

20 March 2016

## Steady Strong Service

New Zealand's Performance of Services Index (PSI) remains very strong. February's 58.8 result is little changed from January's 59.5. Indeed, the PSI has remained in a tight 58.3 to 59.5 range over the past four months. With minimal movement over recent months, and even not all that much change of the past four years (with a range of 53.4 to 59.6), it might have some wondering if the PSI is telling us anything at all. In fact, we think it is quite revealing. The persistently high level of the PSI indicates that the service sector is growing at a strong and steady pace. Indeed, such growth was integral to NZ posting positive economic growth in last week's Q4 GDP figures, when manufacturing and primary sector activity dipped.

## Good For Growth

Ongoing PSI strength in January and February bodes well for GDP growth ahead. So too the bounce in the Performance of Manufacturing Index (PMI) for February published last Friday. All this has seen the PSI and PMI composite index (PCI) average edge up to 57.9 in February from January's 57.7, although a nudge higher than the 56.4 average for the second half of last year. It is supportive evidence to the idea that economic growth has picked up a bit in early 2017 following a deceleration in the final quarter of 2016. It supports our view not to fret too much about last week's softer GDP outcome. It even suggests upside risk to our current economic growth forecast of 2.7% for 2017, even challenging our broader view that growth is currently in the process of peaking.

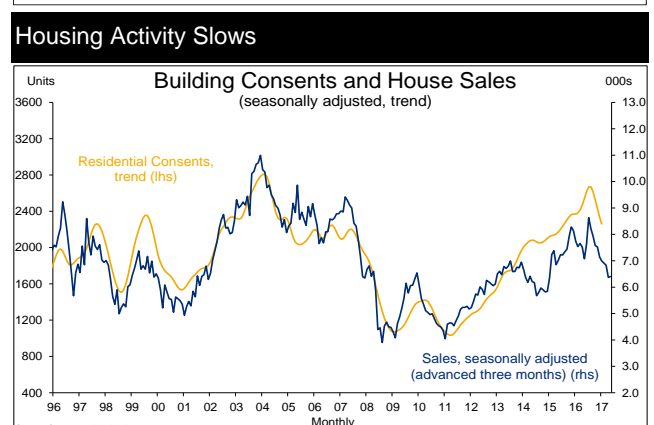
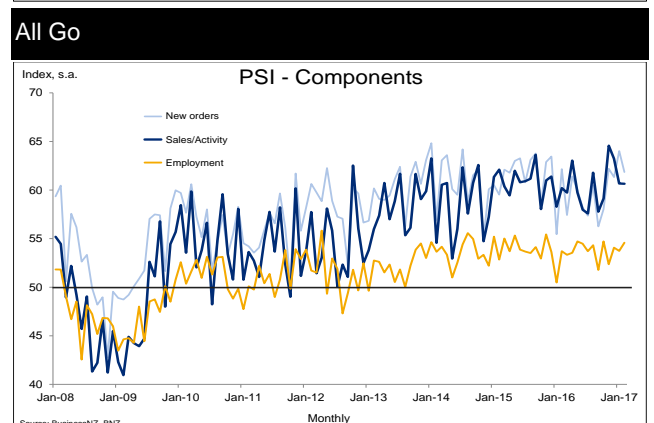
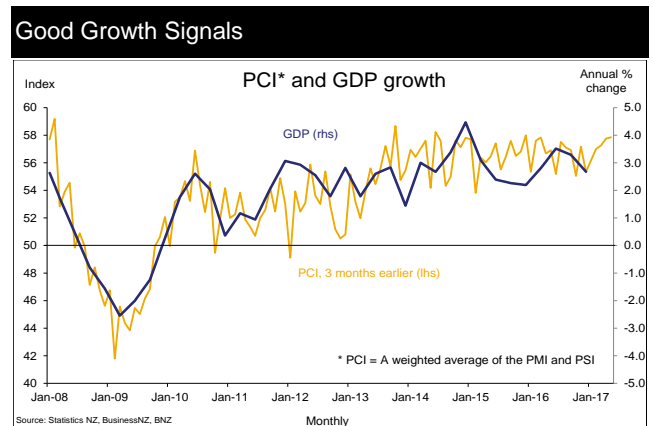
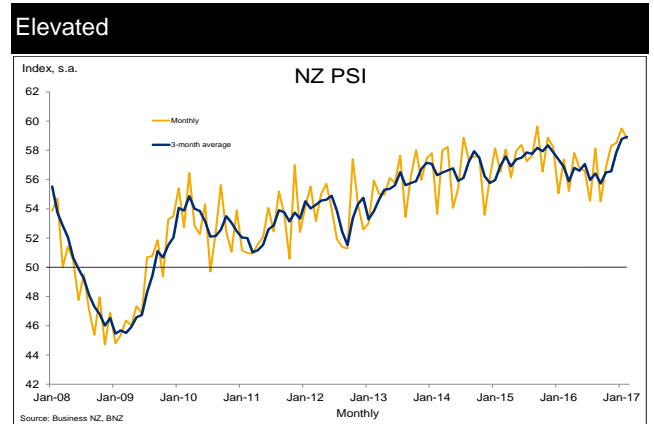
## Sales and Orders

The PSI details support the headline positivity, with broad-based strength. The sales and new orders components continue to lead the charge – both posting their fourth consecutive month above the 60 mark. The employment index edged higher to 54.6 in February to enter its fifth year without indicating contraction. Meanwhile, on an unadjusted basis, there were positive PSI results in February across all industries, regions and firm sizes.

## Houses and Building

Despite the widespread near term positive growth signals above, we are alert to some other indicators cooling over recent months. This includes slowing in the number of houses being sold and a dip in the trend number of consents issued for residential buildings over recent months, albeit from a historical high level. House sales in February were nearly 10% lower than a year earlier (after adjusting for last year's leap day), while trend residential building consents in January were almost 5% lower than a year ago. These are areas to watch amid the general near term positive signals above regarding the services sector.

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