

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 rounded out the September quarter in solid fashion, with 15 of the indicators rising in the month. While this was a welcome relief after a couple lacklustre months, it may be too little too late for September quarter growth, given a number of factors that look to have held growth back from the 0.9% quarterly pace seen in the first half of the year. These include declines in agricultural production and housing activity in the quarter, as well as slower growth in construction.

Nonetheless, the pick-up in activity indicators in September will help to put growth in the December quarter in good stead. And the deluge of positive news on the New Zealand economy in the past couple of months certainly paints a picture of solid momentum in growth. In particular, firms have become decidedly more positive about the general economic environment and the prospects for their own businesses. And this was backed up by strong growth in employment in the September quarter, resulting in the unemployment rate falling below 5% for the first time since 2008.

As it has been for some time, construction remains an important driver of growth. But after rising 10% in the first half of the year, it was inevitable that the pace of growth would slow. And this is what recent consents data have been telling us, with aggregate issuance being dampened as the Canterbury rebuild winds down. In addition, lingering uncertainty around the Auckland Unitary Plan has continued to hold back consent issuance in Auckland, and it may take a couple more months before we see more consents approved in parts of the city where greater intensification can occur.

But as the growth impulse from construction slows, other parts of the economy have strengthened to take up the slack, with business surveys showing a broad increase in confidence across sectors. This isn't surprising given a number of factors supporting the solid growth backdrop, including persistently high net migration boosting population growth, low interest rates, and rapid gains in house prices (albeit at a slower pace of growth since the tightening of lending restrictions in July). Visitor arrivals also continue to run hot, with arrivals in the September

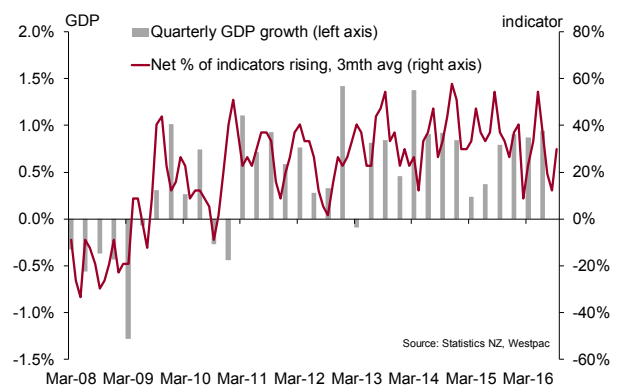
quarter up a whopping 12% from a year ago – providing a substantial boost to tourism and related services industries.

This general strength is highlighted by rises across a range of our business indicators in the past few months. There has been especially strong growth in commercial car registrations, and plant and machinery imports have picked up after a soft patch earlier this year. These data provide positive signs for business investment and, as with strong employment, suggest that firms are not only more confident, but are confident enough to follow through to invest in future growth.

The most dramatic change in fortunes has been for the dairy sector, off the back of a 44% lift in global dairy prices since July. A key catalyst for the price gains has been a reduction in Fonterra's forecast for milk production this season – now forecast to be down about 7% from the 2015/16 season. While we are not as pessimistic on the supply outlook (and therefore the sustainability of recent prices gains), the moves have been large enough to push our farmgate milk price forecast up to \$5.80/kgMS, a dramatic improvement from the previous season's milk price payout of \$3.90. It's too early to see any effect in the hard data just yet, but the impact on broader spending from higher incomes is expected to swamp any potential drag from lower milk production.

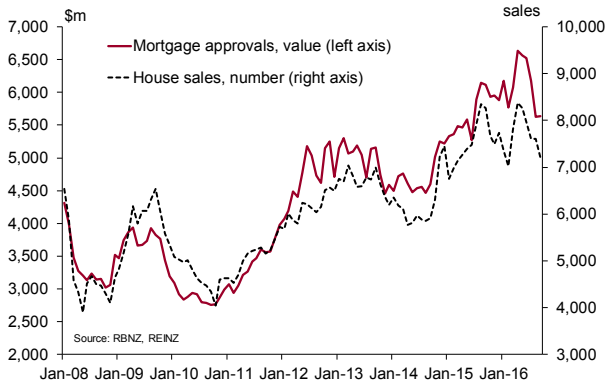
On the consumer front, there were also positive signals from our indicators this month. Of note, electronic card spending rebounded sharply, consumer imports continued on their solid upward trend, and car registrations picked up. These positive trends reflect favourable conditions for consumers, as low interest rates, strong gains in house prices, and the improving labour market all continue to support household demand.

