Services Landscape

20 May 2019

PSI Strained

New Zealand's Performance of Services Index (PSI) is starting to struggle. From the 52.3 level it slipped to in March, it eased further in April, to 51.8. This meant the slowest pace since 2012 – whether on a monthly or 3-monthly average basis. To be sure, the slowness appears driven more by specifics – for example Canterbury, Retailing and large-sized firms – rather than being all-encompassing. And the confluence of Easter, ANZAC Day and school holidays in April this year was highlighted by a number of respondents as a negative influence. However, unless there is a sizable bounce in May's PSI we'll be left with the distinct impression of a slowing services sector.

GDP Growth Dampener

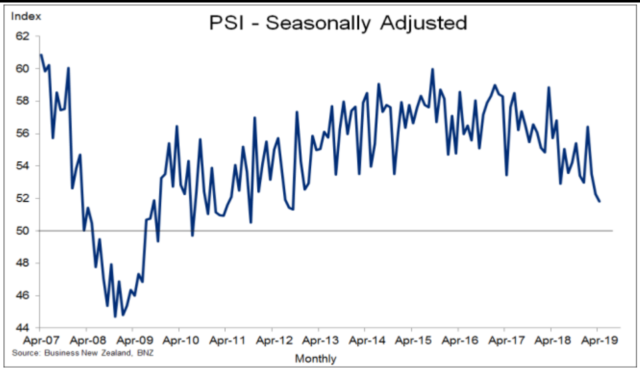
This is all the more significant as the services sector has been the backbone to New Zealand's economic growth since the 2008/09 recession. So, even with the rebound in April's Performance of Manufacturing Index, to an "almost normal" level of 53.0, GDP growth looks prone to toil on the basis of the latest PSI. This, in turn, is starting to challenge the view that NZ GDP growth will pick up through the course of 2019 – after a mild start in Q1. The May Monetary Policy Statement assumed as much (as will this month's Budget?). We have long been reserved on GDP growth for 2019. However, there is a growing risk that even we might be surprised to the downside. To the extent GDP growth does struggle, it could well encourage the RBNZ to respond with further monetary easing.

Demand versus Supply

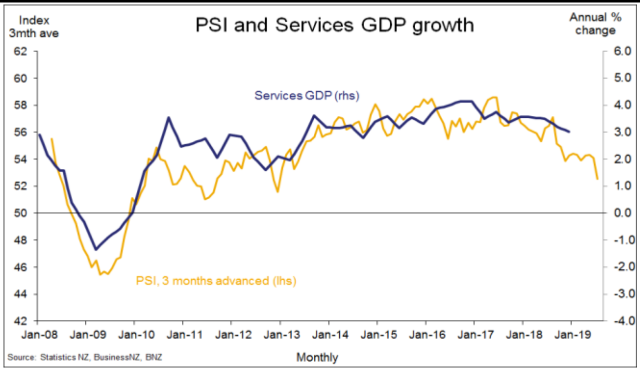
Having said this, we continue to argue that it's crucial to understand why GDP might be slowing. Is it from a softening of demand, or an exhaustion of supply potential? They have opposite implications for inflation. When we look at the details of the latest PSI we get mixed messages. It's worth noting that as a demand-side indicator the new orders/business index, of 55.1 in April, was not too bad (if a little below average). Likewise, the inventory index, at 48.3, denoted increased contraction, not the accumulation normally associated with a sudden slump in demand. As for the dip in the PSI's employment index, to 48.6, it could reflect shrinking demand for staff or a forced consolidation driven by cost pressure (bearing in mind the services sector is more sensitive to increases in the minimum wage than other sectors of the economy). For more on key demand-supply aspects, the early-July NZIER Quarterly Survey of Business Opinion will take on added importance ahead of the August MPS.

craig_ebert@bnz.co.nz

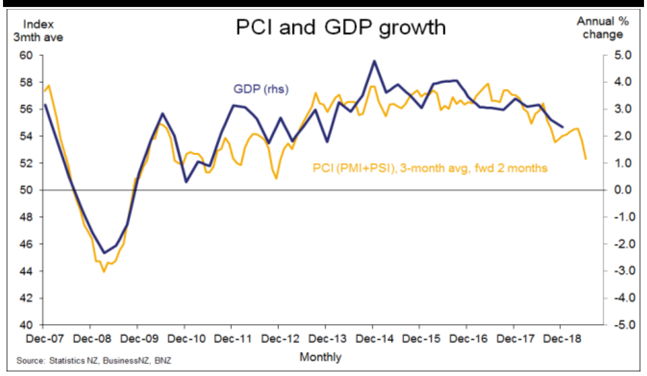
Gone Fishing?



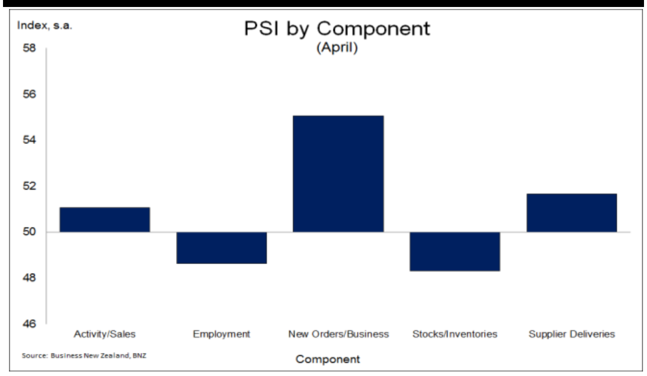
Services Flag



GDP Warning



Not Obviously A Lack of 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
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

Sydney
Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

London
Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

New York
Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong
Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891