

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 balance of indicators remained very strong over the three months to December, consistent with our view that we'll see another above-trend increase in December quarter GDP. Our forecast currently sits at 1% growth but we'll finalise that after next week's manufacturing survey.

However, as we've moved into the new year, the balance of indicators has turned markedly less positive. We've been saying lately that we expect to see a run of weaker data over the first half of the year, as dry weather takes a bite out of agricultural output and weighs on spending and investment in the rural regions. That certainly showed up in the areas in which you'd expect: milk production is falling, farm sales have continued to slow, and tractor sales have been relatively subdued. Meat production has been running above average for the last few months, but that's largely a timing shift as livestock are sent to slaughter earlier; this will boost GDP growth a little in the March quarter but drag it down in June.

Our preliminary forecast is for GDP growth to slow to just 0.4% in the March quarter, with the drought knocking off about 0.5 percentage points. However, the final toll of the drought still very much depends on the extent of rainfall – or lack of it – over the next month or so.

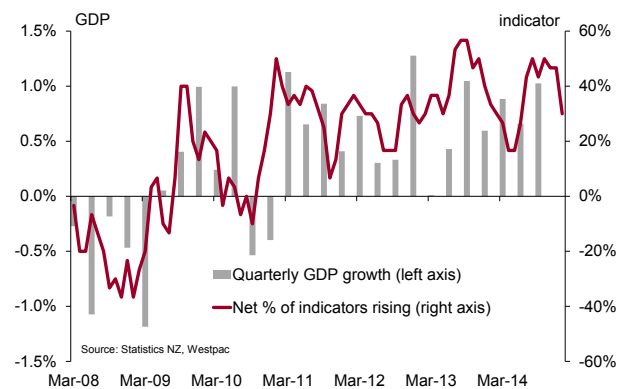
The January data also raised some warning flags in less obvious areas. Most prominently, a 13% drop in house sales unwound much of the rebound that we had seen since last September's election. This doesn't square with the continued high level of loan approvals over that time, so for now we're inclined to downplay this result; it may be a product of difficulties with seasonal adjustment.

The sharp drop in the manufacturing PMI for January also caught our attention. A closer look revealed that the weakness was highly concentrated in petroleum refining, hardly an engine of growth for the New Zealand economy.

However, we can't so easily dismiss the building approvals figures, where the upward trend seems to have stalled since the middle of last year. That's a concern given the evidence that housing demand has strengthened in that time: net inward migration continues to set new highs, fixed-term mortgage rates have fallen sharply due to offshore influences, and house prices have accelerated again, especially in Auckland where they're once again running at double-digit annual growth.

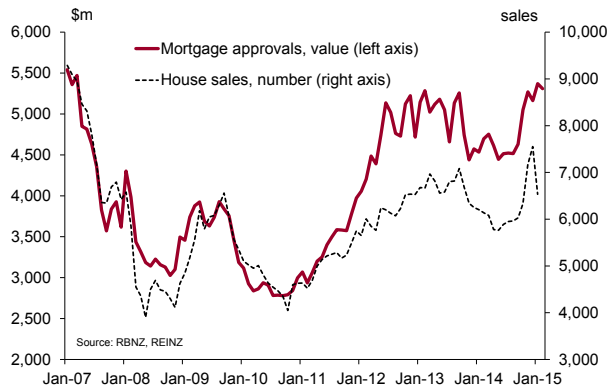
If the supply side of the housing market is not responding quickly enough, there's a good chance we'll see further measures to dampen housing demand this year, in the form of macroprudential tools. Indeed, when the Reserve Bank introduced its 'speed limit' on high loan-to-value home loans in 2013, it described this as a temporary measure to dampen demand while giving supply a chance to catch up. The recent evidence suggests that that gap is still widening, and that this 'temporary' measure risks becoming entrenched as it has in other countries.

