

**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 on economic activity in New Zealand. Unlike their overseas equivalents, many of them receive little or no coverage on an individual basis.

The June indicators provide further evidence that the domestic economy is softening. Our momentum index (charted below) shows that a net 20% of our indicators recorded growth in the three months to June. Aside from a blip in April last year, this is the lowest reading since the economy's mid-2012 soft patch, when GDP growth slowed to 0.3% per quarter.

As we've noted before, GDP itself is likely to see a reasonably strong lift over the June quarter, as some of the temporary factors that restricted growth to just 0.2% in the March quarter reverse. But the underlying picture is one of waning momentum as we head into the second half of the year.

Not surprisingly, agriculture is the most downbeat sector at the moment. It's increasingly clear that a second straight season of weak dairy prices is going to be a drag on spending and investment, particularly in the rural regions. But we don't think that the urban centres will be immune to this, and indeed, recent business surveys suggest that dairying's woes have been a blow to confidence across a range of sectors.

That shock to confidence appears to be manifesting in some of our more forward-looking indicators. Current output is holding up – the PMI surveys were both stronger in June, with services remaining near its highs for the current cycle. But hiring and investment haven't fared so well: job advertisements have softened, imports of capital equipment have flattened out, and commercial vehicle registrations have slowed sharply.

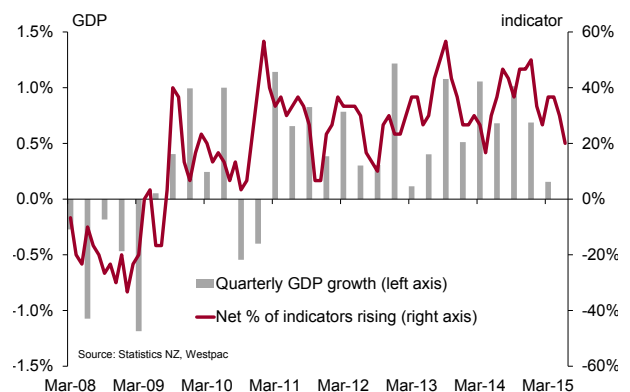
Surprisingly, confidence has fallen particularly hard in the construction sector. That seems out of line with the building consent figures, which show that the pipeline of building work

nationwide is holding steady, as the centre of gravity shifts from Canterbury to Auckland. But as we noted in a recent article, the mobility of construction workers is low; there's a real risk of rising unemployment in Canterbury as the quake rebuild passes its peak, even as the wave of homebuilding in Auckland struggles to find skilled workers.

Meanwhile, the property market continues to rumble on, so far untroubled by the restrictions on property investors that will come into force later this year. House prices rose strongly again in June, with some early signs that Auckland's strength is radiating out to other regions. Sales have continued to creep higher, within the constraint of a record low number of listings. Lifestyle properties are also in hot demand. (The dip in mortgage approvals in June might suggest the start of a slowdown, but weekly data points to a rebound in July.)

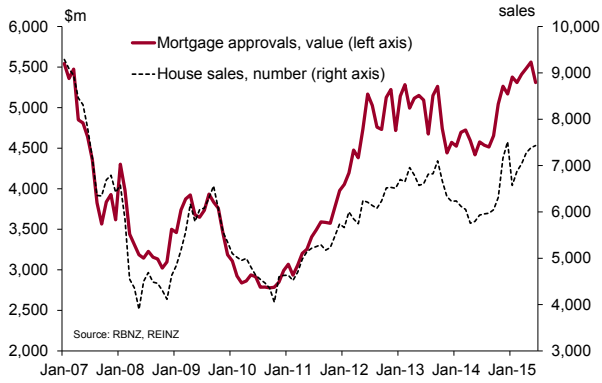
Our view is that weaker economic confidence and slower growth, along with the impending restrictions, will go some way towards cooling the rate of house price inflation, even in Auckland. But if that proves not to be the case, it's likely that a third round of macro-prudential tightening will be up for discussion at some point next year.

