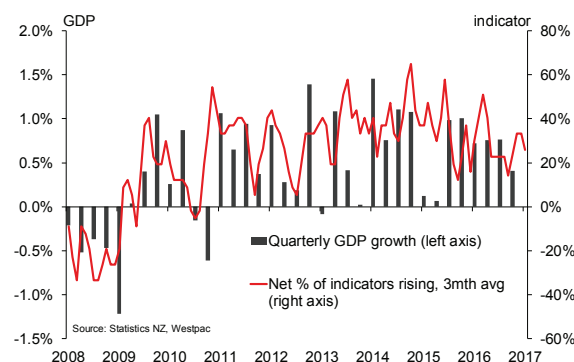
Local Knowledge is our monthly compilation of activity indicators for the New Zealand economy. The aim is to build up a picture of what's happening in the domestic economy, by presenting monthly activity data across a broad range of sectors. The indicators presented here – 18 unique series, plus a few 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.

It was a mixed bag from the Local Knowledge activity indicators in March, with 11 of the 18 indicators rising. After starting the year well with a strong reading in January, two disappointing months have seen the 3-month average ease back suggesting some loss of momentum in economic activity. High level indicators of growth, such as business surveys and employment, have been slightly more positive in recent months. Businesses have remained upbeat about their own activity – typically a good indicator for near-term growth – and firms are backing up that assessment by increasing headcount. Indeed, the recent jobs data showed that the labour market continued to strengthen in the March quarter, with employment rising 1.2% and the unemployment rate falling back to 4.9%.

All in all, we're forecasting GDP growth of 0.8% in the March quarter. But while that looks okay on its own, it's pretty modest when taken together with December's soft result of 0.4% (which was weighed down by declines in primary production and related softness in food manufacturing). And of course, the aggregate figures continue to be flattered by rapid growth in the population, meaning growth on a per-person basis is more subdued.

One area of the economy that looks to have lost some momentum is household spending. Retail card spending declined in February and March, after a strong January result. One of the key drags has been reduced expenditure on durable items, which has fallen in five out of the six

Local Knowledge indicators and quarterly GDP



months to March. That includes items like home furnishings, and the recent softness may be a symptom of the cooling in the housing market since mid-2016, off the back of tighter lending standards and a rise in mortgage rates. While monthly housing turnover has stabilised this year, it's still 20% below last year's peak level. And the pace of price growth has slowed substantially in most regions, with prices now tracking sideways in Auckland and Canterbury. With housing accounting for the lion's share of Kiwi households' wealth, trends in house prices tend to have an important influence on spending patterns.

But although the slower housing market raises some flags for the strength of household spending going forward, there are still a number of factors working in households' favour. The strengthening labour market is a big positive, supporting household income growth and consumer confidence. With job ads rising another 2.6% in March, to be 20% higher than a year earlier, the labour market should improve further in coming months. And regions heavily exposed to the dairy sector are also seeing a change in fortune, as better dairy incomes are hitting farmers'

pockets. After two seasons of farmgate milk prices below break-even for many farmers, this season's forecast milk price of \$6/kg provides welcome relief for the sector. The milk price for the upcoming 2017/18 season is shaping up as being a bit higher, which will further shore up sentiment in the industry and encourage on-farm investment and consumption spending more broadly.

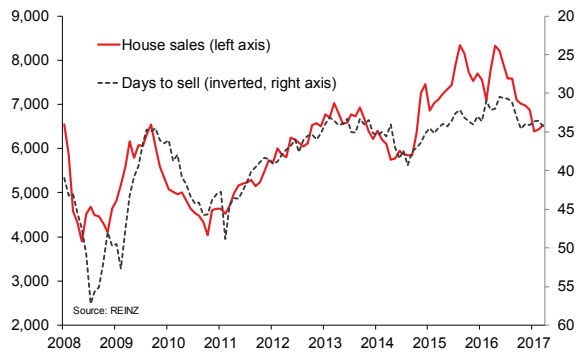
After rapid growth in construction in 2016, a slump in dwelling consents through the latter part of the year suggests that homebuilding might stall in the first half of this year (reflecting usual lags between consent and building). The downtrend in consents had been concerning, and it was encouraging to see consent issuance bounce back in February and largely hold its ground in March. A significant turnaround in recent months has been issuance in Auckland, with a sharp rise in multi-unit consents (such as apartments and townhouses). That suggests developers may have been waiting for clarity around Auckland's Unitary Plan, and reinforces our expectation that building in Auckland will rise over the coming year in response to high house prices and the demands of a growing population. That also means a significant pipeline of non-residential and infrastructure construction. But strong construction

isn't just an Auckland story, with homebuilding rising in most regions off the back of a pick-up in population growth. Canterbury is the clear exception, with homebuilding winding down now that earthquake reconstruction is well-advanced.

