

15 December 2017



Services Solid

Positive signals continue to hold sway in the Performance of Services Index (PSI). November's 56.4 remains comfortably above its long term average of 54.4 indicating more above average growth in the serve sector. This month's result was marginally higher than October's 55.7, arresting a mild slowdown over the past couple of months. Strong sales were a feature in November and look set to continue, judging by the ongoing robustness in new orders. The new orders index has posted its seventh consecutive month above the heady level of 60. Positive signs were widespread across the PSI with expansionary readings seen in the unadjusted results across all industries, regions, sub components, and firm sizes (with particular strength in Otago/Southland and large firms).

Demand Robust

Last week's electronic card transactions data for November also indicated demand has strengthened. The value of transactions rose a seasonally adjusted 1.4% in the month, with other indicators suggesting positive momentum has continued into December. These results significantly boost the chances of seeing a strong gain in the likes of Q4 retail sales, including volumes (over and above the usual Christmas lift). So do the positive, and well above average, PSI results for the wholesale and retail trade components.

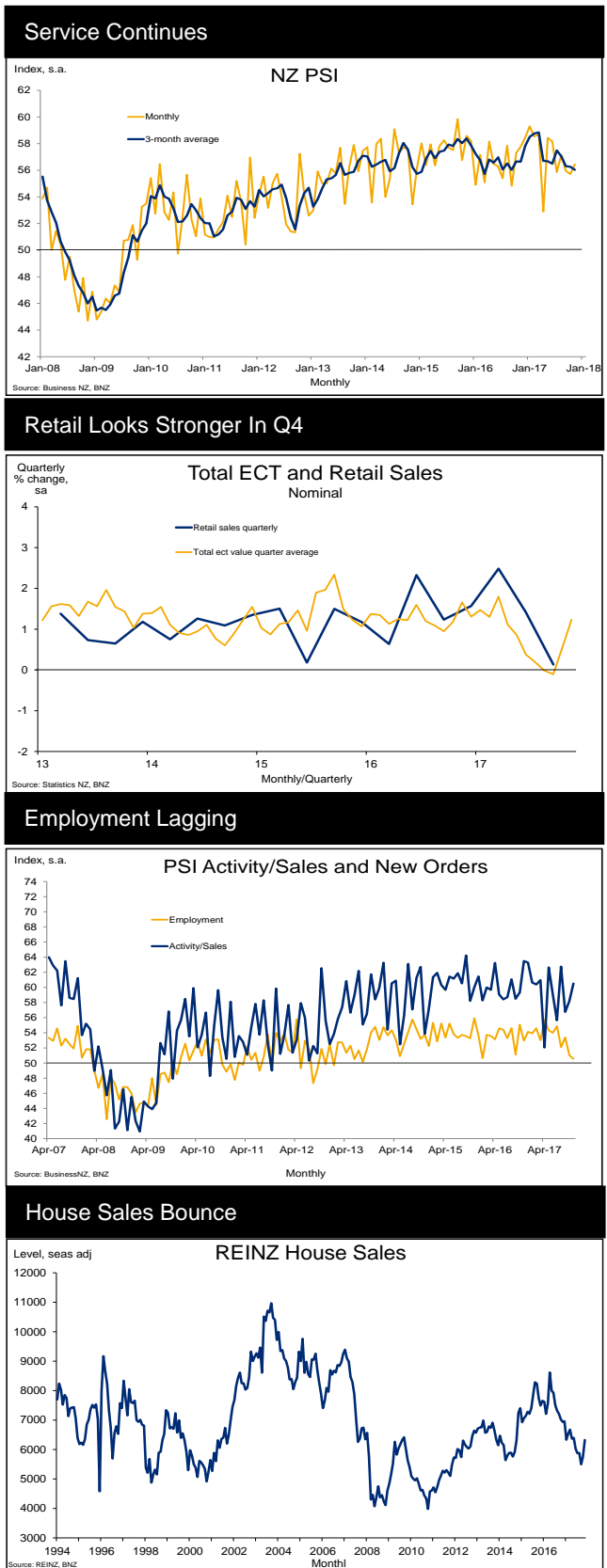
Employment Slower Again; Inventory Jumps

Just like in October, employment was a relatively softer component of the PSI in November. This may still reflect a period of caution post-election or may be a consequence of employers having difficulty finding appropriate staff. In any case, even with a pickup in PMI employment last week, it suggests overall employment growth will be markedly slower in Q4 compared to the massive 2.2% gain recorded in the official figures for Q3. A big jump in the PSI inventory index is also noteworthy. We saw something similar in last week's PMI. An inventory build suggests some vulnerability if demand were to unexpectedly slow.

Housing

The Real Estate Institute housing figures for November looked better. Sure, November sales were down 8.9% on a year ago, but it represents a claw-back from -15.8% in October and -26.2% in September. It is difficult to know if this is just catch-up after the election processes, or the start of another genuine pick up. Sales are still relatively low but, on a seasonally adjusted month-to-month basis, not as low as they were, and turning. Prices were also firming, at least outside Auckland. The generally improved tone is supported by the PMI for the property and business services industry that lifted to an unadjusted 62.8 in November, a point or so higher than a year ago.

doug_steel@bnz.co.nz



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+61 2 9237 1406

Alan Oster

Group Chief Economist
+61 3 8634 2927

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney

Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

London

Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +44 20 7796 4761

New York

Foreign Exchange +1 800 125 602
Fixed Income/Derivatives +1877 377 5480

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.