

20 June 2022



PSI heads higher

After a somewhat disappointing April result in the context of easing COVID restrictions during that month (Red to Orange), the Performance of Services Index (PSI) made a more strident step forward in May. It rose to 55.2 from 52.2. While the improvement was far from universal across components, reflecting many ongoing challenges across segments of the service sector, the overall outcome was the first above average result since the outbreak of Delta in August last year. It is a step in the right direction.

Demand indicators firm

Demand components led the charge in May. New orders/business rose to an outright strong 62.0 from a so-so reading of 55.2 in April. Activity/sales also rose strongly to 59.6, to be well above its long-term average of 54.8. We sense that at least some of these gains reflect a degree of bounce back from Omicron's initial hit as well as increased demand associated with the reopening of the border. The accommodation, cafes, and restaurants PSI strengthened further to an unadjusted 61.9 – its highest reading for a May month since the survey started back in 2007. It is a far cry from February's lowest ever reading of 11.2.

Headway or Headfake?

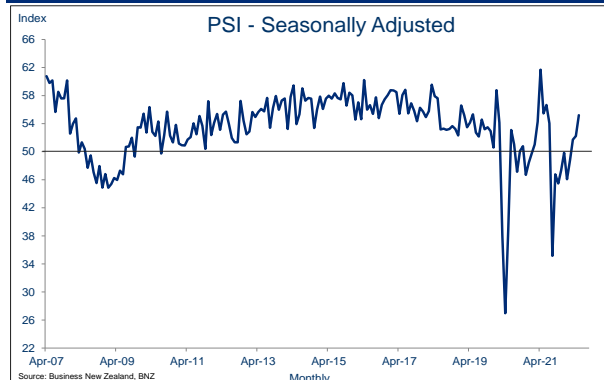
It remains to be seen how durable the bounce in the PSI turns out to be. But along with last week's solid PMI reading, a lift in the combined index (PCI) adds weight to our long-held view that GDP will bounce strongly in Q2 following its weakness in Q1. Beyond a near term bounce, we remain of the view that economic growth will struggle heading into and through next year as accumulating headwinds from such things as slower global growth, rising costs, tighter policy, and lower asset prices take their toll.

Supply issues remain, although more mixed

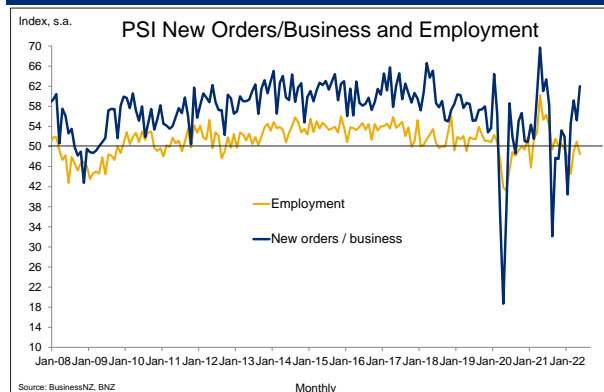
Supplier deliveries remain an issue, with this component still languishing below the 50 mark as it has done since shortly after the pandemic started. The best we can say is that May's 45.0 is less bad than April's 40.7. The PSI's stocks/inventories component was positive, with May's 54.6 following April's 55.0, suggesting the extreme squeeze on inventory levels has relaxed somewhat over recent months. Regards employment, the PSI index eased to 48.5 in May from 51.0 in April. Respondent comments suggest this still mainly reflects heightened labour turnover and a broad difficulty finding staff among service sector firms rather than a softening in labour demand. That fits with the idea of limited employment growth and a low unemployment rate persisting. The balance of demand and supply indicators suggest ongoing upward price pressure.

doug_steel@bnz.co.nz

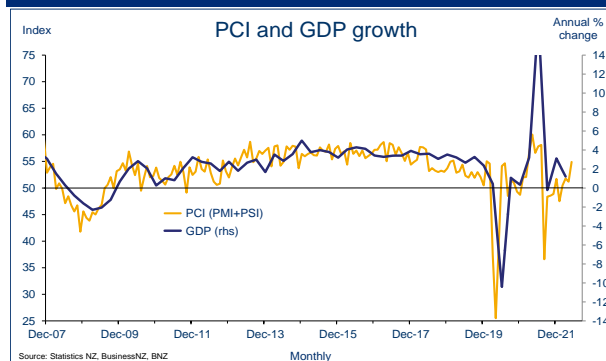
Clear Lift



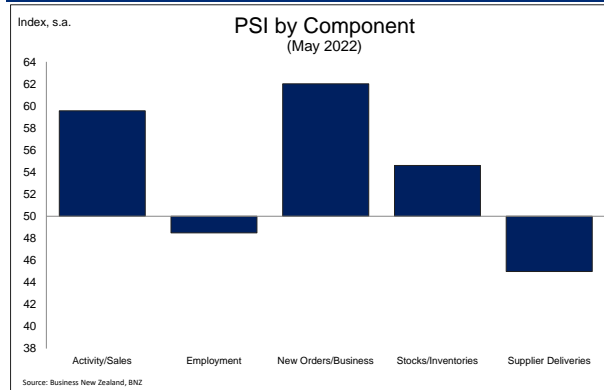
Big New Orders; Limited Staff



Q2 GDP To Rebound From Q1 Dip



Deliveries Still Problematic



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

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.

BNZ 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.