

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

## Holding the line

### BNZ - BusinessNZ PSI for June 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for June stood at 54.7. This was up 0.6 points from May, with the PSI averaging 56.1 points so far for 2014.
- All five main sub-indices were in expansion during June. *New orders/business* (58.3) reduced a further 2.0 points from May, but remained in strong territory for expansion. *Activity/sales* (54.7) rose 0.6 points after a dip in expansion during the previous month. *Employment* (52.4) also picked up, while *stocks/inventories* (55.2) rose 1.9 points. *Supplier deliveries* (53.5) went back into expansion after a slight contraction in May.
- Activity remained positive throughout the country for the fourth consecutive month. In the North Island, the *Northern* region (52.8) dipped 2.7 points, while the *Central* region (58.3) recovered after a drop in expansion levels in May. In the South Island, the *Canterbury/Westland* region (52.3) remained in positive territory despite further easing of expansion, while the *Otago/Southland* region (56.1) picked up to levels similar to April.
- Service sector results by sub-sector were a mixture of expansion and contraction during June. On the positive side, *property & business services* (55.4) eased back from May, while *wholesale trade* (59.9) picked up to show strong expansion for June. *Health & community services* (60.0) picked up significantly to show very healthy expansion, while *retail trade* (58.1) was also expansionary.
- The proportion of positive comments from respondents in June (62.1%) was up on May (59.2%). Internationally, the JPMorgan Global Services PSI for June (55.8) continued to improve, with rates of expansion accelerating for business activity, new orders and employment.

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

BNZ Economist Doug Steel looks at the recent PSI and QSBO survey results and finds a confident service sector operating above average. A downside is that it is this environment that breeds inflation.

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#### HIGHLIGHTS - PSI

- **Service sector shows increased expansion in June.**
- **New orders/business still strong, with activity/sales picking up.**
- **Regional activity remains positive across the country.**

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

- **Options for measuring PCI activity showed no worsening position from the previous month.**
- **Global PCI increases during June.**

**Next BNZ - BusinessNZ PSI/PCI: 18 August 2014**

#### SPONSOR STATEMENT

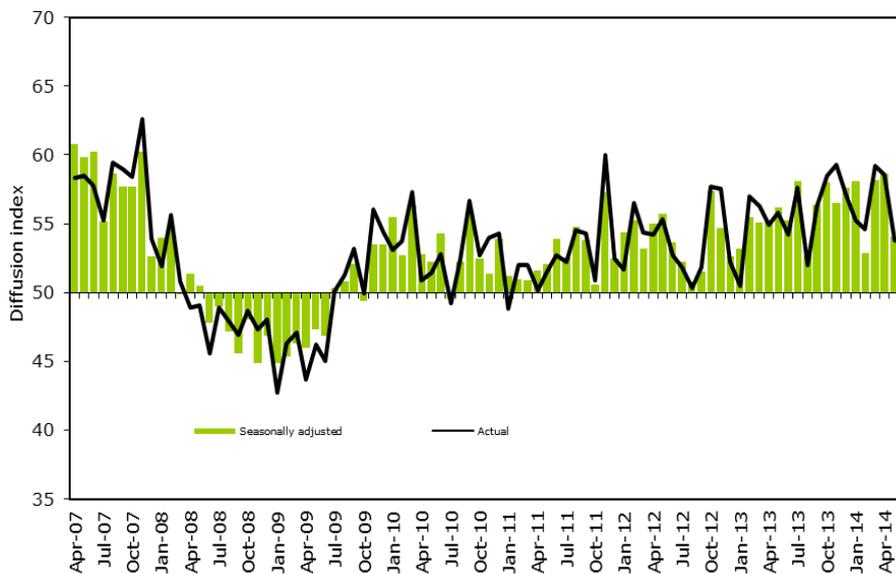
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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



### June PSI time series tables

National Indexes	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
BNZ - BusinessNZ PSI (s.a.)	46.8	54.3	53.9	53.7	55.2	54.7
Activity/Sales (s.a.)	44.5	56.4	57.3	55.0	57.7	54.7
Employment (s.a.)	44.4	53.0	51.1	52.7	50.2	52.4
New Orders/Business (s.a.)	51.7	58.2	57.9	58.8	60.4	58.3
Stocks/Inventories (s.a.)	45.0	49.4	53.5	50.1	53.2	55.2
Supplier Deliveries (s.a.)	46.9	51.0	49.3	49.7	54.0	53.5

Regional Indexes	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
BNZ - BusinessNZ PSI (s.a.)	46.8	54.3	53.9	53.7	55.2	54.7
Northern	44.4	58.1	52.1	51.8	54.9	52.8
Central	45.8	51.6	55.6	55.2	50.9	58.3
Canterbury/Westland	47.5	46.0	59.2	58.7	53.3	52.3
Otago/Southland	44.8	38.7	44.1	45.0	56.9	56.1

