

23 January 2018



The PSI

The Performance of Services Index (PSI) remained patently expansive for December. Index-wise it came in at 56.0, compared to the 56.5 level it strengthened to in November. This above-average outcome was doubly significant, considering the Performance of Manufacturing Index (PMI) decelerated sharply in December. Had the PSI done so too, we would have been much more concerned that the economy might be choking back a bit, following the election. As it is, we judge the weakness in the PMI to be related to business investment caution, for now, while the ongoing robustness in the PSI suggest the more day-to-day business keeps ticking over relatively well.

QSBO Services

It wasn't just December's PSI that suggested New Zealand's services sector continues to expand well, post the transition to the new government. So too did last week's NZIER Quarterly Survey of Business Opinion (QSBO). Granted, its services category reported a slower last three months, but hardly below the norm. And expectations for the coming three months kept running comfortably above average. Staffing trends in the sector were also encouraging. However, profitability continued to come off peaks (despite a clear intent to raise prices) and investment intentions by service sector respondents lost much of the enthusiasm they had the previous quarter.

Merchants

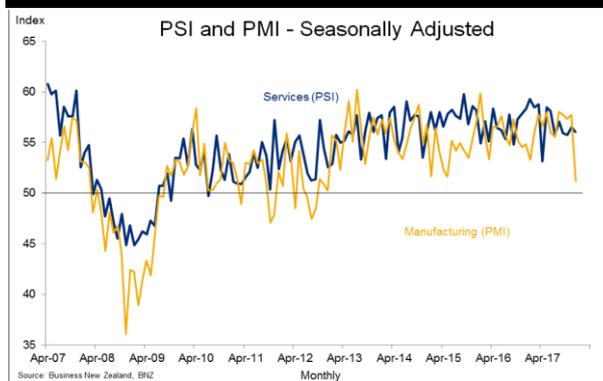
Separate to services, the merchants' category of the QSBO went a bit below par in Q4 – whether about trading activity over the last three months, or expectations for the coming three. Yet we've not seen evidence of a slowdown in spending. Sure, electronic card transactions increased just 0.2% in December. However, this followed a 1.4% jump in November and a 0.7% lift in October. For the December quarter as a whole we judge a big gain in value terms, inferring a strong gain in retail trade volumes compared to the September quarter. As for the retail component of the PSI, it was actually pretty strong – averaging 60.5 through the December quarter.

Housing

Much still hinges on how the housing market pans out. The Real Estate Institute data for December failed to provide much direction, however. Home sales increased only slightly further, on our seasonally adjusted estimates, to be down 10.1% y/y. If that is the post-election catch up then it's rather half-hearted. Prices, meanwhile, were about as firm as we expected. When we seasonally adjust the SPAR-based House Price Index – the one that is quality-adjusted – we get a fourth successive monthly gain of about 0.7%. This has nudged annual inflation up to 3.8%, from 3.5%. Still, we'll reserve judgment until we have the next few months' of housing data under our belt.

craig_ebert@bnz.co.nz

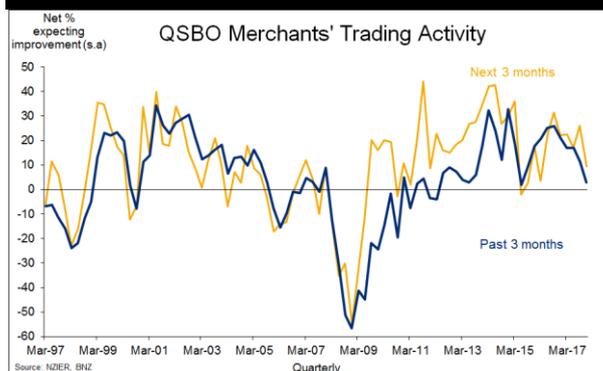
Service Sector Still Going About Its Business



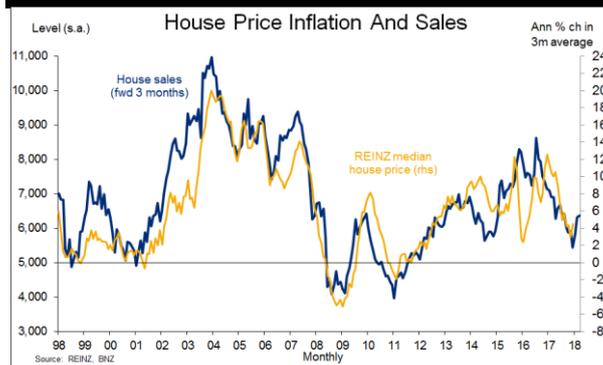
Holding Up Relatively Well Also



A Harder Sell



Firming Up A Little Bit



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+61 2 9237 1406

Alan Oster

Group Chief Economist
+61 3 8634 2927

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney

Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

London

Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +44 20 7796 4761

New York

Foreign Exchange +1 800 125 602
Fixed Income/Derivatives +1 877 377 5480

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

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