

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

## Solid but not spectacular

### BNZ - BusinessNZ PSI for November 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for November stood at 54.1. While this still represented expansion in the sector, it was down 4.0 points from October's strong result. Compared with previous November results, the 2012 value was the third highest recorded.
- Four of the five main sub-indices were in expansion during November. *New orders/business* (58.1) led the way, but was down 4.8 points from the previous month. Likewise, *new activity/sales* (55.4) fell back 9.0 points, although remained in healthy expansion. In contrast, *employment* (49.9) dropped 2.1 points to stand at all but no change for November, while *supplier deliveries* (52.2) kept its head above the no change mark. *Finished stocks* (51.7) remained very consistent with previous recent results, with a range of only 1.7 points since May.
- Three of the four regions were again in expansion during November. In the North Island, the *Northern* region (61.0) continued to build on its previous monthly result with its highest figure since November 2007. The *Central* region (55.0) bounced back from consecutive monthly declines to indicate expansion at similar levels during the middle of the year. In the South Island, the *Canterbury/Westland* region (43.3) fell back sharply, while the *Otago/Southland* region (61.7) showed ongoing momentum after a pick-up in October.
- Service sector results were mainly positive in November. *Property & business services* (63.0) led the way, followed by *accommodation, cafes & restaurants* (61.3). *Wholesale trade* (61.1) was close behind, while *health & community services* (49.7) was one of the few sub-sectors to dip below the no change mark in November.

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#### HIGHLIGHTS - PSI

- **Service sector remains in solid territory for November.**
- **Four of the five major sub-indices in expansion, with activity/sales and new orders/business still showing positive results.**
- **Regional activity positive in three of four main regions.**

#### HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity again both in positive territory for November.**
- **Global PCI for November shows an eight month high.**

**Next BNZ - BusinessNZ PSI/PCI: 28 January 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.

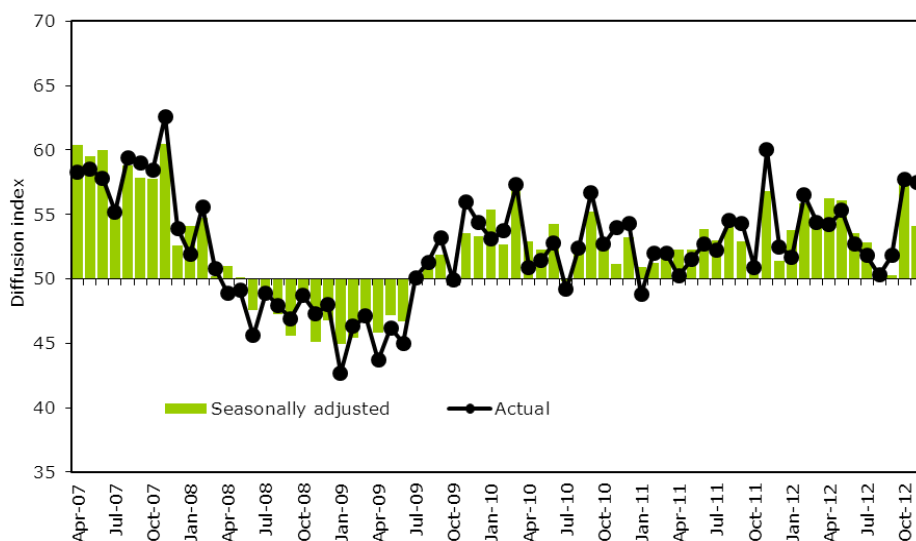
BNZ ([www.research.bnz.co.nz](http://www.research.bnz.co.nz))

**Inside BNZ Commentary this Month (page 4)**  
 Head of Research Stephen Toplis reflects on the struggles and slow progress of the economy in 2012, and examines New Zealand's economic outlook for calendar 2013.

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**BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Nov 2012)**



## November PSI time series tables

National Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012
BNZ - BusinessNZ PSI (s.a.)	60.5	45.1	53.5	51.1	56.8	54.1
Activity/Sales (s.a.)	61.4	41.4	54.5	50.6	59.7	55.4
Employment (s.a.)	54.8	46.6	48.5	48.9	54.1	49.9
New Orders/Business (s.a.)	64.1	42.7	57.7	54.6	60.4	58.1
Stocks/Inventories (s.a.)	59.9	47.4	47.0	50.1	50.9	51.7
Supplier Deliveries (s.a.)	54.6	43.9	51.5	46.8	52.4	52.2

Regional Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012
BNZ - BusinessNZ PSI (s.a.)	60.5	45.1	53.5	51.1	56.8	54.1
Northern	64.1	44.8	54.8	55.9	60.4	61.0
Central	61.9	50.4	59.3	55.3	59.9	55.0
Canterbury/Westland	59.6	55.3	56.0	44.6	56.7	43.3
Otago/Southland	62.0	47.6	59.4	44.7	60.8	61.7

(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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## Still showing positive outcomes

### BNZ - BusinessNZ Performance of Composite Index (PCI) for November 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for November continued to show the two options for measuring the PCI in expansion, although down from October.
- The GDP-Weighted Index (52.2) decreased 5.1 points from October, while the Free-Weighted Index (51.2) fell 3.9 points over the same period. While the pick up in the unadjusted manufacturing sector assisted in boosting both PCI indices, the results were not strong enough to see uplift once seasonal factors were taken into account.
- The JPMorgan Global Combined Index for November (53.7) was the fastest expansion of global economic output since March, with the manufacturing sector stabilising following a four-month period of contraction.

