

16 November 2015

The PSI

New Zealand's Performance of Services Index (PSI) struggled to hold the 7-year high of 59.0 it posted in September. However, with 56.2 in October it was still a very creditable performance. The PSI, of course, represents a good majority of the economy. And it was still running quicker than its manufacturing cousin, the PMI (albeit that the latter was still relatively good, in its own way, with 53.3 in October). Combined, the PSI and PMI still give the impression of an economy growing at a comparatively solid pace at the outset of Q4, following a champing performance through Q3. We hope this is supported by the Q3 GDP outcome, due 17 December, for which we anticipate a 0.5% increase (1.9% y/y).

Labour Market

The 0.4% fall in the employment count in the Q3 Household Labour Force Survey was a surprise to all and sundry. We interpreted it as statistical noise, rather than the sign of a real reversal, partly because it was all caused by a big drop in the very volatile part-time employment measure. Full-time employment expanded 0.2% in Q3, to be up 2.2% on an annual basis. In any case, any thoughts that job growth is stalling should be arrested by looking at the PSI, and PMI, indices around employment. For the PSI this was 52.7 in October (from 53.6 in September) and for the PMI it was 52.4 (from 51.1). Whether amalgamated by sample weight, or relative GDP weights, these give a composite employment reading of just above 52.0. The long-term averages are a bit below 51.0.

Wholesaling

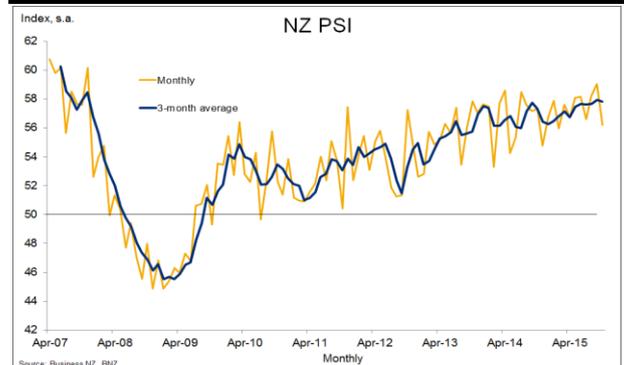
One of the even more encouraging components of the PSI of late, however, has been wholesaling. Its index reading for October was an unadjusted 64.6. While this was a bit slower than September's level of 72.6, that number was an all-time high for the series. Over the last 3 months it has averaged 65.1, which compares to 61.9 for the same 3-month period a year ago. This is especially heartening, in that it suggests the wholesaling component of GDP will bounce back from its unusually weak performance over the first half of 2015.

Housing

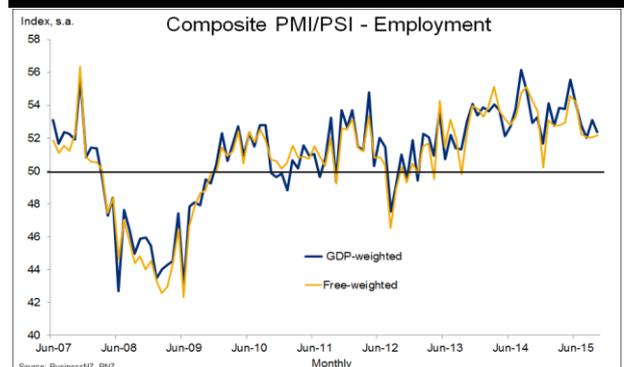
The regional aspects to the local housing market are becoming important to take note of. There are signs that Auckland's market might be cooling, at long last. At the same time there are indications that housing markets outside of Auckland are surging. Even the RBNZ admitted this in its latest Financial Stability Report, with reference to 18% annual inflation in Hamilton's house prices and 14% in Tauranga's. Turnover is rising even faster. No wonder the Property and Business Services index of October's PSI remains robust, at (an unadjusted) 55.9.

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Services Setting the Standard



Employment Expansion Still The Clear Tendency



Wholesaling... Ups a Daisy



Housing Inflation Spreading Beyond Auckland



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