

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

Easing of expansion continues in service sector

BNZ - BusinessNZ PSI for July 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for July stood at 53.1. This was the second consecutive month of expansion easing, as it fell 0.8 points from June and 3.3 points from May. Also, compared with previous July results, the 2012 value was almost identical to 2011.
- Despite another dip in expansion levels, all five sub-indices remained in expansion during July. *New orders/business* (58.8) continued to lead for the 22nd consecutive month, and recovered some lost ground from the June result. *Activity/sales* (52.3) slipped a further 1.9 points from June after slipping 3.6 points from May. *Employment* (52.5) and *stocks/inventories* (51.5) recorded an almost identical result to June, while *supplier deliveries* (50.3) moved closer to the no change mark.
- Unadjusted activity was again expansionary for three of the four regions. In the North Island, the *Northern* region (50.7) experienced its lowest level of activity since the start of 2012, while the *Central* region (55.5) improved slightly on its June result. In the South Island, the *Canterbury/Westland* region (53.4) continued to see-saw within the 50-60 point mark, while the *Otago/Southland* region (48.3) improved from June, but experienced its third consecutive month in decline.
- Service sector results were again a mixed bag of expansion and decline in July. *Wholesale trade* (56.7) remained in expansion, as well as recovering from its dip in expansion during June. *Property & business services* (54.8) eased in its level of expansion, although overall activity for the sector has now been positive for six consecutive months. *Health & community services* (54.2) improved from June, after some easing in activity during the previous months.

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HIGHLIGHTS - PSI

- **Service sector continues to show easing of expansion.**
- **All five major sub indices remain in expansion, led by new orders.**
- **Regional activity positive throughout most of the country, led by the Central region.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Options for measuring PCI activity again showed easing in July.**
- **Global PCI for July recovered slightly, but still weak.**

Next BNZ - BusinessNZ PSI/PCI: 17 September 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)

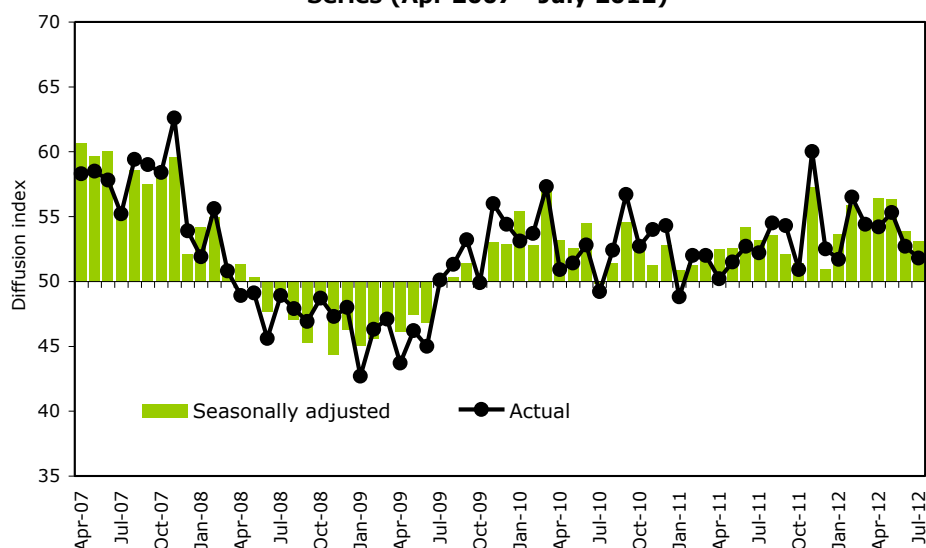
Inside BNZ Commentary this Month (page 4)

Bank of New Zealand's Economist, Doug Steel, examines recent data releases including the PSI, PMI, retail sales and labour market indicators. He finds something pointing every which way. Despite no clarity in the detail, importantly, he finds the averages point to moderate GDP growth through Q2 and Q3.

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



July PSI time series tables

National Indexes	July 2007	July 2008	July 2009	July 2010	July 2011	July 2012
BNZ - BusinessNZ PSI (s.a.)	54.9	48.8	50.4	49.8	53.2	53.1
Activity/Sales (s.a.)	57.1	48.7	52.7	48.9	55.2	52.3
Employment (s.a.)	52.0	48.0	48.6	51.6	49.5	52.5
New Orders/Business (s.a.)	62.3	53.3	57.2	52.2	57.6	58.8
Stocks/Inventories (s.a.)	52.0	49.0	44.0	51.0	52.2	51.5
Supplier Deliveries (s.a.)	54.3	50.1	48.0	47.8	52.5	50.3

Regional Indexes	July 2007	July 2008	July 2009	July 2010	July 2011	July 2012
BNZ - BusinessNZ PSI (s.a.)	54.9	48.8	50.4	49.8	53.2	53.1
Northern	57.6	48.2	51.2	50.9	53.5	50.7
Central	55.3	54.9	45.8	43.3	54.1	55.5
Canterbury/Westland	49.1	51.1	53.1	46.2	45.4	53.4

