

Local Knowledge

13 June 2017



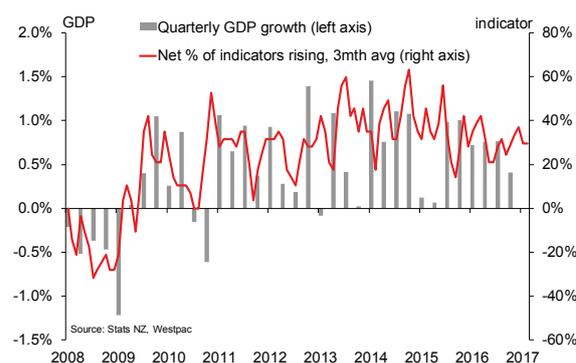
Local Knowledge is our monthly compilation of activity indicators for the New Zealand economy. The aim is to build up a picture of what's happening in the domestic economy, by presenting monthly activity data across a broad range of sectors. The indicators presented here – 18 unique series, plus a few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

April was a fairly robust month for the New Zealand economy, with gains in 14 of our 18 indicators. However, that follows some fairly subdued results in February and March. On a rolling 3-month average basis, the balance of our indicators remains reasonably steady, but is below the heights reached in 2013-14. That's consistent with our forecast of March quarter GDP (which is released this Thursday): a 0.8% rise, following a subdued 0.4% gain in the December quarter, suggests that the underlying pace of growth has come off its peak. This deceleration is even more apparent if you view it in per-capita terms: population growth is higher today than it was in 2014.

The housing market remains the most subdued aspect of our indicators. House sales fell further in April, to be down 24% from their peak a year ago. Prices eked out a small gain for the month, but the momentum has slowed sharply since August last year. Loan-to-value restrictions for property investors and rising mortgage rates have taken a heat out of the market, especially in Auckland.

In time, we expect the slowdown in house prices to have an impact on consumer spending, as households become less reliant on housing wealth and more on income growth. To date, the evidence for this is mixed: electronic card spending continues to grow steadily, although spending on durable goods (e.g. furnishings, electronics) has slowed.

Local Knowledge indicators and quarterly GDP



Housing construction appears to be finding its footing again after a slowdown into late 2016. Our broad measure of building work includes additions and alterations, which were strong in April, offsetting the lower number of new dwellings approved. After two years of declines, consents in Canterbury appear to have flattened out at what could be considered 'business as usual' levels. Interestingly, there has also been a strong lift in job ads in Canterbury in recent months, an encouraging sign that there's life beyond the quake rebuild.

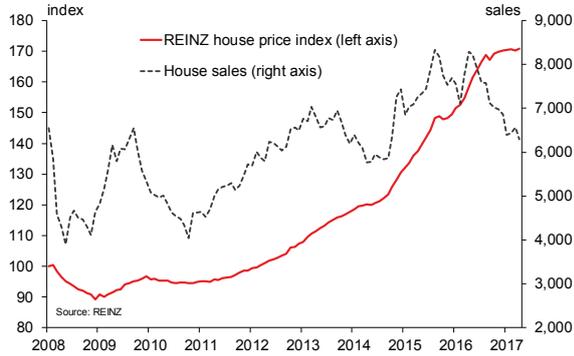
Dairy production has come back strongly in recent months. The last season started out very weak, due to poor weather and fears of a third year of low returns. But with better weather over summer and a strong rebound in world dairy prices, the tail end of the season has been much better, with milk collections in March and April reaching new records for this time of the year. The downside for activity – at least in the near term – is that cattle slaughter numbers have been quite low in recent months, as dairy farmers have resumed herd building.

One of the most encouraging developments of recent months is that imports of capital equipment are on the rise again, having been effectively flat for more than two years. A country with a rapidly growing population needs to keep investing in its productive capacity, and in New Zealand's case, a large share of capital equipment has to be imported. This revival in business investment will also help to alleviate concerns about capacity constraints and inflation pressures emerging.

Finally, the upward trend for tourism remains intact, with overseas visitor numbers reaching a new high in April. Visitor numbers appeared to have stalled over summer, when capacity constraints may have been a genuine issue during the peak season. The latest tourist figures pre-date the Lions tour, so over the next few months we'll get a sense of the spending boost provided by this event.

