

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

Holding pattern

BNZ - BusinessNZ PSI for August 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for August stood at 53.2. This was down 5.0 points from July and the lowest level of activity since January this year. Compared with previous August results, the 2013 value was higher than 2012, but lower than 2011.
- Despite the dip in the level of expansion, none of the five main sub-indices were in decline during August, which has now been the case for the last four months. Both *new orders/business* (55.2) and *activity/sales* (55.2) were tied for the highest level of activity for August, while *stocks/inventories* (53.6) and *supplier deliveries* (53.4) also produced similar levels of activity. *Employment* (50.0) gave up its gain from July to return to a position of no change that it found itself in during June.
- There was a clear difference in activity levels between the North and South Islands. In the North Island, the *Northern* region (55.5) led the way, despite falling 7.1 points from July. Conversely, the *Central* region (53.5) improved 3.0 points, with its highest value since April 2013. In the South Island, the *Canterbury/Westland* region (42.1) fell back further from July, while the *Otago/Southland* region (36.5) experienced a significant drop for August, due to low activity and new business.
- Service sector results by sub-sector were mostly positive during August. *Property & business services* (59.2) showed a strong upwards swing during August, while the *wholesale sector* (52.2) came back down to earth after significant expansion for July. The *retail sector* (58.5) improved slightly to show strong growth, while the *health & community services* (51.4) fell back to display slight expansion.

Inside BNZ Commentary this Month (page 4)

BNZ Economist Doug Steel looks at some of the positive indicators in the wider economy. He concludes that despite some softer elements in August's PSI survey, there is plenty to be positive about regards economic growth ahead following what looks to have been a soft Q2.

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HIGHLIGHTS - PSI

- *Service sector activity in holding pattern after recent highs.*
- *Four of the five major sub-indices were in expansion, led by new orders/business and activity/sales.*
- *Regional activity shows a tale of two islands.*

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- *Options for measuring PCI activity both showed a deduction in the level of expansion.*
- *Global PCI for August increases to 30 month high.*

Next BNZ - BusinessNZ PSI/PCI: 14 October 2013

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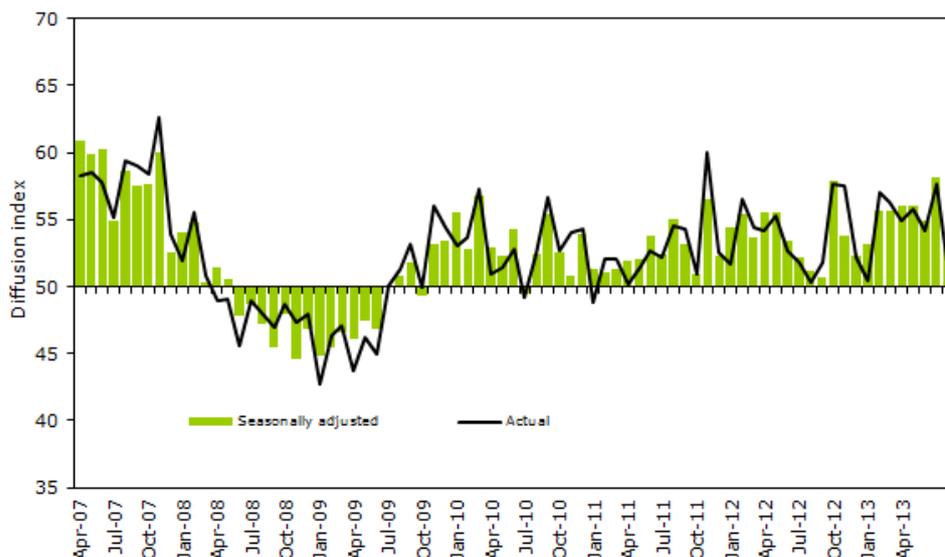
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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 - Aug 2013)



August PSI time series tables

National Indexes	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012	Aug 2013
BNZ - BusinessNZ PSI (s.a.)	47.2	50.9	52.4	55.1	51.2	53.2
Activity/Sales (s.a.)	41.3	51.3	54.6	57.7	52.1	55.2
Employment (s.a.)	46.6	48.1	52.6	50.6	47.2	50.0
New Orders/Business (s.a.)	50.0	57.5	54.4	59.2	56.3	55.2
Stocks/Inventories (s.a.)	55.4	50.3	50.5	50.0	52.5	53.6
Supplier Deliveries (s.a.)	50.4	47.7	49.2	56.6	49.0	53.4

