

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.

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Pause for thought

BNZ - BusinessNZ PSI for February 2014

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for February stood at 53.1. This was down 4.7 points from January and similar to levels of expansion last seen in August 2013. For the last six months, the PSI has averaged 56.5.
- Like last month, three of the five main sub-indices were in expansion during February. *New orders/business* (56.1) recorded its first sub-60 point value since August 2013, while *activity/sales* (55.3) also recorded a sub-60 value after reaching 62.9 in January. *Employment* (53.6) dropped 1.4 points from January, although still showed encouraging growth. *Stocks/inventories* (48.4) improved 2.5 points from January, while *supplier deliveries* (49.7) rose 2 points.
- Activity was positive across most of the country in February. In the North Island, the *Northern* region (57.7) displayed similar levels of activity compared with both December and January, while the *Central* region (59.7) recovered from a lacklustre January to come close to reaching the 60-point mark. In the South Island, the *Canterbury/Westland* region (43.4) again fell back into contraction, while the *Otago/Southland* region (54.0) recorded a lower level of expansion.
- Service sector results by sub-sector were again mostly positive during February, with seasonal factors clearly evident. After the festive/holiday season rush, *retail trade* (43.6) fell back, while *wholesale trade* (58.6) remained in positive territory, albeit after a higher level of activity in January. *Accommodation, cafes & restaurants* (61.3) remained almost identical to the previous months' result, while *property & business services* (57.6) picked up as most people returned from holidays. *Health & community services* (51.1) also picked up, while *transport & storage* (64.8) showed strong growth.

Inside BNZ Commentary this Month (page 4)

BNZ Economist Doug Steel takes a look at the sharp slowdown in new orders and soft Canterbury/Westland results. Put in context, these results may not be as soft as they first appear.

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HIGHLIGHTS - PSI

- **Service sector shows more moderate expansion in February.**
- **New orders/business shows first sub-60 value since August 2013.**
- **Regional activity positive across most of the country.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity both experienced a drop in expansion.**
- **Global PCI also saw lower levels of activity for February.**

Next BNZ - BusinessNZ PSI/PCI: 14 April 2014

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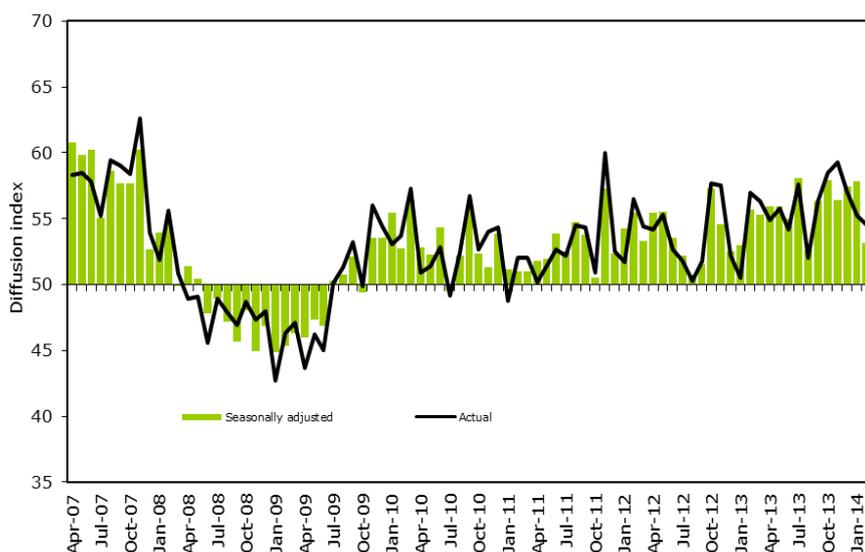
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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



February PSI time series tables

National Indexes	Feb 2009	Feb 2010	Feb 2011	Feb 2012	Feb 2013	Feb 2014
BNZ - BusinessNZ PSI (s.a.)	45.4	52.7	51.0	55.4	55.7	53.1
Activity/Sales (s.a.)	41.1	53.8	54.0	58.4	56.7	55.3
Employment (s.a.)	44.7	50.5	50.3	51.8	52.7	53.6
New Orders/Business (s.a.)	48.4	57.3	54.0	60.5	59.9	56.1
Stocks/Inventories (s.a.)	48.1	49.3	48.0	52.8	55.1	48.4
Supplier Deliveries (s.a.)	46.8	49.8	45.2	51.9	54.9	49.7

