

16 October 2017

PSI Solid

The Performance of Services Index (PSI) has remained stoutly expansive over recent months. Sure, it cooled marginally to 56.0 in September from 57.2 in August, but it remains well above its long term average of 54.4. In contrast to measures of business confidence that have noticeably dipped around the election, the PSI, as a survey of changes in actual activity, has held up well. The small monthly decline was well within usual variation. In combination with its strong manufacturing PMI cousin, which was released last week, it all suggests the economy maintained a decent amount of momentum in the third quarter.

Election Uncertainties

That is not to say that the election was not on the minds of many PSI respondents. Indeed, just like in the PMI, of the respondents citing the major factor on their business as being a negative one, about a quarter of these noted the election. This coincided with a dip in the proportion of positive comments in September to 56.6% from 66.9% in August. But encouragingly in being well above 50%, it shows positive comments still firmly outnumber negative ones. Also offering encouragement was the firm September PSI employment reading. At 54.1 it was up from 52.2 in August and smack on the 2017 year-to-date average, which is running stronger than last year's average of 53.4. This bodes well for Q3 employment growth when the official figures are released next month.

Sales Expansion Slowing?

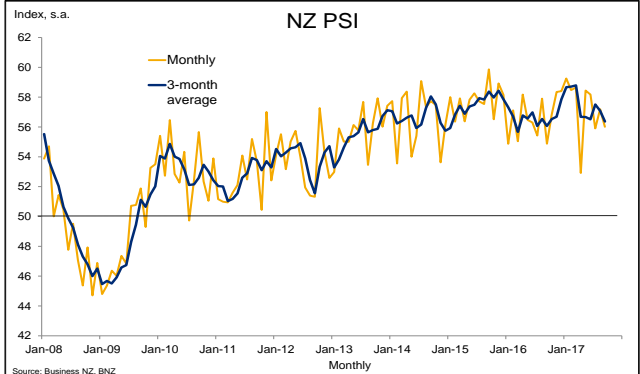
The PSI activity/sales indicator was one area that did show a material slowdown, although at 56.6 in September it hardly indicates slow growth. Still, it was down from 62.7 in August. This continues a volatile period for sales over the past six months, so we wouldn't jump to conclusions on one month's reading. But it is notable that it comes alongside the PSI for retail trade falling to an unadjusted 46.8, the lowest level for a September since 2011. Slower services sales indicators might just reflect election caution or perhaps the fact that school holidays didn't start until October this year. But with much lower house sales and softer signals from the likes of electronic card transactions over recent months this bears watching. On the positive side, PSI new orders remain strong posting a, relatively rare, fifth consecutive reading above 60. New orders were also strong in last week's PMI.

Service Sector GDP

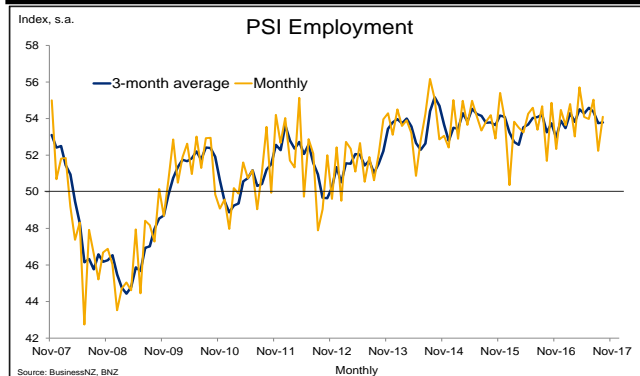
Recent official figures revealed service sector GDP growth averaged an annual pace of 3.2% in the first half of 2017, above its 5-year average of 2.8%. Despite some ups and downs in the details, the ongoing strength in the overall PSI indicates that service sector GDP growth has maintained its strength into the second half of 2017.

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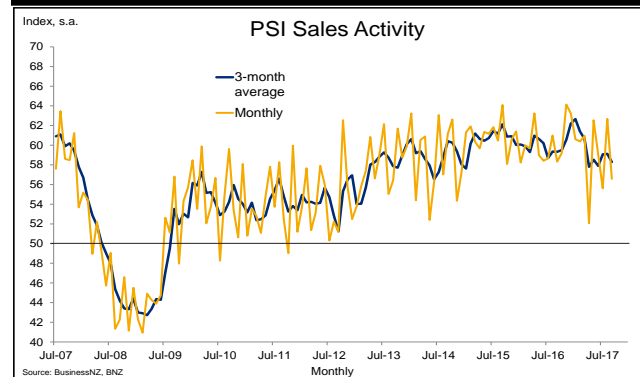
Maintaining Altitude



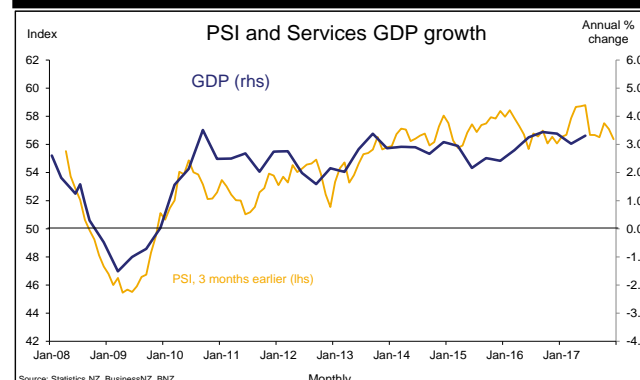
Employment Solid Despite Election



Sales Growth Volatile Over Past Six Months



Service Sector GDP Outlook Stable



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