

# Local Knowledge

5 April 2016

**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 indicators for February provided more evidence of a slow start to the year for the New Zealand economy. This is in line with our near-term view on GDP: after two quarters in a row of 0.9% gains, we expect the pace of growth to slow to 0.5% in the March quarter. While that's no more than population growth, it would hardly be a disastrous result – and we do think that this will mark the low point for growth this year. Today's Quarterly Survey of Business Opinion will shed some more light on the extent to which the economy has slowed.

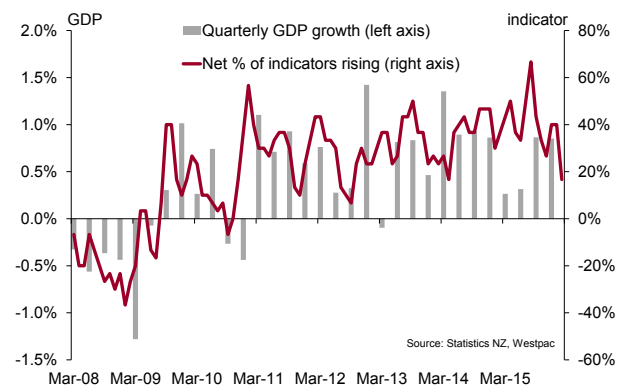
At least some of the softness that we expect for the quarter is due to timing. As we noted last month, meat processing will be a drag on growth over the early part of this year. The prospect of an El Niño drought, as well as low dairy prices, led farmers to bring forward a significant amount of culling into the second half of last year. Consequently, there have been fewer animals available for slaughter than usual in the last few months.

Aside from the early cull, the direct impact of the dairy sector's woes on activity appears to have been fairly muted to date. Milk production has held steady over the last few months, due to good pasture growth conditions. But there are some straws in the wind to suggest that the shortfall of dairy income is acting as a drag on spending elsewhere. Imports of capital equipment have been declining in recent months, car sales have flattened out, and domestic tourism spending has fallen. It's difficult to attribute the source of these slowdowns – the regional breakdown, for instance, doesn't tell a consistent story – but we will continue to watch them for signs of a sustained downturn.

The slowdown in the housing market, following the wave of new regulations late last year, accounts for a significant part of the decline in our Local Knowledge indicators. However, the market may be reaching a turning point. There is some evidence that turnover in the Auckland market is picking up again (although anecdotes should be treated with caution, as March is typically the busiest month of the year). And after a sharp drop in house prices in October, the picture seems to be one of gradual price increases in Auckland, rather than an ongoing downturn. Meanwhile, house prices are accelerating in a growing number of regions, thanks to low borrowing rates and, at the margin, a loosening of lending restrictions outside of Auckland.

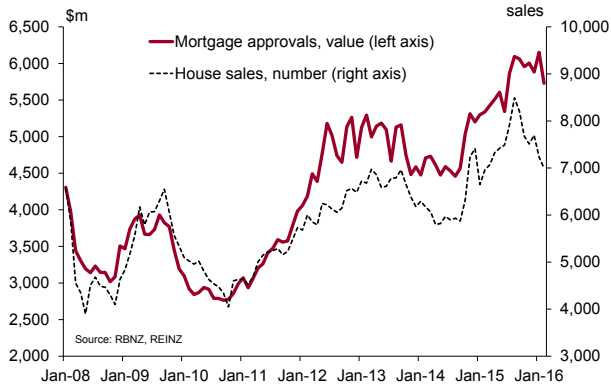
As we expected, the construction sector is shaping up as a significant driver of economic activity over the next year or more. The value of housing consents rose to a new cycle high in February, supporting our suspicion that the sharp drop in January was just due to a holiday period lull. We expect to see further growth in the national figures, even with the housing aspect of Canterbury's earthquake rebuild now well past its peak. Around 9,500 homes were consented in Auckland in the last year; we think that pace needs to reach around 11,000 a year to meet the city's population pressures.

