RESEARCH
Services Landscape

16 December 2019

The PSI

Having rebounded well through much of this year, New Zealand's Performance of Services Index (PSI) suffered a knock in November. Its 2-point dip, to 53.3, put it back below its long-term norm of 54.4. And this transpired for all the wrong reasons, with the index on new orders/business down to 53.9, from the super-encouraging level of 61.9 it scaled in October, while inventories spiked to 56.5, from 51.8. The activity/sales index slipped to 54.1 in November. Employment was relatively steady, however, at 51.6 – very close to its historical average.

GDP

The dip in the PSI in November coincided with a slight fall in the Performance of Manufacturing Index (PMI) in the month. Together, these tugged on the reins of GDP growth expectations. To be sure, we never got carried away in this respect. However, for what it's worth, the PSI and PMI composite now indicates annual GDP growth dipping below 2%, whereas last month they were more consistent with achieving this degree of expansion. Q3 GDP growth is of course due to be published by Statistics NZ on Thursday. We are looking for this to expand 0.5% in the quarter, which would nudge its annual growth rate up to 2.3%, from 2.1%. But also watch for historical revisions that paint a stronger picture on GDP over recent years, than presently estimated.

Selective Services

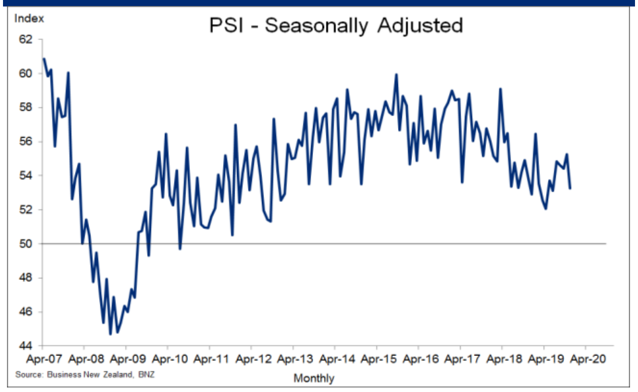
As part of our 0.5% pick for Q3 GDP growth we assume that its service-sector component replicated the sort of momentum they reclaimed in Q2, after a very slow gain in Q1, of 0.3%. And we get a strong signal from the selected-services data for Q3, as published by Statistics NZ. These cover many of the professional services, including science, architecture, engineering, legal and accounting. They do not have a tight relationship with their services-GDP counterparts, but, as a grouping, the selected-services statistics have certainly rebounded a lot over recent quarters.

Electronic Transactions

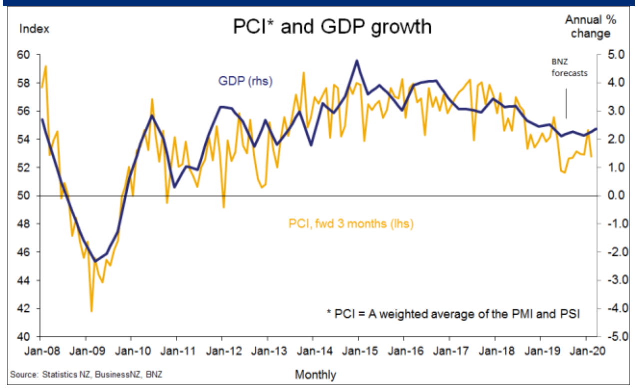
After their wobble in October, electronic card transactions needed to bounce to save blushes on Q4 retail trade computations. They didn't disappoint – up 1.0% overall and 2.6% when looking at the retail category. This sets the platform for retail trade increasing solidly in Q4, after the 1.6% gain it posted in Q3. Generally speaking, there's a lot to keep household spending growth aloft for the meantime. While jobs growth appears to be slowing, wage inflation is running well ahead of CPI inflation, consumer confidence is solid, there's a lot of commodity income coursing through the economy (on the back of the near record highs in the terms of trade), and the housing market is picking up more broadly.

craig_ebert@bnz.co.nz

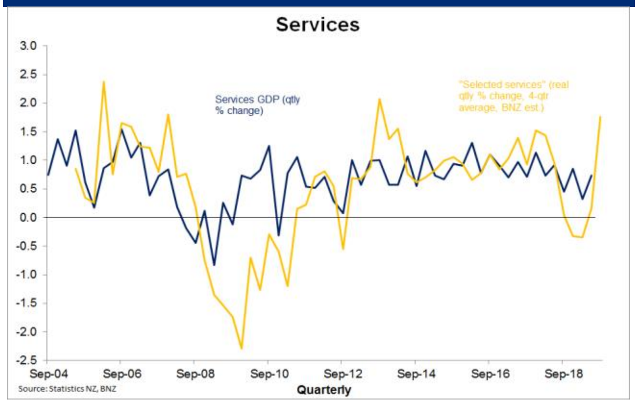
Hold Your Horses



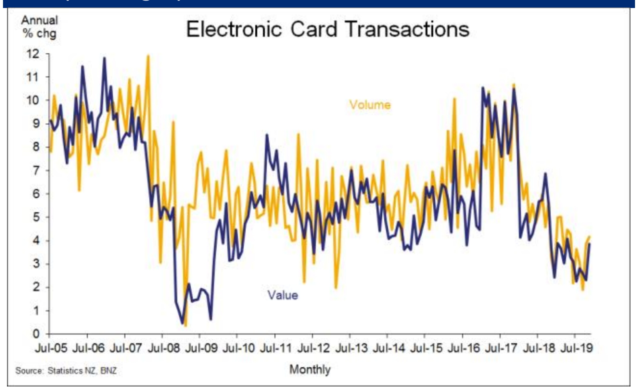
Not Out of the Woods



More Encouraging



Still Spending Up



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