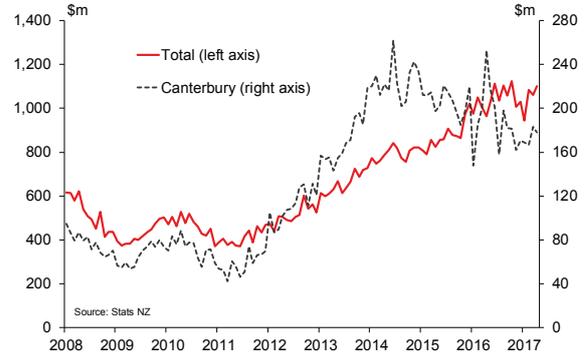
Michael Gordon
Acting Chief Economist

House prices and sales



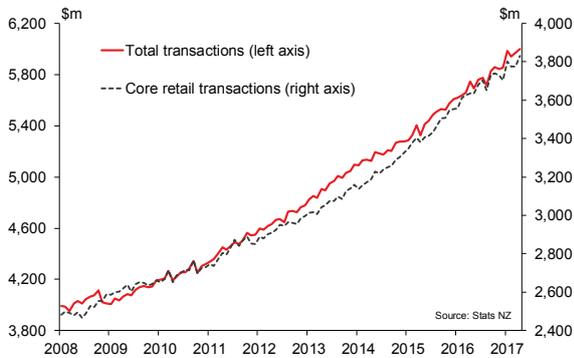
Apr REINZ price index +0.4%
Apr house sales -4.2%

Residential building consents, by value



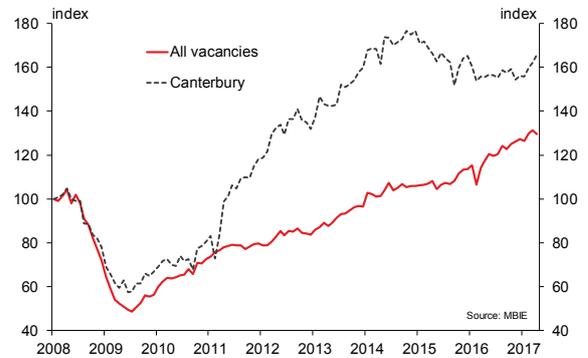
Apr building approvals +3.7%
Apr Canterbury -2.7%

Electronic card transactions



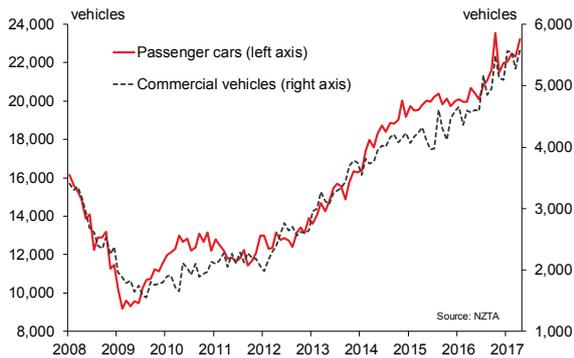
Apr total card transactions +0.5%
Apr core retail sectors +1.4%

Online job advertisements



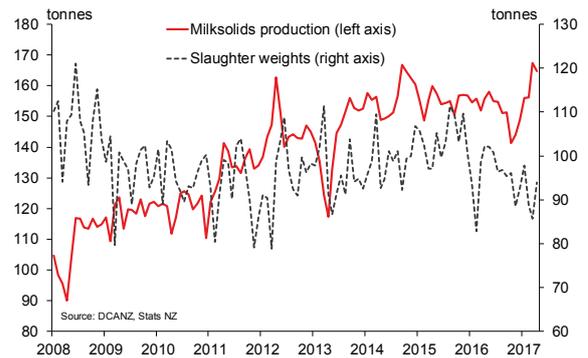
Apr online job advertisements -1.3%
Apr Canterbury -1.2%

