

Local Knowledge

6 November 2015

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.

On balance our indicators have softened again, with more falls than rises in the month of September. That's not entirely surprising, as the widespread strength in July and August was always going to be a hard act to follow. And it leaves us with a more sensible story about the economy's performance over the September quarter as a whole, more in line with the 0.7% rise in GDP that we have been forecasting.

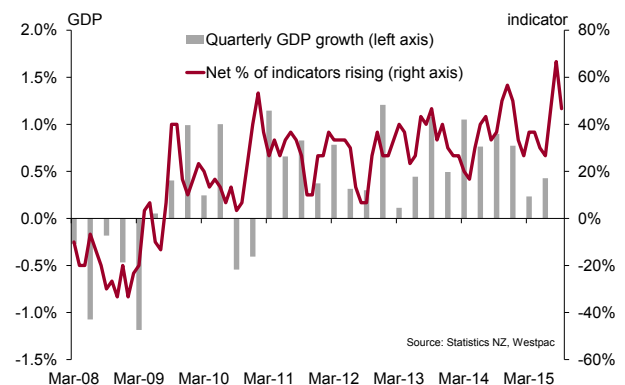
Given that our suite of indicators is somewhat housing-centric (reflecting the range and quality of the monthly data that's available), it's important to note that we may have reached a significant inflection point. From 1 October, new tax rules and foreign buyer requirements for investment properties came into force, and on 1 November this was followed by tighter lending restrictions in Auckland. There's evidence that at least some of the froth in the Auckland housing market up to September was driven by buyers trying to get in ahead of the new rules. If so, we could expect to see a hole in housing demand over the coming months (the limited data so far for October suggest that this is indeed the case). The housing restrictions could have a dampening effect on wider activity as well, given that housing wealth appears to play a strong supporting role in consumer spending.

The other developing negative for the economy lies in the agricultural sector. A second year of low milk prices has seen dairy farmers tighten their belts and cull their herds, and consequently milk production is now running below last year's levels. The very real prospect of an El Niño weather pattern bringing drought to many key farming regions poses a further threat to farm incomes and spending over the summer. The structure of the farming sector has evolved since the last major El Niño in 1997-98 in ways that will help to soften the economic impact, but nevertheless some pain will be unavoidable.

Elsewhere, though, there are a number of sectors that remain in reasonably good shape. Retail spending is growing at a solid clip, overseas tourist numbers are powering ahead, and job advertisements have resumed a modest upward trend. Building consents still appear to be trending higher, although it's a little concerning that the pace even in Auckland has waned in the last two months, given the need for further increases in homebuilding just to meet population growth.

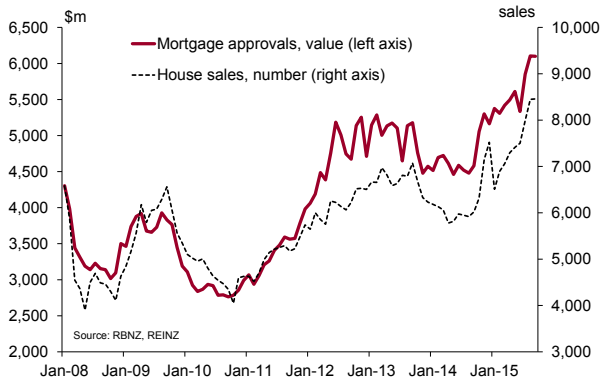
The PMI surveys tell an interesting tale about the state of the economy. The manufacturing survey has softened compared to last year but remains above the 50 level that denotes growth; in contrast, the services measure has powered ahead to its highest level since 2007. However, it's the manufacturing survey that has a much stronger correlation with overall GDP growth. That seems odd given their relative weightings in the economy – services is about two-thirds – but it may reflect the difficulty of measuring the 'value' of output in many service sectors for GDP purposes.