(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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## Slight recovery

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for June saw the two options for measuring the PCI improving for one, and holding steady for the other in comparison with the previous month.
- The GDP-Weighted Index (54.5) increased 0.6 points the previous month, while the Free-Weighted Index (54.1) remained exactly the same as May. With both the PMI and PSI showing higher expansion levels in June, the larger rise in the PSI meant the GDP-Weighted Index increased more than the Free Weighted one.
- The JPMorgan Global Combined Index for June (55.4) meant the global economy ended the second quarter of the year on a positive note, with rates growth for output and new orders both accelerating to the highest since February 2011.

#### 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).

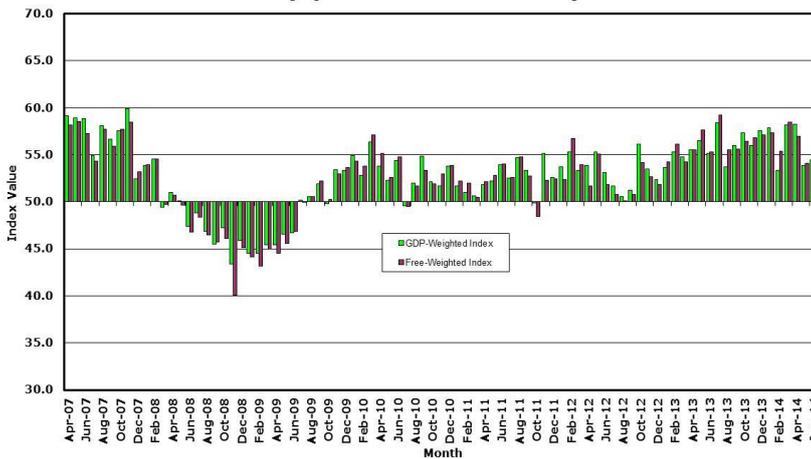
Combined results are shown in two ways:

**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 2014)**



### Performance of Composite Index June time series table

Combined National Indexes	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
GDP-Weighted Index (s.a.)	46.7	54.4	53.9	53.1	55.2	54.5
Free-Weighted Index (s.a.)	46.9	54.8	54.1	51.8	55.3	54.1

14 July 2014

## Slower, Not Slow, Service

- Service sector growth cools
- But still above average
- So says the PSI and QSBO
- Upward pressure on prices

Many economic indicators have been going gangbusters over the past 12 months, pointing to strong growth. More recently, there have been a few hinting at some degree of cooling, but to levels that are still above average.

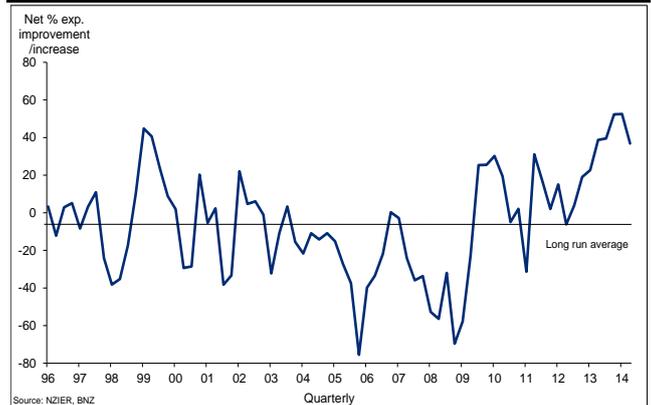
This looks to be the case for the service sector, at least. We judge this despite the Performance of Services Index (PSI) actually ticking marginally higher to 54.7 in June from 54.1 in May. Not much in that. But combined, these results are a visible reduction from the 56 to 58 level that has been prevalent over the past year. Over that period we did see the odd softer month, but it was immediately followed by a strong bounce. It is notable that there was no such strong bounce in June following slowdown in May.

This is no cause for alarm. After all, even though the PSI has been a bit lower over the past couple of months, it remains above its long term average. Indeed, the PSI has just posted its 18<sup>th</sup> consecutive above-average monthly result. Slower – but not slow – service sector expansion over the past couple of months in other words.

A similar message was detected across the service sector indicators in the latest Quarterly Survey of Business Opinion (QSBO), along with signs of the inevitable inflation consequences.

