

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.

After a relatively soft patch in February, the economy's performance over March was around average, with 13 of our 20 main indicators recording growth. Putting the last three months together, our indicators suggest a slower pace of GDP growth in the March quarter compared to the 0.9% gains in each of the two previous quarters.

That said, other indicators of quarterly GDP haven't shown many signs of slowing momentum. While last month's *Quarterly Survey of Business Opinion* highlighted some growing concerns about the near-term outlook, it suggested that activity has held up to date. And yesterday's labour market reports showed strong growth in job numbers and hours worked over the March quarter, especially in the services sectors. Consequently, we've bumped up our forecast for March quarter GDP growth, from 0.6% to 0.7%.

Before we delve into the details of the monthly data, we'd like to make a technical point about seasonal adjustment. The Easter holiday period fell entirely in March this year (for the first time since 2008), meaning fewer working days in March than usual. The seasonal adjustment process does account for the shifting timing of Easter, but even then it tends to be imperfect. So we suspect that the softness in some of the March numbers may be overstated. And indeed, the small handful of data releases that we have for April are shaping up quite strong, reflecting the fact that April had more working days than usual this year.

The most significant recent change in our monthly indicators has been the resurgence of the housing market, an issue that we have detailed in our monthly *Home Truths* report. House prices rose strongly in February and March, and now exceed the peaks reached before wave of housing investment restrictions that were imposed late last year. In March, the rise

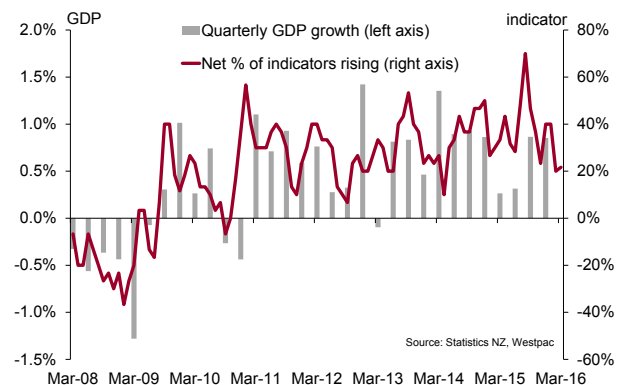
in prices was accompanied by a strong lift in sales, although they are still well below pre-regulation levels.

Strong gains in house prices are in some ways a double-edged sword. On the one hand, rising household wealth helps to stimulate spending (and the widespread nature of the current upswing in prices means that it may have a greater impact now than when it was more Auckland-centric). But on the other hand, it has created some angst about housing affordability and rising debt levels at a time when income growth has been subdued.

The main negative for activity over the March quarter stemmed from the agricultural sector. As well as the hit to incomes from low dairy prices, milk production has been flat in recent months, and an early-season cull last year means that meat production so far this year has been much lower than usual.

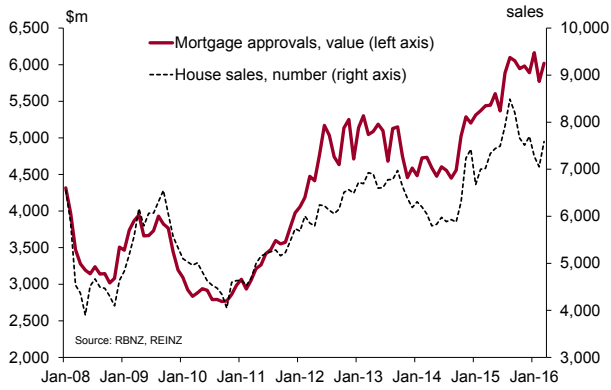
The loss of dairying income may also be partly responsible for the weakness in imports of capital equipment, which have been basically flat since 2014 and fell markedly over the March quarter. Another possibility is that the lower New Zealand dollar has made imported capital a relatively more expensive option compared to hiring more workers. Business opinion surveys support this idea: while a growing number of firms are reporting capacity constraints, there is a seeming reluctance to invest in new physical capacity, whereas hiring intentions have remains strong.

