

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

## Cold snap

### BNZ - BusinessNZ PSI for May 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for May stood at 54.2. This was down 4.3 points from April, although still higher than the February result (52.9). The PSI has averaged 56.4 points so far for 2014.
- Despite the dip in expansion levels, four of the five main sub-indices were still in expansion during May. *New orders/business* (60.6) reduced 5.5 points from April, but remained in strong territory for expansion. *Activity/sales* (54.3) slipped 7.2 points to record its lowest result since January 2013. *Employment* (52.4) continued to edge downwards, while *stocks/inventories* (53.1) fell 2.6 points. *Supplier deliveries* (49.5) went into slight contraction for the first time since January.
- Activity remained positive throughout the country. In the North Island, the *Northern* region (55.5) reverted back to levels seen in August 2013, while the *Central* region (51.2) fell back after three consecutive months of solid results. In the South Island, the *Canterbury/Westland* region (54.5) remained in positive territory despite easing expansion, while the *Otago/Southland* region (51.3) managed to keep its head above water with minor expansion.
- Service sector results by sub-sector were mostly positive during May. *Property & business services* (60.1) picked up pace from April, while *wholesale trade* (54.7) eased back from the previous month. *Accommodation, cafes & restaurants* (43.6) fell back into negative territory after three solid months, most likely due to changing seasons, while *health & community services* (48.4) fell back to negative territory. *Transport & storage* (56.4) also experienced a lower value from the previous month, although remained in expansion for May.

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

BNZ Economist Doug Steel takes a look at a range of indicators across the service industries. The general impression of strong growth supports the above-trend economic growth message from the PSI.

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#### HIGHLIGHTS - PSI

- **Service sector records easing expansion levels in May.**
- **New orders/business still strong, but sales levels ease.**
- **Regional activity still remains positive across the country.**

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

- **Options for measuring PCI activity both showed easing of expansion.**
- **Global PCI increases during May.**

**Next BNZ - BusinessNZ PSI/PCI: 14 July 2014**

#### SPONSOR STATEMENT

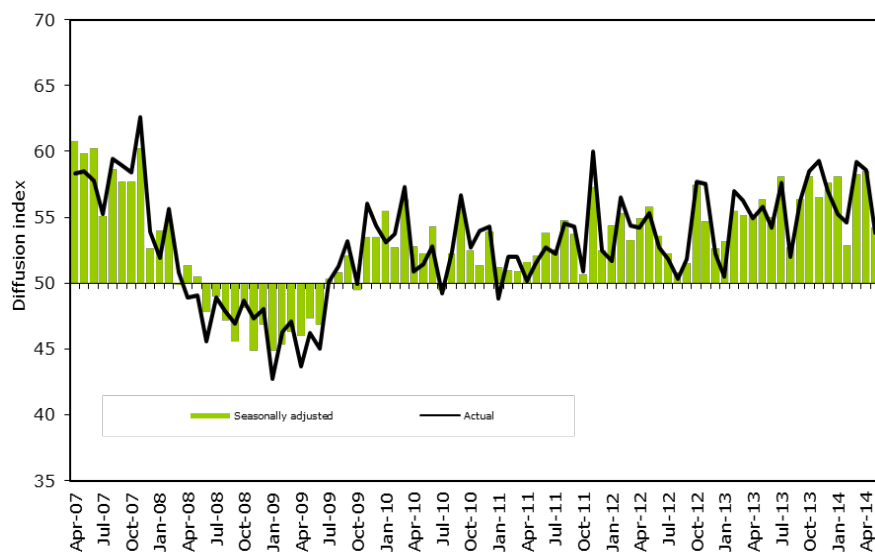
*BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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 - May 2014)**



## May PSI time series tables

National Indexes	May 2009	May 2010	May 2011	May 2012	May 2013	May 2014
BNZ - BusinessNZ PSI (s.a.)	47.3	52.2	52.1	55.8	56.4	54.2
Activity/Sales (s.a.)	44.2	54.4	55.6	59.1	58.2	54.3
Employment (s.a.)	48.0	51.1	51.0	50.3	53.6	52.4
New Orders/Business (s.a.)	50.5	55.0	55.9	62.6	60.0	60.6
Stocks/Inventories (s.a.)	46.4	49.8	46.2	51.4	53.5	53.1
Supplier Deliveries (s.a.)	46.8	49.3	48.0	53.4	55.8	49.5

Regional Indexes	May 2009	May 2010	May 2011	May 2012	May 2013	May 2014
BNZ - BusinessNZ PSI (s.a.)	47.3	52.2	52.1	55.8	56.4	54.2
Northern	47.4	52.4	52.1	55.8	58.6	55.5
Central	47.2	54.9	56.6	57.7	53.2	51.2
Canterbury/Westland	43.7	44.7	50.2	54.5	47.3	54.5
Otago/Southland	37.0	48.3	39.3	46.5	51.9	51.3

(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

**About the Performance of Composite Index**

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## Evening out

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for May saw the two options for measuring the PCI both ease from the previous month, although they remain in expansion.
- The GDP-Weighted Index (54.0) decreased 4 points the previous month, while the Free-Weighted Index (54.3) dipped 2.7 points. With both the PMI and PSI showing lower expansion levels in May, the larger fall in the PSI meant the GDP-Weighted Index fell further than the Free Weighted one, although this meant they ended up at similar levels of expansion for the current month.
- The JPMorgan Global Combined Index for May (54.3) rose to its highest level since September 2013 and signaled a solid acceleration in the rate of output expansion.

