Services Landscape

15 July 2019

The PSI

Could the slowdown in New Zealand's services sector growth be stabilising already? Admittedly, it's not obvious from June's Performance of Services Index (PSI). In fact, this eased to a seasonally adjusted 52.7, from the 53.5 level it wriggled up to in May. But this was a marginal dip, and driven mostly by a come-down in the inventory index (which went oversized in May). To get a better sense of the trend, we note the three-month average of the PSI was 52.7 in June, 52.7 in May and 52.7 in April. Sure, this level is below the historical norm, of 54.4, but not by all that much.

QSBO

More generally, however, it's hard to tell whether the slowdown in the services sector has largely done its dash for now. Caution was certainly the message from the NZIER's latest Quarterly Survey of Business Opinion (QSBO). In this, service sector respondents were a little down on their activity over recent months. And their near-term expectations on output have slumped to a below-normal status. This has coincided with deterioration in profit reports and expectations – to well below normal readings too. This, in turn, has reflected fairly strong cost increases, but with diminishing signs these are being passed on to end-buyers.

Investment/Capacity

In spite of patchy-looking output and profitability, services firms in the latest QSBO remained relatively positive in their hiring intent. They also held to a positive view on investment spending for the near term. This was as true for plant and machinery as it was for investment in buildings. This is a sign of capacity constraints biting, whereby firms have to invest if they want to expand. It's trickier with respect to staffing, as businesses have to battle over whatever labour is available at any point in time. And service sector firms in the QSBO would appear to be finding this a grand battle at present. The proportion of them reporting increased difficulty in finding staff remained comparatively high in June.

GDP

Signs of stability in the PSI over last few months – after trend dissipation over last twelve – have obviously been good to see. That said, the PSI still paints a picture of slow-running GDP growth for the meantime. This is reinforced by New Zealand's PMI having dipped below trend over recent months too. Combined, the PSI and PMI indicate annual GDP growth will struggle to stay above 2% this year, with something closer to 1% looking more likely. Funnily enough, this was also the sense from the latest NZIER QSBO. It might all mainly reflect resource constraints, but with investment and hiring thus keeping the ball rolling. But that's if all goes well.

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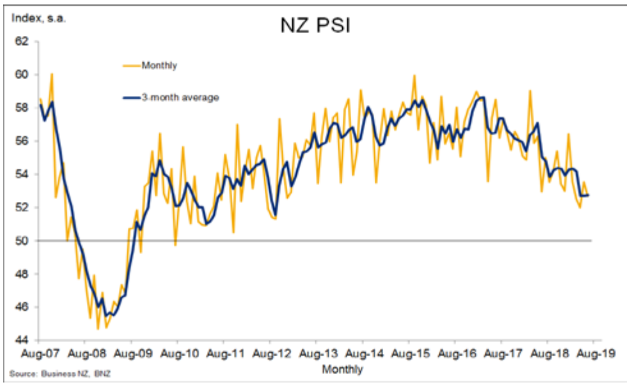
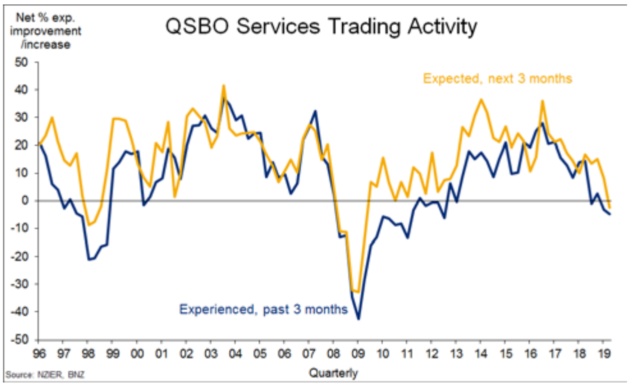
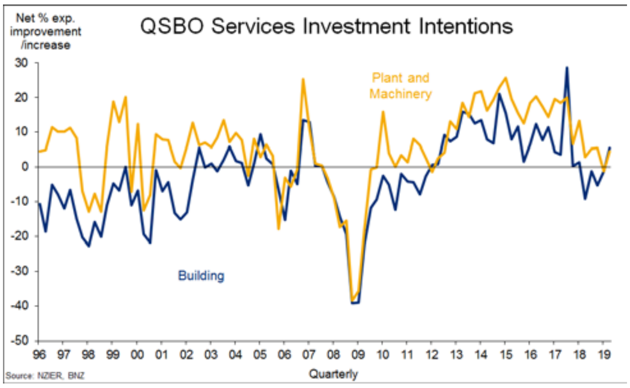
Starting to Stabilise?



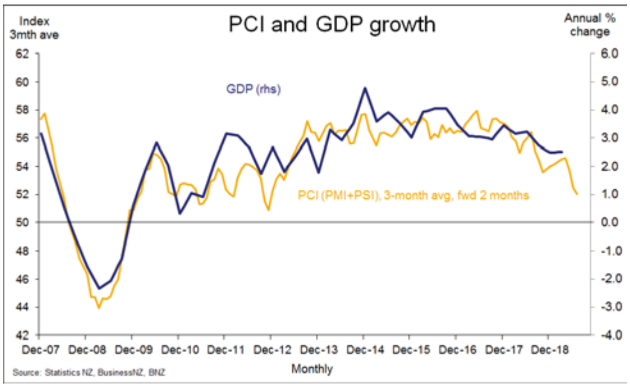
Slower



A Growth Imperative



Downside Risk, Still



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