

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 performer

### BNZ - BusinessNZ PSI for March 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for March stood at 55.4. This was almost identical to the February result (55.5) and the first time two consecutive post 55.0 values have been recorded since April/May 2012. Compared with previous March results, the 2013 value was the highest recorded since 2010.
- Four of the five main sub-indices were in expansion during March. Again, leading the way was *new orders/business* (58.4), which has been fairly consistent over the last three months. This was followed by *activity/sales* (57.3), while *employment* (53.3) recorded its second consecutive increase and highest result since April 2012. *Supplier deliveries* (52.1) fell back 3.2 points, while *stock/inventories* (49.6) fell back to levels seen in December/January.
- Activity was positive in three of the four regions during March. In the North Island, the *Northern* region (57.2) rose a further 0.7 points. However, the *Central* region (45.3) fell back into negative territory after two months of consistent levels of expansion. In the South Island, the *Canterbury/Westland* region (58.7) displayed a similar level of expansion to the previous month, while the *Otago/Southland* region (62.3) also showed a close result to February.
- Despite the healthy overall result, service sector results by sub-sector were somewhat mixed during March. *Wholesale trade* (63.2) improved from the previous month, while both *property & business services* (49.6) and *health & community services* (49.4) fell into slight decline during March after showing expansion during the previous month.

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

BNZ Senior Economist, Craig Ebert, highlights the regional disparities of the latest residential real estate data. Far from gaps being closed, Auckland is increasing leading the charge, with Christchurch the area most obviously reflecting supply problems.

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#### HIGHLIGHTS - PSI

- *Service sector shows almost identical expansion levels from previous month.*
- *Four of the five major sub-indices in expansion, again led by new orders.*
- *Regional activity positive across most of the country.*

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

- *Options for measuring PCI activity continued to show healthy expansion.*
- *Global PCI for March increases from February.*

**Next BNZ - BusinessNZ PSI/PCI: 20 May 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.

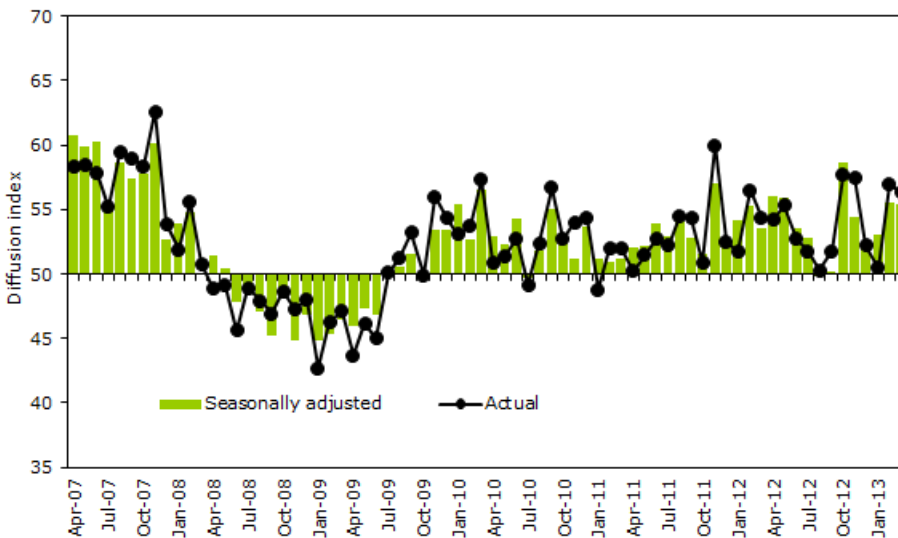
BNZ ([www.research.bnz.co.nz](http://www.research.bnz.co.nz))

## BNZ-BusinessNZ PSI

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



### March PSI time series tables

National Indexes	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013
BNZ - BusinessNZ PSI (s.a.)	50.1	46.5	56.6	51.2	53.5	55.4
Activity/Sales (s.a.)	49.0	44.7	59.8	52.7	51.5	57.3
Employment (s.a.)	49.2	45.1	52.0	50.2	52.0	53.3
New Orders/Business (s.a.)	50.6	49.2	60.5	53.4	59.4	58.4
Stocks/Inventories (s.a.)	49.8	46.3	50.8	48.8	52.0	49.6
Supplier Deliveries (s.a.)	49.7	51.1	52.8	45.2	48.4	52.1

Regional Indexes	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013
BNZ - BusinessNZ PSI (s.a.)	50.1	46.5	56.6	51.2	53.5	55.4
Northern	49.7	47.0	57.7	54.6	51.5	57.2
Central	57.1	49.6	64.9	57.5	60.0	45.3
Canterbury/Westland	47.7	50.2	54.4	39.5	65.6	58.7
Otago/Southland	52.9	40.7	52.5	39.5	49.3	62.3

(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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## Maintaining expansion

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for March saw both options for measuring the PCI edge lower from February, but still in healthy territory.
- The GDP-Weighted Index (55.2) decreased 0.2 points from February, while the Free-Weighted Index (54.4) fell 1.3 points over the same period. Despite the dip, the last three months have shown a level of consistent expansion not seen since early 2010.
- The JPMorgan Global Combined Index for March (53.1) was up marginally from 52.9 in February. Manufacturing production increased for the fifth straight month, while service sector activity has risen each month since August 2009.

