

# Local Knowledge

6 September 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 – 19 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 couple of lacklustre months, activity indicators perked up in July with 13 of our 19 indicators rising. Following what looks to have been solid growth in the June quarter (we're doing the final number crunching, and will release our GDP preview on Thursday), the pick-up in our indicators in July supports our forecast that the economy will continue to truck along at a solid pace over the remainder of the year.

Some of the underlying details provide a more positive slant than the headline numbers. In particular, while building consents and imports declined in the month, these declines pared back outsized gains in June rather than signalling a loss of momentum per se. And although commercial car registrations can be volatile, a 13% rise in July points to a reasonable degree of optimism among businesses.

Familiar factors continue to underpin growth, with construction remaining the star performer despite the Canterbury rebuild being past the peak. The volume of building work rose 11% in the first half of 2016, reflecting a surge in residential and non-residential construction across the country. And while residential consent issuance fell in July, consents still point to further growth in building in coming months, although not at the heady pace of late. The underlying regional story has shifted in the past few months, with the issuance of dwelling consents outside of Auckland and Canterbury stepping up a gear, while issuance in Auckland has stalled.

The tourism sector has also been experiencing a good run in recent years. And after stalling for a few months, international visitor arrivals picked up in July and are 15% higher than a year earlier. This acceleration in visitor numbers has translated into strong growth in demand for accommodation and other retail and recreational goods and services. Total guest nights (which also captures domestic guests) rose 2.1% in June 2016 to be 10% higher than a year earlier. While all regions have seen some lift in tourism activity, the established tourist hotspots such as Queenstown, Wanaka and Fiordland have really cashed in, growing their share of New Zealand's tourism pie.

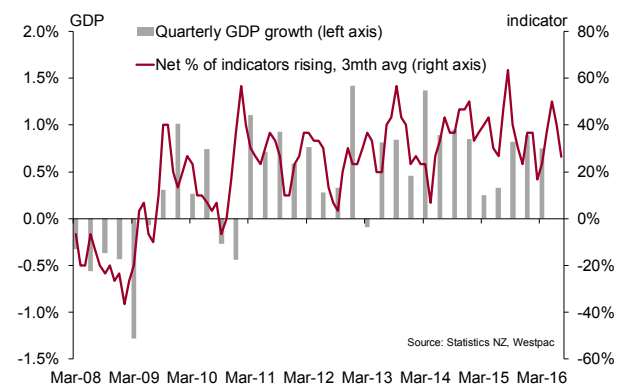
New Zealand's rapidly rising population is also an important driver of growth. The population grew 2.1% in the year to

June – the fastest pace in 40 years – and this is boosting demand across the spectrum. It means more houses are needed, along with more clothes, food and services. And after a whopping 2.3% rise in retail sales volumes in Q2, growth in electronic card spending in July suggests a reasonable degree of momentum in spending has been maintained in Q3. However, one area where consumer demand is more tepid is demand for automobiles, with passenger car registrations up only 2.8% from a year earlier.

The rising population along with low interest rates are boosting demand for houses across the country. House prices rose another 2.4% in July to be up an eye-watering 16% for the year. This was too much for the Reserve Bank, leading them to announce tighter lending restrictions in July. This had a swift dampening impact on housing turnover, with the number of house sales and value of mortgage approvals both falling about 6% in the month. The retrenchment in turnover has further to run, with mortgage approvals taking another dive in August. Housing credit rose in July, but it is only a matter of time before this follows suit. While lower turnover will have some dampening effect on house prices, the impact on the rate of house price growth is expected to be temporary.

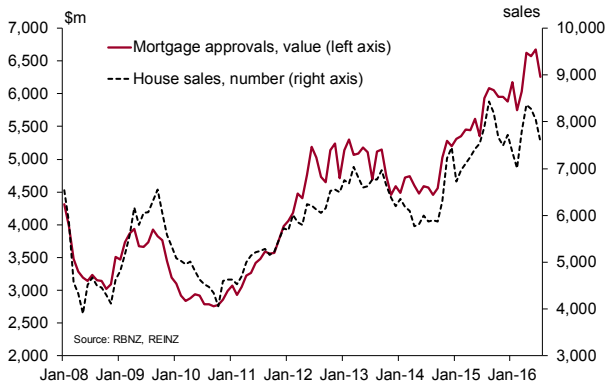
However, despite the positive picture for headline GDP growth, things are not so rosy on a per-capita basis. This reflects a number of challenges facing the economy, including the fragile global backdrop which continues to provide a brake on growth. Dairy prices remain low, despite some improvement from earlier in the year, and the NZ dollar has surged since June to 15-month highs. The resurgence in the NZ dollar is one consequence of New Zealand's resilient growth in a rocky world, as it means we stand out favourably among some of our developed economy peers.

