

20 July 2015

Services Activity

The dairy sector is facing tough times and some construction indicators are slowing. So we need to see the likes of the services sector maintaining solid momentum if we're to achieve the trend-like GDP growth we envisage for 2015. Happily, June's Performance of Services Index (PSI) signalled just this. Indeed, its index reading of 58.2, which compared to 58.1 in May, remained amongst the strongest we've seen post-GFC. Whether parsed by region, industry type, or firm size, every bit of the PSI was in expansion mode, which is rare. Combined with the improved PMI reading for June (55.2) the latest PSI paints a picture of an economy expanding robustly, probably a little better than average.

Consumer Spending

To be sure, the NZIER Quarterly Survey of Business Opinion contained an abruptly slower pulse amongst merchants. This had us worried that retailing might be in retreat. However, we've seen a couple of things since that have eased our concerns. One was the 0.5% increase in June's electronic card transactions. This was a decent follow-on from May's 1.3% gain, suggesting ongoing volume growth in retailing (albeit not anywhere near as ballistic as before). The other source of encouragement on the retail front was the 56.4 reading for this component of today's PSI. It represented a nice bounce-back from what was a patchy performance over prior months.

Tourism Booming

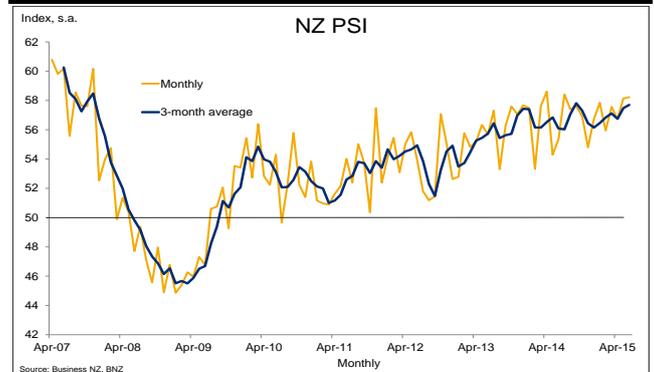
Short-term visitor arrivals have been booming this year. Some of this has related to the February/March Cricket World Cup and the May/June under-20 FIFA World Cup. However, the undercurrents appear strong as well. It looks as though this afternoon's numbers for June will be up around 5-10% on a year ago, as an example. FIFA World Cups aside, bear in mind that China, who didn't have a team in the tournament, probably provided 25% more arrivals than a year ago, accounting for about a third of the overall expansion in visitor arrivals in June. The job-intensive tourism sector might soon be overtaking dairy as New Zealand's top foreign exchange earner.

Housing's Ups Downs and Sideways

The Real Estate Institute's data for June confirmed that the Auckland housing market is ablaze, with prices up around 25%, y/y, and that there is a flattening, even negative, trend in Canterbury now, as its recent house-building boom begins to take the pressure off. Outside of Auckland and Canterbury, sales were up 43% compared to June 2014 (a typical precursor to inflation). This is despite the LVR lending restrictions still in place. This brings to mind the role that historically low (and falling) mortgage rates are playing in the market fervour.

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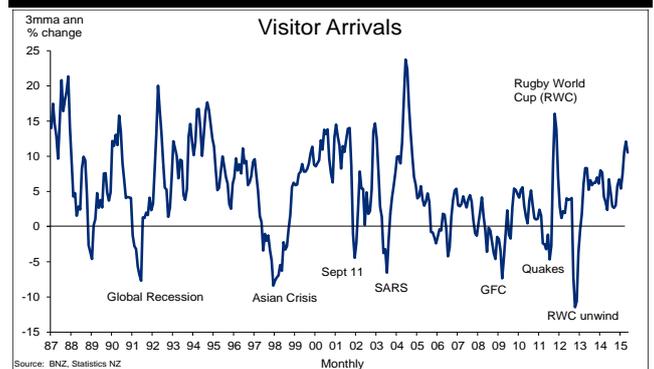
Service Providers



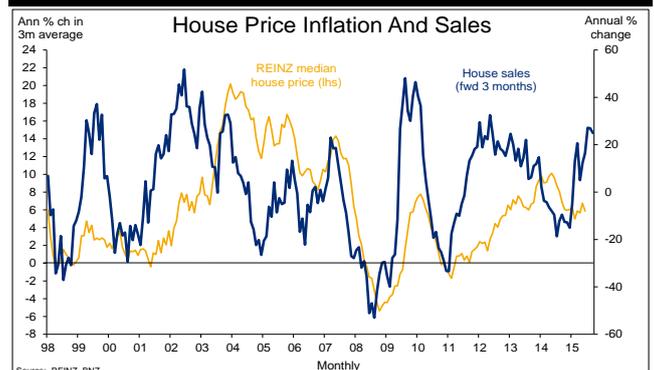
Retailing Holding Up



Tourism Overtaking Dairy?



House Sales Surging, Nationwide



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