

17 July 2017

## The PSI

The big rebound that the Performance of Services Index (PSI) traced in May pretty much stuck fast in June. In terms of the seasonally adjusted index, we're talking 58.6, from 58.8 (after the big deceleration it posted in April, skidding down to 53.0). The latest robustness is spread right across the main sub-indices. This includes another solid reading on employment (54.2), which was good to see considering the jobs index of June's Performance of Manufacturing Index was something of a weak spot, albeit an isolated one. The new orders/business index in June's PSI was on the charge again, at 64.1, while activity/sales were humming along at 59.4.

## QSBO Services

That the services sector continues to roll on was also evident in July's Quarterly Survey of Business Opinion (QSBO). Services sector respondents to this NZIER survey had net confidence of +20, seasonally adjusted. This matched the level of 3 months earlier, and thus was still well above average (-2). In keeping with this, reports on, and expectations of, activity remained relatively upbeat. In terms of notable changes in the services section of the QSBO this year, pricing indicators have stood out. Whether reports on recent pricing, or intentions to alter prices over the near term, these were each back up around norms, having ran a soft patch over 2015/16.

## GDP

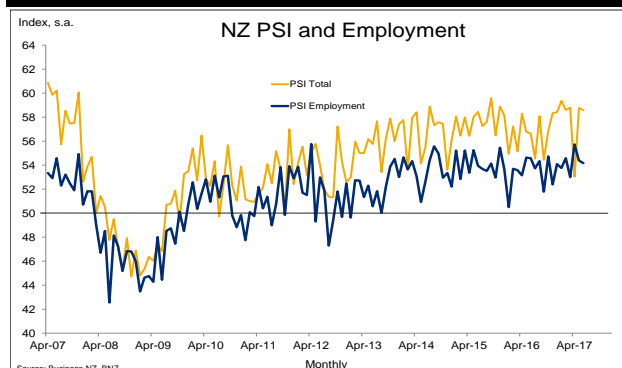
With respect to GDP, the recent results of the PSI are obviously supportive of ongoing solid expansion. The PMI has been saying the same thing, in also running above its long-term average. Combined, the PSI and PMI signal an above-trend rate of economic expansion through the course of the June quarter. This is consistent with our view that Q2 GDP growth will pick up to 0.8% (2.5% y/y), with upside risk. This is after it remained relatively slow in Q1, with 0.5%, following 0.4% in the final quarter of calendar 2016. The services part of GDP was likewise slow in Q1, with quarterly growth of 0.4%, although its annual rate of increase was reasonably good, at 3.0%.

## Housing

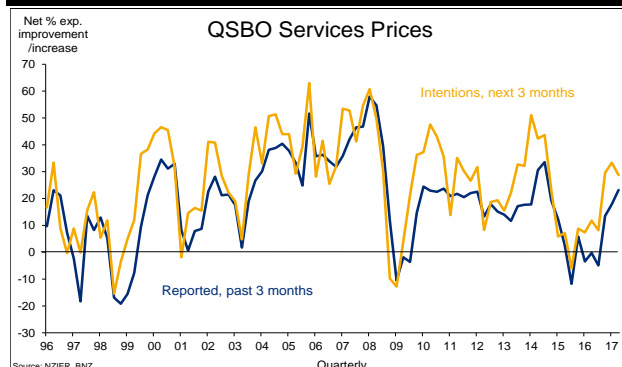
In an otherwise robust-looking NZ economy, we continue to wonder about where the housing and construction markets are going to end up, given their extremely stretched starting points. That's not to say we are forecasting a big dip, although the risks of such are there. In respect to monitoring trends in the housing market, we welcome the Real Estate Institute's new SPAR house price indices. These look to give the best signal-to-noise ratio of the many house price measures out there. Their June outcomes – published last week – proved about as soft/flat as we expected regards Auckland, and for the rest of the country perhaps not as robust as we figured on.

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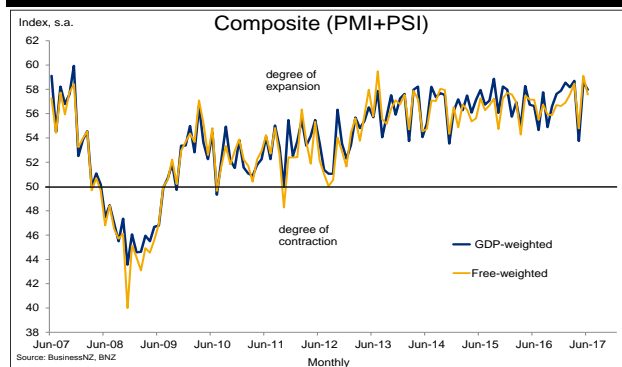
## Back Into It



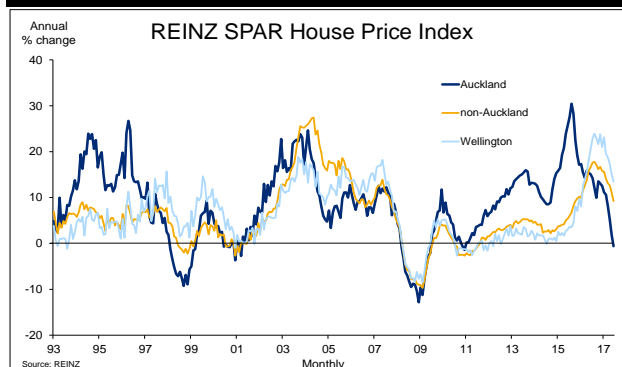
## Firmer Pricing Signals



## A Rock-solid Composite



## Neighbourhood Watch



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