

16 December 2016

Tis (More Than) The Season

November's Performance of Services Index (PSI) is a picture of strength. After looking a little slower a couple of months ago, the PSI re-stretched its legs up to 57.9 in November and well above its long term average of 54.1. This is more than just the run up to Christmas, given that these figures adjust for usual seasonal patterns. Sales activity is leading the charge. Indeed, at 64.2, the PSI sales index has hit its highest reading since the survey started nearly 10 years ago. Meanwhile, new orders rose to their highest level this year, at 61.7. This is all despite the clear disruption around central NZ on account of earthquakes during the month. While that has obviously caused significant disruption for some, it has also boosted demand for others according to the dozen PSI respondents that noted the tremors as a major influence on their business.

Broad Based Growth

Service sector strength has been broad based. In the year to November, service industries have had an average PSI reading well above the breakeven 50 mark. The same is true across the broad regions and firm sizes that the PSI is split into. The current PSI, combined with last week's PMI that was also above average, indicates above trend economic growth in the second half of 2016.

Capacity Pressures

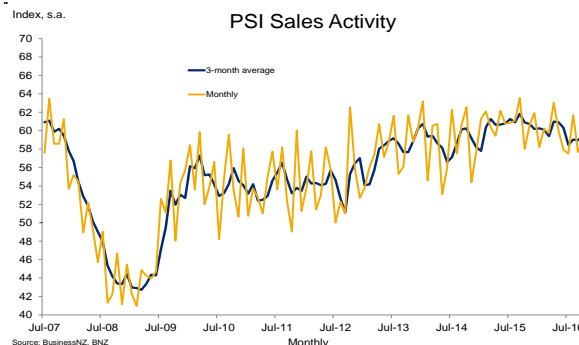
Interestingly, PSI employment is only marginally above average. This is despite the demand indicators like sales and new orders being so strong. Sure, employment is positive, but it is relatively subdued compared to demand. This mix suggests firms are having difficulty finding required staff. It is a view reinforced by a few respondent comments this month. It adds to recent results from the Quarterly Survey of Business Opinion that showed a tightening in the labour market. The signal of strong demand relative to supply implies there is developing pressure on inflation, including wage inflation.

Firm Demand Signals

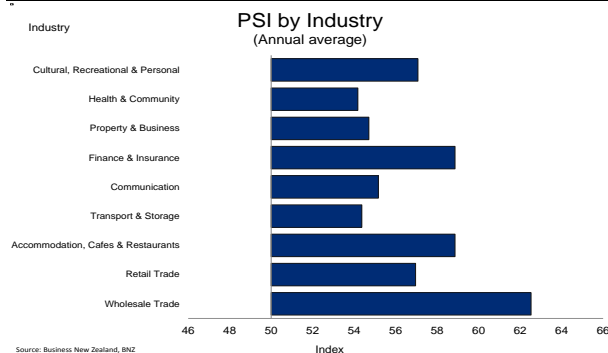
Christmas quarter sales look to be shaping up well judging by the ongoing strength in the PSI distribution sector indicators. Although these figures are not seasonally adjusted, retail, at 60.7, is above its November average. Accommodation, cafes and restaurants are well occupied at 65.4, while wholesale trade stood out as being well above norms and the strongest of all industries at 71.8 in November. The latter follows last week's official figures showing buoyant wholesale sales in the September quarter. The industry is expected to make a strong positive contribution to the quarter's economic growth when the data is released this Thursday. An active wholesale sector is another indicator of the demand strength percolating within the economy.

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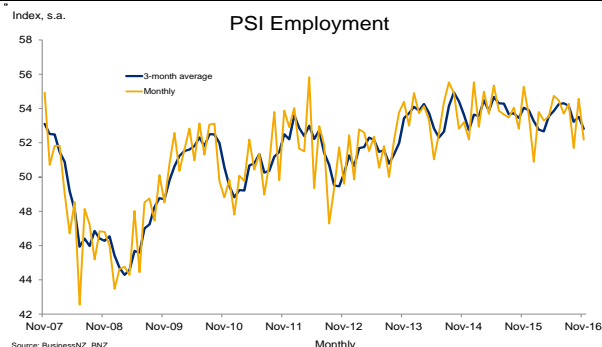
High Sales



General Improvement



Difficulty Finding Staff?



Wholesale Wholesome

