15 November 2016

Brighter Days

Last month, we wondered if the Performance of Services Index (PSI) had been dented a bit by such things as poor weather perhaps in combination with the school holidays. Whether this was actually the case or not is difficult to tell, but the PSI did bounce back to a firm 56.3 in October from its dip to a middling 54.2 in September. Large firms recovered from a drop last month. So the PSI is back above its long term average of 54.1, indicating more above-average economic growth. A stronger employment index emphasises the point. That said, the bounce in the PSI is not to deny that the trend has slowed a bit from last year. And we are keeping an eye on slower new orders over the past two months (which were also, at least relatively, a softer point in a generally robust PMI from last week). It all fits with our view that while we think economic growth will be above average in 2017, it may just be a touch slower than that achieved in 2016.

Spending Up

Current spending indicators are unequivocally strong. In the PSI, retail was one industry that stood out in October. Its 63.6 reading, on an unadjusted basis, was the second strongest across industries. This, and the latest data showing October electronic card transactions around 6% higher than a year ago, suggests that retail sales in the final quarter of the year is pushing on from what we think will be a fundamentally strong retail sales report for the third quarter of the year (due tomorrow). Indeed, it is easy to imagine even more quarterly sales volume growth than the +0.8% we anticipate in that report given the likes of the tightening labour market, house price inflation, and booming tourism. But we are wary that the prior quarter's sales growth (+2.3%) was the strongest in nearly 10 years. Still, with annual volume growth likely to exceed 5% in tomorrow's report and the positive initial indicators for the Christmas quarter there is clearly a strong growth pulse in underlying spending. An ongoing tourism boom is part of this. Indeed, the tourism-associated accommodation, cafes and restaurants industry in the PSI was even stronger than retail itself with an unadjusted reading of 68.8. This is the highest October reading for this industry since the PSI survey began nine years ago (even surpassing the 68.0 recorded in October 2011 when NZ hosted the Rugby World Cup). Underscoring the strength in the distribution sectors more generally was wholesale (+61.2) and transport and storage (+60.0).

Property Less Positive

The PSI for the property and business service industry, while still positive at 52.3 in October, has slowed a bit over recent months. This may relate to the latest LVR restrictions on housing or perhaps, more generally, the market sensing interest rates may not go any lower.

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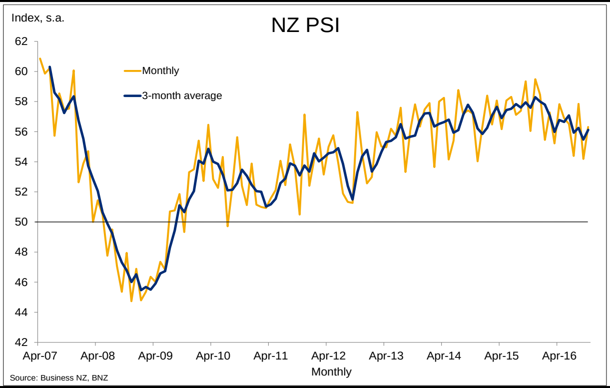
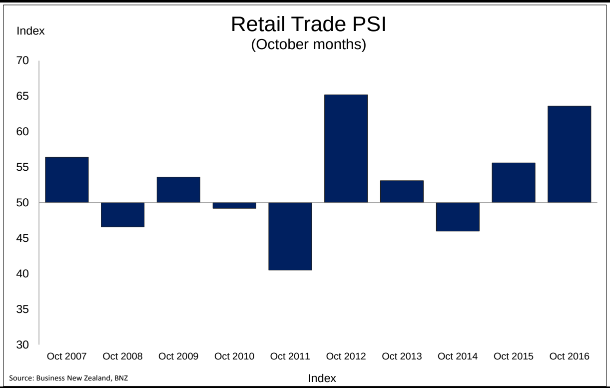
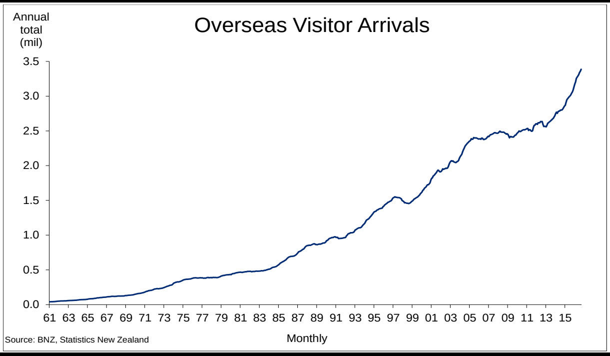
Back Above Trend, But Trending Lower?



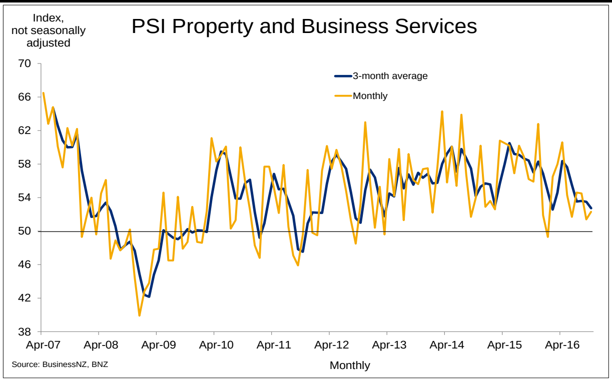
The Tills Rang This October



Boom



Some Slowing



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