

19 November 2018



PSI

Having been in slowdown mode for much of this year, New Zealand's Performance of Services Index (PSI) showed signs of resilience in October. It lifted to a seasonally adjusted level of 55.4, a tad above its historical average (54.5). The positive tone became stronger when delving into the details. The PSI index on activity/sales, for example, moved up to 57.8 and new orders/business improved to 57.9. This was partially offset by supplier deliveries easing to 51.2 (from 52.3 in September) and the inventory component settling down to 52.2. Through other lenses, only the retail category of the PSI stood out as a material spoiler, with an unadjusted reading of 49.4.

Employment

Of the many positive aspects to October's PSI it was hard to go past its employment index. This jumped to 54.0, from the 6-year low that was September (49.7). Of course, its languishing around the stand-still level of 50 over prior months was not reflected in the Q3 employment figures. The latter, in fact, boomed. But we thought this was likely overstated, along with the degree of drop reported in the unemployment rate – to 3.9%, from 4.4% in Q2. Where the PSI employment is important is in signalling a solid tone on jobs going into Q4. The PMI also had better things to say about hiring in October. All of this helps alleviate concerns the labour market might have been stalling.

GDP Implications

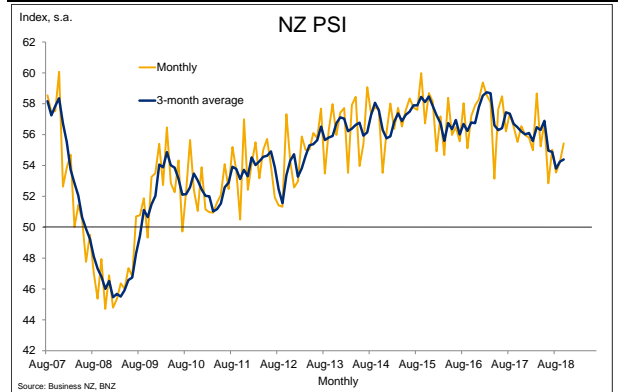
Of course, it wasn't just the PSI that improved in October. So too did the month's Performance of Manufacturing Index (PMI), overall. Combined, they were starting to form a picture, that any near-term slowdown in economic growth will likely be contained. Not that we are expecting a slowdown in GDP growth in the near term. For the record, we think Q3 GDP growth will be OK, around +0.8%. This is slightly above the 0.7% expansion that the Reserve Bank had in its Monetary Policy Statement of 8 November. The Bank went on to forecast a 0.5% increase in Q4 GDP, compared to our expectation of 0.8%.

Global

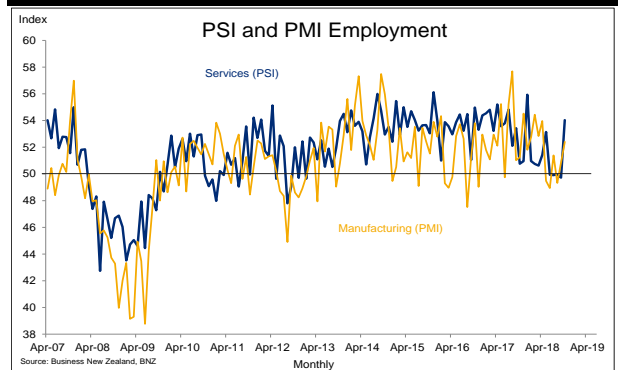
We finish this month's missive with a word on the global economy. To be sure, there are signs that its growth is slowing, especially with eyes on Asia and Europe. The global PMI has certainly slowed this year. However, it's also worth noting that the global PSI has held up relatively well. Indeed, it improved to 54.0 in October, after 53.0 in September. This signals a sizable counterweight to the many, more high-profile, indicators of global expansion that have been coming off last year's boil.

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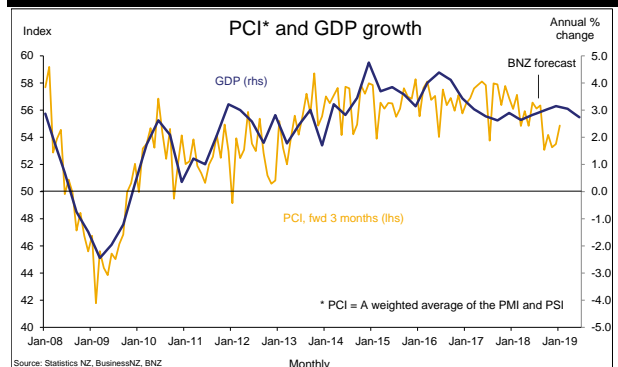
Enough Already



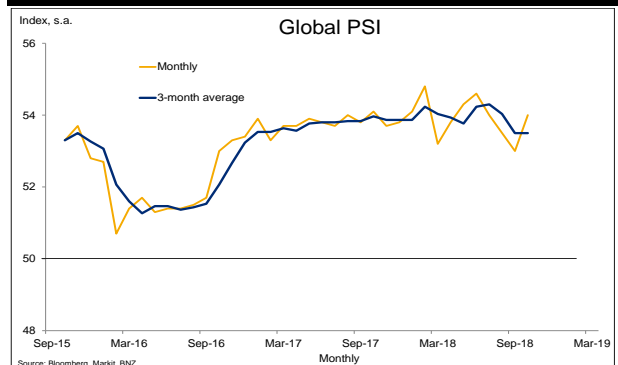
Life Affirming



More Achievable



Some Backbone



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