

Local Knowledge

7 October 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.

Activity indicators were disappointing in August, with the number of rises only just outweighing the number of falls. And with the two previous months similarly lacklustre, the three-month average declined. At face value, this suggests that growth slowed moving into Q3, following the solid 0.9% quarterly pace in the first half of this year.

However, this goes fervently against the grain of what “top-down” indicators of growth, like business surveys, have been saying. Simply, that growth has accelerated. General business confidence has surged in the past couple of months. And importantly, more firms are saying that their own activity performance improved in the past quarter, with prospects ahead looking rosier.

While disagreement among indicators of growth is par of the course, it's the diverging direction over the past few months that clouds the picture. At the very least, the subdued nature of “bottom-up” activity indicators suggest a degree of caution about simply extrapolating higher confidence into expectations of growth. Indeed, confidence is influenced by a lot more than activity alone, and can run ahead at times. In terms of our own forecast, at this stage we find ourselves splitting the difference across the indicators, picking that GDP growth will continue around its recent pace for the remainder of this year.

Grouping the Local Knowledge indicators into broad categories highlights some interesting, although not necessarily surprising, trends. In particular, the positive impulses from housing, agriculture and tourism indicators have waned from three months ago, while building, consumer and business indicators are still firmly positive.

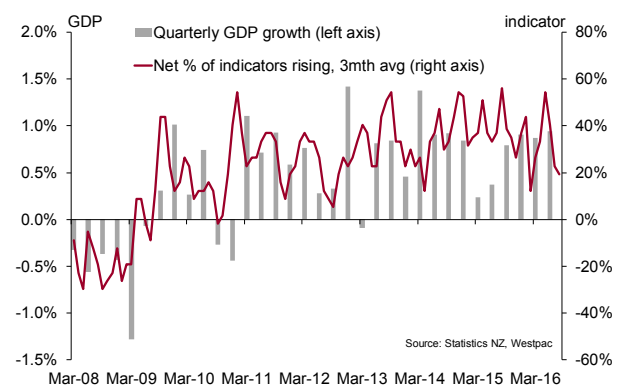
The waning impulse from housing follows the tightening of lending restrictions from the RBNZ. This put a sharp dent in housing turnover, with house sales and mortgage approvals in August much lower than a few months earlier. While prices declined in August, annual growth remains strong. This means there will be mixed impacts on GDP in the near term; lower turnover will weigh on real estate services, while rapid price gains will continue to boost household wealth, and in turn, support household spending.

The agriculture indicators have also been softer lately. Meat slaughter has been subdued for the past few months, despite ticking higher in August. And after a strong end to the 2015/16 season, the dairy season has started on a soft note with milk production declining for three consecutive months (after accounting for seasonal variation). While the season is still young, with the all-important “spring flush” to come, production to August was 2.2% lower than last year. Lower agricultural production will weigh on GDP in the near term. And while the rapid rise in dairy prices since July has bolstered confidence in the sector and more widely, it may take some time for renewed confidence to translate into higher spending, with farmers' cash positions expected to remain tight for some time.

The final drag has been from tourism, with growth tapering off in recent months after a bumper run. Tourism exports pulled back in the June quarter with spending down by 1.7% (although were still up 14% on an annual basis), and since then international arrivals have broadly tracked sideways. Guest nights (up to July) show that growth in domestic tourism has also slowed from earlier in the year.

Despite these factors, the economy as a whole remains in good shape, with low interest rates, population growth, rising house prices and construction all boosting activity. Building consents suggest a decent pipeline of building for the remainder of this year, although the 10% rate of growth from the first half of the year is unlikely to be maintained. And growth in broader domestic demand looks solid, with imports (especially consumer goods), car registrations and job ads all strengthening in the past few months.

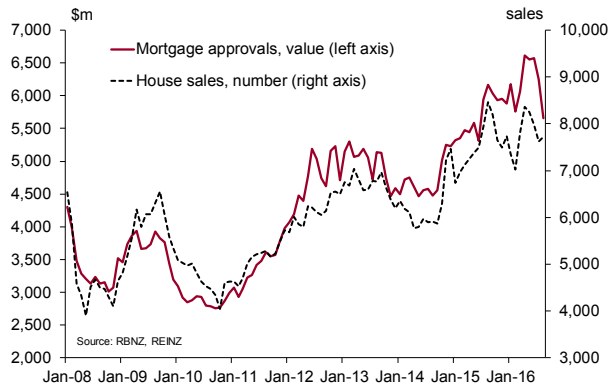
Local Knowledge indicators and quarterly GDP