Local Knowledge indicators and quarterly GDP



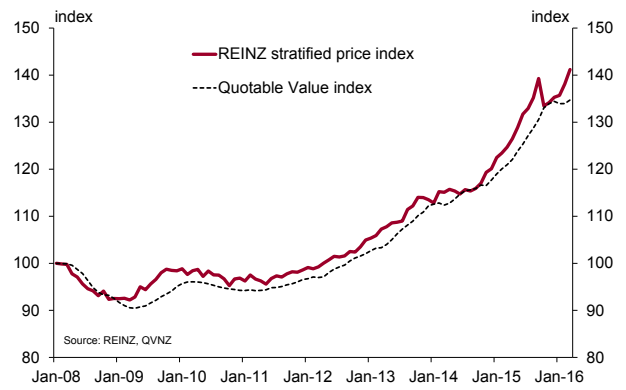
Michael Gordon - Senior Economist

Housing turnover



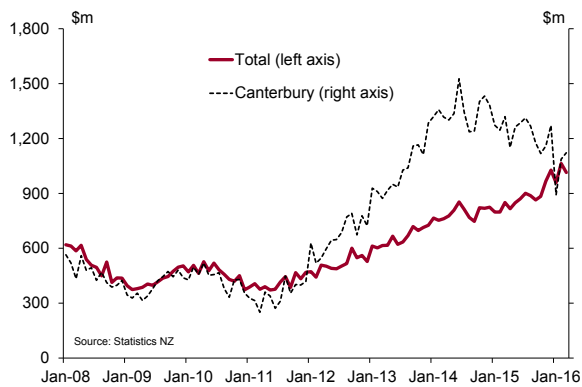
Mar mortgage approvals +4.3%
 Mar house sales +7.6%

House prices



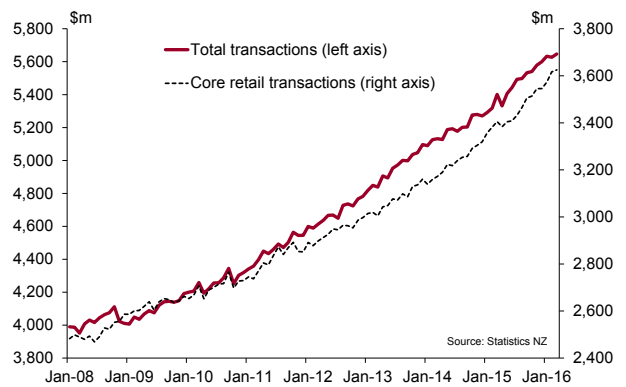
Mar REINZ price index +2.2%
 Mar QV price index +0.6%

Residential building consents, by value



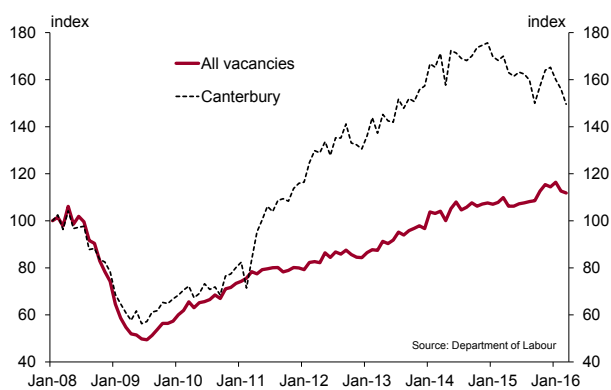
Mar building approvals -4.6%
 Mar Canterbury +3.3%

Electronic card transactions



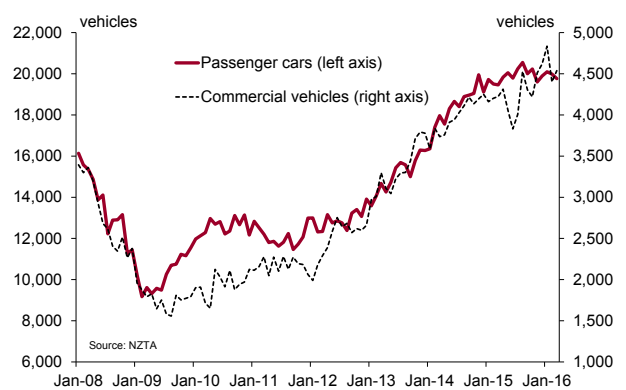
Mar total card transactions +0.4%
 Mar core retail sectors +0.2%

Online job advertisements



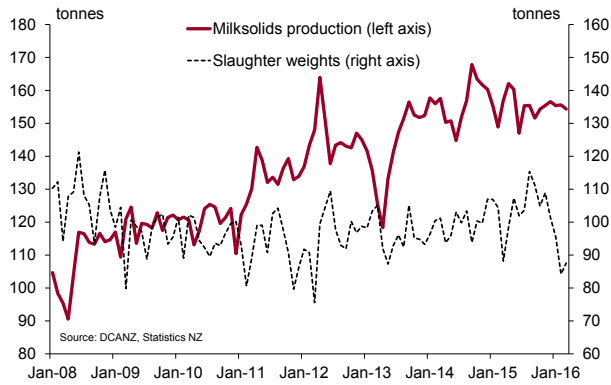
Mar online job advertisements -0.7%
 Mar Canterbury -4.1%

