

RESEARCH

SERVICES LANDSCAPE

15 June 2020



The PSI

The Performance of Services Index (PSI) still looked terrible in May. However, at 37.2, it is a fair bit less terrible than April's 25.7. The lift follows the removal of some shackles as New Zealand moved down COVID alert levels. Further improvement can be expected over coming months on similar grounds. However, we'd caution that just being allowed to open doesn't guarantee more activity. Standing back, there is no denying the outright level of the PSI remains woeful and still sits well below the lows at around 45 recorded during the 2008/09 recession. Combining the PSI results with similarly weak readings from the Performance of Manufacturing (PMI) through April and May reinforces our thinking that Q2 GDP will show a massive decline (we think in the order of 18%).

Employment Falls Further

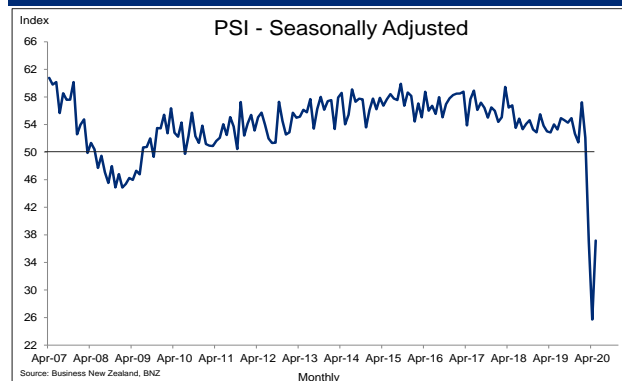
Less bad readings in May compared to April were seen in nearly all areas across industries, regions, firm sizes, and major components. One glaring exception was employment, which fell further, reflecting still very poor conditions through May. The PSI employment index fell to 40.9 in May from 42.4 in April, to now be at its lowest level since the survey started back in 2007. Service sector net job losses mirror what we saw for manufacturing in last week's PMI, illustrating the considerable pain in the labour market even before the huge wage subsidy scheme scales down. The trajectory of these indicators is consistent with our view that official figures for the labour market will likely get worse before they get better. Our forecasts have more job losses in Q3 than in Q2.

Spending Bounces

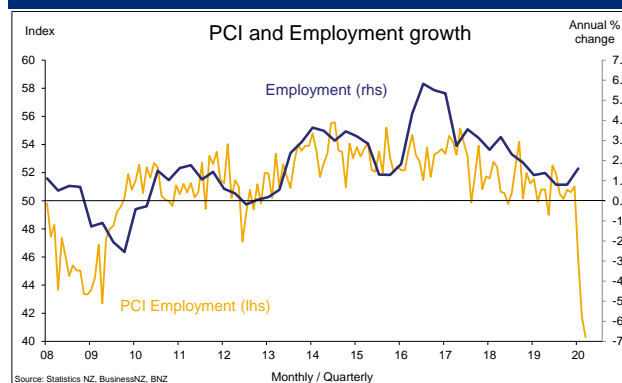
Electronic card transactions – as an indicator of spending – also looked less bad in May. Indeed, at face value the seasonally adjusted 80.7% lift in total transactions in the month looked very strong, but given it followed a near halving in April, transactions remain more than 12% below year earlier levels. In short, it is a move in the right direction but there is still a long way to go. Put another way, it is a bounce off a very low base. And higher spending on consumables and durables likely included a good dose of pent up demand post lockdown, so the degree of strength is unlikely to be sustained for too long. Meanwhile, hospitality remained under significant duress in May. Even though transaction values for this sector were higher than April, they were not much more than half the levels prevailing pre-COVID. This fits with the PSI for accommodation, cafes, and restaurants languishing at an unadjusted level of 28.9. Yes that is higher than April's 18.1, but still indicating extreme weakness.

doug_steel@bnz.co.nz

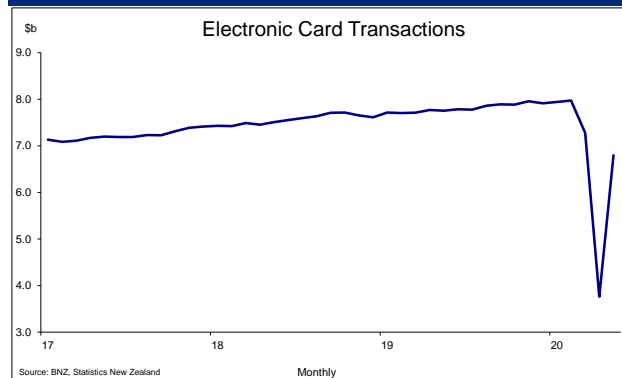
Less Terrible



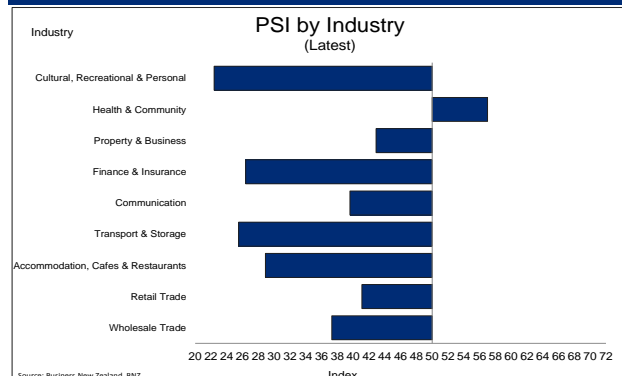
Fewer Jobs



Spending Bounces After Collapse



Still Doing It Tough



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

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

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

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

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

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.