Services Landscape

14 October 2019

Same, Same

Looking from the top down, New Zealand's service sector looked much the same in September as it did in August. That is, growing at a steady, trend-like, pace. The Performance of Services Index (PSI) was 54.4 in September. This was little different to August's 54.6 and actually smack on the long term average for the series. It all suggests service sector GDP can continue growing at its recent annual pace of around 2.5%. The solidity of the service sector remains in stark contrast to the manufacturing sector as portrayed by the still sub-standard Performance of Manufacturing Index (PMI) released last week. The PSI and PMI composite index continues to point to overall annual economic growth slowing to around the 1.5% mark. This maintains downside risk to our own forecasts of 2.0% over the coming year and even more so to the RBNZ's forecasts of 3.0%+ over the period.

But Different

While the headline PSI looks much the same as before, the details suggest it is on a firmer footing and enough to keep optimism for some growth ahead. A lift in new orders certainly stood out, with the index rising from 56.9 to 59.3 in September to be back above its long term average of 58.6. This follows some stabilisation in last week's PMI new orders index. Also offering reassurance are service sector inventories looking more normal after threatening to push excessively higher over recent months. The better looking new orders and inventory dynamics helps sooth concerns from activity having slipped from 56.1 to 54.4 in September. Service sector employment still looks healthy with the PSI Employment Index at 52.7, sitting comfortably above its long term average of 51.6. It's a lot better than a few months ago.

Tourism Slower

Looking at the PSI by industry shows the usual volatility month to month. Smoothing on a three month average basis sees nearly all industries showing healthy growth. The accommodation, cafes, and restaurants industry is the clear exception, contracting on this basis. It doesn't look like seasonal softness with the industry usually positive through this period of the year. At 44.0, it's the lowest September quarter PSI reading for the industry since 2010. The weakness follows slow international visitor arrival growth overall and unevenness across segments by age, reason for travel, and source country. The number of people coming to NZ on holiday or to visit friends and family declined in the year to July. There have been more visitors from the US and Australia but fewer from China and wider Asia. At home, a slow start to the ski season wouldn't have helped. Things looked better, although are by no means strong, in September itself, with the accommodation, cafes, and restaurants PSI lifting to 52.1. Hopefully it is more than just a one month blip.

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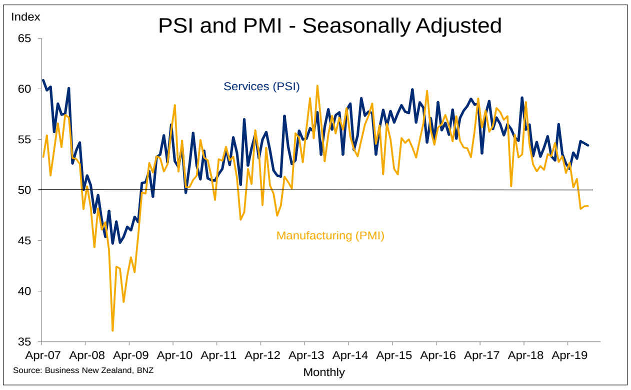
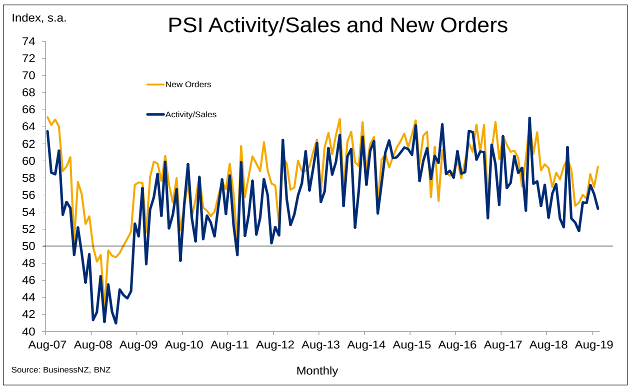
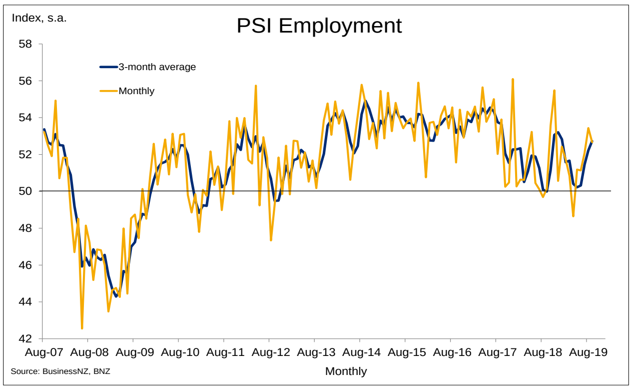
Holding Fort



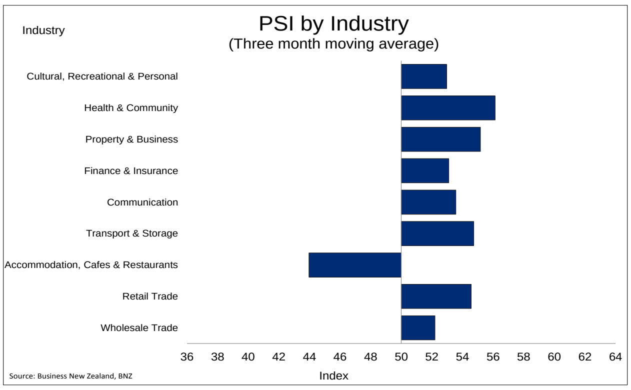
Higher Order



Hiring



The Odd One Out



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