Local Knowledge indicators and quarterly GDP



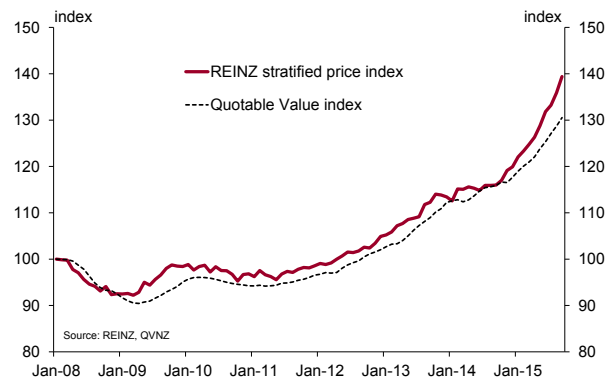
Michael Gordon
Senior Economist

Housing turnover



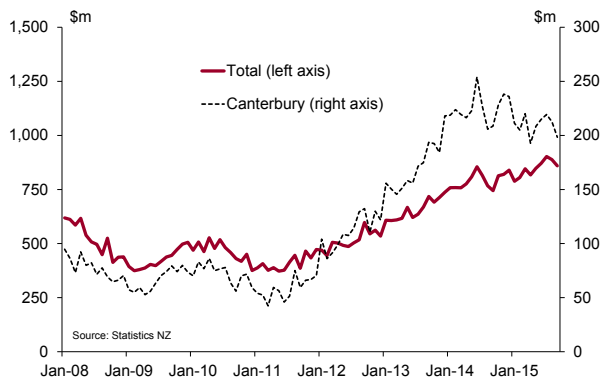
Sep mortgage approvals -0.1%
 Sep house sales +0.1%

House prices



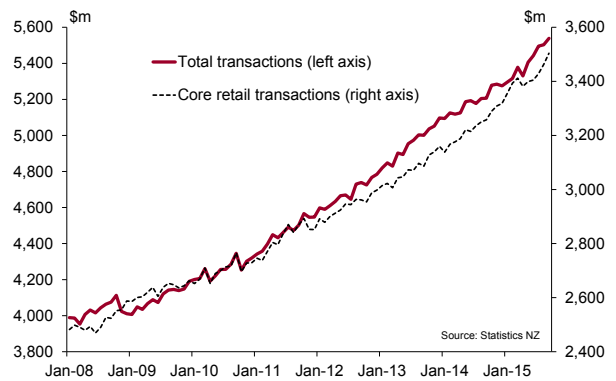
Sep REINZ price index +2.6%
 Sep QV price index +1.5%

Residential building consents, by value



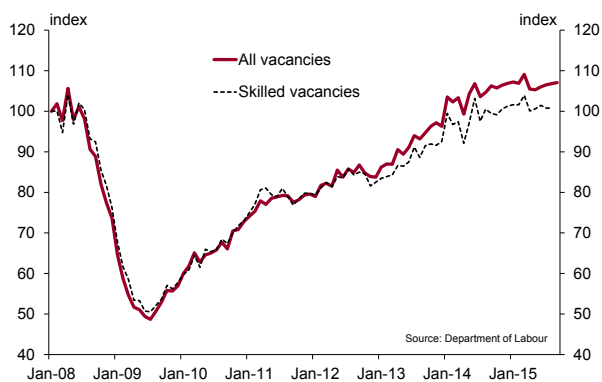
Sep building approvals -3.3%
 Sep Canterbury -6.7%

Electronic card transactions



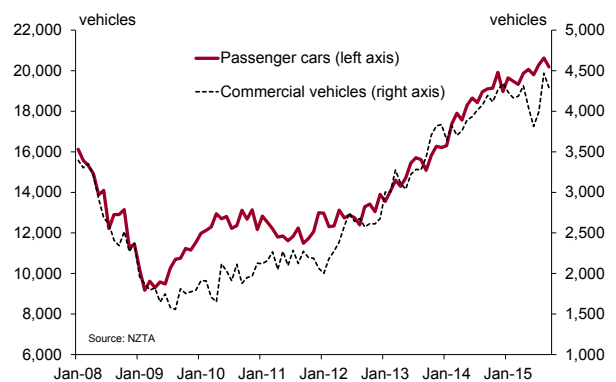
Sep total card transactions +0.7%
 Sep core retail sectors +1.2%

Online job advertisements



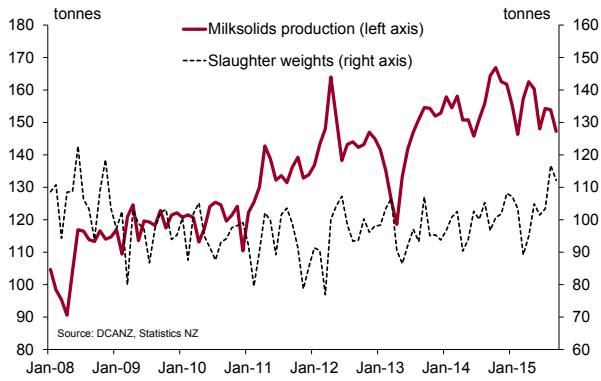
Sep online job advertisements +0.2%
 Sep skilled vacancies n/a

