15 February 2016

The PSI

New Zealand's Performance of Services Index (PSI) lost a bit of steam in January. It's difficult to know if this is anything more than the usual monthly bounce-around. Still, the slowing is worth pointing out. The seasonally adjusted PSI came in at 55.4 (still above its long-term norm, which is 53.9). But this compares to December's 58.5 and the 8-year high of 59.5 it posted in November. The PSI's activity and new-orders gauges, while slower for the second month running, were still clearly expansive, at 58.0 and 57.0 respectively. And put with the relatively better PMI (57.9), January's PSI remains enough to suggest annual GDP growth running in the range of 3 to 4%. We figure on something closer to 2.5%.

Consumer Spending

By way of industry groupings in the PSI, an obvious deceleration came through Retail Trade. Its (unadjusted) index for January came in at 49.5, which contrasts with the level of 62.8 a year earlier. Yet we find it hard to believe retail spending is going flat. Not with January's electronic card transactions doing relatively well, in expanding 0.6%. This follows what we think will be a 1.0% lift in real retail trade in Q4 of last year – in figures due for publication by Statistics NZ Wednesday morning. In support of ongoing retail spending expansion are high net immigration, booming tourism, consumer confidence, construction, low inflation and a robust labour market.

Wages and Salaries

Few could fault the strength of the Q4 Household Labour Force Survey. Sure, its component parts have exhibited more than their usual bumpiness over recent quarters. However, it has left a picture of robust growth in jobs and an under-control unemployment rate. The Q4 pay data, however, left the impression of a lack of response. To be sure, the (private sector) wage and salary outcomes were stuck in the range of 2.5 to 3.0% per annum. However, in the context of next to no CPI inflation, it amounts to solid increase in real terms. And with CPI inflation likely to stay low for a little while yet bear in mind this could limit cost-of-living adjustment claims in upcoming wage reviews.

Credit

The 0.6% increase in household credit in December didn't sound a lot. However, it annualises above 7%. And it meant for a $15b increase in household debt over 12 months, given the still-high level of household debt as a starting point. Indeed, household credit has for a while now been expanding at a rate faster than disposable incomes, meaning the proportion of debt to income has been on the up. At this rate it will get to a similar point of stretch as we saw around 2007. The difference is that the debt is more "affordable" now, courtesy of the extremely low mortgage rates that have come to pass.

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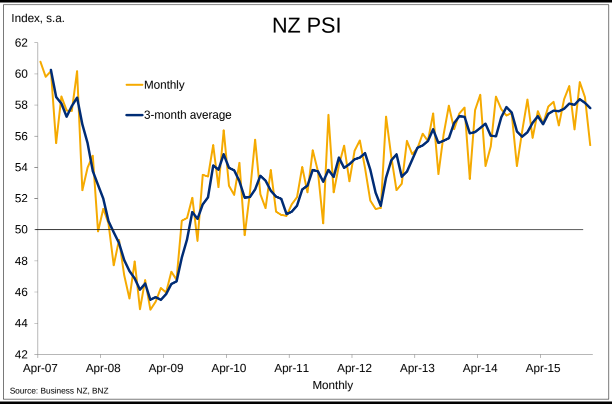
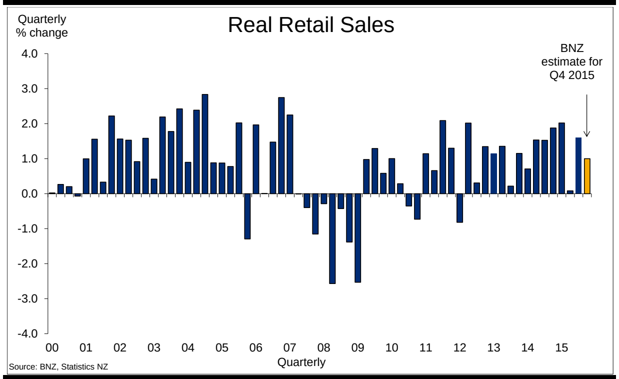
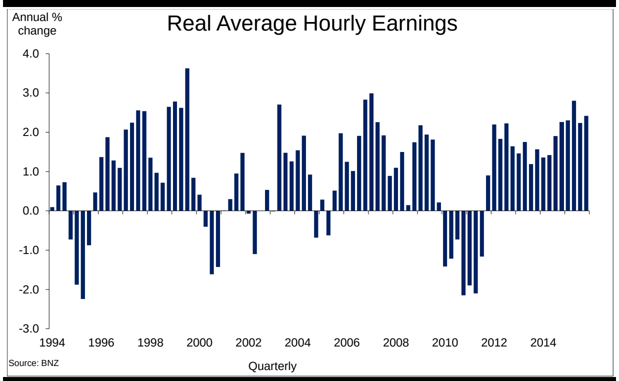
Services Losing Momentum?



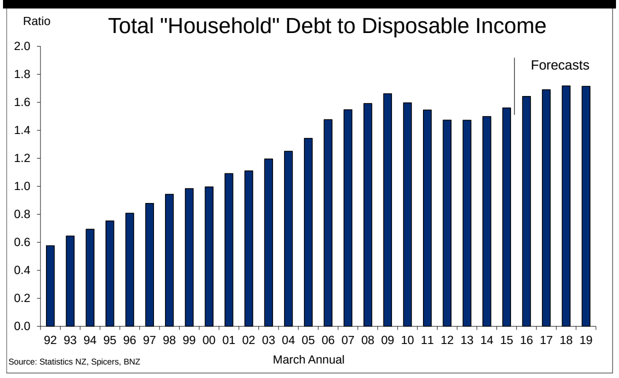
Retail Spending Still Looking Strong



Really Good Wage Growth



Household Debt Loads Rising



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