

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

Jump in July

BNZ - BusinessNZ PSI for July 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for July stood at 58.4. This was up 3.2 points from June, with the PSI averaging 56.5 points so far for 2014.
- All five main sub-indices were again in expansion during July. *New orders/business* (64.1) improved 5.3 points after consecutive months showing lesser expansion. *Activity/sales* (61.4) rose 6.4 points and a return to levels of expansion last seen in April. *Employment* (54.0) rose from June, while *stocks/inventories* (53.1) was the only sub-index to drop, falling 1.9 points from the previous month. *Supplier deliveries* (56.5) rose 2.6 points to its highest result since June 2007.
- Activity continued to remain positive throughout the country, with all regions showing improvement from June. In the North Island, the *Northern* region (58.3) rose 5.5 points, while the *Central* region (60.1) built on an increase from the previous month. In the South Island, the *Canterbury/Westland* region (57.5) tracked up 5.2 points from June, while the *Otago/Southland* region (65.4) experienced a significant boost in expansion.
- Service sector results by sub-sector were almost all in expansion during July. *Property & business services* (63.9) moved up over the 60 point range, while *wholesale trade* (57.6) slipped slightly but still in expansion. *Health & community services* (56.4) also experienced a slight decline in expansion levels, while *retail trade* (54.4) saw it relinquish some of the significant gains made in June.
- The proportion of positive comments from respondents in July (65.8%) was up on June (62.1%) and May (59.2%). Internationally, the JPMorgan Global Services PSI for July (56.0) improved slightly from June, with output expanding at the fastest pace in four years, leading to further job growth.

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HIGHLIGHTS - PSI

- **Service sector shows further expansion in July.**
- **New orders/business picked up, while activity/sales also rose.**
- **Regional activity remains positive across the country.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity both improved for July.**
- **Global PCI increases during July.**

Next BNZ - BusinessNZ PSI/PCI: 15 September 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)

Inside BNZ Commentary this Month (page 4)

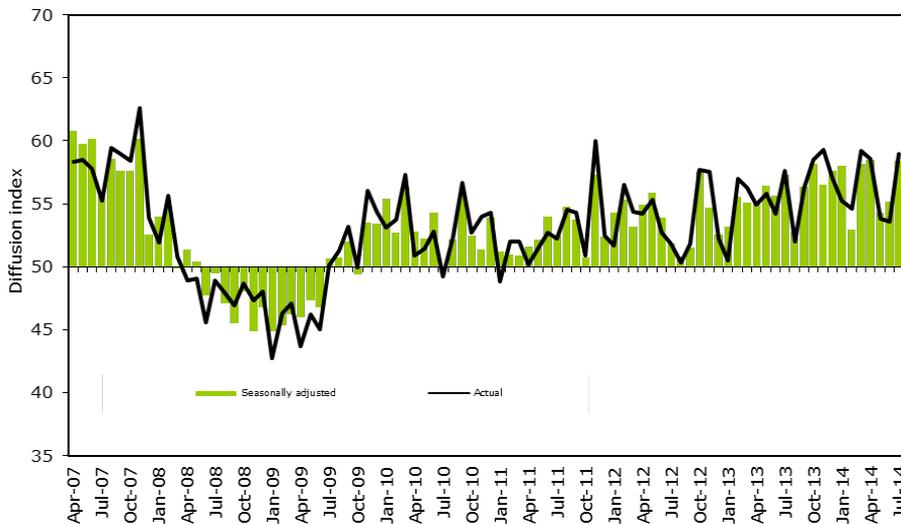
BNZ Senior Economist Craig Ebert looks at the confidence in New Zealand's services sector, which continues to be way above long-term norms, and its contribution to the economic upswing.

