

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.

In our latest quarterly *Economic Overview*, released this week, we noted that the New Zealand economy had regained some momentum by the end of 2015 after a flat patch in the first half of the year. The Local Knowledge indicators put some meat onto the bones of that statement: the number of positive signals over the last few months of the year was roughly on a par with what we saw in 2013 and 2014, when GDP growth was accelerating nicely. The fragments of data that we have so far for January have been fairly positive too, though we'll review them more comprehensively in next month's issue.

As we noted in the *Overview*, two of the recent highlights for the local economy have been construction and tourism. Building consents have picked up sharply in recent months, for both residential and commercial construction, implying a significant amount of work in the pipeline for 2016. The pace of homebuilding in Canterbury has been winding down for some time, but this is being more than made up for by a surge in Auckland, in response to strong population growth and a legacy of under-building since the recession. The number of homes consented is still short of what's needed, but to us the recent rate of increase sends an encouraging signal about the building industry's capacity to meet this demand.

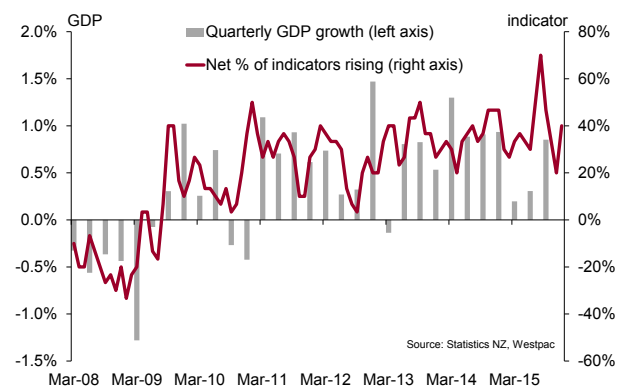
Meanwhile, the tourism industry is experiencing a surge in overseas visitors, after several years of stagnation following the financial crisis. The tourist spending series used here, which is extracted from card spending data, tells a remarkable story: the level of spending that was briefly reached during the 2011 Rugby World Cup is now being achieved on a regular basis.

It's also worth noting the strong readings for the PMI surveys for both manufacturing and services. The services measure reached an eight-year high in November and wasn't too far off that mark in December, while the manufacturing measure has picked up to its highest level since late 2014. It's the latter measure that has a closer correspondence with GDP growth (despite accounting for a much smaller share of GDP), so we'll be very interested to see if its recent upturn is sustained.

Despite the positive starting point for the domestic economy in 2016, there are some clouds on the horizon. For one, it's becoming clear that the restrictions that were introduced in October/November have had a significant cooling effect on the Auckland housing market. This may be desirable from a financial stability point of view, but we should also be aware that a housing market slowdown can also weigh on household spending via wealth effects.

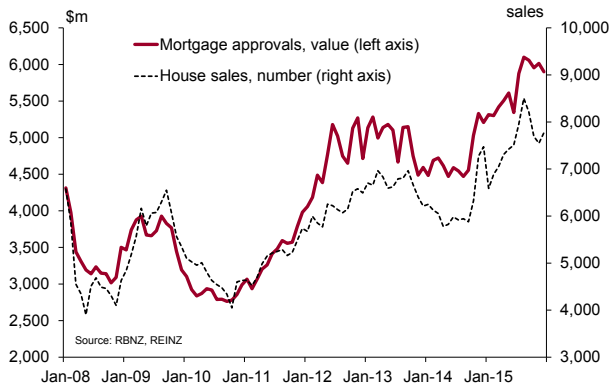
The other big cause for concern is dairy prices. So far the domestic economy has been surprisingly resilient to the sharp drop in dairying incomes. But with the looming prospect of a third straight season of low milk prices, we'd expect to see a more perceptible hit to confidence and activity in the rural regions over the coming year.

