

RESEARCH Services Landscape

16 July 2018



Stumble

There was so much to like in May's Performance of Services Index (PSI). Fast forward a month and there now seems much to fret about. This is summarised via the headline PSI slumping from a strong 57.1 in May to a below-average 52.8 in June. The latter still indicates growth, but at a much slower pace than before. Indeed, June's result is the lowest PSI reading since December 2012. Stalling employment is another growth warning signal. Meanwhile, previously super strong new orders have peeled back too, but, at 58.6, they are still reasonable at around their long term average.

Growth Warning Signal?

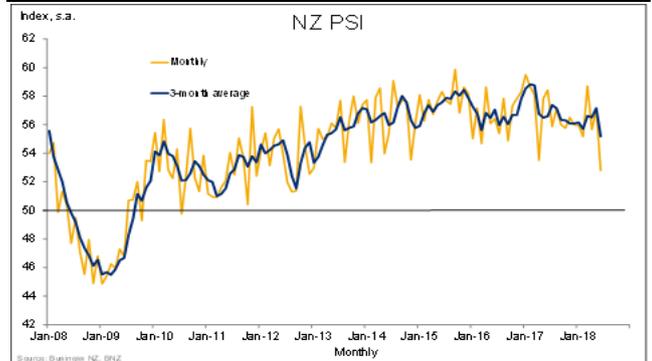
May strength followed by June weakness could just be monthly noise rather than a pointer to a sustained period of slower growth. But we are wary of dismissing June's weakness out of hand, given the PSI is not usually that volatile and the weaker result echoes last week's softer Performance of Manufacturing Index (PMI). While some have discounted weak business confidence readings of late, the PSI and PMI results are not so easily dismissed as these are surveys of business outcomes not based on sentiment, outlooks, or expectations. In this sense, they are arguably more worrying from a growth perspective. To be sure, we wouldn't, and aren't, changing our overall assessment of the economy on one month's data. But June's weakness in the combined PSI and PMI index (PCI) questions the economy's current strength and even our below-consensus economic growth forecasts. If these indicators stay this low, it suggests annual growth of 2% or below, rather than the near 3% that we currently forecast. Materially lower than anticipated growth may encourage financial markets to price the chance of an interest cut from the RBNZ. It would at least question whether the Bank would lift interest rates next year as we currently expect and as is currently being contemplated by the market. That remains some way off. For now, the jury is out and should probably refrain from judging underlying growth until the sizeable fiscal stimulus, kicking in about now, starts to make its presence felt. And, for interest rates, inflation indicators will be as important as ever.

Pockets of Strength

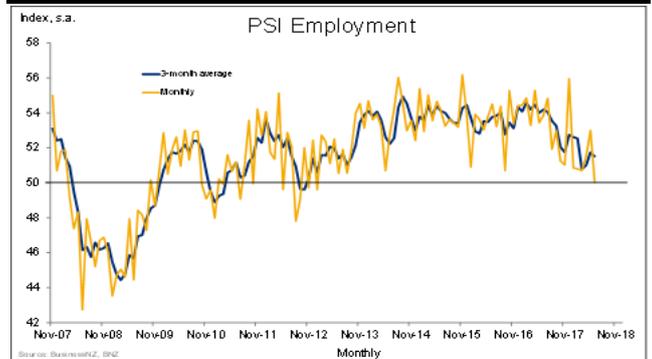
The general weakness in June's PSI is seen in seven of the ten industry groups recording a lower reading this year compared to last. But there were some pockets of strength. Notably retail, at an unadjusted 62.7, posted its strongest June result since the survey started back in 2007. This supports the idea that retail sales in Q2 were stronger than electronic card transactions would have you believe. And, large firms, with an unadjusted 65.0, also posted a record high, compared to weak results across other, smaller, firm-size categories.

doug_steel@bnz.co.nz

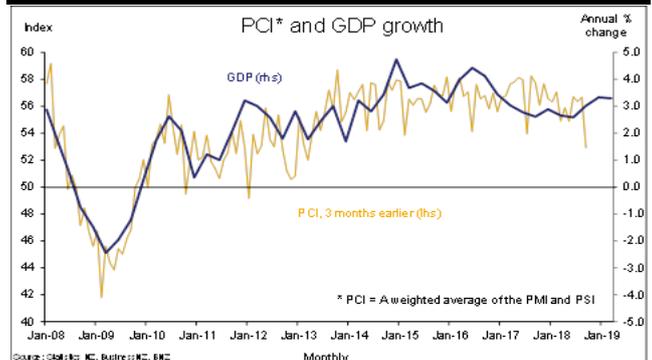
Slower Service



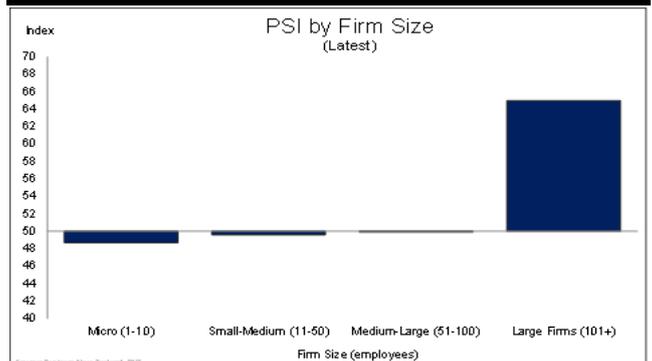
Employment Stalls



Growth Warning



Big Is Best



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+61 2 9237 1406

Alan Oster

Group Chief Economist
+61 3 8634 2927

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

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