

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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Positive approach heading into Xmas

BNZ - BusinessNZ PSI for November 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for November stood at 56.3. Although this was down 1.4 points from October, the most recent value was the same as September, and represents a solid three months of expansion for the sector. So far, the PSI has averaged 55.7 for 2013.
- All five main sub-indices were again in expansion during November, which has now been the case for the last seven months. *New orders/business* (60.8) remained on top, with seven of the last eight results showing a post-60 point value. *Activity/sales* (58.3) experienced a minor dip in expansionary levels for November after a sharp pick-up for the previous month, while *employment* (54.4) recorded its highest value since April 2012. Both *stocks/inventories* (51.2) and *supplier deliveries* (50.5) experienced a drop in expansion from October.
- Activity was positive across most parts of the country in November. In the North Island, the *Northern* region (60.9) experienced an almost identical result to October, and the first consecutive post-60 results since the same period last year. The *Central* region (58.7) increased 6.1 points from October to record its highest level of expansion since March 2012. In the South Island there was changing fortunes from the previous month, as the *Canterbury/Westland* region (46.8) experienced a decline, while the *Otago/Southland* region (72.4) saw strong growth, mainly due to strong new orders/business and sales.
- Service sector results by sub-sector were all in positive territory during November. *Retail trade* (62.9) picked up pace during November, while *wholesale trade* (62.7) experienced a lower level of expansion compared with the previous month. *Property & Business services* (57.4) rose 1.8 points from October, while *transport & storage* (55.8) went back into expansion after consecutive months in decline. *Health & community services* (53.2) remained in expansion, although down from expansion levels in October.

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HIGHLIGHTS - PSI

- *Service sector continues sequence of solid positive activity.*
- *All five major sub-indices again in expansion, led by new orders/business.*
- *Regional activity positive across most of the country.*

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- *Options for measuring PCI activity both in expansion during November.*
- *Global PCI now in expansion for 14 consecutive months.*

Next BNZ - BusinessNZ PSI/PCI: 27 January 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)

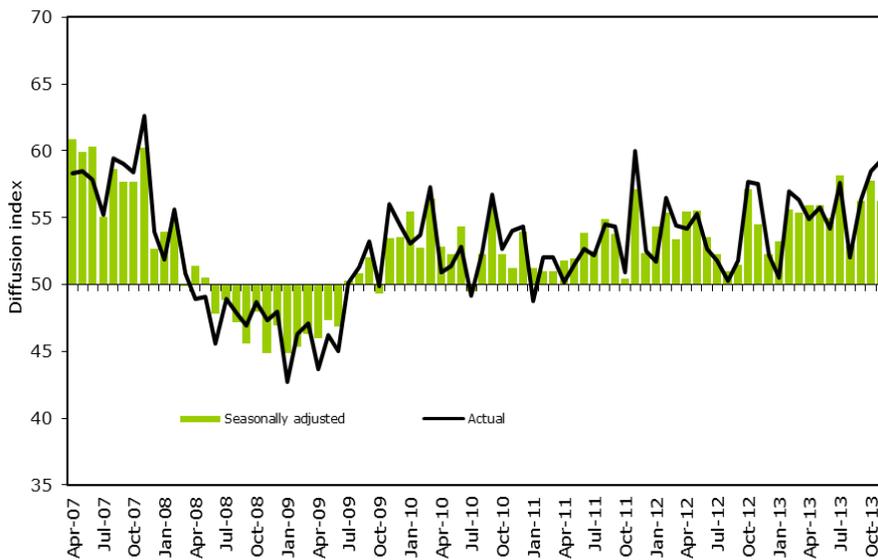
Inside BNZ Commentary this Month (page 4)

BNZ Economist Doug Steel looks at the labour market implications from this month's positive PSI and PMI results. He concludes that overall employment is on the rise and the unemployment rate is set to fall below 6% in short order.

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



November PSI time series tables

National Indexes	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012	Nov 2013
BNZ - BusinessNZ PSI (s.a.)	44.9	53.5	51.2	57.1	54.5	56.3
Activity/Sales (s.a.)	40.7	53.9	49.9	59.1	55.3	58.3
Employment (s.a.)	47.0	48.8	49.2	54.3	49.8	54.4
New Orders/Business (s.a.)	42.7	58.1	55.2	61.3	59.4	60.8
Stocks/Inventories (s.a.)	47.4	46.9	50.1	51.0	52.0	51.2
Supplier Deliveries (s.a.)	43.6	51.3	46.8	52.6	52.6	50.5

Regional Indexes	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012	Nov 2013
BNZ - BusinessNZ PSI (s.a.)	44.9	53.5	51.2	57.1	54.5	56.3
Northern	44.8	54.8	55.9	60.4	61.0	60.9
Central	50.4	59.3	55.3	59.9	55.0	58.7
Canterbury/Westland	55.3	56.0	44.6	56.7	43.3	46.8
Otago/Southland	47.6	59.4	44.7	60.8	61.7	72.4

