

24 January 2017

The PSI

New Zealand's Performance of Services Index (PSI) maintained a perky pace in December, with an index reading of 58.4. And, unlike its PMI cousin, its new orders index remained clearly above normal, at 60.9 (from 61.9 in November). This heralds sustained strong expansion in sales activity, which was already pumping in December, with a seasonally adjusted index of 63.5. Indeed, all of the main components of the PSI in December were stronger than usual. The only one that was close was inventory, with 52.6 compared to its long-term average of 51.3. But this hardly signals a concern around stocking levels, with all the other signs of strong momentum in the PSI.

QSBO Services

That the services sector continues to barrel along rather well was also evident in last week's Quarterly Survey of Business Opinion (QSBO). Services sector respondents to this NZIER survey had net confidence, in the general economic outlook, of +26, seasonally adjusted. This compared to +31 three months earlier, maintaining a good margin above its average since late 1995, of -3. In line with this, reports on, and expectations of, activity, remained upbeat. This suggests the solid growth we've seen in the (majority) services segment of GDP is carrying on. Also, pricing intentions in QSBO services – up to +29, from +9 in Q3 – were instrumental in driving the overall QSBO higher in respect to these series.

Retail

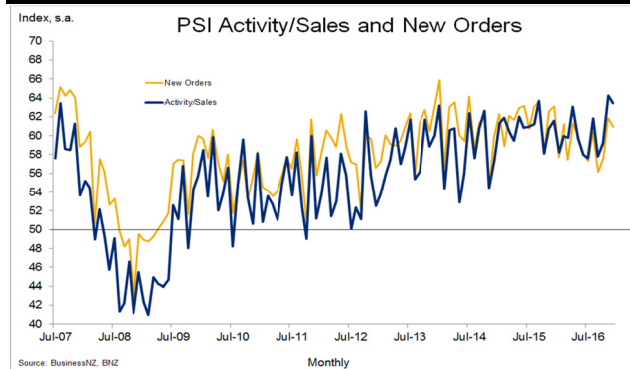
One of the question marks we have around the services sector is the performance of the retail sector. We say this with December's electronic card transactions having failed to bounce back from their November dip, capping our expectations around Q4 retail volume growth. But we've since taken heart from the merchants' response to the QSBO, which were fine. And when we drill down into the PSI we see that its retail category still looks reasonably expansive. Of course, for this we have to work with indices that are not seasonally adjusted, as a rule. And December is the big one for retailing. However, when we compare December retail PSI results, over many years, we get the impression of relative health for the final month of 2016.

Employment

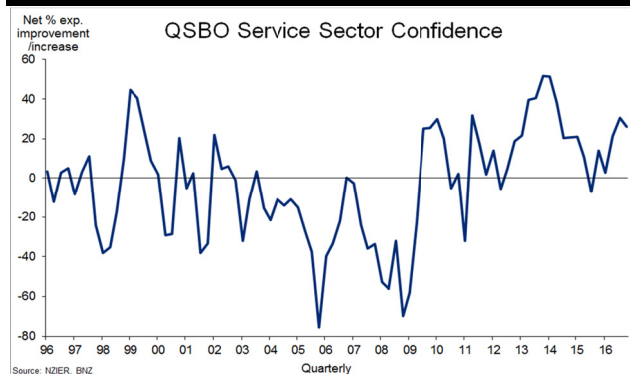
One of the factors supporting consumer spending, of course, is the labour market. Today's PSI still has good news re the latter. Its employment index lifted to a seasonally adjusted 54.0 in December, from 52.3. And with the PMI equivalent rebounding to 51.6, we get a composite view on the economy's jobs running above normal. This is a good sign for the December quarter labour market reports, due 1 February. Just note, however, that the Household Labour Force Survey measure of employment was running incredibly hot in Q3, so technical headwinds could affect the Q4 result.

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Sustained Momentum



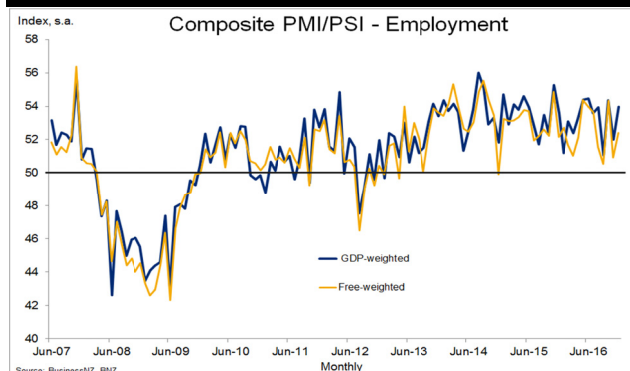
Upbeat Too



No Trip Going Into The Vacation



The Jobs Boom Rolls On



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