Take confidence for example. Q2's seasonally adjusted service sector business confidence reading of +36.8 was clearly lower than Q1's +52.5. But current optimism still

### QSBO Service Sector Confidence

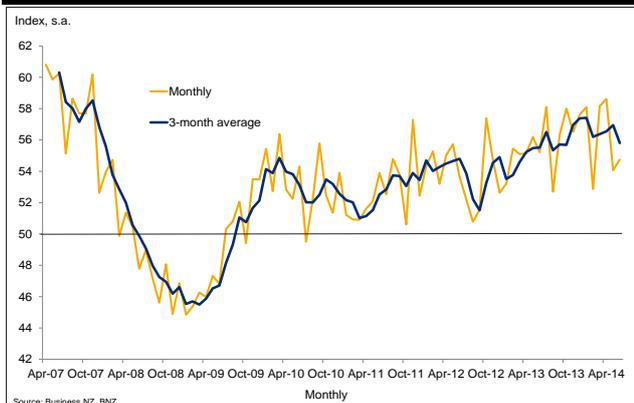


compares very favourably to the long term average for this series of -5.4. It means the balance of service sector firms is still markedly optimistic but just not quite as optimistic as they were in Q1. Again, we should not get too downbeat on the drop given that Q1 marked the most widespread optimism in the service sector for at least 18 years.

It is not hard to see the reasons for ongoing service sector optimism. In the QSBO, both recent and expected trading activity and profitability indicators remain well above average levels, even though they have eased a bit from the first quarter of the year. That is the same message from the PSI new orders index.

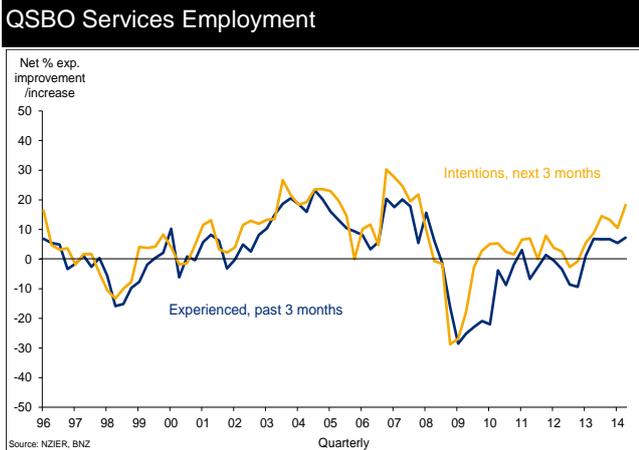
An exception to the general theme of QSBO service sector indicators being above their respective long term averages was costs. Both reported and expected cost gauges were below average, not by much, but below.

### NZ PSI



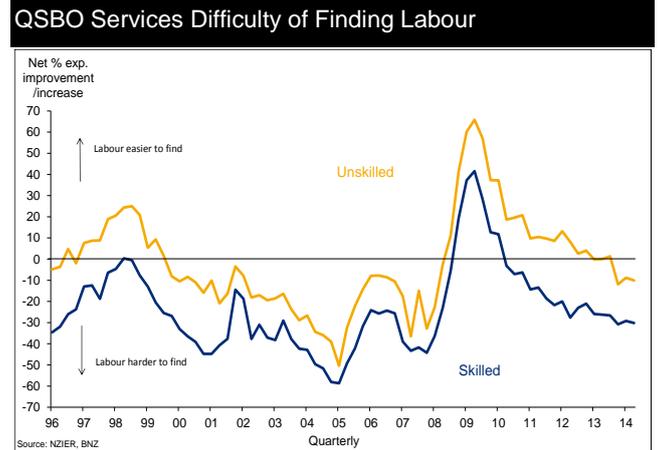
### QSBO Services Trading Activity





We do not think this will last. Not if the QSBO's labour market indicators are anything to go by. Reported service sector overtime and employment in Q2 tells of strengthening labour demand, which tallies with upbeat sales and profitability. The PSI employment index is arguably not quite so gung-ho, but is still above average. But it is the forward-looking QSBO indicators that have taken a clear step higher. Service sector employment intentions have lifted further above their historical norm and to their highest level since 2007.

The issue ahead looks to be in finding the appropriate staff. Firms are already reporting more difficulty finding both skilled and unskilled staff, which is a natural precursor to higher wage costs; an important part of overall costs for many service industries. Without a significant lift in productivity this will morph into generalised inflation pressure.



There are already signs of that occurring with QSBO service sector selling price increases becoming the most widespread since 2008. Back then services CPI inflation was running at nearly 4% per annum. This highlights the inflation risk. Latest figures (for Q1) show services CPI inflation already running at 2.7% per annum, up from 1.5% a year ago. Q2 figures are due this week. We'll see what we get. But looking ahead, there appears more upward pressure given that service sector pricing intentions from the QSBO are well above normal.

Such price signals should not be a surprise. It is what tends to happen when the economy grows above trend, as is currently the case, even if the growth pulse has cooled a touch over recent months.

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