

16 April 2018



Positive Service

Service sector activity hopped higher in March. The Performance of Services Index posted a decent lift to 58.8 from 55.3 in February, on a seasonally adjusted basis. Sales activity drove the strength, with this sub index rising to 64.1 – near its highest level since the survey started 11 years ago. PSI strength was widespread. On an unadjusted basis, all regions were above 60, while looking across industries and firm sizes all recorded expansion in the month. The pervasive strength suggests some common driver. It is tempting to point to the early timing of Easter this year. While it is a possibility, we haven't seen the timing of Easter exert an obvious influence on the index in the past so we wouldn't overstate that case.

A Break In The Weather

Another possible driver is the weather. The PSI sales index dipped to a relatively slow 53.4 in February, seemingly dented by severe adverse weather back then (remember the cyclones). At least some of the March strength is likely a bounce back from a soft February. We have seen a similar pattern of a softer February followed by a strong March in other indicators like electronic card transactions. The influence of weather is worth thinking about for April too, with a recent storm causing power outages for many amid other disruption.

Positives Overdone?

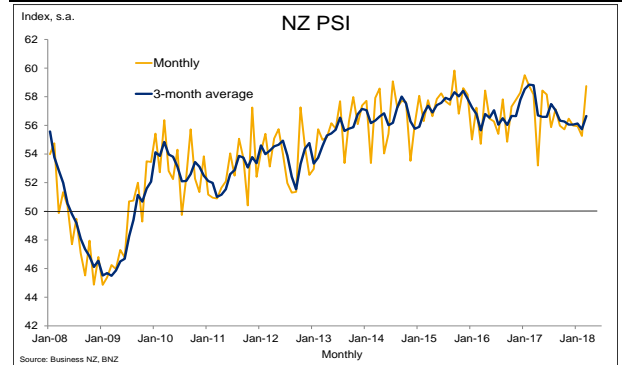
Whether its Easter timing, weather influences, or something else, the volatility counsels caution in interpreting current data. It's definitely possible the March PSI result overstates the underlying trend. Another subdued employment reading would seem to fit that story. But that narrative is by no means a given, with strong new orders, at 63.7, encouraging, and the softer looking employment gauge over recent months might well reflect service sector firms' difficulty finding staff as much as any weakness in labour demand. Upcoming data will provide more insight. At this point, a stronger PSI is pleasing to see, especially in the context of the slowing we saw in last week's Performance of Manufacturing Index. Combined, these indicators suggest reasonable GDP growth has continued into 2018.

Growth Despite Pessimism

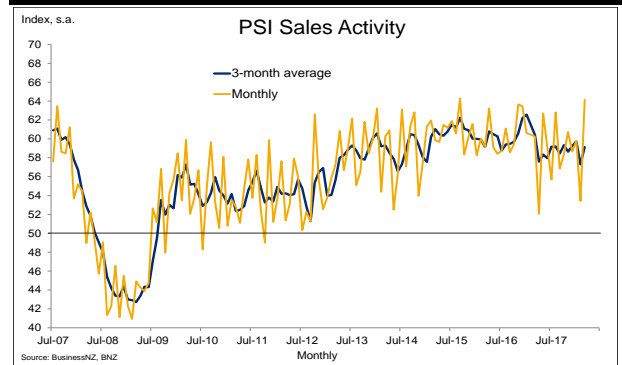
Last week's Quarterly Survey of Business Opinion (QSBO), published by NZIER, showed a net 7% of service sector firms expect general business conditions to deteriorate over the next six months. There is currently a clear distinction between general business confidence (negative) and indicators of real activity like the PSI (positive). Indeed, the service sector real indicators in the QSBO reinforce the positive growth message from the PSI showing positive volume of services along with progressive employment and investment intentions.

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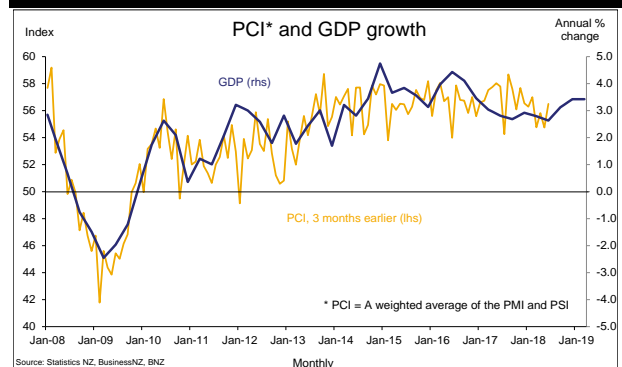
An Easter Hop?



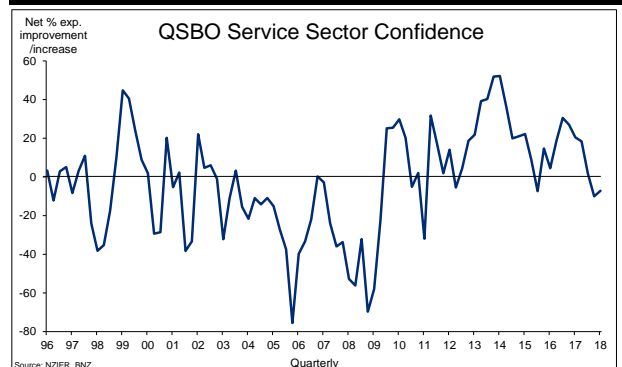
Sales Weather Affected?



Growth Continues



A Bit Unsure



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