Services Landscape

14 August 2017

PSI Cools

The Performance of Services Index (PSI) eased a couple of points in July to 56.0 from 58.3 in June. This suggests service sector growth cooled somewhat in July. The weather looks to have been, at least partly, to blame, as it was for the slight dip in the month's Performance of Manufacturing Index (PMI) released last week. Many respondents to the PSI survey noted extreme weather as having a negative impact on their business this month. Consistent with disrupted logistics, supplier deliveries slowed the most across the major components. Despite the disruption, the PSI remains above its long term average of 54.4 indicating solid growth.

Sales Growth Slows – Temporarily?

Sales growth slowed in July, with the index dipping to 55.5 from 59.0 in June. This is not as much of a slowdown as the 52.8 recorded in April, when cyclones caused havoc, but it is still a sizeable dip. Of course, it might not be all the weather's doing. A cooling housing market, some election uncertainty, and an unwind from the Lions rugby tour are a few potential candidates for slower sales growth in the month. For now we are treating the slowing in sales growth as temporary, but await coming months' data for confirmation. We are encouraged by new orders remaining very healthy at over 60 and employment ticking higher.

Jobs Strong

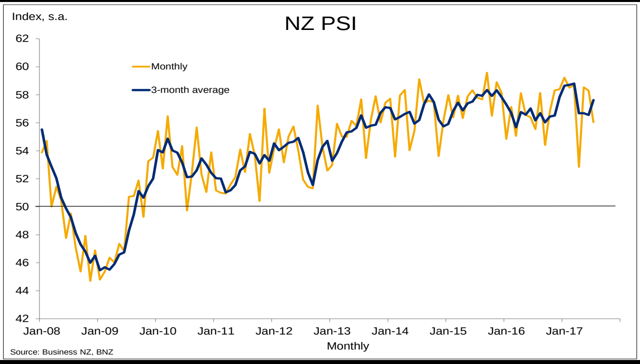
PSI employment rose to 55.2 in July from 54.2 in June. This follows a lift in PMI employment last week. The composite employment index has lifted sharply. On a smoothed three month average basis it remains near record levels. The mild Q2 dip recorded in the official employment figures always looked a bit odd in the context of other surveys showing an increase in filled jobs and paid hours, strong employment intentions and high job ads. Ongoing strength in the PSI and PMI employment indicators adds to the case of a decent bounce back in official employment in Q3.

Good Orders

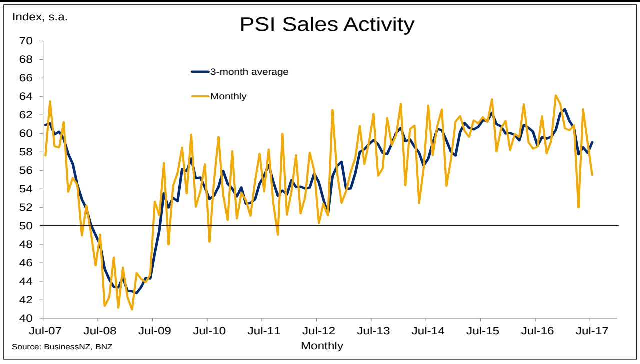
PSI and PMI new orders eased in July, but both remain above their long term average. Recent strength in the composite new orders indicator bodes well for a pick-up in economic growth following a softer period at the end of last year and at the start of this year. On a smoothed three month average basis, the recent buoyancy in new orders even suggest some upside risk to our near term GDP forecasts. But all considered, including the slower sales indicators noted above, we'll stick with our view that the economy will expand around 2.5% this year.

doug_steel@bnz.co.nz

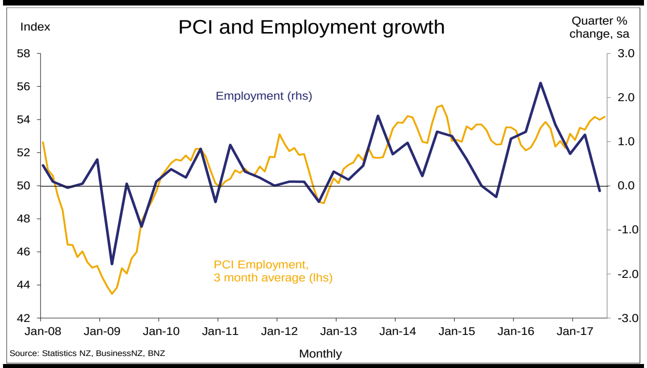
Trends Solid



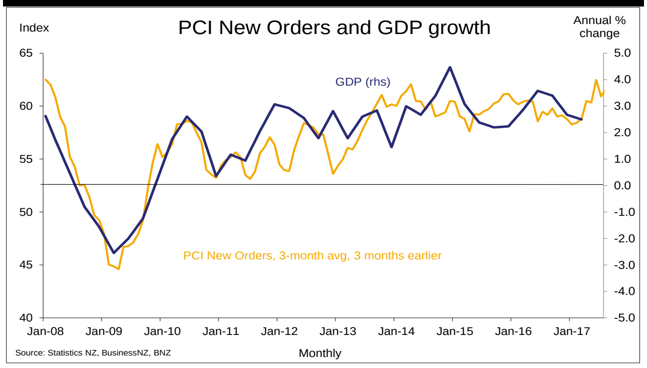
Sales Dip



Official Employment To Bounce Back



Positive Indications



Contact Details

BNZ Research

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Senior Economist
+(64 4) 474 6923

Kymberly Martin
Senior Market Strategist
+(64 4) 924 7654

Raiko Shareef
Currency Strategist
+(64 4) 924 7652

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 473 3791
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Global Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Ray Attrill
Global Co-Head of FX Strategy
+(61 2) 9237 1848

Skye Masters
Head of Interest Rate Strategy
+(61 2) 9295 1196

Wellington
Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney
Foreign Exchange +(61 2) 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London
Foreign Exchange +(44 20) 7796 3091
Fixed Income/Derivatives +(44 20) 7796 4761

New York
Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong
Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891