#### 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).

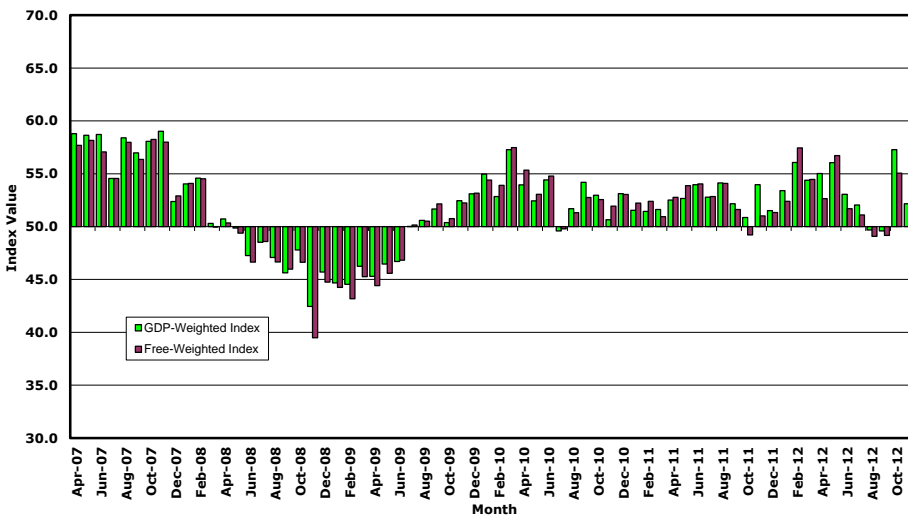
Combined results are shown in two ways:

**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 - Nov 2012)**



**Performance of Composite Index November time series table**

Combined National Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012
GDP-Weighted Index (s.a.)	59.0	42.5	52.5	50.6	54.0	52.2
Free-Weighted Index (s.a.)	58.0	39.5	52.2	51.9	51.0	51.4

17 December 2012

## Solid but Unspectacular

- 2013 another year of modest growth
- Construction leads the way
- Durables consumption to rise
- Net exports negative
- Interest rates and the NZD immobile

The latest PMI and PSI outturns reflect an economy that is continuing to struggle but, despite that struggle, is making slow progress. That has been the theme for most of 2012 and will remain the case for 2013.

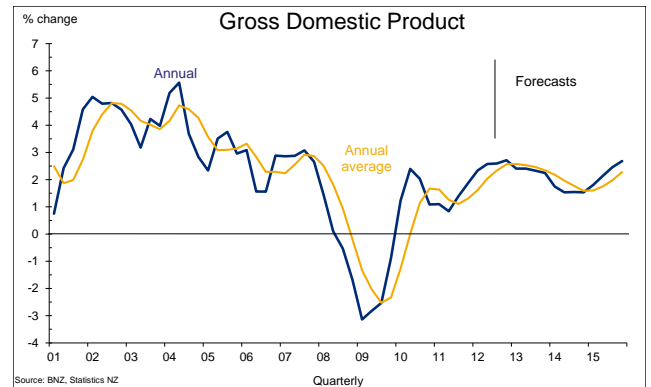
New Zealand's economic outlook for calendar 2013 can best be described as singularly unspectacular. But against a global backdrop of significant distress this is not a bad place to be. That said, while our central forecast is unexciting it is not without substantial risk and uncertainty stemming not only from offshore events but also domestic developments.

We are forecasting GDP to expand an annual average 2.3%. This is heavily dependent on a significant increase in construction activity with residential building forecast to soar by almost 30% and non-residential 12%. In part this is a function of the rebuild of Christchurch but it also reflects clear excess demand for housing in Auckland, where construction activity has failed to keep pace with population growth, resulting in sharply rising house prices.

Increased construction activity will be accompanied by heightened consumption on durable goods, which will be further promoted by modest real disposable income growth, extremely low interest rates and wealth gains - via appreciating values in the housing stock.

The supply response in the housing market will be critical to the evolution of the economy. If there is a supply response, and there is sufficient capacity in the construction industry to meet demand, then the expansion in this sector will be relatively non-inflationary. In contrast, if the supply response is not forthcoming, there is a very real risk that house price appreciation could become sufficiently large to unnerve the central bank both from a financial stability perspective and from a monetary policy angle, particularly if house price appreciation encourages households to re-leverage.

