RESEARCH
Services Landscape

16 March 2020

Still Growing

At one level, February's Performance of Services Index (PSI) looks weak at 52.0. But in the context of a very strong 57.2 January result, it could be seen as being not too bad. That said, it tells you something when you get the weakest survey reading since 2012 and it comes with a sense that it could have been worse. We think it will get worse before it gets better, as the fallout from COVID-19 is felt. Be that as it may, it is important to recognise that the services sector did post some growth in February, even if it was relatively slow. Some growth shouldn't be a complete surprise given that the PSI is a survey of outcomes rather than canvassing firms' expectations. There is certainly a lot of trepidation about what might lie ahead. One respondent summed it up when stating 'Sales surprisingly good given coronavirus impact on tourism. Expecting a dismal March'.

Signs Of Weakness Appearing

While the overall PSI result might have held together better than it might have, there were clear pockets of weakness starting to appear. For example, the activity/sales, employment, and new orders components all dipped below average. Meanwhile, large firms (employing more than 100 people) and medium-large firms (employing 51 to 100 people) saw unadjusted PSI readings below the breakeven 50 mark. By region, there was contraction in Otago/Southland and in the Northern region – with both areas experiencing adverse weather conditions and perhaps the brunt of the initial drop in tourist arrivals. Overall, many firms cited coronavirus-related issues and weather (drought or floods) as negative factors. Looking across industries, there was understandable weakness in hospitality and transport given falling tourist numbers. On the flipside, there were buoyant readings for communications, property and business services, health, and retail trade. The latter was perhaps aided by households stocking up on essentials on concerns around COVID-19 as suggested by electronic card spending data for the month.

Calm Before The Storm

The still-positive, albeit not by much, PSI coincided with the good looking Performance of Manufacturing Index (PMI) in the month. Together, they give a possibility that Q1 GDP growth might yet just hang on to a positive sign. This wouldn't prevent annual growth heading towards 1%. The growth outlook has deteriorated sharply over recent months on expanding local drought conditions and rapidly escalating concern around the economic impact from COVID-19. The February PSI and PMI readings look like the calm before the storm. The upcoming readings will help give a timely assessment of activity levels.

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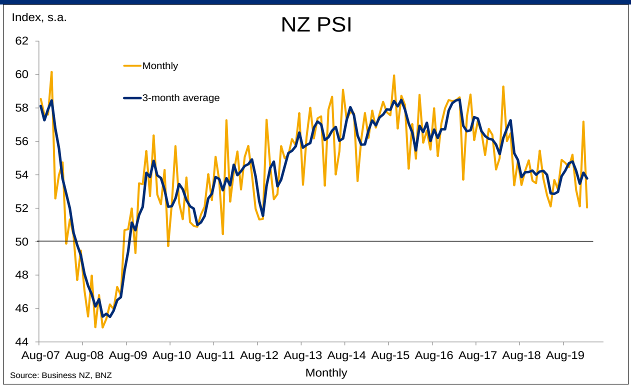
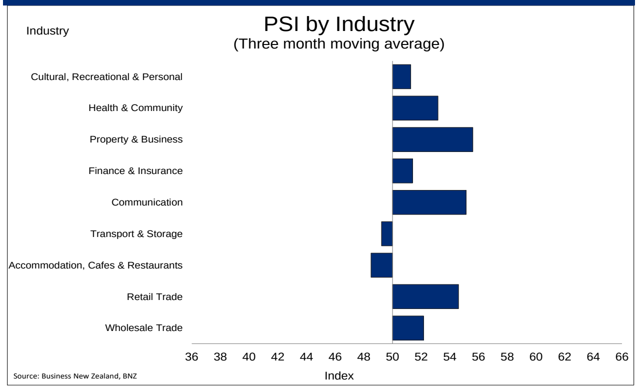
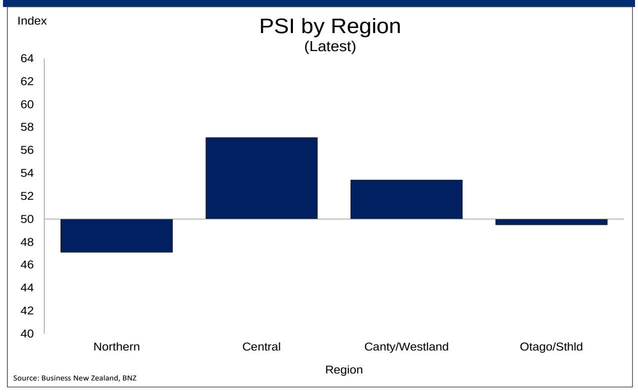
Could Have Been Worse



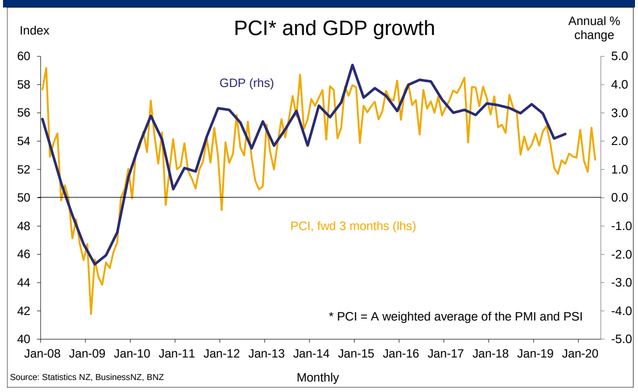
Weakness Appearing



Regionally Diverse



Growth To Slow



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