

19 October 2015

Services

New Zealand's Performance of Services Index (PSI) added even more oomph in September. It has been firmly positive all year but the lift to 59.3 this month puts the index at its highest level since 2007. In a word: strong. And this strength is proving reasonably broad-based across the standard component series, industries and the various regions. Yes, there was a notable lift in inventory this month. However, it is difficult to see this as a negative given sales activity (63.2) was running hot, while new orders (63.1) were keeping just as fast a pace. The employment index of September's PSI was a solid 53.7 – around where it's been since the latter stages of 2014.

Faster Growth?

The positivity in the PSI adds to the improvement we saw in its cousin for the manufacturing sector (PMI) last week. Together these surveys add support to our view that economic growth will be stronger in the second half of 2015 than it was over the first half. Indeed, taken at face value, the composite (PCI) index, which melds the PSI and PMI, is consistent with annual GDP growth of around 3½%. That is considerably stronger than the bare 2% annual growth rate that we, and most others now, are currently forecasting. The possibility that GDP growth might hold up better than generally expected was also consistent, incidentally, with the service sector elements of last week's Quarterly Survey of Business Opinion.

Spending Up

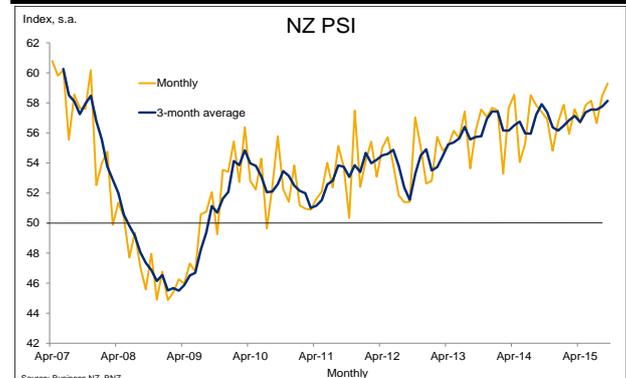
After something of a pause for breath over the June quarter, consumer spending looks to have re-accelerated over the course of the September quarter. The value of electronic transactions increased 0.7% in the month of September, on a seasonally adjusted basis. Its annual growth lifted to 6.4% from an average of 5.9% over the previous three months and from a 4.3% average in the first half of the year. The overall results reinforce our thoughts that real retail sales will post a minimum 1.5% expansion for Q3. While the onset of the Rugby World Cup has probably stimulated some spending we'd also note the fillips from housing, immigration and tourism.

Tourism and Accommodation

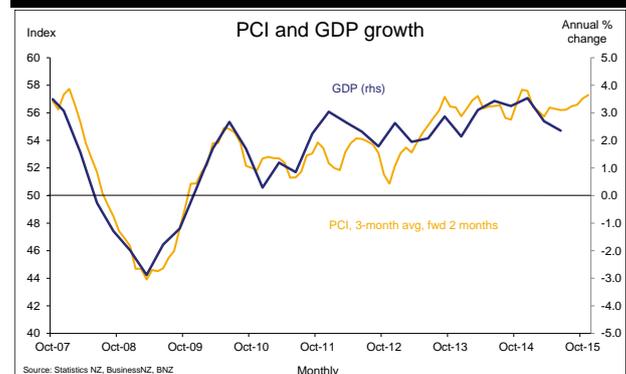
The resurgence in New Zealand's tourism industry should by now be well known. We expect September's foreign visitor arrival numbers, due for publication 21 October, to register 10% annual growth. However, it's also important to acknowledge the upswing in holiday-making of locals. This was reflected in August's Accommodation Survey, which showed 5% annual growth in guest nights of "domestics", while for internationals it was 2.6%. A weakening NZ dollar will tend to encourage both of these markets.

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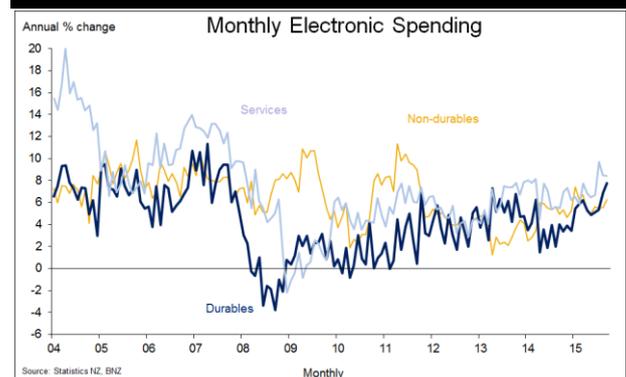
Services Running Hot



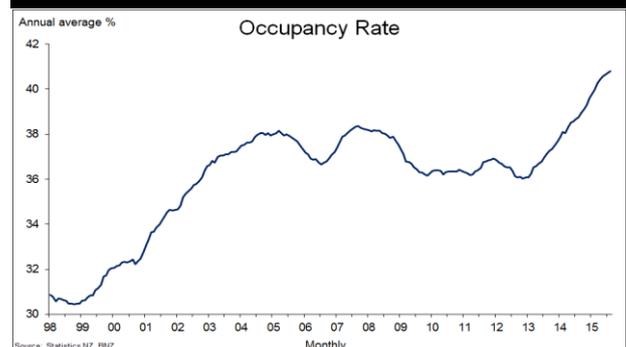
Far From A Slowdown



Retailing Resurgence



Very Accommodating



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