

RESEARCH Services Landscape

19 August 2019



Don't Worry, Be Happy

After seeing a big drop into negative territory last week in the Performance of Manufacturing Index (PMI), it was with some trepidation we approached the Performance of Service Index (PSI). It turns out we shouldn't have worried. July's PSI came in at a robust 54.7. This was a fair step up from June's 53.0 and follows five consecutive months of lacklustre results. The PSI has now edged a touch above its long term average of 54.4. One should be cautious in reading too much into one month's data, but the positive result is good to see and especially in the context of weakness appearing in a few other leading indicators.

Detail

The details generally support the upbeat tenor of July's PSI. Sales rose to 57.2 from 55.0 in June. This is now comfortably above its long term average of 55.9 and is significantly above a recent low of 51.7 back in April. Also encouraging is the lift in new orders to 58.2, to be back in touch with historical norms. The only potentially cautionary component this month was inventories, which, at 54.4, were up a bit from June's 53.6 and still running on the high side of normal. This is something to watch, but the small lift looks less threatening in an environment of rising new orders.

GDP Implications

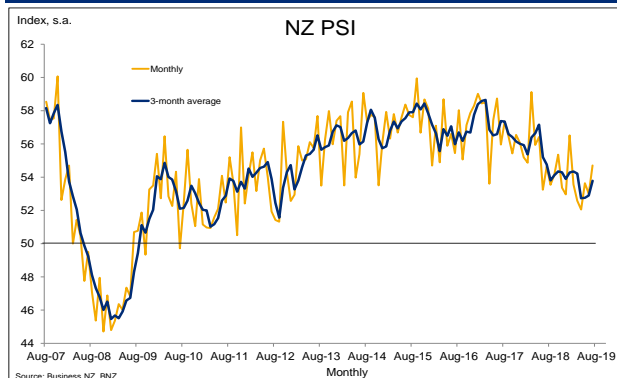
The better-looking PSI offers some hope that GDP growth in the service sector can hang together in the second half of the year. That's our forecast, albeit with downside risks. Offshore events continue to look ominous. But for now, at least, the PSI suggests New Zealand's service sector is in reasonable heart. However, when combining the solid PSI with last week's soft PMI, the combined measure (PCI) continues to cast doubt on whether the economy as a whole can even grow at 2% never mind the 3%+ that the RBNZ are forecasting for next year.

Spending and Housing

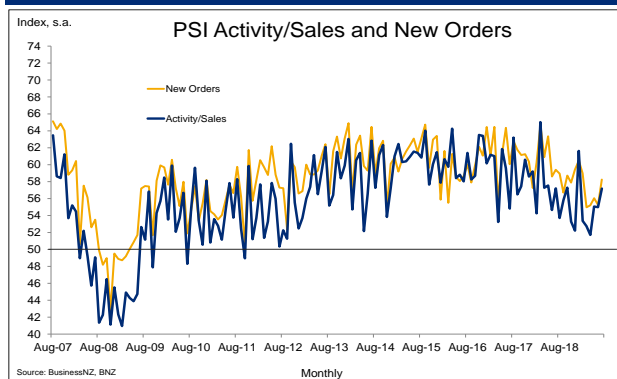
Recent spending indicators have underwhelmed. The total value of electronic card transactions fell a seasonally adjusted 0.3% in July. This extended a soft patch of preceding months. Annual growth has slipped below 2%, from nearly 5% a year ago. PSI trends for retail and accommodation, cafes, and restaurants, have shown a similar pattern of slower growth over the past year. Meanwhile, July's REINZ housing data prolonged a resilient tone. Indeed, house sales were up 3.7% on a year ago – the first positive since November 2018. House prices, on a like-for-like basis, are up 1.5% on last year albeit with declines in Auckland but offsetting gains elsewhere.

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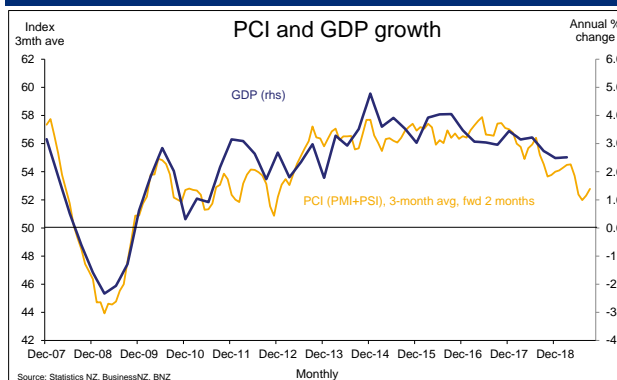
Happier



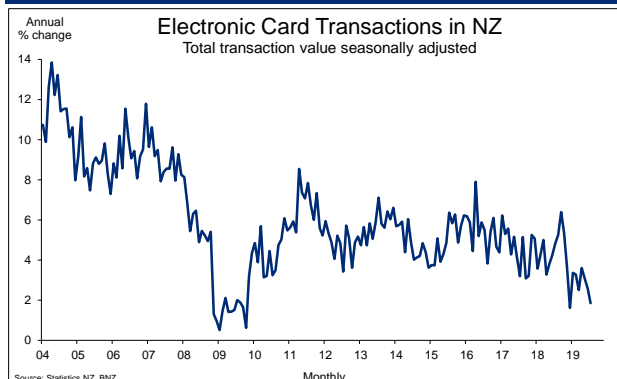
Good Vibes



Downside Risks Remain



Spending Slowing



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