Regional Indexes	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012	Aug 2013
BNZ - BusinessNZ PSI (s.a.)	47.2	50.9	52.4	55.1	51.2	53.2
Northern	47.3	50.2	54.3	57.4	49.4	55.5
Central	55.4	51.6	49.7	55.9	57.9	53.5
Canterbury/Westland	47.7	53.9	46.4	56.5	47.9	42.1
Otago/Southland	39.3	58.0	47.2	36.9	46.1	36.5

(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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Back down to earth

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for August saw both options for measuring the PCI return to more familiar levels of expansion after a stellar result for July.
- The GDP-Weighted Index (54.0) decreased 4.4 points from July, while the Free-Weighted Index (55.6) fell 3.6 points over the same period. The fact that both the manufacturing and services sectors experiencing a lower level of expansion during August meant both measures also fell accordingly.
- The JPMorgan Global Combined Index for August (55.2) was up from 54.0 in July – the highest result in 30 months. Overall, manufacturing showed renewed signs of strengthening to support the recent solid upswing in the services sector.

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).

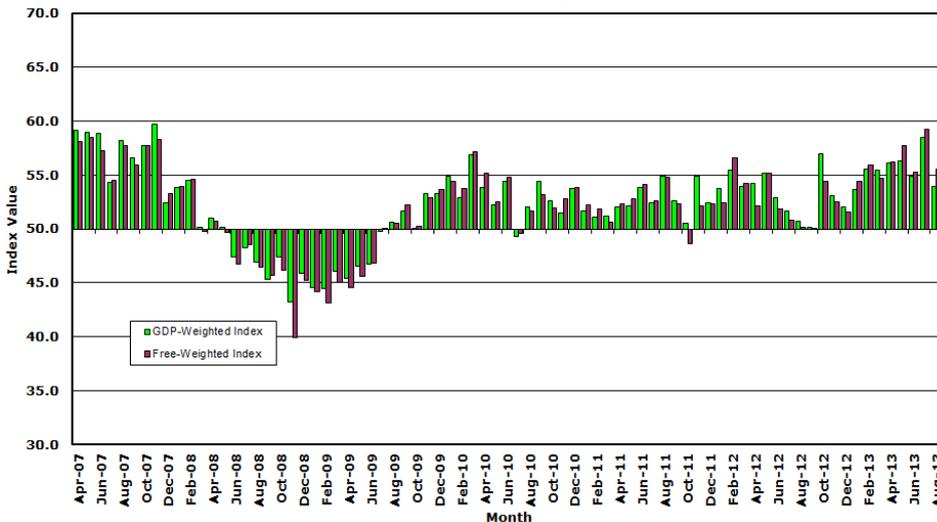
Combined results are shown in two ways:

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 - Aug 2013)



Performance of Composite Index August time series table

Combined National Indexes	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012	Aug 2013
GDP-Weighted Index (s.a.)	46.9	50.6	52.0	54.8	50.7	54.0
Free-Weighted Index (s.a.)	46.5	50.5	51.7	54.8	50.1	55.6

16 September 2013

A Rising Tide

- PSI trends remain positive
- But with some chinks to monitor
- Amid widespread positive signals for future expansion
- Is 4% economic growth too much to ask, by year end?

The service sector expansion rumbles on. The Performance of Services Index (PSI), at 53.2 in August, remains clearly above the 50 line that demarcates expansion from contraction, where it has been for no less than 37 consecutive months now. Moreover, the PSI remains above its historical average, so more than enough to maintain our positive view of the sector.

