

15 April 2019



Slower Service

The Performance of Services Index (PSI) eased a touch in March, to 52.9 from 53.6 in February. Not a big move in and of itself, but it does take the index to its lowest point since 2012 and a bit further below its long term average of 54.5. The biggest move this month was in the new orders component. The slump to a below-average 54.9 might just be pay back from above average results over the previous three months, but it could prove important if the move is sustained. We have been of the opinion that supply side constraints (particularly in the labour market) have been an important reason why the overall PSI has been flying a bit lower over the best part of the past year relative to previous years. Further weakness in new orders would question this thesis.

Caveats

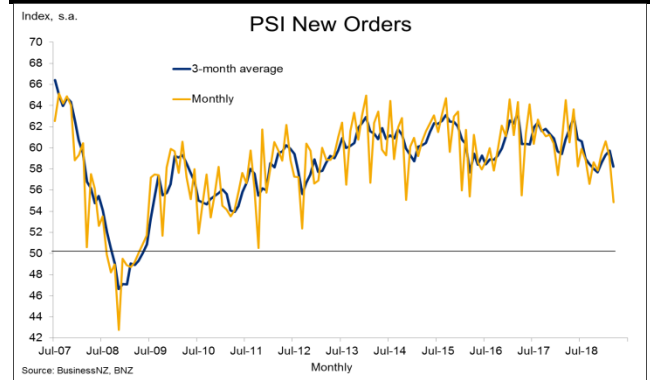
But, as always, we caution against over-reacting to one month's data especially when there are events that might generate results that are not representative of the trend. It's impossible to know how much the awful act of terror on 15 March affected the PSI. But a few respondents did mention that event as having a major influence on their business in the month. The Canterbury/Westland component looks reasonable at first glance, at an unadjusted 54.9, although this was the lowest reading for a March month since the earthquakes back in 2011. And we know, from other data, that nationwide spending fell sharply in the week of the tragedy and even more so on the day itself. That fits with a very weak PSI reading for retail trade at an unadjusted 41.3. Also, heavy rain caused disruption on the West Coast and around the southern lakes in Otago late in the month. The Otago/Southland PSI slumped to an unadjusted 40.7. And we are always a bit wary of the potential for the timing of Easter to influence seasonal patterns in March/April. It all makes the subsequent months' data all the more interesting.

Trends OK

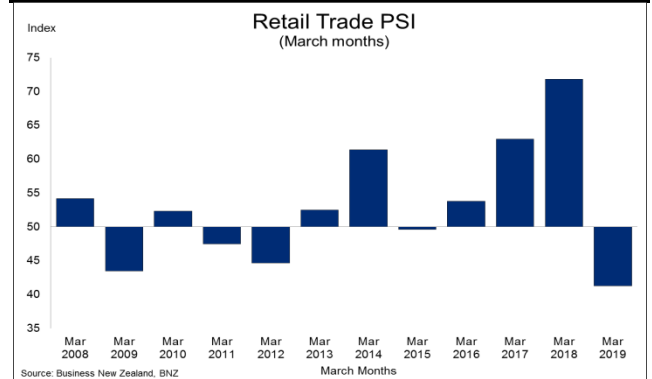
At this point, the trends remain steady with the PSI three month moving average steady at 54.3 extending a period of broad stability in this measure to eight months. But, by the same token, we should not dismiss the softer March reading out of hand as it coincides with some slower indicators for housing and tourism. Meanwhile, the latest Quarterly Survey of Business Opinion recorded softer service volumes. The combination of the PSI three month average with the PMI equivalent suggests annual economic growth will dip to around 2%; close to our own forecasts. However, if the indicators were to stay around their March levels then annual growth under 2% could be expected later in the year.

doug_steel@bnz.co.nz

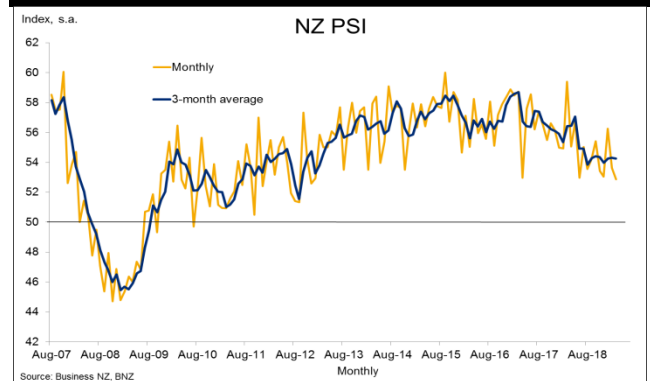
New Orders Dip Below Average



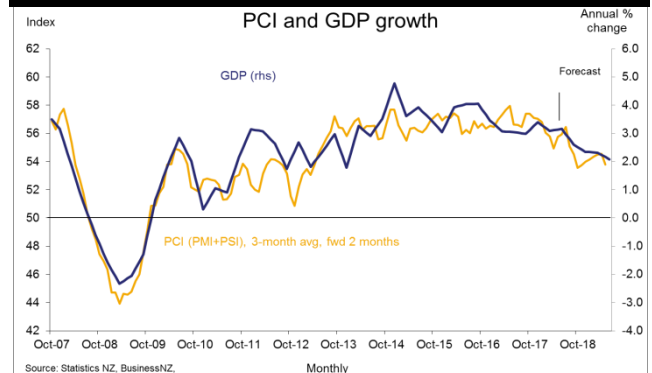
Retail



PSI Trend Steady



PCI Indicating Circa 2% GDP Growth



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

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 Fixed Income Research
+61 2 9295 1196

Wellington

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

Sydney

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

London

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

New York

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

Hong Kong

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

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: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

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.