

BNZ-BusinessNZ PSI

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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Dead even

BNZ - BusinessNZ PSI for August 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for August stood at 50.0. This represented no change in the sector, but the fourth consecutive monthly fall in expansion. Compared with previous August results, the 2012 value was the second lowest recorded (the lowest being 47.1 in 2008).
- Although the overall result showed no change, there were considerable differences within the five sub-indices for August. *New orders/business* (55.4) again led the charge, although at its lowest point since December 2011. *Activity/sales* (51.0) slipped another 0.8 points, while *stocks/inventories* (51.8) increased 0.5 points from July. *Supplier deliveries* (46.6) continued its trend downwards, while *employment* (46.5) experienced the largest drop of 5.8 points from July to be at its lowest point since June 2009.
- In a reversal from July, unadjusted activity was in contraction for three of the four regions. In the North Island, the *Northern* region (49.4) experienced its lowest level of activity since October 2011, while the *Central* region (57.9) again improved its level of activity and showed expansion for August. In the South Island, the *Canterbury/Westland* region (47.9) fell back into contraction after 12 consecutive months of expansion, while the *Otago/Southland* region (46.1) continued to hover within the 45-50 point mark.
- Service sector results continued to show various levels of expansion and decline. *Property & business services* (51.3) continued to ease for the third consecutive month, while *wholesale trade* (56.6) all but showed no change from the previous month. *Health & community services* (47.5) fell into contraction for the first time since January 2011.

Inside BNZ Commentary this Month (page 4)

In this edition, BNZ Senior Economist, Craig Ebert, digs into the surprisingly flat Performance of Services Index to see if it's really as worrying as it looks.

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HIGHLIGHTS - PSI

- **Service sector shows no change for August.**
- **Three of the five major sub indices remain in expansion, although employment down.**
- **Regional activity negative throughout most of country, with the exception of the Central region.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity both showed contraction in August.**
- **Global PCI for August shows lower level of expansion.**

Next BNZ - BusinessNZ PSI/PCI: 15 October 2012

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.

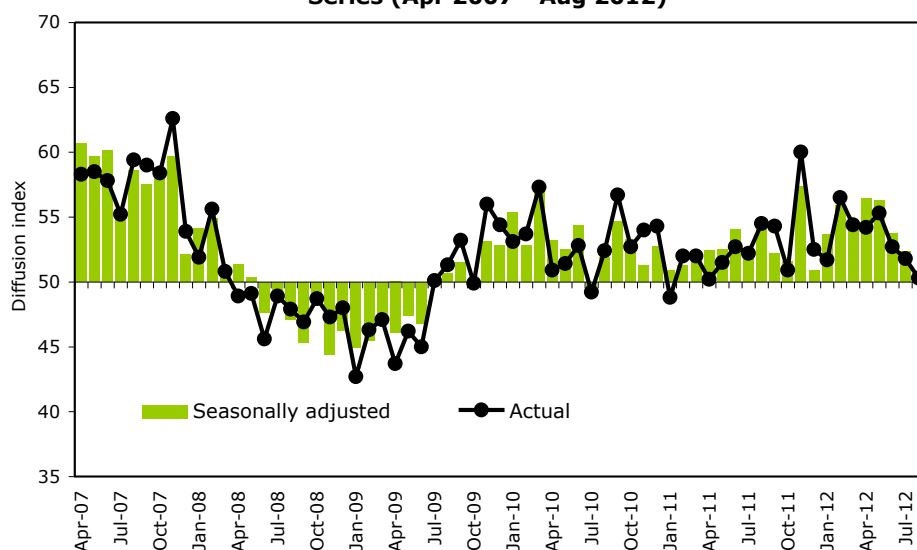
BNZ (www.research.bnz.co.nz)

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



August PSI time series tables

National Indexes	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012
BNZ - BusinessNZ PSI (s.a.)	58.6	47.1	50.6	51.9	54.2	50.0
Activity/Sales (s.a.)	63.6	41.1	50.6	53.9	57.2	51.0
Employment (s.a.)	52.8	46.6	48.1	52.4	50.1	46.5
New Orders/Business (s.a.)	65.2	49.9	57.3	54.0	58.5	55.4
Stocks/Inventories (s.a.)	52.2	54.9	49.9	50.0	49.4	51.8
Supplier Deliveries (s.a.)	55.2	50.1	47.1	48.0	54.9	46.6

Regional Indexes	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012
BNZ - BusinessNZ PSI (s.a.)	58.6	47.1	50.6	51.9	54.2	50.0
Northern	59.9	47.3	50.2	54.3	57.4	49.4
Central	58.2	55.4	51.6	49.7	55.9	57.9
Canterbury/Westland	59.4	47.7	53.9	46.4	56.5	47.9
Otago/Southland	58.4	39.3	58.0	47.2	36.9	46.1

