

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.

Just as the sentiment on the New Zealand economy turns decidedly gloomy, our suite of activity indicators has clocked up one of its strongest months in recent years. Of our 20 main series, 17 recorded an increase in July. Of course, monthly economic data can be quite volatile; the bounce looks slightly less dramatic on our momentum indicator (shown below), which takes a three-month average. Nevertheless, the strong start to the September quarter suggests that our forecast of 0.5% GDP growth for the quarter may be on the light side.

The strength of the July figures does not contradict our view that the New Zealand economy will experience a marked slowdown in growth over the next couple of years. Given the somewhat concentrated nature of the shocks hitting the economy, we'd expect to see more of a slow grind lower than a short, sharp shock. For instance, the loss of dairying income will take some time to radiate outwards – from around 12,000 dairy farmers initially, to businesses that serve the dairy industry, to rural towns more generally, and then eventually to the larger centres.

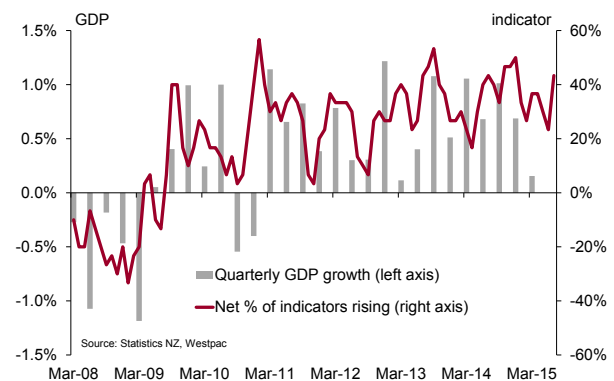
Interestingly, two of the three indicators that fell in July were rural in nature: farm sales continued to drift lower, and lifestyle property sales came off their highs. In contrast, meat production held at around average levels (despite reports of significant culling of dairy cows) and milk production rose in seasonally adjusted terms in July. These two indicators will be important to watch over the coming months, given that the recent bounce in world dairy prices appears to have been sparked by Fonterra's forecast of a 1.5% drop in milk collection this season. The milk production figures in particular will need to be interpreted carefully – they

are extremely seasonal, which makes it difficult to identify a genuine change in their trend.

The other significant 'shock' to growth is the peaking of quake rebuild activity in Canterbury. At a national level, there's no shortage of building work in the pipeline – indeed, housing consents surged to a ten-year high in July. The drop in confidence in the building industry may be more to do with the difficulty of transitioning away from Christchurch and towards Auckland as the main centre of activity. As we detailed in a recent report¹, there are a number of constraints to delivering the number of houses that Auckland's population growth requires.

The property market has continued its strong performance, with nationwide lending, sales and prices all heading higher in July. The finer details hint at some of the pre-positioning that we would expect to see ahead of the new tax rules (from October) and LVR restrictions (now delayed until November): listings in Auckland have risen, house price growth has slowed to a more sustainable pace, and the share of high-LVR investor loans has dipped. However, house prices have risen strongly in the rest of the upper North Island, benefiting from low mortgage rates, the impending softening of the LVR restrictions, and their proximity to Auckland.

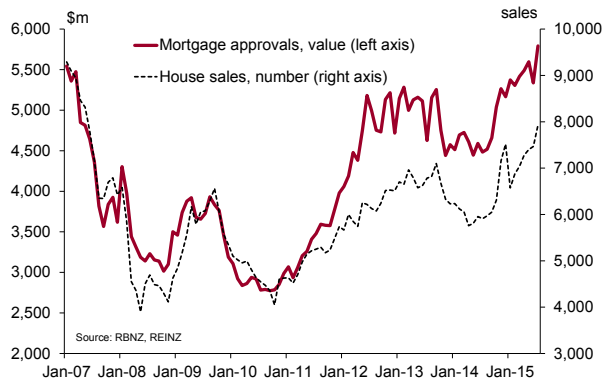
Local Knowledge indicators and quarterly GDP