Local Knowledge indicators and quarterly GDP



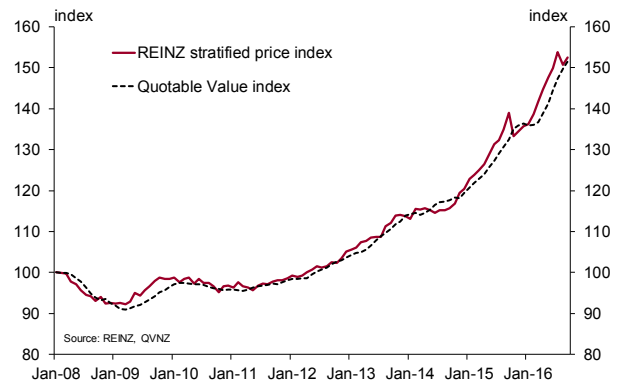
Sarah Drought
Economist

Housing turnover



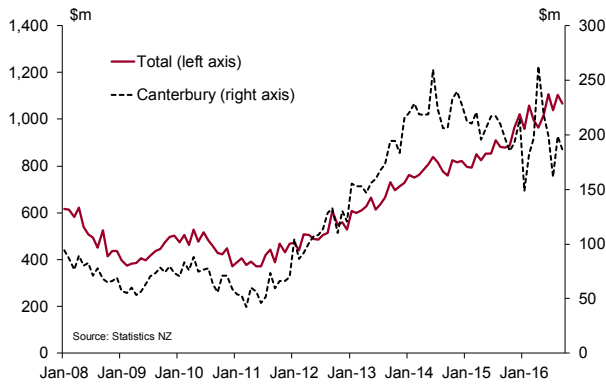
September mortgage approvals +0.2%
September house sales -5.2%

House prices



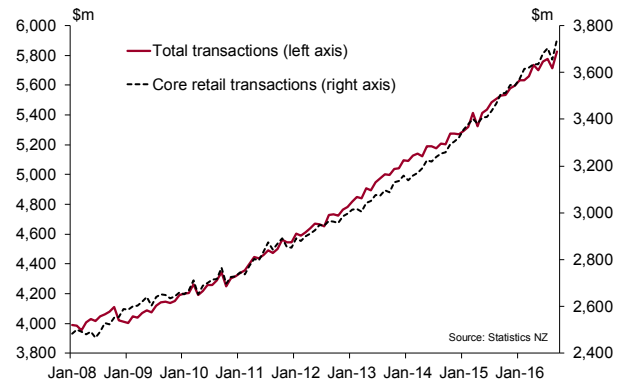
September REINZ price index +1.2%
September QV price index +1.2%

Residential building consents, by value



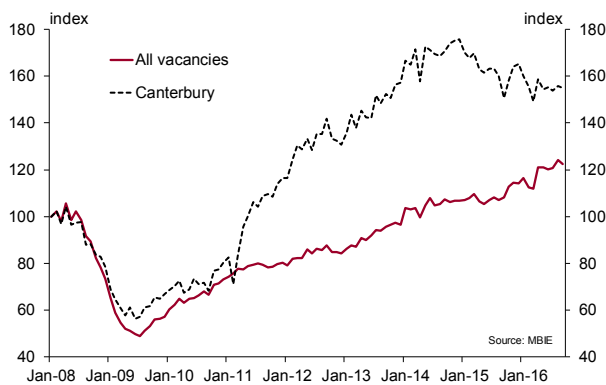
September building approvals -3.3%
September Canterbury -6.1%

Electronic card transactions



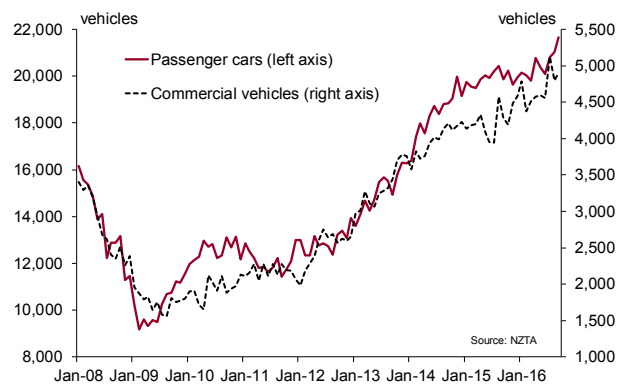
September total card transactions +2%
September core retail sectors +1.3%

Online job advertisements



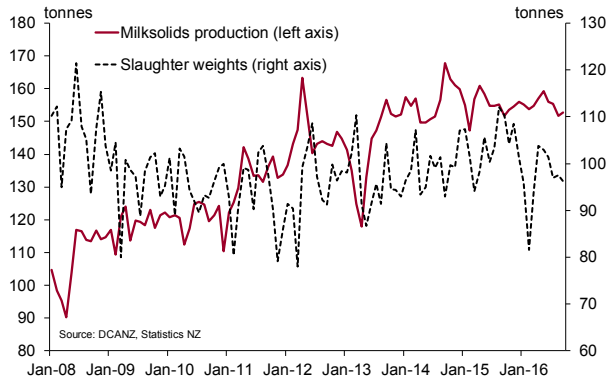
September online job advertisements -1.3%
September Canterbury -0.5%

