

Local Knowledge

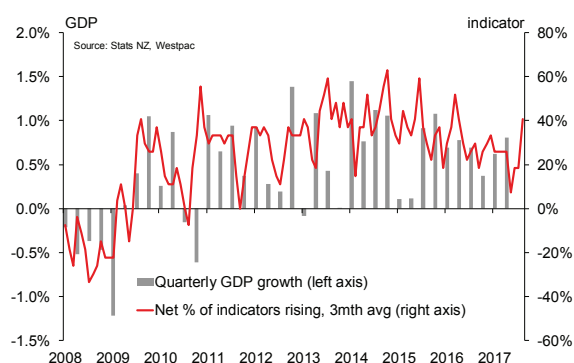
7 December 2017



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.

The sentiment towards the New Zealand economy has clearly soured in recent times. The exchange rate has fallen by 6% since the election in September, with the steepest drop occurring when the Labour-NZ First coalition government was announced in October. Meanwhile, the ANZ business outlook survey recorded a sharp drop in business confidence in November. Some of this can be put down to a knee-jerk reaction to the change in government, but not all – and confidence was declining even before the election.

Local Knowledge indicators and quarterly GDP



However, the Local Knowledge indicators warn against taking too pessimistic a view of the state of the economy. After a

few soft months, the balance of activity was much stronger in October, with 15 of our 18 indicators recording growth.

This fits with our expectations for GDP over the second half of this year. The September quarter figures will be released later this month; our forecast is currently tracking at just 0.4% growth. However, much of this weakness is concentrated in the primary sector, rather than a broad-based slowdown. We expect GDP growth to pick up to 0.8% in the December quarter.

It's still true to say that the pace of economic growth has slowed this year compared to previous years. Nevertheless, the New Zealand economy seems to be coming from a stronger starting point than the market is giving it credit for. And that's crucial for how the economy will absorb a range of policies that the new Government will be implementing over the coming years.

Perhaps the most significant of those policies will be a range of measures aimed at cooling housing demand, as we detailed in our latest quarterly Economic Overview. While the housing market has softened over the past year, there has been pick-up in prices in the last few months. In turn, we saw a bit more life in electronic card spending in October, and a new record high in car sales. These suggest that the link between housing wealth and consumer spending is alive and well. That also suggests that a renewed downturn in house prices could be a substantial drag on economic growth.

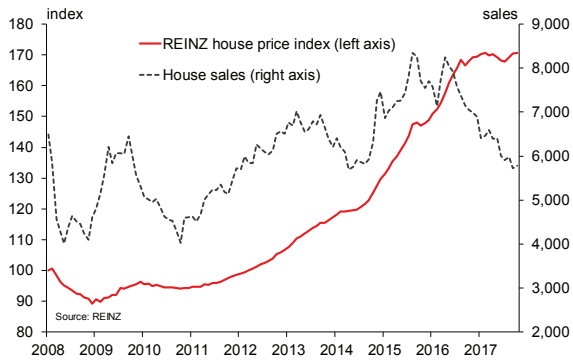
Residential building has picked up in the last few months, partly offsetting a slowdown in the first half of this year. Some of the recent strength in building consents has been due to lumpy non-repeating items (a couple of large apartment developments in Auckland). But the underlying pulse seems consistent with our forecast that building work will continue to grow over the next couple of years, albeit at a modest pace.

Job advertisements remain strong, notwithstanding a lull in October when the form of the next Government was still unknown. The unemployment rate has fallen to a nine-year low, and a growing number of employers are reporting difficulty in finding good workers. It will be interesting to see how the labour market performs under the new Government: policies such as tightening eligibility for work and student visas, pay equity agreements, and large increases in the minimum wage rate will have implications for both labour demand and supply over the next few years.

