

RESEARCH

Services Landscape

18 February 2019



More Substance

New Zealand's Performance of Services Index (PSI) started 2019 with more substance, having ended 2018 on a moderate note. In numbers, it sprang to a seasonally adjusted 56.3 in January, from 53.2 in December. Its historical average (since April 2007) is 54.5. Even more encouraging were the details of the latest PSI report. Specifically, the PSI activity/sales index surged to 61.5, while new orders/business ramped up to 61.4. In light of this, the sag in the inventory index, to 49.9, didn't look to be related to weaker demand (quite the opposite?).

Positive on GDP

By improving a fair bit in January, the PSI helped support our economic views on a number of levels. For a start, it went some way to offsetting the moderation in the PMI in the month, which dipped to 53.1, from 54.8 in December. The PSI thus better sustains a sense that GDP growth is running around trend rather than below it. This is helpful, after the news that Q3 GDP growth slowed to just 0.3% (2.6% y/y). And that this involved a sharp deceleration in the services category of GDP. January's PSI suggests that the services sector is still chugging along relatively well, as we head into 2019, rather than fading as a backbone to GDP growth.

Positive on Employment

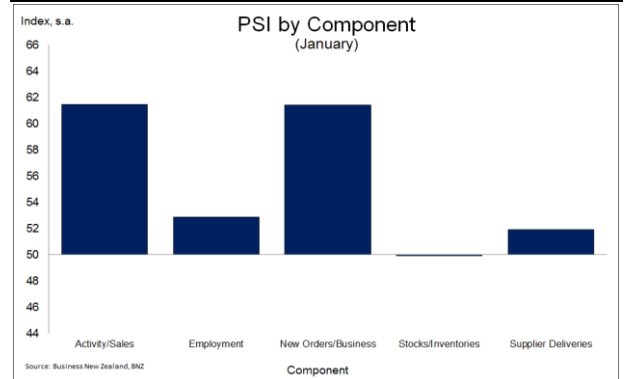
January's PSI also supports our view that employment growth continues to tick along relatively well. The PSI's job index, having virtually stalled in December, with 50.3, rebounded to a seasonally adjusted 52.9 in January. As such, it was close to the PMI's job index, which stayed at 52.2 in the month. These outcomes are good to see, after the news that December quarter employment – as per the Household Labour Force Survey – increased a mere 0.1%. We figure that this was more to do with statistical noise and timing than anything truly weak. January's PSI (and PMI) gives confidence to our biases. For the record, we expect official employment to expand 0.6% in Q1 2019.

Retail Rebound

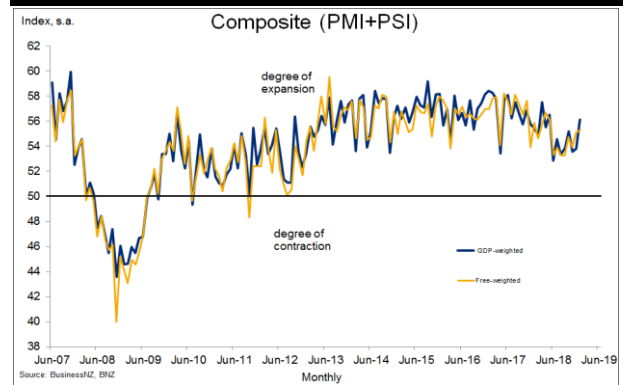
A more specific area where the latest PSI has calmed nerves is with regard to retailing. Of course, we've already seen electronic card transactions bounce back with force in January, from an unusually large drop in December. But further indication that consumer spending is holding up was provided by the retail component of January's PSI. This shot up to (an unadjusted) 68.5, from a level of 42.5 in December that did have us wondering.

craig_ebert@bnz.co.nz

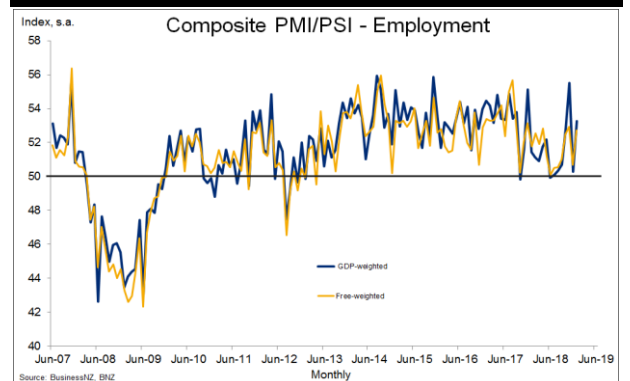
Even Better



Solid Overall



Still Wanted



Better Than Average



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

Ivan Colhoun

Global Head of Research
+61 2 9237 1836

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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