

19 September 2016

Super Service

Super service returns. After July's dip to an average-looking 54.5, the Performance of Services Index (PSI) bounced back strongly in August, to 57.9. Sales activity and new orders both punched above 60 – very strong. There was particular strength in the distribution industries of wholesale and retail trade. It all helps set the PSI three month average at a healthy 56.3, comfortably above the long term norm of 54.1. All industries sit well above the breakeven level of 50, on an unadjusted three month average basis. This is a relatively uncommon occurrence in the 9 year history of the survey and indicative of the broad-based nature of the current service sector expansion. This also applies geographically, with all areas firmly above the 50 mark in August. By region, Central stood out in the month at a whopping 61.7, driven by exceptionally strong reported sales activity and new orders. And although Otago/Southland saw the slowest growth across the regions in August, it was hardly slow at 54.0 and this region still leads the service sector growth stakes on an annual average basis as has been the case for a good couple of years now.

Growth Supportive

The widespread positivity in August's PSI combined with the overall good-looking Performance of Manufacturing Index from last week indicates above trend economic growth has continued. Last week's official figures revealed the economy grew 3.6% in the year ended June 2016 (well above the 20 year average of 2.7%). With recent growth so strong, it will probably slow at some point down the track. But there aren't any signs of that here. The three month average of the combined PSI and PMI index (PCI) sits at 56.5, pointing to the sort of growth pace recorded recently continuing into the second half of 2016. This aligns with our forecasts. The latest growth figures included a big lift in domestic demand. More growth seems likely here given the signals from the PSI overall and the distribution sector in particular.

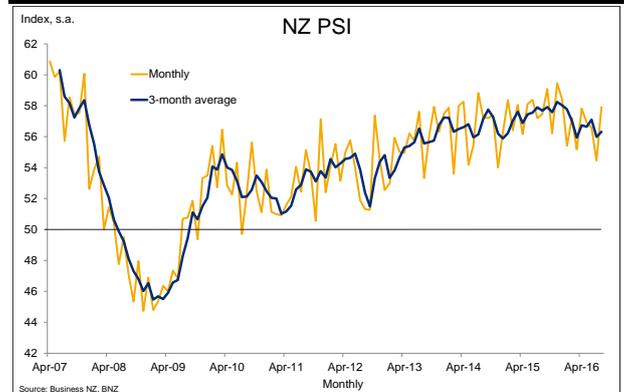
New Zealand's recent economic growth has been faster than the OECD average and faster than the likes of the UK, the EU, the US and Australia. Further outperformance looks likely given the PMI and PSI have been, and remain, materially higher in NZ than in those other places.

Employment Trends Strong

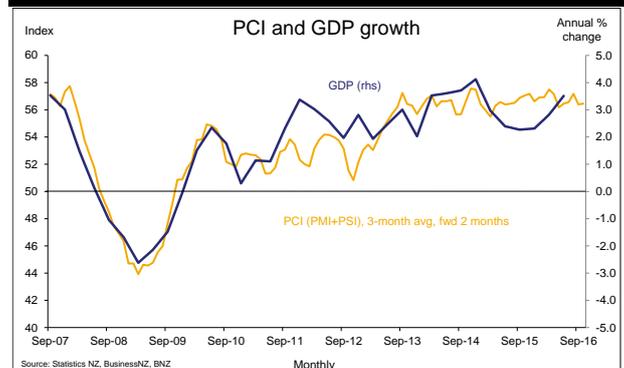
PSI employment remained very firm, at 54.3 in August from 53.8 in July. It is a useful offset to the employment dip we saw in the PMI last week. Together, these surveys over recent months add to a weight of evidence that employment growth has remained strong into the heart of the third quarter of the year. This is good to know as the near term official employment statistics are being thrown around by survey redesign changes.

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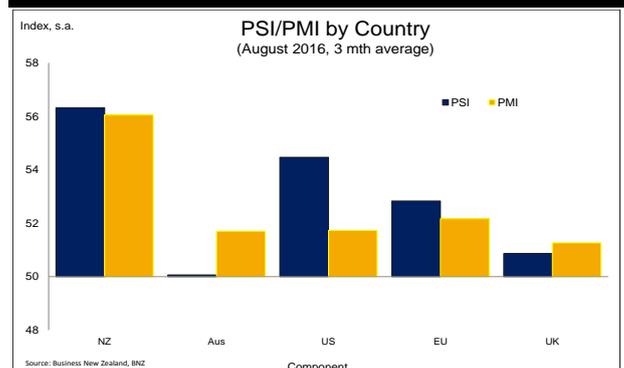
PSI Strikes Back



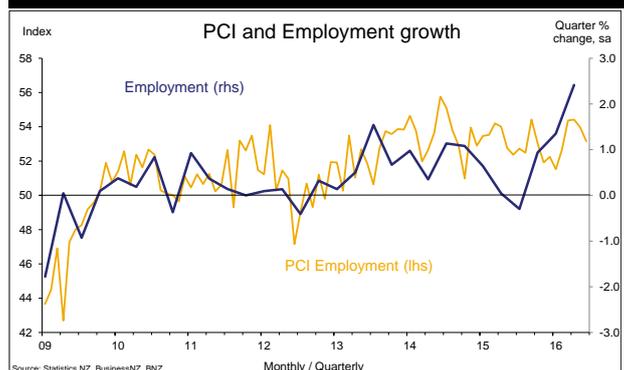
Growth Upbeat



Especially Compared To Others



It's Generating More Jobs



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