

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

A for activity

BNZ - BusinessNZ PSI for June 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for June stood at 55.0. Although this was down 1 point from May, it represented consistent activity levels seen in 2013. Compared with previous June results, the 2013 value was the highest recorded since the June 2007 value.
- All five main sub-indices were again in expansion during June. *New orders/business* (59.7) continued to lead the field, increasing 0.4 points from May. *Activity/sales* (57.1) also increased from May, while *employment* (50.1) fell back to the level of all but no change. *Stock/inventories* (53.8) rose 0.4 points, while *supplier deliveries* (55.0) fell 1.1 points, although still exhibited healthy expansion.
- Activity was positive throughout the country in June. In the North Island, the *Northern* region (54.9) fell back 3.7 points to its lowest level since January. The *Central* region (50.9) also fell back 2.3 points from May, but remained in slight expansion. In contrast, the *Canterbury/Westland* region (53.3) went back into expansion after two consecutive months in contraction, while the *Otago/Southland* region (56.9) continued to show more positive growth, with its highest result since March.
- Service sector results by sub-sector were mostly positive during June. *Property & business services* (59.8) led the way with its highest result since November 2012. Both *wholesale* (54.1) and *retail* (54.6) trade displayed similar levels of activity during June, while *health & community services* (52.6) remained largely unchanged from its value in May.

Inside BNZ Commentary this Month (page 4)

BNZ Economist Doug Steel takes a look at a range of service sector indicators from house sales, to tourist numbers and even road user charges. While annual growth rates are far from uniform, they are all positive. It's all in line with what the PSI has been indicating all year.

The BNZ - BusinessNZ Performance of Services Index 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 PSI and sub-index results are seasonally adjusted.

HIGHLIGHTS - PSI

- *Service sector activity remains in healthy expansion for 2013.*
- *All five major sub-indices in expansion, led by new orders/business.*
- *Regional activity positive across all of the country.*

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- *Options for measuring PCI activity both showed a lower rate of increase.*
- *Global PCI for June decreases from May.*

Next BNZ - BusinessNZ PSI/PCI: 19 August 2013

SPONSOR STATEMENT

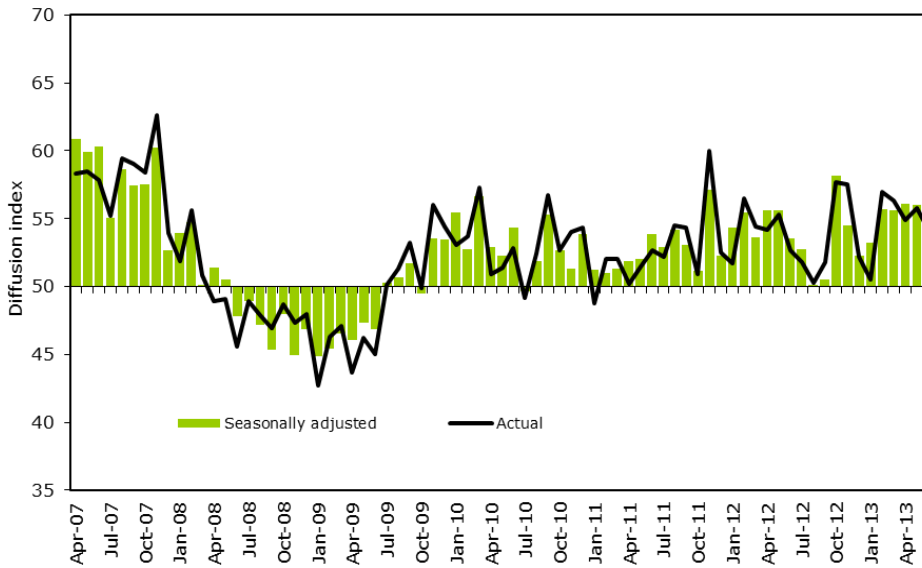
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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

