RESEARCH

Services Landscape

19 September 2022

Full service

The Performance of Services Index (PSI) roared ahead in August, up to 58.6. It's a significant step up from July's 54.4 and even more so from July's initial reading of 51.2 before it was subsequently revised higher. The hint of a slowdown in July now no longer applies – reinforcing our comment last month that it is difficult to be sure of trends based on one month's data. In a similar vein, it cautions against getting too excited by the overt strength in August's result.

Signal or noise?

The PSI volatility is not out of line with many other economic indicators as normal seasonal patterns are thrown around by the likes of changing Covid settings, absenteeism, and reopening of the border. Even comparisons to last August are distorted by the outbreak of Delta back then. That is not to deny the strength this month, with the actual (as opposed to seasonally adjusted) result the highest reading for an August month since 2007. And, on a seasonally adjusted basis, the PSI's 3-month average continues to trend higher, now up to a strong 56.0. Returning tourists appear to be part of it, with the accommodation, cafes, and restaurant industry posting its third above-60 reading out of the past 4 months. And the cultural, recreational, and personal service industry continues to shine following the April move to the Covid Orange setting, with an average around 75 since then including exactly that reading in August. In contrast, retail trade struggled in August with its PSI at a very weak 33.

Demand and supply

August's PSI was driven higher by surging activity/sales and new orders/business. The 67.1 activity/sales reading is within a whisker of an all-time high. Along with the very strong 66.5 new orders index, it points to strong demand. In contrast, supplier deliveries (at 49.6) and employment (at 50.8) remain below average, although both edged up from July. Overall, combining August's strong PSI with last week's firmer PMI yields a composite index (PCI) that suggests annual GDP growth up toward 5% in Q3 2022. We currently forecast 5%+ for that period but that strength is mostly a function of the very weak base period. If the PCI is truly bouncing, the key question is for how long? It certainly raises the possibility that we are, potentially, underestimating the current pace of underlying growth. Signs of demand pushing further ahead of supply for a month is a fly in the RBNZ's ointment. The Bank requires demand to slow to get back in line with supply. If demand does not show signs of getting back into line with supply, then the RBNZ will have to hike more than we are assuming, possibly resulting in a bigger correction later.

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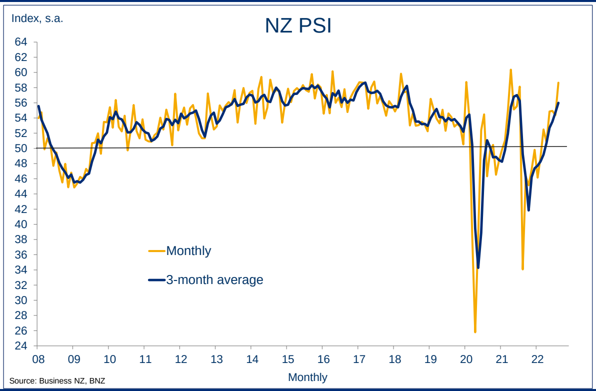
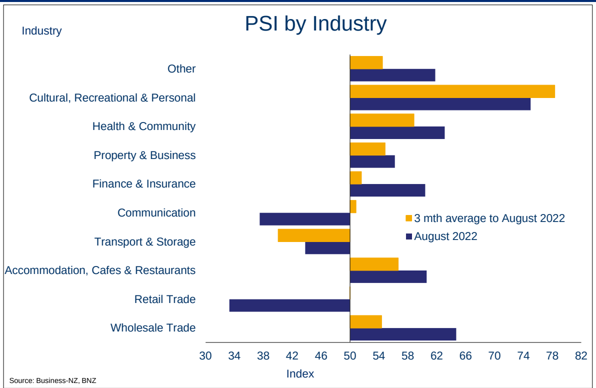
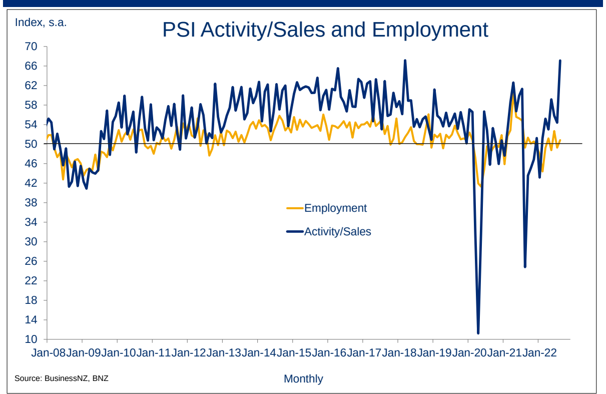
Hot



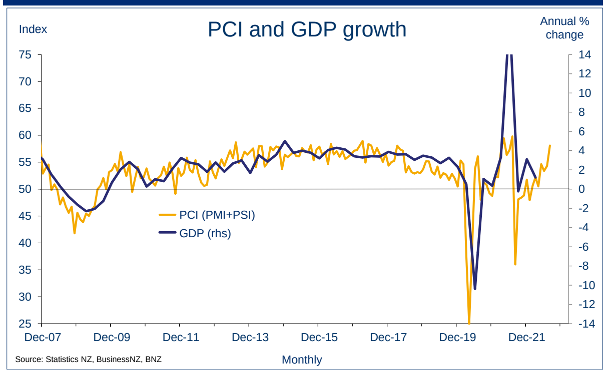
Far From Uniform



Awkward Skew



5% GDP Growth, Before Next Year's Recession?



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