#### Local Knowledge indicators and quarterly GDP



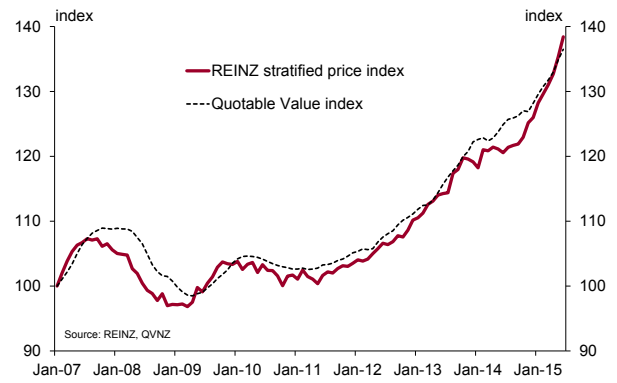
**Michael Gordon**  
Senior Economist

### Housing turnover



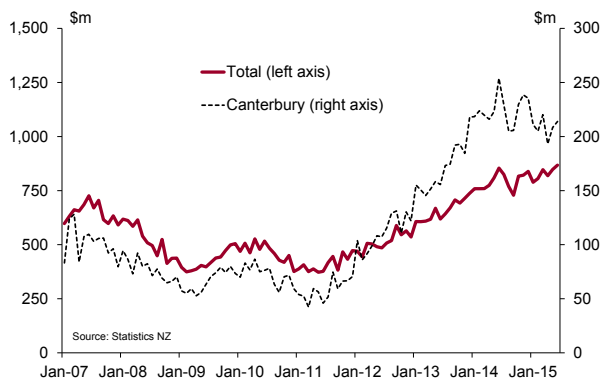
Jun mortgage approvals -4.5%  
Jun house sales +0.7%

### House prices



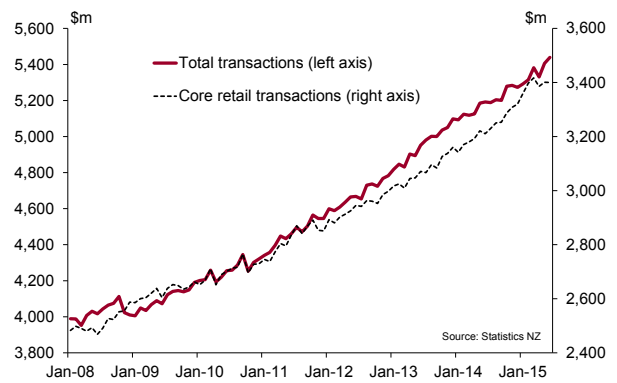
Jun REINZ price index +2.3%  
Jun QV price index +1.2%

### Residential building consents, by value



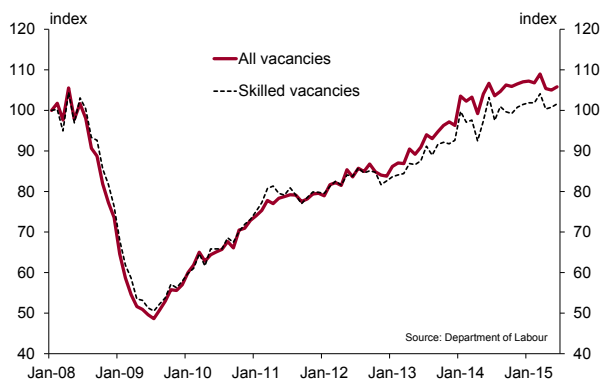
Jun building approvals +2.4%  
Jun Canterbury +2.7%

### Electronic card transactions



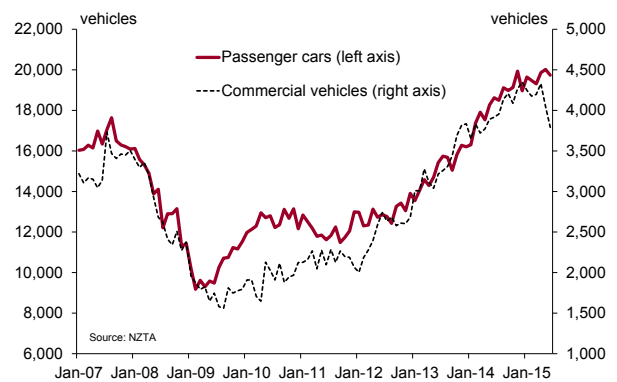
Jun total card transactions +0.6%  
Jun core retail sectors 0.0%

### Online job advertisements



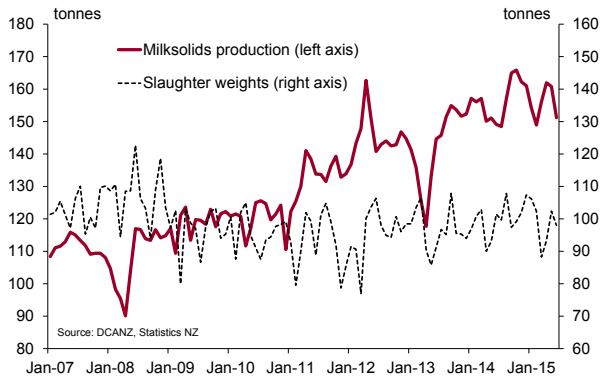
Jun online job advertisements +0.8%  
Jun skilled vacancies +0.8%