(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
- Hospitality New Zealand

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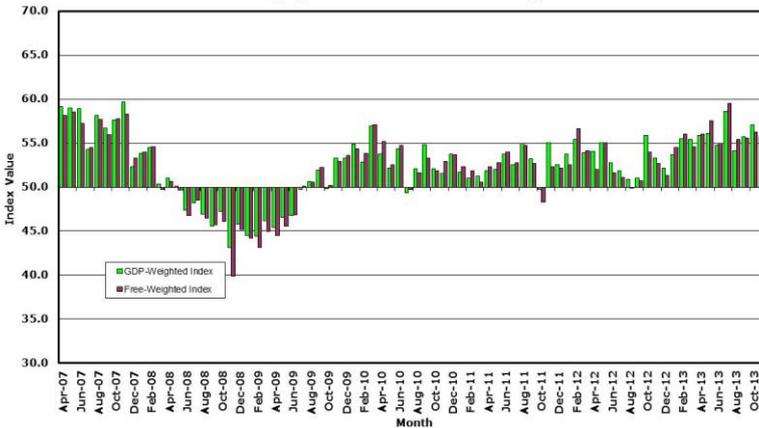
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Combined index continues solid march forward

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for November saw both options for measuring the PCI remain in solid expansion.
- The GDP-Weighted Index (55.8) decreased 1.3 points from September, while the Free-Weighted Index (56.8) rose 0.6 points. The fact that both the manufacturing and service sector increased meant the Free-Weighted index also showed an upswing. However, the lesser increase in the service sector meant the GDP-Weighted index rose, but not as much as the previous month.
- The JPMorgan Global Combined Index for November (54.3) meant global economic output expanded for the fourteenth successive month, with the rate of growth recouping the momentum temporarily ceded in October.

BNZ - BusinessNZ PCI Seasonally Adjusted Time Series (April 2007 - Nov 2013)



Performance of Composite Index November time series table

Combined National Indexes	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012	Nov 2013
GDP-Weighted Index (s.a.)	43.1	53.3	51.6	55.0	53.3	55.8
Free-Weighted Index (s.a.)	39.9	52.9	52.9	52.3	52.7	56.8

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.

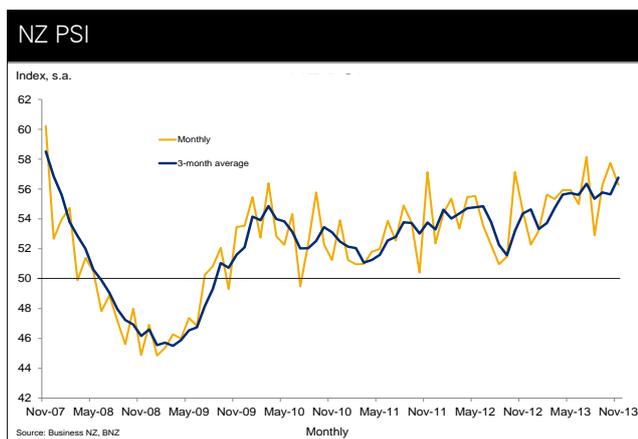
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More Jobs

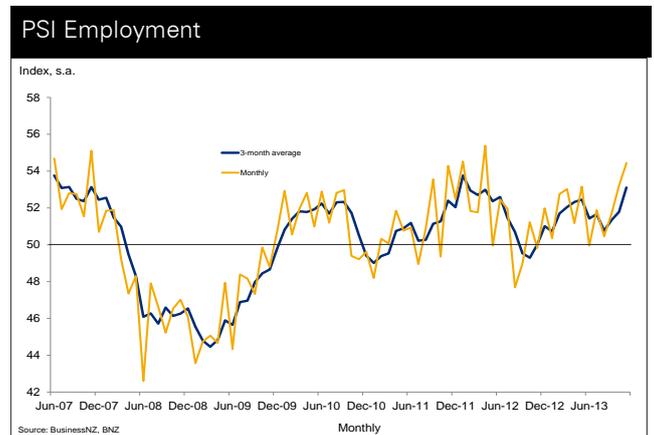
- Service sector growth has been solid all year
- PSI, PMI says employment now ramping up
- Points to sub-6% unemployment rate in Q4
- Annual employment growth to be 3%+ mid-2014
- Interest rates to start returning to normal next year

November's Performance of Services Index sat firmly in expansion mode – like it has all year. While a smidge down from October's reading, November's seasonally adjusted 56.3 compares favourably to the year-to-date average of 55.7 and even more so to the longer term historical average of 52.9. The service sector continues to tick along quite nicely.

The details reinforce that story with inventory well under control and sales growth firmly positive. Moreover, momentum looks like being maintained at least in the near term judging by the new orders index posting its third consecutive month above 60. This certainly fits with our view that economic growth was strong in the second half of 2013 and is likely to remain so into the New Year.



