

Local Knowledge

7 December 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.

The New Zealand economy is humming along nicely. Annual growth hit 3.6% in the June quarter, and momentum in growth looks solid as we head towards the new year. The Local Knowledge indicators are consistent with this assessment, with the number of positive signals in October comfortably outweighing the negative. And business confidence surveys show that firms remained relatively upbeat in November, with the number of firms expecting their own activity to strengthen over the next year remaining around the highest levels since April 2015.

It's worth noting that these data pre-date the 7.8 magnitude Kaikoura earthquake on 14 November. But while there is still much uncertainty about how things will play out, this earthquake (and subsequent aftershocks) are not expected to significantly affect growth at a national level. Certainly, many households and firms in North Canterbury, and some in Wellington, face a tough road ahead. But more broadly, while damage to road and rail networks will disrupt some activity and add to transport costs for some firms, there will be some offsetting effects through increased construction activity as repairs get underway.

While tourism in and around Kaikoura will take a big hit following the earthquakes, this is not expected to deter the bumper run of tourism nationally, which has shown no sign of letting up just yet. Visitor arrivals rose 3.5% in the three months to October, to be over 12% higher than a year ago. Encouragingly, the number of visitors from all regions has risen strongly, although the standouts have been arrivals from the US and Asia, helped by the opening up of new air routes.

The boom in international tourism is adding extra impetus to spending in the economy, on top of the significant boost from the burgeoning population. Retail sales volumes rose 0.9% in the September quarter, to be 5.3% higher than a year ago. And a 0.6% gain in electronic card spending in October, points to further gains in the December quarter. Unsurprisingly, imports of consumer goods have trended up strongly over the past year, despite dipping lower in October. One of the standouts across the indicators in recent months has been passenger car imports, rising a further 8% in October to be a whopping 17% higher than

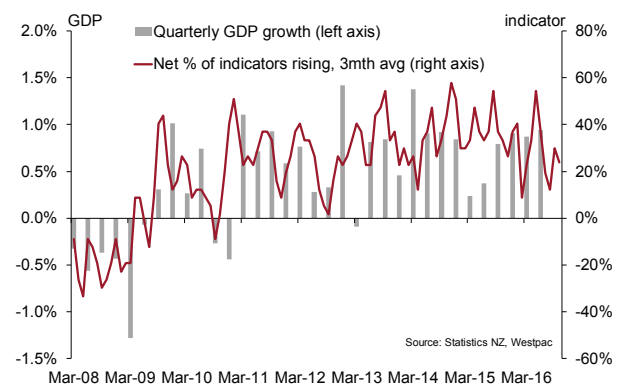
a year ago. Growth in tourism has also played an important role here, as rental car companies scale up their fleets.

Construction remains firmly in expansion mode, and strong growth is expected to persist for some time yet. This reflects a large pipeline of building to cater for the rapidly growing population. The need to build is greatest in Auckland, where the shortfall of dwellings is estimated to have breached 30,000, and is expected to rise closer to 40,000 in coming years. On top of this, the Kaikoura earthquake will add to construction demand, although much of this will be in the infrastructure space, repairing damaged roads.

It's worth noting the strong reading for the manufacturing PMI, which has hovered between 55 and 57 (well above the 50 break-even level) for the past year. The manufacturing sector is typically a beneficiary of a strong domestic construction sector, so this will be helping to support demand. However, conditions vary across firms, with exporters continuing to face headwinds from subdued global demand and lingering strength in the NZ dollar. Indeed, a less promising indicator for the sector is imports of plant and machinery. After recovering from a slump earlier this year, these imports have tracked sideways for a few months now, suggesting limited appetite by manufacturing firms to scale up capacity.

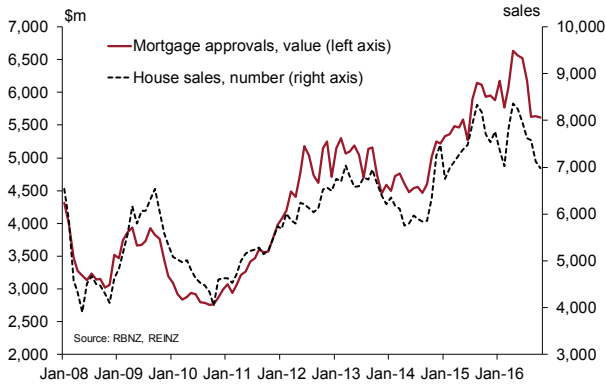
One sector that has taken a breather in recent months has been housing. Housing turnover has fallen sharply since the announcement of tighter loan-to-value ratio restrictions in July, and prices have broadly tracked sideways. While we expect this dampening effect from tighter LVRs to be temporary, mortgage rates have been edging up over the past few months and this should help keep the heat out of the housing market, even as demand factors like strong population growth remain prominent.