#### 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).

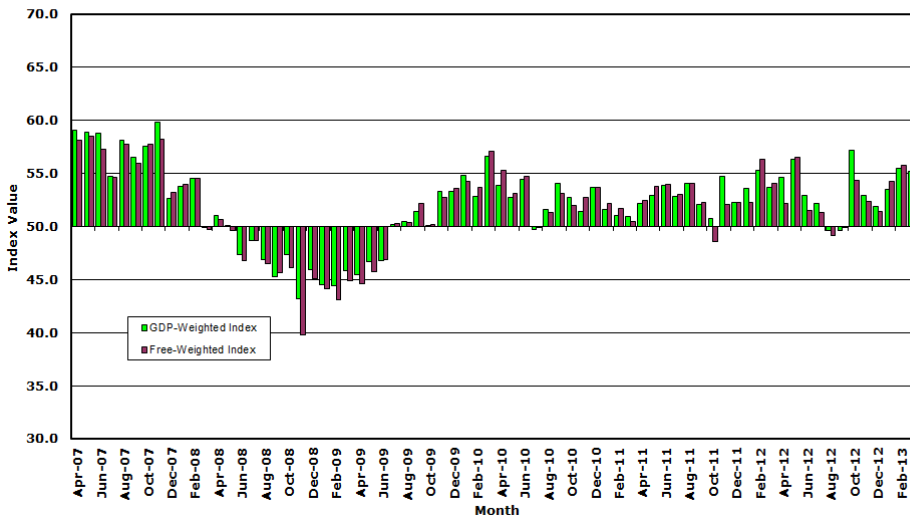
Combined results are shown in two ways:

**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 - Mar 2013)**



**Performance of Composite Index March time series table**

Combined National Indexes	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013
GDP-Weighted Index (s.a.)	49.9	45.8	56.6	50.9	53.6	55.2
Free-Weighted Index (s.a.)	49.7	44.9	57.1	50.5	54.0	54.4

15 April 2013

## Housing and Services Upbeat

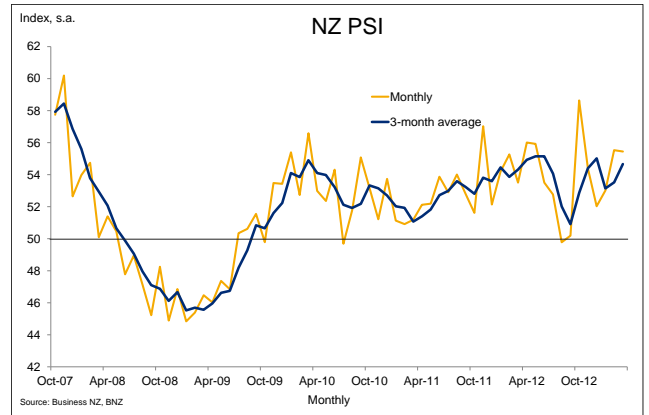
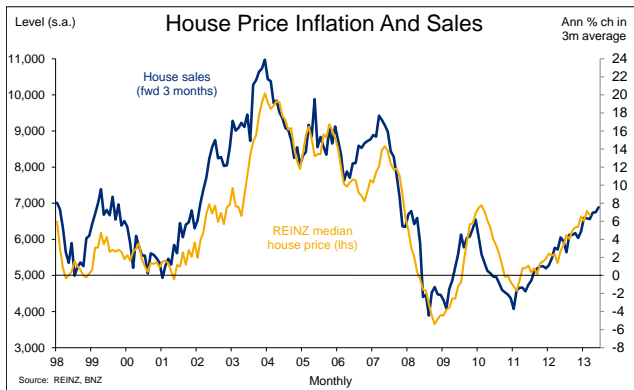
- BNZ Services Index (PSI) stays clearly expansive
- REINZ housing data strong for March
- Concentrated in Auckland, Christchurch
- Similar story from the latest QVNZ data
- Rents query notion of Auckland housing shortage
- Bringing demand drivers into the debate

Through various channels, New Zealand's Performance of Services Index (PSI) is most probably being supported by the reheating housing market. Real estate sales activity, legal work, financing – they all play their part. The PSI certainly stayed expansive in March. At a seasonally adjusted 55.4 it told of solid growth, much like the PMI did for the month.

