Services Landscape

15 March 2021

The PSI

New Zealand's services sector continues to struggle. This remains the abiding message from the Performance of Services Index (PSI). While it did improve in February, at 49.1 (from 48.0 in January) it was still below the breakeven mark of 50. It was the fourth month in succession that this was so. It's not as though sales/activity was contracting, although at 50.8 in February this component was only barely expanding (and was well below its long-term average of 55.1). It was a similar story with new orders/business, with its reading of 50.3 being well south of its norm of 57.7. In this there does not appear to be a beacon of light for the services sector, moving forward.

Covid Restriction Impacts?

Having said this, there is good reason to believe the PSI can bounce in March, because February was beset by the latest rash of lockdowns, on account of community cases of Covid-19 found in Auckland. There were hints of this in the fact the Northern section of the PSI registered an unadjusted level of 46.3, while the likes of Central and Canterbury/Westland were relatively robust with 51.3 and 51.8 respectively. The lockdown thesis seemed clearer in that the Accommodation, Cafes & Restaurants category of February's PSI slumped to 35.1, from 41.9 in January. Also, the Retail Trade component was on the soft side with 41.2, compared to the 62.5 level it was at in the same month last year.

In Tune with Electronic Transactions Clanger

These parts of the PSI, as it turned out, were in keeping with the weakness that occurred in February's electronic card transactions. These fell a nasty 3.2%, to be 8.1% down on year-ago levels. And the culprits were clear. For example, there was a 16% annual drop in spending at hospitality store-types, a 43% plunge in accommodation and an 86% collapse in spending with travel agents, y/y. This sets the scene for retail trade to clearly fall further in the March quarter, at least in ex-auto terms.

The Importance of Services in GDP

February's PSI has also been important in indicating the generalities to growth, not just some specifics. In dallying at 49.1 it offset the decent news we continued to see in the PMI, which, at 53.3 for February was running around normal. Simply averaging across all responses to the PSI and PMI surveys gives a composite reading of 51.6 for February. But re-weighting for the fact services comprise around 70% of the economy and the composite index yields 49.7. With this, we remain decidedly cautious on GDP growth for Q1, after what we think will be a relatively steady result for Q4.

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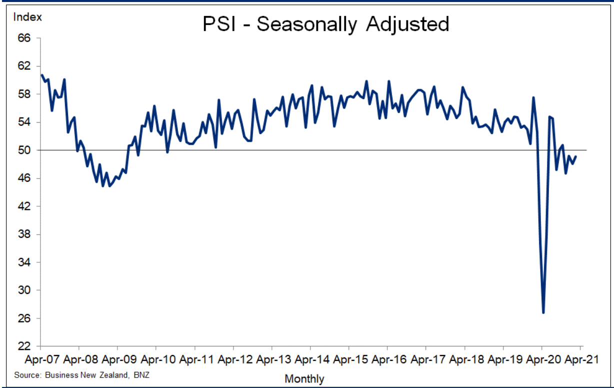
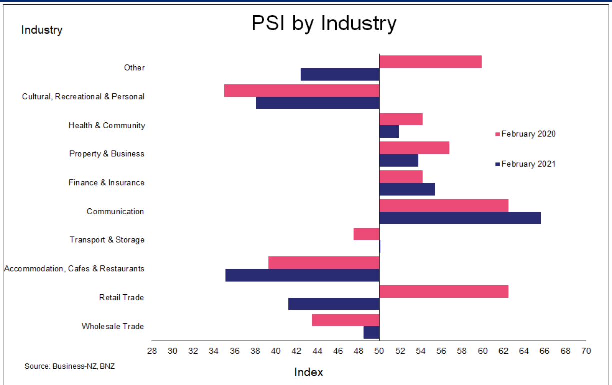
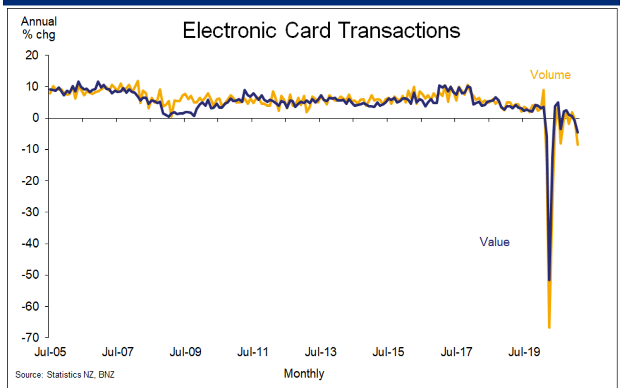
Struggling



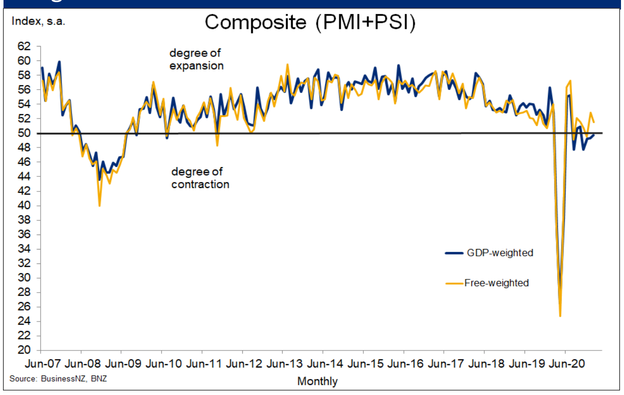
Hints of February's Covid Restrictions



Momentum Lost



Weighed Down



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