(s.a. denotes seasonally adjusted)

PARTICIPANTS

BusinessNZ gratefully acknowledges the participation of the following associations in contributing to the PSI:

Employers & Manufacturers Association (Northern)

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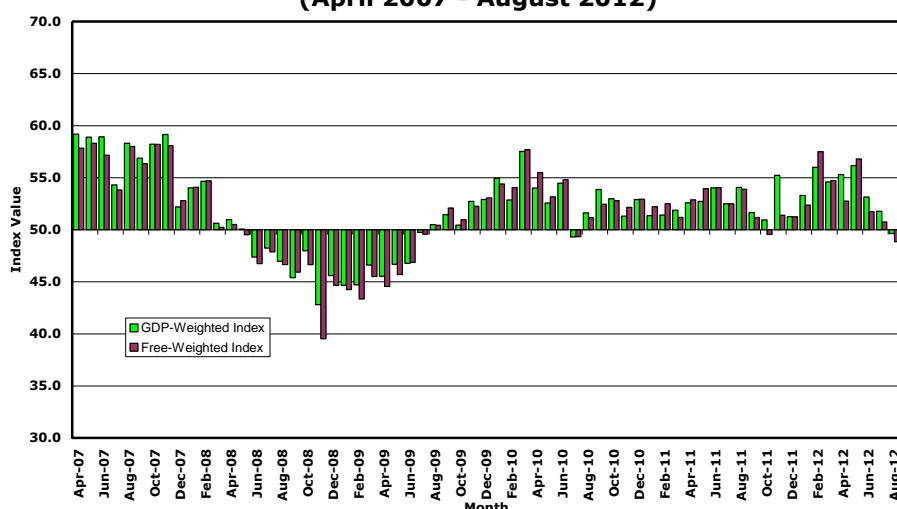
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In the red

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for August showed the two options for measuring the PCI both in contraction, as negative manufacturing activity and a sluggish service sector pulled results lower.
- The GDP-Weighted Index (49.6) decreased another 2.2 points from July, showing its first decline in activity since July 2010. The Free-Weighted Index (48.9) fared worse with a lower overall result, and in contraction for the first time since October 2011.
- The JPMorgan Global Combined Index for August (52.3) was down slightly after a pick up in July. The positive result offset some weakness exhibited by manufacturing.

BNZ - BusinessNZ PCI Seasonally Adjusted Time Series (April 2007 - August 2012)



Performance of Composite Index August time series table

Combined National Indexes	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012
GDP-Weighted Index (s.a.)	58.3	47.0	50.5	51.6	54.1	49.6
Free-Weighted Index (s.a.)	58.0	46.6	50.4	51.2	53.9	48.9

Employers' Chamber of Commerce Central
 Canterbury Employers' Chamber of Commerce
 Otago Southland Employers Association
 Hospitality New Zealand

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.

17 September 2012

Question Time

- PSI falls flat in August
- And echoes PMI warning about staffing seizure
- Yet PSI new-orders, sale/activity, still positive
- Other questions/tensions to answer too
- But we are not deaf to the warning bells

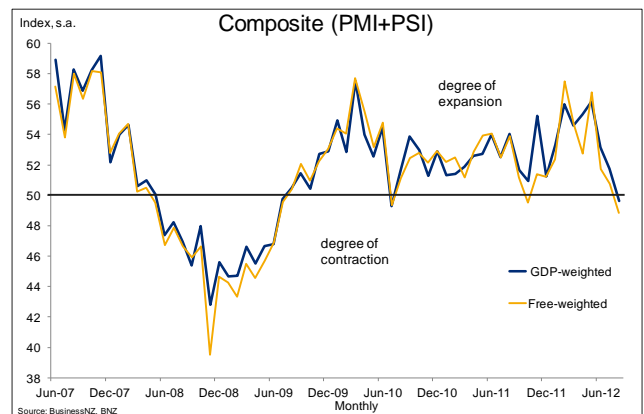
While we were surprised by the weakness in last week's Performance of Manufacturing Index (PMI) we could at least understand it. After all, the international economy has been slowing over recent months, especially in its industrial sectors, related to a cooling in capital investment. Moreover, the NZ dollar has been, and still is, high.

However, such things don't much explain the softening we've witnessed in today's Performance of Services Index (PSI). Indeed, on a seasonally adjusted basis it fell dead-flat in August, at 50.0, from 52.4 in July, and as much as 56.3 back in May. This is now one of the weakest PSI measures on the global stage, having been one of the strongest just months ago.

This, in turn, begins to question the degree of momentum we reckon the New Zealand economy possesses. In particular, the 0.7% increase we judge for Q3 GDP, following what we think will be a slight decline for Q2 (in figures to be published this Thursday).