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



June PSI time series tables

National Indexes	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
BNZ - BusinessNZ PSI (s.a.)	47.8	46.8	54.3	53.9	53.5	55.0
Activity/Sales (s.a.)	45.6	44.3	56.1	57.0	54.4	57.1
Employment (s.a.)	42.5	44.3	52.9	51.0	52.5	50.1
New Orders/Business (s.a.)	52.7	51.7	57.9	57.3	58.0	59.7
Stocks/Inventories (s.a.)	50.7	45.1	49.6	53.9	50.7	53.8
Supplier Deliveries (s.a.)	47.5	46.9	51.2	49.8	50.5	55.0

Regional Indexes	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
BNZ - BusinessNZ PSI (s.a.)	47.8	46.8	54.3	53.9	53.5	55.0
Northern	43.9	44.4	58.1	52.1	51.8	54.9
Central	47.9	45.8	51.6	55.6	55.2	50.9
Canterbury/Westland	51.1	47.5	46.0	59.2	58.7	53.3
Otago/Southland	36.1	44.8	38.7	44.1	45.0	56.9

(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

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

Off a high

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for June saw both options for measuring the PCI come off recent highs in activity.
- The GDP-Weighted Index (55.0) decreased 1.4 points from May, while the Free-Weighted Index (55.2) decreased 2.4 points over the same period. The drops were due to both the manufacturing and service sectors coming off a strong May result.
- The JPMorgan Global Combined Index for June (51.4) was down from 52.9 in May. The weaker rate of increase was mainly due to a sharp slowdown in global service sector growth.

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).

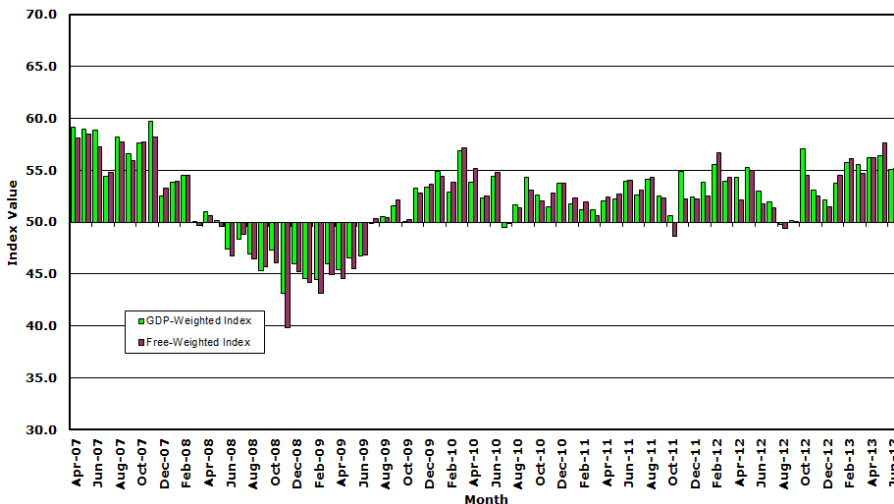
Combined results are shown in two ways:

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 - June 2013)



Performance of Composite Index June time series table

Combined National Indexes	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
GDP-Weighted Index (s.a.)	47.4	46.8	54.4	53.9	53.0	55.0
Free-Weighted Index (s.a.)	46.7	46.8	54.8	54.0	51.8	55.2

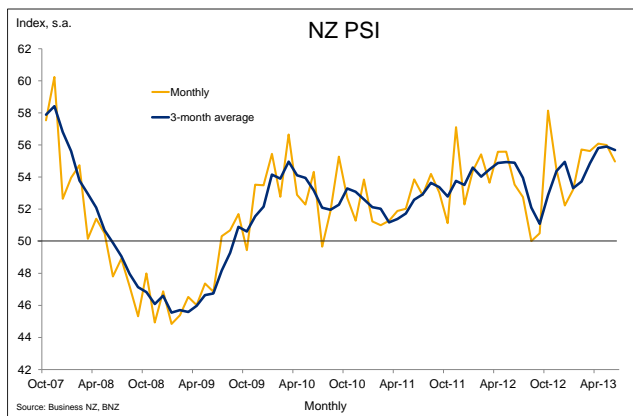
15 July 2013

Silver Service

- Service sector posting solid growth
- So says a range of indicators
- Outlook positive too
- So why a slowing in employment?

