

20 February 2017

Swift Service

New Zealand's Performance of Services Index (PSI) strengthened a bit further in January. That is no mean feat given it was already at very perky levels. Indeed, January's 59.5 reading has only been surpassed once (September 2015 at 59.7) since 2007. But this is no one month wonder. It continues the acceleration of late last year. The PSI's three month average has hit its highest level since the survey started back in 2007. There is swift, broad-based, growth occurring in the services sector. Of note was a large lift in inventory, but it is difficult to get too concerned about that given strong sales, and new orders at their highest level in three years. Employment is solid.

Confidence and Sales

The ANZ-RM consumer confidence index remained well above average in January. It goes to show that it is not just more people (strong net migration) that are driving sales growth, but confidence among those already here. Retail sales have been strong and latest electronic card transactions data revealed a hefty 2.5% seasonally adjusted increase in January. No surprise then to see ongoing strength in the wholesale, retail and hospitality components in the PSI. The PSI's strongly upbeat tone offsets the softer looking Performance of Manufacturing Index for January (51.6) released last week. The combined PSI and PMI index still sits well above average pointing to robust economic growth in early 2017, albeit growth that we think is in the process of peaking.

Building Off Highs

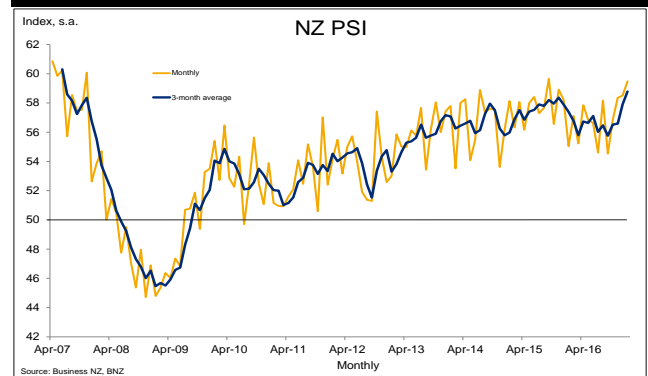
A strong January PSI offsets some slower signals in other indicators of late such as the PMI, building consents and house sales. Residential building consents fell 7.2% in December, extending the 9.2% decline of November. The trend is warning of a slowdown in construction, from elevated levels. It is not to do with the Kaikoura earthquake, rather further slowing in Canterbury. Trend measures of dwelling consents for Wellington remain upbeat, and for Auckland robust. National non-residential consents looked better in December than November but they did lose momentum throughout 2016.

House Sales Lower

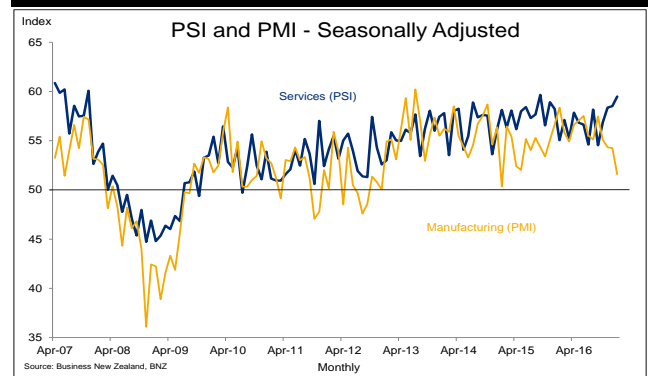
Indications of further weakening in housing turnover, has coincided with slowing inflation, albeit with considerable variation across categories and regions. We judge a 6% fall in NZ house sales in January, which continues a string of negatives starting back in April 2016. House sales are 15% lower than a year earlier. We'll be interested to see the post-holiday market figures in February and March. It is worth monitoring as a potential drag on wider service sector activity ahead. Not that there is any sign of that in the PSI to date, with the property component at a robust, unadjusted, 57.2.

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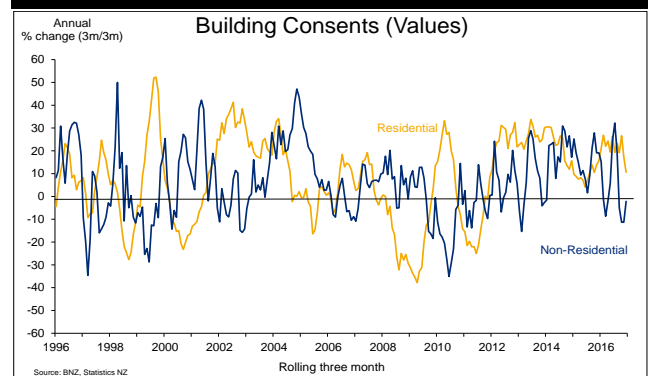
Higher Off A High Base



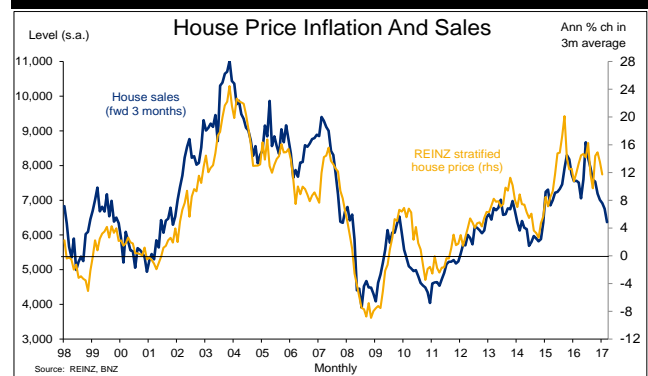
PSI Offsetting PMI



Off Peak



Housing Activity Slows



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