Michael Gordon
Senior Economist

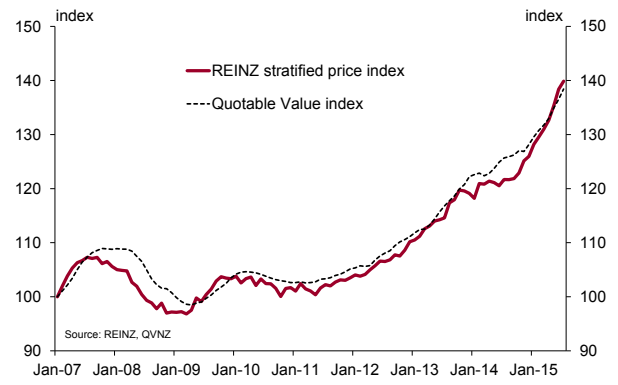
¹"Outlook for Auckland residential construction", available at www.westpac.co.nz/assets/Business/Economic-Updates/2015/Bulletins-2015/Outlook-for-Auckland-residential-construction-August-2015.pdf

Housing turnover



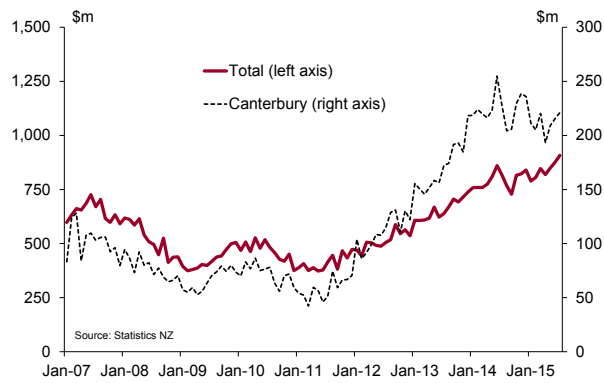
Jun mortgage approvals +8.5%
Jun house sales +6.1%

House prices



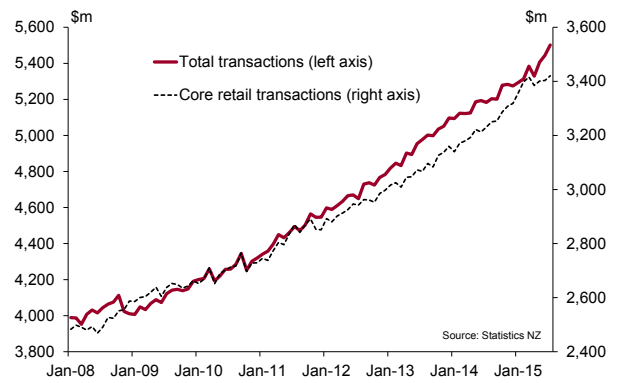
Jul REINZ price index +1.1%
Jul QV price index +1.4%

Residential building consents, by value



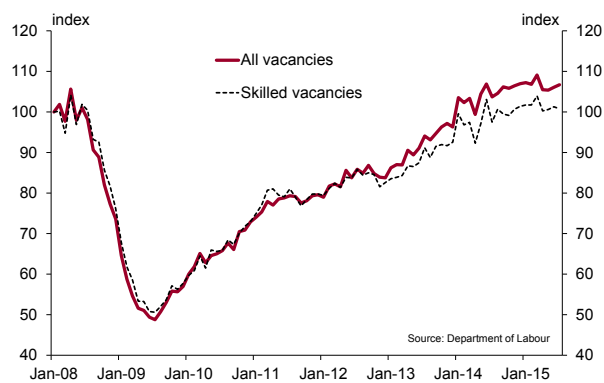
Jul building approvals +3.6%
Jul Canterbury +2.6%

Electronic card transactions



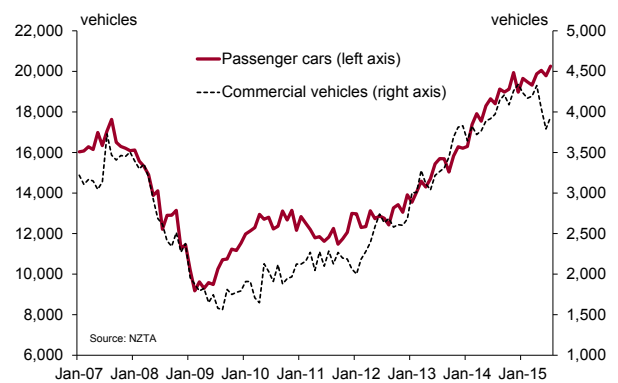
Jul total card transactions +1.1%
Jul core retail sectors +0.5%