But with so much interest in the housing market it's also worth noting the Real Estate Institute data for March, published Thursday, remained strong. However, far from starting to become a truly nationwide impulse, as we thought might be the case, it is increasingly becoming a story about Auckland, and its feverish demand, along with Christchurch, where supply constraints are patent.

As for the nationwide REINZ numbers, sales were 11% higher than a year ago. Accounting for trading-day impacts – including this year's early Easter – this inferred a 2% gain for March itself. Onwards and upwards, consistent with the sort of annual house price inflation we're witnessing.

The REINZ median sale price jumped to \$400,000, from \$382,000 in February and \$370,000 in January. While some of this can be put down to seasonality and composition shifts there was still a clear acceleration in annual inflation, to 8.1%, from 7.6%, and 4.2% in January. This was not a big surprise, given the anecdote from the sector, and the levels of sales we're seeing.



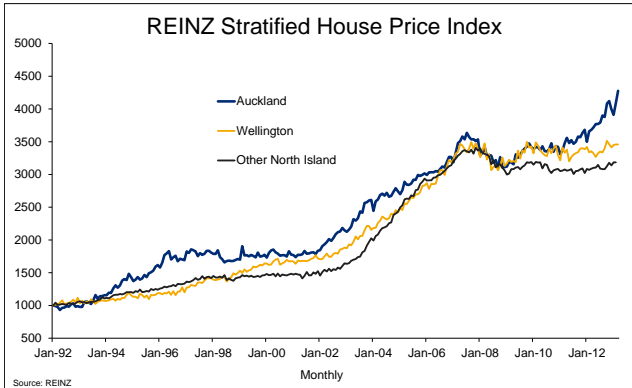
What was a surprise was the strength in Auckland prices on the REINZ Stratified Index. This measure is designed to correct for composition/quality of sales, such as the clear shift we saw in the Barfoot and Thompson statistics for the Auckland market, toward higher-end price brackets. Yet the Stratified House Price Index for Auckland registered even faster inflation than the raw one. Like 16% y/y.

While many are assuming this to be the natural consequence of "the housing shortage" this argument might be wearing thin. Genuine housing shortages almost always show up in rapidly rising rents. While rents in Auckland are rising, and at a pace stronger than the national average, their speed is miles short of that we're seeing in home prices. Indeed, as recently quoted by the NZ Herald, Trademe data for the first quarter of 2013 suggested Auckland's rental market was softening, as supply increased compared to a year ago, while tenant demand decreased.

To the extent Auckland is not, in truth, suffering an acute housing shortage then we need to look even closer at other reasons for the rapid home price inflation, including the force of demand-side factors, especially to the degree these are being inflated by unusually low interest rates.

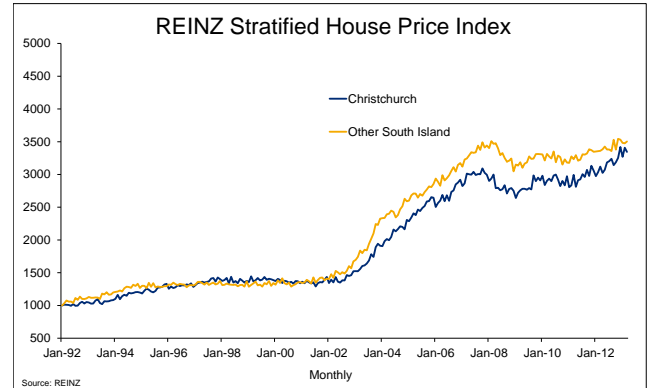
Across the rest of the country prices appeared to be inflating only mildly. Even in Christchurch, a place where strong inflation obviously reflects constrained supply, prices were showing the first signs of less impetus. By wider perspective, note that compared to two years ago prices in earthquake-impacted Christchurch are 12% higher. Over the same period Auckland home sale prices have burgeoned 23%.

The REINZ Stratified Index for Wellington, for the record, has escalated all of 4% over the last 24 months and with



no obvious sign the pace has picked up over the last 6 months or so. The "Other North Island" home price index was 5% up on 2 years ago (with 4.4% over the last 12 months) while the "Other South Island" index has inflated 5% over the last 2 years, with most other that coming over the last year or so.

This regional pattern was echoed in the Quotable Value NZ data for March. Its nationwide home price index picked up further, to 6.5% at the annual rate. However, this comprised 11.2% for the Auckland region, 7.8% for Christchurch City. Wellington was at 2.5%.



This stark regional disparity puts the RBNZ in a difficult spot. Can it turn a blind eye to the nation's house price inflation just because it's only in a half of it, namely Auckland and Christchurch? Is the Bank willing to keep underwriting, via very low mortgage rates, a bigger bubble in the Auckland housing market with the view that this will somehow keep pressure off the currency?

And how are the regional house price disparities relevant to the macro-prudential tools the RBNZ appears keen on implementing? There is still much to think about.

[craig\\_ebert@bnz.co.nz](mailto: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  
Fl: 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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