

14 March 2016

The PSI

Following its sharp loss of momentum in January, the Performance of Services Index (PSI) got a grip in February. Lifting to a seasonally adjusted level of 56.9 it brought the 3-month average to 57.0. This is nicely above its long-term average of 53.9. The most reassuring aspect of February's PSI, however, was the bounce back in its employment index. This rose to a seasonally adjusted 53.5, from the 50.9 it had sagged to in January. This proved important, in that it offset the softness in February's Performance of Manufacturing Index on staffing, which, at 48.5, moved slightly into contraction territory. Melding the PSI and PMI job indices we get 51.6 as per the raw sampling and 52.9 when applying GDP weights.

Wholesale

Another source of comfort in the PSI is the robustness in its Wholesale Trade component. We mention this with the prospect of seeing a relatively flat performance in wholesaling as per the Q4 GDP accounts (due this Thursday). Wholesale sales were certainly on the soft side in the December quarter. In dollar terms they decreased a seasonally adjusted 0.2%. This infers a dead flat result in real terms (given wholesale industry prices fell 0.2% in the quarter). Yet the wholesaling index in the PSI (in unadjusted form) was a confident 65.4 – 10 points higher than year ago. This suggests potential for wholesaling activity to resume growing well in early 2016, after the pause for breath we anticipate for Q4 2015.

Retail

In contrast, the Retail Trade component of the PSI is exhibiting some weakness. In adjusted terms it was 44.7 in February. This was not only weaker than January's 49.5 but down by quite some margin on where it was in February 2015, which was a hefty 65.3. It's something to watch. Still, don't read too much into the 0.1% dip in February's electronic card transactions. This was hamstrung by a 2.1% fall in spending in fuel stores, as the price of petrol fell. The retail component of the ECT increased 0.7% while its core-retail category (which excludes fuel and vehicles) surged 1.2%. This leaves the impression of solid volume growth, underneath.

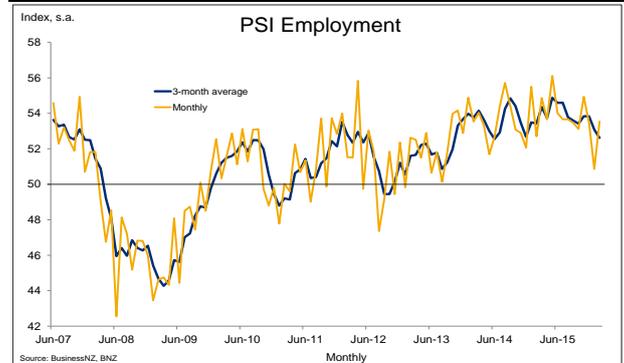
Housing

Looking at February's Real Estate Institute results you'd be forgiven for thinking they were a bit ordinary. The national median sale price, of \$450,000, was 4.7% higher than a year ago. Home sales were up 5.7%, y/y, but down 3% in the month after accounting for its leap day. But scratch the surface and there was a fair bit of strength. The national results, for example, imply sales outside of Auckland are booting up. This is certainly true of house price inflation. Even Wellington's conservative market is now heating up, with annual inflation of 12.5%, based on its Stratified home price index.

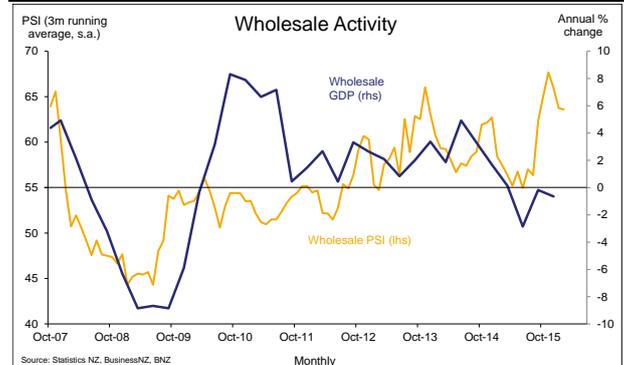
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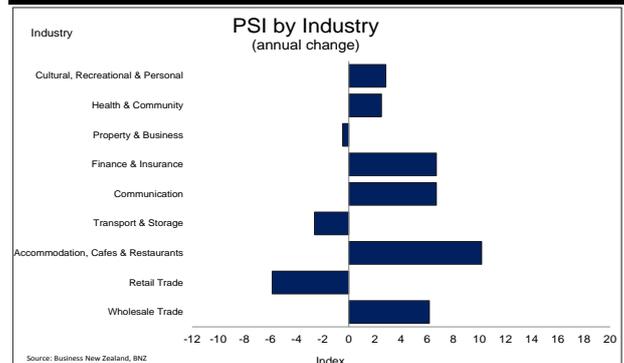
Services Slowdown Arrested, As Jobs Bounce



Wholesale GDP Pausing for Breath



Retail Reservations



House Inflation Spreading, Even to Wellington now



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