

# RESEARCH Services Landscape

22 January 2019



## Patchy Service

Over recent years the service sector has been a pillar of economic strength. It has consistently been a source of strong positive contributions to overall economic growth. Latest GDP figures for the third quarter of last year, released just before Christmas, again showed positive service sector growth with activity up 3.3% on a year earlier. But the details in those figures were a bit patchy rather than generally strong as had previously been the case. Service sector GDP growth in the third quarter itself was 'only' 0.5%, the slowest pace since 2014 and with a lot of ups and downs in the components. The Performance of Services Index (PSI) has been signalling some slowdown in the sector since mid-last year. The official data is now just starting to show it. December's PSI reading of 53.0 is not much different to November's 53.4. It adds to the sense that growth in the service sector has been slower over the past six months. But it is also important to recognise that it appears to be stabilising at this slower pace rather than slowing further.

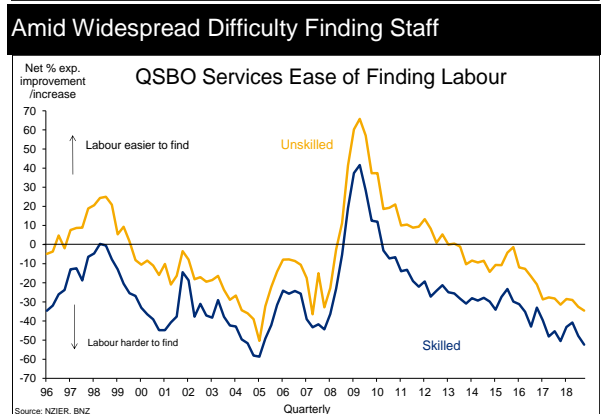
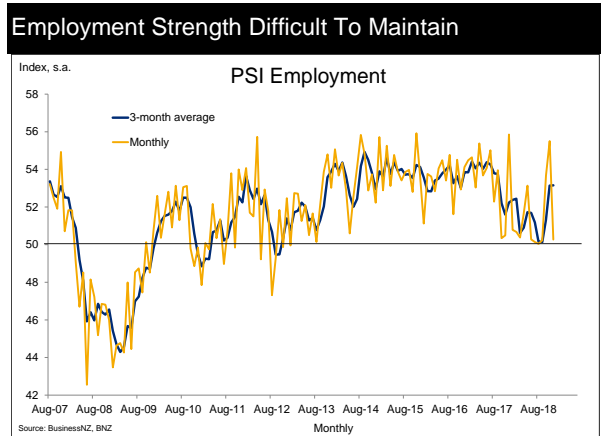
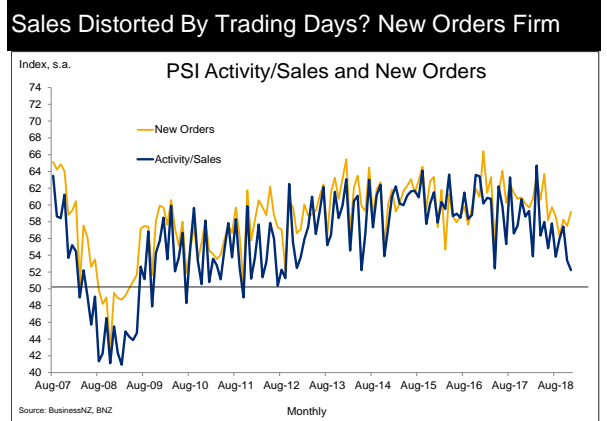
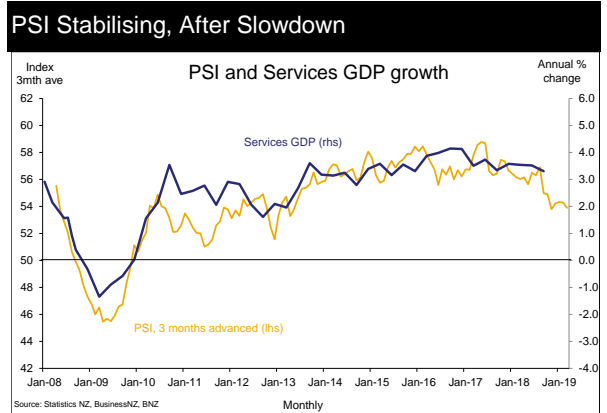
## Trading Day Distortions in December?

Indeed, December's PSI has arguably held up very well in the face of possible trading day disruptions. As well as having just 19 regular business week days, December 2018 contained a couple of 'orphan' days. These, while supposedly open for business, would have been prone to be taken as a holiday – for consumers and businesses alike. And this would have an even bigger proportionate effect on a month with relatively fewer trading days at the best of times. Perhaps this effect is what drove the retail component to post its worst unadjusted December result (42.5) since the survey started back in 2007? It certainly gels with what we have seen in Electronic Card Transactions for December, which saw a 1.9% drop in monthly values on a seasonally adjusted basis which was more than could be explained by the sharp drop in fuel prices during the month. These indicators will be important to watch over coming months to assess if the declines are just trading day distortions as we are inclined to think or indicating an underlying drop in demand. At this point, the latter is difficult to square with the PSI new orders component sitting above average at 59.2 and at its highest level since July last year.

## Finding Staff a Major Challenge

The PSI employment index cooled to just above 50 in December after a couple of strong months. It completes a positive quarter of employment growth, which is a very commendable result given the widespread difficulty firms are having finding labour, according to the latest NZIER Quarterly Survey of Business Opinion.

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