Vehicle registrations



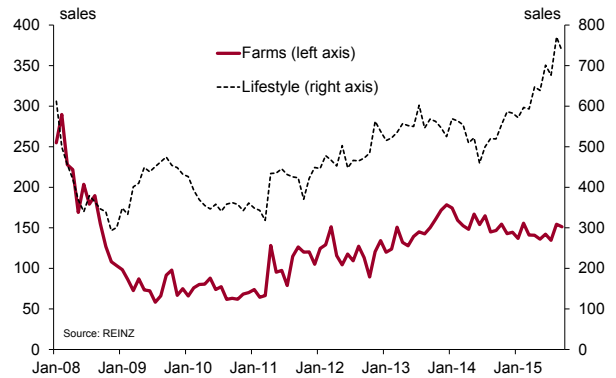
Sep passenger cars -2.1%
 Sep commercial vehicles -4.0%

Agricultural output



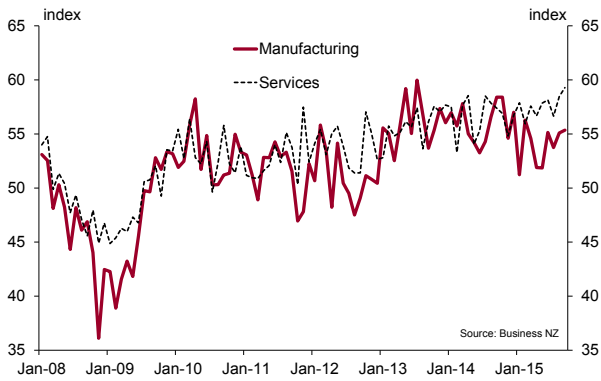
Sep milk production -4.3%
 Sep slaughter weights -3.9%

Rural land sales



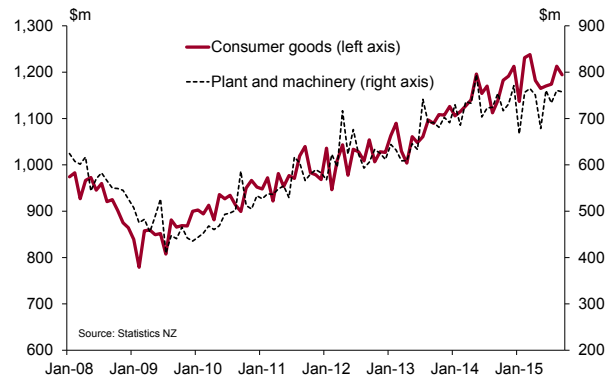
Sep farm sales -2.1%
 Sep lifestyle property sales -4.5%

PMI surveys



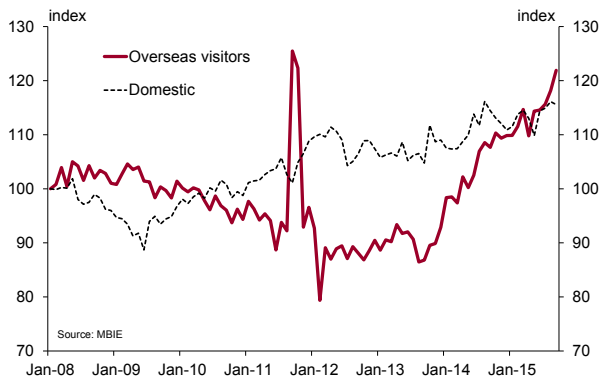
Sep manufacturing PMI 55.4
 Sep services PMI 59.3

Imports, priced in foreign currency



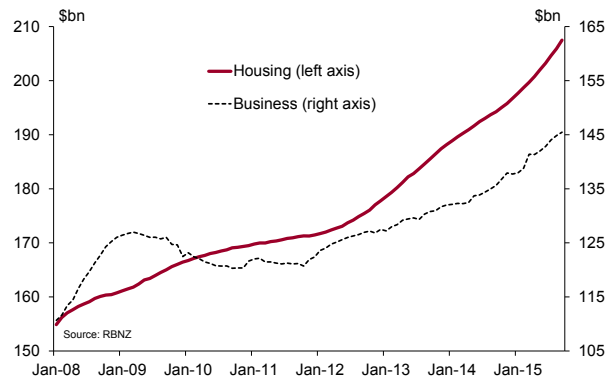
Sep consumer goods imports -1.5%
 Sep plant and machinery imports -0.4%

Tourism spending



Sep overseas visitor spending +3.2%
 Sep domestic tourism spending -0.5%

Credit aggregates



Sep housing credit +0.8%
 Sep business credit +0.4%

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