

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.

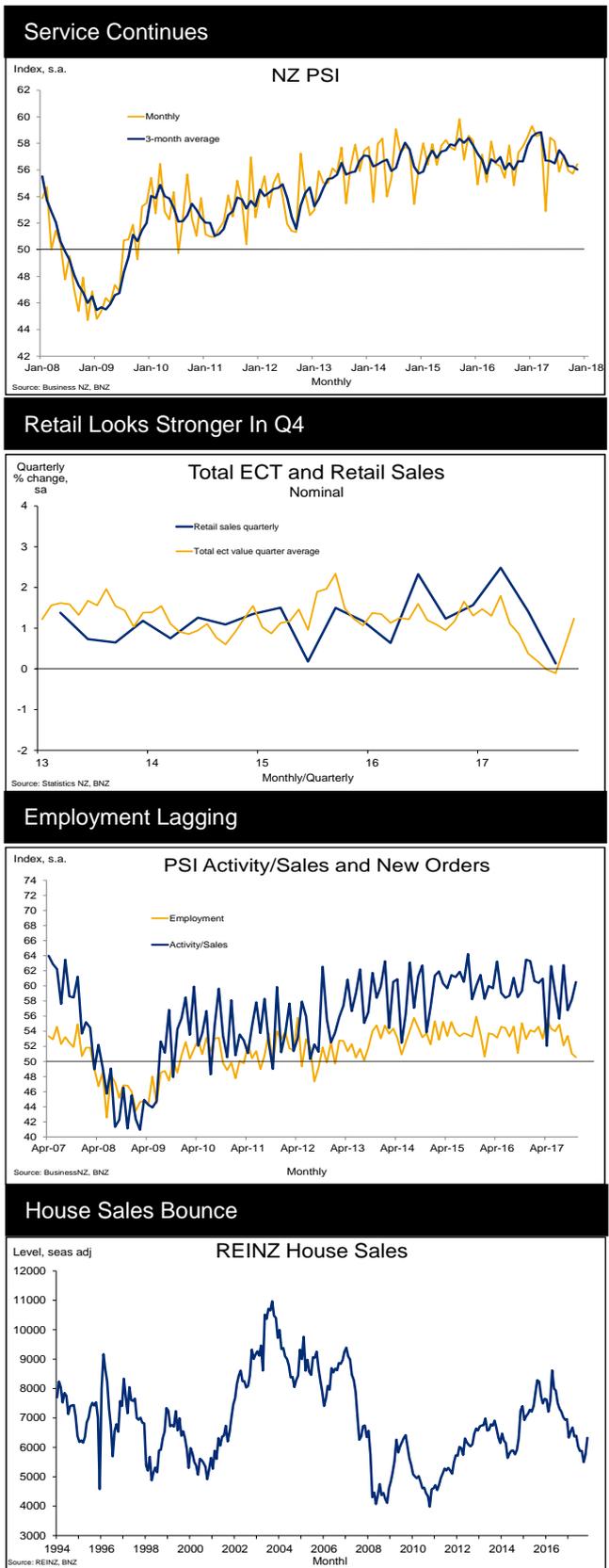
## Employment Slower Again; Inventory Jumps

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.

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