

16 September 2019



## The PSI

New Zealand's Performance of Services Index (PSI) continues to rumble along at a trend-like pace. Its August reading, of 54.6, was barely different to July's 54.8 and, more to the point, was close to its long-term average of 54.4. The component detail did little to disabuse the sense of robustness. Activity/sales, at 56.1, were expanding around a normal rate. And while new orders/business were slightly below average, the PSI index on employment continued to firm up, to now be a fraction above its historical norm. Stocks were still running above average in August, but not as much as in the prior few months.

## Global Context

The firmness in the NZ PSI of late is all the more important, given the contractionary tone that is now infiltrating the Performance of Manufacturing Index (PMI). The latter printed at 48.4 in August. Yet it's not a great surprise to see this split – of the PMI being quite weak compared to its PSI counterpart. It's a happening thing globally. This is consistent with the policy-driven disruptions to international trade flows, with business investment decision-making also affected in the bargain. In contrast, household sectors across the (developed) world appear broadly robust, underpinned by solid, even tight, labour markets.

## GDP

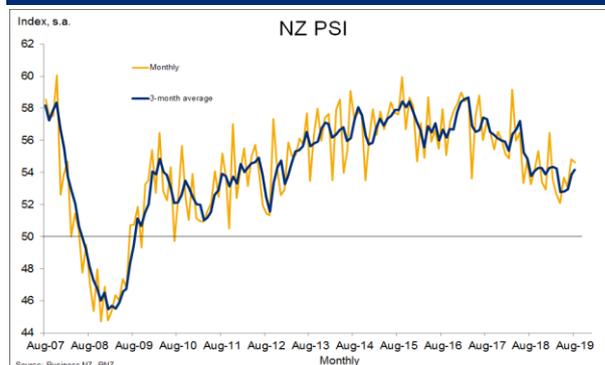
In New Zealand's case, the relatively robust PSI provides a key backstop to our near-term view on GDP growth. June quarter's GDP is due for publication this coming Thursday. While we expect it expanded 0.3% (undermined by falls in manufacturing, goods exports, and business investment), the services part of Q2 GDP we reckon increased about 0.6%. This would be better than what the services sector expanded in Q1, which was 0.2%. So, no, we don't believe the services sector is giving up the ghost. The PSI backs this up. Then again, it is important that this continues, to offset the tough times the manufacturing sector is getting mired in.

## Consumer Spending

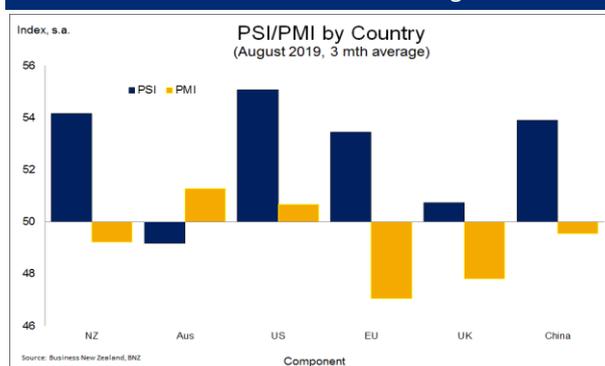
Of course, data on services industry activity in New Zealand – outside of the GDP accounts – is not exactly munificent. However, we do have the monthly electronic card transaction values to go by, with respect to retail-type spending. And this rebounded all of 1.3% in August after a patchy run over prior months. This boosted the chances of seeing a decent increase in Q3 retail trade volumes. The Retail component of the PSI has certainly been on the right side of 50 over recent months. Having said this, its Accommodation, Cafes and Restaurants category stands out as a negative. As a discretionary, and tourist-sensitive, area this bears keeping tabs on.

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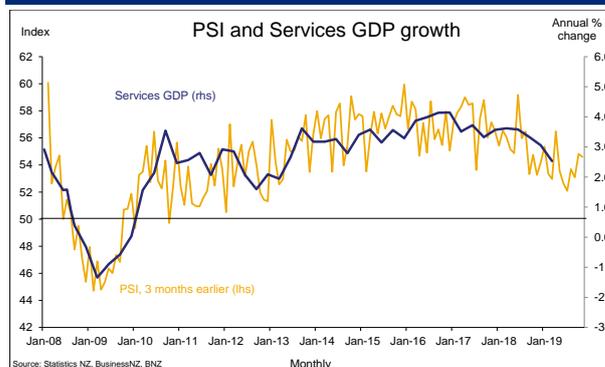
## Skirting Weakness



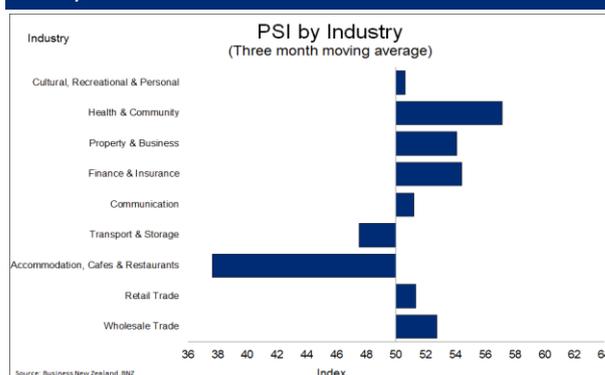
## NZ Echoes Global Services-Manufacturing Divide



## Services To The (GDP) Rescue?



## Mostly Good



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