Research

Services Landscape

17 June 2024

Ugly

There was very little to like in May's Performance of Services Index (PSI). The PSI fell to 43.0 in May from April's already weak 46.6. This extends a rapid decline from February's ok looking 52.4. The speed of decline is as worrisome as its size over the past three months. There is weak and then there is very weak. Aside from covid lockdown periods, May's PSI result is the lowest in the history of the survey that started in 2007. It is lower than the 44.9 low reached during the GFC. This tells of a services sector in reverse, at pace.

All well below average

All major PSI components fell in the month. This puts them all further and significantly below average. Activity/sales was the weakness in May on an outright basis, at 40.9. That is a massive 13.6 index points below its long-term norm, a comparison only surpassed by the new orders/business indicator that slumped to 42.6 and some 14.5 index points below normal. Demand has slumped.

Retail pain

Most industries are in retreat, with retail's PSI 33.8 the weakest of all and its lowest ever May result. As one PSI respondent put it, 'sudden drop in sales' and 'average order volume down significantly'. Another noted 'Redirection of the products customers are buying. Lower value products have higher demand'. This sentiment fits with last week's electronic card transaction data for May. The seasonally adjusted data saw the value of retail transactions drop 1.1% m/m, to be down 2.6% on a year ago. The average value of a transaction was 2.2% lower than a year earlier.

Growth negative

All the above suggests downside risk to Q2 GDP (Q1 figures are due this week). Combining the very weak PSI with last week's soft PMI yields a composite index that points to GDP falling by more than many might care to believe. Even if this week's Q1 GDP figures manage something near zero as we think on an annual basis, the PSI and PMI indicators suggest a larger negative than we already anticipate for Q2. They raise the risk of significantly weaker annual GDP growth in Q2 than that published in the RBNZ's May MPS. NZ's PSI and PMI also look weak relative to elsewhere. Indeed, both local indicators are lower than their equivalents across the major comparators we look at like in Australia, China, Europe, Japan, UK, and the US.

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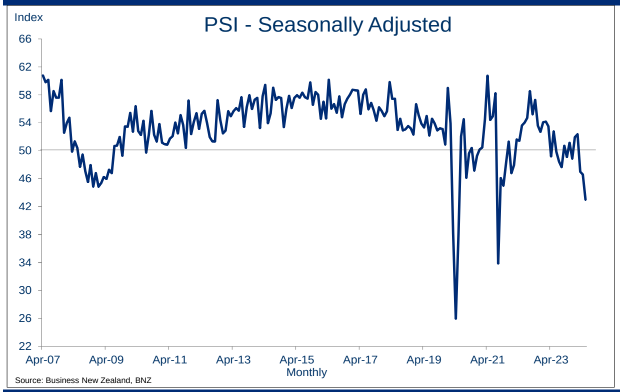
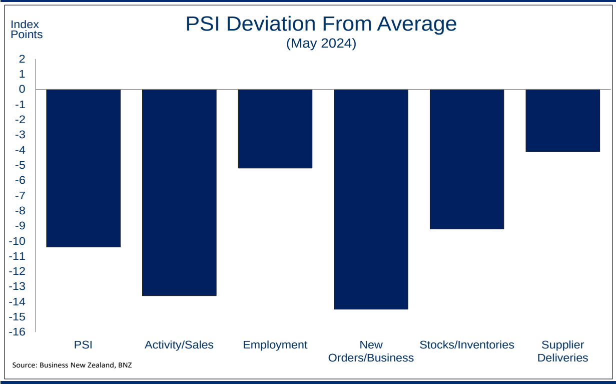
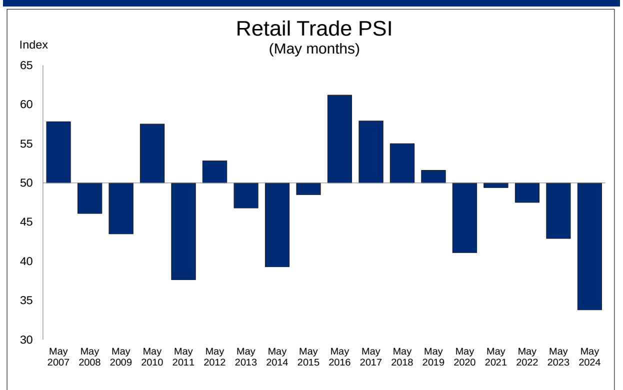
Fast and steep decline



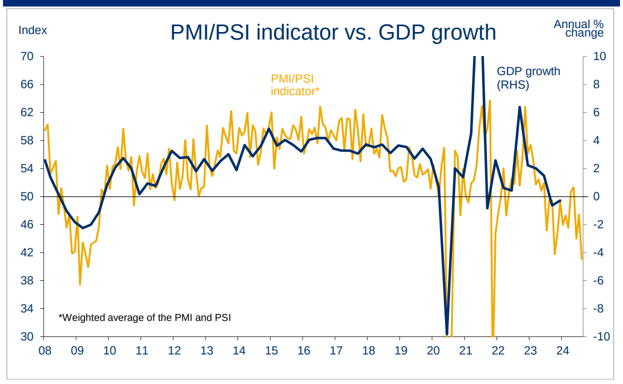
Well below normal



Worst May



Material downside risk



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