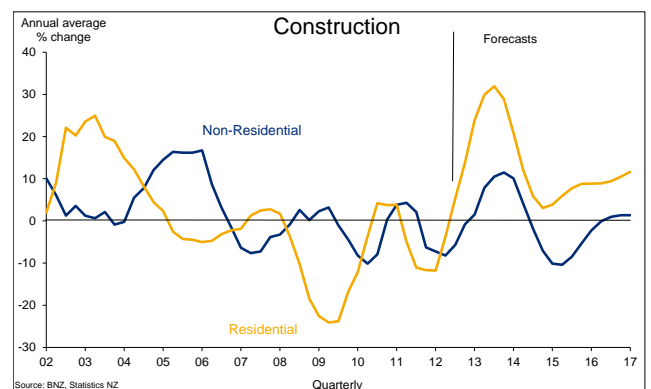
The other area of consternation is the state of the labour market. No one knows whether to believe the latest high (7.3%) unemployment rate or not, particularly as the unemployment data are completely at odds with

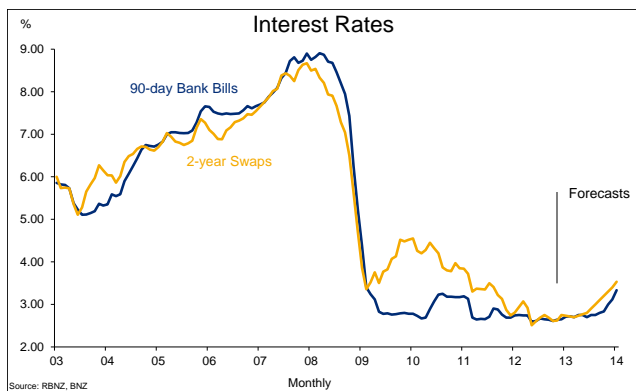


all the other labour market information available. If unemployment is as high as stated, it implies more spare capacity and less inflation in the economy than we (and the central bank) have assumed. It would also suggest downside risk to our construction and private consumption forecasts. In contrast, if other labour market indicators are a better reflection of capacity, inflation could prove more problematic than anticipated. Watch these data closely.

With global demand relatively soft, and the expansion in agriculture production likely to be substantially lower than the recent past, exports are unlikely to be a major contributor to growth. Indeed, net exports are likely to be negative as imports are boosted by the domestic construction boom.

This will limit GDP growth but, more importantly, should result in further deterioration in the balance of payments deficit. We see this rising to 6.5% of GDP (from 4.9% currently and a low of 1.8% back in March 2010). Given New Zealand's high level of indebtedness, the deficit could be that much worse in the event that global





interest rates rise. Whether this risk eventuates or not, the deterioration in the balance of payments deficit could well unnerve the rating agencies so should be followed with interest.

The current account deterioration also provides further reason for the Government to remain committed to achieving a fiscal surplus as soon as possible. We think it unlikely the Government will meet its targets but provided its commitment remains intact it should go some way to appeasing rating agency concerns. In this context, it is worth noting that the contractionary impact of the fiscal tightening is expected to be an almost complete offset to the Christchurch reconstruction over the next twelve months.

The really good news from New Zealand's perspective is that modest growth is still being forecast despite relatively tight monetary and very tight fiscal conditions. This being so, in the event of disappointment there is plenty of room to move on the policy front. There are few countries in the developed world that are in such a fortuitous position.

So where to for interest rates?

Over the last two years the RBNZ has been a bastion of stability in a world where central banks have been all over the place. Even the once solid RBA has shifted its cash rate a total of 175 basis points since April 2011. From the RBNZ's perspective, more of the same is on the cards so we see little reason why the OCR should move until at least the very end of 2013.

In this regard, our view is broadly consistent with that of the RBNZ and that of the market. Where we differ (from the market, but not the RBNZ) is in believing that there is a greater chance of a hike than a cut in 2013. And as we head into 2014 we see the cash rate moving progressively back towards neutral as inflation pushes higher than RBNZ expectations. This is due to a combination of the spare capacity in the economy being exhausted and the currency finally beginning to fade.

In the interim, the Reserve Bank has highlighted the two key factors that could result in an interest rate track different to its published forecast. The upside risk revolves around the housing market. If house price inflation continues to accelerate and/or supply conditions do not improve then this could spill over into a more inflationary environment than anticipated. On the flip side, the Bank has treated the recent spike in unemployment as a data anomaly. If it proves not to be so then the argument for loosening policy would rise.

As for the currency, the only real comment to make here, is don't expect it to fall any time soon. While we believe that the upside is limited it is equally unlikely to fall substantially until such time that investors see the United States and Europe as a better bet. That, for obvious reasons, may take a while.

[stephen\\_toplis@bnz.co.nz](mailto:stephen_toplis@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

#### 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  
Fax: +(64 4) 474 6266

### 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

### Emma Lawson

Currency Strategist  
+(61 2) 9237 8154

### 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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