19 August 2019

Don't Worry, Be Happy

After seeing a big drop into negative territory last week in the Performance of Manufacturing Index (PMI), it was with some trepidation we approached the Performance of Service Index (PSI). It turns out we shouldn't have worried. July's PSI came in at a robust 54.7. This was a fair step up from June's 53.0 and follows five consecutive months of lacklustre results. The PSI has now edged a touch above its long term average of 54.4. One should be cautious in reading too much into one month's data, but the positive result is good to see and especially in the context of weakness appearing in a few other leading indicators.

Detail

The details generally support the upbeat tenor of July's PSI. Sales rose to 57.2 from 55.0 in June. This is now comfortably above its long term average of 55.9 and is significantly above a recent low of 51.7 back in April. Also encouraging is the lift in new orders to 58.2, to be back in touch with historical norms. The only potentially cautionary component this month was inventories, which, at 54.4, were up a bit from June's 53.6 and still running on the high side of normal. This is something to watch, but the small lift looks less threatening in an environment of rising new orders.

GDP Implications

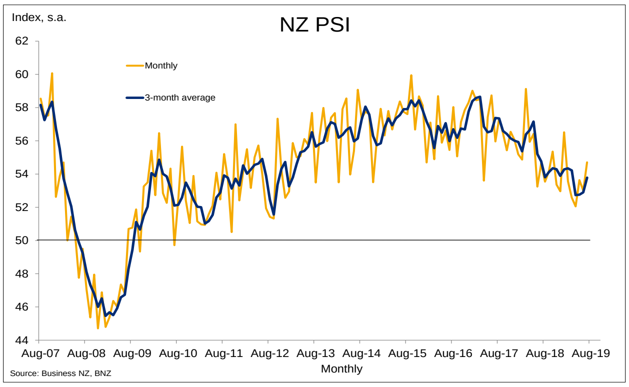
The better-looking PSI offers some hope that GDP growth in the service sector can hang together in the second half of the year. That's our forecast, albeit with downside risks. Offshore events continue to look ominous. But for now, at least, the PSI suggests New Zealand's service sector is in reasonable heart. However, when combining the solid PSI with last week's soft PMI, the combined measure (PCI) continues to cast doubt on whether the economy as a whole can even grow at 2% never mind the 3%+ that the RBNZ are forecasting for next year.

Spending and Housing

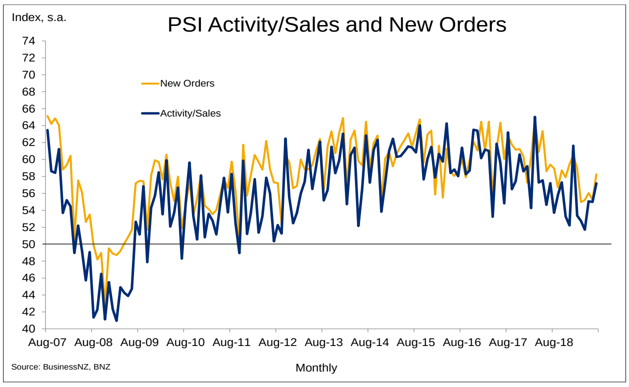
Recent spending indicators have underwhelmed. The total value of electronic card transactions fell a seasonally adjusted 0.3% in July. This extended a soft patch of preceding months. Annual growth has slipped below 2%, from nearly 5% a year ago. PSI trends for retail and accommodation, cafes, and restaurants, have shown a similar pattern of slower growth over the past year. Meanwhile, July's REINZ housing data prolonged a resilient tone. Indeed, house sales were up 3.7% on a year ago – the first positive since November 2018. House prices, on a like-for-like basis, are up 1.5% on last year albeit with declines in Auckland but offsetting gains elsewhere.

doug_steel@bnz.co.nz

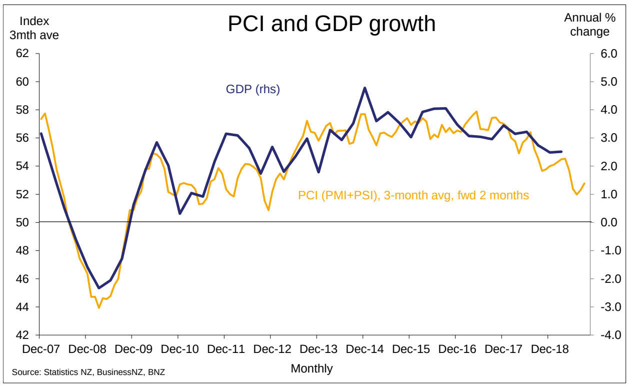
Happier



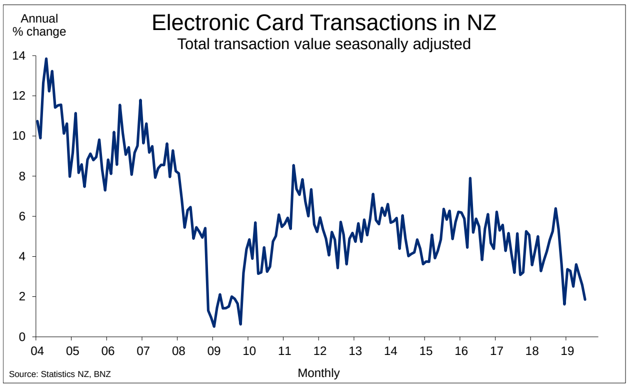
Good Vibes



Downside Risks Remain



Spending Slowing



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

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+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