

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

## Outstanding October

### BNZ - BusinessNZ PSI for October 2013

- The seasonally adjusted BNZ - BusinessNZ Performance of Services Index (PSI) for October stood at 58.2. This was up 1.8 points from September and the highest level of activity since November 2007. Compared with previous October results, the 2013 value was the highest since 2007 when the survey began.
- All five main sub-indices were in expansion during October, with none showing a decline for six consecutive months. *New orders/business* (63.0) increased a further 1.7 points from the previous month to match its result in July, while *activity/sales* (60.9) also produced a post-60 value. *Stocks/inventories* (54.8) increased after consecutive drops in expansion levels, while *employment* (52.8) experienced its highest result since May. *Supplier deliveries* (51.4) was the only index to show lower expansion than September, falling 1.7 points.
- Activity was positive across most parts of the country in October. In the North Island, the *Northern* region (60.8) increased 3.5 points to reach its highest value since July. The *Central* region (52.6) also increased from the previous month, rising 0.7 points. In the South Island, the *Canterbury/Westland* region (54.9) experienced a slight dip in expansion levels from September, while the *Otago/Southland* region (46.8) continued to see-saw between expansion and decline.
- Service sector results by sub-sector were again mostly positive during October. *Wholesale trade* (69.3) continued its strong march upwards with its highest level of expansion since July. *Health & Community services* (59.7) also produced a strong result in October, while *Accommodation, Cafes & Restaurants* (58.1) improved after consecutive months in decline. In contrast, *Property & Business services* (55.6) showed a slight dip in expansion levels compared with September, while *Retail trade* (55.1) did likewise.

The BNZ - BusinessNZ Performance of Services Index 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 PSI and sub-index results are seasonally adjusted.

#### HIGHLIGHTS - PSI

- **Service sector expansion at highest level since 2007.**
- **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 increased from September.**
- **Global PCI for September shows highest level of expansion in 32 months.**

**Next BNZ - BusinessNZ PSI/PCI: 16 December 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](http://www.research.bnz.co.nz))

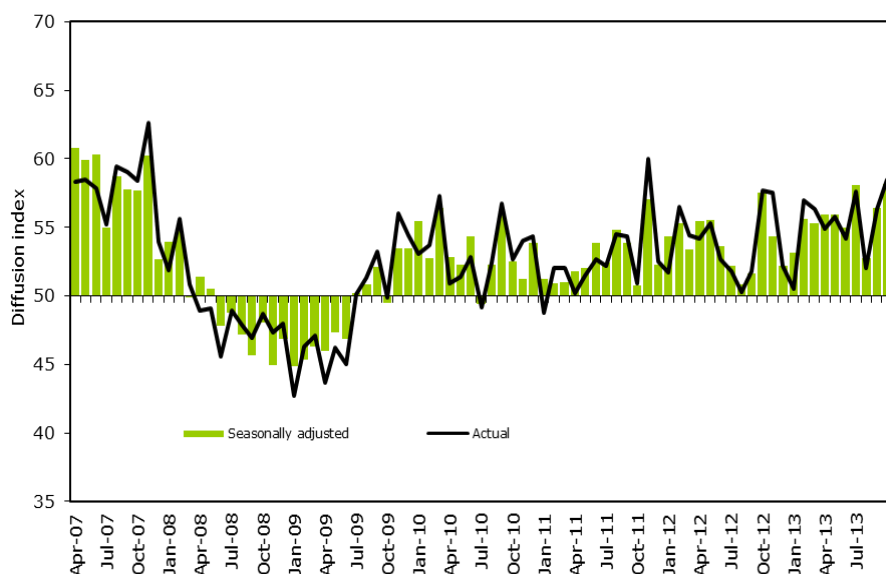
#### *Inside BNZ Commentary this Month (page 4)*

BNZ Senior Economist Craig Ebert says October's positive PSI result indicates that GDP is picking up to an above-trend pace, and the potential for the economy delivering an 'upside surprise' looms large.