Local Knowledge indicators and quarterly GDP



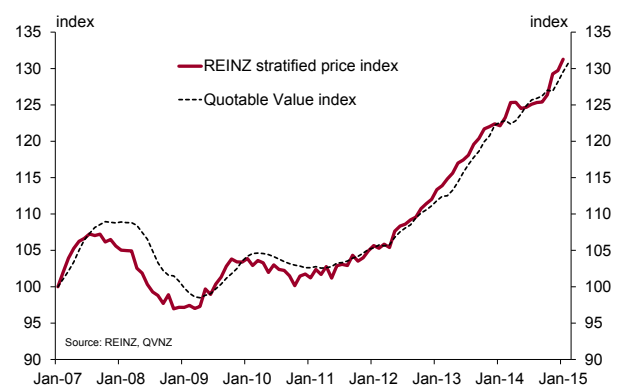
Michael Gordon
Senior Economist

Housing turnover



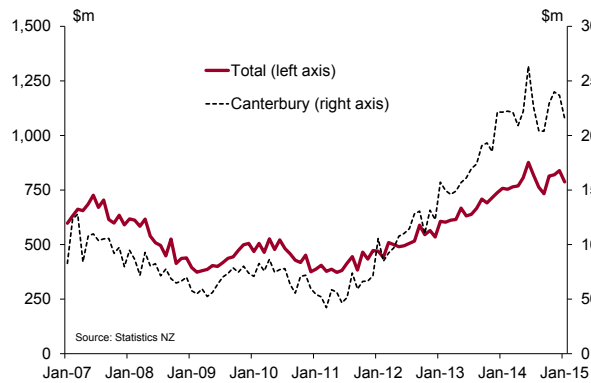
Feb mortgage approvals -1.2%
Jan house sales -13.5%

House prices



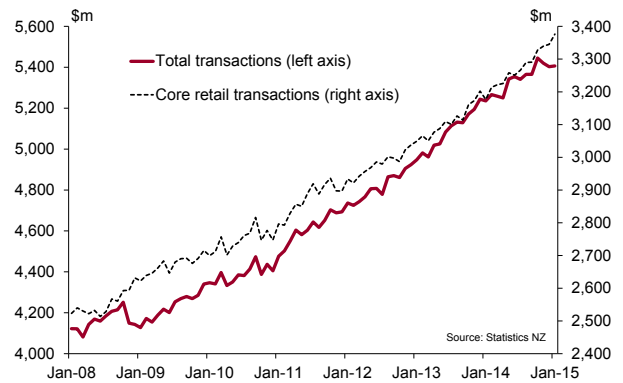
Jan REINZ price index +1.2%
Feb QV price index +0.9%

Residential building consents, by value



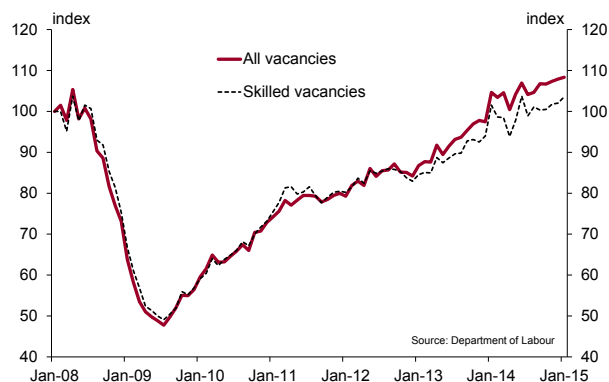
Jan building approvals -6.2%
Jan Canterbury -9.0%

Electronic card transactions



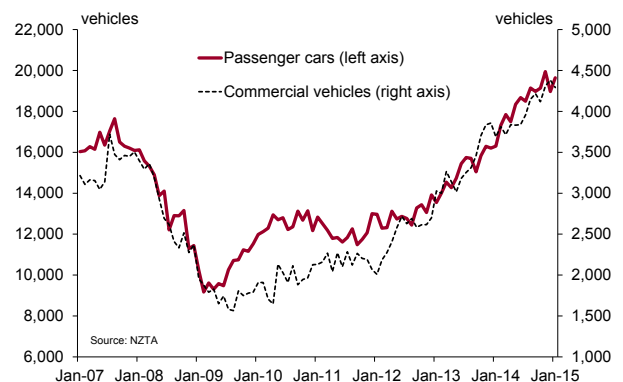
Jan total card transactions +0.1%
Jan core retail sectors +0.9%

Online job advertisements



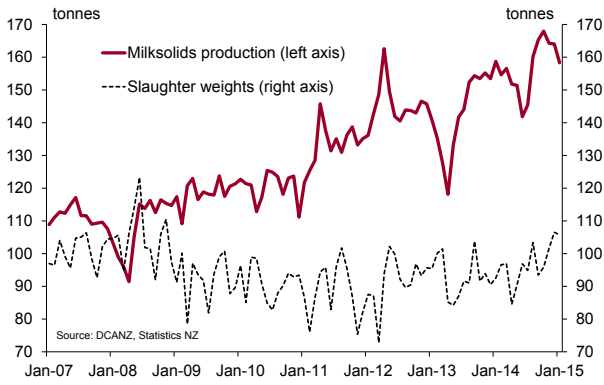
Jan online job advertisements +0.4%
Jan skilled vacancies +1.5%

