

## BNZ-BusinessNZ PSI

BNZ-BusinessNZ PSI is a monthly survey of the services sector providing an early indicator of activity levels. A PSI reading above 50 points indicates services activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

# psi

## Consistent service

### BNZ - BusinessNZ PSI for October 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for October stood at 57.8. Although this was 0.2 points lower than September, the index has remained particularly consistent over the last four months, indicating healthy activity in the sector.
- For the fifth month running, all five main sub-indices were in expansion. *Activity/sales* (61.9) led the way in October, which was its highest value since January this year. *New orders/business* (61.1) was relatively close behind, which increased marginally from September. *Supplier deliveries* (53.4) increased by 0.5 points on the previous month, while *employment* (53.0) dropped 1.8 points. *Stocks/inventories* (51.5) improved slightly after a drop in expansion levels in September.
- Activity continued to remain positive throughout the country, although there were some movements in relation to the previous month. In the North Island, the *Northern* region (59.1) recorded its highest expansion level since March this year, while the *Central* region (50.2) managed to keep its head above water after a drop in expansion levels. In the South Island, the *Canterbury/Westland* region (58.2) was all but unchanged from the previous month, while the *Otago/Southland* region (68.8) increased a further 2.8 points.
- Service sector results by sub-sector were mostly in expansion during October. *Wholesale trade* (66.6) continued to build on previous gains, while *property & business services* (54.0) also saw uplift from the previous month. *Health & community services* (49.1) fell into slight decline, while *retail trade* (46.0) experienced another soft patch after improving in September.
- The proportion of positive comments from respondents in October (69.5%) increased significantly on September (56.0%), and also up from August (62.0%), and July (65.8%). Internationally, the JPMorgan Global Services PSI for October (53.7) was down on September, with activity at its slowest pace since April.

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#### HIGHLIGHTS - PSI

- **Service sector expansion steady and healthy for October.**
- **New orders/business and activity/sales remain strong.**
- **Regional activity continues to remain positive across the country.**

#### HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity show similar expansion levels in October.**
- **Global PCI at a six-month low.**

**Next BNZ - BusinessNZ PSI/PCI: 15 December 2014**

#### SPONSOR STATEMENT

BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand services sector.

BNZ ([www.research.bnz.co.nz](http://www.research.bnz.co.nz))

### *Inside BNZ Commentary this Month (page 4)*

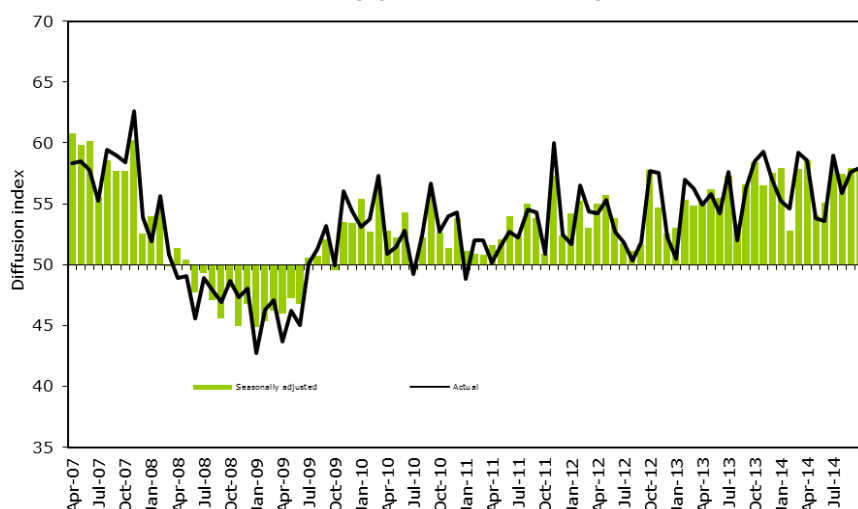
53 percent of job construction is occurring outside Christchurch, indicating further solid job expansion through New Zealand. We forecast annual employment growth to remain above 3 percent right through into 2016.

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**BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Oct 2014)**



### October PSI time series tables

National Indexes	Oct 2009	Oct 2010	Oct 2011	Oct 2012	Oct 2013	Oct 2014
BNZ - BusinessNZ PSI (s.a.)	49.5	52.7	50.9	57.8	58.4	57.8
Activity/Sales (s.a.)	48.3	53.4	49.0	62.2	61.2	61.9
Employment (s.a.)	50.2	49.9	50.0	52.1	54.1	53.0
New Orders/Business (s.a.)	51.3	53.0	50.2	60.1	62.6	61.1
Stocks/Inventories (s.a.)	44.3	50.4	50.7	50.6	55.1	51.5
Supplier Deliveries (s.a.)	46.9	50.8	50.9	55.8	52.3	53.4

