Services Landscape

15 May 2017

Bad Weather Holidays

After months and months of persistent strength, the sudden drop in the Performance of Services Index raises an eyebrow. April's 52.8 result still indicates some growth occurred in the month. But in being a full six index points below March, to the lowest reading since late 2012, it points to a sharp slowdown in the rate of progress. The timing of school and public holidays looks to be the main culprit disrupting activity, although some appalling weather through the month didn't help spending either. Sales and new orders slowed abruptly. If there is a slowing in underlying economic momentum underway, the drop in the PSI surely overstates it. That said, it will be good to see a decent bounce back in May to confirm that is indeed the case.

Help Found

Strong employment is one reason to not get too downbeat by the weak headline PSI result. Despite expressing difficulty in finding labour over recent quarters, service sector firms report they have managed to fill many positions in April. Employment growth looks very strong. Indeed, the PSI employment index, at 55.8, has lifted to its highest level in the 10-year history of the survey. This indicates firms have a fair degree of confidence in the sales outlook, even if growth in April itself was a bit slow. Another reason to not be overly pessimistic with the slower overall PSI result is that it was dragged down by an outright contraction in inventories. This could support future activity when stock is replenished.

Spending Disrupted

April's holiday and weather events seemed to have also distorted the value of electronic card transactions. In those, annual growth slumped to 2.8% in April from 6.2% in March. This is the opposite growth pattern to last year when Easter was in March. Trend annual growth in electronic transactions is running at around 5% and we think is a better guide to underlying nominal spending growth at present. Over the past 12 months there has been solid growth in consumables and hospitality (aided by strong population and tourism growth).

Housing

House sales have moderated over the past year although the holiday-and-weather-affected 32% y/y drop in April probably overstates the case. House price inflation has also moderated, a bit, to 9.9% annual inflation in April from 11.1% in March on the REINZ Stratified Index measure. The latter is the result of Auckland prices moving sideways over recent (many) months and rising prices almost everywhere else. It has all coincided with durable spending (excluding cars) flattening off at a high level over the past year.

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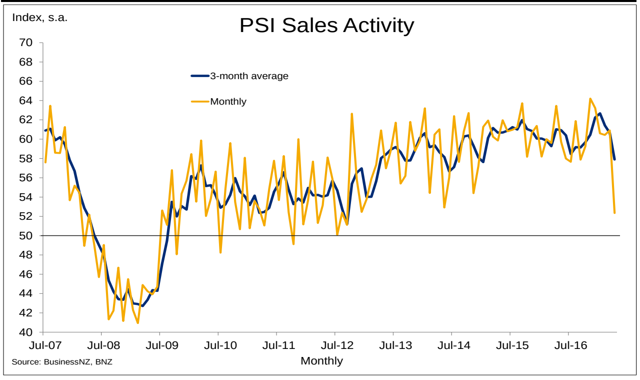
Time Out



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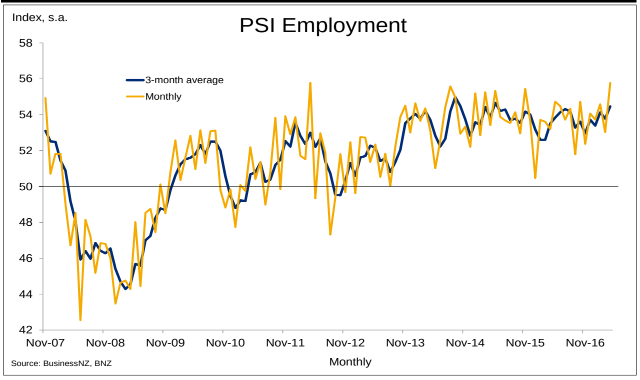
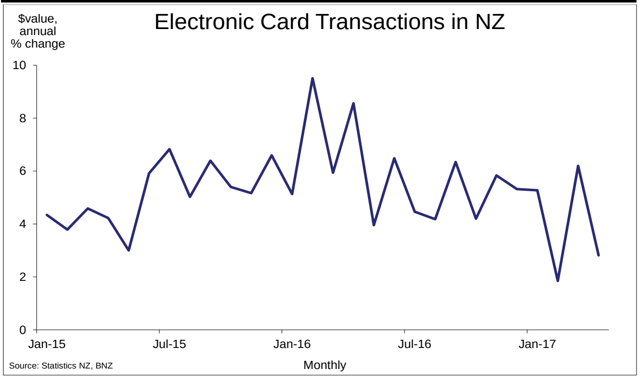
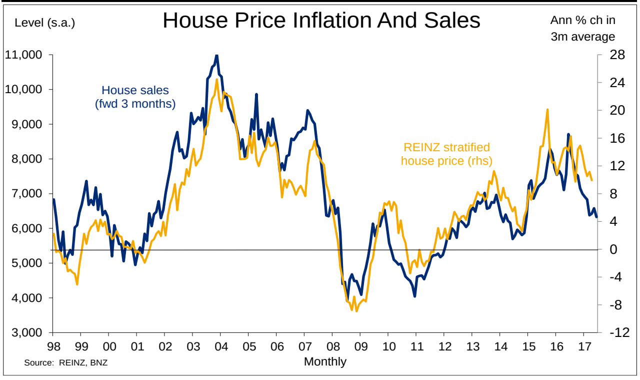


Strumming: Up, Down, Up?



Housing Activity Slows



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