

16 May 2016

The PSI

Having lost some of its heat in the early part of 2016 the Performance of Services Index (PSI) fought back to a very solid level in April, with 57.7. This was driven by activity/sales (63.2, from 59.9) and new orders (61.3, from 57.4). Meanwhile, it was encouraging to see the PSI's employment index remain just over the 53.0 mark, where it's been now for three months in a row. This continues to take up the only point of slack in the Performance of Manufacturing Index (with its jobs index lagging at 49.5). April's swift PSI and very solid PMI, overall, combine to suggest the economy is growing at a better than average pace as it steps into the June quarter.

Credit

The financial markets were half-expecting the Reserve Bank's May Financial Stability Report (FSR) to confirm further credit controls for the housing market. In the event, the Bank simply talked about its options – principally around the existing LVR levers at its disposal. However, direct debt-to-income restrictions on individual mortgages received a lot of discussion too, at the associated FSR press conference. While the Bank clearly expressed concern about Auckland's housing market ramping up again, it sounded not that alarmed by the fact house price inflation is picking up outside of Auckland, in some places with quite some gusto. And so it begins.

Property

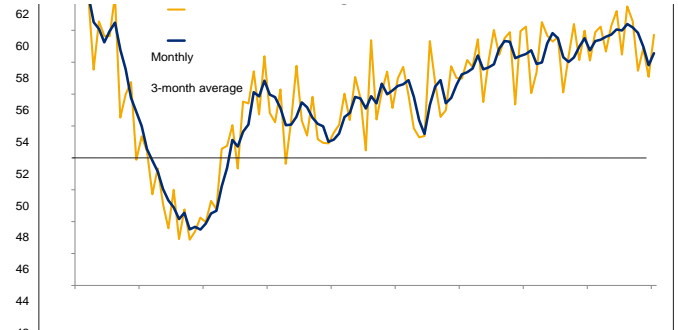
New Zealand's housing market pick up continues to broaden. This was obvious from the range of reports for April. The fall in REINZ sales in April was less than usual, inferring a 14% lift on our seasonally adjusted estimate. This set sales levels consistent with annual house price inflation running firmly in the teens. Leading the charge was the North Island ex Auckland and Wellington, with its Stratified house price index hitting 20.6% y/y, from 17.7% in March. Think Tauranga and Hamilton. Consistent with a heated housing market was the fact that the PSI's Property and Business index was (an unadjusted) 60.6 in April while Finance and Insurance was a hefty 68.8.

Retail

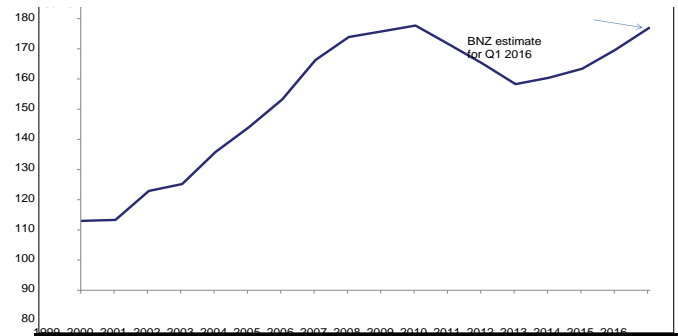
Relatively speaking, the Retail component of the PSI has been lagging. Of course, it is not given in seasonally adjusted form. But its 3-month average in unadjusted terms was 49.7 in April, which compares to 57.6 for the PSI as a whole. In a way, this is consistent with the slowdown we saw in last Friday's retail trade report. Still, the 0.8% expansion in retail volumes in the March quarter was a solid outcome, following gains of 1.1% in Q4 of last year and 1.5% in Q3. Annual growth in real retail sales was 4.8% in Q1 2016. And our forecast of another solid increase in retail sales in Q2 was strongly aided by the 1.5% lift we saw in April's electronic card transactions.

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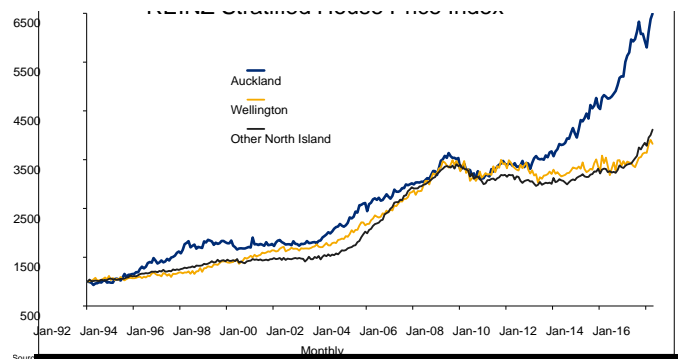
Services Restore Solid Growth Pulse



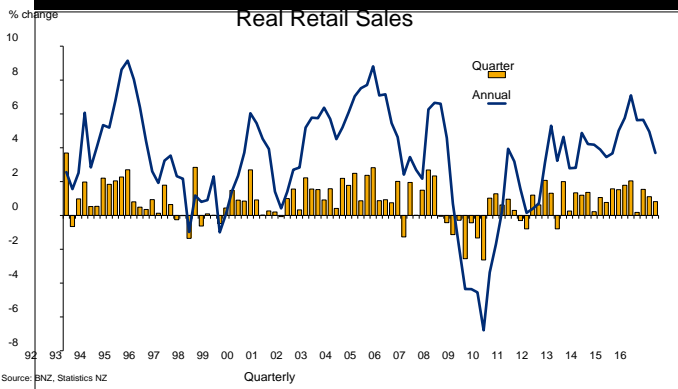
RBNZ to Set Debt Ratio Limits?



As Housing Market Keeps Surging



Robust Retailing



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