## Local Knowledge indicators and quarterly GDP



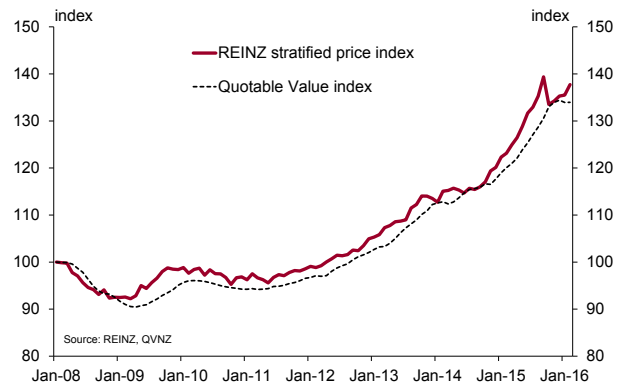
**Michael Gordon** - Senior Economist

### Housing turnover



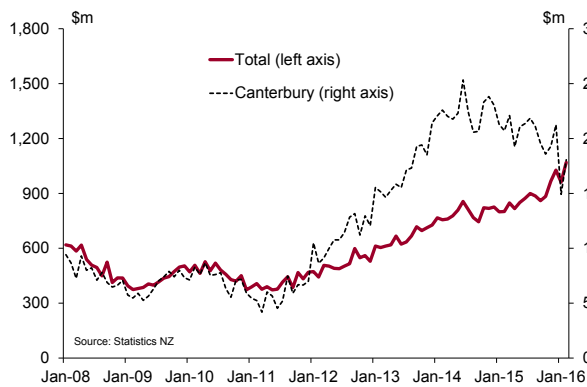
Feb mortgage approvals -6.9%  
Feb house sales -3.3%

### House prices



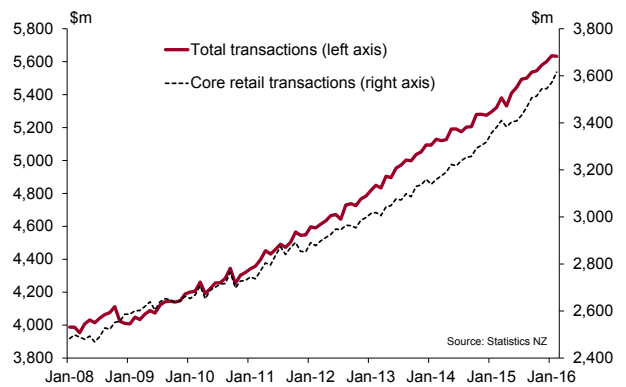
Feb REINZ price index +1.6%  
Feb QV price index 0.0%

### Residential building consents, by value



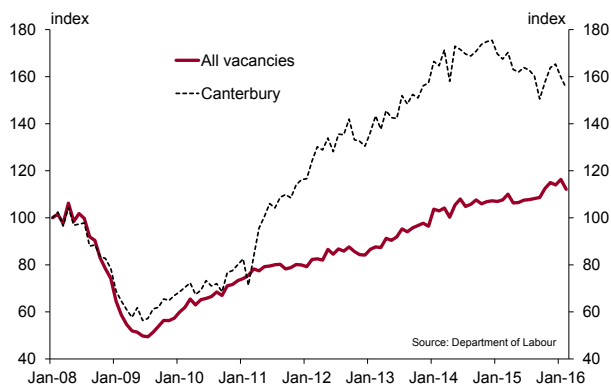
Feb building approvals +11.2%  
Feb Canterbury +21.1%

### Electronic card transactions



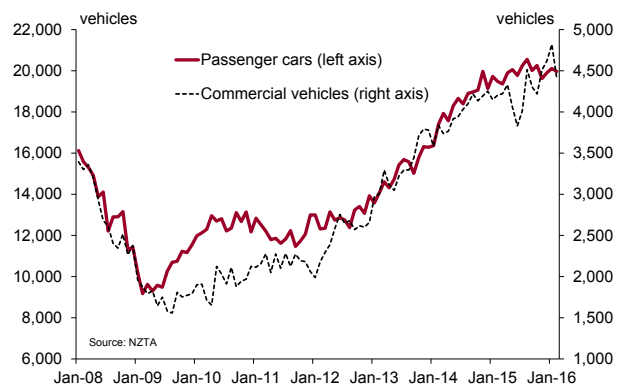
Feb total card transactions -0.1%  
Feb core retail sectors +1.2%

### Online job advertisements



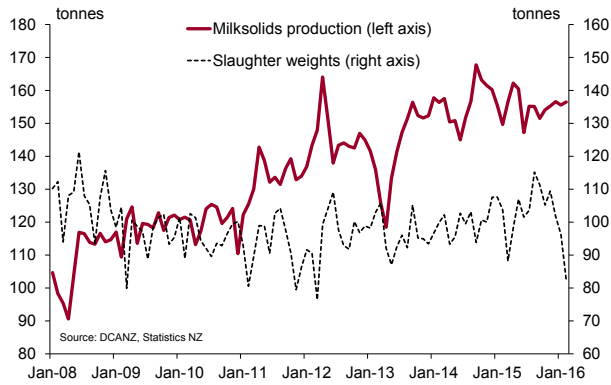
Feb online job advertisements -3.6%  
Feb Canterbury -2.9%

