

14 September 2015

The PSI

For those who are convinced that the NZ economy is stalling, even losing momentum, look away now. The Performance of Services Index (PSI) strengthened to a seasonally adjusted 58.2 in August, from 56.6 in July. This was nudging its strongest level post GFC and is well above its average reading since 2007, of 53.7. It is expansion...plus. Along with the PMI – which also increased in August, to a solid level – the PSI thus paints a picture of an economy growing at a rate much better than normal. This is not to deny the headwinds that face the economy. However, we also need to acknowledge that growth in the current (September) quarter could well be shaping up as strong.

Consumer Spending

Our belief that Q3 GDP growth will be robust has certainly been reinforced by the recent run of electronic card transactions. Sure, total transactions rose just 0.1% in August. However, this was a creditable follow-on from July's 1.0% increase, even a touch better than we had figured. It leaves the distinct impression that spending trends are solid (aided by robust growth in the services type categories). Technically, at least, the latest ECT data bolster the case for a substantial lift in Q3 real retail sales, after the pause for breath they took in Q2. We currently reckon something in the order of +1.5% for Q3 retail volumes, as we look forward to September's ECT results.

"Selected Services"

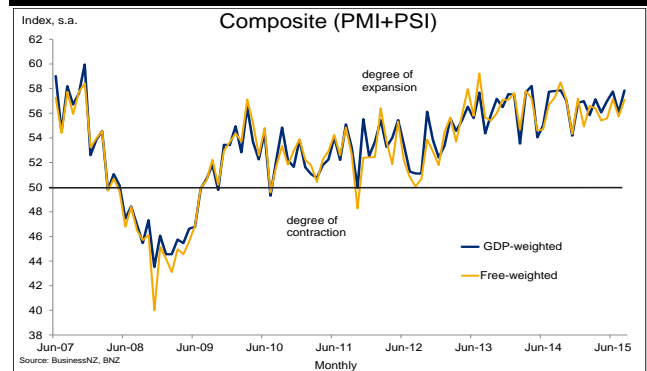
As a further sign that growth is holding up, we note that the little-known Selected Services series, as published by Statistics, did OK in Q2. It expanded a seasonally adjusted 0.2% in the quarter, which was good in the wake of its 1.1% expansion in Q1. Its annual growth was 2.4%, from 3.3%. Granted, it is confined to repairs and maintenance of various things, and personal care. However, it is a reminder of the increasing importance of the services sector, as well as the difficulty in trying to measure it all.

Housing

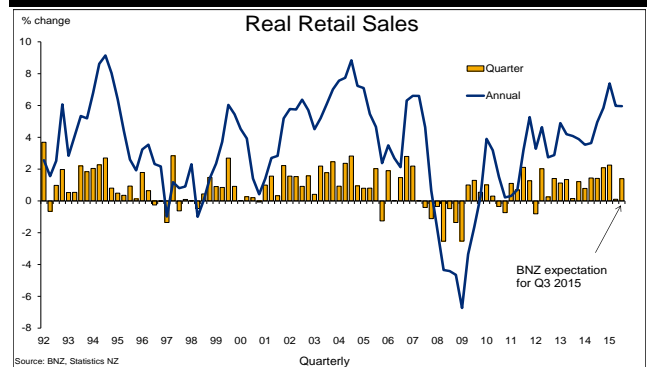
All the while, the housing market continues to put on the pounds. Granted, the 42% annual jump in REINZ home sales for August partly reflected the subdued activity this time last year, just before the general election. Still, we infer a 5% increase in sales in the month, seasonally adjusted, following +7% in July. The level is now clearly strong, and a pointer to higher house price inflation in the pipeline. On the preferred Stratified Index measure, house price inflation was running at 17.3% y/y, from 14.9% in July. Auckland house price inflation remains by far and away the strongest (+26.3% y/y), but with more signs of activity and inflation radiating out to other regions now.

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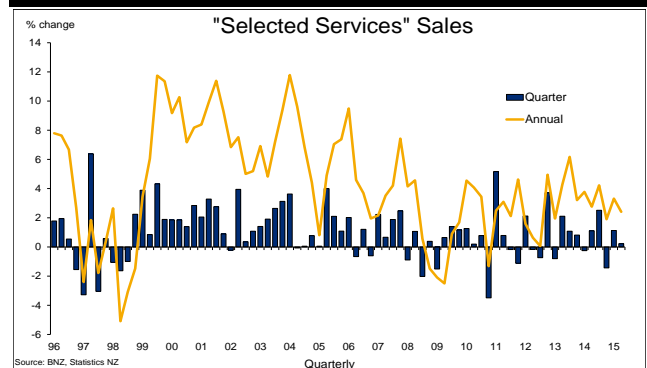
Slowdown, What Slowdown?



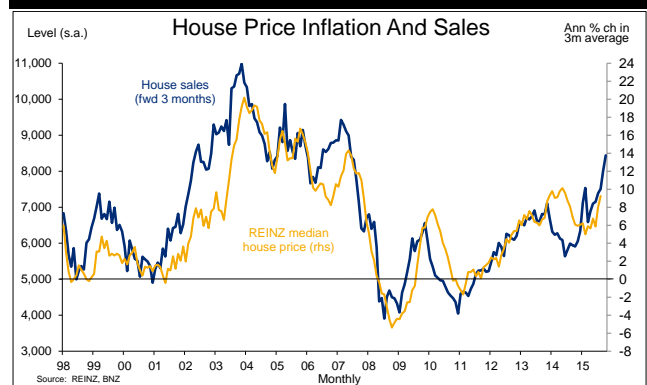
Spending Pulse Far from Faint



Signs of Services Sales Growth



Surging House Sales Point to Higher Inflation



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