## Local Knowledge indicators and quarterly GDP



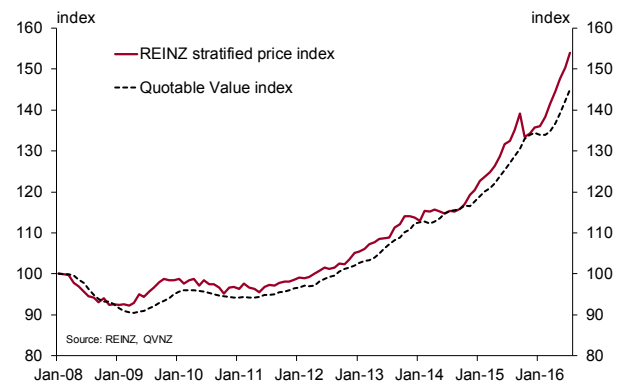
**Sarah Drought**  
Economist

### Housing turnover



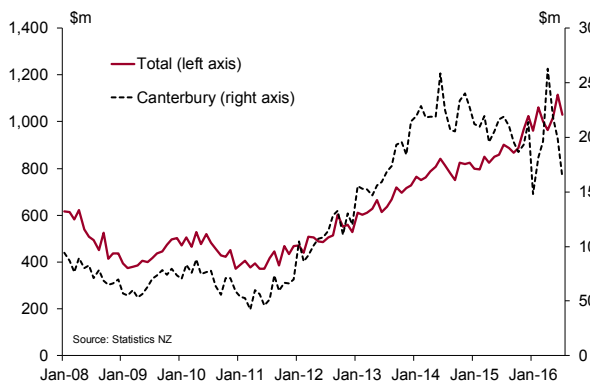
July mortgage approvals -6.2%  
 July house sales -5.9%

### House prices



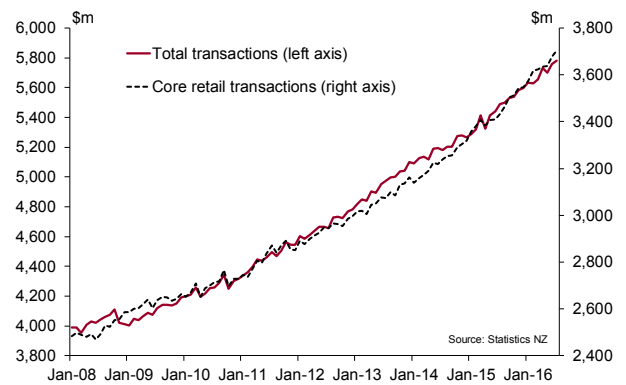
July REINZ price index +2.4%  
 July QV price index +2.0%

### Residential building consents, by value



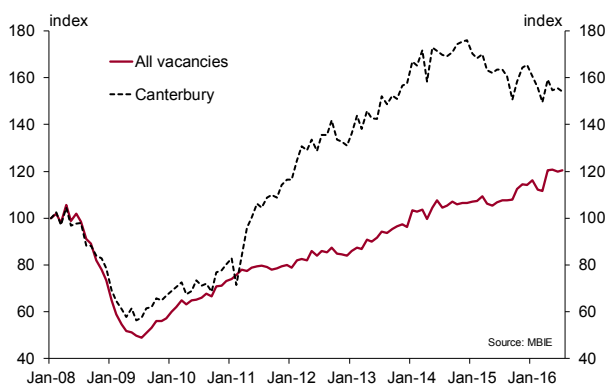
July building approvals -7.7%  
 July Canterbury -18.0%

### Electronic card transactions



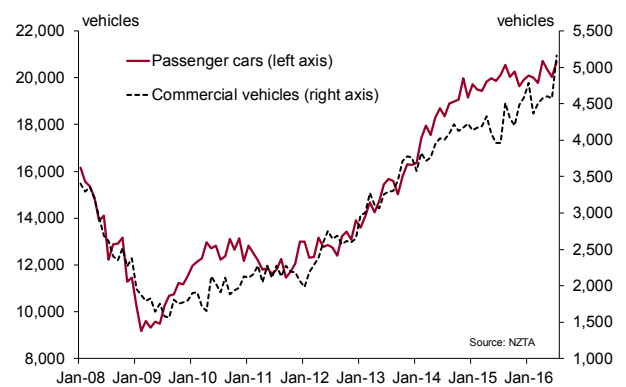
July total card transactions +0.4%  
 July core retail sectors +0.7%

### Online job advertisements



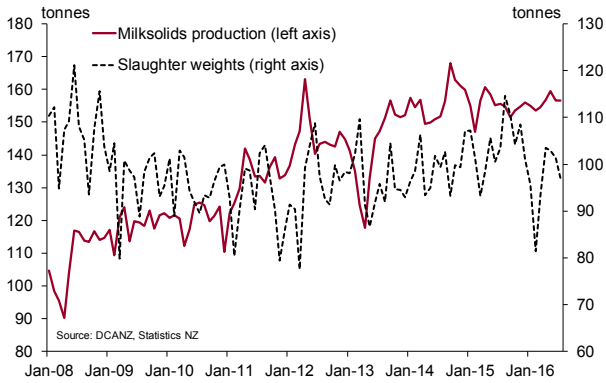
July online job advertisements +0.4%  
 July Canterbury -1