Local Knowledge indicators and quarterly GDP



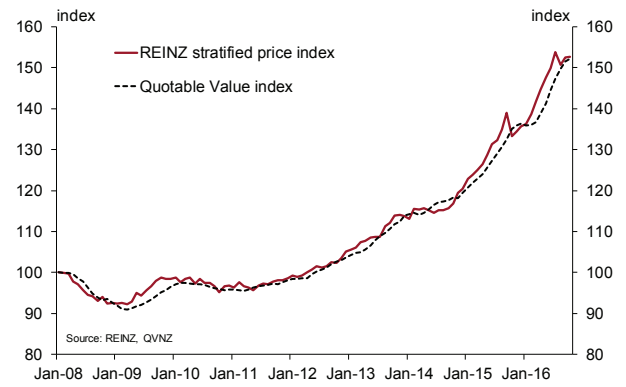
Sarah Drought
Economist

Housing turnover



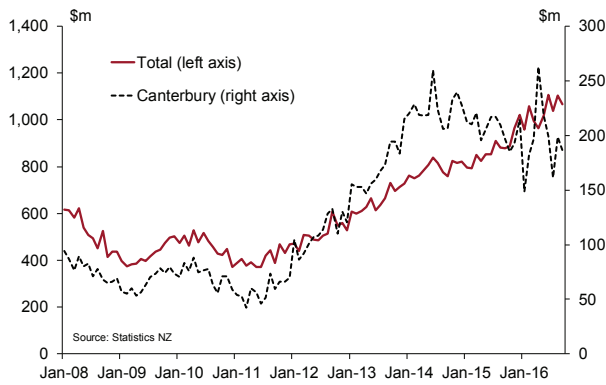
October mortgage approvals -0.4%
 October house sales -2.0%

House prices



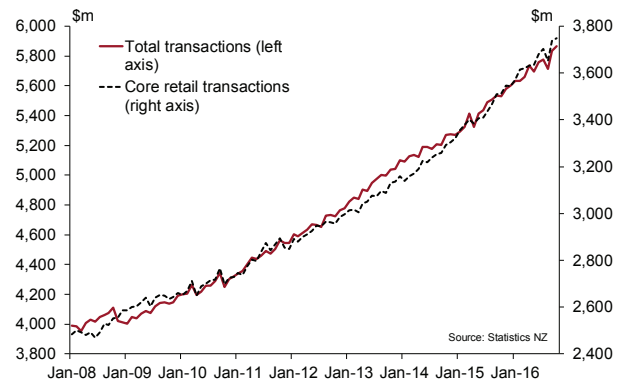
October REINZ price index +0.1%
 October QV price index +0.4%

Residential building consents, by value



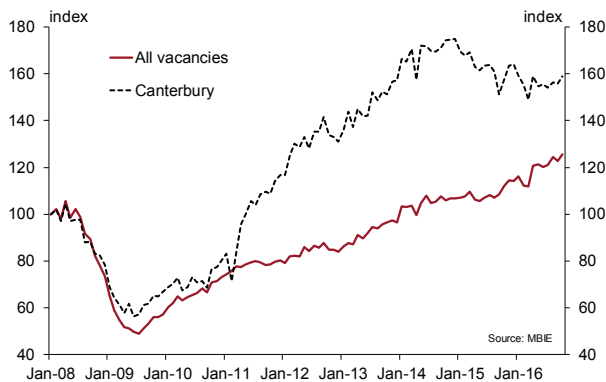
September building approvals* -3.3%
 September Canterbury* -6.1%

Electronic card transactions



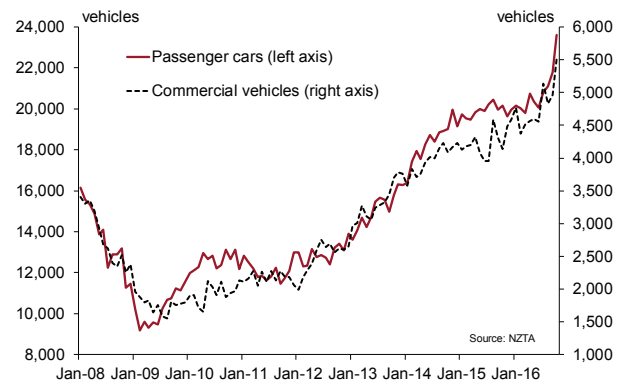
October total card transactions +0.6%
 October core retail sectors +0.3%

