

# RESEARCH

## Services Landscape

17 May 2021



### Full service

The green shoots of recovery that appeared in NZ's service sector in March blossomed into full-on growth in April. The Performance of Services Index (PSI) leapt to an all-time high of 61.2 from 52.9. To be sure, the ramp up over the past couple of months follows an extended period of subdued activity, but it is still good to see. We noted last month that April's alert level 1 status (compared to residual tighter restrictions during early March) was a good basis for a better PSI reading. The starting of the trans-Tasman travel bubble during the month will have helped at the margin too. Strength was widespread, with major components like new orders/business, activity/sales, and employment leading the charge higher.

### Growth signals positive

The PSI, along with last week's above average PMI, points to a pick-up in economic growth. Even if Q1 GDP proves a bit soggy (as we think might be the case), following a clearly weak Q4, the composite PSI/PMI index for April suggests a decent bounce in Q2 is brewing. This adds to the positive signals we have seen in some other indicators for April like SEEK job ads and electronic card transactions. The latter is interesting given that the record PSI result occurred despite the retail trade and accommodation, cafes, and restaurants components remaining below average for the time of year. Across other industries, transport and storage lifted back to near average, while all others recorded above average readings for this time of year.

### Employment jumps

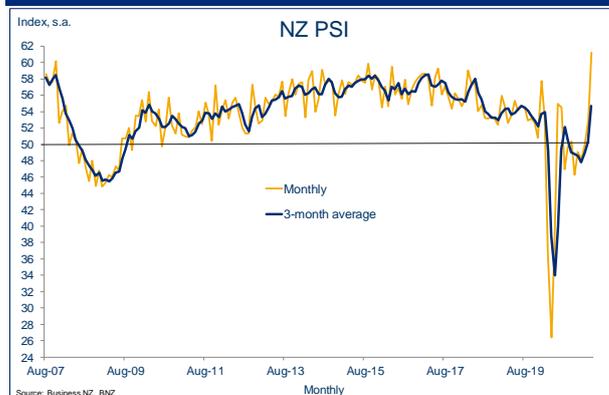
Amid the general PSI strength, the employment component stood out. Its 60.8 reading was a record – and by quite some margin with 56.2 being the previous high. This follows an above average employment reading in last week's PMI – suggesting a rapid pick up in jobs growth. Sure, it is only one month's data, but it does add to the possibility that the labour market improves potentially much faster than we currently anticipate. Importantly, the indicators imply much stronger employment than the RBNZ forecast. Such things will give the market more reason to anticipate higher interest rates over the coming year.

### Supplies still troublesome

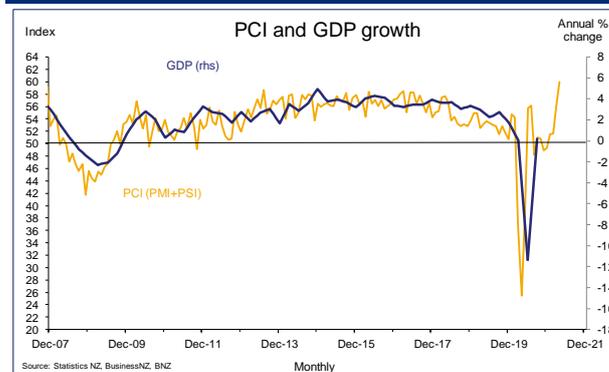
The Achilles heel of the PSI remains supplier deliveries. April's 46.8 reading is better than March's 44.2, but it is the 9<sup>th</sup> consecutive month in contractionary territory. Supply issues obviously remain a significant issue for many, especially when viewed alongside very strong demand side indicators at present. It points to significant upwards pressure on prices.

[doug\\_steel@bnz.co.nz](mailto:doug_steel@bnz.co.nz)

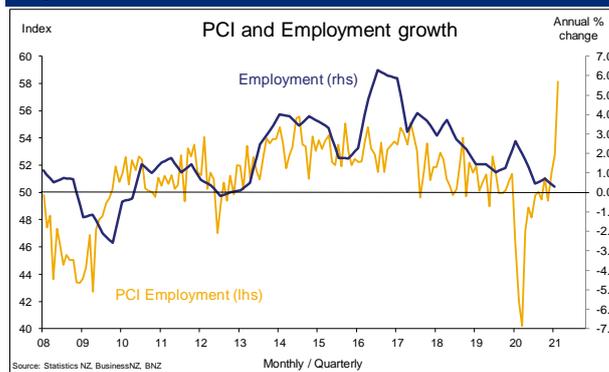
### Record



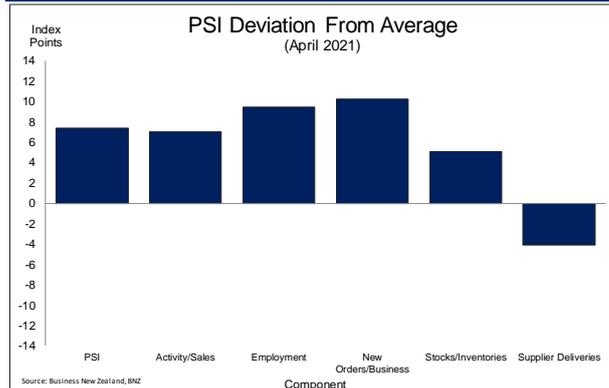
### Strong Growth Signals



### Huge Hire



### Supply Lagging Demand



# 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

### 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

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