The service sector has a firm growth pulse – at least that is what the Performance of Services Index (PSI) has been telling us all year. Maybe not a gold medal performance, but surely a solid silver. The story continued in June. True enough that the PSI eased a touch to 55.0 from 56.0 last month, but such a move is well within the usual monthly noise. More telling is that another reading in the mid-50s, well above the 50 mark that distinguishes progress from contraction, points to a decent rate of expansion for the biggest sector of the economy.

The drivers of a positive PSI this month look familiar too; namely strong sales activity and even stronger new orders. Both indicators are higher than a month ago, but again the degree of change is immaterial. Still, a new orders index at close to 60 is getting up there and bodes well for expansion ahead.

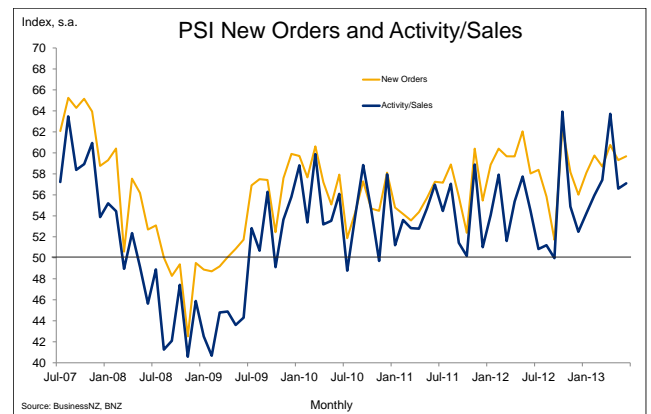


This is all good stuff, but is the PSI positivity showing up in the hard data? After all, the PSI is a sample survey of a very big sector. Could it be misrepresenting the broad trends?

To try and get a feel for this, we cast our eye over a few indicators. Some are either a direct measure of service sector activity (like accommodation guest nights) or closely associated with service sector sales (like building consents and associated professional services). Some have strong elements of both aspects, like house sales providing an indicator of real estate agent service as well as other associated professional services. Of course, all

only provide an indication of what is going on in various bits of what is a very diverse sector.

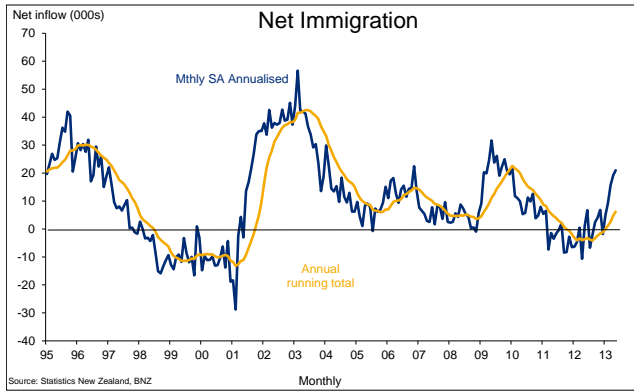
The latest annual growth rates of the indicators we looked at are shown in the table. While it is a jumble of measures, they give a sense of what is going on. Despite the obvious wide range of growth rates over the past year, all are positive. That said, it does not necessarily mean that the level of activity is particularly high. For example, the strong growth in non-residential building consents is coming off a low base such that the value of consents remains well below its previous peak in 2009. But whatever the various starting positions, these indicators at least support the notion of decent service sector growth over the past year.



	Latest annual growth (3 month average)
Residential building consents, value	27.4
Non-residential building consents, value	26.3
Car registrations, number	16.5
House sales, number	10.4
Farm sales, number	9.6
Services electronic transactions, value	8.6
Tourist arrivals, number	8.1
Mortgage approvals, value	6.4
Accommodation guest nights, number	5.8
Retail electronic transactions, value	5.3
Household credit, value	4.7
Road user charge tax revenue, value	2.0
Wholesale sales, value	1.2

Another indicator that has turned sharply positive over the past few months is net immigration. The annual net flow of migrants has turned from an outflow of over 3,600 a