Finally, turning to agricultural production, it's been a tale of two halves for this season's milk production. After too much rain hampered spring milk production, plentiful summer rainfall supported pasture growth, and provided the foundation for extremely strong summer production. March's production was a standout, rising 8% in seasonally adjusted terms to be nearly 10% higher than a year earlier. By March, the season's production was down 1.3% from a year earlier, a marked improvement from the 3.6% decline at the end of December. But it was a slow start to the meat processing season, as good grass growth saw sheep and beef farmers hold onto stock for longer to chase higher weights. Lamb production started to make up ground in February and March, although cattle production has remained much lower than a year earlier.

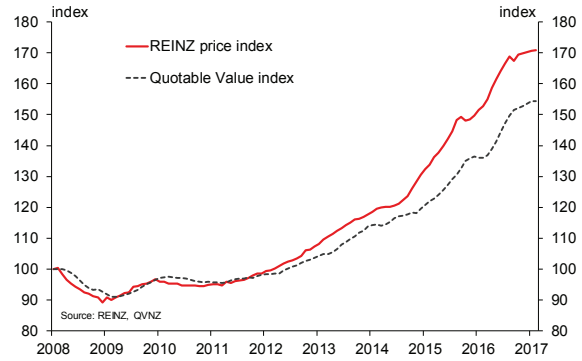
Sarah Drought
Economist

Housing turnover



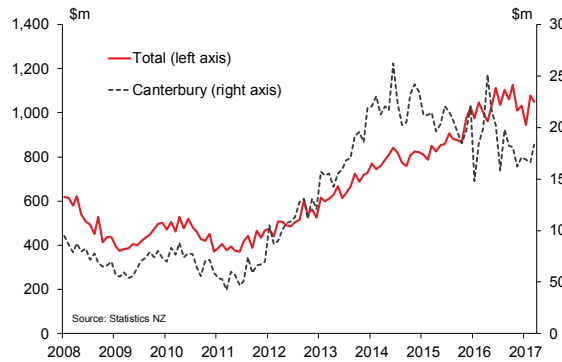
March house sales +1.7%
 March days to sell +0.8

House prices



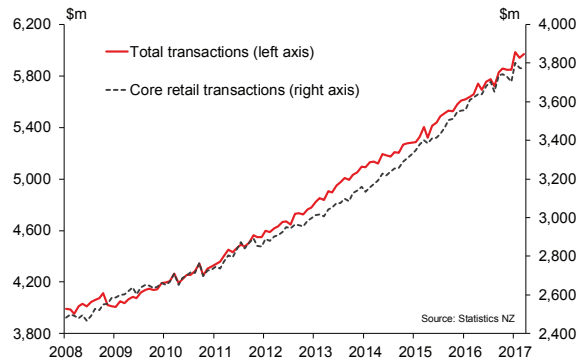
March REINZ price index -0.3%
 March QV price index 0%

Residential building consents, by value



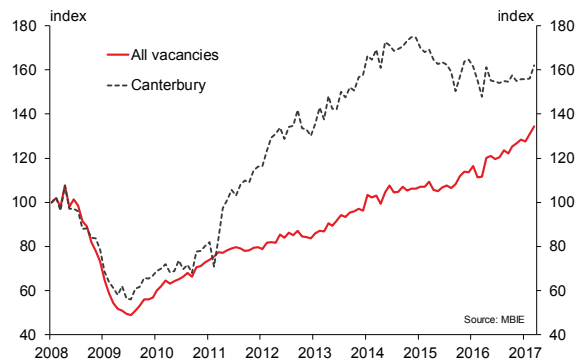
March building approvals -2.6%
 March Canterbury +10.2%

Electronic card transactions



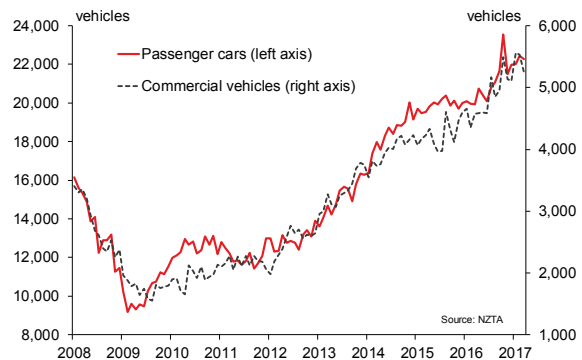
March total card transactions +0.5%
 March core retail sectors -0.1%

