RESEARCH
Services Landscape

19 March 2018

The PSI

The Performance of Services Index (PSI) remains encouragingly expansive. However, at the same time, it has slowed to about average, compared to its roaring rate of advance about this time last year. February's PSI reading was a seasonally adjusted 55.0. This was a fraction below January's result, of 55.7, but still above its long-term average of 54.4. More to the point, a year ago, in February 2017, the PSI was riding relatively high, at 58.5 (after a near record score, of 59.2, in January 2017). Relative to norms, the PSI index for new orders/business has kept a little ahead but for activity/sales and employment has slipped a bit below par.

Services GDP

Even so, the services sector performed strongly in last week's Q4 2017 GDP accounts – up 1.1% in the quarter. This nudged annual growth in the services sector, GDP wise, up to 3.1%, from 3.0% in Q3. Still, it wasn't a concerted push – whether in quarter, or annual, growth terms. There was still a good deal of variability in the individual components of services GDP, in other words. Overall, however, their 1.1% expansion in Q4 proved important in delivering total GDP growth of 0.6% for the quarter, as many other areas of the economy struggled along. However, we wouldn't want to put too much weight on services boosting GDP growth in Q1, given the slower tone in the PSI more recently.

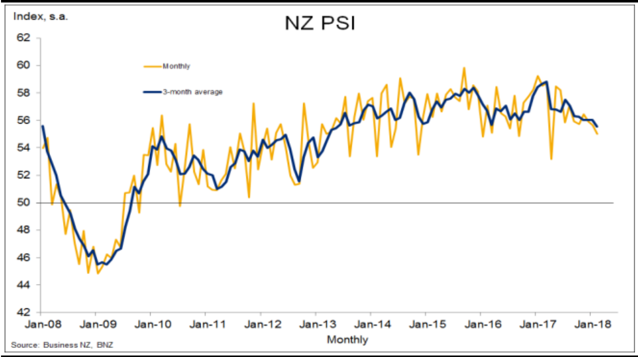
GDP

In fact, we (still) don't expect a lot of economic growth underfoot. Specifically, we anticipate a 0.6% expansion in Q1 GDP. The recent PSI readings, along with those of the Performance of Manufacturing Index, certainly counsel against getting carried away. Melded, they point to annual GDP growth just under 3%. As it happens, we expect annual GDP growth to ease a fraction, to 2.8%, in Q1 2018. The real issue is the extent to which our forecasts of a growth pick-up later this year come to fruition. Part of this relates to impending fiscal stimulus, primarily directed at the household sector. With this, we should probably expect the PSI to edge up over the next 3-6 months.

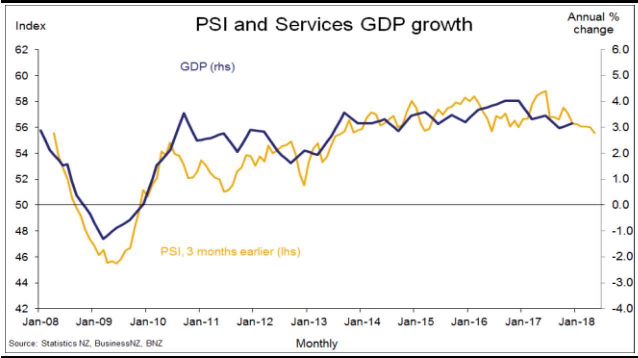
Housing

In this context, the next few months' worth of housing data will be instructive too. We mention this with the property market having shown a bit more life. REINZ home sales, for instance, have rebounded 23%, seasonally adjusted, since a soft spot around election time (September 2017). This is consistent with house price inflation running in the mid-single digits, percentage wise, where they have settled over recent months. Of course, this is not such good news for affordability and sustainability. However, for the meantime, a robust and inflating housing market could well encourage consumers to keep spending at a strong clip.

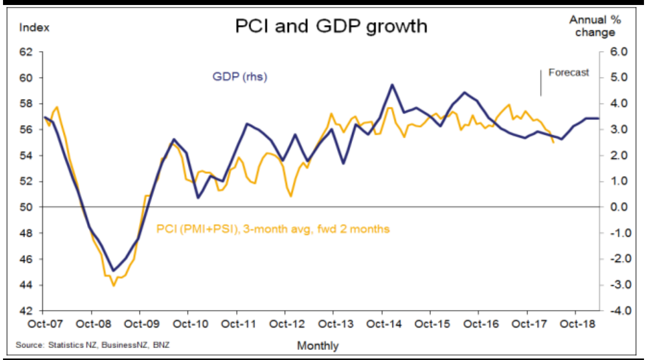
Service Sector Has Lost Some Of Its Steam



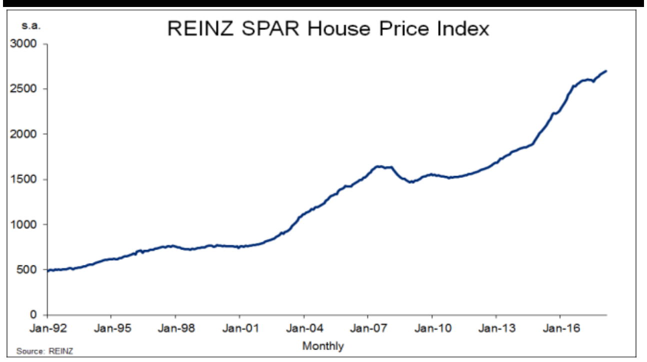
Not So Fast



Reasons for Reserve, For Now



There's Just No Stopping It



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