

# Local Knowledge

7 February 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 middle of the road performance from our activity indicators in December, with 11 of 18 indicators rising. Following a subdued result in November (which may have been disrupted by the Kaikoura earthquake), the three-month average continued to track along at a modest level. Based on this so-so reading, it would be surprising if GDP growth maintained the 1.1% quarterly pace seen in the September quarter.

Other indicators also point to a pull-back in quarterly growth. NZIER's *Quarterly Survey of Business Opinion* showed that firms' assessment of their own activity eased after an especially buoyant reading in September. Jobs data for the December quarter painted a similar picture, showing solid growth in jobs and hours paid, but a touch slower than in September. We're forecasting a gain of 0.9% in December quarter GDP, which would take annual growth in 2016 to 3.3%. However, with the population continuing to rise over 2% a year, GDP growth in per capita terms is much more moderate at around 1%.

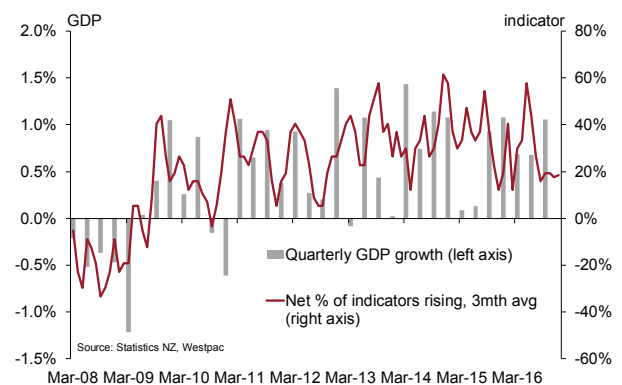
Taking a closer look at the underlying data, the consumer-focused indicators were mixed in December. Consumer imports and car registrations rose (although the latter is being boosted by rental car companies scaling up their fleets), while electronic card spending declined to round off a lacklustre quarter. Overall, conditions remain favourable with consumers benefitting from improving employment prospects and low interest rates, although cooling in the red-hot housing market over the second half of last year may have seen some consumers pause for breath. House sales fell substantially following the tightening in lending restrictions in July last year, and house price inflation eased. And after steady declines for a couple of years, mortgage rates began to edge higher from late last year. We suspect the rise in mortgage rates will act as a significant brake for house prices this year, and are forecasting prices to rise 5% nationwide, after the swift 16% gain in 2016. That said, notable divergences will likely remain across regions.

The subdued nature of spending data is particularly surprising given the 4.4% rise in visitor arrivals (in seasonally adjusted

terms) in the December quarter. This follows a flattening off in arrivals through the middle of the year, which also translated into surprising declines in international tourist spending. The stronger NZ dollar was likely one factor weighing on tourists' spending last year, and the NZ dollar has held up so far this year. But nonetheless, we still expect arrivals and tourist spending to track higher this year, with the Lion's tour in June and July providing an additional boost. One factor that could crimp growth in tourist arrivals is accommodation capacity, which is stretched in main tourist destinations during peak seasons. That said, subdued growth in domestic guest nights has helped ease pressure to some extent.

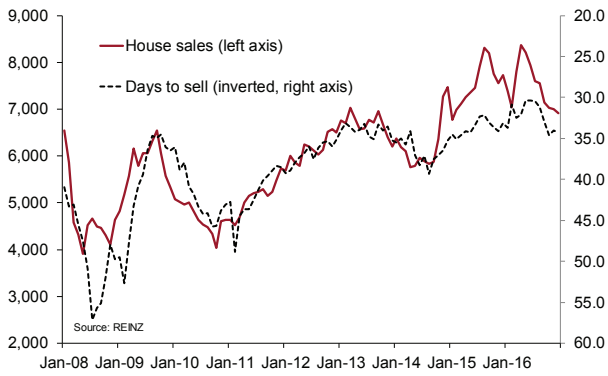
One aspect of activity that turned in December was agricultural production, with both milk production and slaughter halting recent downtrends. Nonetheless, for the December quarter as a whole, agriculture production is again expected to be a drag on GDP. An unusually wet spring made for very challenging dairying conditions. Milk production in the 7 months to December was 3.6% lower than a year earlier, although the pace of decline had eased heading into 2017. For many farmers, this lost production will have taken some of the gloss off the improvement in dairy prices. Meanwhile, both lamb and cattle slaughter ended 2016 on a soft note. For lamb, an estimated 1.3% decline in the spring crop, combined with slow growth due to cool and damp spring conditions resulted in very low numbers of lambs processed in the December quarter. However, there is an element of timing at play and some of the recent softness in meat production should be made up in early 2017.