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).

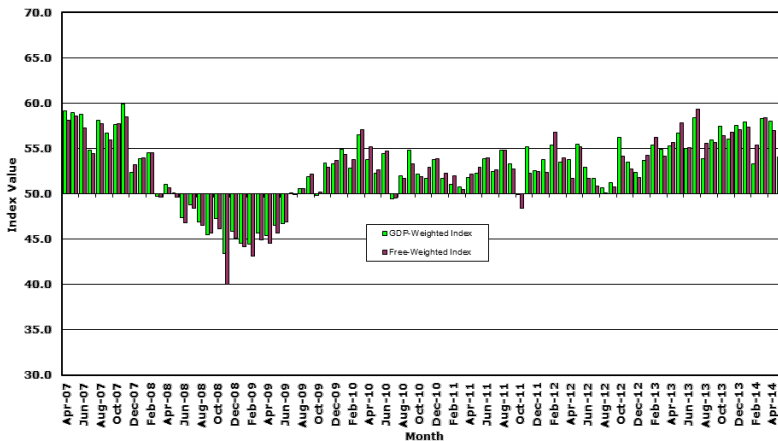
Combined results are shown in two ways:

**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 - May 2014)**



### Performance of Composite Index May time series table

Combined National Indexes	May 2009	May 2010	May 2011	May 2012	May 2013	May 2014
GDP-Weighted Index (s.a.)	46.5	52.3	52.3	55.4	56.7	54.0
Free-Weighted Index (s.a.)	45.6	52.6	52.9	55.2	57.8	54.3

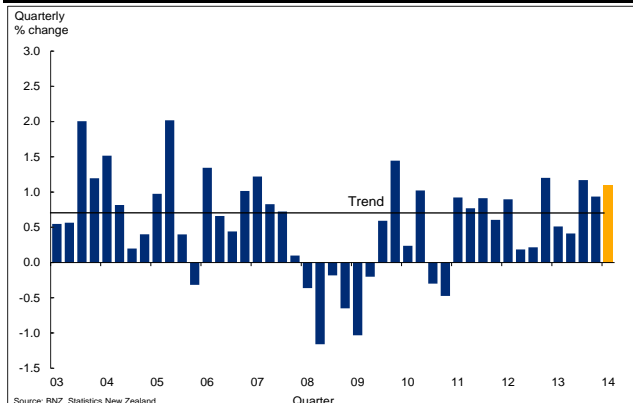
16 June 2014

## Servicing Above-Trend Growth

- Service sector likely part of above-trend Q1 growth
- PSI says more of the same in Q2, despite easing in May
- PSI activity, employment, new orders above average
- Many indicators suggest broad-based service sector growth

This week's economic growth figures for the first quarter of the year should look good. A wide range of positive activity indicators suggests growth in excess of 1% in the quarter, which would see the annual pace of economic growth nudging 4%. If it transpires it will be the strongest annual growth since the global financial crisis and well above the past 10 year average of just over 2%.

### Gross Domestic Product

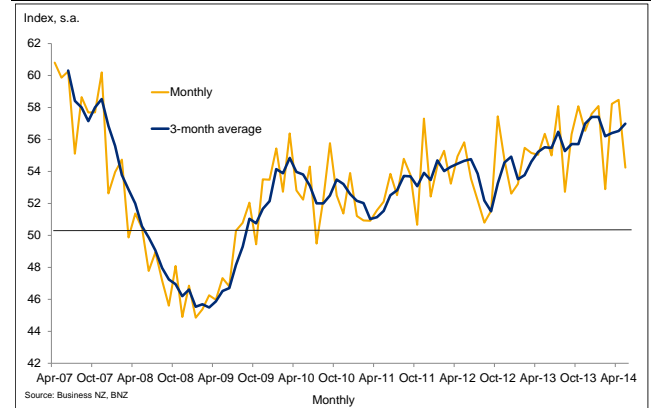


Construction activity is likely to be a standout (at long last) in the first quarter figures. The very strong positive trends that have been obvious in building consents for some time are now finally showing up in actual construction activity.

We think a big lift in construction activity in Thursday's national accounts will be complemented by a decent expansion in the service sector. That was certainly the clear message from the likes of the Performance of Service Index (PSI) at the time, which averaged a strongly-expansionary 56.4 through that quarter.

