# RESEARCH

# Performance of Services Index

19 February 2018

## The PSI

Over the last year or so the Performance of Services Index (PSI) has come off the boil, but not by all that much. Its January outcome, of 55.8, made for a 3-month average of 56.1. This smoothed measure of expansion hit a record high, of 58.8, back in March 2017. For perspective though, its long-term average is 54.4. So we are still comfortably above that – fair to cruising along. This has been underpinned by activity/sales – with a 3-month average of 59.5 – and new orders/business, with 59.4. Meanwhile, inventory appears to be well under control, with the monthly index on this staying about average in January, having spiked to 58.6 back in November.

## Employment

But the PSI hasn't been entirely bullish. Its employment index has slowed more noticeably than has the overall PSI. Indeed, it subsided to 50.6 in January, after 55.8 in December but also a barely-expanding 50.7 reading back in November. Smoothing through this volatility, the 3-month average of the PSI employment index is running at 52.3. While this kept its head above average (51.6) it was only just. And given its recent volatility it will bear watching for what it does next. Any signals of a slowing jobs market would be important, cognisant of 1) how strong the labour market has been to date and 2) the high amount of immigration that still needs to be absorbed.

## GDP

While the PSI is relatively robust, combined with the Performance of Manufacturing Index it nonetheless signals something of a slowing in GDP growth for the near term. Still, this is very much in line with our views. Specifically, we expect real GDP to expand 0.5% in each of Q4 2017 and Q1 2018. This would limit annual growth to 2.6% by early 2018. However, we forecast GDP growth to pick-up over the subsequent year or so, reaching an annual pace of around 3.4% by early 2019. This is partly as the fiscal stimulus – which the new government has beefed up, overall, albeit while altering elements of composition and timing – does its thing.

## Population

Population growth also promises to support New Zealand's rate of economic expansion ahead. Sure, its principle driver, net inward migration, is assumed to moderate – broadly in keeping with the targets that the government has indicated. But even so, population growth looks set to keep running well above its long-term annual average speed (1.2%) for the next year, or two, or who knows how long? The fact is that immigration has, so far at least, failed to come to heel the way the majority has assumed. With this comes the risk that it simply stays very high. For the record, and perspective, New Zealand's population hit 4.83m as at December 2017, up 2.1% y/y.

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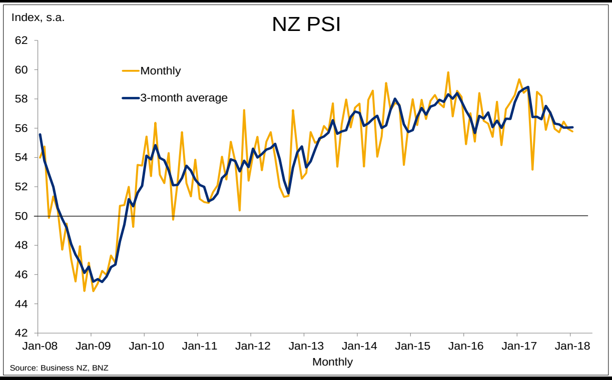
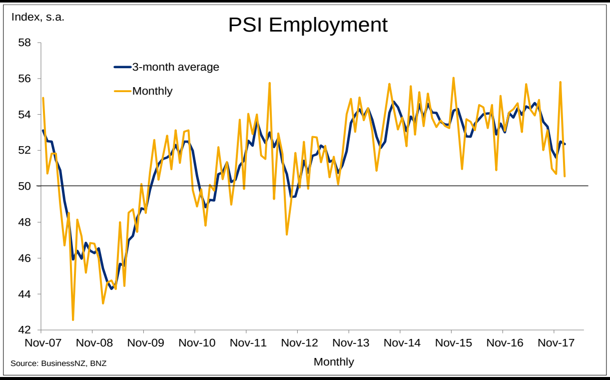
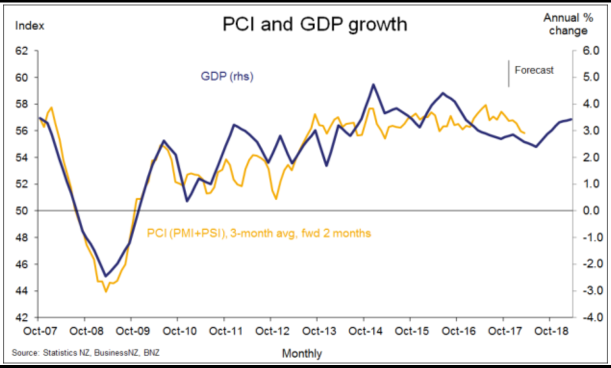
### Cruising Altitude



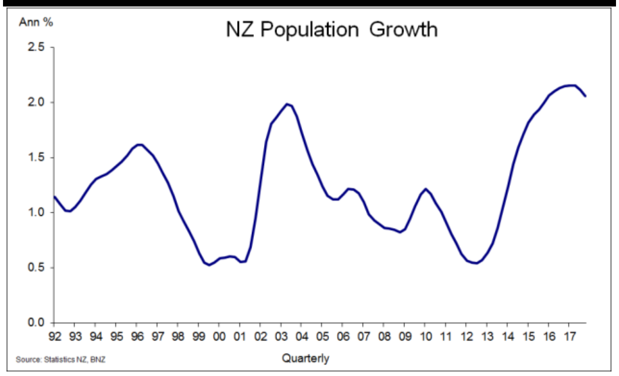

### Throwing a Wobbly




### A Slowing, Just For Now




### Peak People?



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