

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

Spring step

BNZ - BusinessNZ PSI for September 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for September stood at 55.6. This was up 2.3 points from August and very consistent with the healthy levels of expansion seen in 2013. Compared with previous September results, the 2013 value was the highest since 2007 when the survey began.
- All five main sub-indices were in expansion during September, which has now been the case for five consecutive months. *New orders/business* (61.1) increased 6.2 points from the previous month, while *activity/sales* (55.9) remained relatively stable, increasing 0.9 points from August. *Supplier deliveries* (53.5) increased 0.7 points, while *employment* (51.2) kept within the 50-52 band mark, which has now been evident for the last four months. *Stocks/inventories* (51.5) were the only sub-index to fall from the previous month, decreasing 1.7 points.
- Activity was much more even across the both islands compared with August. In the North Island, the *Northern* region (57.3) increased 1.8 points after experiencing a dip in expansion levels for the previous month. The *Central* region (51.9) fell 1.6 points, although remained in slight expansion. In the South Island, the *Canterbury/Westland* region (55.6) recovered well from a decline in August, while the *Otago/Southland* region (58.2) also experienced a significant improvement, mainly due to a strong pick-up in new orders/business.
- Service sector results by sub-sector were again mostly positive during September. *Wholesale trade* (66.0) led the way during September, after a recovery from a dip in expansion levels during August. *Property & business services* (56.1) eased slightly with its level of expansion, while *retail trade* (55.1) did likewise. *Health & community services* (54.9) improved after lower expansion levels in August, while *accommodation, cafes & restaurants* (49.9) was all but at the no change mark following a decline in August.

Inside BNZ Commentary this Month (page 4)

BNZ Economist Doug Steel takes a look at the softer spots in the August PSI and finds that they have reversed in September. In addition, there are now some outright strong components. The positive service sector outlook matches up with other surveys and has occurred despite the prospect of interest rate hikes and lending restrictions.

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HIGHLIGHTS - PSI

- **Service sector expansion levels pick up in September.**
- **All five major sub-indices were in expansion, led by new orders/business.**
- **Regional activity more even across the country.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity both showed steady and healthy levels of expansion.**
- **Global PCI for September shows quarterly growth at one and a half year high.**

Next BNZ - BusinessNZ PSI/PCI: 18 November 2013

SPONSOR STATEMENT

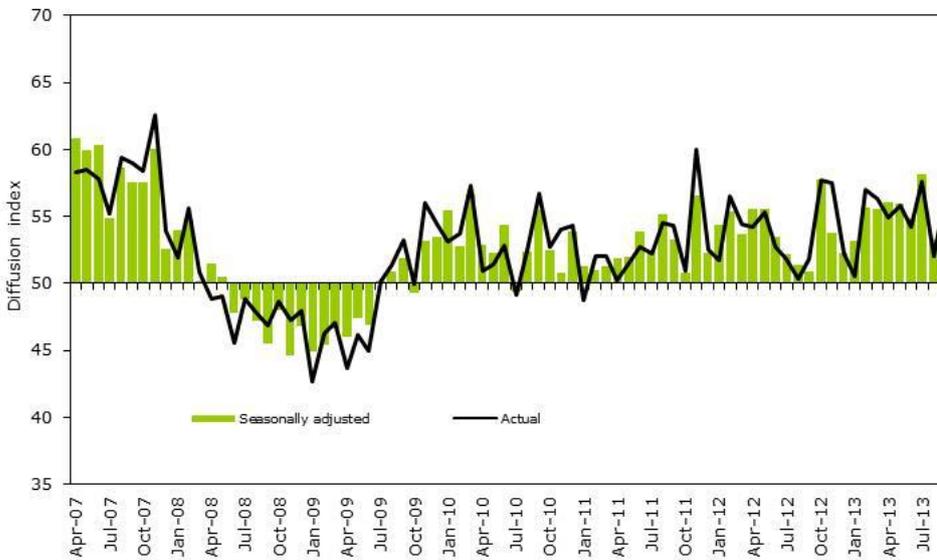
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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



September PSI time series tables

National Indexes	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013
BNZ - BusinessNZ PSI (s.a.)	45.5	51.9	55.5	53.3	50.9	55.6
Activity/Sales (s.a.)	42.4	57.1	59.7	52.2	51.0	55.9
Employment (s.a.)	45.2	47.3	52.8	53.3	48.5	51.2
New Orders/Business (s.a.)	48.3	57.4	57.4	56.0	52.1	61.1
Stocks/Inventories (s.a.)	49.9	43.9	50.3	50.3	53.0	51.5
Supplier Deliveries (s.a.)	43.7	47.2	52.6	50.6	49.0	53.5

Regional Indexes	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013
BNZ - BusinessNZ PSI (s.a.)	45.5	51.9	55.5	53.3	50.9	55.6
Northern	46.5	55.8	58.5	55.8	52.9	57.3
Central	52.7	50.4	54.5	57.0	48.7	51.9
Canterbury/Westland	50.9	51.5	51.6	57.2	50.7	55.6
Otago/Southland	37.0	45.6	55.8	34.4	48.5	58.2

