

18 July 2016

The PSI

Much like the PMI did, the Performance of Services Index (PSI) exhibited resilience in June, with an index reading of 56.7. There was also accord in the fact the PSI indicated the fastest rate of expansion was occurring in the North Island. As it turned out, June's PSI was barely different to May's outcome of 56.9 and took the 3-month average up to a very solid 57.1. Production (58.1) and new orders (58.3) were still leading the way. However, coming up through the pack was the PSI's employment index, which hit 55.1 (to now be well above its long-term average of 51.3). This fits with a number of other indicators on hiring that are starting to look hefty for New Zealand.

QSBO Services

One of the difficulties in monitoring the services sector is that there are very few general indicators on how it's all going. But one of those few is from the NZIER's Quarterly Survey of Business Opinion (QSBO). Interestingly, its service sector component in (late) June became slightly cautious about what the next few months might behold. However, its reports of recent activity were very positive. And service sector firms in the QSBO were also upbeat regarding staffing and investment intentions, and particularly so regarding profits over the coming months. Not so strong, however, were their reports on pricing, although pricing intentions were edging higher.

Retailers

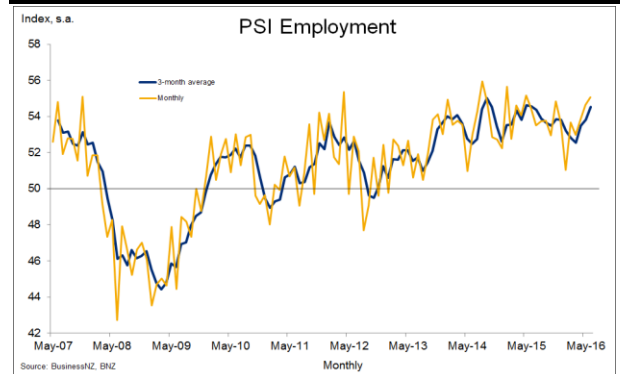
Drilling down into the industry detail of the PSI, its retail trade category was one of the strongest. Its (unadjusted) index result of 57.8 for June brought its 3-month average up to 56.5, compared to 49.2 at the same stage a year ago. This aligned with the recent trend in electronic card transactions, especially after their reported 1.0% increase in the month of June. The other source of confidence in the retail sector came from the merchants' component of the QSBO. This, in June, had a reasonably positive view on activity over the coming 6 months. This suggests retail trade growth, as per the Statistics NZ series, will largely sustain its recent solid pace through calendar 2016.

Housing/LVR

Despite slightly slower sales, price pressure in the NZ housing market remained clear in June's Real Estate Institute data. Problematic as this is, the RBNZ feels it has more important issues on its plate, namely trying to drive more inflation into the CPI. One of the ironies of this is that it's bound to inject more inflation into construction costs, which, in turn, works against "affordable" housing. But this is the path the RBNZ is choosing so we'll have to keep running with it. The Reserve Bank's messaging will encourage folk into the housing market. Conscious of this, the Bank will press on with its plans to put tighter macro-prudential policy in place, essentially via LVR methods.

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Service Sector Robustness Translating Into Jobs



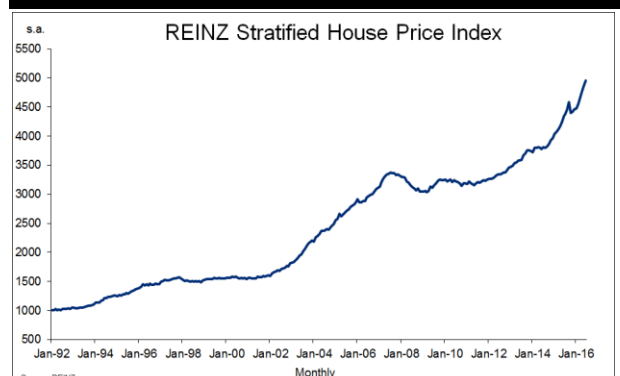
Services Strong, For Now



Merchants of Pleasance



Housing Market Party Continues



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