

16 December 2019



## The PSI

Having rebounded well through much of this year, New Zealand's Performance of Services Index (PSI) suffered a knock in November. Its 2-point dip, to 53.3, put it back below its long-term norm of 54.4. And this transpired for all the wrong reasons, with the index on new orders/business down to 53.9, from the super-encouraging level of 61.9 it scaled in October, while inventories spiked to 56.5, from 51.8. The activity/sales index slipped to 54.1 in November. Employment was relatively steady, however, at 51.6 – very close to its historical average.

## GDP

The dip in the PSI in November coincided with a slight fall in the Performance of Manufacturing Index (PMI) in the month. Together, these tugged on the reins of GDP growth expectations. To be sure, we never got carried away in this respect. However, for what it's worth, the PSI and PMI composite now indicates annual GDP growth dipping below 2%, whereas last month they were more consistent with achieving this degree of expansion. Q3 GDP growth is of course due to be published by Statistics NZ on Thursday. We are looking for this to expand 0.5% in the quarter, which would nudge its annual growth rate up to 2.3%, from 2.1%. But also watch for historical revisions that paint a stronger picture on GDP over recent years, than presently estimated.

## Selective Services

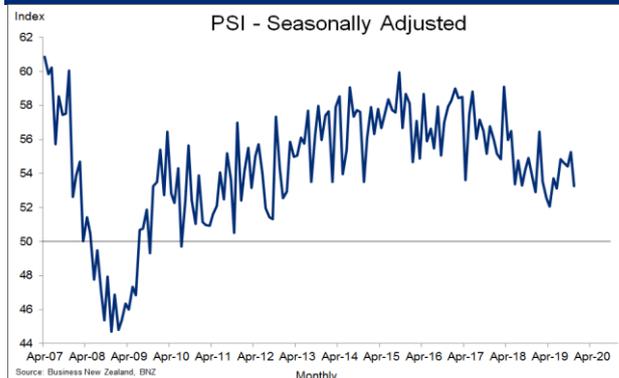
As part of our 0.5% pick for Q3 GDP growth we assume that its service-sector component replicated the sort of momentum they reclaimed in Q2, after a very slow gain in Q1, of 0.3%. And we get a strong signal from the selected-services data for Q3, as published by Statistics NZ. These cover many of the professional services, including science, architecture, engineering, legal and accounting. They do not have a tight relationship with their services-GDP counterparts, but, as a grouping, the selected-services statistics have certainly rebounded a lot over recent quarters.

## Electronic Transactions

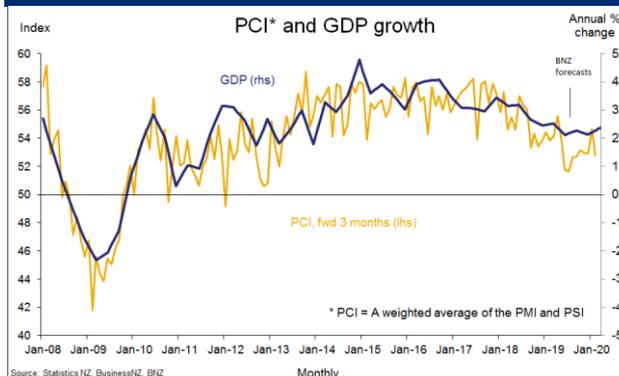
After their wobble in October, electronic card transactions needed to bounce to save blushes on Q4 retail trade computations. They didn't disappoint – up 1.0% overall and 2.6% when looking at the retail category. This sets the platform for retail trade increasing solidly in Q4, after the 1.6% gain it posted in Q3. Generally speaking, there's a lot to keep household spending growth aloft for the meantime. While jobs growth appears to be slowing, wage inflation is running well ahead of CPI inflation, consumer confidence is solid, there's a lot of commodity income coursing through the economy (on the back of the near record highs in the terms of trade), and the housing market is picking up more broadly.

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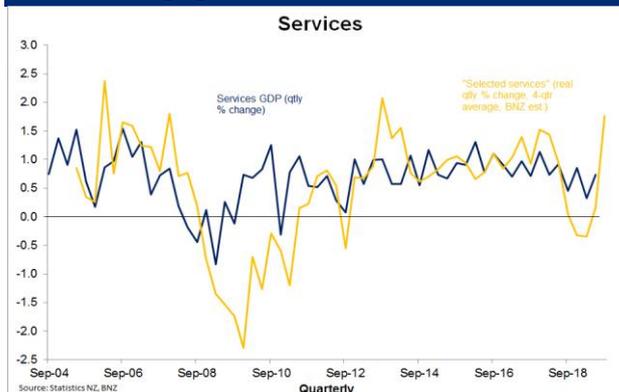
## Hold Your Horses



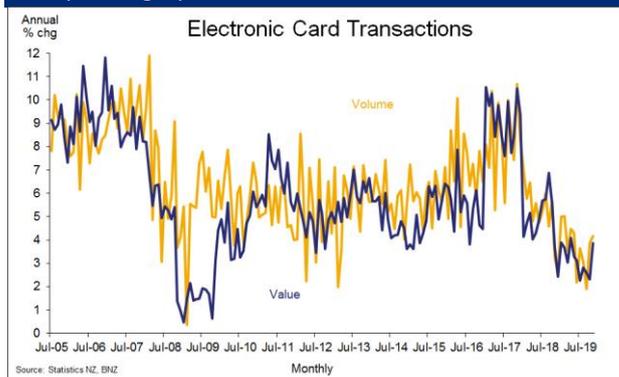
## Not Out of the Woods



## More Encouraging



## Still Spending Up



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