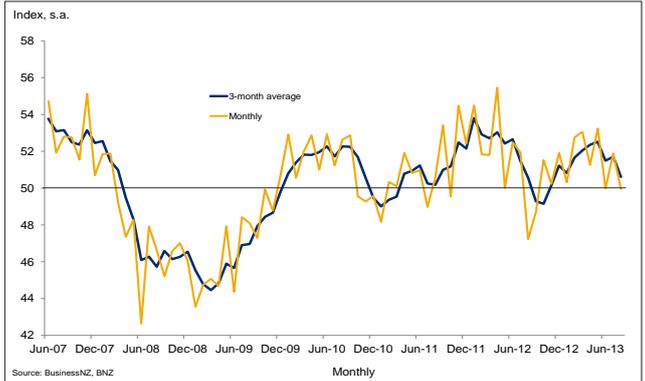
But scratching through the details of today's survey, there are a few chinks amid the generally firm August results that are worth noting and monitoring.

The most obvious of these is the 5 index point drop in the PSI from July's 58.2. This is a bit more than the usual month-to-month variation, so shouldn't be entirely dismissed as noise. However, it is not that surprising in the context of a large rise to an outright high place in July.

Still, August's PSI result is the lowest this year. Again, we don't think this is something to get overly concerned about at this point. After all, what would you expect following the strongest month in over 5 years? Some payback is understandable.

In the sub components of the PSI, flat employment at 50.0 and weak South Island readings, including Canterbury, are also on the watch list going forward.

PSI Employment

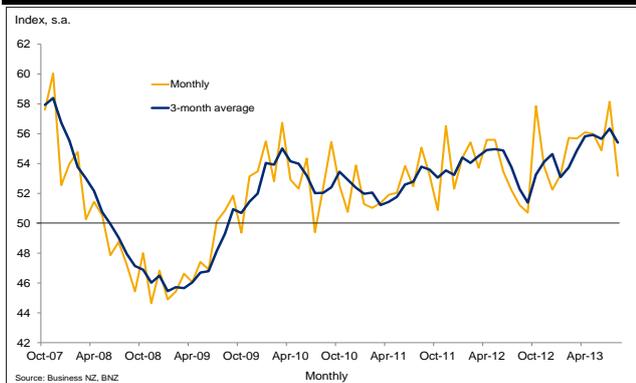


Pointing out such things is not intended to over-emphasize the negatives, but rather to explore them given that they run counter to the consensus view that the economy is strengthening through the second half of the year. In the least these details raise a question around the high degree of optimism that has been creeping into various economic commentaries (including ours) over recent times.

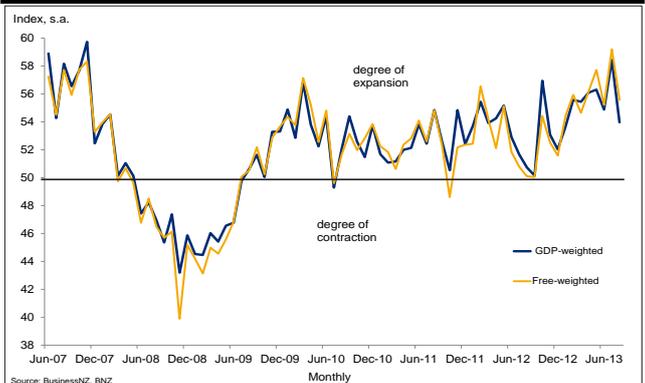
But the trends remain positive and we expect them to remain so. This applies to the broader economy as much as it does to the service sector itself. The combined services and manufacturing index gives a clue to the general positivity. August's composite results, at 54.0 or 55.6 depending on which weighting you prefer, are above long run average indicating the economy is growing above trend at around 3% per annum.

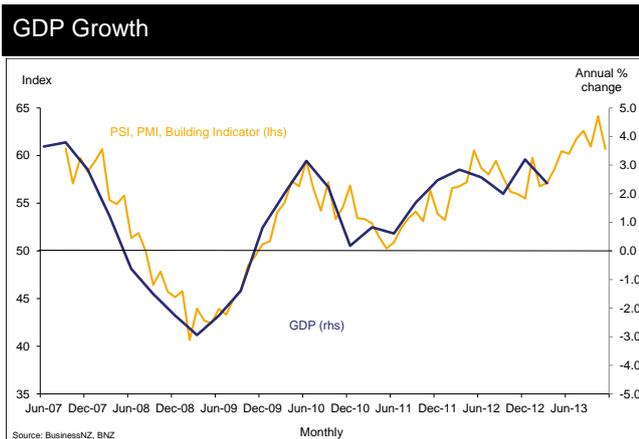
The picture gets even stronger if you add in the firmly upward trending building sector. Our annual growth

