

RESEARCH

Services Landscape

18 June 2018



A Lot To Like

There was a lot to like in May's Performance of Services Index (PSI). First, the headline reading edged up to 57.3 from 56.4 in April. This indicates the service sector is not only expanding at a solid rate, but has even accelerated a little. Second, new orders surged higher to a very strong 64.6 – a reading only bettered twice in the past 10 years. It signals good demand for services and bodes well for sales ahead. Third, employment has nudged upwards following a slower period over recent months with firms no doubt encouraged by more sales and new orders appearing in May.

Q1 Dip Looks Temporary

The positive signals in May from the PSI reinforce improvement we have seen in the index over recent months following a somewhat weaker patch earlier in the year. This may prove important context for next week's official GDP figures if, as we expect, growth comes in a bit on the soft side for the first quarter of the year (we anticipate 0.5% GDP growth for that quarter on a seasonally adjusted basis). A composite index (PCI), of the improving PSI along with an above average reading in last week's Performance of Manufacturing Index (PMI), cautions against extrapolating any softness in Q1 GDP too far forward.

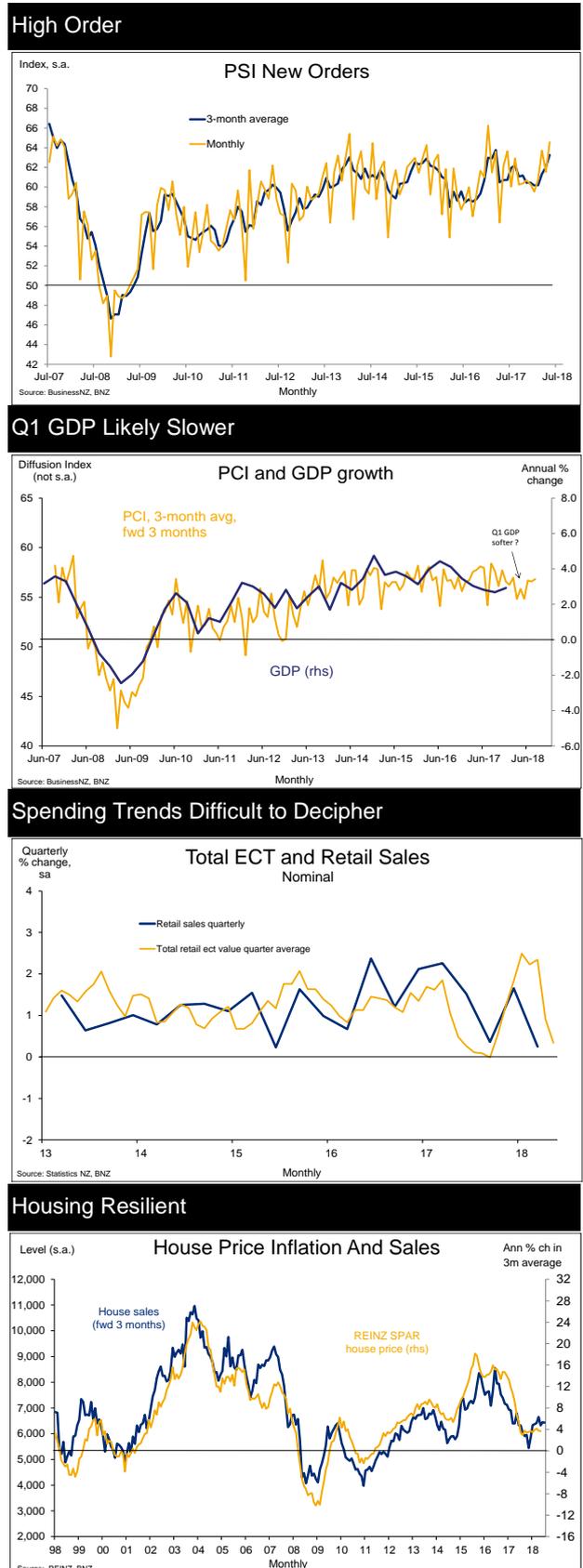
Mixed Signals

The current buoyancy in the PSI is in contrast to some other indicators like negative business confidence and wavering electronic card transactions over recent months. Sure, electronic card transaction values increased a seasonally adjusted 0.5% in May, but this didn't even make up for the 0.7% drop in April. The recent monthly trend is flat and annual growth has slumped. But with rapidly changing payment methods, it is difficult to be sure what the true spending trends are. In the least, the positive PSI reading, including for the retail and accommodation sectors, offers some hope that retail sales through Q2 are not as weak as currently implied by the electronic card transactions data.

Housing

REINZ data for May gave the sense that housing markets outside Auckland and Canterbury are showing better signs of resilience, having looked a bit equivocal on it over the last couple of months. The nationwide house price index, for instance, slipped 0.1% in May. But excluding Auckland it rose 0.3%, for an annual increase of 6.8%. And this is in spite of an ongoing drag from Canterbury, where prices are slipping slightly, in a manner similar to Auckland. Interestingly, while Auckland prices are arguably struggling most to increase, home sales there are doing better than the rest of the country. Auckland's home sales in May were up 5.4% on a year ago, while for the rest of the country sales eased 0.5%.

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