### Vehicle registrations



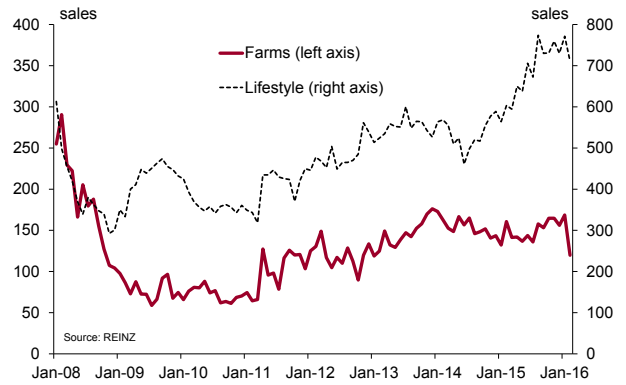
Feb passenger cars -0.7%  
Feb commercial vehicles -8.6%

### Agricultural output



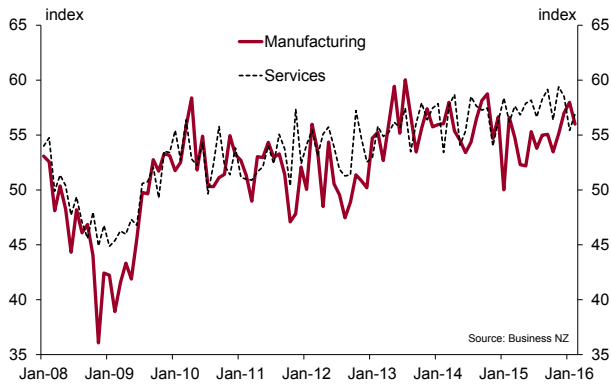
Feb milk production +0.6%  
Feb slaughter weights -14.2%

### Rural land sales



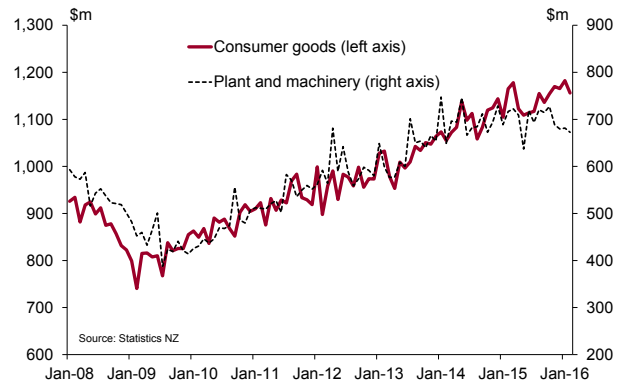
Feb farm sales -28.9%  
Feb lifestyle property sales -7.8%

### PMI surveys



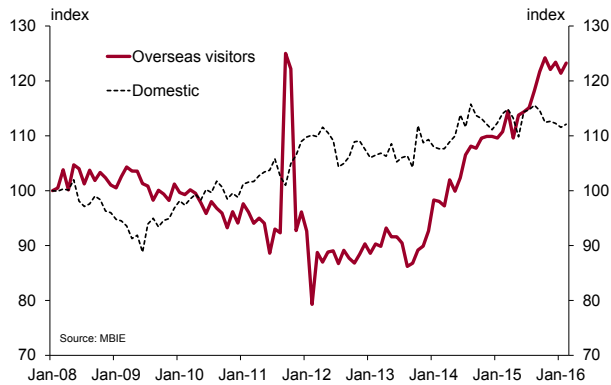
Feb manufacturing PMI 56.0  
Feb services PMI 56.9

### Imports, priced in foreign currency



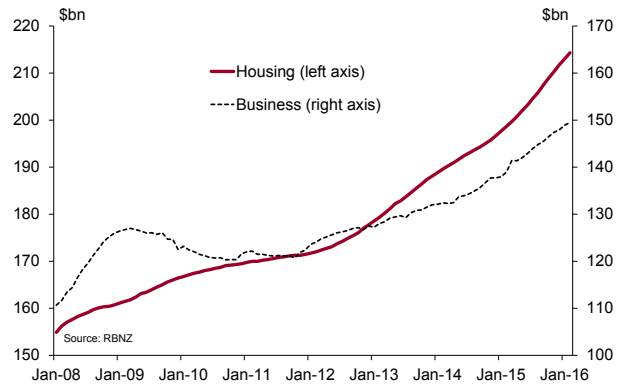
Feb consumer goods imports -2.2%  
Feb plant and machinery imports -1.3%

### Tourism spending



Feb overseas visitor spending +1.5%  
Feb domestic tourism spending +0.5%

### Credit aggregates



Feb housing credit +0.6%  
Feb business credit +0.3%

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