Vehicle registrations



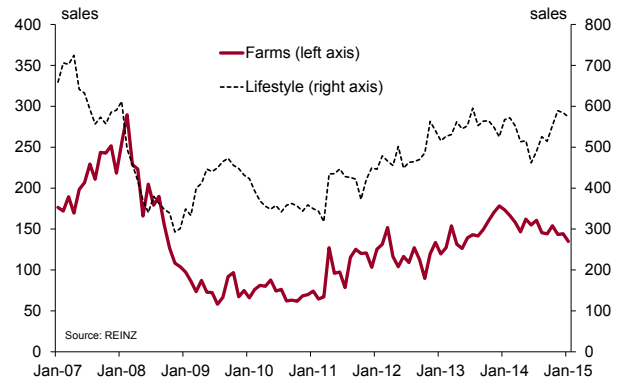
Jan passenger cars +3.5%
Jan commercial vehicles -2.1%

Agricultural output



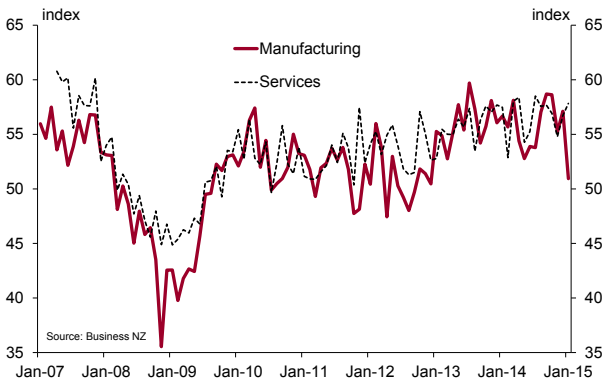
Jan milk production -3.5%
Jan slaughter weights -0.7%

Rural land sales



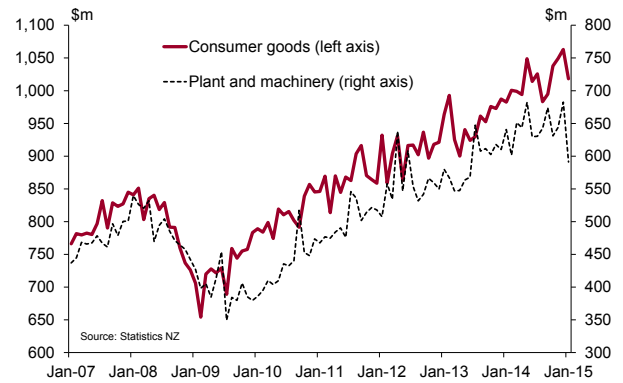
Jan farm sales -6.5%
Jan lifestyle property sales -1.8%

PMI surveys



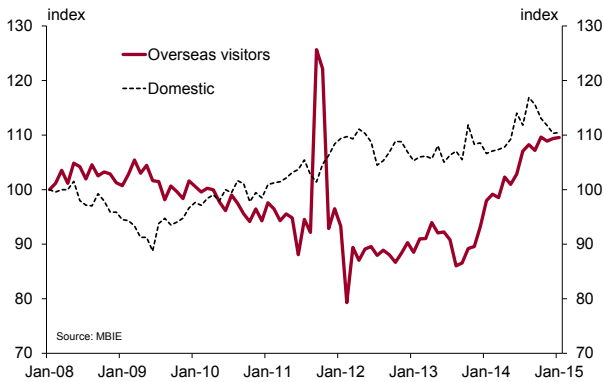
Jan manufacturing PMI 50.9
Jan services PMI 57.8

Imports, priced in foreign currency



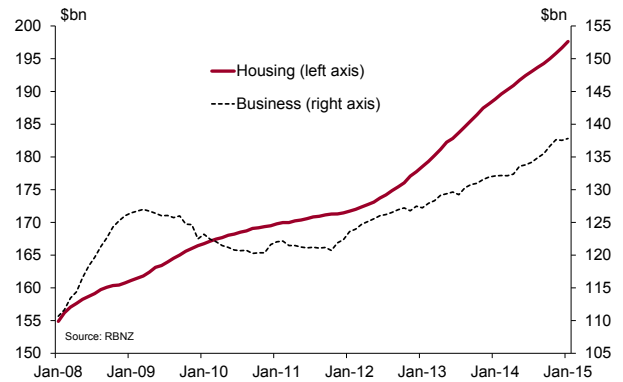
Jan consumer goods imports -4.2%
Jan plant and machinery imports -14.2%

Tourism spending



Jan overseas visitor spending +0.2%
Jan domestic tourism spending +0.2%

Credit aggregates



Jan housing credit +0.5%
Jan business credit +0.2%

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