

RESEARCH

Services Landscape

18 March 2019



Steady, If Slower, Progress

There remains no clear direction in the Performance of Services Index (PSI). Yes, it eased to 53.8 in February following a pop higher to 56.2 in January, but this simply returns the index to a level similar to that seen towards the end of last year. The general lack of direction is more obvious by looking at the PSI's three month moving average which has stayed within a very tight 0.3 range (54.1 to 54.4) for the past six months. The three month average currently sits at 54.4. While recently steady, it is still materially lower than what prevailed for a few years prior to mid-2018 (when the PSI averaged around 57). We expect this service sector slowdown now long portrayed by the PSI to show up in the official GDP figures from as early as this week's figures for Q4. Perhaps a more optimistic view of the recent steadiness of the PSI is that last year's slowdown has been arrested and steady (albeit slower) service sector growth has prevailed in early 2019.

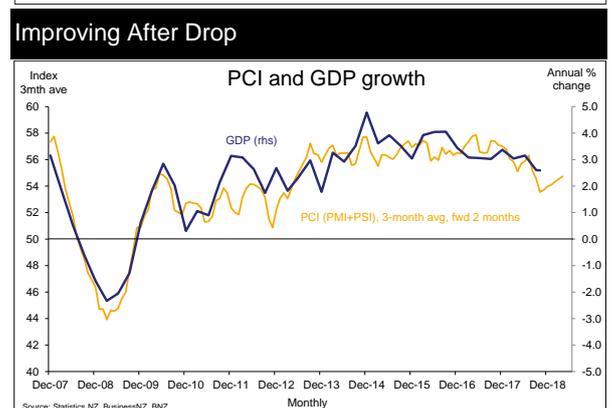
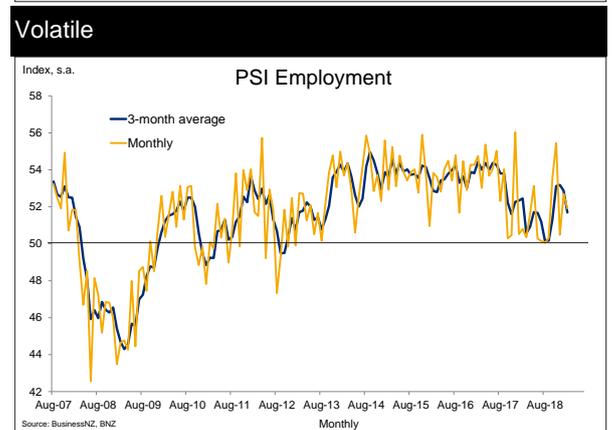
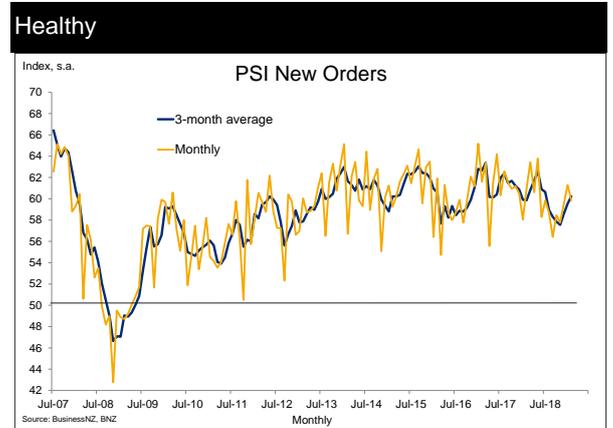
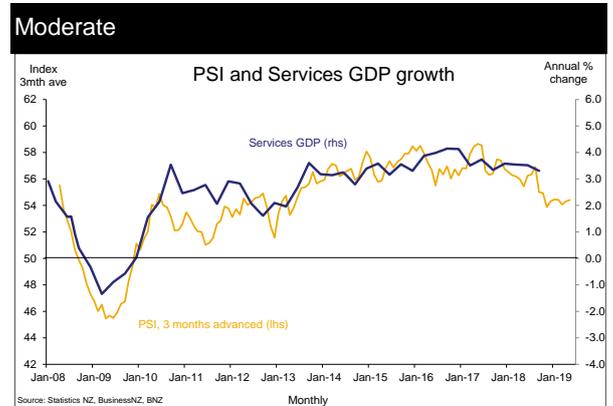
Good Order

The PSI details remain mixed and choppy month to month. On a three month average basis, new orders have improved to be bordering on strong, sales expansion has been moderate and steady, while employment growth is positive but has slowed. It's an interesting combination. The mix of strong new orders with slowing employment gives the impression that supply side constraints are holding growth back. It seems so with numerous survey respondents noting difficulty acquiring staff. It certainly fits with a number of other gauges showing the labour market is tight. The PSI employment index has been especially volatile over recent months (coinciding with elevated measures of labour turnover from the NZIER's Quarterly Survey of Business Opinion). Declining inventories supports the idea that supply is struggling to meet demand. Meanwhile, overall demand itself looks to be at least reasonable (albeit with Canterbury still at the weaker end of the spectrum on a regional basis).

GDP implications

Combining the recently steady PSI with the mild improvement seen in last week's Performance of Manufacturing Index (PMI) provides some solace for NZ economic growth watchers. The three month average of the composite index (PCI) has pushed up to 54.7, its highest level since June last year. Following relatively slow GDP growth of 0.3% in Q3 last year and some nervousness around this week's figures for Q4, the mild improvement in the PCI offers some encouragement for 2019. Even if that encouragement is limited to growth not slowing further at this point.

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