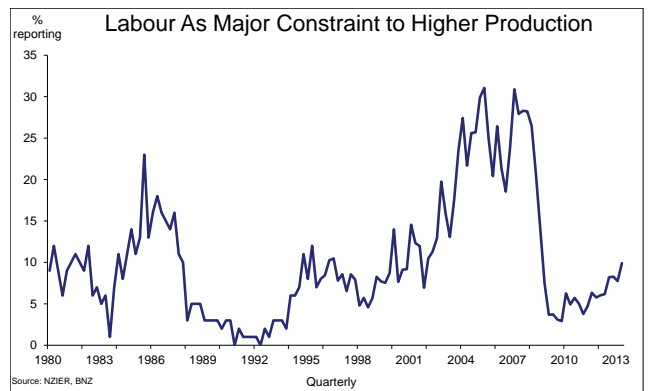
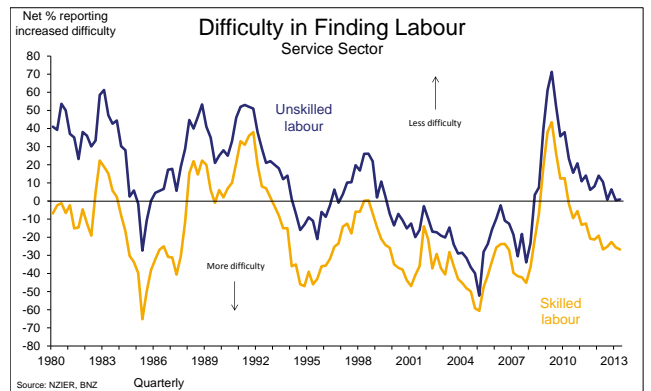
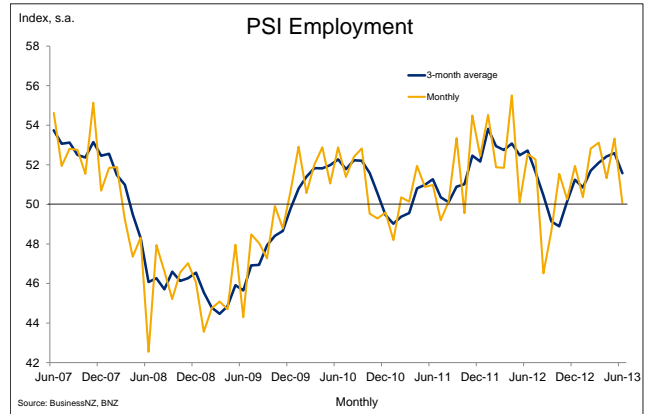
year ago to a net inflow of more than 6,200. Moreover, the run rate of the past few months is over 20,000. This bodes well for more economic activity ahead, including in the service sector.



All this is not to say that the very latest reading in each and every one of these indicators is showing strong growth. Rather that the trend of the past year has been positive. In fact, as much as the broad trends are positive, there are some question marks too like the sharp slowing in mortgage approvals over recent weeks compared to a year ago. This might reflect a general lack of house listings such that buyers are struggling to find something to buy. Or perhaps it is a sign of slowing demand? Either way, it's worth watching.

Another question mark is the mild easing in this month's PSI employment indicator. It is still positive at 50.1, just not as positive as last month's 53.3. Our hunch is that this move is probably just monthly noise, rather than something fundamental.

But who knows, given the general buoyancy in the sales indicators above, the PSI new orders, and service sector employment intentions (from other business surveys), the slowing in the PSI employment index this month might well reflect the difficulty firms are having to find the appropriate staff as much as it reflects any slowing in labour demand growth. Such a conclusion would certainly be consistent with last week's *Quarterly Survey of Business Opinion*. The number of service sector firms reporting labour as the major factor restricting growth has lifted to its highest level in five years. Sure it is not sky high, but it's worth watching. After all, it is quite a different story if firms are having more difficulty filling positions versus not having positions to fill. A different story for wage pressure, general inflation pressure, and the outlook for interest rates to name a few.



doug_steel@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

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: 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. 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.

USA DISCLAIMER: 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.

National Australia Bank Limited is not a registered bank in New Zealand.