

15 August 2016

Slower Service

The Performance of Services Index (PSI) dropped a couple of points in July, to a seasonally adjusted 54.2 from 56.4 in June. July's result is the lowest since November 2014. Service sector growth seems to have slowed a bit from its recent strong run. It is something to note. But at this stage it's only one slower month and may be as much related to the erratic weather as anything else. In any case, we are not talking slow growth. Indeed, July's PSI result sits close to the 54.2 average for the survey since it started nearly 10 years ago. The PSI employment index remains firmly above average, indicating the sector retains a firm degree of confidence.

GDP Implications

With July's PSI around about average, and the PMI holding above its norm, combined they suggest the economy is expanding at a rate around, or slightly above, trend. In numbers, this infers annual GDP growth circa 3%. This is roughly in line with our view on GDP growth, albeit we envisage something slightly under 3% through 2016. The RBNZ, in its August Monetary Policy Statement, forecast annual GDP growth of just over 3% for 2016/17. Indeed, most people seem to agree that the real economy is in relatively good shape, all considered – running neither hot nor cold. The problem, as far as the RBNZ sees it, is that we don't have enough inflation.

Accommodating

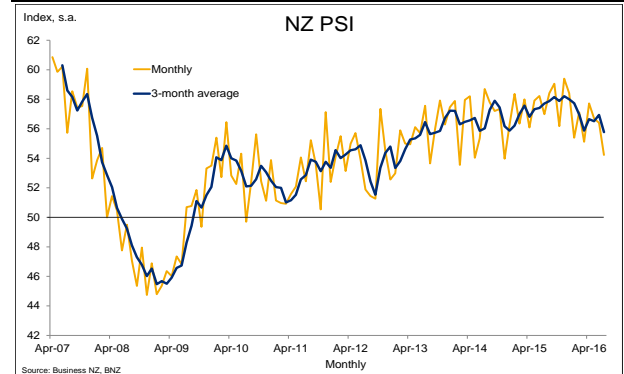
One of the industries at the forefront of New Zealand's current GDP expansion is tourism. July's Accommodation Survey attested to this. International guest nights were 13.7% higher than their level of a year ago. This continued the pace we've seen the very start of the year. But it's not just foreign visitors. Domestic guest nights were up 10.9% on July 2015 (albeit after a rough patch over May and June). The strength in guest nights was also evident across accommodation type and by way of regions. The issue is that it's putting inordinate pressure on occupancy rates, which have soared to exceptionally high levels.

Retail Expenditure

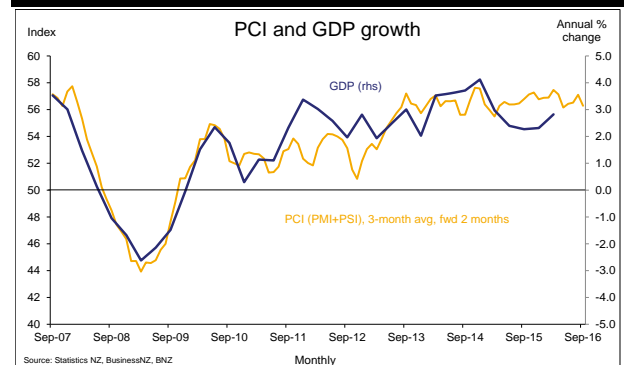
July's PSI measured a bit of a slowing in its retail component (to an unadjusted index reading of 54.9). Nonetheless, it was still clearly expansive. And other indicators of retail spending remain positively upbeat. Last Friday's retail trade report was a case in point. It showed a staggering 2.3% volume increase over the June quarter alone, in seasonally adjusted form. This took its annual rate of increase to 6.0%, from 4.9% in Q1. It might be hard to maintain anything close to this pace in Q3. Yet July's value of electronic card transactions got the September quarter metrics off to a decent start. They did well to expand 0.4%, after their 1.0% jump in June – all in spite of falling fuel prices in the month.

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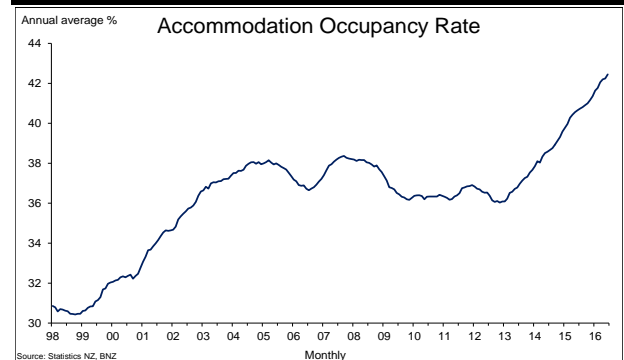
PSI Slows To Average In July



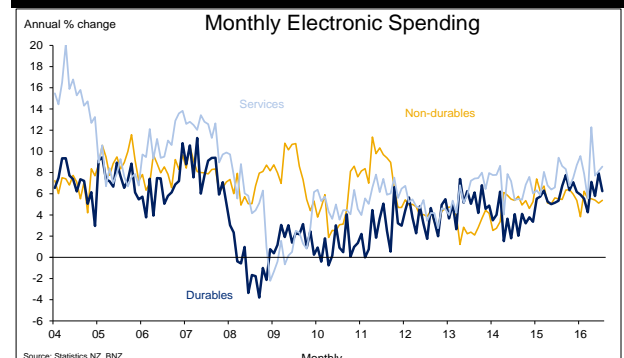
Growth Indications Remain Solid



Lessening Room for the Tourism Boom



Spending Indicators Staying Strong



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