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

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



## October PSI time series tables

National Indexes	Oct 2008	Oct 2009	Oct 2010	Oct 2011	Oct 2012	Oct 2013
BNZ - BusinessNZ PSI (s.a.)	48.1	49.4	52.5	50.7	57.5	58.2
Activity/Sales (s.a.)	46.3	47.7	53.2	48.7	61.9	60.9
Employment (s.a.)	46.5	49.8	49.2	49.1	50.9	52.8
New Orders/Business (s.a.)	48.9	51.5	53.2	50.5	60.4	63.0
Stocks/Inventories (s.a.)	49.3	44.5	50.4	50.7	50.4	54.8
Supplier Deliveries (s.a.)	47.9	46.9	50.8	50.7	55.3	51.4

Regional Indexes	Oct 2008	Oct 2009	Oct 2010	Oct 2011	Oct 2012	Oct 2013
BNZ - BusinessNZ PSI (s.a.)	48.1	49.4	52.5	50.7	57.5	58.2
Northern	48.4	48.9	55.3	48.6	60.7	60.8
Central	55.4	51.6	51.5	54.5	48.8	52.6
Canterbury/Westland	52.3	54.5	45.0	64.2	56.0	54.9
Otago/Southland	37.7	47.5	45.5	43.7	55.6	46.8

(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

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

## Service sector boosts combined index

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for October saw both options for measuring the PCI increase from September.
- The GDP-Weighted Index (57.1) increased 1.4 points from September, while the Free-Weighted Index (56.0) rose 0.5 points. The fact that both the manufacturing and services sector improved, but more so with the latter, meant the GDP-Weighted Index showed a greater improvement than the Free-Weighted one.
- The JPMorgan Global Combined Index for October (55.5) meant it was the highest level of growth in 32 months, underpinned by a solid improvement in new business.

#### 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).

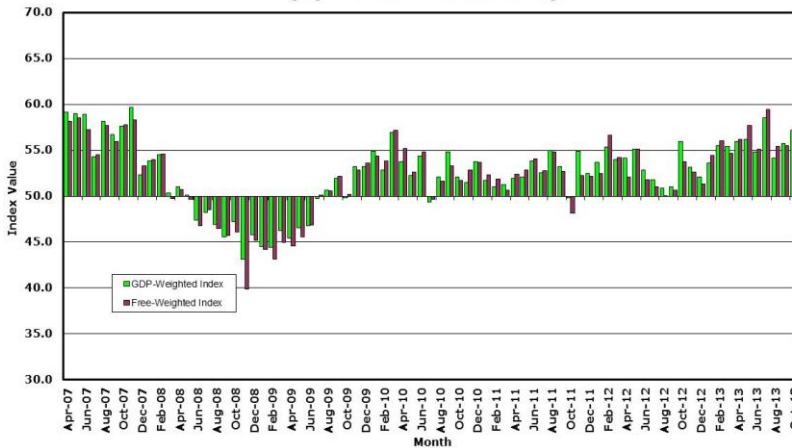
Combined results are shown in two ways:

**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 - Oct 2013)**



#### Performance of Composite Index October time series table

Combined National Indexes	Oct 2008	Oct 2009	Oct 2010	Oct 2011	Oct 2012	Oct 2013
GDP-Weighted Index (s.a.)	47.3	49.8	52.1	49.8	55.9	57.1
Free-Weighted Index (s.a.)	46.1	50.2	51.7	48.2	53.8	56.0

18 November 2013

## Orders Please

- NZ PSI galloping away at 58.2
- New orders for service sector up at 63.0
- Consistent with above-trend growth
- Yet another indicator of such

We'll keep it snappy this month. Just like the Performance of Services Index (PSI) itself. It has continued to snap back from a "soft" patch in August, hitting a seasonally adjusted 58.2 in October. This is the fastest result since 2007, when the economy was on fire.

