

20 November 2017

## Services Solid

Economic activity in the service sector maintained substantial momentum in October, as it did in September. Sure, October's Performance of Services Index (PSI) at 55.6 was marginally lower than September's 55.9, and both were a point or so lower than the average for the year to date, but the PSI remains well above the 50 mark delineating growth from contraction. These are robust results given the prevailing uncertainty surrounding the election, coalition negotiations, and government formation over the period. It was a similar story in last week's equivalent for the manufacturing sector. It is a positive start for economic growth in the final quarter of the year.

## Demand Robust

The PSI activity/sales indicator sat at a healthy 58.0 in October. It indicates a solid rate of sales expansion that was a touch faster than in September when the indicator was 56.6. Demand for services has been robust over the past couple of months, despite an air of unease around the election. The PSI does not predict what will happen next, but does signify current healthy momentum supported by the PSI new orders index that, at 60.4 in October, posted its sixth consecutive reading above 60.

## Employment Slower

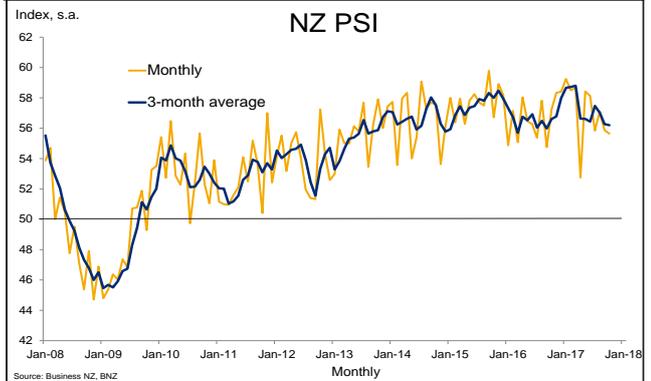
One not-so-strong spot in October's PSI was the employment index that slowed to 51.2 from 53.7 in September. For some this perhaps reflects their election period cautiousness. For others it may reflect difficulty in finding the appropriate staff, as the unemployment rate continues to track lower. More broadly, it is interesting to see the PSI demand side indicators like sales and new orders remain robust, while the supply side indicators like employment and inventories have eased. It may represent productivity gains. Or it may be reflecting some building up of excess demand. Which it bears thinking about as the consequences for inflationary pressure would be very different.

## Housing

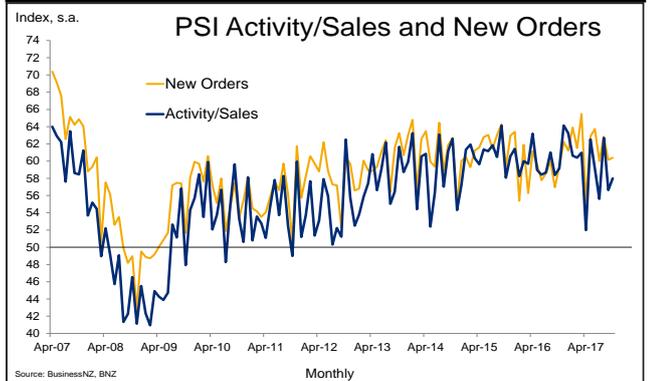
House sales remain weak, being down circa 16% in October on a year ago. Turnover has been dented by loan-to-value lending restrictions put in place last year among other factors. But this does not mean the housing market, in general, is weak. For one, house prices remain elevated, although inflation has cooled. In addition, houses are selling about as fast as normal if not a touch quicker. And, from a construction perspective, indicators like building consents have recently stepped higher again from an already solid standing point. The property and business services PSI seems to sum it up with an expansionary level of 54.4 (unadjusted), which is marginally above its October long term average of 53.6.

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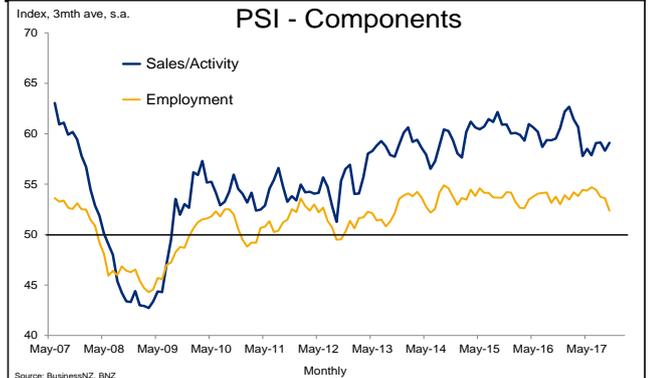
### Maintaining Altitude



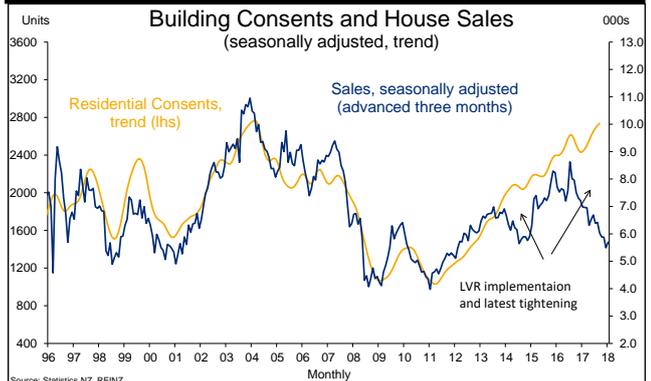
### Demand Firm



### Employment Lagging



### Housing Indicators Varied



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