

18 October 2021



## Doing it tough

Not surprisingly, New Zealand's service sector continues to show substantial pain as COVID alert level restrictions linger. The pain is by no means uniform across various segments but is all too obvious in the headline figures. While some easing in restrictions saw the Performance of Services Index (PSI) lift to 46.9 in September, from August's extremely ugly 35.4, it remains materially below the breakeven 50 mark and even further below its long-term average of 53.9. This contrasts with last week's Performance of Manufacturing Index that managed to stabilise, even expand a bit, at 51.5, in September. Together, it reinforces our view that Q3 GDP will show a very large contraction (perhaps around 7% in the quarter).

## Reality versus expectations

Today's below average PSI also contrasts with other surveys that often ask about expectations or general confidence (which seem to be holding up ok). The PSI is a survey of outcomes and thus reflects the difficult trading conditions that many have encountered. For evidence, look no further than the PSI's activity/sales component. Yes, September's 45.3 is much better than August's 25.5 shocker, but it indicates contraction and is nearly a full 10 points below its 55.2 norm. Similarly, new orders rose to 47.5 (still well below par) in September from August's 32.3. Subdued new orders warn against expecting too much of a bounce in coming months. Of course, the spread of COVID, vaccination rates, and any restriction changes will have a very large bearing on that. Weakness in supplier deliveries highlight ongoing significant supply side issues.

## Much variation

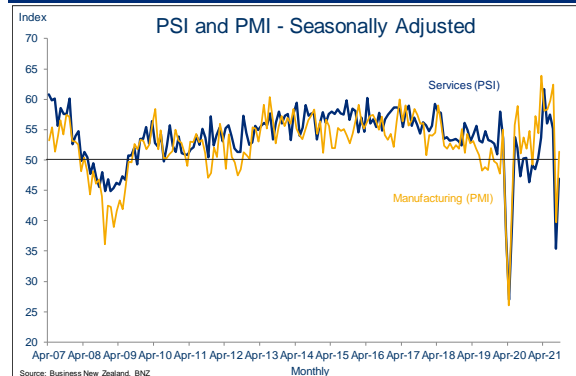
Unadjusted PSI readings show very large variations across various segments. By industry, Accommodation, Cafes & Restaurants, Cultural, Recreational & Personal, and Retail Trade saw the weakest readings in September. On the positive side, Communication is a clear standout with Property and Business services also going forward. By region, no surprise to see Northern the weakest (at 41.2), given it has faced the tightest and longest restrictions. Otago/Southland is also very weak, likely linked to the lack of Northern travellers. Central was positive at 51.8.

## Employment robust

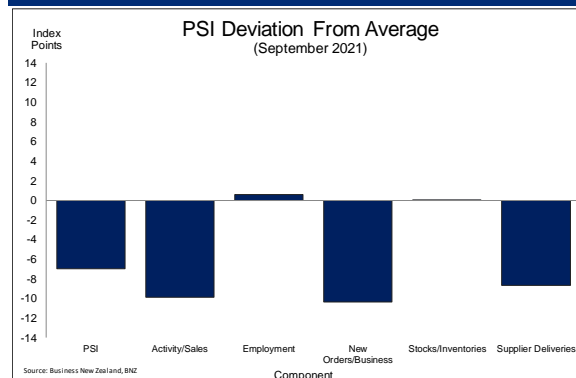
The key positive in September's PSI is employment, lifting to an above average 52.0 from August's 49.3. This seems consistent with firms expecting activity to bounce once restrictions are eased, fiscal support from government, and a reluctance to let staff go. It bodes well for the official labour market statistics to hold up (perhaps very) well in Q3, even with a huge decline in GDP.

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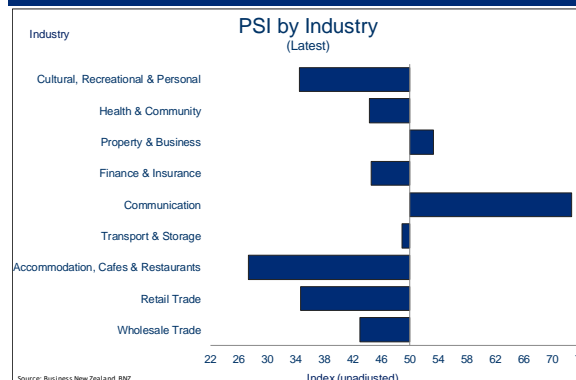
## Services Lagging



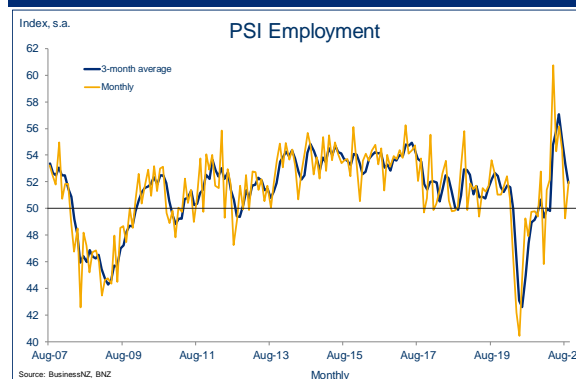
## Activity Well Below Normal In September



## Extremely Mixed



## A Bright Spot



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