Regional Indexes	Oct 2009	Oct 2010	Oct 2011	Oct 2012	Oct 2013	Oct 2014
BNZ - BusinessNZ PSI (s.a.)	49.5	52.7	50.9	57.8	58.4	57.8
Northern	48.9	55.3	48.6	60.7	60.8	59.1
Central	51.6	51.5	54.5	48.8	52.6	50.2
Canterbury/Westland	54.5	45.0	64.2	56.0	54.9	58.2
Otago/Southland	47.5	45.5	43.7	55.6	46.8	68.8

(s.a. denotes seasonally adjusted)

### PARTICIPANTS

BusinessNZ gratefully acknowledges the participation of the following associations in contributing to the PSI:

Employers & Manufacturers Association (Northern)

Business Central

Canterbury Employers' Chamber of Commerce

Otago Southland Employers Association

Hospitality New Zealand

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## Even Stevens

### BNZ - BusinessNZ Performance of Composite Index (PCI) for October 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for October saw the two options for measuring the PCI record an almost identical result.
- The GDP-Weighted Index decreased 0.4 points from September to stand at 57.8, while the Free-Weighted Index (57.9) decreased 0.8 points from September, which meant both indices were closer to their values recorded in August.
- The JPMorgan Global Combined Index for October (53.6) was at a six-month low, reflecting weaker rates of increase in new business and a slowing of international trade flows.

#### About the Performance of Composite Index

The BNZ - BusinessNZ Performance of Composite Index (PCI) takes into account results from both the Performance of Manufacturing Index (PMI) and the Performance of Services Index (PSI).

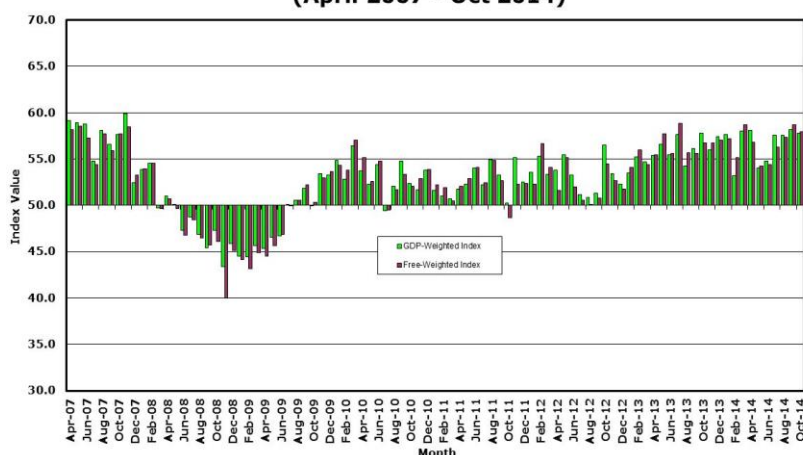
Combined results are shown in two ways:

**GDP-Weighted Index:** Apportions the weight of the manufacturing and services index within the economy to produce an overall result.

**Free-Weighted Index:** Combines data from both indexes to produce an overall result.

Both time series for the PCI are then seasonally adjusted.

**BNZ - BusinessNZ PCI Seasonally Adjusted Time Series (April 2007 - Oct 2014)**



### Performance of Composite Index October time series table

Combined National Indexes	Oct 2009	Oct 2010	Oct 2011	Oct 2012	Oct 2013	Oct 2014
GDP-Weighted Index (s.a.)	49.8	52.2	49.9	56.1	57.3	57.8
Free-Weighted Index (s.a.)	50.2	51.9	48.4	54.1	56.4	57.9

17 November 2014

## Employment Booming

Much of New Zealand's bumper employment growth of late has been concentrated in the construction sector, it is true. However, 53% of the job creation has not been, and a similar proportion is occurring outside of Christchurch (according to the Q3 Household Labour Force Survey). It is our view that there is further solid job expansion ahead of us. We forecast annual employment growth to remain above 3.0% right through into 2016, and that this is likely to be less dominated by the construction industry over time. This will be highly supportive of continued economic momentum, reflected in a relatively low unemployment rate. Wage inflation will emerge, with its usual lag.

## Credit Growth

While housing-related credit slowed a touch more in September, to 4.7% y/y, consumer credit picked up, to 6.7% y/y (the strongest since January 2006). Overall, household credit expanded a seasonally adjusted 0.3% in September, as it did in August, and July. Business credit was also looking progressive, with its annual increase clocking in at 4.2%. Agriculture credit managed a further squeak higher in the month, to be 2.9% up on September of last year. In the mortgage composition data there was confirmed an ongoing shift to fixed-rate mortgages (albeit to the not-so-long terms). 28.3% of the mortgage book was floating in September 2014, which compares to the cyclical peak of 63.1% back in April 2012.

