

15 June 2015

Services

The service sector has been a standout performer over recent times. The Performance of Services Index tells the story. Not only has it indicated continuous expansion for almost 5 years now, but it has been at a good pace too. We think the service sector will be a positive contributor to economic growth in Q1, with that data due out on Thursday. Today's strong PSI result for May reinforces the narrative with the PSI rising to 58.0 from 56.5 in April and to its highest level since July last year. Strong new orders are encouraging for ongoing growth. Activity appeared particularly strong in May, with the sales index rising to its highest level since 2007.

Positive External Services Trade

External trade has supported services growth. Tourism is part of this, as is an increase in the number of international students. Such things have not only boosted economic growth over recent times, but helped limit the expansion of the current account deficit. While we expect this week's data to show a bigger current account deficit in the year to March 2015 than for calendar year 2014, we suspect that the services trade balance will buck the trend. The services trade balance has been quietly expanding over the past two years and we suspect it will push back above a \$2b surplus in this week's data, just as the annual goods balance slips back into deficit.

Housing and Construction

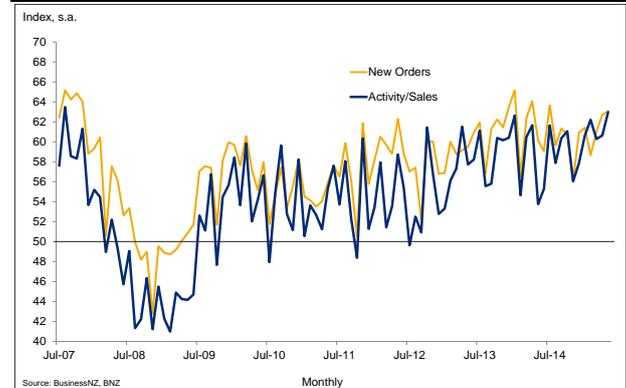
The construction industry remains important for the service sector's (and New Zealand economy's) next moves (along with house prices, migration, the dairy sector and most things global). And so the recent evidence of a slowing, even stalling, in the building industry might seem important. However, one look at the leading indicators and one is struck by how strong they are still. We also have to wonder the extent to which the construction sector can expand from this point anyway, when there are signs it is running into capacity constraints. Meanwhile, the existing house market continues to stride ahead with sales in May up 22% on a year ago and prices up 12%.

Wholesaling

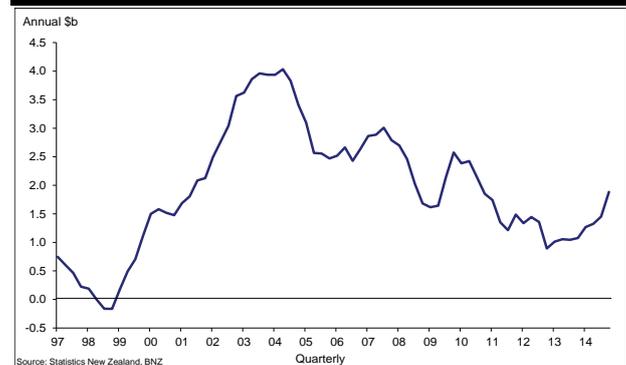
Official figures show that wholesale sales fell a seasonally adjusted 0.8% in the first quarter of 2015 such that sales were a relatively subdued 1.8% higher than a year ago. This was quite a surprise given the previously released, and extremely strong, retail sales figure for the corresponding period. In any case, it suggests wholesaling will be a weaker part of Q1 economic growth when those figures are released on Thursday. Maybe wholesaling will do better in Q2. It's possible given that wholesaling was one of the strongest industries in today's PSI, with a reading of 60.1.

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Activity and New Orders Leading The Way



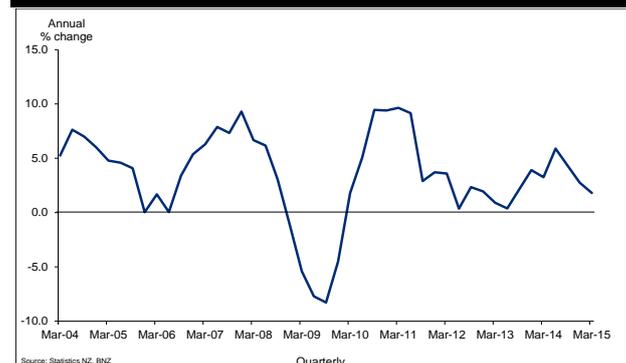
Services External Trade



Housing and Construction



Wholesale Sales



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