The PMI and PSI indices, combined, are falling short of this expectation. In slipping to a GDP-weighted 49.6 in August, and a free-weighted 48.9, the composite (PMI/PSI) index warns of not just slower growth than 0.7% in Q3 but a stalling of economic growth altogether.

It gets even worse when one looks at the latest employment indices. The one for the PSI sagged to 46.5 in August, from a respectable 52.3 the month before.

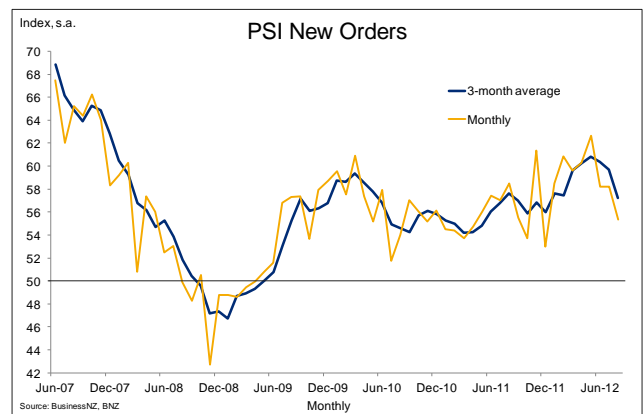
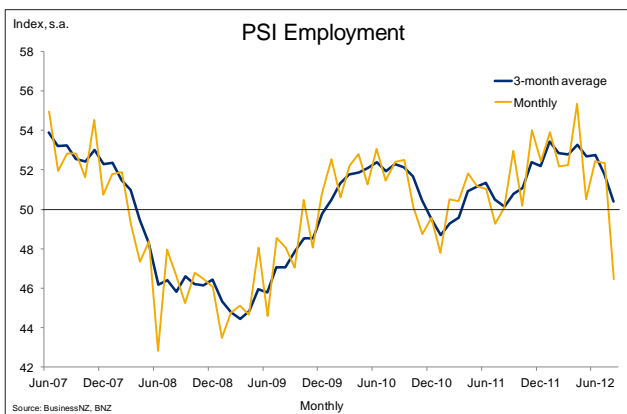


This left it almost as bad as the jobs component we saw in last Thursday's PMI, which subsided further, to 45.4. Combined, the PMI and PSI staffing indicators warn of a sharp slowdown in employment growth.

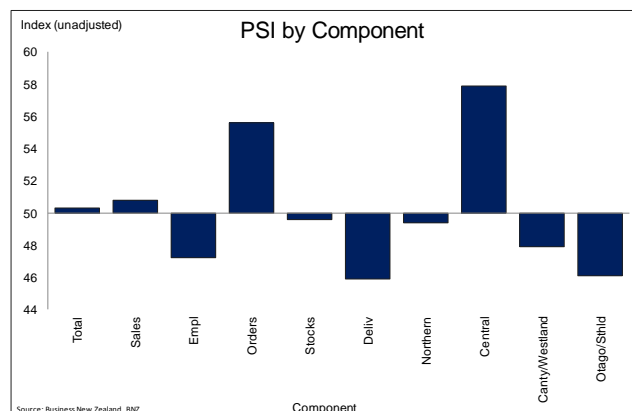
Yet, the latest PSI is not a completely sour affair. As much as it was flat, overall, it contained as many positive components as negative ones, and with some of the negative ones, in turn, being called into question by other macro-economic data and anecdote.

For example;

- While the PSI employment index sagged to 46.5 in August, its new-orders component held up relatively well, at 55.4.
- If the labour market is collapsing as much as the PSI monthly index suggests, then why is consumer confidence holding up as well as it is?



- Although the PSI supplier-deliveries index weakened further, to 46.6, the activity-sales index, at 51.0, held above the breakeven level of 50.
- Despite the retailing categories of the latest PSI being among the weakest, we witnessed a big jump in August's electronic card transactions (only part of which was higher fuel prices), implying further gain in retail spending volumes.
- The regional picture remained very mixed. As much as weakness returned to the Deep South, with 46.1 (unadjusted), the Central part of the country was seemingly chugging forth very well, with a PSI reading of 57.9.
- And while Canterbury/Westland was on the weak side, at 47.9, the anecdotal feedback to August's PSI – much like we're hearing more generally – maintained a net-positive tone regards property/construction and toward the region in general (with negative PSI comments tending to outline poor winter tourism).



We should also point out that, even if one takes the latest PSI (and PMI) at face value, it's not as though we haven't had these stall spots before, through the recovery; for example, in October 2011, and July 2010. So we don't want to sign any death warrants just yet.

However, the degree of slowdown in the PMI and, now, the PSI, along with the seizure in their employment components, certainly asks questions about the economy's momentum.

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