But it is the trend improvement underway in the PSI employment indicator that stands out most to us. While this indicator has been above 50 throughout the year, it has moved noticeably higher in the past few months. Indeed, the lift to 54.4 in November is its third consecutive monthly gain, taking the three month average to 53.1. To put this strength into context, the three month average has only been higher than it is now on two occasions in the six and a half



year history of the survey. It points to decent service sector jobs growth.

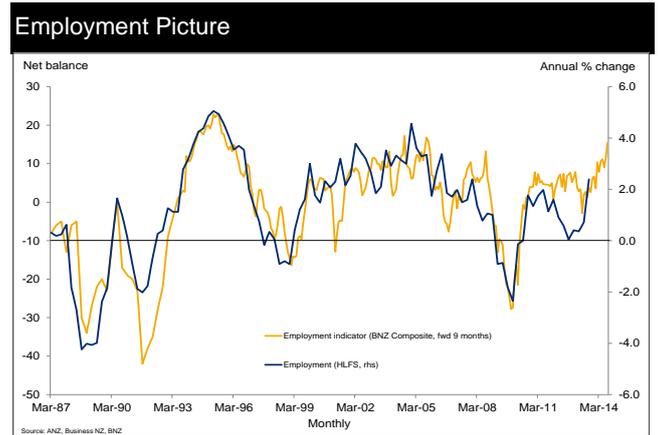
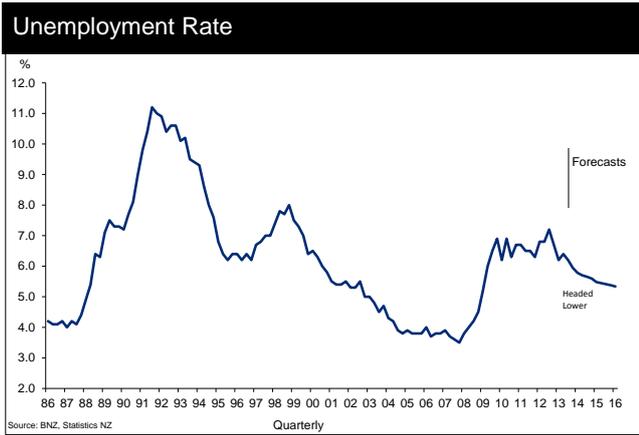
Combined with similar trends in the Performance of Manufacturing employment index released last Friday, it suggests economy wide employment has pushed higher in Q4, following the very strong 1.2% growth recorded in the official figures for Q3.

Firms' positive employment intentions from various other business surveys have been promising a decent pickup in employment for quite some time. As a survey of outcomes, rather than intentions, the rise in the PSI and PMI employment indicators suggests labour demand is accelerating. More jobs certainly fit with higher consumer confidence and spending.

The strength in the PMI and PSI employment indicators are consistent with the unemployment rate falling below 6% in short order and potentially well below (depending on how the supply side responds). Our current projections have annual employment above 3% by mid-2014. The PMI and PSI indicators suggest such an outcome may well come sooner.

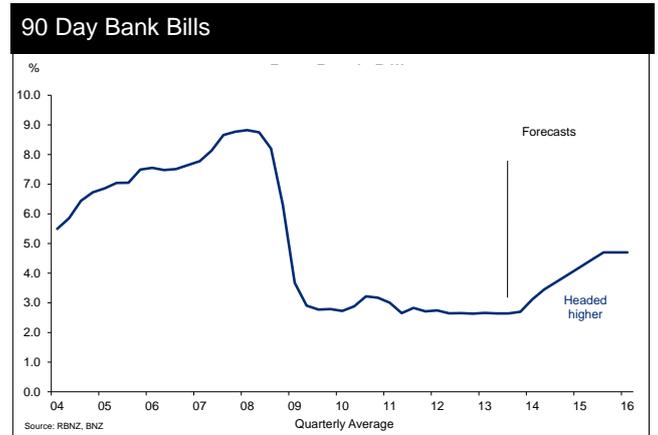
All this adds to the sense that the economic expansion is broadening and gathering pace. Something, incidentally, we expect to be reinforced by this Thursday's Q3 economic growth data.

One consequence of the stronger economy is the prospect of interest rate hikes next year in order to prevent inflation from taking hold. Such was the very strong message from the Reserve Bank last week at its latest regular Monetary Policy Statement.



In that Statement, it was interesting that the Bank tended to downplay the upside risk to inflation stemming from the labour market in stating that there appeared to be minimal overflow effect from the Christchurch rebuild and completely ignoring the recent stronger than expected employment report.

We think the labour market is an area that should be closely watched with respect to core inflationary pressure. To get a sense of where the current labour market balance sits it will be worth monitoring the next Quarterly Survey of Business Opinion (QSBO), due 14 January, from the New Zealand Institute of Economic Research. It will be particular interesting whether the difficulty firms have previously reported in finding staff has intensified or not. The labour market may well be tightening quicker than we think. That would support the notion that interest rates should indeed start progressing towards more normal levels.



doug_steel@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

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
FI: 0800 283 269

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 +1877 377 5480

Hong Kong

Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

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