BNZ-BusinessNZ PSI

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



July PSI time series tables

National Indexes	July 2009	July 2010	July 2011	July 2012	July 2013	July 2014
BNZ - BusinessNZ PSI (s.a.)	50.7	49.7	52.4	51.8	57.3	58.4
Activity/Sales (s.a.)	52.4	47.8	53.5	49.4	60.8	61.4
Employment (s.a.)	48.4	51.3	49.0	51.9	51.7	54.0
New Orders/Business (s.a.)	56.9	51.4	56.6	57.0	62.2	64.1
Stocks/Inventories (s.a.)	43.9	50.6	51.5	50.6	54.7	53.1
Supplier Deliveries (s.a.)	47.9	47.1	51.0	47.8	55.3	56.5

Regional Indexes	July 2009	July 2010	July 2011	July 2012	July 2013	July 2014
BNZ - BusinessNZ PSI (s.a.)	50.7	49.7	52.4	51.8	57.3	58.4
Northern	51.2	50.9	53.5	50.7	62.6	58.3
Central	45.8	43.3	54.1	55.5	50.5	60.1
Canterbury/Westland	53.1	46.2	45.4	53.4	48.8	57.5
Otago/Southland	43.7	46.0	46.0	48.3	52.3	65.4

(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

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.

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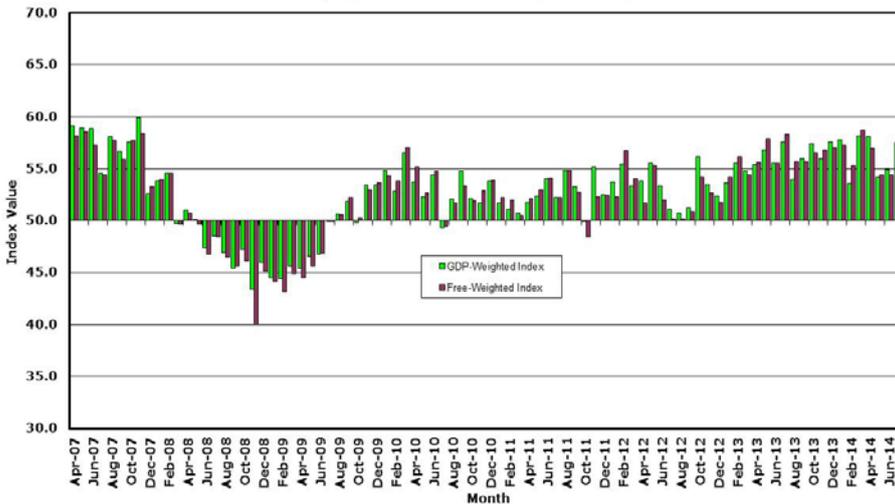
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Upswing for both indexes

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for July saw the two options for measuring the PCI both improve from the previous month.
- The GDP-Weighted Index (57.5) increased 2.6 points from the previous month, while the Free-Weighted Index (55.7) rose 1.3 points from June. The strong increase in activity for the services sector meant the GDP-Weighted Index increased more than the Free Weighted one.
- The JPMorgan Global Combined Index for July (55.5) was 0.1 points up from June, signaling a robust start to the second half of the year for global growth.

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



Performance of Composite Index July time series table

Combined National Indexes	July 2009	July 2010	July 2011	July 2012	July 2013	July 2014
GDP-Weighted Index (s.a.)	49.9	49.3	52.2	51.1	57.5	57.5
Free-Weighted Index (s.a.)	50.0	49.4	52.2	50.2	58.3	55.7

18 August 2014

Overview

Recent surveys suggest New Zealand's services sector is in particularly good heart. Its confidence about an economic expansion is riding way above long-term norms (albeit slightly off peaks over recent months). With this, it was not surprising to see July's Performance of Services Index perk back up to a stocky 58.4, from the 55.2 level it had slowed to in June. This is consistent with output accelerating to an above-trend pace. It is little wonder, then, that service sector firms are looking to invest more in plant machinery and equipment while also intending to take on more staff. Indeed, it's weighing in as another driver of the economic upswing.

Sales

While it is difficult to measure the services sector, the Quarterly Survey of Business Opinion (QSBO) does a good job in providing a summary sales indicator. This showed a decent expansion in sales was achieved over the June quarter and that sales growth will accelerate during the September quarter. A positive backdrop to this is tourism, which is beginning to post good growth again – at least in terms of persons (with their expenditure still restrained by the high NZ dollar). Interestingly, a lot of this growth is now coming from traditional European and US tourism markets rather than just Australia and the newest driver, China. While this will arguably impact retail sales most of all, it will support the wider services sector.

