

RESEARCH Services Landscape

20 September 2021

The PSI

While we all understand the need to control COVID-19, it's also important to recognize how much damage lockdowns do to the economy. Encouragingly, business expectations for future activity levels have been holding up better than they did during last year's lockdowns. However, the latest immediate hit to the economy appears more comparable. Handily, the Performance of Services Index (PSI) reports on actual activity, not forecasts. So, the fact it plunged to 35.6 in August was telling. While this wasn't quite as bad as the 26.0 it plunged to in April 2020, the September 2021 result might be the better marker as the first half of August's trading would have been solid, if July's PSI result of 55.9 was any lead.

Composition

Similarities to last year's (first) lockdown were also evident in the latest PSI's component detail, in that Activity/Sales (25.8) and New Orders/Business (32.8) were hit the hardest. And, it was no surprise to see the overwhelming majority of comments denoted as "negative", with reference to COVID. Employment (49.2), however, has held up relatively better, thus far. While all regions experienced a big dip in the month it was interesting that Otago/Southland took the clearest, as its activity index slumped to just 10.0. This region's reliance on visitors from Auckland is certainly something to note and watch.

Industry features

By industry, there was a familiar pattern regarding who suffers the most from lockdowns. Accommodation, Cafes & Restaurants, for example, slumped to 21.4, which was about as bad as things got back in April 2020 (18.1). Cultural, Recreational & Personal was the weakest industry in August 2021, however, with 20.0. It wasn't all bad news, though, with Communications managing 45.0 and Finance & Insurance being the sole positive on 57.9. This alludes to the disparity between those able to keep operating, via technology, without the necessity of face to face contact. By size of firm, however, there was uniformity in the weakness for August - just like we saw for March/April 2020.

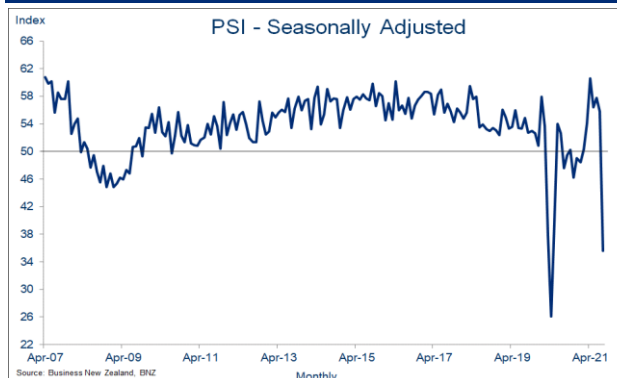
GDP inferences

While it's difficult to map the PSI (and PMI) precisely onto GDP, there is certainly a warning in August's composite PCI that the hit to Q3 2021 GDP could be closer to what we saw in Q2 of 2020 than is the consensus view. The other historical lesson from the PCI is that, while activity did bounce straight after lockdowns, it took a good 9-12 months until expansion was fundamentally strong and sustained. So, we should likewise be wary of assuming a full and immediate rebound in GDP post Q3.

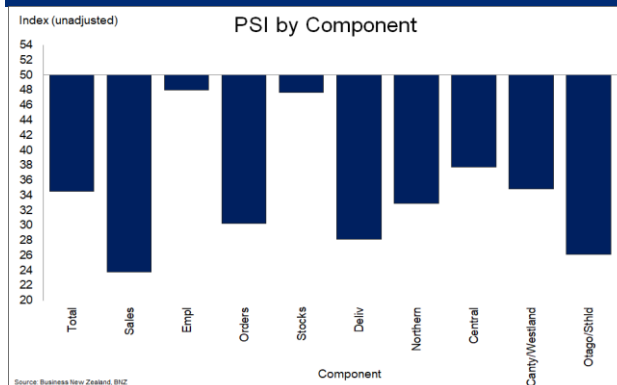
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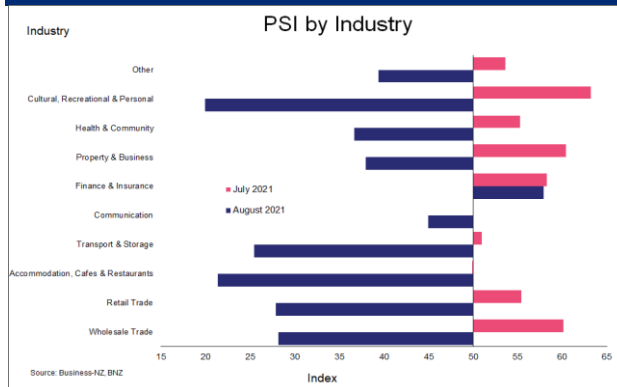
Hurting About as Hard



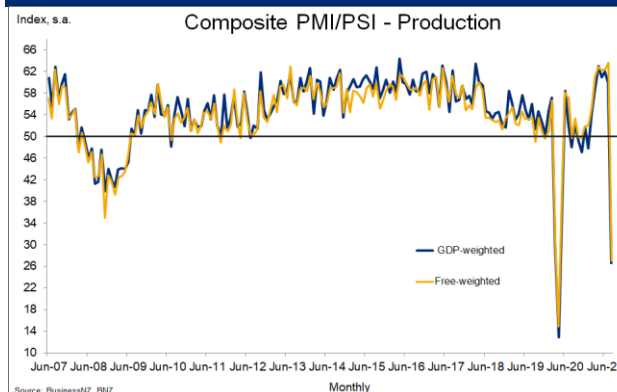
The Range of Negativity



Arresting The Usual Suspects



Brace Yourself



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