

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

Jubilant July

BNZ - BusinessNZ PSI for July 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for July stood at 58.1. This was up 3 points from June, and the highest level of activity since October 2012. Compared with previous July results, the 2013 value was the highest recorded since the survey began in 2007.
- All five main sub-indices were again in expansion during July for the third consecutive month. *New orders/business* (63.1) again led the way, increasing 3.2 points from June to its highest level since November 2007. *Activity/sales* (61.8) also produced a post-60 result, rising 4.2 points from June. *Supplier deliveries* (57.3) recorded its highest value since May 2007, while *stocks/inventories* (54.9) rose 1 point from the previous month. *Employment* (52.2) recovered 2.1 points after a fall in expansion during June.
- Activity was again positive throughout the country in July. The overall strong national result was led by the *Northern* region (62.6), which recorded its highest level of activity since November 2007. The *Central* region (50.5) fell back slightly compared with June, but remained in slight expansion. In the South Island, the *Canterbury/Westland* region (48.8) fell back into slight contraction, while the *Otago/Southland* region (52.3) managed to show some expansion, despite a dip from June.
- Service sector results by sub-sector were again mostly positive during July. *Property & business services* (51.3) fell back from June, but remained in slight expansion. The *wholesale sector* (70.4) displayed a significant upwards swing in activity for July, while the *retail* (57.2) *trade sector* also improved. Of the other sub-sectors, *health & community services* (62.9) also showed a noticeable upwards swing.

Inside BNZ Commentary this Month (page 4)

In this edition Craig Ebert, Senior Economist at BNZ, talks about how New Zealand's latest Performance of Services Index is keeping pace with that of soaring Manufacturing. Combined they signal the recovery is now accelerating, to a potentially rapid pace. Buckle up.

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HIGHLIGHTS - PSI

- ***Service sector activity continues its upwards momentum for 2013.***
- ***All five major sub-indices were again in expansion, led by new orders/business.***
- ***Regional activity positive across most of the country, led by the Northern region.***

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- ***Options for measuring PCI activity both showed a stronger rate of expansion.***
- ***Global PCI for July increases to 16 month high.***

Next BNZ - BusinessNZ PSI/PCI: 16 September 2013

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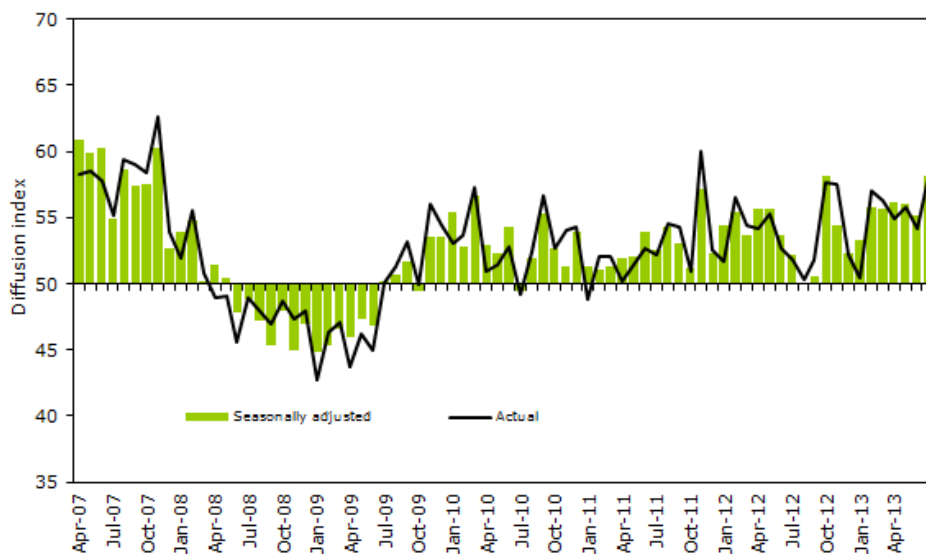
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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)

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BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - July 2013)