## Local Knowledge indicators and quarterly GDP



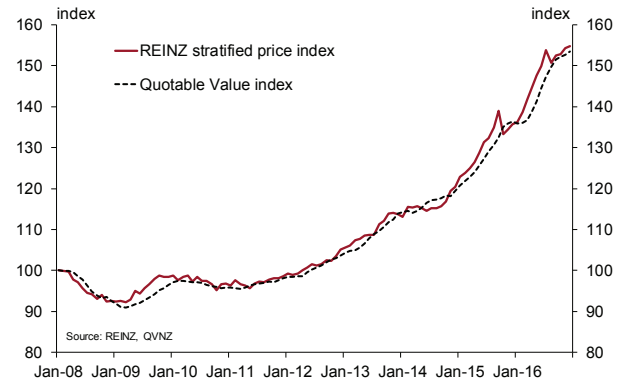
**Sarah Drought**  
Economist

### Housing turnover



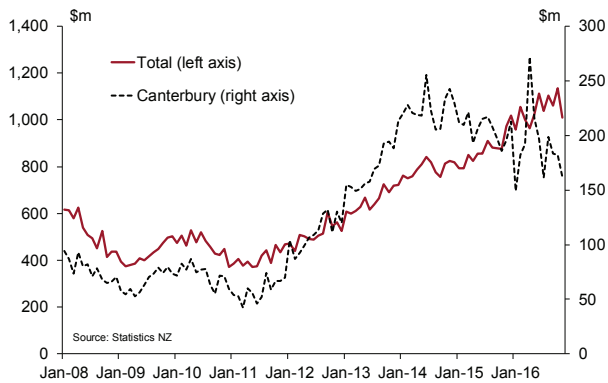
December house sales -1.3%  
December days to sell +0.3

### House prices



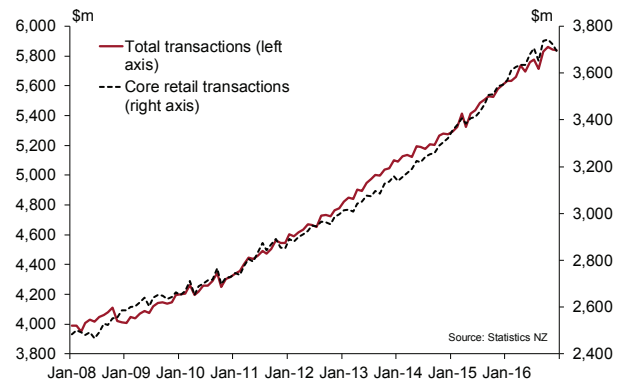
December REINZ price index +0.4%  
December QV price index +0.5%

### Residential building consents, by value



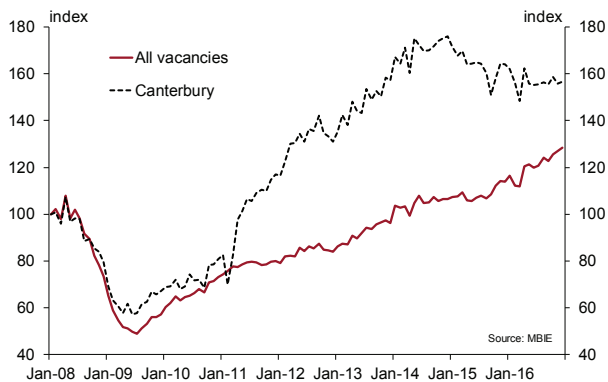
November building approvals\* -11.1%  
November Canterbury\* -11.0%

### Electronic card transactions



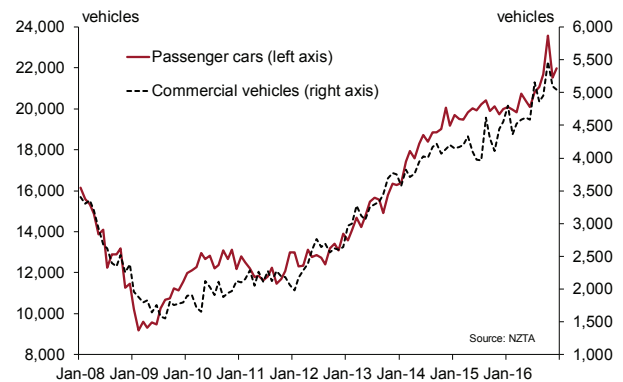
December total card transactions 0%  
December core retail sectors -0.8%