Sarah Drought

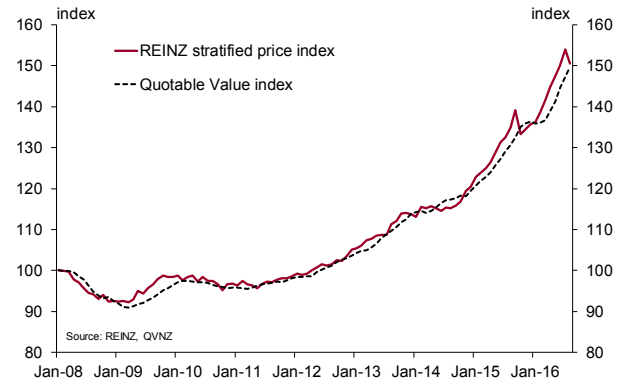
Economist

Housing turnover



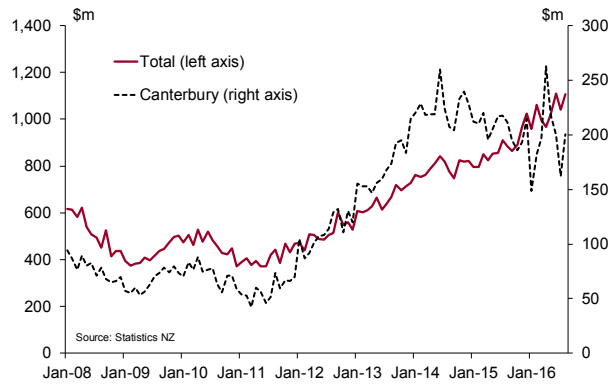
August mortgage approvals -9.4%
August house sales 1.3%

House prices



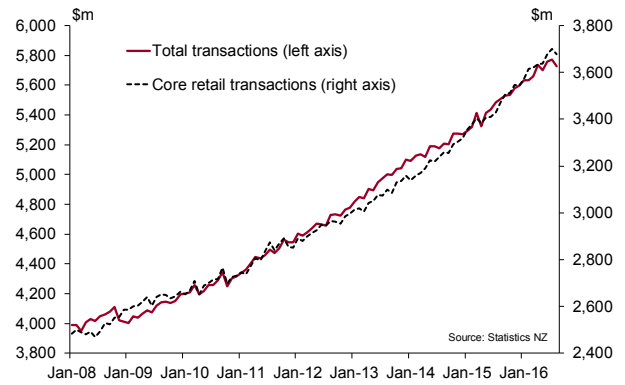
August REINZ price index -2.2%
August QV price index 1.6%

Residential building consents, by value



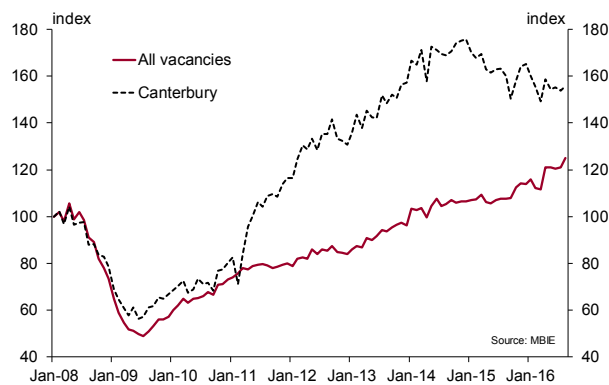
August building approvals +6.3%
August Canterbury +24.0%

Electronic card transactions



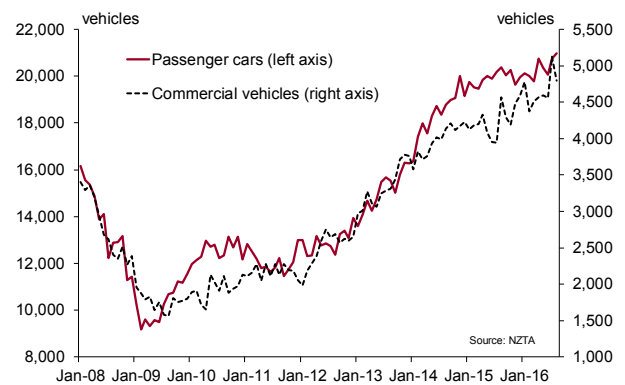
August total card transactions -0.8%
August core retail sectors -0.6%

Online job advertisements



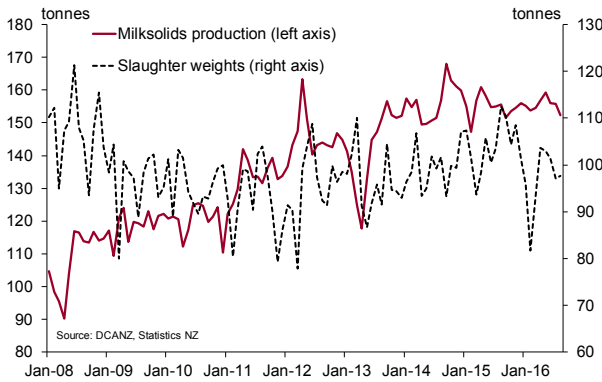
August online job advertisements +3.2%
August Canterbury +1.7%