Vehicle registrations



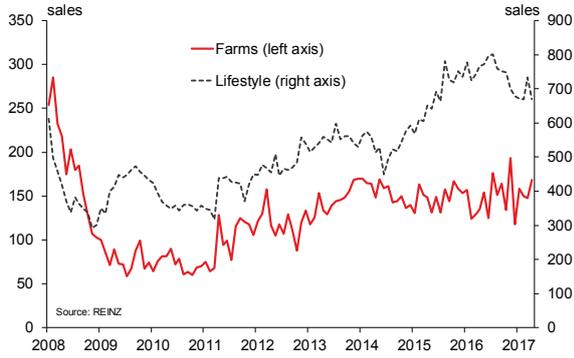
Apr passenger cars +4.1%
Apr commercial vehicles +5.9%

Agricultural output



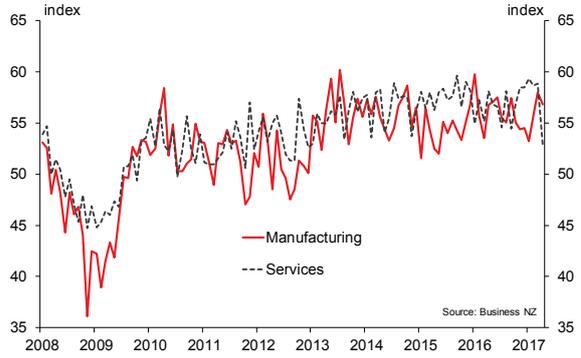
Apr milk production -1.6%
Apr slaughter weights +9.5%

Rural land sales



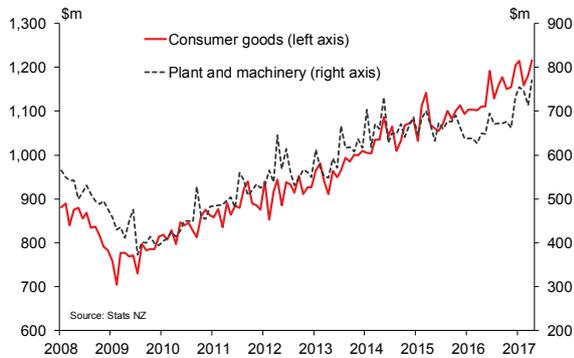
Apr farm sales +14.0%
Apr lifestyle property sales -8.8%

PMI surveys



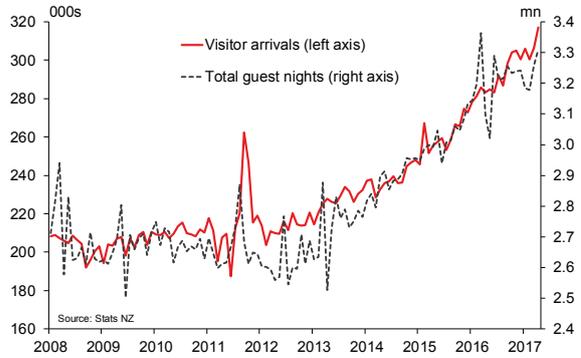
Apr manufacturing PMI 56.8
Apr services PMI 52.8

Imports, priced in foreign currency



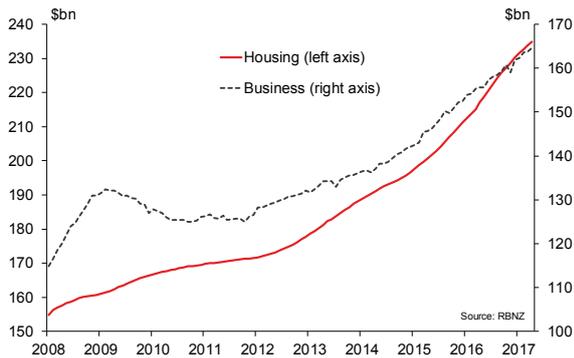
Apr consumer goods imports +2.9%
Apr plant and machinery imports +8.1%

Tourism indicators



Apr overseas visitor arrivals +3.5%
Apr total guest nights +1.7%

Credit aggregates



Apr housing credit +0.5%
Apr business credit +0.5%

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