Online job advertisements



October online job advertisements +2.2%
 October Canterbury +1.9%

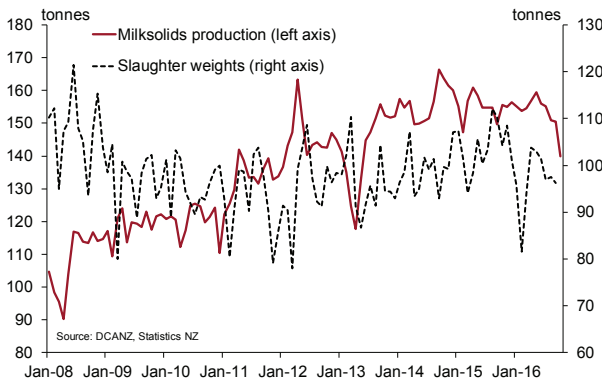
Vehicle registrations



October passenger cars +8.4%
 October commercial vehicles +11.1%

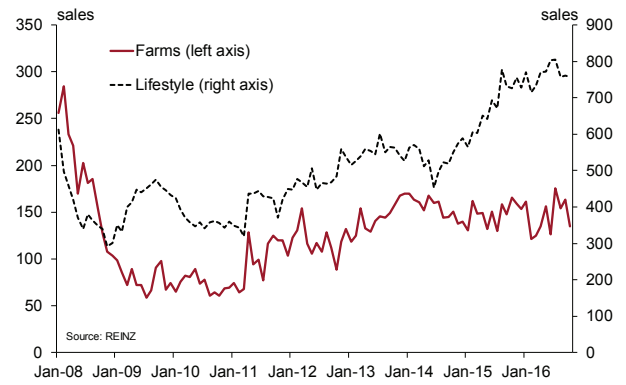
*no new data

Agricultural output



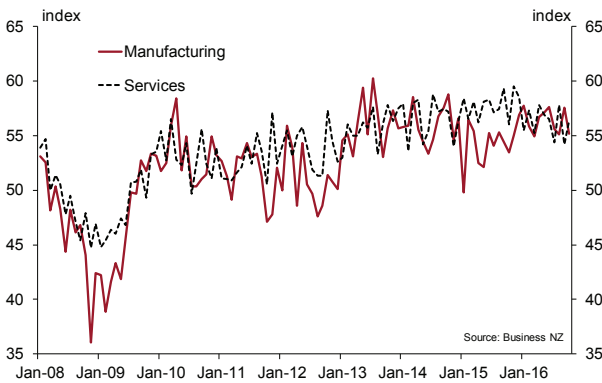
October milk production -7.0%
September slaughter weights* -1.2%

Rural land sales



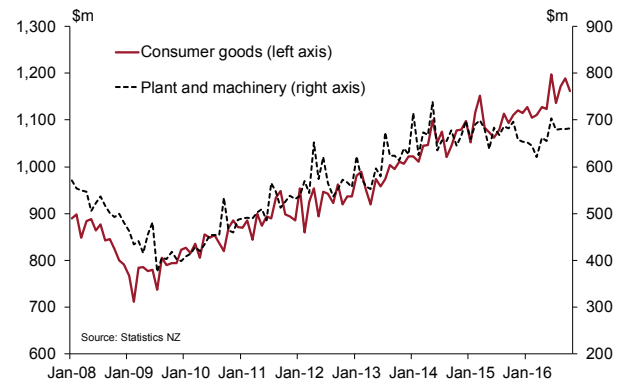
October farm sales -17.2%
October lifestyle property sales -0.5%

PMI surveys



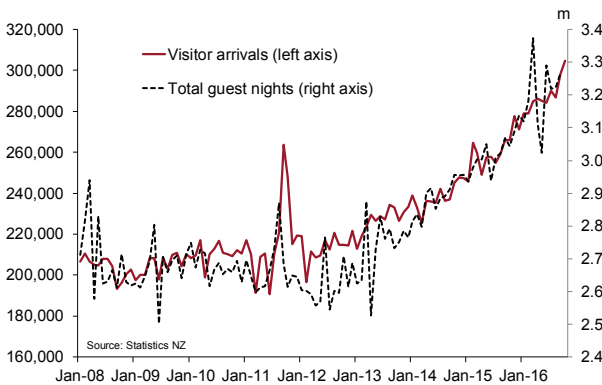
October manufacturing PMI 55.2
October services PMI 56.3

Imports, priced in foreign currency



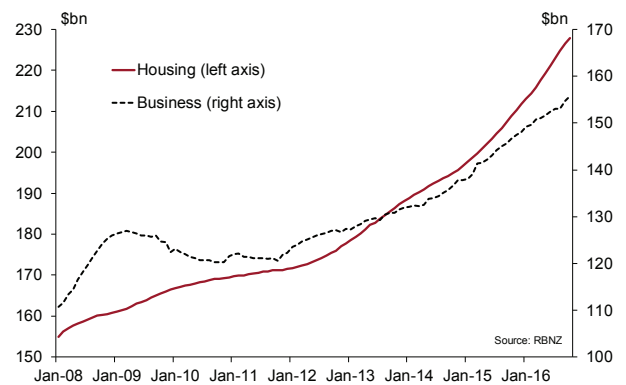
October consumer goods imports -2.4%
October plant and machinery imports +0.2%

Tourism indicators



October overseas visitor arrivals +2.3%
September total guest nights +1.4%

Credit aggregates



October housing credit +0.6%
October business credit +0.6%

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