Services Landscape

18 September 2017

The PSI

The Performance of Services Index (PSI) acquitted itself very well in August. It posted a seasonally adjusted reading of 57.3, from 56.0 in July. In this, like we saw in the PMI, there appeared little in the way of election nerves. And similarly, the driving force in the latest Services Index proved to be new orders/business, which accelerated to 63.1, along with activity/sales, at a relatively fast 62.9. But August's PSI, unlike the PMI for the month, had a relative blot on its copybook, in the form of its employment index. While this was still expansive – in fact, still a tad above its long-term average (51.6) – it nonetheless slowed noticeably to 52.2, from 55.0 in July.

GDP Implications

Melded with the PMI, the latest PSI forms a picture of rude growth in the NZ economy, overall. Indeed, the composite index continues to point to annual GDP growth running in the order of 3 to 4%. This is a bit more than we are formally forecasting for the near term, which is 2.5 to 3.0%. As for the June quarter GDP accounts (due 21 September), we are looking for annual growth to come in at 2.5%. This is based on real GDP expanding 0.8% in the quarter itself, after its 0.5% increase in the March quarter. While this pick-up is stoked by primary industry production, the expansion continues to be underpinned by the services sector, in our estimation.

Retail

Retail trade will surely be another of the strong points of the Q2 GDP accounts. However, this was flattered by international visitors for the Lions' rugby tour (mainly June) and World Masters Games (April). So we expect retail trade to contract a little in the September quarter. This is shaped already by recent electronic card transactions. While they increased 0.6% in August this simply made up for their decline in July. As for the underlying trend, we note the retail component of the PSI, while hardly strong over recent months (in non-seasonally adjusted form) wasn't struggling either. We also have to pay heed to the heights of consumer confidence of late (pre-election).

Housing

The REINZ data for August continued to look slow to slower, driven by Auckland, although they were arguably not as soft as expected, especially when considering the impending election. Yes, sales were down 20% on a year ago, after LVR tightening. But they were -24.5% y/y in July and -24.7% in June. The new composition-controlled SPAR house price index increased 0.5% in the month and over the 12 months. But most interesting in this was that Auckland was down 2.9% compared to a year ago while for the rest of the country prices were up 7.0%. But, bigger picture, we'll just have to wait until the post-election data to judge the housing market undercurrents.

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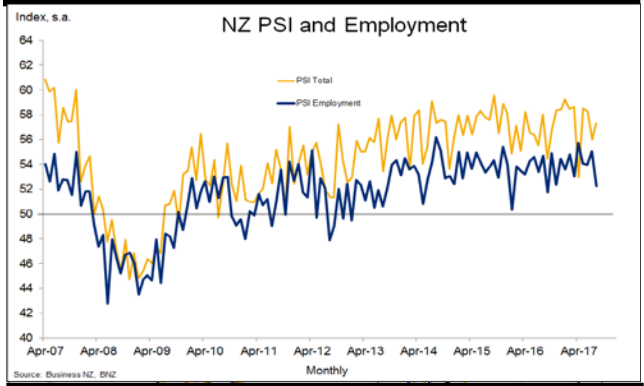
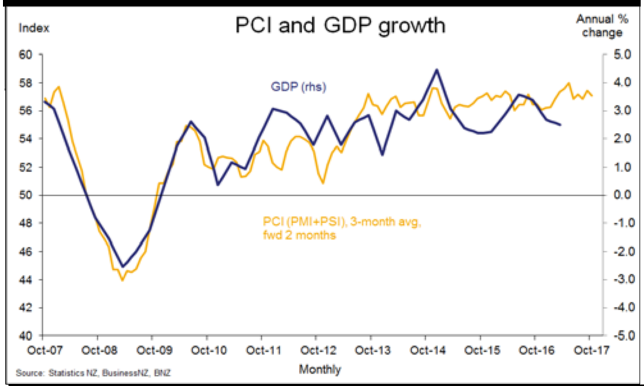
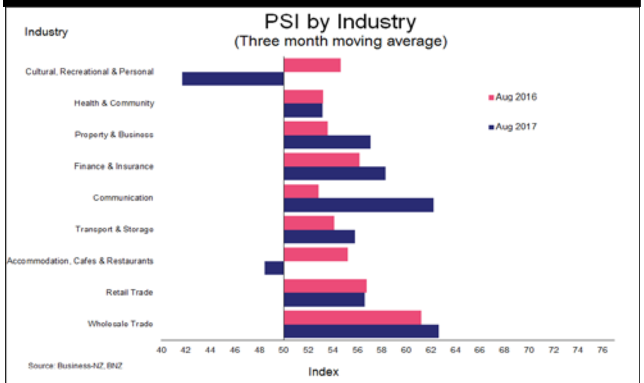
Boxing On



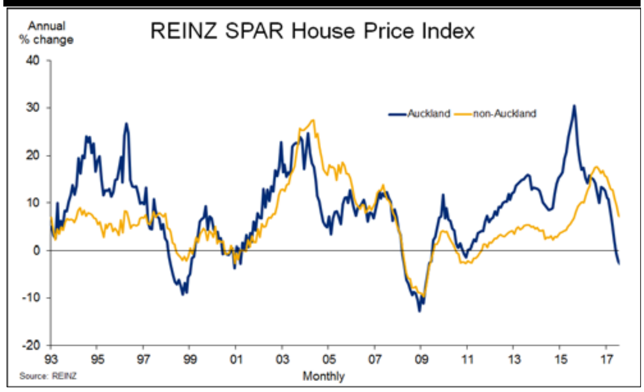
Good to Go



Predominantly Positive



Turnover Down But Inflation Varied



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