NZ PSI



Composite (PMI+PSI)





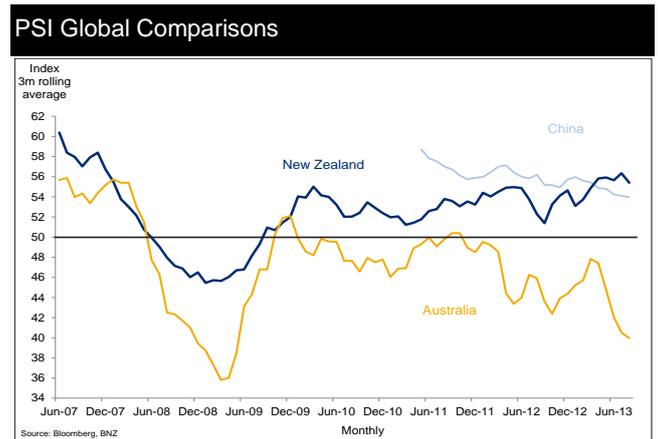
indicator comprising the PSI, PMI and residential building consents suggest that annual economic growth is heading towards 4% before too long.

While fewer lambs this spring will be a headwind for agriculture, a decent bounce in milk production from last season's drought-induced dip should see production lift overall. And with prices good, and exceptionally good for dairy, agriculture looks like being a strong contributor to growth over the coming year – both directly and indirectly through the positive effect higher rural incomes will have on the agriculture services industries.

While we are not sure the official figures will live up to an annual 4% rate of expansion as soon as the indicator above suggests – not with the mild contraction we see for Thursday's Q2 data – but we certainly agree with the sentiment it exhibits for the outlook more generally.

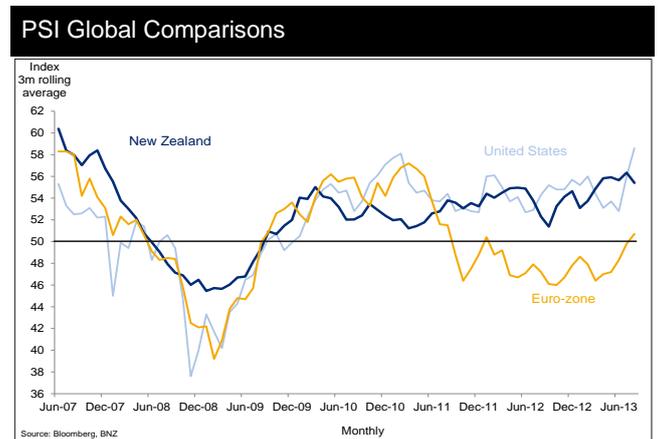
The economic growth outlook continues to look strong. We see annual GDP growth hitting 4% by mid-next year. That is getting up there. But it seems achievable. After all it is not that often you get indicators for services, manufacturing, building and agriculture all trending positive at the same time and in such a convincing fashion. If the major sectors of the economy pointing higher is not enough to get positive on the growth outlook, there is always the pure people effect to fall back on. Yes, net migration has swung sharply positive over recent months. As they say, a rising tide lifts all boats (well, maybe apart from Oracle Team USA).

So, it is difficult to get too down beat on a couple of weaker details in today's PSI. That said these things are worth monitoring, to see if they develop into something



beyond monthly noise. But, at this stage, the trend in a wide range of indicators is firmly upward. No wonder the RBNZ is starting to talk a bit tougher on interest rates.

Of course, there are always things that could change the outlook, and abruptly. For example, there is still a lot of discussion around risks lurking offshore, including a sharper than expected slowdown in the likes of China and Australia. The equivalent PSI-type indicators for those economies do suggest caution is warranted. But, equally there are some positives appearing globally too. While it might be very small steps in the case of the Eurozone's PSI sneaking back into positive territory, it is much more assertive in the US. This is not to say that there are no global risks out there, but rather to point out that sometimes there are positive surprises as well as negative ones.



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