

RESEARCH

Services Landscape

15 August 2022



PSI

The Performance of Services Index (PSI) stepped back to 51.2 in July from June's 54.7. It gives the sense that the strong bounce in service sector performance, following the move to the Orange setting on the Covid traffic light system in mid-April, might be running out of steam. It is difficult to be sure from one month's data, but July's outcome is the lowest since February, has retreated further from the recent 54.9 peak set in May, and is back below average. The new orders and activity/sales components have driven the unwind from May peaks, with the former down to a lowly 52.5 (from a buoyant 61.6 in May) and the latter down to a now-average-looking 54.4 (from a strong 59.2 in May).

Details Underwhelming

On the plus side, the PSI is still above 50 indicating some growth is occurring. However, it is at a slower pace than immediately post the move to the Orange setting. The PSI details support the idea that service sector growth slowed to below average in July, with nearly all major components sitting below their respective long-term norms. The exception being stocks/inventories, which combined with slower sales and new orders, raises the possibility that demand may have slowed faster than some expected. It could also reflect firms trying to build more inventory or run higher buffers given ongoing supply side challenges. After all, the supplier delivery index is still mired below long-term norms as it has been for two years now.

Employment

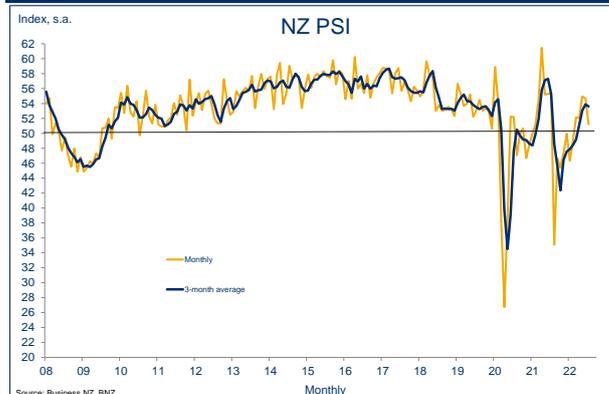
Combining the PSI results to last week's ok-looking PMI, the composite (PCI) suggests economic expansion continued into Q3 albeit at a slower pace than seems to have occurred in Q2. That fits with the general profile we see for GDP, a decent bounce in Q2 before slowing in Q3 (and beyond). For employment, combining today's softer PSI reading with last week's better-looking PMI result yields a composite employment indicator bang on the breakeven 50 mark. That raises the possibility that three consecutive quarters of essentially flat official employment extends for another quarter.

North To South

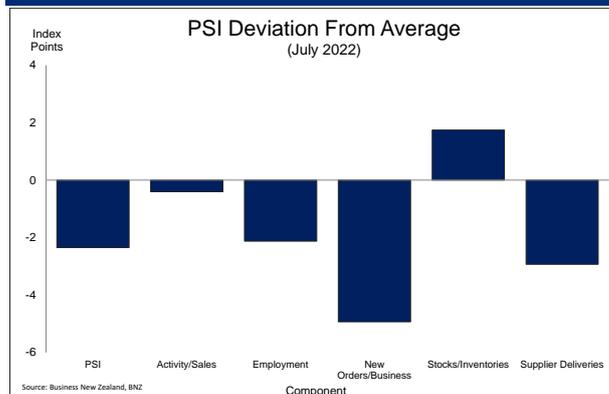
The unadjusted PSI results for July saw a stark difference across regions – much stronger in the South while weaker in the North – as has been the picture over recent months. It is always difficult to know the reasons, but relative housing market changes and/or exposure to returning tourists may well be part of the story.

doug_steel@bnz.co.nz

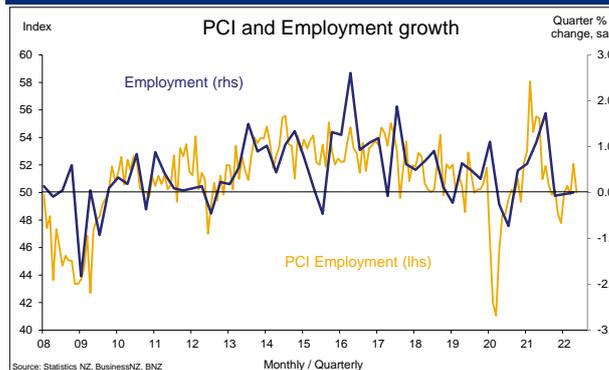
Orange Bounce Over?



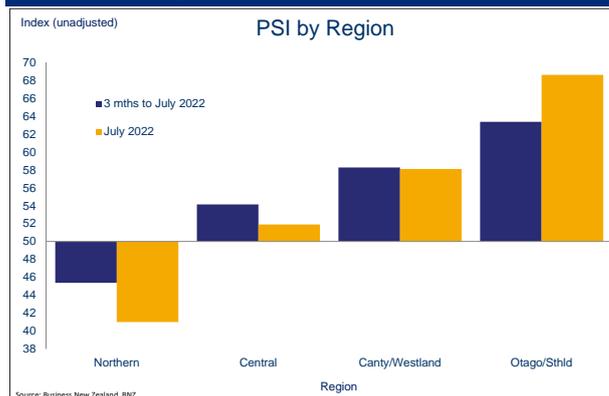
Below Average



Flat Employment



Southern Strength



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Senior Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.