The final point to note this month is that the dairy sector has regained some momentum, after wet weather hampered milk production at the start of the season. However, weather conditions have gone from one extreme to the other: it's been unusually hot and dry since November, as a La Nina weather pattern has developed. There's plenty of grass at the moment after the earlier rains, but new pasture growth has slowed abruptly, and there's a growing risk that some dairying regions will be struck by drought this summer

Michael Gordon
Senior Economist

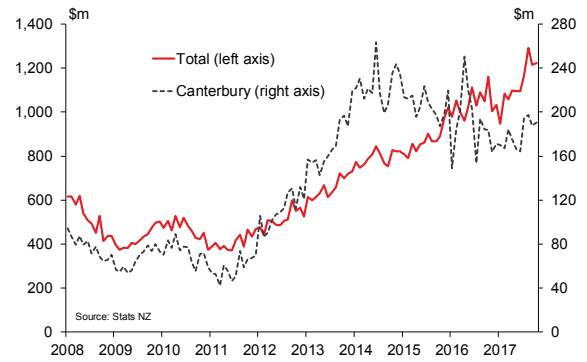
House prices and sales



Oct REINZ price index +0.1%

Oct house sales +1.0%

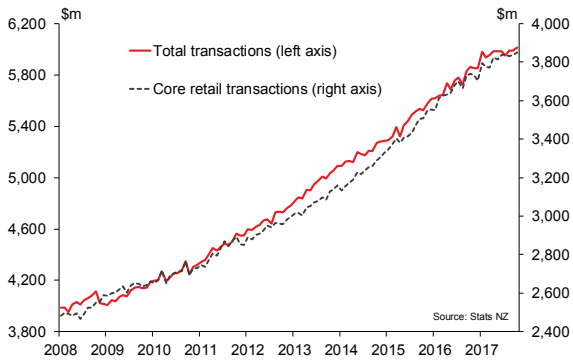
Residential building consents, by value



Oct building approvals +0.7%

Oct Canterbury +1.6%

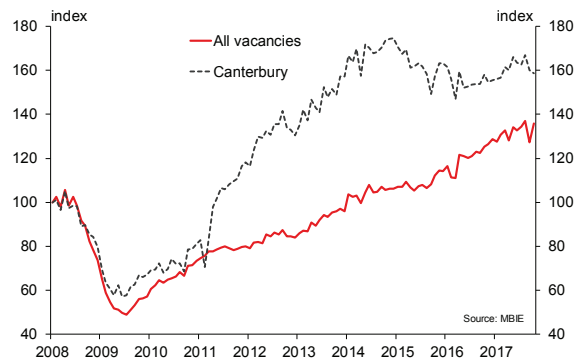
Electronic card transactions



Oct total card transactions +0.4%

Oct core retail sectors +0.4%

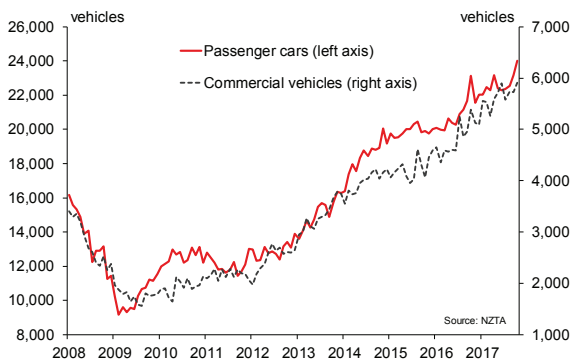
