

RESEARCH

Services Landscape

17 May 2021



Full service

The green shoots of recovery that appeared in NZ's service sector in March blossomed into full-on growth in April. The Performance of Services Index (PSI) leapt to an all-time high of 61.2 from 52.9. To be sure, the ramp up over the past couple of months follows an extended period of subdued activity, but it is still good to see. We noted last month that April's alert level 1 status (compared to residual tighter restrictions during early March) was a good basis for a better PSI reading. The starting of the trans-Tasman travel bubble during the month will have helped at the margin too. Strength was widespread, with major components like new orders/business, activity/sales, and employment leading the charge higher.

Growth signals positive

The PSI, along with last week's above average PMI, points to a pick-up in economic growth. Even if Q1 GDP proves a bit soggy (as we think might be the case), following a clearly weak Q4, the composite PSI/PMI index for April suggests a decent bounce in Q2 is brewing. This adds to the positive signals we have seen in some other indicators for April like SEEK job ads and electronic card transactions. The latter is interesting given that the record PSI result occurred despite the retail trade and accommodation, cafes, and restaurants components remaining below average for the time of year. Across other industries, transport and storage lifted back to near average, while all others recorded above average readings for this time of year.

Employment jumps

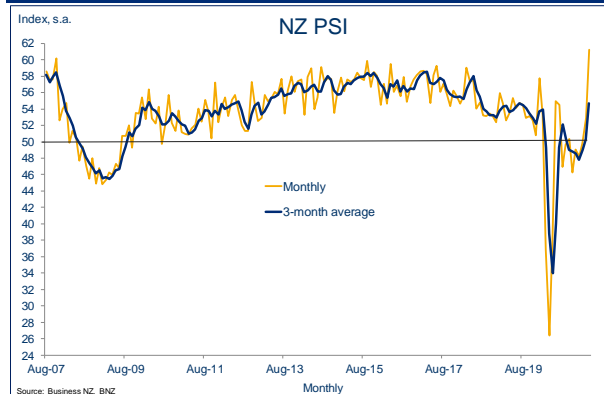
Amid the general PSI strength, the employment component stood out. Its 60.8 reading was a record – and by quite some margin with 56.2 being the previous high. This follows an above average employment reading in last week's PMI – suggesting a rapid pick up in jobs growth. Sure, it is only one month's data, but it does add to the possibility that the labour market improves potentially much faster than we currently anticipate. Importantly, the indicators imply much stronger employment than the RBNZ forecast. Such things will give the market more reason to anticipate higher interest rates over the coming year.

Supplies still troublesome

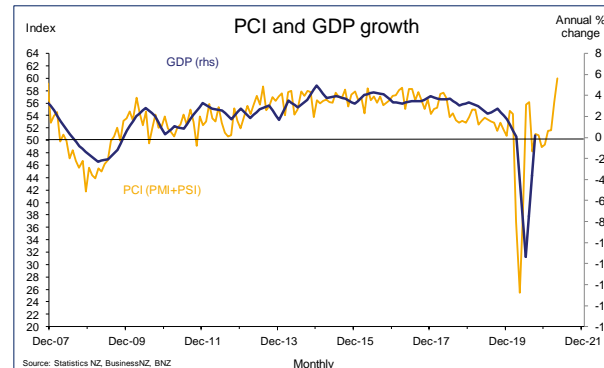
The Achilles heel of the PSI remains supplier deliveries. April's 46.8 reading is better than March's 44.2, but it is the 9th consecutive month in contractionary territory. Supply issues obviously remain a significant issue for many, especially when viewed alongside very strong demand side indicators at present. It points to significant upwards pressure on prices.

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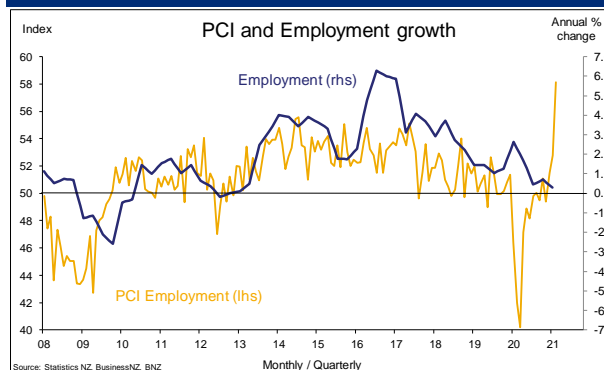
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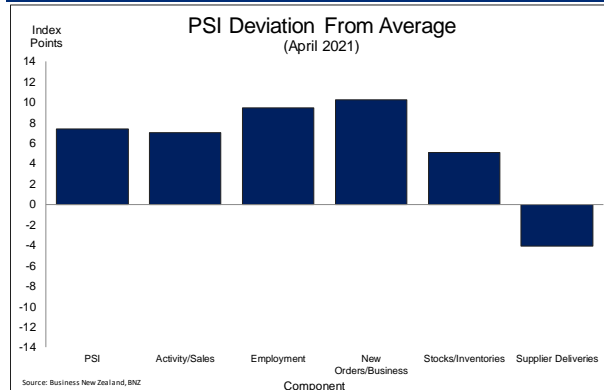
Strong Growth Signals



Huge Hire



Supply Lagging Demand



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