

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 – 20 unique series, plus a few subsets and variations – are some of the timeliest information we have. Yet unlike their overseas equivalents, many of them receive little or no coverage on an individual basis.

The balance of indicators was positive again in July, showing that the economy has regained much of its momentum after a particularly weak batch of data in April. Our momentum indicator (see the chart) is calculated on a rolling three-month basis to align it with the quarterly reporting of GDP; with the April data now dropping out of the equation, the indicator has ticked higher again, though it's still shy of the levels we saw during last year's growth spurt.

The message from the 'hard' activity data – a modest lift in momentum in the last couple of months – may seem at odds with current sentiment. Financial markets have severely downgraded the odds that the Reserve Bank will lift the OCR again in the next year. Business confidence fell for a sixth straight month in August, with the agricultural sector justifiably feeling the least optimistic. And we've encountered a distinctly negative tone to recent anecdotes from the real estate industry.

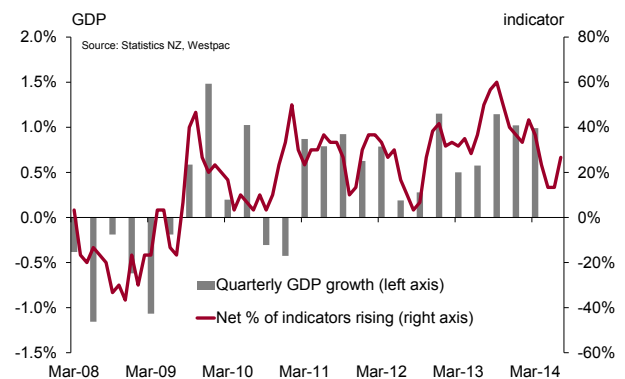
We suspect that these sorts of sentiments are a belated recognition of the fact that activity did slow earlier in the year. While a close inspection of the data suggests that things have taken a turn for the better, it's a relatively recent development, and we haven't made up for the loss of momentum in previous months.

There was no clear sectoral theme in the July indicators. House sales rose slightly for a second straight month, and prices continued to creep higher, but mortgage approvals were down (as was the share of high-LVR loans). The value of building consents was lower than June's cycle high, but the upward trend remains very strong. Card spending, car sales and job vacancies were all down. The manufacturing PMI suggested a third straight month of slower growth, but the services survey rebounded to almost match its cycle high.

There has been some slightly better news for the agricultural sector more recently. The mid-August GlobalDairyTrade auction hinted that whole milk powder prices may be stabilising, and Fonterra retained its milk price forecast for this season at \$6.00/kg, with downside risks. We've chosen to bake in some of that downside risk and have lowered our forecast to \$5.80/kg. But bear in mind that both forecasts depend on dairy prices strengthening again by year-end. We're optimistic that this will happen as overseas buyers run down their inventories. But until we have hard evidence, market sentiment towards the dairying industry and the economy in general is likely to remain downbeat.

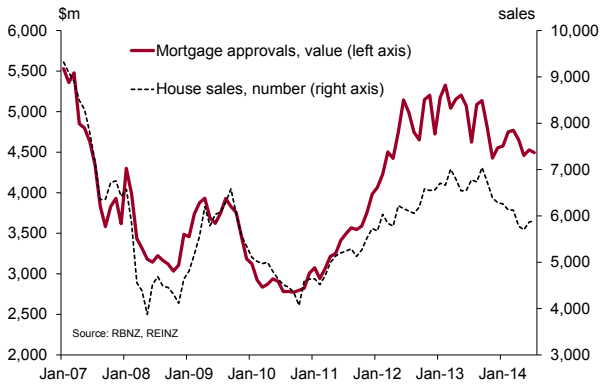
This is the last issue of **Local Knowledge** before the June quarter GDP figures are published on 18 September (two days before the election). We noted last month that we'd revised our forecast down to a 0.7% increase, and we haven't had any information since then that would alter our view. However, there are some major sectoral indicators still to come, including building activity tomorrow, wholesale trade on Friday and manufacturing next Monday. We'll finalise our GDP forecast next week.