July PSI time series tables

| National Indexes | July 2008 | July 2009 | July 2010 | July 2011 | July 2012 | July 2013 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| BNZ - BusinessNZ PSI (s.a.) | 48.8 | 50.2 | 49.4 | 52.5 | 52.2 | 58.1 |
| Activity/Sales (s.a.) | 48.6 | 52.3 | 48.3 | 54.0 | 50.1 | 61.8 |
| Employment (s.a.) | 47.9 | 48.5 | 51.4 | 49.2 | 52.2 | 52.2 |
| New Orders/Business (s.a.) | 53.0 | 56.8 | 51.6 | 56.8 | 57.7 | 63.1 |
| Stocks/Inventories (s.a.) | 49.0 | 44.0 | 50.7 | 51.7 | 50.8 | 54.9 |
| Supplier Deliveries (s.a.) | 50.1 | 47.9 | 47.4 | 51.9 | 49.3 | 57.3 |

| Regional Indexes | July 2008 | July 2009 | July 2010 | July 2011 | July 2012 | July 2013 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| BNZ - BusinessNZ PSI (s.a.) | 48.8 | 50.2 | 49.4 | 52.5 | 52.2 | 58.1 |
| Northern | 48.2 | 51.2 | 50.9 | 53.5 | 50.7 | 62.6 |
| Central | 54.9 | 45.8 | 43.3 | 54.1 | 55.5 | 50.5 |
| Canterbury/Westland | 51.1 | 53.1 | 46.2 | 45.4 | 53.4 | 48.8 |
| Otago/Southland | 40.4 | 43.7 | 46.0 | 46.0 | 48.3 | 52.3 |

(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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On track

BNZ - BusinessNZ Performance of Composite Index (PCI) for July 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for July saw both options for measuring the PCI improve significantly.
- The GDP-Weighted Index (58.3) increased 3.1 points from June, while the Free-Weighted Index (59.1) rose 3.7 points over the same period. The strong lift in both was due to both the manufacturing and service sectors showing improved activity.
- The JPMorgan Global Combined Index for July (54.1) was up from 51.2 in June, and the highest result in 16 months. Market conditions showed further signs of improvement, with the recoveries in manufacturing and services both gaining traction.

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).

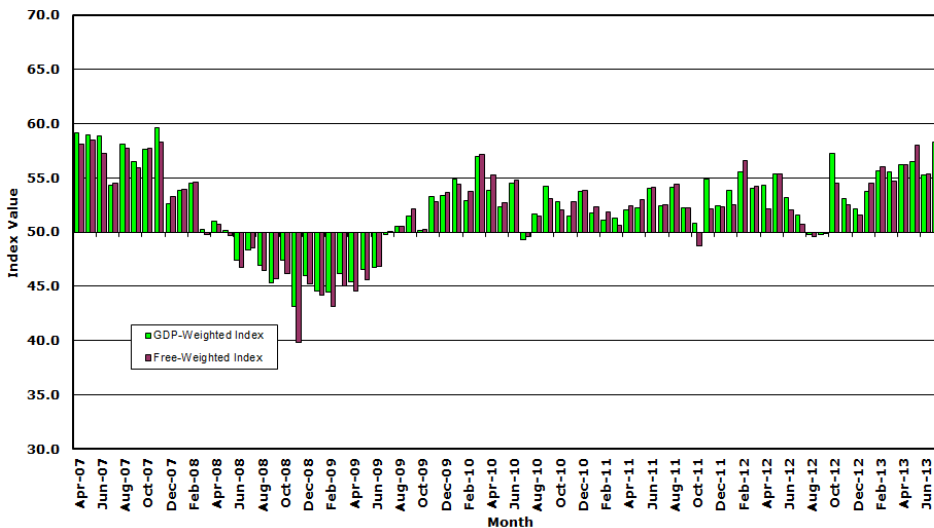
Combined results are shown in two ways:

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 - July 2013)



Performance of Composite Index July time series table

| Combined National Indexes | July 2008 | July 2009 | July 2010 | July 2011 | July 2012 | July 2013 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| GDP-Weighted Index (s.a.) | 48.3 | 49.8 | 49.3 | 52.4 | 51.6 | 58.3 |
| Free-Weighted Index (s.a.) | 48.5 | 50.0 | 49.6 | 52.5 | 50.7 | 59.1 |

19 August 2013

Buckle Up

- PSI powers up to 58.2 in July
- Northerners, not Cantabrians, the big driver
- PSI adds to PMI message of acceleration
- 5% GDP growth anyone?

Fasten your seatbelts. Not because of another bout of turbulence. But because of the acceleration the economy looks to be firmly embarking upon. Such is the strength of today's Performance of Services Index (PSI). At a seasonally adjusted 58.1 for July it kept good pace with last week's Performance of Manufacturing Index (PMI), of 59.5. Combined they point to GDP growth quickening to quite a strong pace.

Of course, the PSI and PMI measures are not alone in signaling this. But where they arguably possess an edge is that they are designed to give a more immediate steer on economic growth than many of the other business surveys around town, which tend to look ahead many months in expectation.

