Expansion in New Zealand’s services sector climbed above its long term average level of activity, according to the BNZ - BusinessNZ Performance of Services Index (PSI).

The PSI for October was 55.4, which was 0.9 points up from September (A PSI reading above 50.0 indicates that the service sector is generally expanding; below 50.0 that it is declining). The October result was also exactly one point above the long term average of 54.4 for the survey.

BusinessNZ chief executive Kirk Hope said that after three months at the 54 point mark, it was pleasing to see the sector push through to its highest result since January this year.

“Looking at the key sub-index values, both new orders/business (62.1) and activity/sales (58.1) improved their result since January 2019 and May 2018 respectively, with the former showing strong expansion. Employment (52.0) fell marginally, while stocks/inventories (51.3) remained all but unchanged from the previous month.

Looking at comments from respondents, the lift in overall expansion was mirrored in the proportion of positive comments that went from 48.6% in September to 50.7% in October.

BNZ Senior Economist Craig Ebert said that “the firming in the PSI has been complemented by a sharp recovery in the Performance of Manufacturing Index (PMI) for October. Between the two of them, they now indicate annual GDP growth of closer to 2% than the 1% they portrayed just months ago”.

Path to improvement

18 November 2019

Kirk Hope
Chief Executive
BusinessNZ
New Zealand’s services sector continues to shake off a mid-year slow patch. That’s according to the latest Performance of Services Index (PSI) anyway. It firmed up to a seasonally adjusted 55.4 in October – a point above its long-term average.

The firming in the PSI has been complemented by a sharp recovery in the Performance of Manufacturing Index (PMI) for October. Between the two of them, they now indicate annual GDP growth of closer to 2% than the 1% they portrayed just months ago.

Certainly, there is potential for household spending to be given a boost by house price inflation, which is surely picking up. Last week’s Real Estate Institute figures showed annual house price inflation strengthening to 3.9% nationally, and to 8.2% outside of Auckland.
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<tbody>
<tr>
<td>BNZ - BusinessNZ PSI</td>
<td>55.0</td>
<td>53.1</td>
<td>54.9</td>
<td>54.7</td>
<td>54.5</td>
<td>55.4</td>
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<tr>
<td>Activity/Sales</td>
<td>57.0</td>
<td>55.1</td>
<td>57.3</td>
<td>56.2</td>
<td>54.5</td>
<td>58.1</td>
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<tr>
<td>Employment</td>
<td>53.7</td>
<td>51.1</td>
<td>51.9</td>
<td>53.6</td>
<td>52.6</td>
<td>52.0</td>
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<tr>
<td>New Orders/Business</td>
<td>58.0</td>
<td>55.6</td>
<td>58.5</td>
<td>57.1</td>
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<td>Stocks/Inventories</td>
<td>52.5</td>
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<td>54.3</td>
<td>53.3</td>
<td>51.2</td>
<td>51.3</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>51.4</td>
<td>49.7</td>
<td>48.9</td>
<td>51.6</td>
<td>50.4</td>
<td>49.5</td>
</tr>
</tbody>
</table>

Results are seasonally adjusted.
International Results
J.P. Morgan Global Manufacturing PSI™
6 November 2019

51.0

USA 50.6
Eurozone 52.2
UK 50.0
China 51.1
Japan 49.7
Australia 54.2
NZ 55.4
The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) saw the two options for measuring the PCI both improve from the previous month.

The October GDP-Weighted Index (55.1) increased 1.3 points from September, while the Free-Weighted Index (54.5) rose 2.3 points. The fact that both the manufacturing and services sectors displayed higher levels of activity in October caused the two options to measure the PCI to rise.
The BNZ - BusinessNZ Performance of Services Index contains data obtained through BusinessNZ's regional organisations and Hospitality NZ.

Our Contributors

The BNZ - BusinessNZ Performance of Services Index contains data obtained through BusinessNZ's regional organisations and Hospitality NZ.
About the PSI

The BNZ - BusinessNZ Performance of Services Index (PSI) is a monthly survey of the service sector providing an early indicator of activity levels.

A PSI reading above 50 points indicates service activity is expanding; below 50 indicates it is contracting.

The main PSI and sub-index results are seasonally adjusted.

www.businessnz.org.nz/psi

About the PCI

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.
18 November 2019

The PSI

New Zealand’s services sector continues to shake off a mid-year slow patch. That’s according to the latest Performance of Services Index (PSI) anyway. It firmed up to a seasonally adjusted 55.4 in October – a point above its long-term average. Six months ago it was looking a bit vulnerable, down at 52.1. The main component detail fortified the sense of rebound. New orders/business soared to 62.1 (from an already-strong 59.5 in September) with activity/sales, at 58.1, also well above trend. Employment remained more middling, though obviously still expansive, at 52.0, while the PSI index on inventories has settled down after a bulge in the winter.

GDP

The firming in the PSI has been complemented by a sharp recovery in the Performance of Manufacturing Index (PMI) for October. Between the two of them, they now indicate annual GDP growth of closer to 2% than the 1% they portrayed just months ago. This removes one of the challenges to our maintained view, namely of real NZ GDP expanding about 2% this year. Having said this, the PSI and PMI will collectively need to strengthen further, if they are to point to annual GDP growth pushing above 2% in 2020, as we anticipate, let alone get to 2.8%, as the RBNZ expects. All the while, many other leading indicators still point to sub-2% annual GDP growth.

Spending

The industry detail in October’s PSI added to the feeling of fortitude. Not so much for a common pulse of expansion across all industries; there wasn’t. It was more that Retail, and Accommodation, Cafes & Restaurants categories had strong prints in October, after patchy performances over prior months. This was good to see, with retailers otherwise very pessimistic in other business surveys, and tourist arrivals flattening off. Then again, retailers’ grumpiness might have more to do with costs and margin than revenue per se. On the latter, while electronic card transactions slipped 0.2% in October, back revisions suggest an even stronger gain in Q3 retail spending than we were looking for.

Housing

Certainly, there is potential for household spending to be given a boost by house price inflation, which is surely picking up. Last week’s Real Estate Institute figures showed annual house price inflation strengthening to 3.9% nationally, and to 8.2% outside of Auckland. To be sure, this partly reflects a lack of listings, which is naturally limiting sales. However, upward pressure on house prices is also coming from extremely low interest rates. While this has every potential of stimulating spending we also wonder the sustainability of it all – with house prices already extreme compared to economic fundamentals, like incomes, rents, and even building costs.

craig_ebert@bnz.co.nz
Contact Details

BNZ Research

Stephen Toplis  
Head of Research  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Jason Wong  
Senior Markets Strategist  
+64 4 924 7652

Nick Smyth  
Interest Rates Strategist  
+64 4 924 7653

Main Offices

Wellington  
Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

Auckland  
80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

Christchurch  
111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun  
Global Head of Research  
+61 2 9237 1836

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Ray Attrill  
Head of FX Strategy  
+61 2 9237 1848

Skye Masters  
Head of Fixed Income Research  
+61 2 9295 1196

Wellington  
Foreign Exchange  
+800 642 222  
Fixed Income/Derivatives  
+800 283 269

New York  
Foreign Exchange  
+1 212 916 9631  
Fixed Income/Derivatives  
+1 212 916 9677

Sydney  
Foreign Exchange  
+61 2 9295 1100  
Fixed Income/Derivatives  
+61 2 9295 1166

Hong Kong  
Foreign Exchange  
+85 2 2526 5891  
Fixed Income/Derivatives  
+85 2 2526 5891

London  
Foreign Exchange  
+44 20 7796 3091  
Fixed Income/Derivatives  
+44 20 7796 4761

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