Services Landscape

19 April 2016

The PSI

Smoothing over the last few months it becomes clear that momentum in the Performance of Services Index (PSI) has slowed, since a high point late last year. Yet it's far from being slow. Even taking the March result alone, of 54.8 – strictly a 16-month low – it was still running above its historical average, of 53.9. The weakest spot was in inventories (52.3). This doesn't seem preparation for weak demand given the new orders component of the PSI proved a solid 57.0 in March. Then there was the PSI's employment index, which largely repeated its February positivity, with a result of 53.0. This is particularly encouraging considering the jobs index of the PMI has turned slightly negative over recent months.

QSBO

Much like the PSI over recent months, the latest NZIER Quarterly Survey of Business Opinion has also suggested something of a slowdown in New Zealand's services sector. Not so much in terms of the last few months. But service sector respondents to the QSBO suggested a much slower rate of expansion for the coming three months. This gelled with their so-so confidence about the general economic outlook. Yet, like with the PSI, QSBO service firms held a robust view around staffing. Their view on investment was also reasonably positive, while their profit expectations improved to be the loftiest in at least 20 years. With this, it's hard to be downbeat on the services industry.

Housing

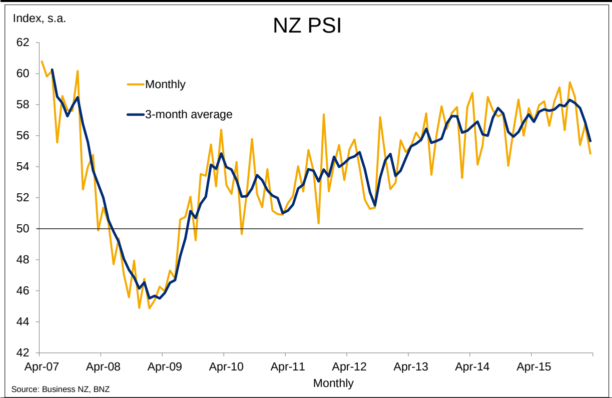
More so than the QVNZ data, the Real Estate Institute's results for March were robust. Sales jumped a seasonally adjusted 5%, in spite of the early Easter. The Stratified price index picked up to an annual pace of 13.3%, from 11.9% in February. Importantly, Auckland is back in the thick of this inflation, with 13.3% y/y in March after basing at 11.1% in February. Even fusty old Wellington, where population pressures are not nearly as strong as elsewhere, is experiencing a spike in prices, with annual inflation there surging to 12.8%. This is further confirmation to us that interest rates are playing a stronger and stronger role in the housing market now.

Credit

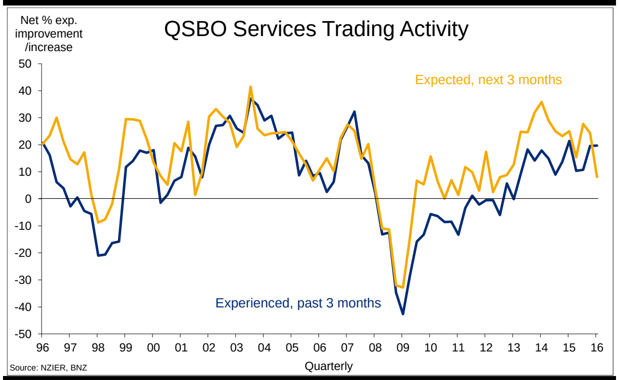
Household credit expanded a seasonally adjusted 0.6% in February, just like it did in January, and December. This nudged up its annual growth to 7.6%, from 7.5%. While this doesn't sound a lot, bear in mind a few things; 1) it's in spite of the ongoing loan-to-value restrictions; 2) 7.6% is well beyond the rate that RBNZ officials previously indicated would raise their concern and: 3) the dollar increase in household credit over the last 12 months is $16.2b – comparable to the boom times of 2003-07. In all of this there are signs that re-leveraging is well underway again in New Zealand's household sector.

craig_ebert@bnz.co.nz

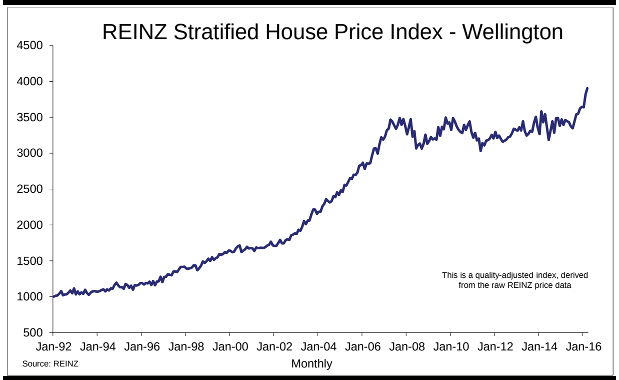
Services, Not So Fast



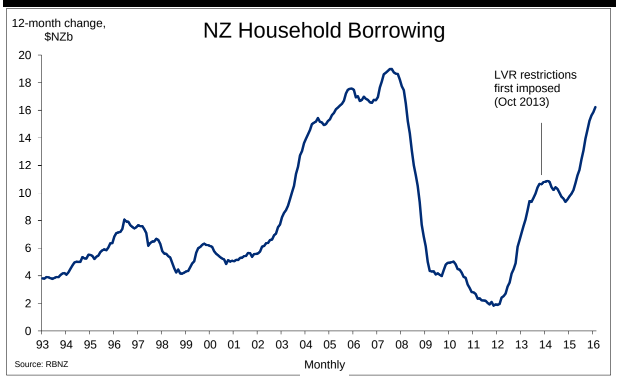
Slower Growth Also Viewed By QSBO Service Firms



House Price Inflation Most Everywhere Now



Household Sector Re-leveraging



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

Jason Wong
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