Today's PSI, for May, suggests a similar story for the service sector in Q2. While the index eased a bit to 54.2 in May, combined with the 58.5 in April it puts the second quarter-average-to-date smack in line with the first quarter indicating ongoing above average growth. The 3-month average PSI actually ticked higher to 57.2 in May.

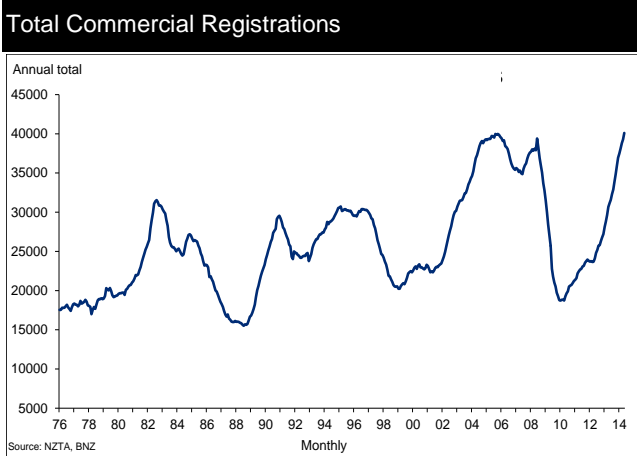
### NZ PSI



It is not just the PSI that suggests the service sector has been performing well. Indeed, the vast bulk of indicators for the diverse industry group show strong growth compared to a year ago. Construction indicators like building consents lead the way, but we shouldn't overlook the double digit growth in the likes of car registrations, the value of electronic card transactions at service sector firms, road user charges and farm sales. To us, it is the diversity of industries that these indicators suggest are expanding that is as important as the outright strength implied. The current economic expansion is broad-based, in other words.

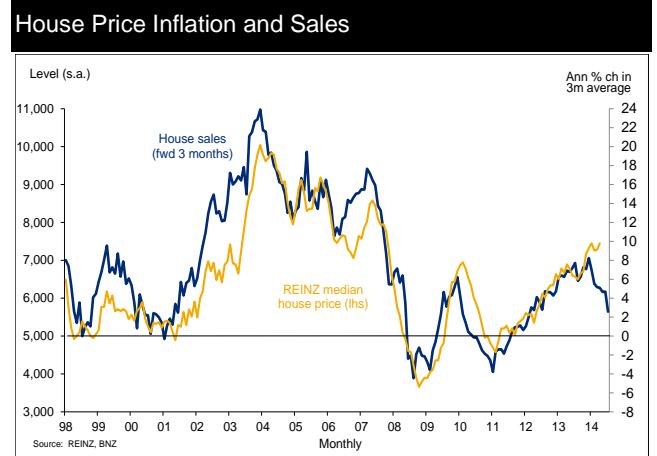
	Latest annual % growth (3 month average)
Residential building consents, value	26.0
Non-residential building consents, value	23.6
Car registrations, number	22.1
Commercial vehicle registrations, number	22.0
Services electronic transactions, value	16.6
Road user charge tax revenue, value	12.9
Farm sales, number	12.4
Accommodation guest nights, number	6.0
Retail electronic transactions, value	5.9
Household credit, value	5.6
Tourist arrivals, number	3.5
Wholesale sales, value	3.3
Mortgage approvals, value	-9.8
House sales, number	-12.6

Importantly, this is not just fast growth off a low base. Indeed, some indicators are at all-time highs. For example, annual commercial vehicle registrations have just pierced 40,000 for the first time in the year to May, pushing past the previous peak hit in 2005. More commercial vehicle



registrations fit with higher road user charge tax receipts and a positive May transport and storage industry PSI reading of 56.4, to give a 3-month average of a heady 61.3. It suggests people and freight movement is firmly increasing and investment is taking place, as you would expect when the economy is growing above trend as we think will be confirmed in Thursday's GDP figures.

Or course, not all indicators are strong with some even down on a year ago. Most notable of these is house sales (and associated drop in mortgage approvals), reflecting such things as the loan-to-value lending restrictions put in place late last year, rising interest rates and talk of more to come, and perhaps even the sharp drop in kiwis migrating offshore tightening the supply side in places. House sales in the three months to April were nearly 13% below the same period a year ago. It will be interesting to see what



happened in May, with REINZ's figures due any day now. But, as important as the existing house market is, the service sector is much broader than that and more so the economy as a whole.

In this regard, it will be worth keeping an eye on the coming months' broad indicators like the PSI to see if the mild slowdown in May extends or not. For now, while the main activity/sales, employment and new orders indices all cooled a bit between April and May, all of them remain above long term averages. Combined with the majority of other indicators, it is indicative of an economy growing above potential and will generate inflation if left unchecked. It is why the Reserve Bank lifted interest rates last week and suggested more hikes ahead.

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