Services Landscape

18 November 2019

The PSI

New Zealand's services sector continues to shake off a mid-year slow patch. That's according to the latest Performance of Services Index (PSI) anyway. It firmed up to a seasonally adjusted 55.4 in October – a point above its long-term average. Six months ago it was looking a bit vulnerable, down at 52.1. The main component detail fortified the sense of rebound. New orders/business soared to 62.1 (from an already-strong 59.5 in September) with activity/sales, at 58.1, also well above trend. Employment remained more middling, though obviously still expansive, at 52.0, while the PSI index on inventories has settled down after a bulge in the winter.

GDP

The firming in the PSI has been complemented by a sharp recovery in the Performance of Manufacturing Index (PMI) for October. Between the two of them, they now indicate annual GDP growth of closer to 2% than the 1% they portrayed just months ago. This removes one of the challenges to our maintained view, namely of real NZ GDP expanding about 2% this year. Having said this, the PSI and PMI will collectively need to strengthen further, if they are to point to annual GDP growth pushing above 2% in 2020, as we anticipate, let alone get to 2.8%, as the RBNZ expects. All the while, many other leading indicators still point to sub-2% annual GDP growth.

Spending

The industry detail in October's PSI added to the feeling of fortitude. Not so much for a common pulse of expansion across all industries; there wasn't. It was more that Retail, and Accommodation, Cafes & Restaurants categories had strong prints in October, after patchy performances over prior months. This was good to see, with retailers otherwise very pessimistic in other business surveys, and tourist arrivals flattening off. Then again, retailers' grumpiness might have more to do with costs and margin than revenue per se. On the latter, while electronic card transactions slipped 0.2% in October, back revisions suggest an even stronger gain in Q3 retail spending than we were looking for.

Housing

Certainly, there is potential for household spending to be given a boost by house price inflation, which is surely picking up. Last week's Real Estate Institute figures showed annual house price inflation strengthening to 3.9% nationally, and to 8.2% outside of Auckland. To be sure, this partly reflects a lack of listings, which is naturally limiting sales. However, upward pressure on house prices is also coming from extremely low interest rates. While this has every potential of stimulating spending we also wonder the sustainability of it all – with house prices already extreme compared to economic fundamentals, like incomes, rents, and even building costs.

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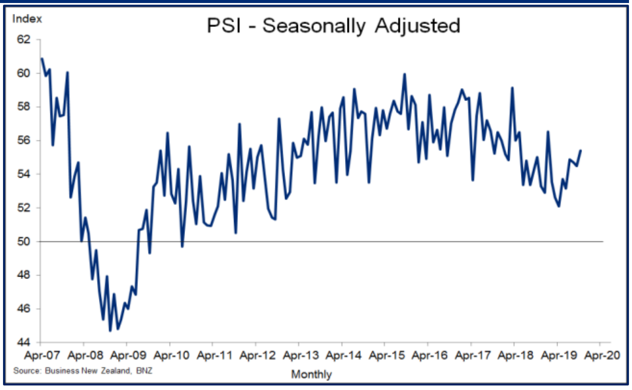
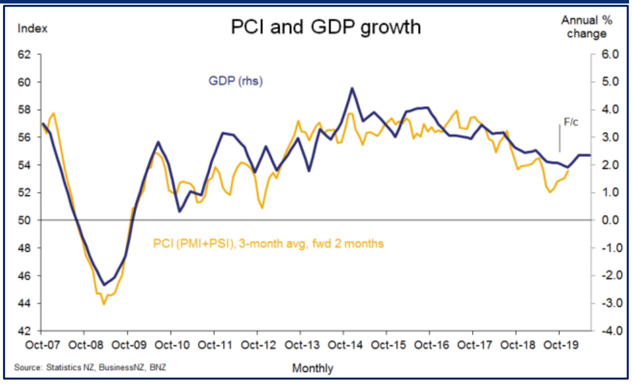
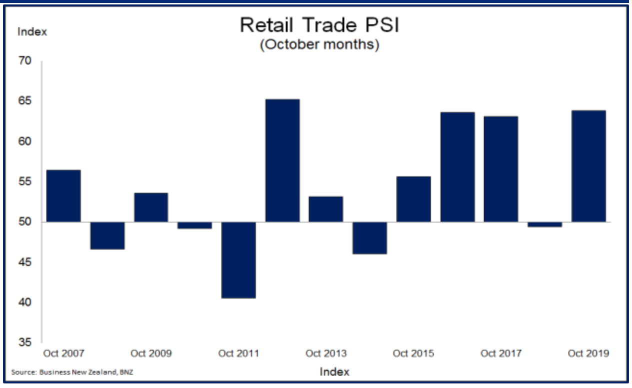
Firming Up Nicely



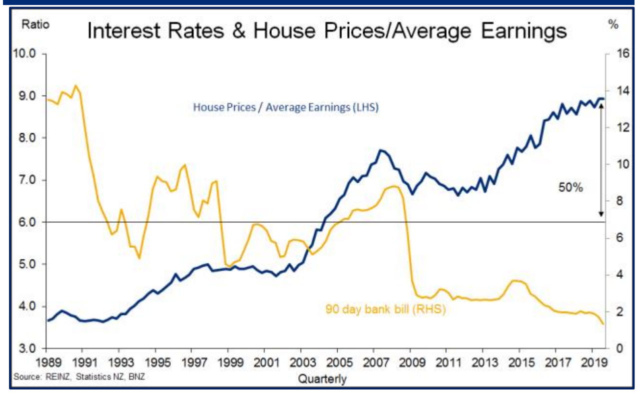
Through The Valley



Retail Robustness



Strong, But How Sustainable?



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