

19 April 2017

Stuck Strong

New Zealand's Performance of Services Index (PSI) has been persistently strong over the past few months. It's been a bit like a stuck record, set on high volume. In fact, the volume dial is even getting tweaked up a bit more. March's 59.0 result was marginally higher than February and enough to pull the PSI 3-month average up to 59.0, its highest level since the first three months of the survey way back in 2007 (and hence since the Global Financial Crisis). Just like in its Performance of Manufacturing Index cousin, very strong new orders in the PSI stood out, even among a generally strong set of details. It bodes well for more sales ahead.

Difficult Finding Help

Interestingly, employment was one of the relatively weaker components of the PSI. We say 'relatively' because, at 52.8, it still implies reasonable employment growth. However, it is just not as strong as the likes of the activity/sales indicator at 61.1 or new orders at 66.4. Given the clear strength of demand implied by the latter two indicators, one has to wonder if relatively softer employment growth reflects a shortage of appropriate staff rather than a lack of demand for labour itself. That thinking certainly fits with the latest Quarterly Survey of Business Opinion that saw service sector firms report increasing difficulty finding staff. Indeed, on that measure, in the first quarter of the year, difficulty in finding unskilled staff has intensified to its highest level since 2007. No wonder capital investment intentions by service sector firms are positive and well above average.

Spending Up

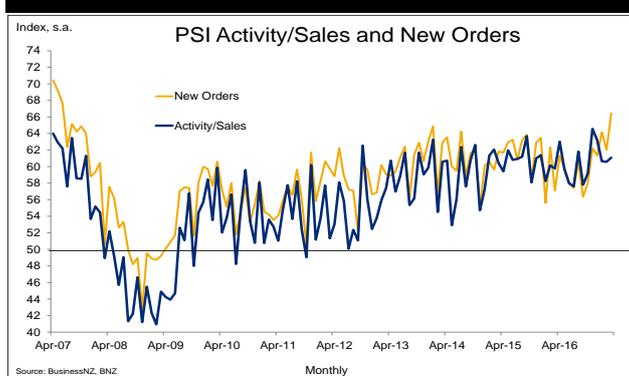
The unadjusted PSI for retail trade punched up to 63.0 in March, well above its average for this time of year. Electronic card transaction data supports the buoyant demand story. In March, the trend in the total value of transactions was 5.4% higher than a year earlier. This implies a solid expansion in retail sales volumes in the first quarter of the year although it is difficult to be confident as the dollar value of electronic transactions does not always translate into sales volumes and especially so when inflation is expected to pick up (as it is currently).

Housing

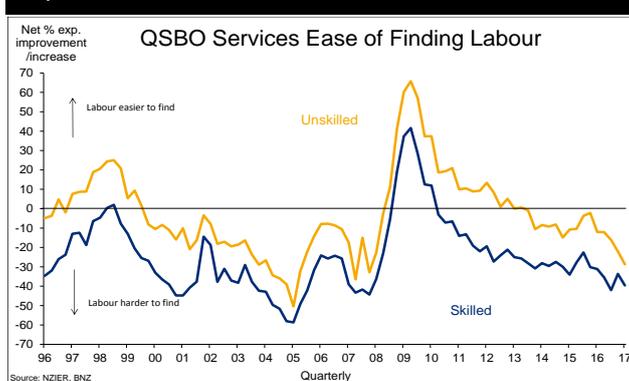
The 8,504 house sales in March were 10.7% down on a year earlier. No surprise then to see spending on durable goods as one of the weaker categories in the electronic transactions data over the past year. That said, the drop in house sales is a lesser annual fall than over recent months, indicative of a somewhat better month in March itself. In the PSI, finance and insurance as well as the property and business components sit well above average levels for this time of year.

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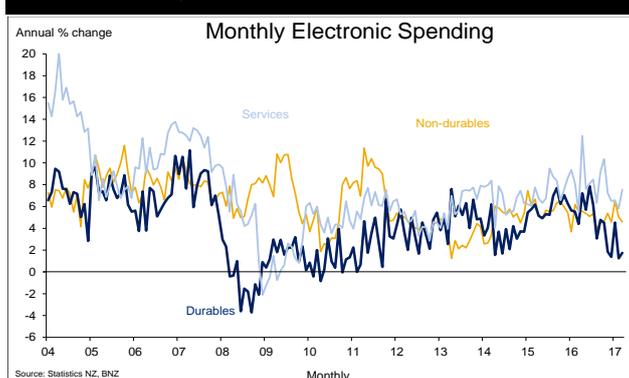
New Order Of Magnitude



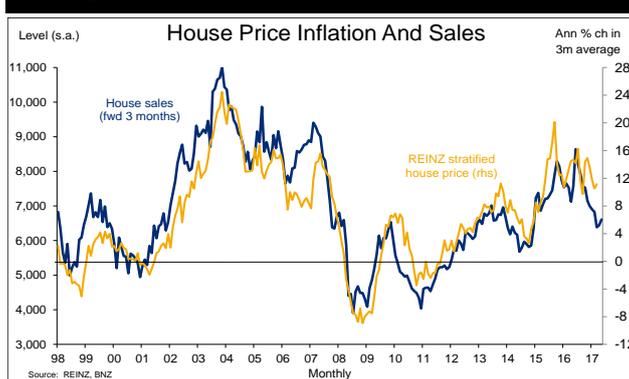
Help Wanted



Varied Spending



Housing Activity Slows



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