

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

Indian Summer

BNZ - BusinessNZ PSI for March 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for March stood at 58.3. This was up 5.5 points from February and the highest level of activity since November 2007. For the first quarter of 2014, the PSI averaged 56.4.
- All five main sub-indices were in expansion during March. *New orders/business* (62.1) rose back above the 60-point value, which has now been the case for six of the last seven months. *Activity/sales* (60.7) also recorded a post-60 value, although not to the same level as January. *Employment* (54.3) increased 0.8 points from February, while *supplier deliveries* (55.5) rose 5.3 points. *Stocks/inventories* (55.3) rose 6.5 points after two consecutive months in decline.
- Activity was positive and consistent across all of the country in March. In the North Island, the *Northern* region (59.4) rose 1.7 points after three consecutive months at the 57-point mark. The *Central* region (59.2) dipped 0.5 points from February, although still at a very healthy level of activity. In the South Island, the *Canterbury/Westland* region (58.5) recovered from a dip in the previous month, while the *Otago/Southland* region (59.4) picked up a further 5.4 points.
- Service sector results by sub-sector were almost all positive during March. *Property & business services* (64.3) produced its first post-60 result since November 2012, while *health & community services* (59.4) also experienced a sizeable rise from February. *Wholesale trade* (57.0) slipped slightly, while *retail trade* (61.4) returned to similar values seen in January. *Accommodation, cafes & restaurants* (66.2) has now had three consecutive months of strong activity, while *transport & storage* (56.7) experienced a drop in the level of expansion, albeit still showing healthy activity levels.

Inside BNZ Commentary this Month (page 4)

BNZ Economist Doug Steel looks at the nature of current economic growth and concludes that it is a very strong backdrop for service sector activity such that it is no surprise to see the strongest PSI result since 2007.

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HIGHLIGHTS - PSI

- **Service sector shows stronger expansion levels in March.**
- **New orders/business and activity/sales both post 60-point+ values.**
- **Regional activity positive and consistent across the country.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity both rose significantly during March.**
- **Global PCI picked up after a four-month low in February.**

Next BNZ - BusinessNZ PSI/PCI: 19 May 2014

SPONSOR STATEMENT

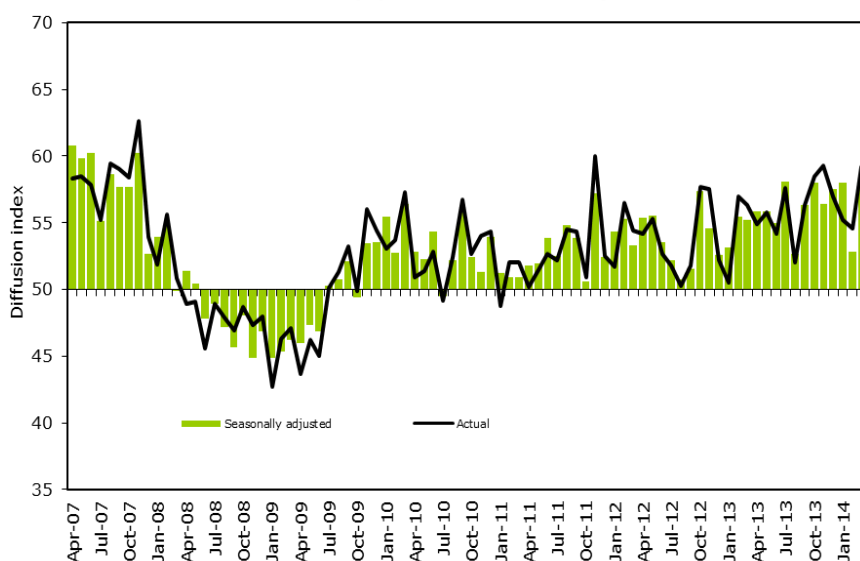
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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



March PSI time series tables

National Indexes	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
BNZ - BusinessNZ PSI (s.a.)	46.3	56.4	50.9	53.3	55.2	58.3
Activity/Sales (s.a.)	44.9	59.9	52.8	51.6	57.5	60.7
Employment (s.a.)	45.0	51.9	49.9	51.5	52.7	54.3
New Orders/Business (s.a.)	49.4	60.8	53.7	59.7	58.6	62.1
Stocks/Inventories (s.a.)	46.3	51.0	49.1	52.5	50.3	55.3
Supplier Deliveries (s.a.)	50.5	52.8	45.6	49.2	52.8	55.5

Regional Indexes	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
BNZ - BusinessNZ PSI (s.a.)	46.3	56.4	50.9	53.3	55.2	58.3
Northern	47.0	57.7	54.6	51.5	57.2	59.4
Central	49.6	64.9	57.5	60.0	45.3	59.2
Canterbury/Westland	50.2	54.4	39.5	65.6	58.7	58.5
Otago/Southland	40.7	52.5	39.5	49.3	62.3	59.4

(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

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Back on track

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

- 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 recover from a dip in expansionary levels seen in February.
- The GDP-Weighted Index (58.4) increased 5.1 points from February, while the Free-Weighted Index (58.2) rose 2.8 points. The fact that both the services and manufacturing sectors saw increased growth in March, particularly the former, meant the GDP-Weighted index was just ahead of the Free-Weighted Index.
- The JPMorgan Global Combined Index for March (53.4) was up from February's four-month low of 53.1.

