

Research Services Landscape

17 March 2023

The PSI

The Performance of Services Index (PSI) held to a relatively firm pace in March. Its seasonally adjusted reading of 54.4 was a touch slower than February's 55.8 but a cut above its long-term norm of 53.6. Still, there was variation in its principal components worth noting. Running above their respective norms were Activity/Sales (56.7) and Supplier Deliveries (55.0), but also Stocks/Inventory (57.3). Employment (51.2) remained close to its average. And while New Orders, at a seasonally adjusted 53.1, seemed positive enough, they tend to average 57.5 through their cycle. So, there was a hint of caution underlying that.

Sub-group features

Variation in the industry results was more a matter of noting the degree of expansion at play now. Just Retail Trade, at 31.6, printed below the 50 breakeven level (for the fifth month running). Transport & Storage managed to break a 12-month negative streak, bouncing to 53.0. Further improvement was seen in Wholesale Trade (59.1) and Communication (75.0), helping to float the PSI's boat. Regionally, Central (which includes areas most affected by the recent storms), with an unadjusted 57.2, led the way – much like it did in the PMI. Meanwhile, the pattern of the largest firms outperforming the micro-sized returned with a vengeance in March, playing 71.1 against 48.0.

QSBO circumspection

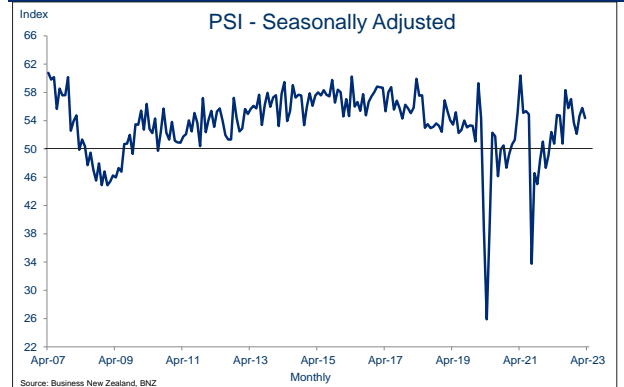
Relative to the PSI, the NZIER's Quarterly Survey of Business Opinion (QSBO) was more circumspect about the services sector. While the latter's activity reports and expectations improved a lot from the December quarter edition, each was a bit below par. The reports of, and outlook for, profits were negative, costs and prices were still experiencing high rates of inflation, investment intentions were poorly, and confidence in the general economic outlook depressed. The good news was that services firms in the QSBO conveyed a sense of getting on with things in terms of recent and planned hiring.

Implications for GDP

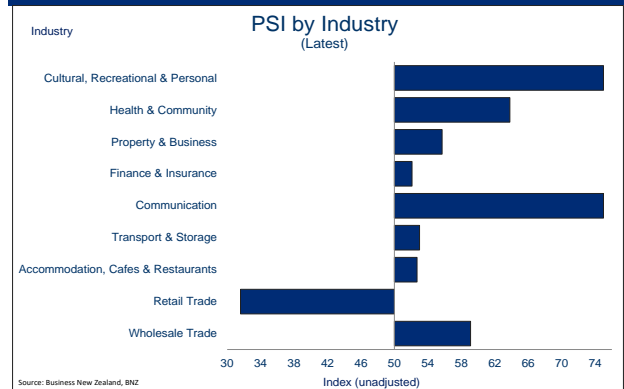
While the PSI held reasonably firm in March, the PMI slipped into a slightly negative position. Still, there was enough in them, overall, to suggest a positive underlying tendency in activity. Not so much in the free-weighted composite index, which printed at 50.3, from 53.5 in February. However, when GDP-weighting the PSI and PMI, the composite came in at 53.4, from 55.2, and averaged 54.2 across the March quarter. This, of course, is no guarantee Q1 GDP will expand – in fact, we think it's line ball. But the composite PSI/PMI aggregates do push back on the idea the economy is already in a recession proper.

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Looking Good



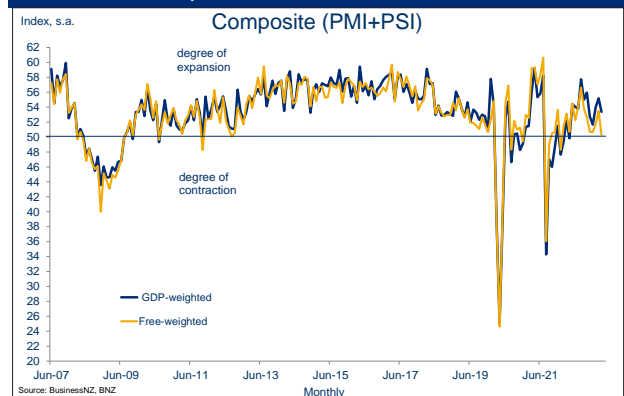
Many More to the Fore



Hard to Keep Pace



Not Recessionary



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