

RESEARCH

Services Landscape

16 August 2021



High demand

New Zealand's service sector continues to expand at a rapid pace. The Performance of Services Index (PSI) stood at 57.9 in July. That's not too different from June's 58.4. July's result is the fourth consecutive month where the PSI has printed well above its long-term average of 53.9. The rapid rate of progress continues to be underpinned by very strong demand. This was clear from the activity/sales and new orders components of the PSI coming in well above the 60 mark and significantly stronger than usual. The challenge for business is in satisfying demand.

Navigating challenges

The overall strength in the PSI is quite remarkable given that many respondents continue to highlight significant, and ongoing, issues on the supply side. Shipping delays, freight cost escalation, and raw material shortages continue to be commonly cited. With this, it is no surprise to see the PSI supplier deliveries index still languishing below the 50 mark in July – as it has for 12 consecutive months now – indicating persistent and significant supply side pain for business. The balance of very strong demand and compromised supply is a tinderbox for inflation. This only reinforces our view that the likes of annual CPI inflation will push materially higher over coming quarters.

General buoyancy

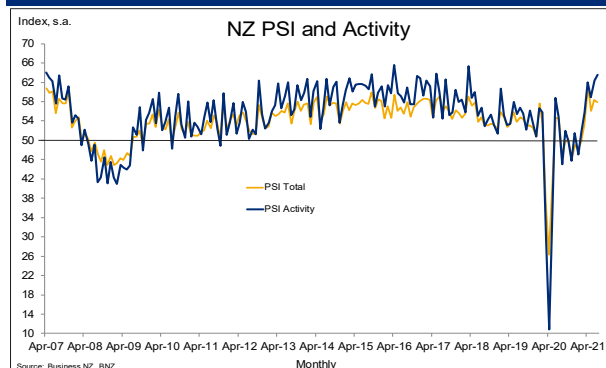
Notwithstanding supply side challenges, looking across the PSI by industry (and by region and by firm size) nearly all recorded PSI readings above 50 (unadjusted) indicating a general buoyancy across the service sector. The wholesale trade and property & business industries were among the strongest, continuing a recent run of strongly positive monthly results. In contrast, the accommodation, cafes, and restaurant industry posted its fourth consecutive sub-50 result, albeit only just, at 49.9. Growing concerns with, and ultimate suspension of, the Trans-Tasman travel bubble in the month would not have helped.

Good for jobs

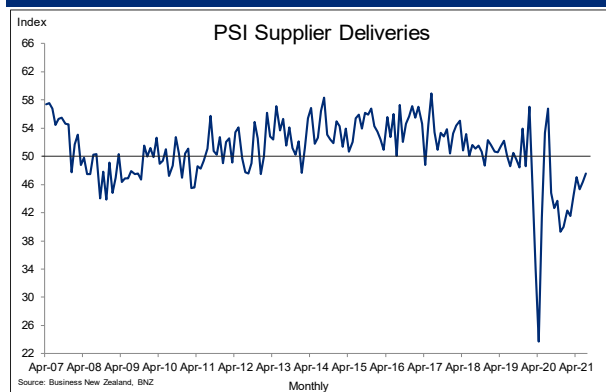
Another positive in July's PSI was the employment index at 55.2. Yes, it was a touch lower than June's 56.5 but still significantly above its long-term norm of 51.4. Combined with last week's blistering PMI employment reading of 58.3, it all sets up Q3 to be another strong quarter of employment growth and the nation's unemployment rate continuing to press lower. This is good news if you are looking for a job, not so much if you are trying to find staff.

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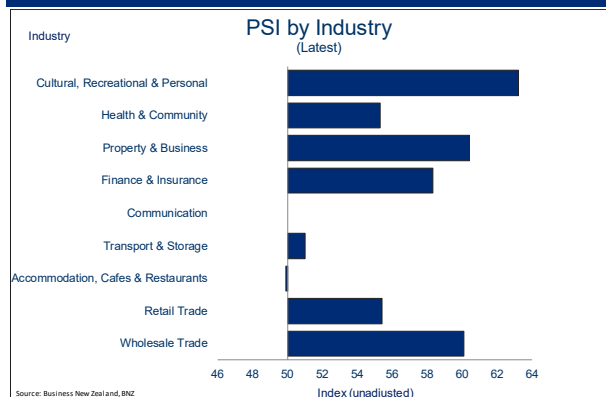
Maintaining Altitude



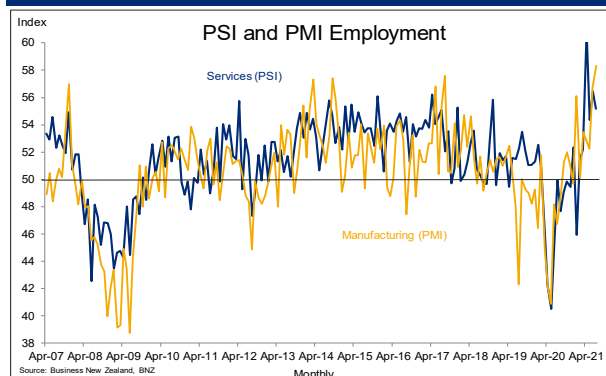
Supply Side Pain



Generally Positive



More Jobs



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