

RESEARCH Services Landscape

19 October 2020



Some Relief

The service sector's performance continues to reflect the ebb and flow of COVID related disruptions and restrictions – as it has since the virus arrived. This follows from the sector being more prone to restrictions around gatherings and social distancing than others. In line with this, some relaxation of restrictions during September saw the Performance of Services Index (PSI) claw its way back into expansion mode. But only just. September's 50.3 reading is still a subdued result, even if it is back on the right side of 50 following August's dip to 47.2 when tighter restrictions applied. It would seem reasonable to assume that October will bring some further improvement as Auckland joined the rest of NZ at alert level 1.

But Duress Remains

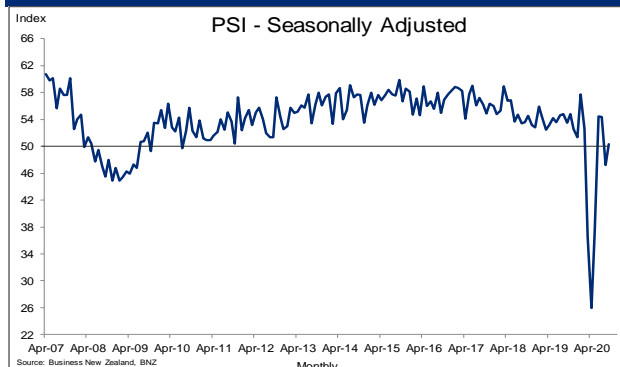
Movement down alert levels does give the service sector hope for improvement ahead. Indeed, there are already some signs of this appearing with the PSI new orders index in September pushing up to 54.9. But it is important to recognise that this remains below its long-term average of 57.9. Other major components are also below their norms. Any improvement must be seen in the context of a sector still operating well below normal – albeit with significant variation among areas or industries. For example, the unadjusted PSI for the Northern region was 48.0 in September its eighth consecutive month below the breakeven 50 line. Meanwhile, the cultural, recreational, and personal industry's 44.0 reading in September reflects ongoing pain with its average over the past eight months sitting at a dismal 32.7. On the positive side, wholesale trade has posted its third consecutive monthly reading above 50 no doubt partly reflecting a pick up in domestic spending and resilience seen in primary sector exports.

Employment and Growth

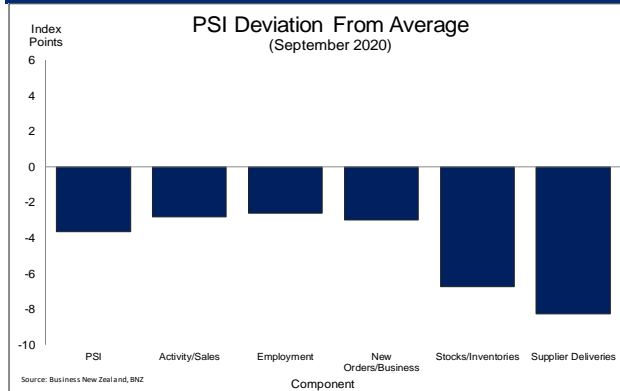
The strain that the service sector has been under is reflected in the PSI employment index. It remains weak. September's 48.7 is only marginally better than August's 47.3. It is the seventh consecutive month below 50 indicating that service sector job losses continue. This contrasts with some improvement in the equivalent indicator for the manufacturing sector released last week. Combining the two, and averaging through Q3, suggests economywide employment likely declined in the quarter, although perhaps not by quite as much as the circa 1% we currently forecast. But we wouldn't read any indicators too literally at present, given the circumstances. What does appear clear is that employment indicators are not sufficiently strong enough to prevent the unemployment rate from rising. Similar thinking applies to anyone trying to precisely map high-level indicators to the likes of GDP. The PSI and PMI indicators give a very good – and timely – guide to recent activity but it would be unrealistic to expect any top down indicator to give a precise estimate of quarterly growth rates at a time of such disruption and dislocation. What we would say is that recent PSI and PMI readings are consistent with a big bounce back in Q3 GDP from the massive decline in Q2. The exact degree of it is much more difficult to judge. In any case, what lies ahead is arguably more important – making the PSI and PMI indicators important to monitor over coming months.

doug_steel@bnz.co.nz

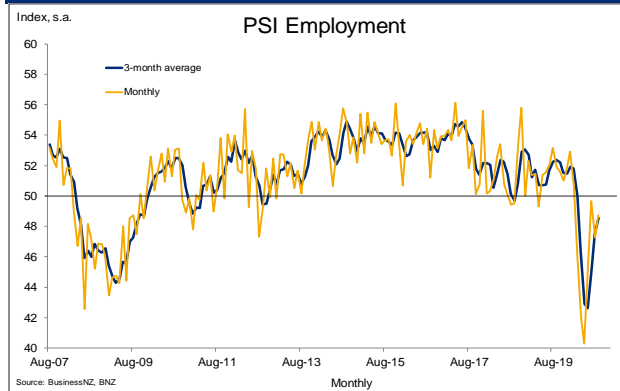
A Small Lift



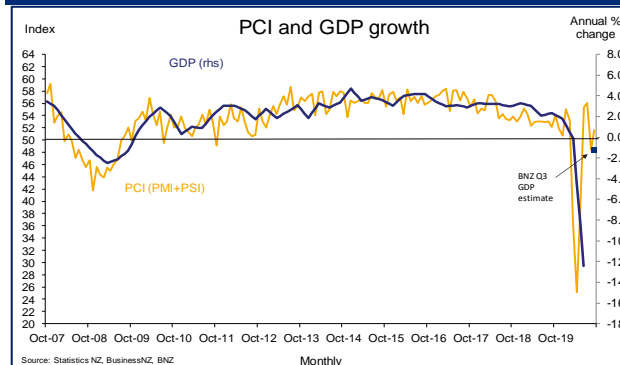
But Below Average



Fewer Service Sector Jobs



What Comes After Q3 GDP Bounce?



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

Senior 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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