

18 July 2022



PSI

By printing at 55.4 in June, the Performance of Services Index (PSI) showed that the jump in May to 55.3 was no flash in the pan, post the massive disturbance from Omicron earlier in the year. The move to traffic-light Orange in mid-April, along with the expedited opening of the border, is clearly providing a basis for sustained improvement in New Zealand’s services sector. Not only was it another good result for the PSI in June, but a successive one above the long-term average of 53.6. Activity/Sales (56.5), Employment (53.1) and New Orders/Business (61.7) were all running above their respective norms too, which added to the upbeat sense.

Supply constraints

That said, not all would appear well in the services sector. By industry, Wholesaling (47.1), Transport & Storage (31.3) and Finance & Insurance (41.3) were going backwards. At the same time, there was a huge result for Retailing (69.6) and a solid one for Property & Business (54.2), when local spending and housing data we know are cooling. More understandable was Accommodation, Cafes & Restaurants, at 63.9, from 61.9 in May, and Cultural, Recreational & Personal (up at 82.5), especially given the opened border. In terms of firm size, the largest (68.8) were by far the fastest in June, while SMEs (at 50.6) were still struggling.

QSBO as further insight

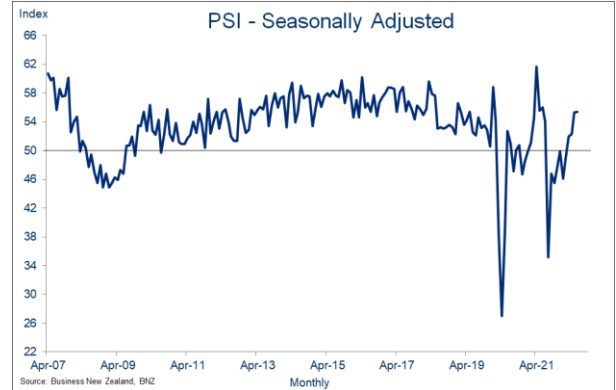
Meanwhile, complaints about supply chains, various costs (including fuel), and absenteeism, remained dominant in feedback to June’s PSI. This rationalised why more than two-thirds of the comments in this month’s survey were denoted as negative rather than positive, while the PSI reading overall was comfortably positive. Capacity problems amongst service firms was also illuminated in the NZIER’s Quarterly Survey of Business Opinion (QSBO) earlier this month, along with intense inflation in costs and pricing. The QSBO also showed a weakening in investment intentions, but a strong resolve to take on even more staff.

Growth implications

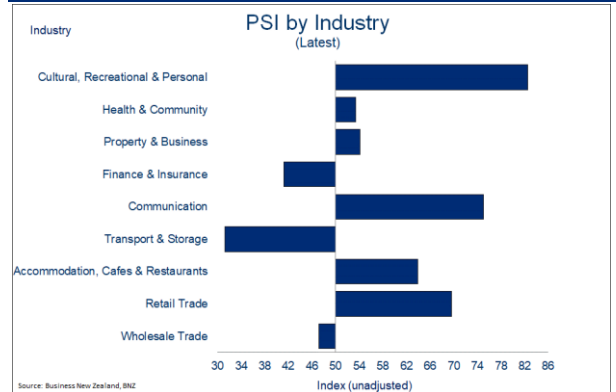
Patchy as it was, under its glowing surface, June’s PSI was nonetheless positive enough to counter claims the NZ economy is going into recession already. The latter idea was certainly piqued by the fact the PSI’s manufacturing cousin, the PMI, sagged to 49.7 in June. But when adding to this the PSI, the composite PCI held together at 52.3 for June (in free-weighted terms), while the GDP-weighted composite held up at 54.6, from 55.1 in May. This indicates that NZ GDP had a bit of momentum about it, after the 0.2% slip it registered for Q1. Skirting of recession was also the message of the global PSI, which improved to 53.9 in June, while the global PMI stayed expansive too, at 52.2.

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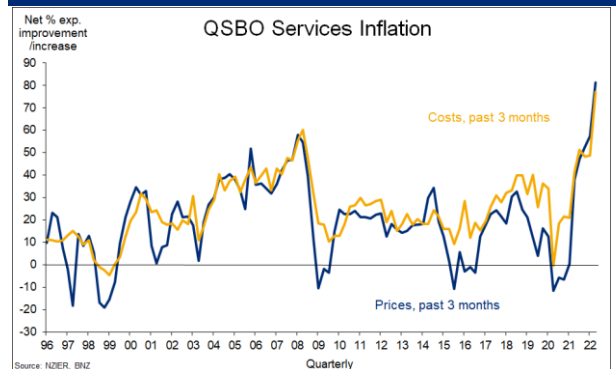
Good Again...On the Surface



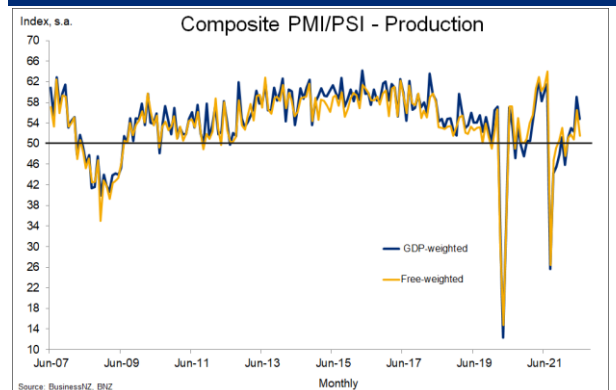
An Interesting Mix



Supply/Inflation Pressure More Than Just Talk



Skirting Recession



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