

RESEARCH Services Landscape

20 July 2020



Better Service

The Performance of Services Index (PSI) looked a lot better in June than it has recently. In numbers, 54.1 in June versus 37.5 and 25.8 in May and April respectively. Now back above 50, the PSI indicates that the service sector is growing again. This is welcome news, even if it is growth off a low base at this stage. Activity/sales and new orders, which were hit hard over recent months, have led the bounce back. The activity/sales index has ramped up to 58.7 from 32.7 in May, while new orders jumped to 59.6 from 35.2. It is positive, if only one step forward after a giant leap backwards.

Spending Up

Improving PSI activity indicators coincide with a decent lift in the value of electronic card transactions in June. Total transactions extended the bounce from April's lockdown lows with a lift of over 19% in June to push just above pre-COVID levels. As good as this looks, summing total transactions over the past four months compared to the same period a year earlier reveals a decline of 16.4%. That arguably better reflects the hole that the business sector has had to deal with over recent months. The PSI for accommodation, cafes, and restaurants shows a similar dynamic with a decent bounce this month, judging by the unadjusted results. But rather than a sign of outright strength it likely reflects as much the fact that such industries were the hardest hit during COVID restrictions as well as among the last to see these removed.

Housing Resilient

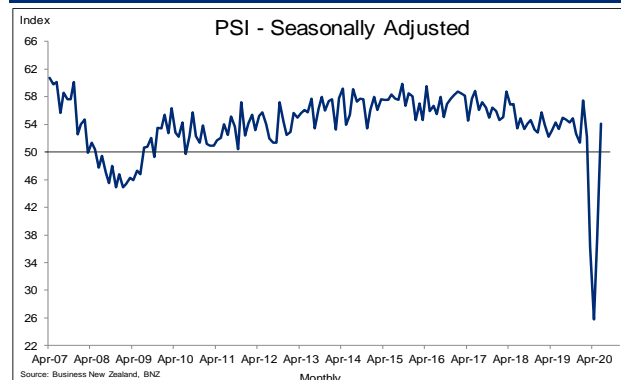
June's Real Estate Institute housing market figures confirmed a bounce back in activity. House sales were 7.1% higher than a year ago and are back near pre-COVID levels, on a seasonally adjusted basis. Prices were also buoyant with the REINZ House Price Index rising 0.9% in the month, to be up 8.6% on a year earlier. Most regions saw firm annual house price inflation. The Queenstown-Lakes district was a clear exception with prices down 7.6% on a year ago. But the general tenor of June's housing market data fits with the PSI property and business services component pushing up to 51.4 and back above the 50 mark on an unadjusted basis for the first time since February. But, like the spending figures above, there are questions on how sustainable the improvement is, especially with signs that the labour market continues to weaken.

Not All Improving

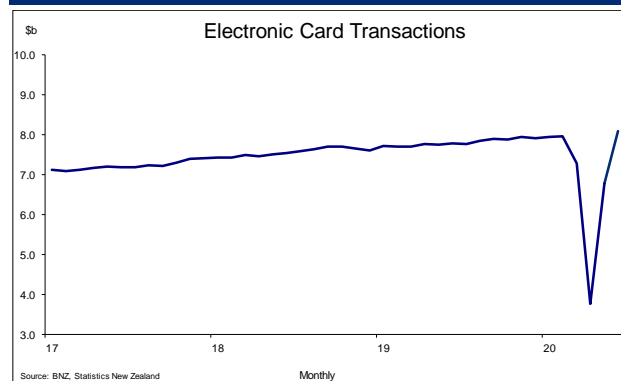
Not everything is moving forward. Among the major components, employment remains the laggard. Yes, June's 45.1 is higher than May's 40.5, but it has only returned to levels seen during the 2008/09 recession and is still sub-50 indicating service sector job losses. It was a similar story for the Performance of Manufacturing Index (PMI) released last week. Combining the two into a composite index (PCI) and averaging through the June quarter gives an index value of 42.8. This is broadly consistent with our forecast for official employment to fall by around 2%, or 56,000 people, in Q2. We fear there may be worse to come for employment as the likes of the wage subsidy scheme finishes in September.

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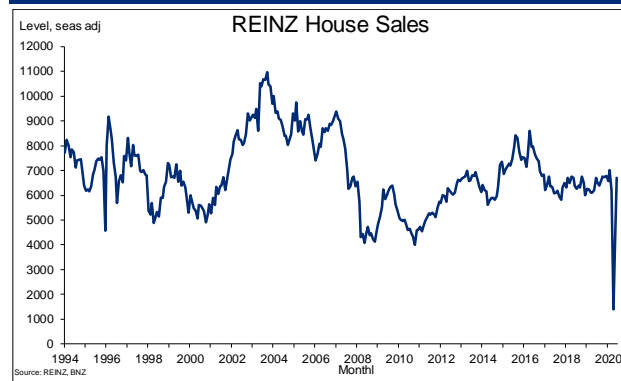
Some Growth After Big Decline



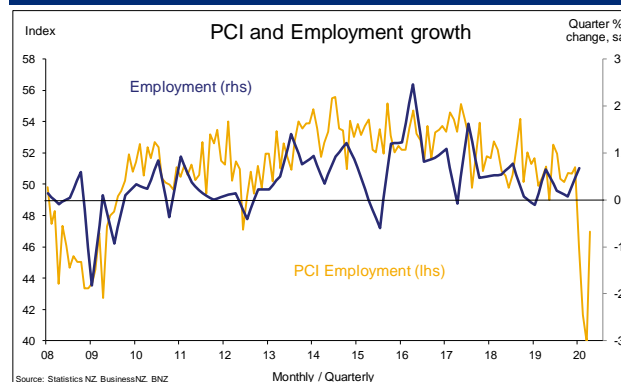
Spending Returns



Turning Over



Not So Good



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