Research

Services Landscape

16 October 2023

Getting a grip

Having been on a slippery slope over recent months, into the red, the Performance of Services Index (PSI) managed to right its way back into positive territory in September – albeit only just. The seasonally adjusted reading of 50.7 was clearly better than August's 19-month low of 47.7. However, it was also clearly south of its long-term average of 53.5. Stabilised but hardly bouyant.

To the rescue

In terms of what drove the fight-back in September's PSI, by principal components it was new orders/business. This jumped to 53.9, from 48.5 in August. That said, it was well shy of its long-term norm, of 57.3. Employment, while relatively steady on "just" 50.6, was quite close to its historical yardstick, of 51.3. By industry, the PSI repair was driven by Cultural, Recreational & Personal (65.6, from 38.5 in August), Wholesale Trade (62.8, from 45.9) and Communication (55.0, from 44.2), while Health & Community stayed strongly expansive, at 57.9. With respect to geography, it was notable that Otago/Southland steamed well ahead of the others, with an unadjusted outturn of 63.2, from 43.9 in August. By firm size, the large category gained the edge, with a result of 56.0.

Services messages from the QSBO

More detail as to what's going on in New Zealand's services sector was provided by October's NZIER Quarterly Survey of Business Opinion (QSBO). This, like the PSI of late, painted a picture of activity struggling to expand, if not going flat to slightly negative. The QSBO also conveyed a subdued intent to invest as well as ongoing strain in profitability. The good news was that difficulty in finding labour was reportedly abating, a lot. This was even though the QSBO employment indicators for the services sector improved to better than average. And while the sector's latest price and cost inflation pointers were not quite as high as they were in 2023, they were still well north of levels consistent with the RBNZ's inflation target range.

For GDP consideration

What's implied for economic growth? Probably that it's struggling. Of course, GDP jumped a relatively strong 0.9%, in Q2, supported by government-heavy services categories. There were also weather-related influences to note. Yes, the PSI's activity/sales index did recover to 50.9 in September. However, it averaged 45.4 in the September quarter, after 49.2 in the June quarter. Add in the PMI – which, at 45.3 in September, failed miserably to shake its negative bent of the last 7 months – and it makes a lot of sense to be cautious on GDP for Q3, after the good-looking headline bounce it posted in Q2.

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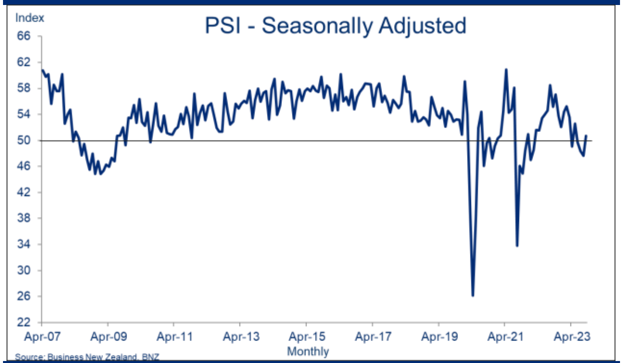
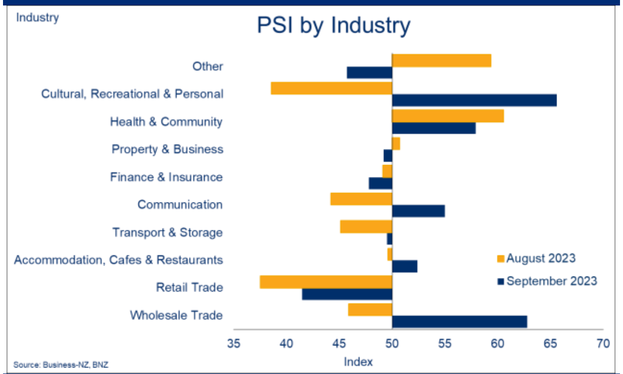
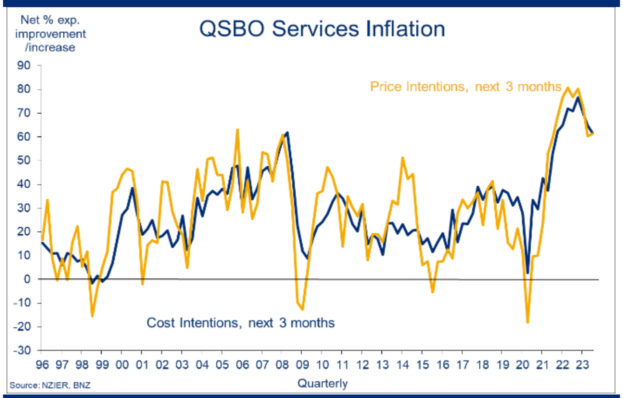
A Reach for Stability



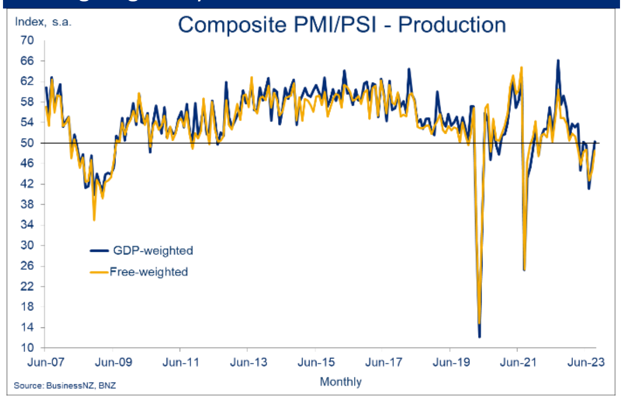
Industriousness



Inflation Pulse Peaking



Battling Negativity



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