

RESEARCH Services Landscape

17 February 2020



Happy New Year!

We thought it was probably too early for any impact from COVID-19 and policy response to it to materially show up in the January Performance of Services Index (PSI). After all, general awareness of the virus didn't really ramp up until very late in the month. Rather, we wondered if the index might improve a bit and add weight to the positive momentum we have seen in other economic indicators of late. But we didn't really imagine the extent of January's strength. The PSI leapt to 57.1 from 52.1 in December, in what is the third largest one-month gain in the nearly 13-year history of the index.

Positives Abound

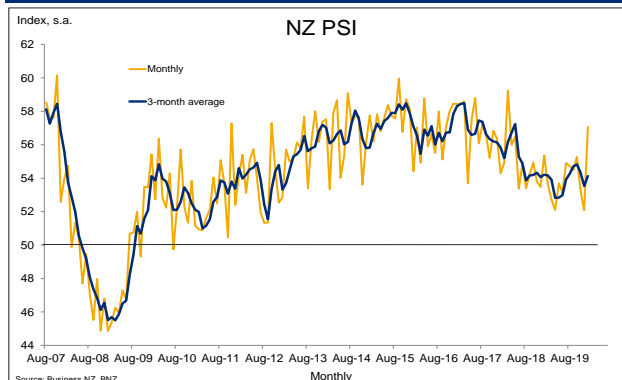
This puts the PSI firmly above its long term average of 54.4, having been wallowing a bit below it late last year. The details oozed strength too. New orders led the charge, punching up to 62.8 and its highest reading since May 2018. Sales also posted strong gains, while employment added to gains over recent months. The buoyancy in January's PSI was underlined by new orders, sales, and employment all sitting above their respective long term averages. It adds to the idea that the economy as a whole was performing relatively well before news of COVID-19 gained traction.

Near Term Caution

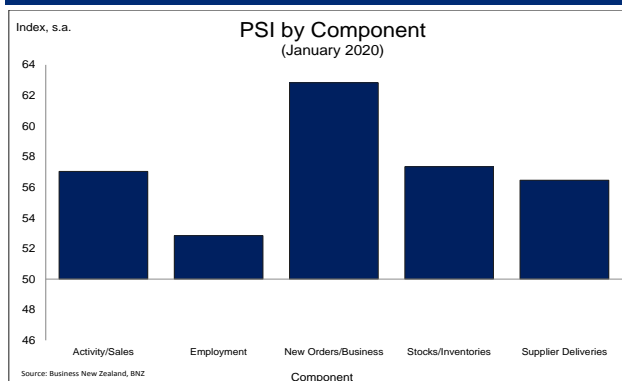
But for all the strength in January's survey, one has to remain a little cautious on what is happening underfoot. For a start, and most obviously, parts of the service sector can be expected to take a hit from COVID-19 and responses to it, at least in the short term. Tourism and export education are clearly at risk here given various travel bans already in place and possible reactions of other would-be travellers. Visitor numbers to NZ were already falling before the virus outbreak. We think this probably explains January's PSI weakness in the accommodation, cafes, and restaurants industry as much as any initial fallout from COVID-19. Further declines in visitor numbers are expected so we wouldn't be surprised to see downward pressure on various services industries including accommodation, retail, and transport. These are areas we will be watching over coming months. Another reason to be a bit cautious is our usual wariness of interpreting economic data through the holiday period. January's PSI lift was aided by December's curious looking dip which we thought, at the time, might prove temporary. The same might apply in the other direction regards the degree of January's strength. Then there is the recent adverse weather – both dry and floods to factor in. But, for now, January's glowing PSI report fits with the rather upbeat view of the economy expressed by the Reserve Bank last week. In the least, it helps offset a still soft looking PMI. Regardless, the near term outlook heavily depends on how much – and for how long – disruption occurs as a result of local weather conditions and COVID-19.

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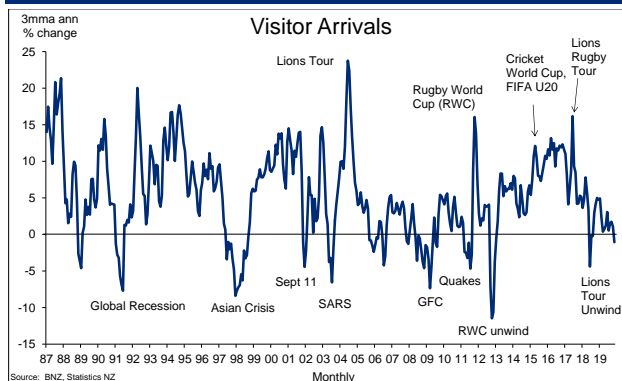
Boing



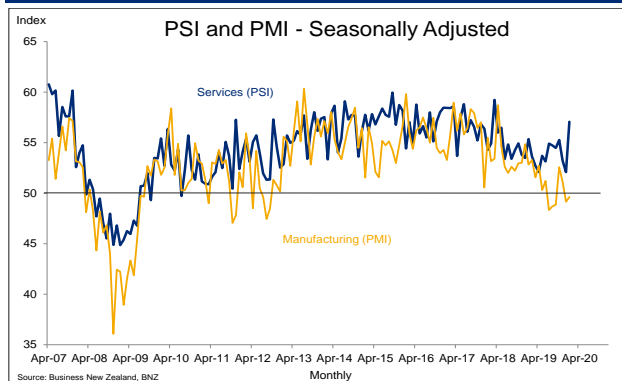
All Above Average



Under Pressure



Strong Services Offsetting Weak Manufacturing



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