Local Knowledge indicators and quarterly GDP



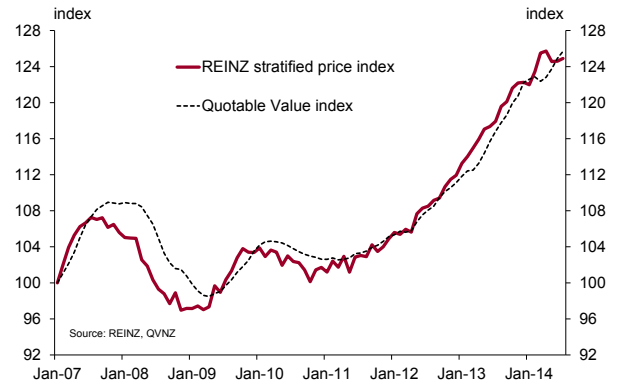
Michael Gordon
Senior Economist

Housing turnover



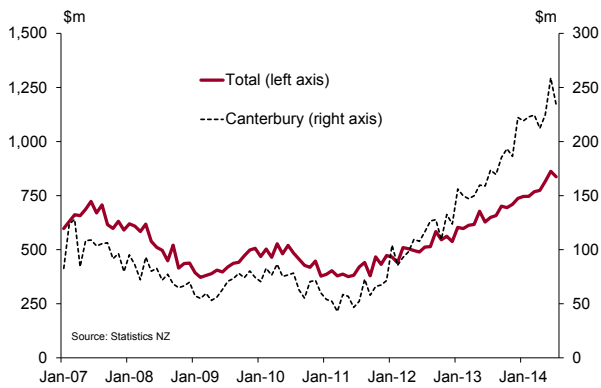
Jul mortgage approvals -0.7%
Jul house sales +0.5%

House prices



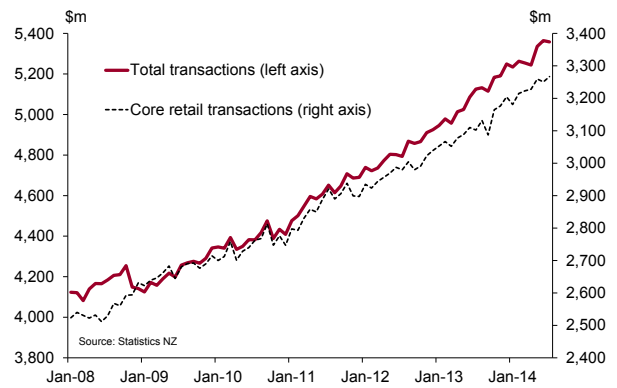
Jul REINZ price index +0.2%
Jul QV price index +0.6%

Residential building consents, by value



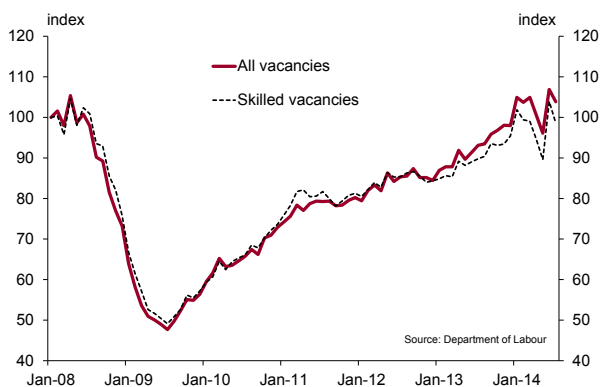
Jul building approvals -2.9%
Jul Canterbury -9.7%

Electronic card transactions



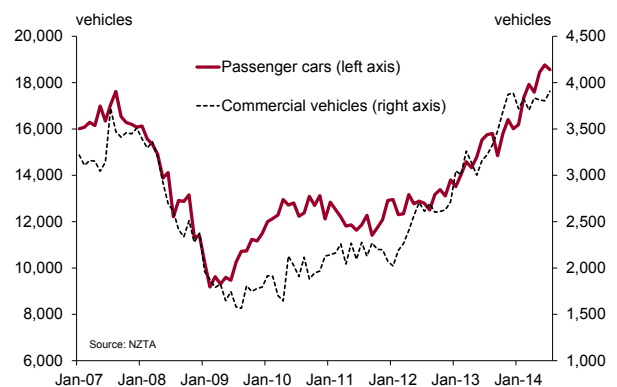
Jul total card transactions -0.1%
Jul core retail sectors +0.5%

Online job advertisements



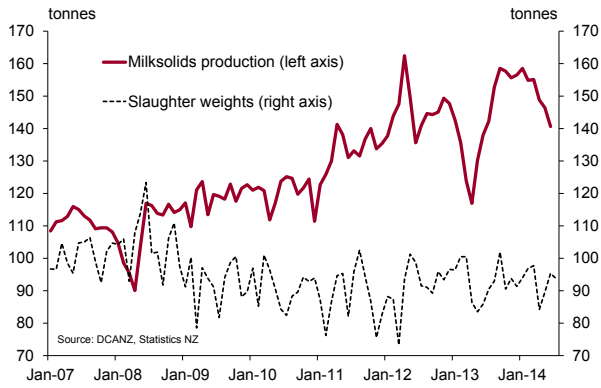
Jul online job advertisements -2.8%
Jul skilled vacancies -5.1%