Online job advertisements



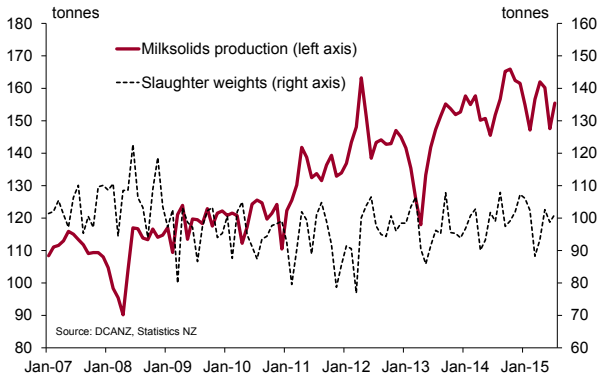
Jul online job advertisements +0.6%
Jul skilled vacancies -0.5%

Vehicle registrations



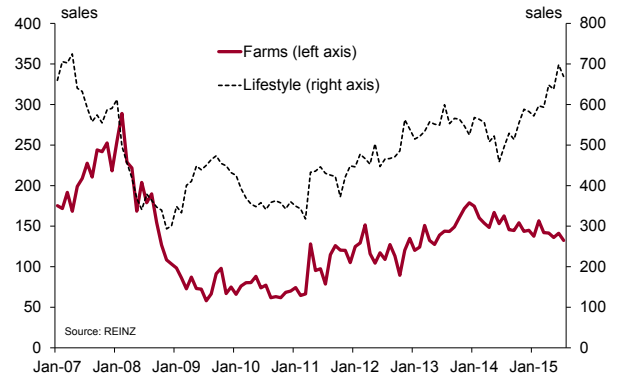
Jul passenger cars +2.4%
Jul commercial vehicles +3.9%

Agricultural output



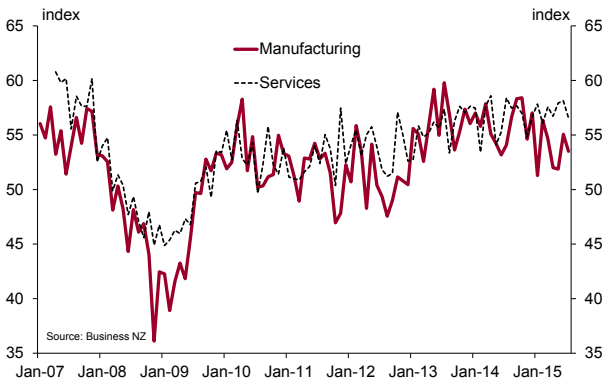
Jul milk production +5.3%
Jul slaughter weights +2.5%

Rural land sales



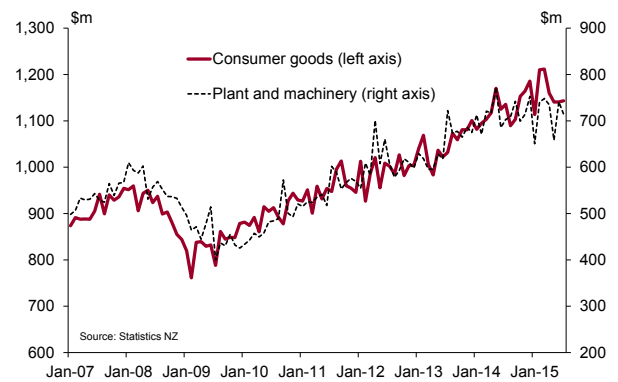
Jul farm sales -6.2%
Jul lifestyle property sales -4.1%

PMI surveys



Jul manufacturing PMI 53.5
Jul services PMI 56.5

Imports, priced in foreign currency



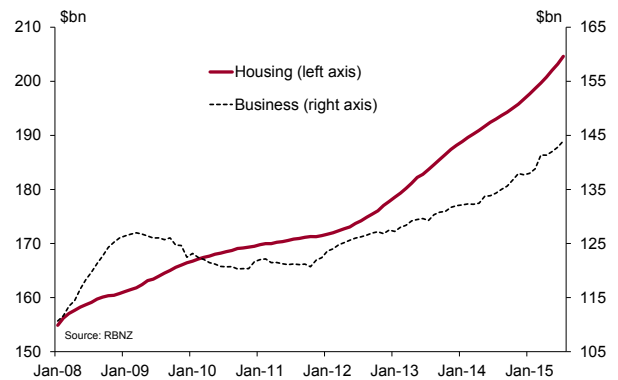
Jul consumer goods imports +0.2%
Jul plant and machinery imports -3.7%

Tourism spending



Jul overseas visitor spending +0.4%
Jul domestic tourism spending +0.5%

Credit aggregates



Jul housing credit +0.7%
Jul business credit +0.8%

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