

Local Knowledge

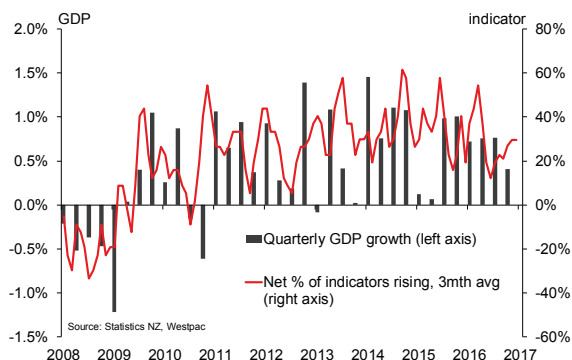
10 April 2017



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.

Our Local Knowledge activity indicators put in a lacklustre performance in February, with the number of rises and falls cancelling out. But following a couple of decent months, it was still enough to see the three-month average hold its ground at a moderate level. Indicators of activity from business surveys have also been stable in recent months. Notably, NZIER's Quarterly Survey of Business Opinion for the March quarter showed the number of firms reporting a rise in activity in the quarter and expecting activity to rise in the coming quarter remained steady at well above average levels.

Local Knowledge indicators and quarterly GDP



These data are supportive of the view that economic growth bounced back in early 2017, after the sluggish result of only 0.4% growth in the December quarter. Growth late last year was held back by declines in primary production and related softness in food manufacturing. But after a tough spring when too much rain hindered dairy farmers' milk production, plentiful summer rainfall made for a favourable environment in early 2017, contributing to a strong recovery in milk production. However, a turnaround in meat processing hasn't been so clear-cut; lamb processing has been increasing after a slow start to the season, but cattle processing has remained subdued, as good pasture conditions have encouraged farmers to keep cattle on farm.

Abstracting from this quarterly volatility, the underlying pace of growth looks to be continuing at a moderate pace. We're forecasting growth in calendar '17 at a touch above 3% - respectable, but not strong when the population is growing around 2% per year. Nonetheless, with the economy now in its seventh year of sustained expansion, firms have largely used up their spare labour and capital resources. But while constraints on capacity might act as a handbrake on growth from here (and lead to rising pressure on prices), it's encouraging to see firms continuing to look at bolstering their labour and capital stocks which will help them scale up activity.

Against this backdrop, the labour market should continue to strengthen. Recent indicators suggest that firms' demand for labour remains solid: survey measures of firms' hiring intentions remain at decent levels and job advertisements have continued to trend higher (and in February were 18% higher than a year earlier). However, lack of supply could hold back firms hiring plans. Indeed, despite record levels of net immigration adding to the pool of available workers, firms are reporting that it's as difficult as it's been finding staff since 2007.

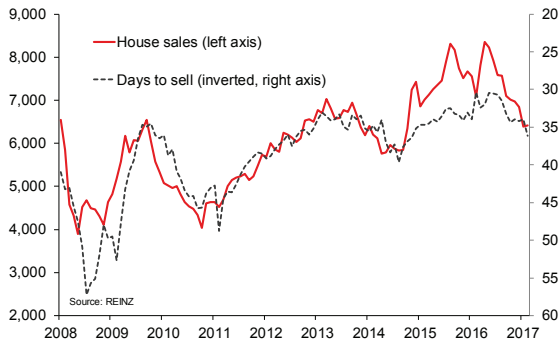
Households have been benefitting from improving employment conditions, which in turn is supporting demand for retail and services spending. Rapid population growth and rising tourist numbers are also providing a significant boost to spending. Notably, one of the standouts among our indicators in the past few months has been the services sector, highlighting the positive conditions at present.

But while labour market conditions are improving, households have been facing an evolving trend in housing market conditions since loan-to-value ratio restrictions were tightened and mortgage rates begun rising over the second half of last year. Although housing turnover has stabilised, it remains low. And the pace of house price growth has slowed in many parts of the country, with prices flattening off in the case of Auckland and Christchurch. With housing making up a significant component of household wealth, developments in the housing market play an important role in households' spending behaviour.

With pressure on firms existing fixed capital rising over the past year, it was encouraging to see business investment show signs of recovery through the latter part of 2016. And a surge in plant and machinery imports over the past few months provides positive signs for fixed capital investment ahead. While a sharp drop in the manufacturing PMI in January had been concerning, this swiftly bounced back with February's reading indicates a decent degree of momentum in the sector. Moderation in the NZ dollar this year, against both the US dollar and the Australian dollar, will have aided sentiment among exporters.

