

17 August 2015

## Services Add To Manufacturing Growth

The Performance of Services Index (PSI) maintained a solid growth pulse in July. Much the same as its cousin for the manufacturing sector (PMI) showed last week. It all suggests a decent start to the third quarter of the year for a big chunk of the economy. It's at least an offset to very weak dairy prices and flattening residential building consents. Indeed, on its own, the composite index (PCI, which combines the PSI and PMI) would be consistent with annual GDP growth of around 3%. While the PCI is encouraging, taking everything into account we anticipate growth to be closer to 2% into year-end.

## Spending Up

Electronic card transactions proved quite strong in July. Total transactions were up 6.8% on a year ago. It suggests a strong start to spending in the third quarter of the year. It also suggests we should not get too downbeat on the flat second quarter result, as indicated by official retail sales statistics last Friday. The latter was as much a function of following an extremely strong first quarter as anything else. While we think the recent strong spending growth will dissipate over the coming year, we should not overlook the strength of current indicators like electronic card transactions.

## Accommodation

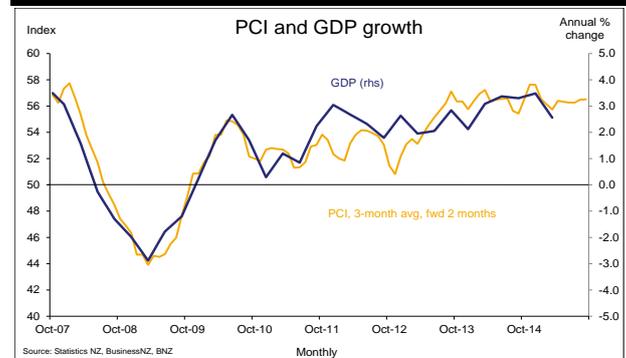
International visitor arrivals continue to significantly outnumber year-earlier levels. Mid-year figures show visitor numbers are up around 9% on a year ago. In short, tourism is booming. This is a positive for accommodation providers. Total guest nights in the second quarter of the year were around 4% higher than a year earlier, driven by an 8% lift in international guest nights. The growth in custom appears well dispersed across hotels, motels, backpackers and holiday parks. The demand expansion has increased capacity use, with annual average occupancy rates across the sector lifting a full 2 percentage points from a year earlier and 4 percentage points from two years ago.

## Construction and housing

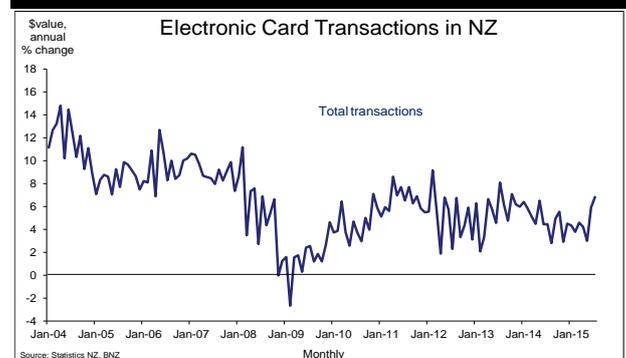
Some lead indicators for house construction have cooled over recent months and there has been a flattening in the number of residential building consents issued over the past year. But low interest rates and still extremely strong net immigration remain fundamental supports. The value of non-residential building consents continues to track well above year-earlier levels. Meanwhile, the existing house market continues to race ahead with sales in July up a whopping 38% on a year ago and prices up 15%. Sale and price gains remain pronounced in Auckland, but with increasing signs of strength elsewhere.

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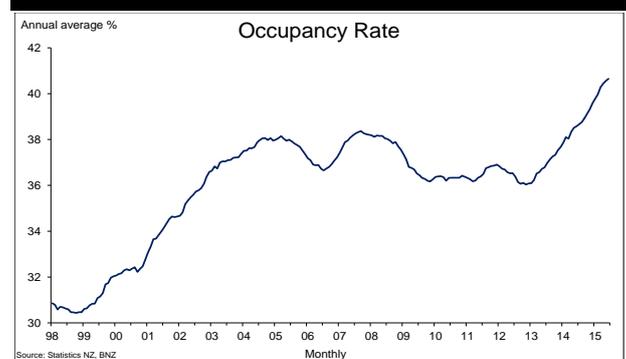
## Services and Manufacturing Growth Supportive



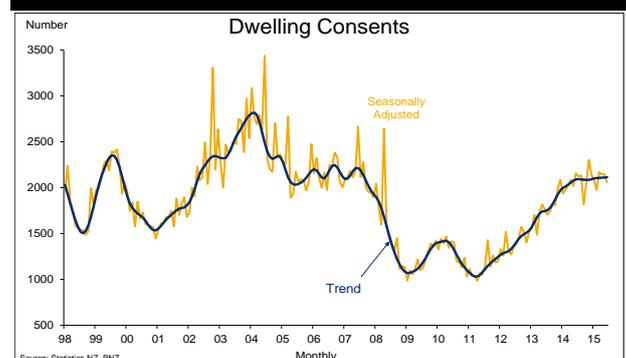
## Spending Accelerating



## Accommodation Occupancy Up



## Residential Building Consents Flatten



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