Regional Indexes	Feb 2009	Feb 2010	Feb 2011	Feb 2012	Feb 2013	Feb 2014
BNZ - BusinessNZ PSI (s.a.)	45.4	52.7	51.0	55.4	55.7	53.1
Northern	45.3	54.7	54.6	55.3	56.5	57.7
Central	46.9	51.1	57.5	58.8	54.5	59.7
Canterbury/Westland	48.9	46.8	39.5	64.1	59.1	43.4
Otago/Southland	48.0	55.7	39.5	57.7	61.9	54.0

(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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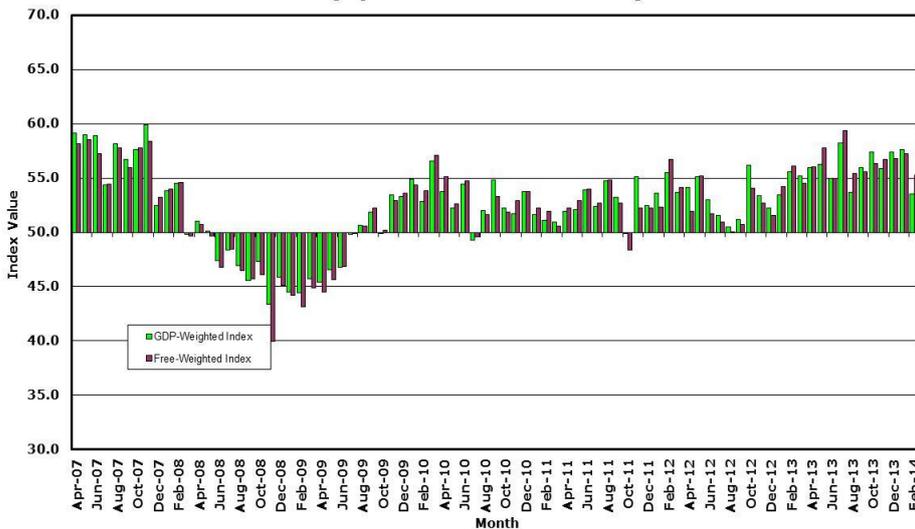
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Dip in Service Sector expansion halts march upwards

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for February saw both options for measuring the PCI at a lower level of expansion compared with recent months.
- The GDP-Weighted Index (53.5) decreased 4.1 points from January, while the Free-Weighted Index (55.3) fell 1.9 points. The fact that the services sector showed a stronger dip in expansion during February meant the GDP index produced a lower result than the free-weighted index.
- The JPMorgan Global Combined Index for February (53.0) also showed some loss of impetus, easing to a four month low.

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



Performance of Composite Index February time series table

Combined National Indexes	Feb 2009	Feb 2010	Feb 2011	Feb 2012	Feb 2013	Feb 2014
GDP-Weighted Index (s.a.)	44.5	52.8	51.1	55.5	55.5	53.5
Free-Weighted Index (s.a.)	43.2	53.8	52.0	56.7	56.1	55.3

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.

17 March 2013

Noisy Service

- Service sector growth trend strong
- Slower February follows fast January
- New orders volatile in January/February
- Canterbury hitting capacity constraints?
- PSI, PMI say 3% annual GDP growth in Thursday's Q4 figures

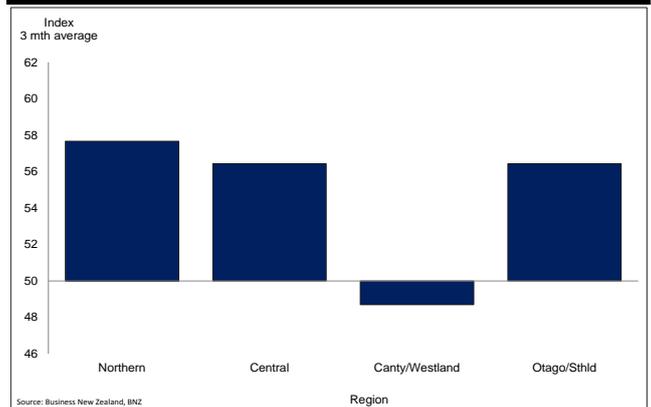
The service sector has been fair humming along. In fact, back in January, according to the Performance of Services Index (PSI), new orders burst higher with sales, activity and employment in hot pursuit. Service sector growth was very fast in January.

Growth slowed in February, as can be understood following such a frantic pace set in January. The PSI index fell from a very strong 57.8 to a still-solid level of 53.1.