But, unlike in 2007, we don't see any seeds of natural demise. Back then it was only a matter of time before the economy came back down to earth, having spent and borrowed its way to all manner of imbalances and over-stretch. A domestic recession was eventually made worse by a collapsing global economy. Now, we can see only reason for the strong growth portrayed in the latest PSI to keep on keeping on (against the backdrop of a positive, albeit mixed, global economic outlook).

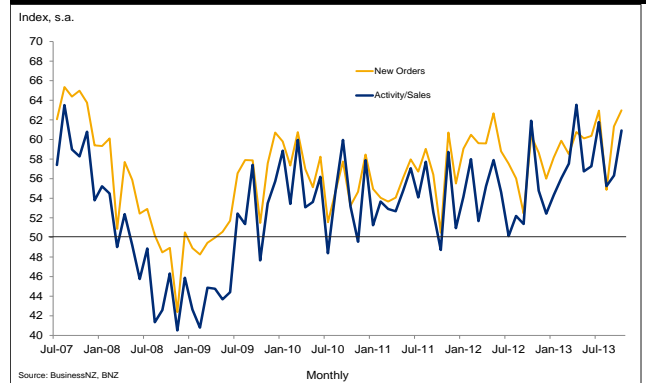
Still, the longer the RBNZ maintains its substantial interest rate stimulus the bigger the risk that we run smack into the capacity constraints and inflation that we saw over the last cycle. After all, the economy presently has little, if any, effective spare capacity to soak up. It won't take much growth to put the pressure back on.

Sure, we've seen the PSI poke its nose up frequently over recent years, only for it to jag back down the very next month. Promises, promises. But over the last year or so it's been more a matter of the occasional flutter to the downside, only to snap back to solid trend the next. And so it has been over recent months.

We are also encouraged by the fact the new-orders component of the PSI continues to burgeon. Up at 63.0 in October it's a very strong signal that production will keep expanding as briskly as the PSI activity/sales index did during October, with 60.9. It doesn't take a lot to get such diffusion indices – upon which the PSI is based – above the break-even mark of 50. But it does take a lot to get them up above 60, as a rule.

The other source of confidence we've drawn from the latest PSI is that, like the recent PMI, it's exhibiting a more widespread growth pulse. Whichever way you slice it, the stragglers and spoilers are becoming fewer and fewer as the months tick by.

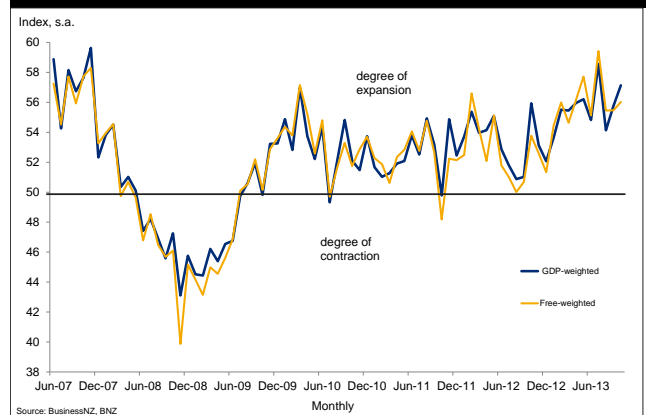
PSI New Orders and Activity/Sales



We should also note (while not making a big deal of it) that New Zealand's PSI has increased to a very high level, in spite of the recently introduced LVR restrictions. Had the PSI fallen we're sure that many would have blamed it on the lending policy, given the fact many service industries depend directly and indirectly on the housing market.

Taken together, the latest PSI and PMI are further indication that GDP growth is picking up to an above-trend pace – and not just in prospect, but around about now. This further queries whether our GDP growth forecasts are strong enough – either for the immediate term, or through the course of next year. The potential for upside surprise looms large.

Composite (PMI + PSI)



[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@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

**Mike Jones**

Strategist  
+(64 4) 924 7652

**Kymberly 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

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**