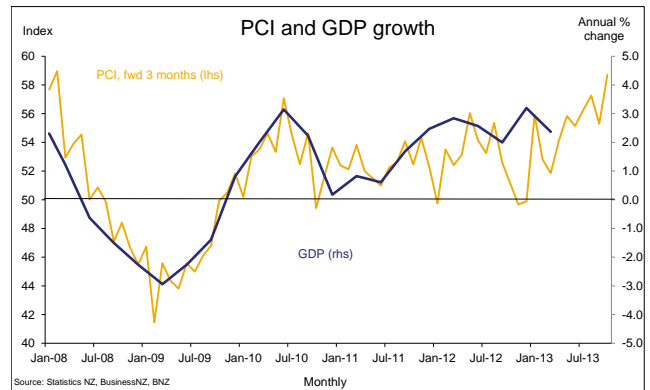
The other point of difference of the PSI and PMI measures is that they have, if anything, tended to under-represent what we've seen come through in terms of GDP growth of late, whereas other surveys have tended to over-predict New Zealand's economic recovery over recent years.

With both of these features in mind, it's worth noting the strongest parts of July's PSI and PMI reports were output (61.8/63.5 respectively) and deliveries from suppliers (57.3/62.2). These encourage our view that GDP growth will pick up over the second half of 2013, following what could, admittedly, be a patchy June quarter.

To the extent the PSI and PMI indices continue to underestimate the rate of economic expansion underfoot we should be revising up our GDP growth view for Q3/Q4 quick smart. These are, for the record, presently pegged at 0.7% and 1.0% respectively.

Further upside is certainly indicated by the new-orders indices of July's PSI and PMI surveys, namely 63.1 and 61.8 respectively. Absolutely, it's rare for these types of diffusion indices – in the way they are constructed – to get much higher. Limits are being pushed.

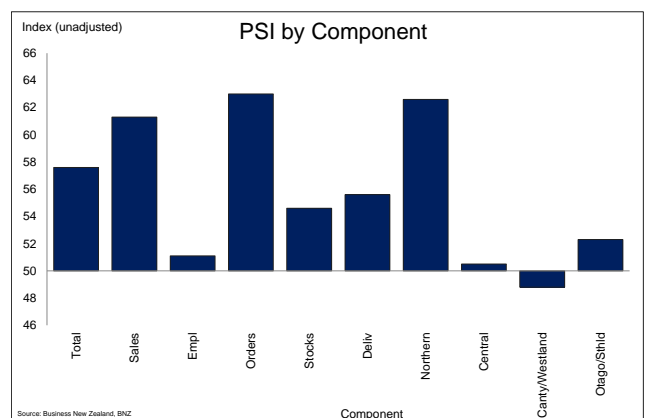
There was also similarity across the latest PSI and PMI regards employment. The PSI's index for such rebounded to 52.2, from 50.1 in June, while the PMI's lifted to 53.1, from 51.9 previously. While not exactly off to the races they do affirm a positive trend after some flutters in June.



So we're probably safe to assume the next official (quarterly) employment numbers keep on keeping on. And if the lagged relationship to economic growth is anything to go by, stronger jobs growth will be the order of the day from late this year onwards, and enough to keep working the unemployment rate lower.

There might even be a common current of inventory enlargement to watch out for. The PSI index in this respect was 54.9 – the strongest in almost 5 years – and for the PMI was a sturdy 52.6. The rebuilding of stock is an oft-overlooked source of growth in the early stages of a clear upswing.

As much as there were numerous similarities between July's PSI and PMI there were also some key differences. For example, at a regional level, the Manufacturing Index showed the clearest impulse coming from Canterbury, which makes a lot of sense given the rebuilding underway there. The Services Index, in contrast, had Canterbury lagging, along with other main regions, leaving the (so-defined) Northern district doing the most of the work. By Northern, of course, we mainly mean Auckland.



craig_ebert@bnz.co.nz

Contact Details

BNZ

Stephen Toplis

Head of Research
+(64 4) 474 6905

Craig Ebert

Senior Economist
+(64 4) 474 6799

Doug Steel

Economist
+(64 4) 474 6923

Mike Jones

Strategist
+(64 4) 924 7652

Kymerly Martin

Strategist
+(64 4) 924 7654

Main Offices

Wellington

60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch

81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Head of Research
+(61 2) 9237 1406

Alan Oster

Group Chief Economist
+(61 3) 8634 2927

Rob Henderson

Chief Economist, Markets
+(61 2) 9237 1836

Ray Attrill

Global Co-Head of FX Strategy
+(61 2) 9237 1848

Wellington

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

Sydney

Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London

Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +(44 20) 7796 4761

New York

Foreign Exchange +1 800 125 602
Fixed Income/Derivatives +1 877 377 5480

Hong Kong

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

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