RESEARCH

Services Landscape

15 February 2021

Soft Serve

A very strong bounce in Q3 GDP and solid Q4 labour market data shows the NZ economy is generally in a much better place than forecasters thought would be the case. But that does not mean progress has been uniform. For instance, the Performance of Services Index (PSI) has been warning all is not well in the service sector and this remains the case into the New Year. The PSI eased to 47.9 in January from 49.1 in December. It completes three consecutive months below the breakeven 50 mark.

Supply Side Issues Still Evident

Looking across the major PSI components in January, softness was visible in sales activity and employment after somewhat better readings in December. Meanwhile, supplier deliveries once again remained very weak suggesting a continuation of the various supply problems we have been hearing about. While it is difficult to know for sure, this may also be one factor behind the weakness in wholesale trade this month. At an unadjusted 42.2 in January, the PSI for wholesale trade was well below the 57.6 it averaged over the previous five Januarys.

Hospitality Hurting

After some better readings in previous months, the accommodation, cafes, and restaurant's PSI slumped to an unadjusted 41.9 in January. This is well below average for the time of year and the weakest reading across the major PSI industries. Retail trade looked a bit better at an unadjusted 54.9. Incidentally, we saw a similar pattern in January's electronic card transactions with hospitality spending down 4.9% on a year ago, whereas most other parts of core retailing were up on an annual basis. While it looked like domestic spending had provided a decent offset to the loss of international tourism last year (during the latter's typical off-season), as we move through what was previously the international tourism peak period it is no surprise to see the tourism hole becoming more obvious. By region, PSI weakness was most pronounced in Otago/Southland both for January and over the past year.

Not All Bad

A weak PSI result fits with our long-held cautious view around near-term GDP, including a likely decline in the first quarter of 2021. Combining last week's very strong PMI with today's soft PSI points to some slowing in growth. But we also need to factor in strong public sector jobs growth and a booming construction sector. And, looking ahead, somewhat higher PSI new orders offers some hope too.

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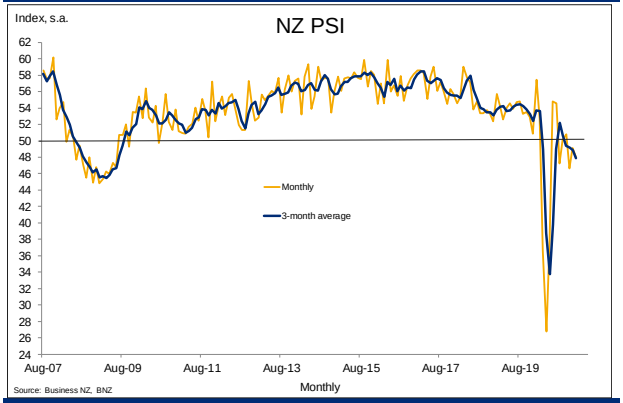
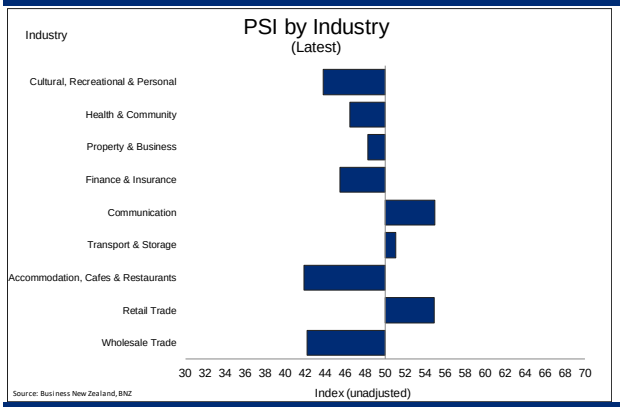
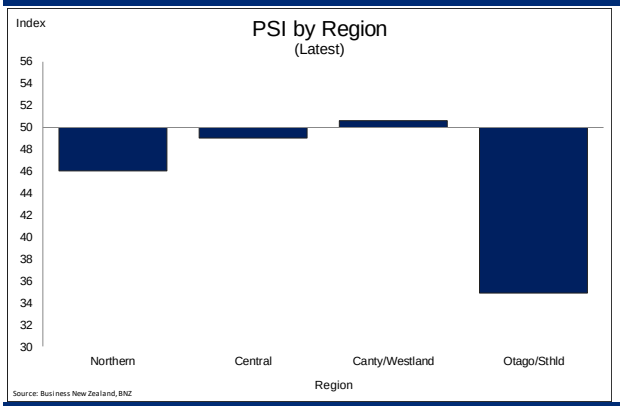
Wilting



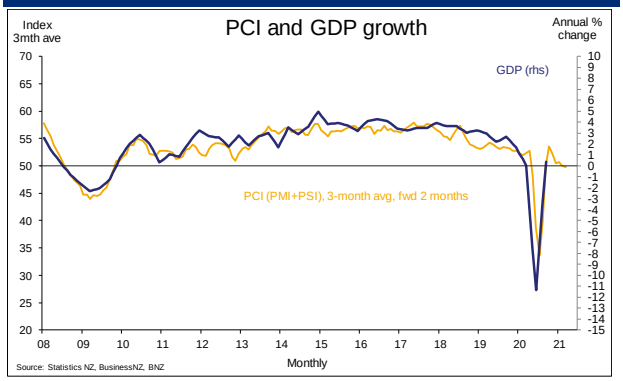
Generally Weaker



Down South



Will Growth Slow?



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