### Online job advertisements



December online job advertisements +1.1%  
December Canterbury +0.6%

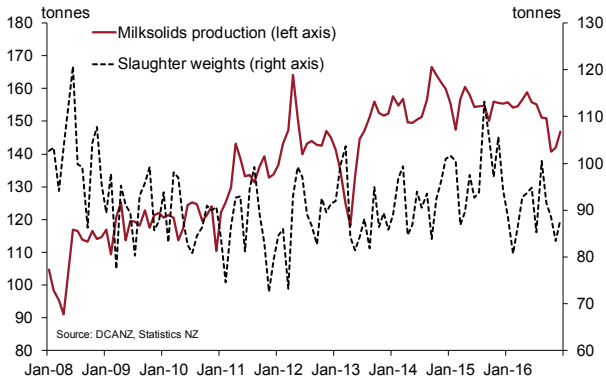
### Vehicle registrations



December passenger cars +2.2%  
December commercial vehicles -1.2%

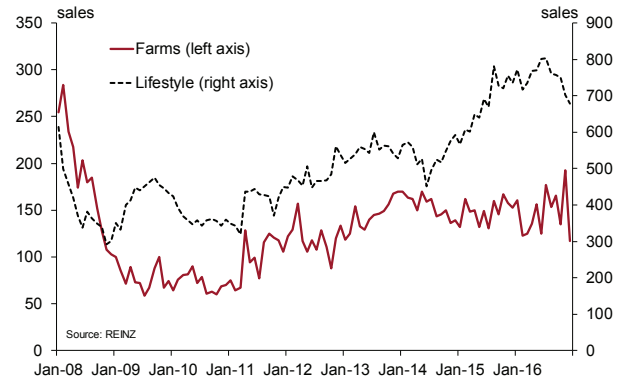
\*no new data

### Agricultural output



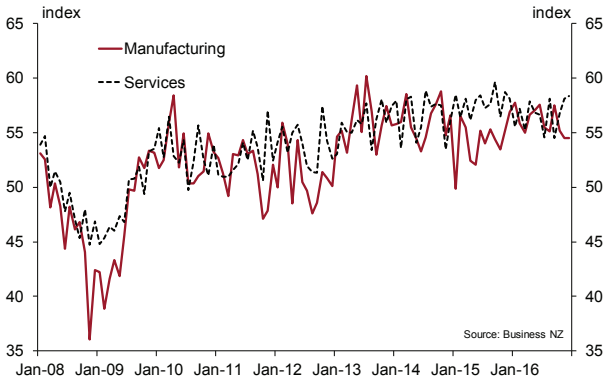
December milk production +3.4%  
December slaughter weights +5.5%

### Rural land sales



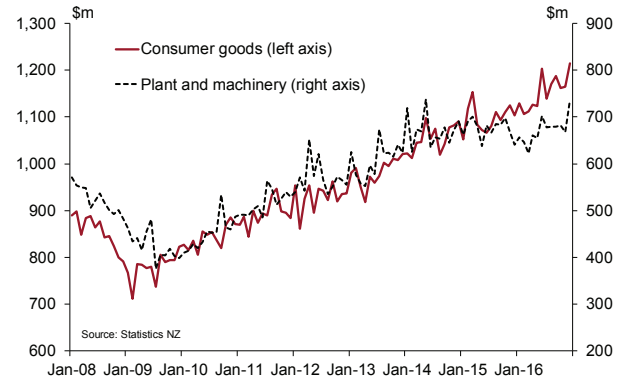
December farm sales -39.2%  
December lifestyle property sales -3.3%

### PMI surveys



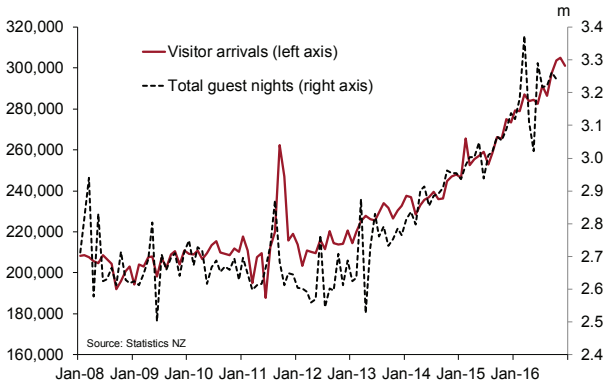
December manufacturing PMI 54.5  
December services PMI 58.4

### Imports, priced in foreign currency



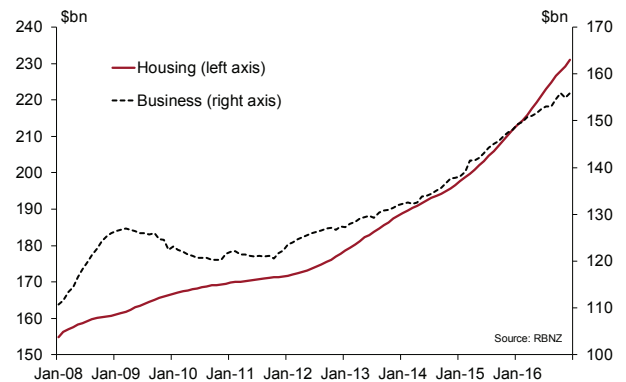
December consumer goods imports +4.3%  
December plant and machinery imports +10.4%

### Tourism indicators



December overseas visitor arrivals -1.3%  
October total guest nights\* -0.6%

### Credit aggregates



December housing credit +0.7%  
December business credit +0.6%

# Contact the Westpac economics team

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