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).

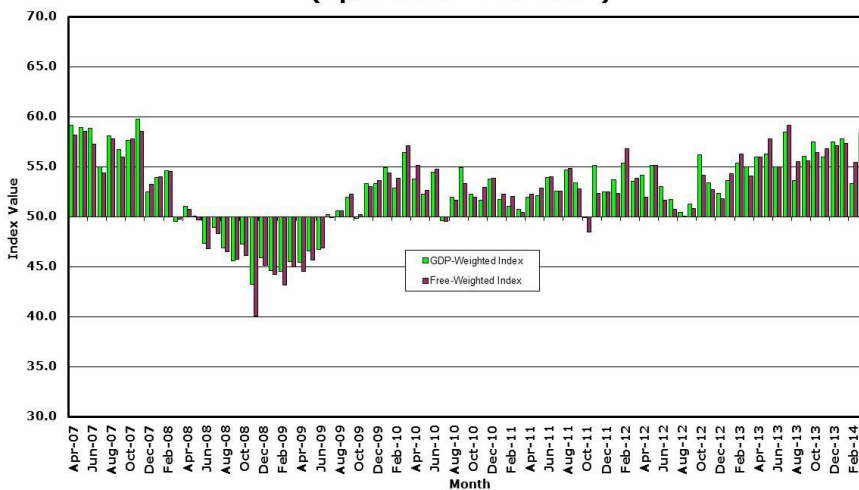
Combined results are shown in two ways:

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.

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



Performance of Composite Index February time series table

Combined National Indexes	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
GDP-Weighted Index (s.a.)	45.5	56.4	50.7	53.5	55.0	58.4
Free-Weighted Index (s.a.)	44.9	57.1	50.4	53.9	54.0	58.2

14 April 2014

Arise Ser-vice

- Above trend economic growth this year
- Multi drivers at play
- No surprise to see widespread service sector gains
- This is sowing the seeds of inflation ahead
- Thus interest rates to rise further off lows

Economic momentum is strongly positive. Growth appears widespread, across regions and sectors. Survey after survey says so. Annual GDP growth is currently sitting at 3.0%, and should increase, shortly, to its highest level in a decade. On an annual average basis, we are forecasting 4.0% growth in calendar 2014 and 3.5% the year after.

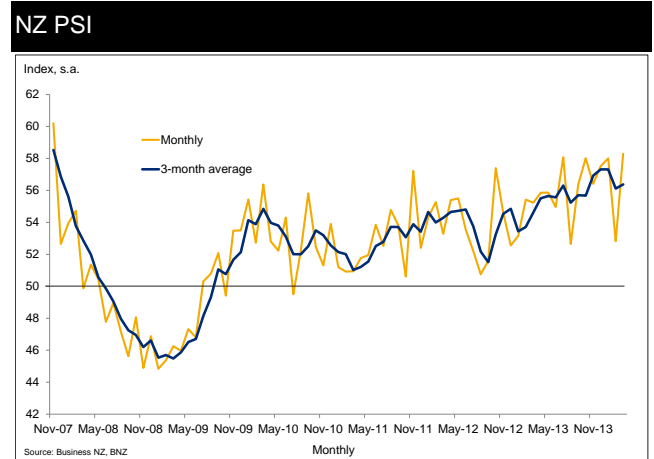
Importantly, the expansion is not only deepening but widening too with growth being experienced across a number of sectors including: construction, agriculture, manufacturing, tourism and retail. Supporting this is a four-decade high terms of trade, surging net migration, Christchurch rebuilding activity, strong employment and ultra-low interest rates.

Not surprisingly, against this backdrop, both consumer and business confidence are very high. Indeed, confidence levels would tend to indicate an economic expansion even stronger than we are anticipating suggesting upside risk to either our growth or inflation forecasts – or both.

We expect a strong burst of investment ahead, over and above more house building. Widespread optimism, strong domestic demand, little spare capacity, low interest rates and a strong NZ dollar have combined to boost firms' intentions to invest.