A slowdown in new orders from 66.8 to 56.1 was the most noticeable move in the PSI sub-components. Indeed, it is the biggest monthly drop since the survey began in 2007. This sounds more alarming than it is. While the volatility is unwelcome, the drop is not in and of itself cause for concern. We have seen sharp falls in a month before for it to be rapidly reversed the very next month. In fact we might have the opposite situation here, with the dip in February simply the mirror of a new orders spike higher in January to its fastest monthly pace of growth in more than six-and-a-half years. In this context, decent follow up growth, which an index reading of 56.1 implies, can even be seen as a solid follow up. Through the noise, the new orders 3 month average remains strong at 61.8.

If nothing else it will pay to keep an eye on new orders going forward just in case there is something more

PSI by Region (February 2014)

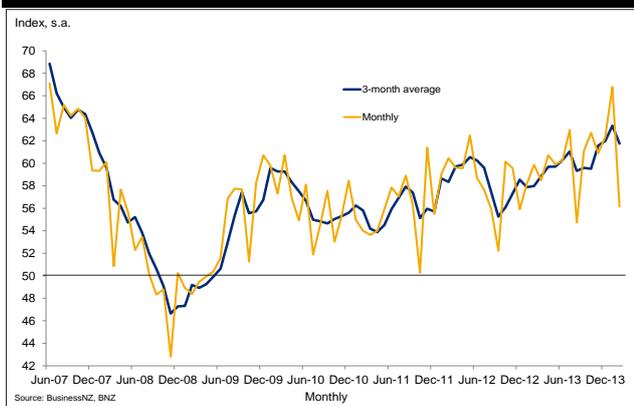


tangible to the February slowdown than just monthly noise.

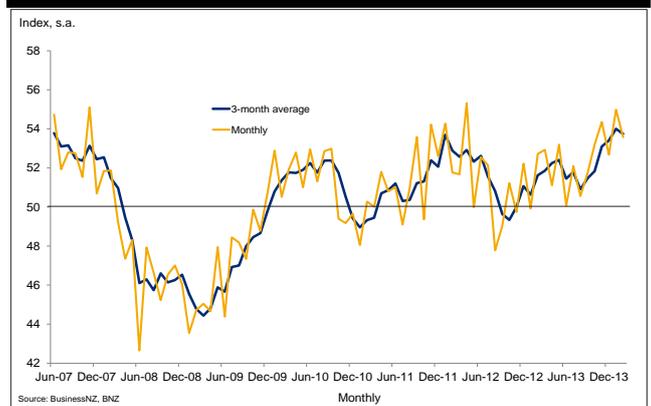
Another interesting feature of February's PSI was the underperformance of Canterbury/Westland. Maybe it was a function of wild weather in the area. But even on a 3 month average basis the regional index ease to 48.7, while all other major regions recorded solid expansion. This seems contrary to other positive Canterbury indicators. Maybe activity has pushed to such a level that it has become naturally more difficult to push even higher. This would fit with the idea that the region is hitting capacity constraints and the region's unemployment rate hitting a 5-year low at 3.4% in Q4. If so, then expect inflation ahead.

Through the wiggles the overall trends in the service sector still look strong. Together the January/February PSI

PSI New Orders



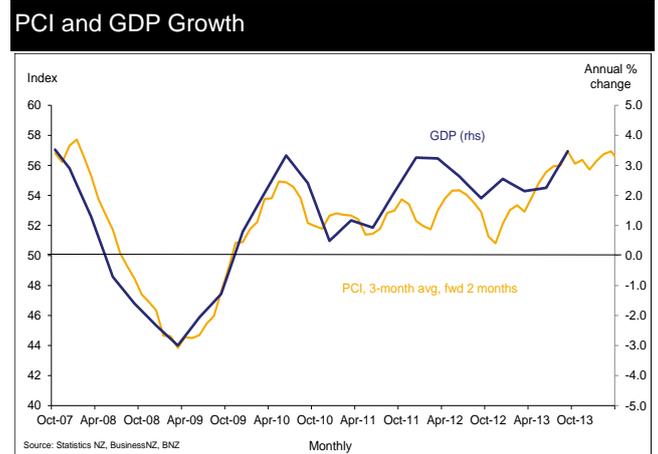
PSI Employment



results point to a sector in good heart, with a solid rate of expansion in early 2014. Production and employment indicators are not only firmly positive, but remain above average.

Similar, even stronger, trends were evident in last week's Performance of Manufacturing Index. Combining the PSI and PMI into a composite index (PCI) gives a useful indicator of overall GDP growth. No surprise given that these are surveys of outcomes, rather than intentions or expectations, and the services and manufacturing sectors account for more than three quarters of the economy.

This indicator suggests that Thursday's Q4 GDP figures will show annual growth of about 3.0% with growth accelerating to about 3.5% in Q1. This is in line with our expectations.



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