Interest Rates

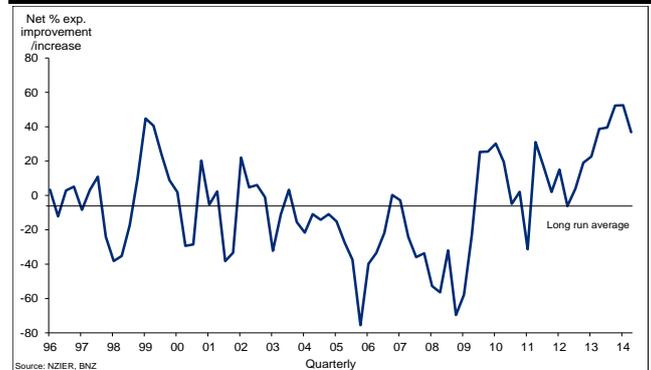
The RBNZ raised its Official Cash Rate (OCR) by 0.25% at its July 24 meeting, to 3.50%. This is now 1.0% higher than at the start of the year. The Bank also clearly indicated it will now pause for a while to assess the impact of hikes to date. However, its tightening bias remains firmly in place. The RBNZ forecast economic growth will remain strong enough to add to inflation pressure, especially with net immigration now very strong and construction activity ramping up. The Reserve Bank has said it would like to see the OCR back toward "more-neutral" levels before too long, which we take to mean around 4.50% (with BNZ seeing the peak at more like 5.00%, reached in 2016).

Housing Market

The NZ housing market looks to be losing a bit of steam. For example, annual inflation in the REINZ Stratified House price Index slowed to 5.9% in July, from 6.3%, while the QVNZ index had it at 7.6%, from 8.0%. In regard to REINZ home sales, there was also a sense of slippage, but a gradual one. July's REINZ sales, of 5,893, were down 13% on a year ago (straddling the LVR restrictions). But their seasonally adjusted level has bounced back about 5% from a proximate low in April. It's still modest turnover, but robust enough to be consistent with a modicum of house price inflation.

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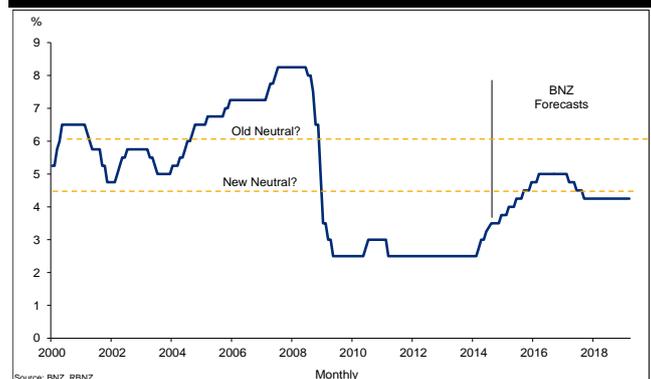
QSBO Services - Business Confidence



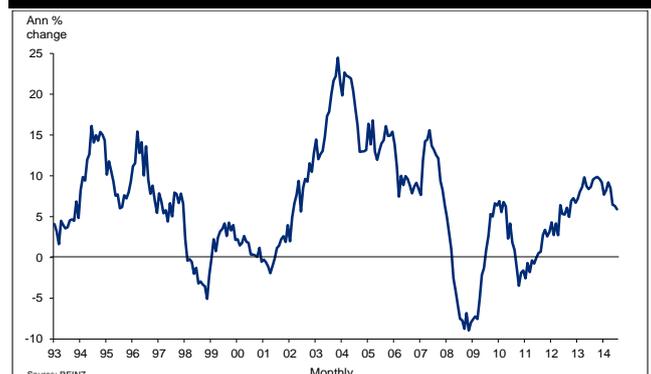
QSBO Services Sales



Interest Rates



Housing Steam Abating



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