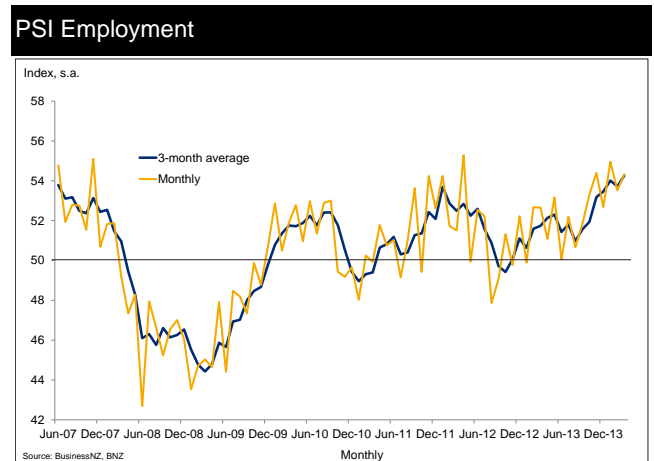
All this is a very strong backdrop for service sector activity. It is part of the reason why we were not too concerned to see a dip in the Performance of Services Index (PSI) in February, even if it only fell to a still-reasonable level of 52.8. It felt like monthly noise within a strongly positive trend.

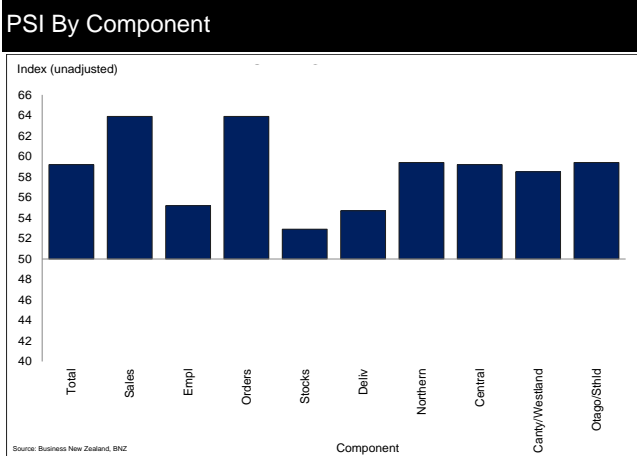
This stance looks to have been the right one with a big PSI bounce back in March, all the way up to 58.3. Not only has the PSI bounced strongly, but it is at its highest level since 2007. While the very fast pace of service sector growth in March might partly be a bit of catch up from the moderate pace in February, the overarching point is that trend growth in the service sector is currently strong.



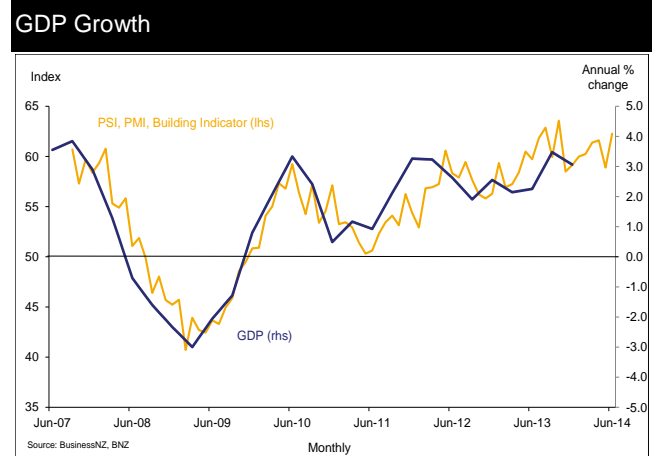
New orders and activity indicators continue to lead the way, at 62.1 and 60.7 respectively in March. Buoyant new orders are positive for the future. This will be one factor giving firms in the service sector confidence and encouraging them to take on more staff. Indeed, the PSI employment nudged up to 54.3 in March, lifting its three month average to the same value and its highest level since the survey started back in 2007. This should show up in official employment statistics before long. It fits with our forecast that the unemployment rate will fall below 6% when the first quarter figures are released in early May.

Given the very supportive backdrop for the service sector discussed above, it is not surprising to see positive readings in the March PSI survey spread widely across such things as activity, orders, and employment but also across regions, industries and firm size.





It was a similar story in the Performance of Manufacturing Index (PMI) released last week. Overall, the PMI, at 58.9, was even a touch stronger than the PSI. Combining these two indicators, with consents for residential and non-residential buildings, gives a broad indicator of GDP over coming quarters. It is supportive of our 4% growth



forecast for this year. That is well above trend and will put upward pressure on inflation, given current limited spare capacity, and with the usual lag. As such, it is consistent with the RBNZ intentions to lift the OCR further from its historically very low levels. Another increase is likely as soon as next week.

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