## RBNZ FSR

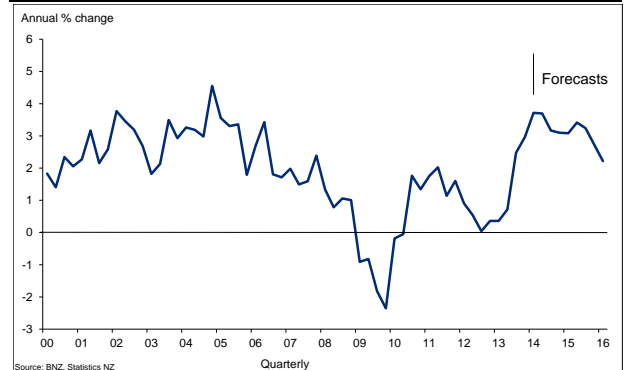
Despite chatter that the Reserve Bank was about to lift its residential loan-to-value ratio (LVR) restrictions it signalled they would stay in place for the foreseeable future. While noting, in its FSR, the recent moderation in the housing market the Bank is not yet sure if it's sustainable. It no doubt fears that recent falls in fixed-term mortgage rates and suggestions of a resurgent housing market (post September's election) may yet foretell a pick-up in inflation in the sector. Meanwhile, the RBNZ has become more concerned about the downturn in the dairy sector and its impact on banking sector stability, while also drawing attention to conditions in the now-simmering commercial property market.

## Inflation

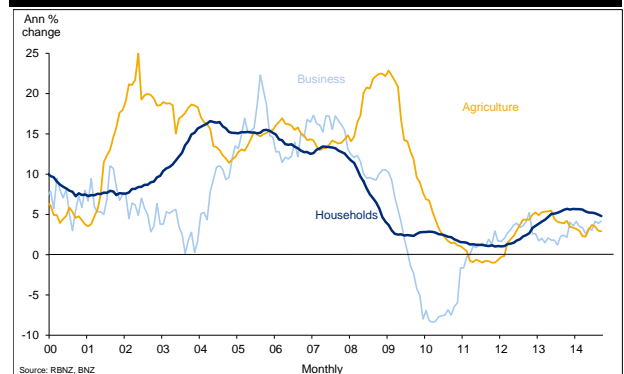
The September quarter CPI increased just 0.3%, dragging annual inflation down to 1.0% – the bottom of the Reserve Bank's 1.0 to 3.0% target band. With this slower-than-expected starting point, annual inflation is likely to be around 1.0% in the December quarter too. We forecast annual CPI inflation of 1.9% over calendar 2015 and 2.5% over the course of 2016. It's a slower rise than we had previously anticipated, but a rise nonetheless. We suspect the RBNZ is thinking the same way on inflation...and the Official Cash Rate. Still, much depends on NZD falling.

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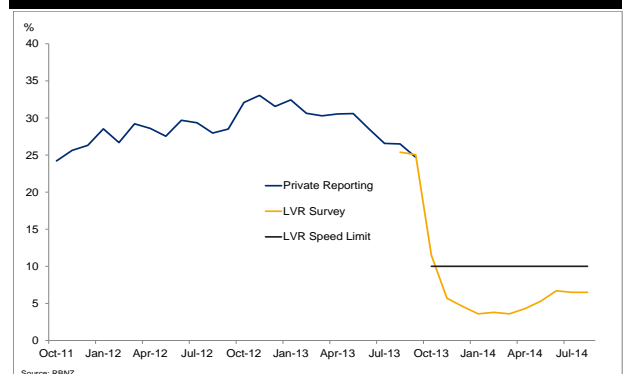
## Jobs Growth To Barrel On, And Diversify



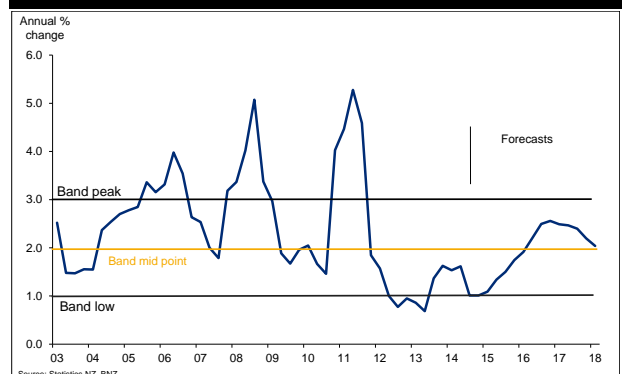
## Credit Growth Still Ticking Forth



## RBNZ FSR Leaves LVR Restrictions in Place



## No Inflation...In The Headline CPI At Least



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