

19 June 2017

The PSI

It turned out that New Zealand's Performance of Services Index (PSI) had a bungee cord tied firmly around its ankles. And so, having dropped precipitously to 53.2 in April, it bounced all the way back up to 58.8 in May. This down-and-up pattern was expressed in all the principle components – aside from employment, which simply cruised along above its long-term average. The latter was one of the many reasons we judged the dip in the broader PSI during April to be noise rather than signal. Nonetheless, we were relieved to see the PSI return with such a vengeance in May. We'll take a (seasonally adjusted) result of 58.8 any day of the week.

Services GDP

The services sector has been the quiet achiever of the NZ economy, for a number of years now. Having said this, it registered something of a slowdown in the March quarter, according to last week's GDP accounts. These had the services sector expanding just 0.4% in Q1. This slowed its annual rate of growth to 3.0%, from 3.5% in Q4. It was even slower than that, when excluding the retail, wholesale and government-dominated sectors. However, we don't believe this is a genuine loss of momentum. As service sector growth was so strong in the Q4 GDP, a slower result for Q1 was inevitable. We also note the 2% fall in transportation services in Q4, which looks transitory.

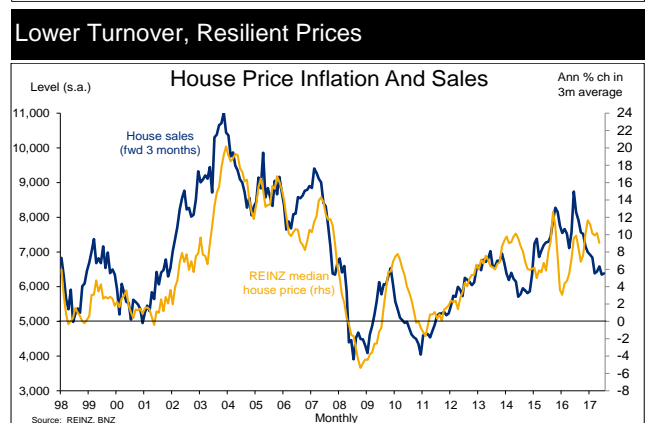
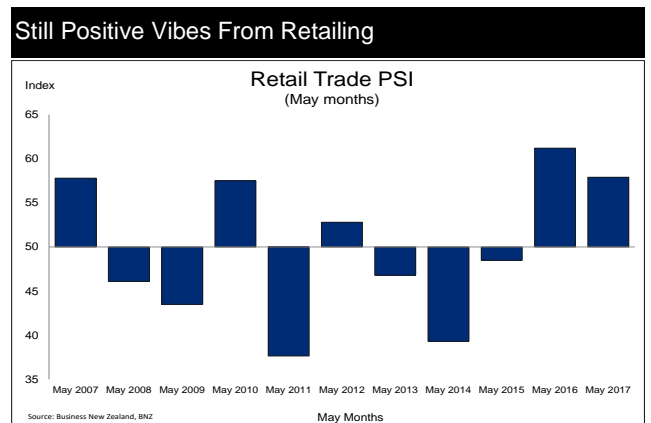
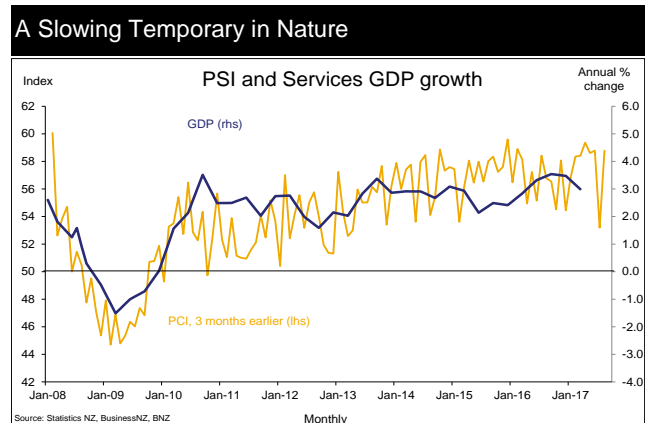
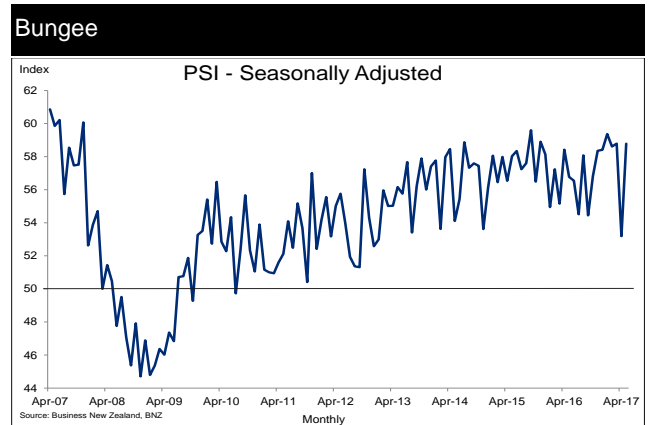
Retail

The retail component of Q1 GDP was very expansive. However, we are wondering how well it will do in Q2. We say this with May's electronic card transactions having dipped a seasonally adjusted 0.2%. This has dented our expectations of Q2 retail trade growth in volume terms, to something moderate rather than strong. Yet we wouldn't want to get too reticent on it, given the upbeat retail messages from May's PSI. Of course, for this we have to work off indices that are not seasonally adjusted, as a rule. However, when we compare May retail PSI results, over many years, we get the impression of relative health with respect to 2017.

Housing

While house prices in Auckland appear to be levelling off now (albeit at stratospheric levels) around the rest of country they mostly retain momentum. Nonetheless, turnover in the residential market, everywhere, has been impinged by the LVR credit restrictions imposed by the Reserve Bank. This seems to have affected the real estate services component of (services) GDP. We don't expect a bounce-back in housing turnover anytime time soon. This is not about winter's seasonal lull, rather the impending election and, more fundamentally, the likelihood that the RBNZ will not be relaxing, let alone removing, its LVR restrictions in any sort of hurry.

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