Online job advertisements



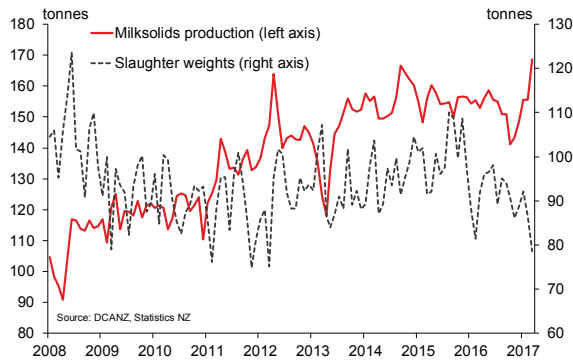
March online job advertisements +2.6%
 March Canterbury +3.7%

Vehicle registrations



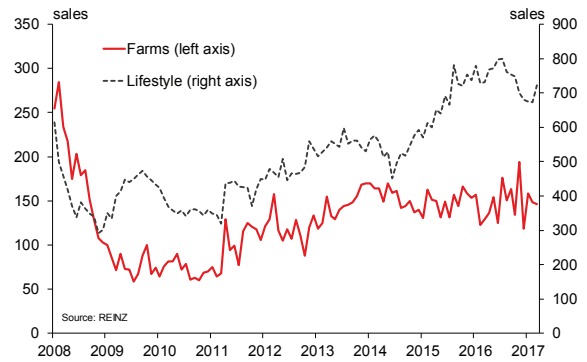
March passenger cars -0.8%
 March commercial vehicles -5.3%

Agricultural output



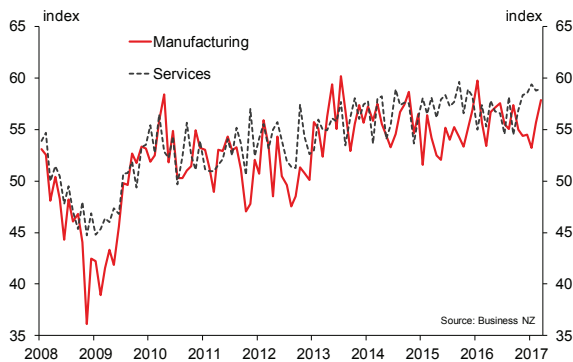
March milk production +8.3%
 March slaughter weights -9.2%

Rural land sales



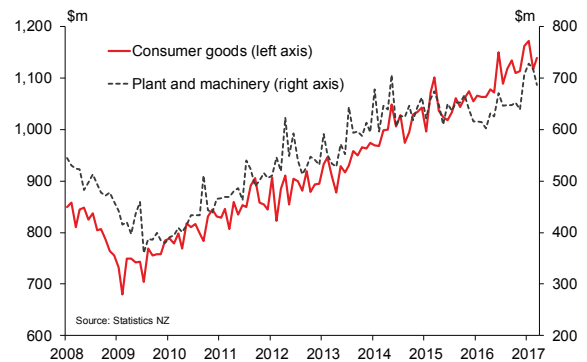
March farm sales -1.6%
 March lifestyle property sales -7.8%

PMI surveys



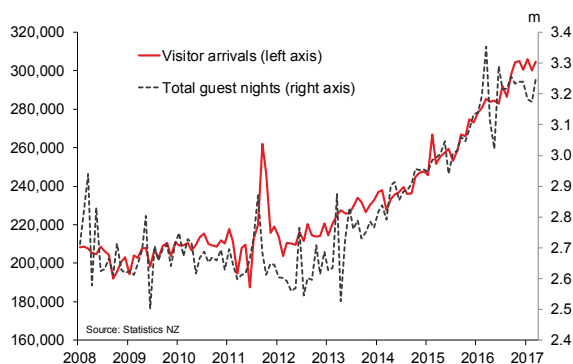
March manufacturing PMI 57.8
 March services PMI 59.0

Imports, priced in foreign currency



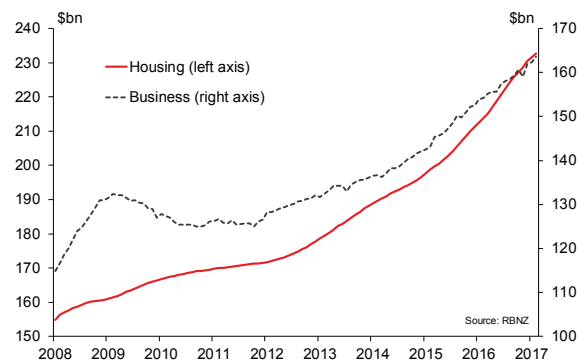
March consumer goods imports +2.0%
 March plant and machinery imports -4.3%

Tourism indicators



March overseas visitor arrivals 1.5%
 February total guest nights +2.3%

Credit aggregates



March housing credit +0.5%
 March business credit +0.5%

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