Vehicle registrations



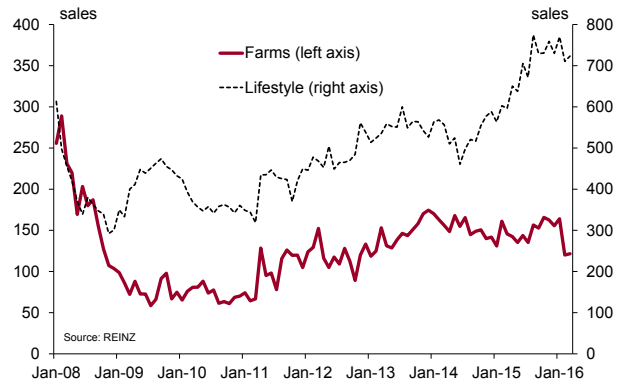
Mar passenger cars -1.1%
 Mar commercial vehicles +3.1%

Agricultural output



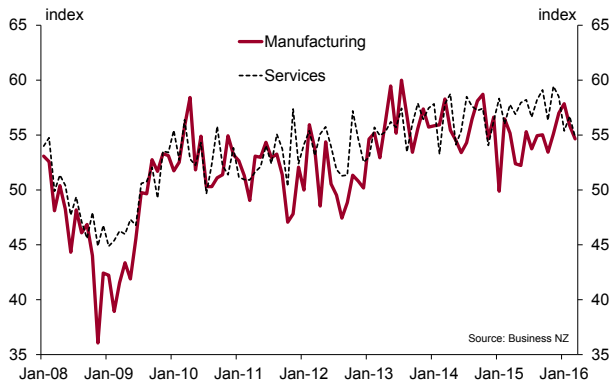
Mar milk production -0.8%
 Mar slaughter weights +3.9%

Rural land sales



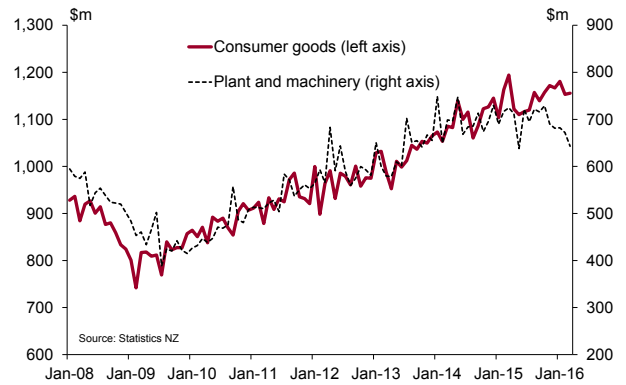
Mar farm sales +1.2%
 Mar lifestyle property sales +1.8%

PMI surveys



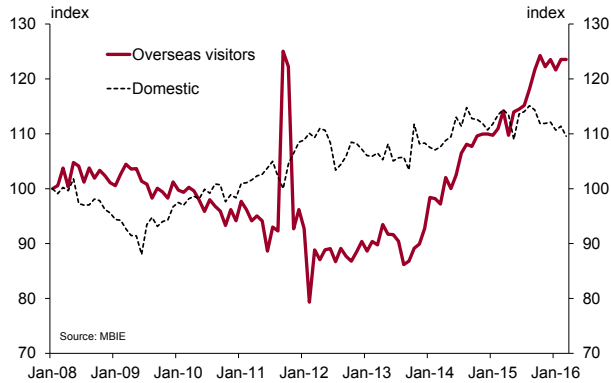
Mar manufacturing PMI 54.7
 Mar services PMI 54.8

Imports, priced in foreign currency



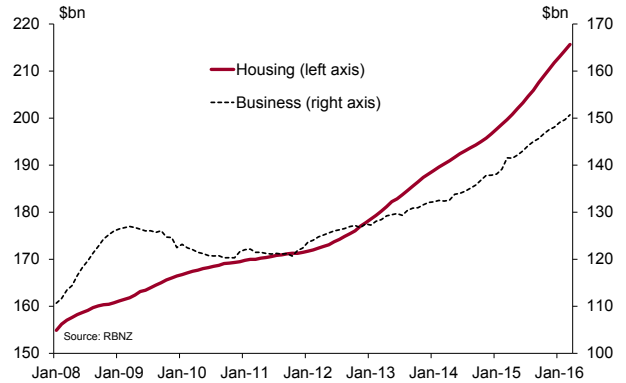
Mar consumer goods imports +0.2%
 Mar plant and machinery imports -4.3%

Tourism spending



Mar overseas visitor spending 0.0%
 Mar domestic tourism spending -1.6%

Credit aggregates



Mar housing credit +0.6%
 Mar business credit +0.7%

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