### Vehicle registrations



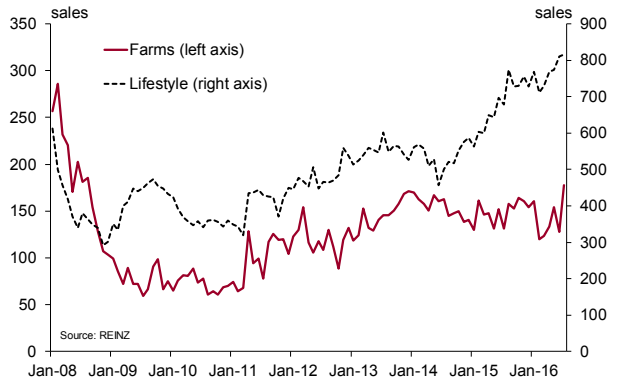
July passenger cars +3.3%  
 July commercial vehicles +12.8%

### Agricultural output



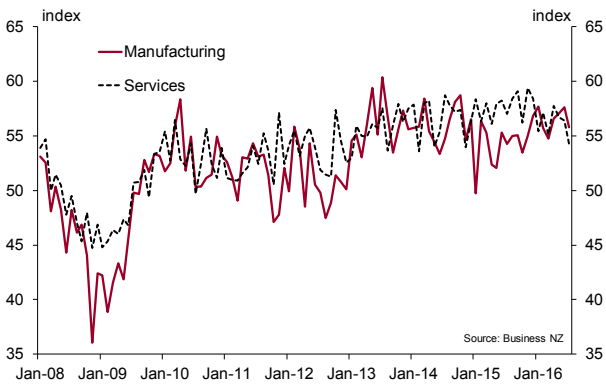
July milk production 0%  
 July slaughter weights -4.3%

### Rural land sales



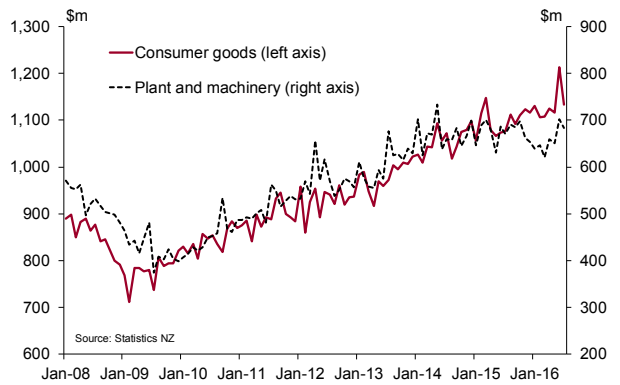
July farm sales +39%  
 July lifestyle property sales +0.7%

### PMI surveys



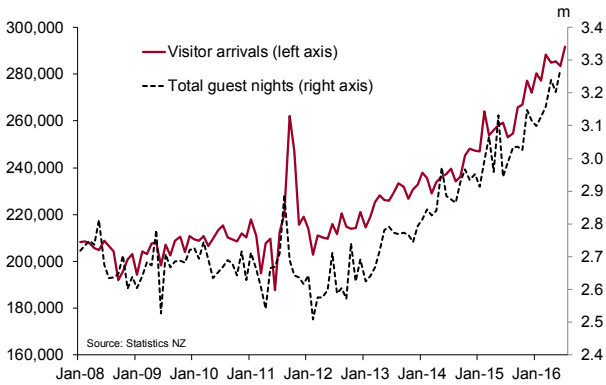
July manufacturing PMI 55.8  
 July services PMI 54.2

### Imports, priced in foreign currency



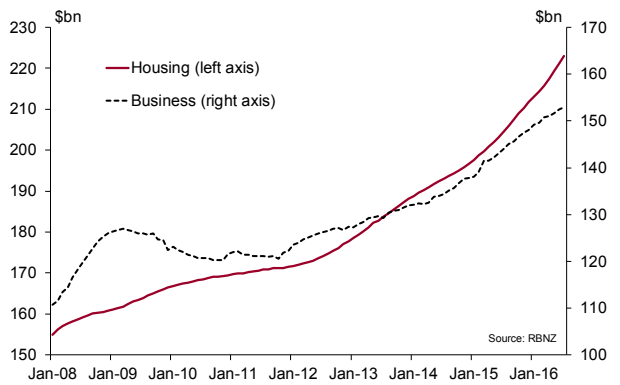
July consumer goods imports -6.5%  
 July plant and machinery imports -2.7%

### Tourism spending



July overseas visitor arrivals +2.9%  
 June total guest nights +3.3%

### Credit aggregates



July housing credit +0.9%  
 July business credit +0.3%

\*No new data.

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