Services Landscape

17 September 2018

Slower Progress

The service sector continues to put one foot in front of the other, but there is a clear sense that the rate of progress has slowed down over recent months. August's Performance of Services Index (PSI) easing to 53.2 from July's 54.8 fits this narrative. The PSI now sits below its long term average of 54.5. But it is more than one month, the trend has slowed. Indeed, the three month moving average has eased to 53.6 well below last year's average of 57.1 and its lowest level in more than five years. It suggests annual growth in services GDP could slip below 2% in late 2018 from above 3% earlier in the year.

Sales, Orders Mixed; Employment Flat

Despite the generally subdued survey results, there are some positives. New orders remain robust at 58.8, even a whisker above average and still in touch with July's 60.0 result. It offers some hope for improvement in the current activity/sales index that wilted to a below average 53.8. There was no such equivocation in the employment index which has been flat for three consecutive months at 49.9. This implies a clear stalling in service sector employment over this period. Understanding why is less transparent. It might be a lack of labour demand as pessimistic businesses hunker down, although that doesn't quite square with generally positive employment intentions. It might be related to an increase in the cost of labour (including a lift in the minimum wage) or perhaps related to uncertainty around labour relations policy. Or it might be that the difficulty firms have long reported in finding staff is now materially restricting expansion. Understanding the various dynamics and the balance of such influences is important from a macroeconomic point of view, given the different implications they have for inflationary pressures.

Housing and Retail

Indicators of the housing market and spending have been mixed of late. August's REINZ housing report, with its varied regional performance, is a case in point. Overall, NZ house sales were 3.1% higher than a year ago, but that is flattered by last year's softer patch heading into the election. The level of home sales is modest, rather than weak, and consistent with low single-digit annual house price inflation. A tick higher in house sales is also consistent with a modest accelerating in spending on durable goods – as we have seen in electronic card transactions data for August. This was part of a general pick up in spending in the month, likely supported by the government's fiscal stimulus. It fits with the PSI for retail lifting to an unadjusted 54.3 (making the dip in July look like just unwind from a very strong June).

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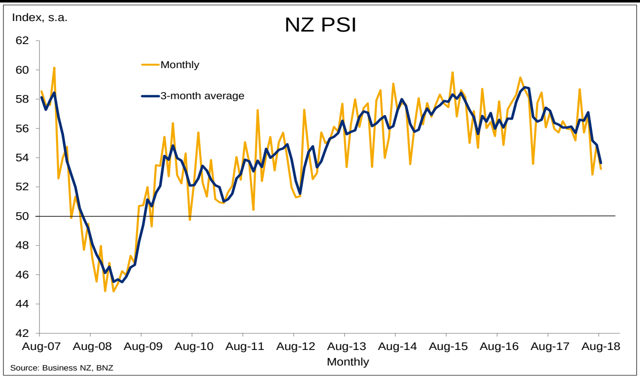
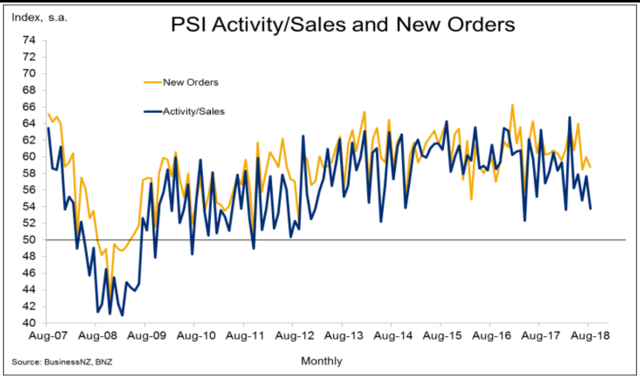
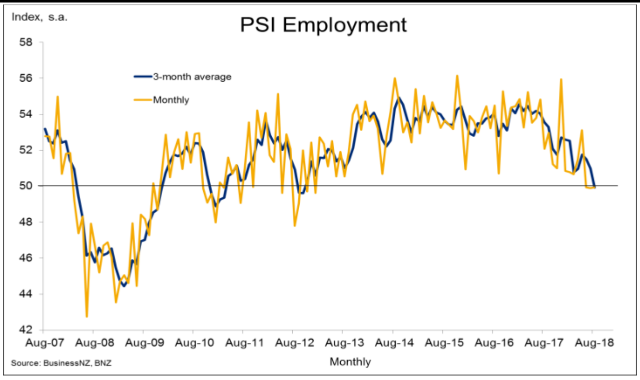
Slower



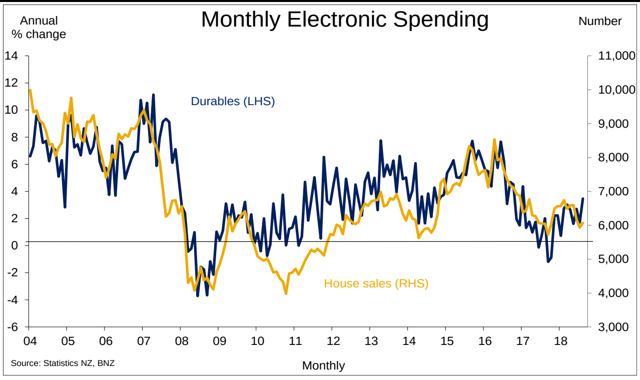
Sales Slowing; Orders Robust



Stalled



Hanging In There



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