(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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Steady as she goes

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for September saw both options for measuring the PCI display almost matching expansion.
- The GDP-Weighted Index (55.2) increased 1.2 points from August, while the Free-Weighted Index (55.4) experienced the exact level of expansion as the previous month. The fact that both the manufacturing expansion levels dipped slightly, while the services sector improved, meant the GDP-Weighted Index showed a greater improvement than the Free-Weighted one.
- The JPMorgan Global Combined Index for September (53.5) meant it was the sharpest quarterly growth of output for one and a half years. Overall, momentum in the manufacturing built steadily over the quarter, while service sector growth came off a strong pace seen in August.

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).

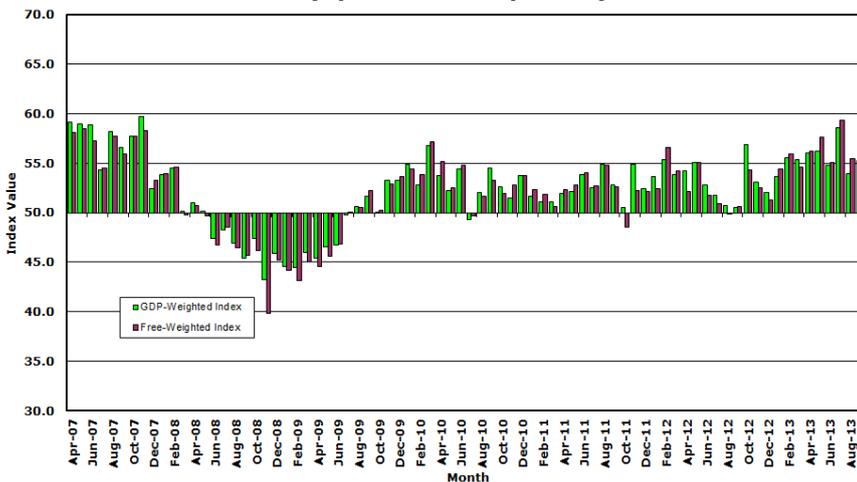
Combined results are shown in two ways:

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 - Sep 2013)



Performance of Composite Index September time series table

Combined National Indexes	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Sep 2013
GDP-Weighted Index (s.a.)	45.4	51.7	54.5	52.8	50.5	55.2
Free-Weighted Index (s.a.)	45.7	52.2	53.3	52.6	50.6	55.4

14 October 2013

Full Service Returns

- PSI bounces back in September
- August's soft tinges gone
- New orders now very strong
- QSBO similarly positive
- Despite rate hike prospects, lending restrictions

The service sector has performed well over the past year, posting solid economic growth. The Performance of Service Index (PSI) has been in tune, with its firm trends. But a month ago, a few softer spots appeared. Back then, a bigger-than-usual monthly decline in the headline PSI index, flat employment and soft South Island (including Canterbury) readings were all features that were put on watch. Collectively they challenged the idea that the solid underlying service sector trends would continue. We took the stance that the trends would remain progressive.

It is within this context that today's September PSI results are even more important than they look. The softer spots from a month ago have reversed.

First, the increase in the PSI to 55.6 in September from August's 53.3 is, in itself, no major move. But it does represent a bounce following the previous month's fall, keeping the solid underlying growth pulse intact in the process. Indeed, the September result is a smidge above the past year's average of 55.2.

Second, the employment index, while it is not strong, has nudged up to 51.2 from the essentially flat 50.1 it recorded in August.

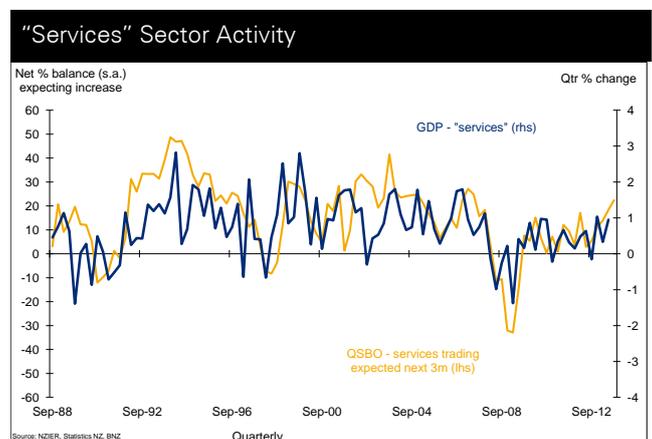
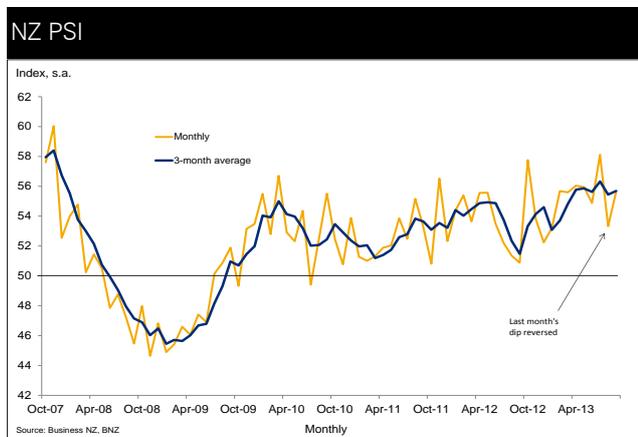
Third, the Canterbury/Westland index roared back into expansion territory this month, reaching 55.6 in September from August's very soft 42.1.