### Vehicle registrations



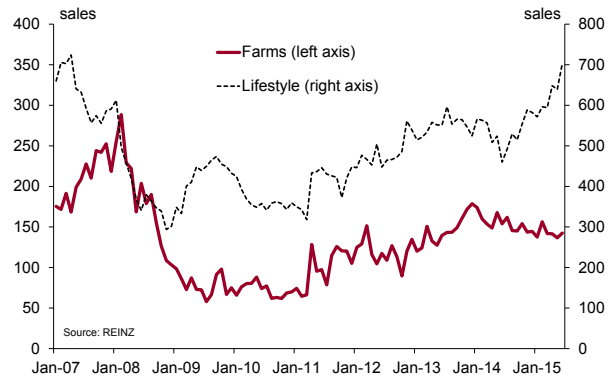
Jun passenger cars -1.4%  
Jun commercial vehicles -6.2%

### Agricultural output



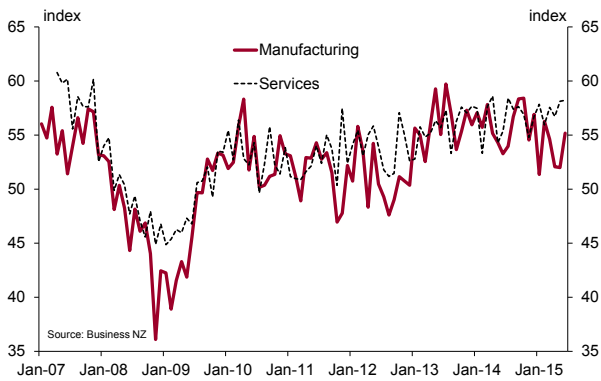
Jun milk production -6.6%  
Jun slaughter weights -4.2%

### Rural land sales



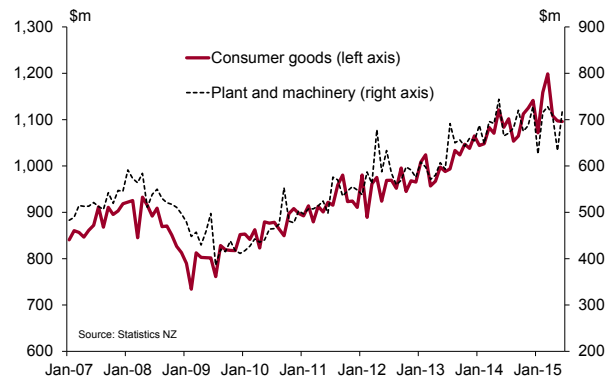
Jun farm sales +4.3%  
Jun lifestyle property sales +9.9%

### PMI surveys



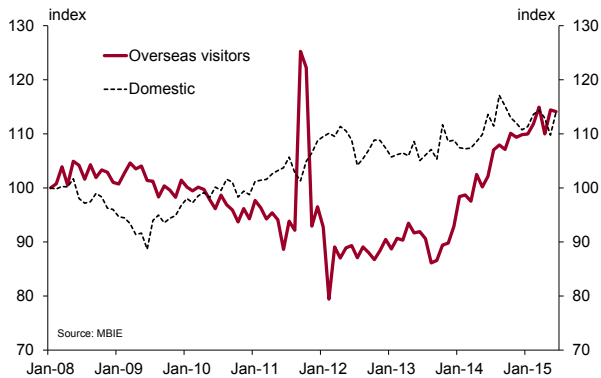
Jun manufacturing PMI 55.2  
Jun services PMI 58.2

### Imports, priced in foreign currency



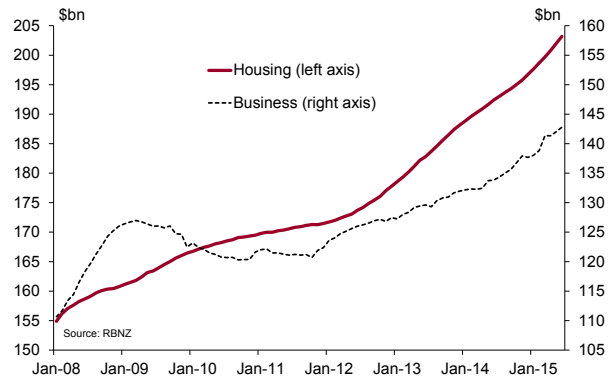
Jun consumer goods imports -0.1%  
Jun plant and machinery imports +13.7%

### Tourism spending



Jun overseas visitor spending -0.3%  
Jun domestic tourism spending +3.9%

### Credit aggregates



Jun housing credit +0.6%  
Jun business credit +0.6%

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