

# RESEARCH

## Services Landscape

15 October 2018



### PSI

The service sector's rate of expansion has definitely slowed over the last six months or so. However, it is also showing signs of stabilising close to a trend-like pace. These are the messages from the Performance of Services Index (PSI) anyway. It came in at a seasonally adjusted 53.9 in September – similar to the average of the previous few months and just a sliver below its historical average (54.5). It was even encouraging, in the sense that its production index strengthened to 56.1, from 53.9, while new orders/business also clocked in at a decent 56.1. On the other hand, the employment index – much like it's done in the PMI – continued to level off around the breakeven mark (of 50) in September, highlighting an area of caution for the business sector.

### QSBO Services

There were also pockets of caution in the services component of the latest NZIER Quarterly Survey of Business Opinion (QSBO), although the sector's broader messages were of resilience. The concerns appeared to be more about immediate history than the way forth. In particular, service sector respondents to the QSBO indicated a wobble regarding the volumes of services, and employment, over the last few months. But looking ahead to the next few months they expected a bounce back on these counts. The other interesting points from the latest QSBO were that services firms were still having extreme difficulty in finding labour, costs were accelerating, profits were feeling the pinch, but pricing was on the move, and investment intentions were holding up relatively well.

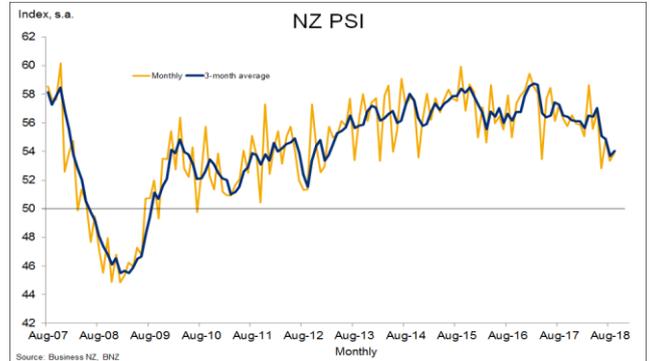
### GDP Implications

As it turned out, the services sector was important in underpinning the 1.0% gain we saw in Q2 GDP (when other elements of GDP were hit by timing issues). And services remain important for achieving the GDP growth we expect over H2 2018, especially in light of the fiscal stimulus that's been coming the way of NZ households since 1 July. Electronic card transactions have certainly indicated a pick-up in consumer spending in Q3. This is in spite of higher petrol prices and mixed messages coming out of the housing market.

Generally speaking, the NZ PSI, much like the QSBO, suggests the services industry is settling down into a trend-like pace. However, there is a risk Q3 could be a bit bumpy regarding output and employment. And when melding the PSI with the slightly below-trend PMI, we also need to be a bit wary of how much GDP growth we can reasonably expect for Q4.

[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@bnz.co.nz)

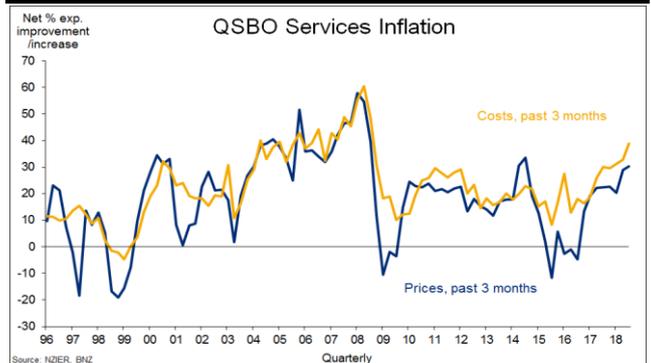
### Slower But Not Slow



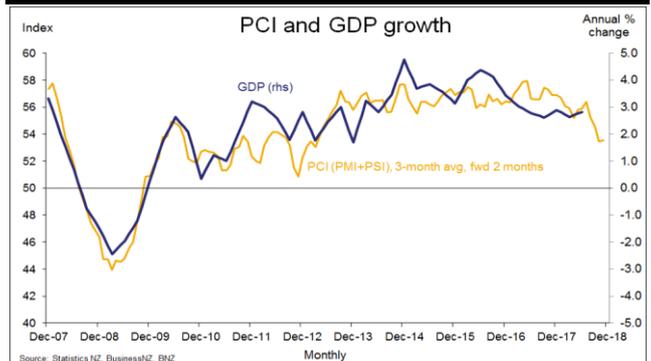
### A Q3 Judder Bar



### Pressure Points



### Steady On



## 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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