Vehicle registrations



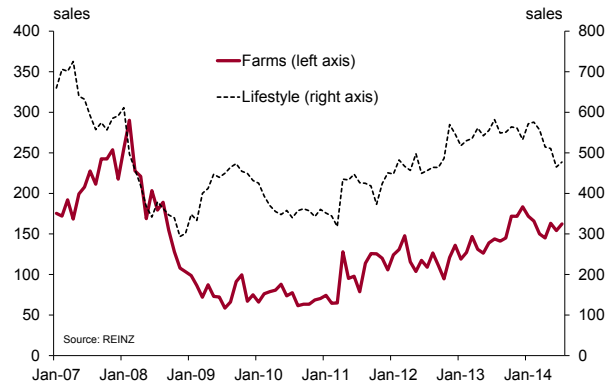
Jul passenger cars -1.1%
Jul commercial vehicles +2.7%

Agricultural output



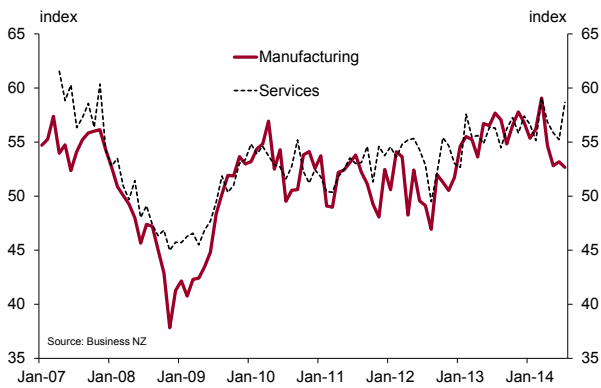
Jun milk production -4.0%
Jul slaughter weights -1.7%

Rural land sales



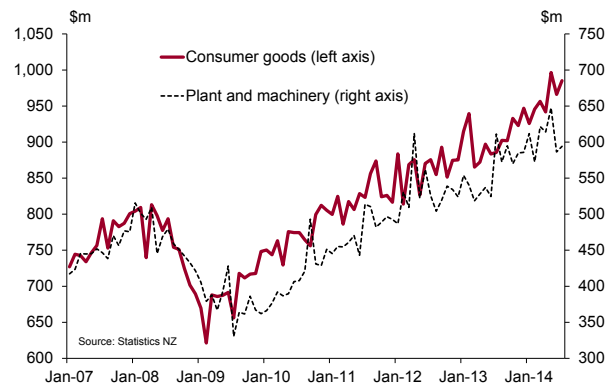
Jul farm sales +5.3%
Jul lifestyle property sales +2.7%

PMI surveys



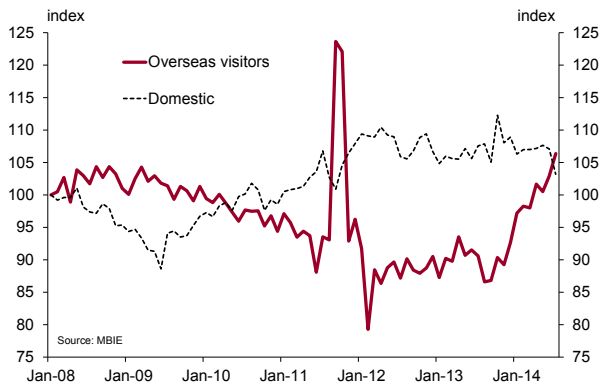
Jul manufacturing PMI 52.7
Jul services PMI 58.7

Imports, priced in foreign currency



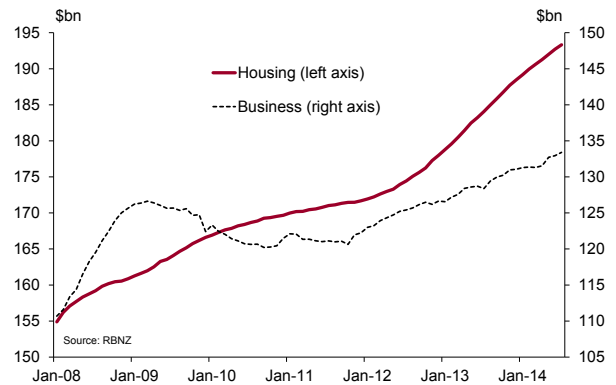
Jul consumer goods +2.0%
Jul plant and machinery +1.3%

Tourism spending



Jul overseas visitor spending +3.4%
Jul domestic tourism spending -3.6%

Credit aggregates



Jul housing credit +0.3%
Jul business credit +0.3%

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