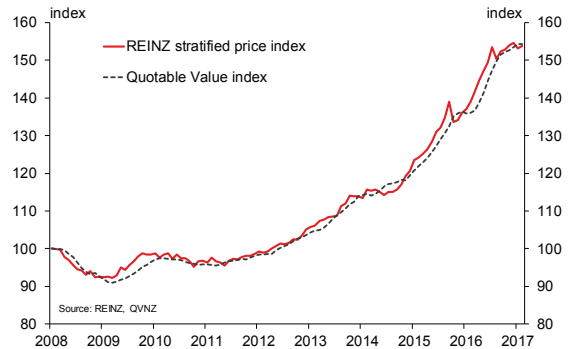
Sarah Drought
Economist

Housing turnover



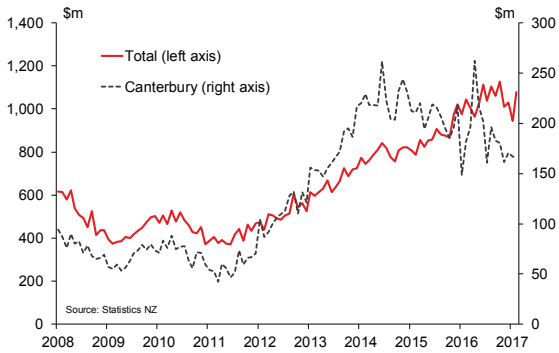
February house sales +0.4%
February days to sell +2.2

House prices



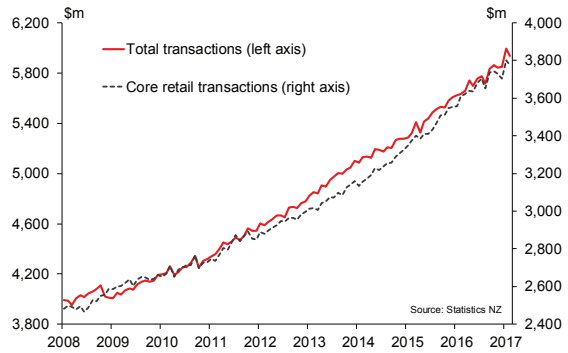
February REINZ price index +0.4%
February QV price index 0%

Residential building consents, by value



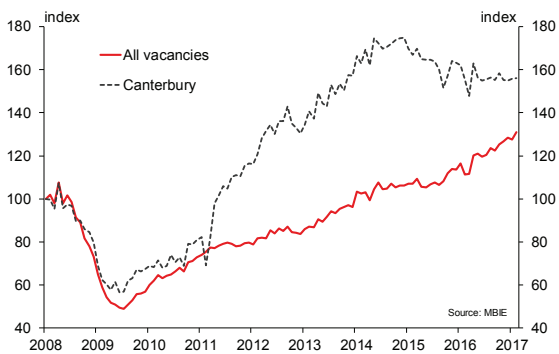
February building approvals +14.2%
February Canterbury -0.9%

Electronic card transactions



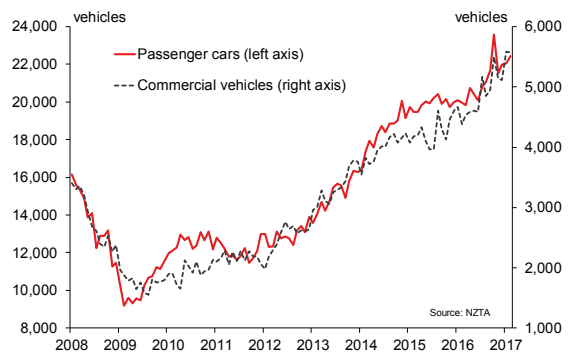
February total card transactions -1.0%
February core retail sectors -0.7%

Online job advertisements



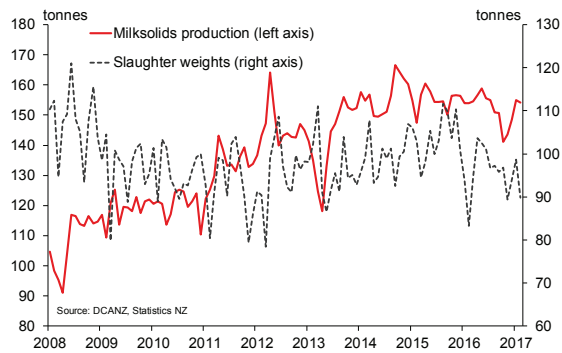
February online job advertisements +2.6%
February Canterbury +0.1%

