

17 October 2016

Slower Service

The Performance of Services Index (PSI) suggests service sector growth is tempering. The PSI slowed to a middling 54.1 in September from a very strong 57.9 in August. However, as always, we wouldn't read too much into one month's result, especially when many respondents noted the weather as a negative influence (no wonder with well above normal rainfall for much of the North Island in the month). Maybe it was the weather combined with the school holidays – that might help explain why the PSI accommodation, cafes and restaurants industry was the weakest in the month despite the general tourism boom. Or perhaps it is the recent moderation in house sales. More interesting, looking through the monthly volatility, the PSI suggests the growth trend has slowed a bit. For example, the PSI three month average has eased to 55.4 down from its recent peak of over 58 late last year and is now at its lowest level in three and a half years. Slower for sure, but not slow, with current PSI readings at or above long term norms on a monthly and three month average basis respectively. Indeed, it says something about the recent general strength in the service sector when a monthly reading smack on its long term average brings some sense of disappointment.

Are Large Firms Telling Us Something?

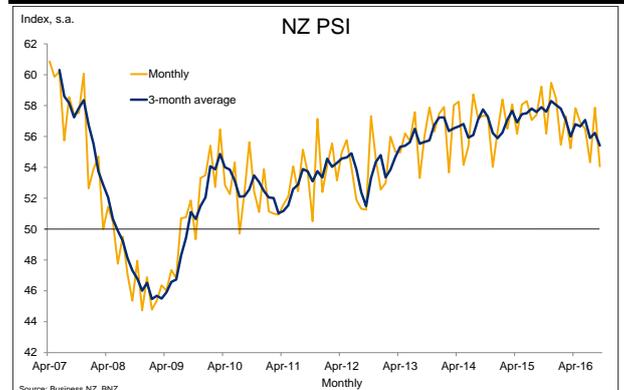
Expansion, albeit at a touch slower pace, remains widespread with positive readings across the major headline indices covering sales, employment, and new orders as well as across all industries and regions and most firm sizes. The only exception was large firms, with a below par PSI reading of 46.4. Are large firms indicating something for others ahead? Again, we wouldn't read too much into one month's dip (especially with medium-large firms so positive), but it is interesting that large firms were also a point of weakness in last week's overall strong Performance of Manufacturing Index (PMI).

Economic Growth Robust, But Is It Slowing?

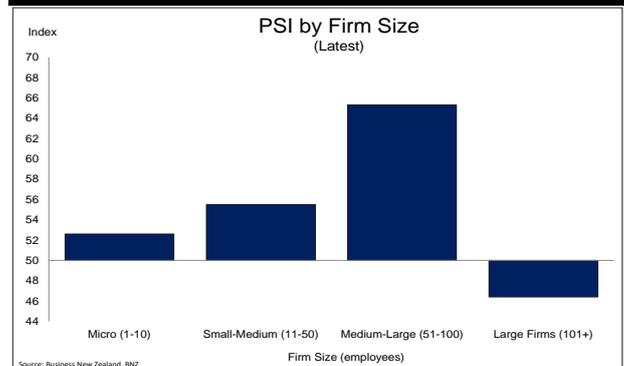
Combining the PSI and PMI, into a composite (PCI) indicator, suggests ongoing robust economic growth into year's end. But the hint, from the PCI, that growth may be slowing is in contrast to the general strengthening in other recent business (and consumer) confidence surveys. Maybe the difference has something to do with the supply side with service sector firms in the latest Quarterly Survey of Business Opinion reporting that finding labour (both skilled and unskilled) is at its most difficult since 2007/08. That might help explain the average-looking PSI employment index in September, despite other surveys showing extremely strong service sector employment intentions. Such things will be interesting to watch over the coming year or two as we ponder a situation where economic growth might be slowing as inflation starts to edge higher (after tomorrow's surely very low Q3 CPI).

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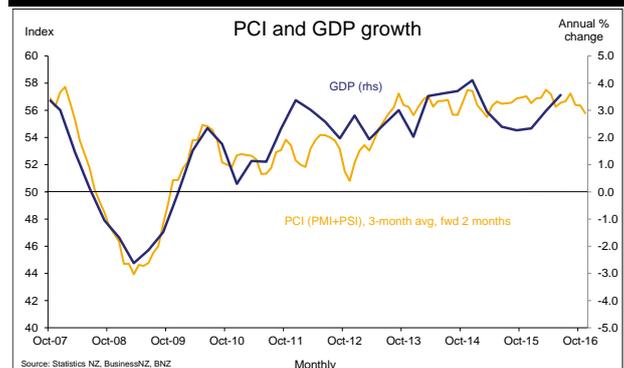
Services Growth Tempering



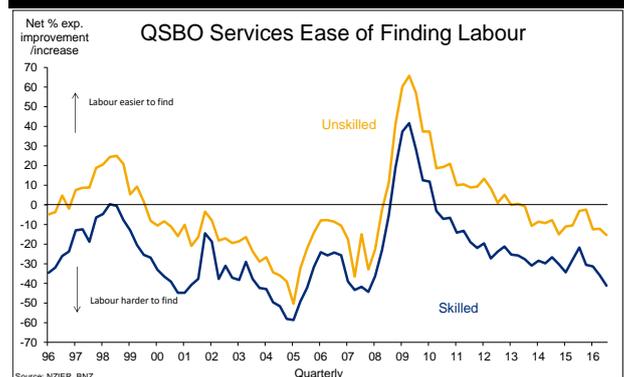
What Happened To Large Firms In September?



Is Economic Growth Slowing?



Because Extra Staff Are Difficult To Find



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