

14 August 2017

PSI Cools

The Performance of Services Index (PSI) eased a couple of points in July to 56.0 from 58.3 in June. This suggests service sector growth cooled somewhat in July. The weather looks to have been, at least partly, to blame, as it was for the slight dip in the month's Performance of Manufacturing Index (PMI) released last week. Many respondents to the PSI survey noted extreme weather as having a negative impact on their business this month. Consistent with disrupted logistics, supplier deliveries slowed the most across the major components. Despite the disruption, the PSI remains above its long term average of 54.4 indicating solid growth.

Sales Growth Slows – Temporarily?

Sales growth slowed in July, with the index dipping to 55.5 from 59.0 in June. This is not as much of a slowdown as the 52.8 recorded in April, when cyclones caused havoc, but it is still a sizeable dip. Of course, it might not be all the weather's doing. A cooling housing market, some election uncertainty, and an unwind from the Lions rugby tour are a few potential candidates for slower sales growth in the month. For now we are treating the slowing in sales growth as temporary, but await coming months' data for confirmation. We are encouraged by new orders remaining very healthy at over 60 and employment ticking higher.

Jobs Strong

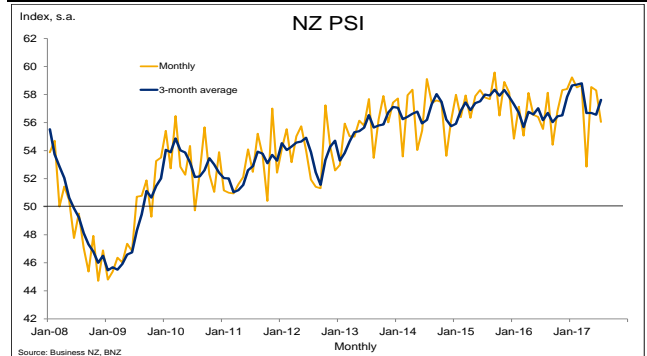
PSI employment rose to 55.2 in July from 54.2 in June. This follows a lift in PMI employment last week. The composite employment index has lifted sharply. On a smoothed three month average basis it remains near record levels. The mild Q2 dip recorded in the official employment figures always looked a bit odd in the context of other surveys showing an increase in filled jobs and paid hours, strong employment intentions and high job ads. Ongoing strength in the PSI and PMI employment indicators adds to the case of a decent bounce back in official employment in Q3.

Good Orders

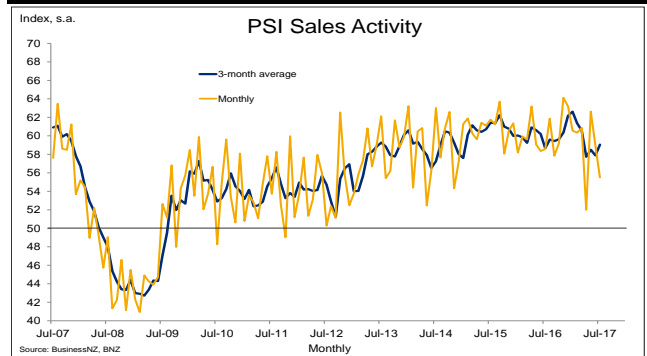
PSI and PMI new orders eased in July, but both remain above their long term average. Recent strength in the composite new orders indicator bodes well for a pick-up in economic growth following a softer period at the end of last year and at the start of this year. On a smoothed three month average basis, the recent buoyancy in new orders even suggest some upside risk to our near term GDP forecasts. But all considered, including the slower sales indicators noted above, we'll stick with our view that the economy will expand around 2.5% this year.

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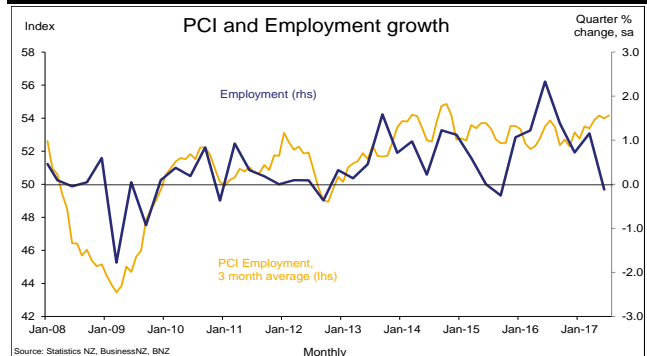
Trends Solid



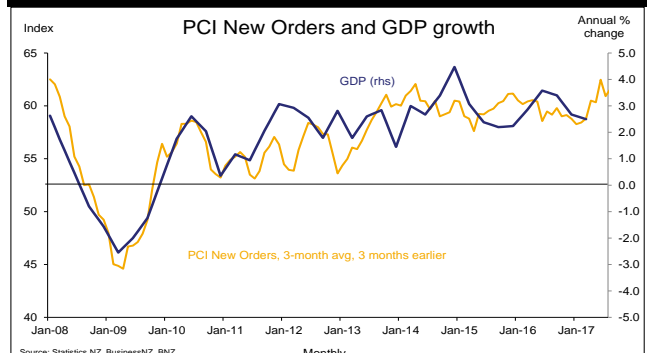
Sales Dip



Official Employment To Bounce Back



Positive Indications



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