Vehicle registrations



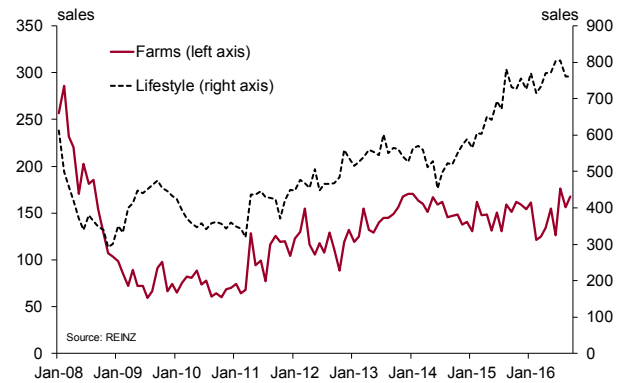
September passenger cars +3.0%
September commercial vehicles +2.3%

Agricultural output



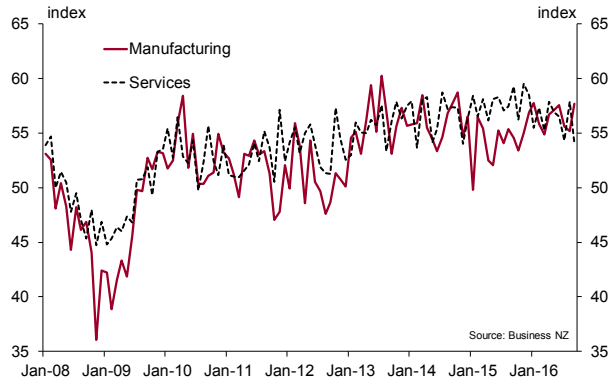
September milk production +0.6%
 September slaughter weights -1.2%

Rural land sales



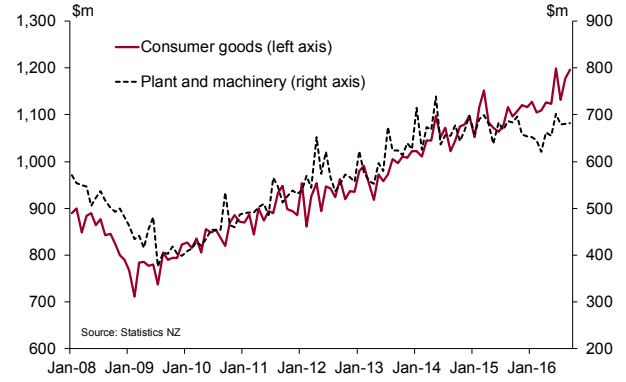
September farm sales +7.6%
 September lifestyle property sales +0.1%

PMI surveys



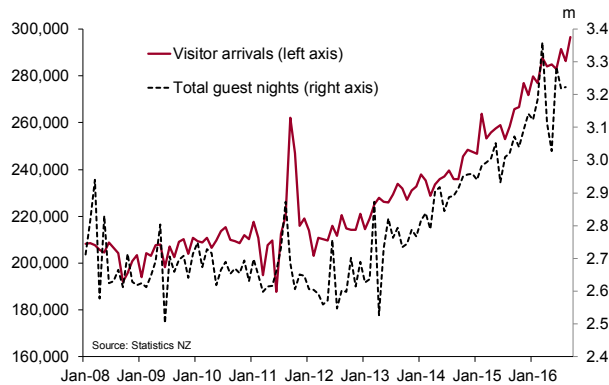
September manufacturing PMI 57.7
 September services PMI 54.1

Imports, priced in foreign currency



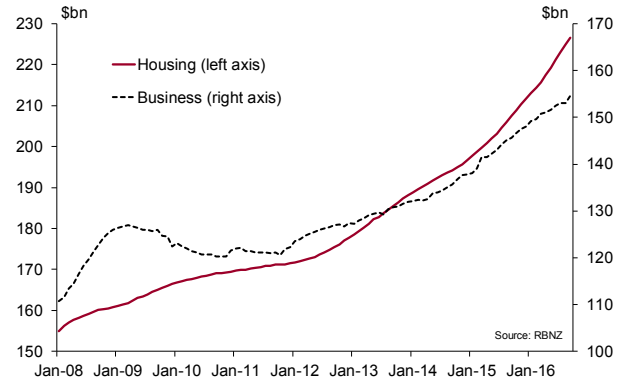
September consumer goods imports +1.6%
 September plant and machinery imports +0.1%

Tourism indicators



September overseas visitor arrivals +3.6%
 August total guest nights +0.1%

Credit aggregates



September housing credit +0.8%
 September business credit +1.0%

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