Vehicle registrations



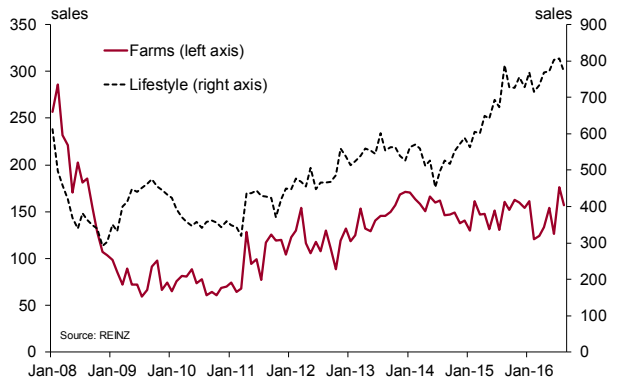
August passenger cars +1%
August commercial vehicles -6.4%

Agricultural output



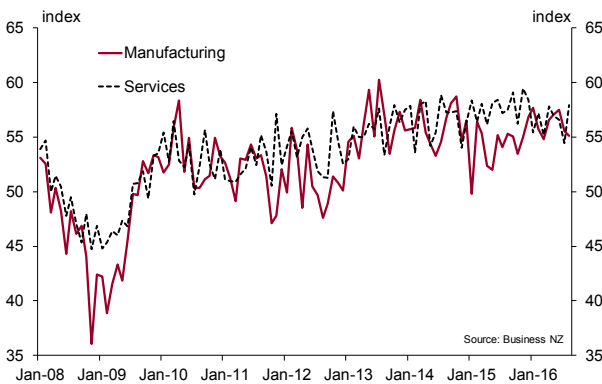
August milk production -2.2%
August slaughter weights +0.6%

Rural land sales



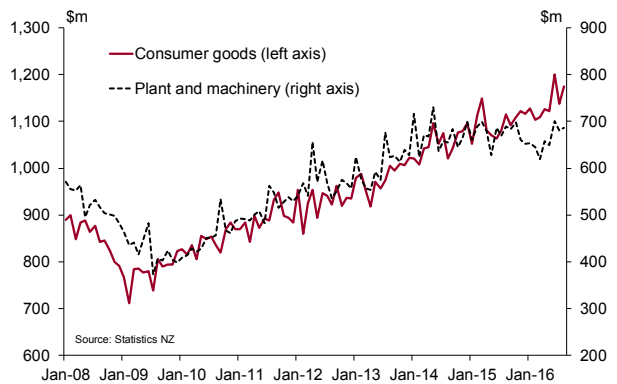
August farm sales -10.9%
August lifestyle property sales -4.5%

PMI surveys



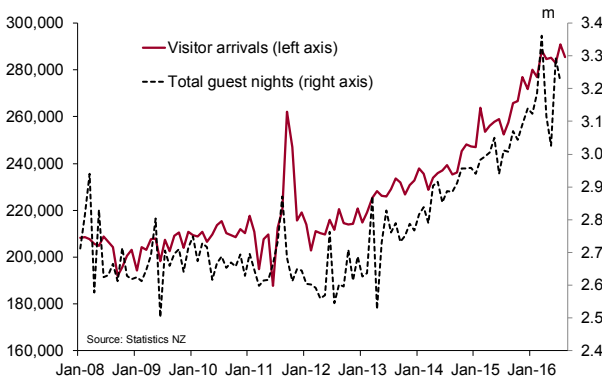
August manufacturing PMI -0.4
August services PMI 3.5

Imports, priced in foreign currency



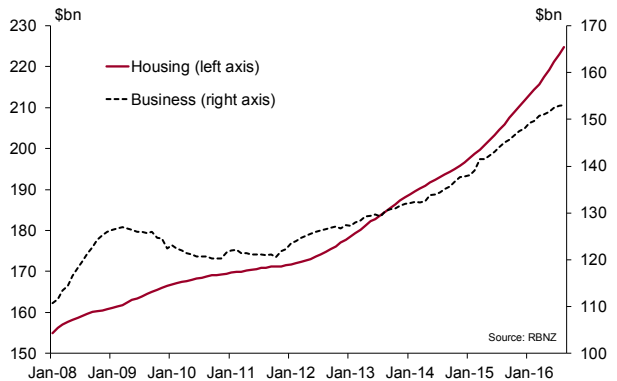
August consumer goods imports +3.2%
August plant and machinery imports +0.7%

Tourism indicators



August overseas visitor arrivals -1.9%
July total guest nights -2.2%

Credit aggregates



August housing credit +0.8%
August business credit +0.1%

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