Local Knowledge indicators and quarterly GDP



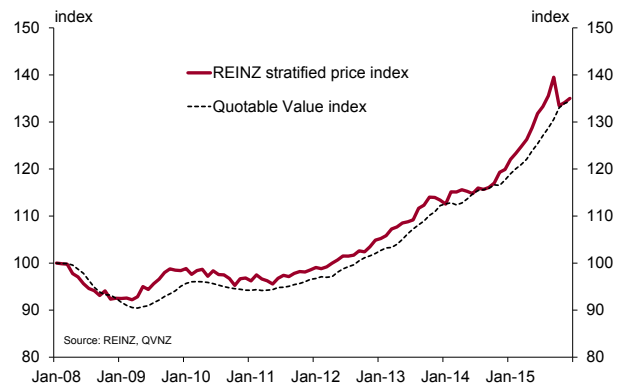
Michael Gordon
Senior Economist

Housing turnover



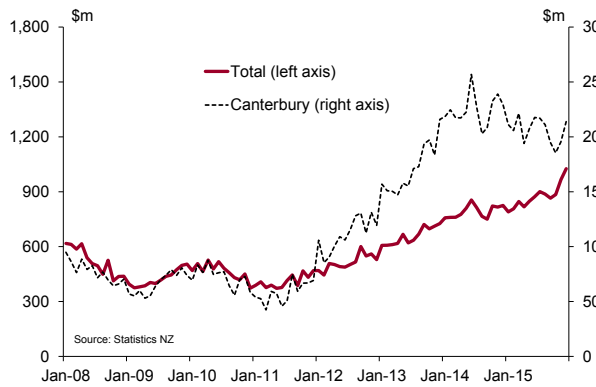
Dec mortgage approvals -1.9%
Dec house sales +2.7%

House prices



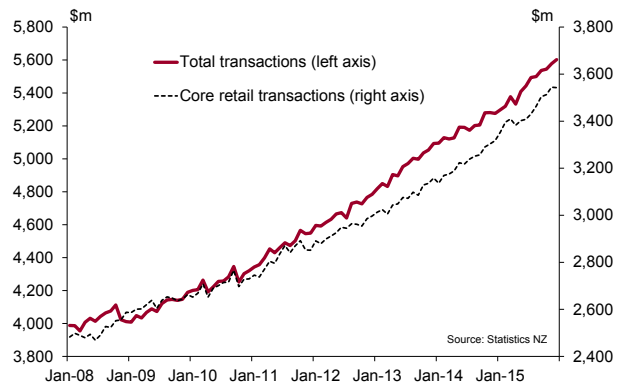
Dec REINZ price index +0.8%
Dec QV price index +0.4%

Residential building consents, by value



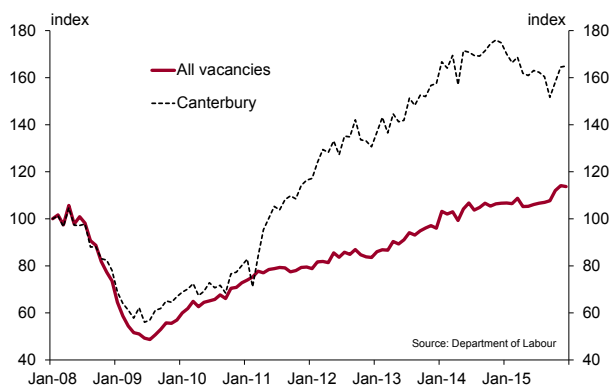
Dec building approvals +6.1%
Dec Canterbury -5.2%

Electronic card transactions



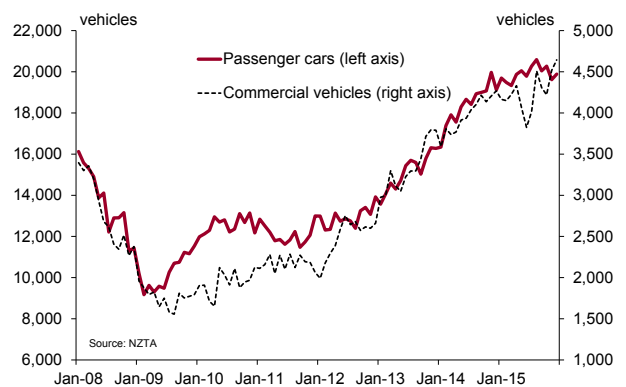
Dec total card transactions +0.4%
Dec core retail sectors 0.0%

Online job advertisements



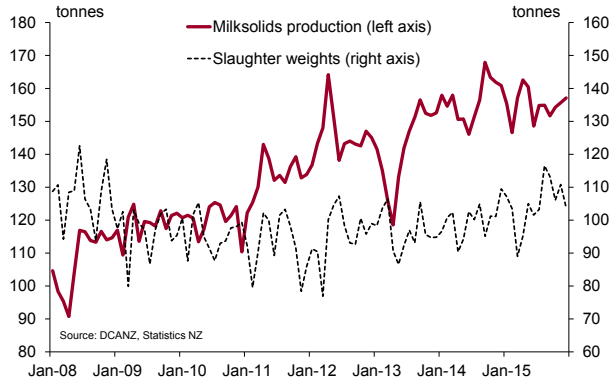
Dec online job advertisements -0.4%
Dec Canterbury +0.3%