Vehicle registrations



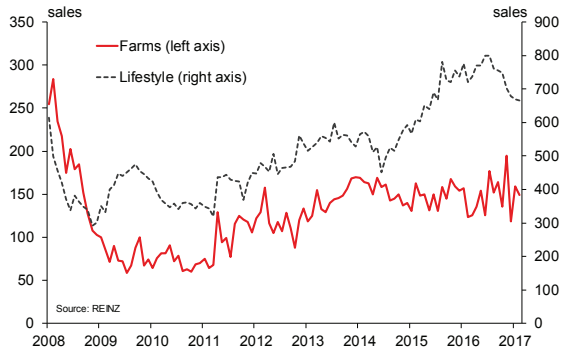
February passenger cars +1.9%
February commercial vehicles -0.3%

Agricultural output



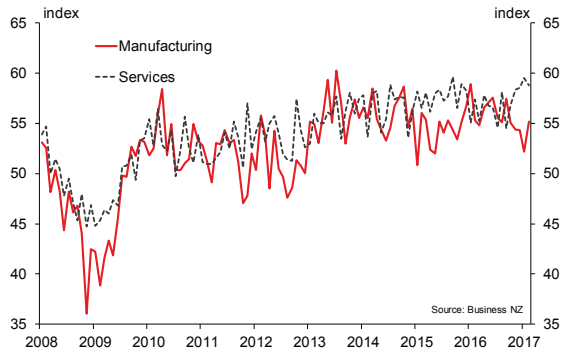
February milk production -0.5%
February slaughter weights -9.0%

Rural land sales



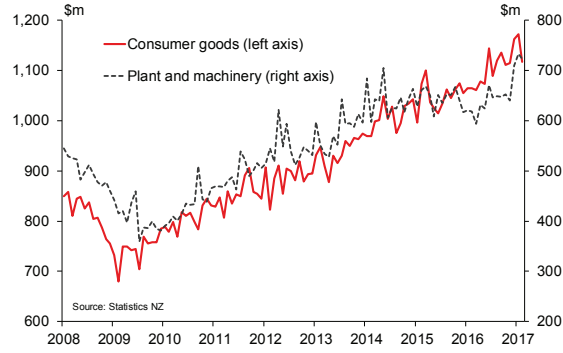
February farm sales -6.1%
February lifestyle property sales -0.6%

PMI surveys



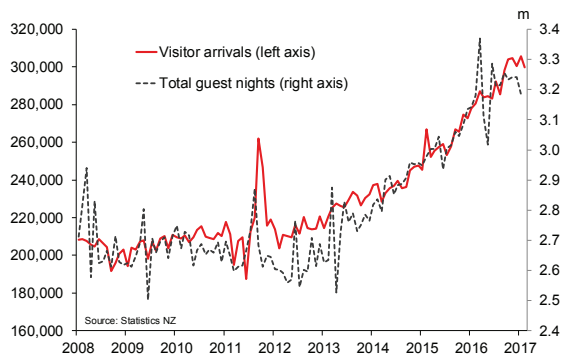
February manufacturing PMI 55.2
February services PMI 58.8

Imports, priced in foreign currency



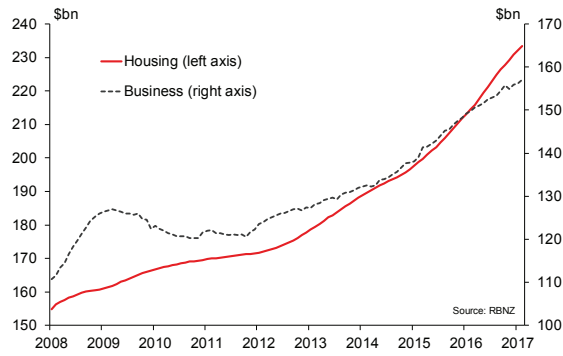
February consumer goods imports -4.7%
February plant and machinery imports -1.4%

Tourism indicators



February overseas visitor arrivals -1.9%
January total guest nights* -1.8%

Credit aggregates



February housing credit +0.5%
February business credit +0.5%

*no new data

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