

15 March 2022



Could have been worse?

February's Performance of Services Index (PSI) was conceivably better than some might have thought, given Omicron's escalating spread through the country during the month. But, at 48.6, which was a touch higher than January's 46.0, the PSI remains weak. February marks the PSI's seventh consecutive month below the breakeven 50 mark. Pain is accumulating. While there were some overs and unders in the components, all remain below their respective long-term averages. Regionally, on an unadjusted basis, the PSI for all major areas remained sub-50, with weakness most pronounced in Otago/Southland (38.6) and Central (42.8).

Ups and downs

New orders and activity/sales did bounce back a bit above 50, but only from very weak January readings. Deliveries took another lurch lower, indicating supply side bottlenecks got worse during February. Meanwhile, employment fell further to a disconcertingly low 45.0 (its lowest reading since the pandemic hit). Perhaps this reflects absenteeism/sickness/isolating in the face of Omicron. It is difficult to be sure. Regardless, respondent comments suggests a lack of labour supply remains a critical issue for many, although there was the odd comment noting staff reductions due to waning demand.

Massive variation

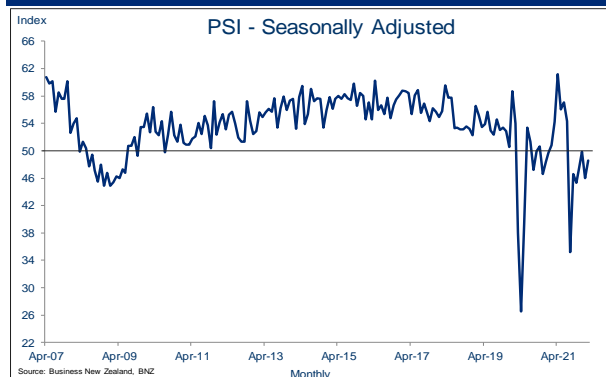
Variation across industries was extreme in February. Omicron's impact is there for all to see in the likes of accommodation, cafes, and restaurants with its lowest ever PSI recording of 11.2. Just dreadful. Cultural, recreational, and personal services was hardly any better with an unadjusted 20.8. Retail and wholesale trade were well below the 50 line – as spending plunged in the month as indicated by a large drop in electronic card transactions. Property and business services was just below the 50 mark perhaps hindered by a softening housing market. On the positive side was communications, albeit following a weak January. Likewise for transport and storage. Finance and insurance recorded another positive month. Overall, the range of results across industries was the biggest ever recorded since the survey started 15 years ago.

Growth implications

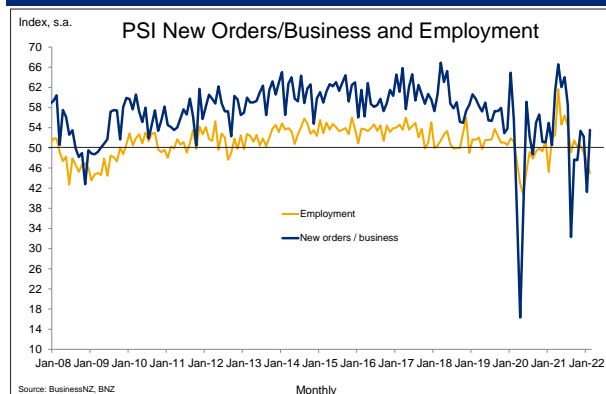
GDP in the services sector, as a whole, might well have posted a decent bounce in Q4 if recently released Stats NZ indicators are any guide. The official GDP data are out on Thursday. A Q4 bounce, if it's confirmed (as we think it will be), needs to be seen in the context of the Delta-influenced lockdowns of Q3. The PCI, which combines today's sub-par PSI with last week's good PMI, suggests a struggle to achieve any growth in Q1.

Doug_steel@bnz.co.nz

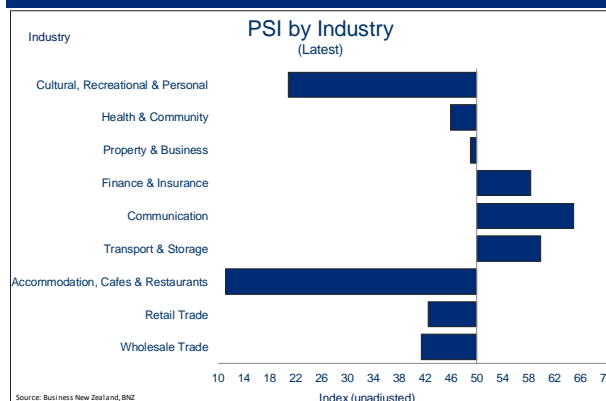
Still Weak



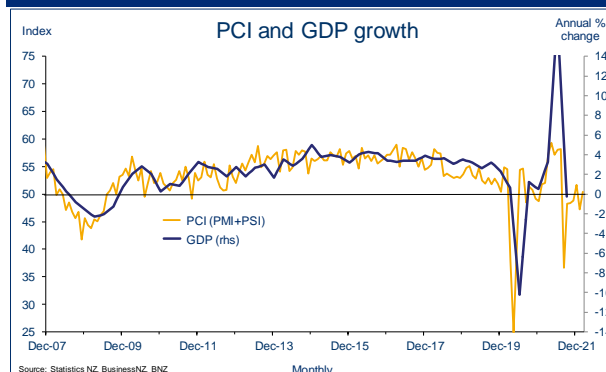
Up and Down



Record Variation



Any Growth in Q1?



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

National Australia Bank

Ivan Colhoun

Global Head of Research
+61 2 9237 1836

Alan Oster

Group Chief Economist
+61 3 8634 2927

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Markets Strategy
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

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. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB 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.