

RESEARCH 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

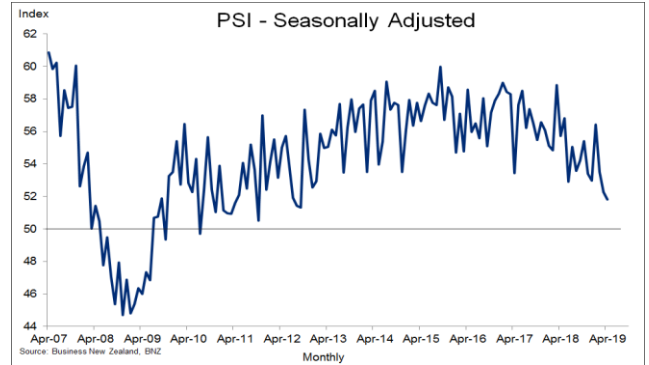
This is all the more significant as the services sector has been the backbone to New Zealand's economic growth since the 2008/09 recession. So, even with the rebound in April's Performance of Manufacturing Index, to an "almost normal" level of 53.0, GDP growth looks prone to toil on the basis of the 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

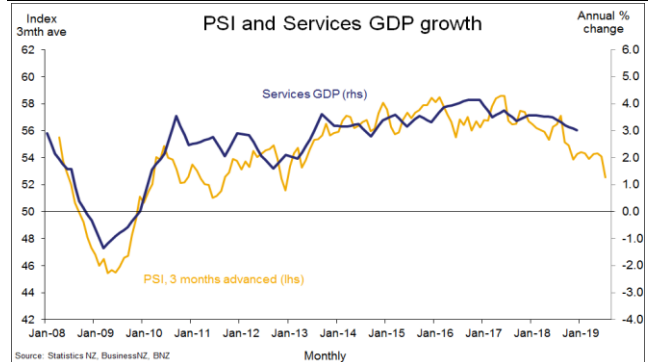
Having said this, we continue to argue that it's crucial to understand why GDP might be slowing. Is it from a softening of demand, or an exhaustion of supply potential? They have opposite implications for inflation. When we look at the details of the latest PSI we get mixed messages. It's worth noting 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.

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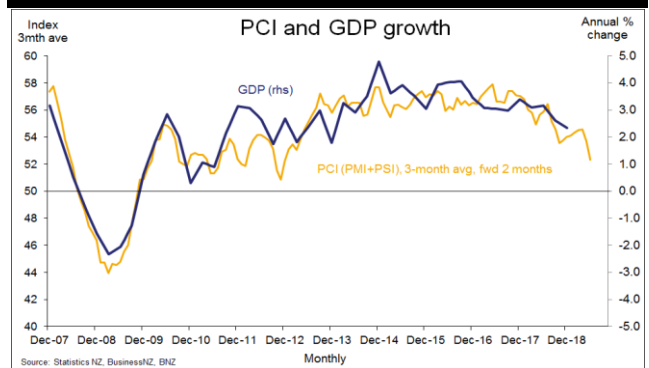
Gone Fishing?



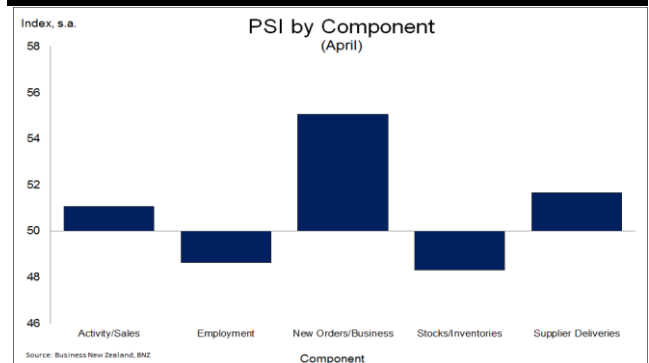
Services Flag



GDP Warning



Not Obviously A Lack of Demand



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