The latter improvement is not only important in the PSI context, but it also offers a counterweight to some of the softer tinges creeping into a few economic indicators for Canterbury over recent months. This includes a marked slowing in some Canterbury indicators from last week's Quarterly Survey of Business Opinion (QSBO). We noted then that growth in the region has been so abnormal over the past few years that the odd pause for breath should not come as any great surprise. We should not get too downbeat on Canterbury, in other words. The PSI results are constructive in this regard.

In addition to the previous soft spots turning for the better, there were also some outright strong PSI details this month. Most notable of these was the new orders index that lifted to a stellar 61.1 in September from an already healthy 54.9 in the previous month. This bodes well for the generally positive trends across the sector extending into the future.

The upbeat story of September's PSI result is clear from all the major indices from new orders, production and employment, right through to inventories and supplier deliveries all coming in above their respective long term averages. It points to solid growth is well in train.

This is a similar message we got from last week's QSBO. In fact, if anything, the QSBO was even stronger. A net 22% of service sector firms expect trading activity to improve over the coming three months (up from 18% expecting improvement three months ago). This is consistent with acceleration in service sector GDP.

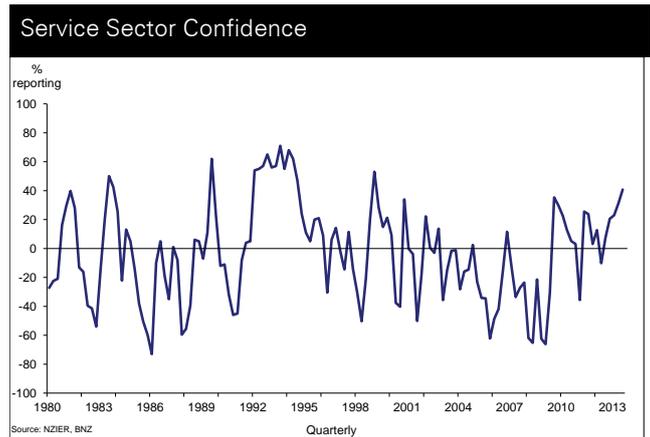
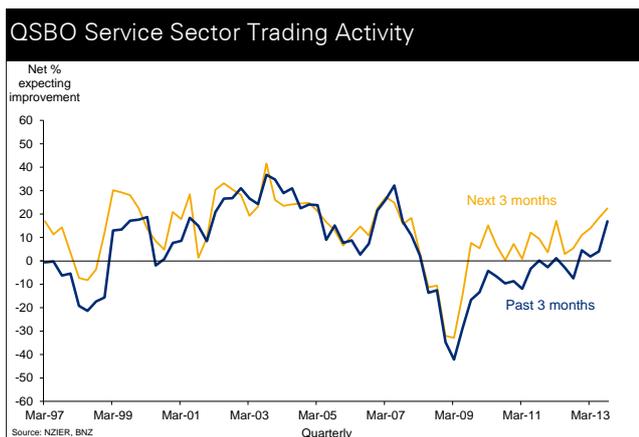


Indeed, taken literally, this indicator suggests service sector GDP will post quarterly growth in excess of 1% before too long in what would be its fastest rate of expansion since 2006.

In fact, the pickup might have already happened. The rise in reported activity in the service sector was even starker than the lift in expectations. A net 17% of firms reported an increase in activity over the past three months, up from a net 4% reporting an increase in the previous survey.

No wonder service sector firms are optimistic. In fact confidence in the sector is at its highest since 1999, with a net 41% of firms anticipating better economic conditions over the coming six months. That's approaching the levels we saw post the early 1990s and 1998 recessions, when recovery was really starting to click into gear.

This bodes well for overall economic growth calculations for the second half of 2013, given that the service sector makes up near two-thirds of the economy.



Increasing confidence and trading expectations have developed despite more firms expecting interest rates to rise and despite the RBNZ's August announcement of high loan-to-value mortgage lending restrictions being imposed on banks from 1 October. This suggests that the service sector optimism is fundamentally driven – think income, activity and population – not artificially boosted by the prospect of even cheaper money. It's a good thing.

Speaking of the lending restrictions, it is worth pointing out that there were no signs whatsoever of these affecting the PSI in September (not that we expected any). There was no significant change in either the finance and insurance or the property and business services industries. Even at the individual respondent level, there was not one comment, positive or negative, regards the new rules.

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