Vehicle registrations



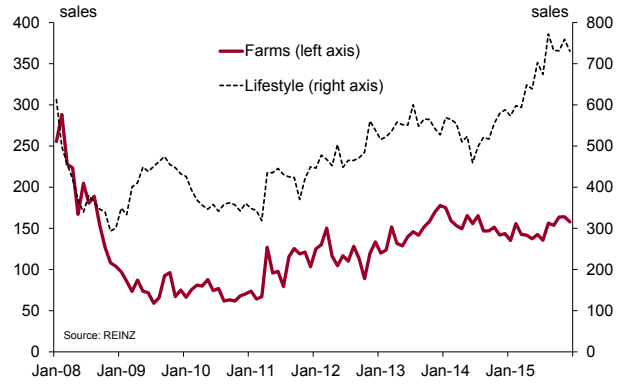
Dec passenger cars +1.4%
Dec commercial vehicles +2.8%

Agricultural output



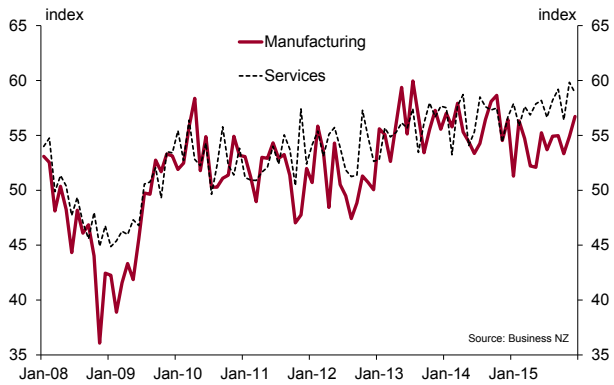
Dec milk production +0.9%
Dec slaughter weights -6.3%

Rural land sales



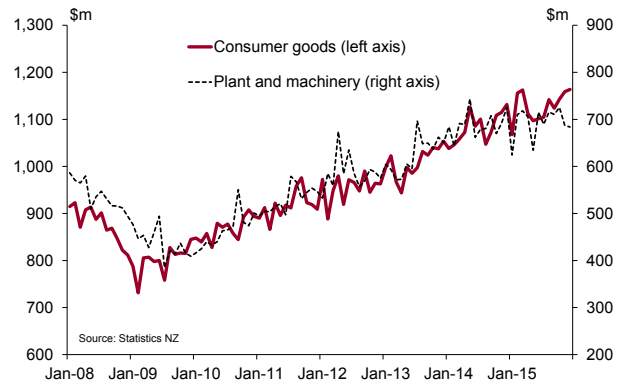
Dec farm sales -3.8%
Dec lifestyle property sales -3.8%

PMI surveys



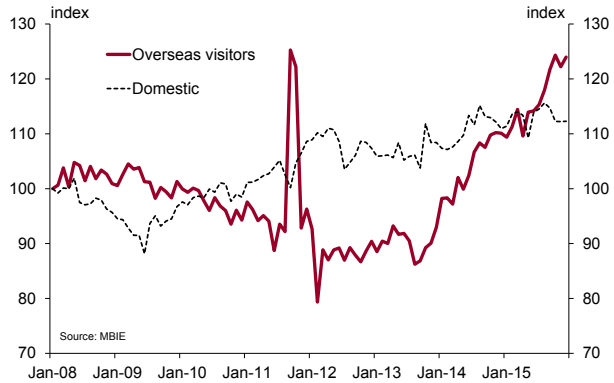
Dec manufacturing PMI 57.0
Dec services PMI 58.9

Imports, priced in foreign currency



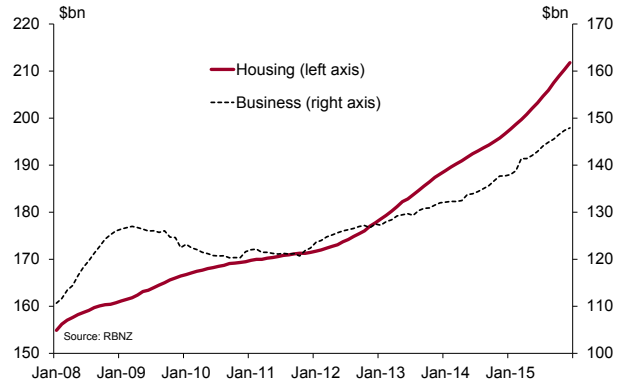
Dec consumer goods imports +0.4%
Dec plant and machinery imports -0.5%

Tourism spending



Dec overseas visitor spending +1.5%
Dec domestic tourism spending +0.1%

Credit aggregates



Dec housing credit +0.7%
Dec business credit +0.4%

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