Online job advertisements



Oct online job advertisements +6.7%

Oct Canterbury -0.9%

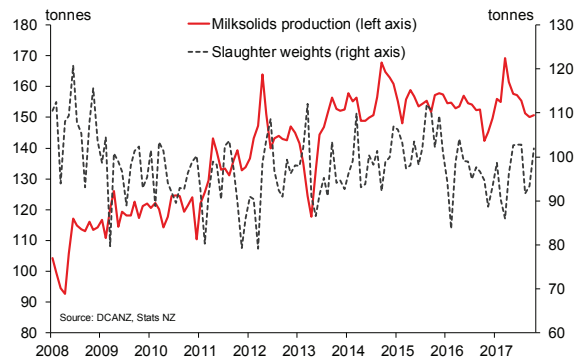
Vehicle registrations



Oct passenger cars +3.5%

Oct commercial vehicles +3.1%

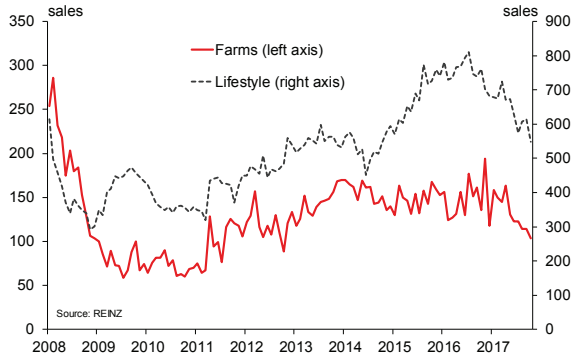
Agricultural output



Oct milk production +0.4%

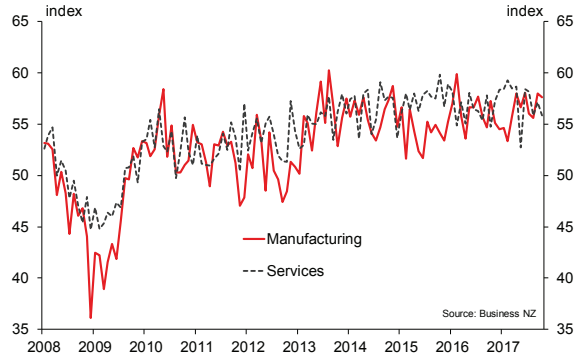
Oct slaughter weights +9.2%

Rural land sales



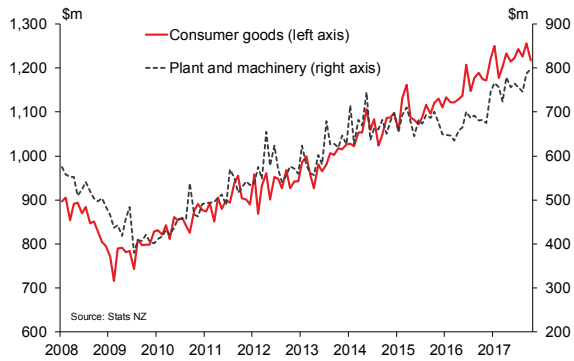
Oct farm sales -9.4%
 Oct lifestyle property sales -10.6%

PMI surveys



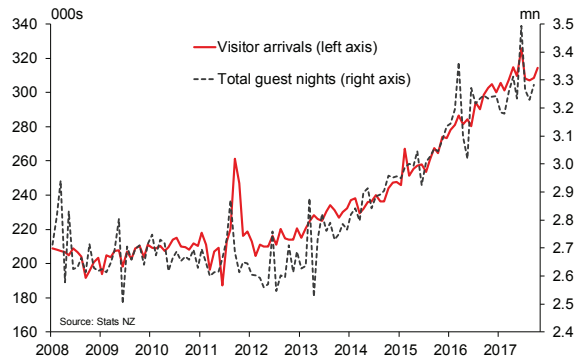
Oct manufacturing PMI 57.2
 Oct services PMI 55.6

Imports, priced in foreign currency



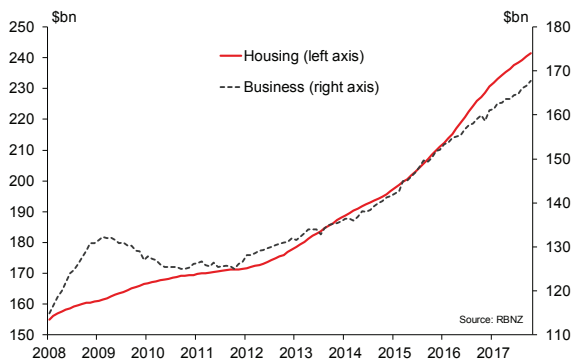
Oct consumer goods imports -3.0%
 Oct plant and machinery imports +1.2%

Tourism indicators



Oct overseas visitor arrivals +1.9%
 Sep total guest nights +1.7%

Credit aggregates



Oct housing credit +0.4%
 Oct business credit +0.7%

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