PARTICIPANTS

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

Employers & Manufacturers Association (Northern)

Employers' Chamber of Commerce Central

Canterbury Employers' Chamber of Commerce

Otago Southland Employers Association

Hospitality New Zealand

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Otago/Southland	55.9	40.4	43.7	46.0	46.0	48.3
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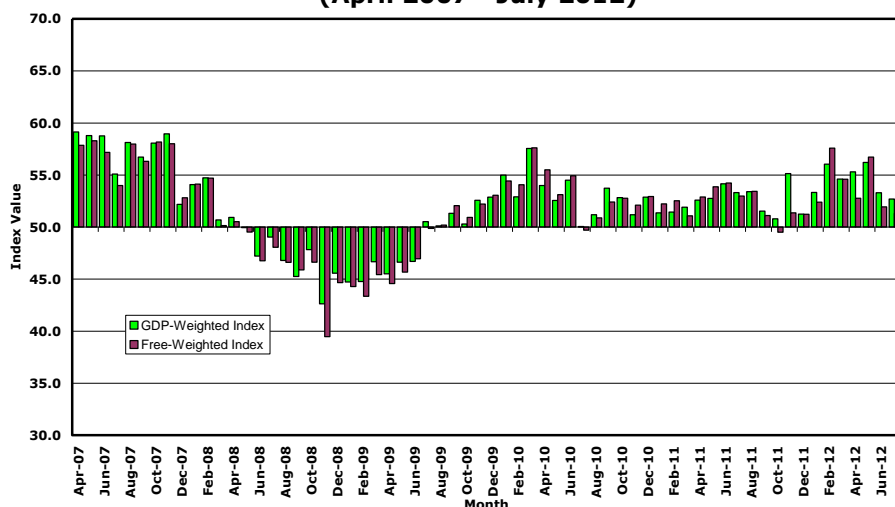
(s.a. denotes seasonally adjusted)

A slow sinking feeling

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for July showed the two options for measuring the PCI again both down from June, as an easing in both the manufacturing and service sector results reduced combined activity.
- The GDP-Weighted Index (52.7) decreased another 0.6 points from June, although not as strong as the 2.9 point fall the previous month when the service sector took a greater hit in terms of activity. The Free-Weighted Index (51.3) also decreased 0.6 points, resembling levels of activity during November/December last year.
- The JPMorgan Global Combined Index (51.7) edged higher from June's recovery low of 50.3 to signal a modest increase in output. However, the rate of growth was nonetheless one of the weakest seen during the current three year period of expansion.

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



Performance of Composite Index June time series table

Combined National Indexes	July 2007	July 2008	July 2009	July 2010	July 2011	July 2012
GDP-Weighted Index (s.a.)	55.1	49.0	50.5	50.0	53.3	52.7
Free-Weighted Index (s.a.)	54.0	48.1	49.9	49.7	53.0	51.3

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.

20 August 2012

Up, Down and Sideways

- Recent data pointing every which way
- Housing market clearly helping service sector
- PSI detail reveals no other obvious trends
- Economy-wide index suggests moderate GDP growth

The Performance of Services Index (PSI) stood reasonably firm at 53.1 in July, a wafer or two down from 53.9 in June. That's still pretty good and indicative of ongoing expansion in the biggest sector of the economy through mid-year.

This is in contrast to last week's Performance of Manufacturing Index (PMI) that showed that sector effectively flat-lining through this period.

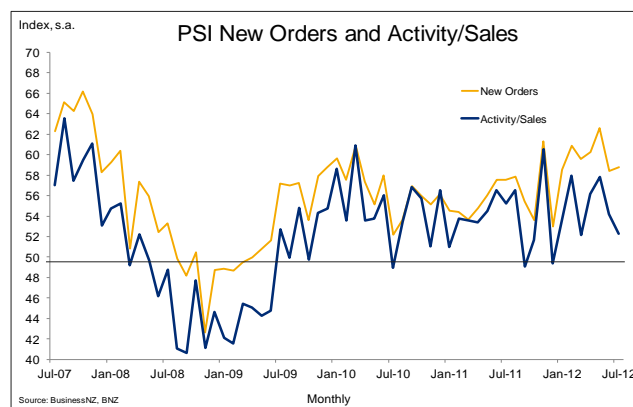
These differences add to other economic information over the past few weeks that have brought more confusion than clarity as to how the economy is progressing. For every indicator pointing one way there seems to be another one pointing in another direction.

Contrast the strong Q2 retail sales report released last week with the drop in July's electronic card transactions release the week prior. One says household spending is expanding at a stocky pace, the other suggests consumers are battenning down the hatches. Completing the 'up, down and sideways' data trifecta was August consumer confidence that came in not too far from average.

To be fair, all this might just reflect the different periods or the different sectors being referred to.

But no such excuse can explain the highly conflicting signals from the recently released Q2 labour market indicators. The Household Labour Force Survey was decidedly soft yet the Labour Cost Index and, particularly, the Quarterly Employment Survey showed solid, even strong, improvement.

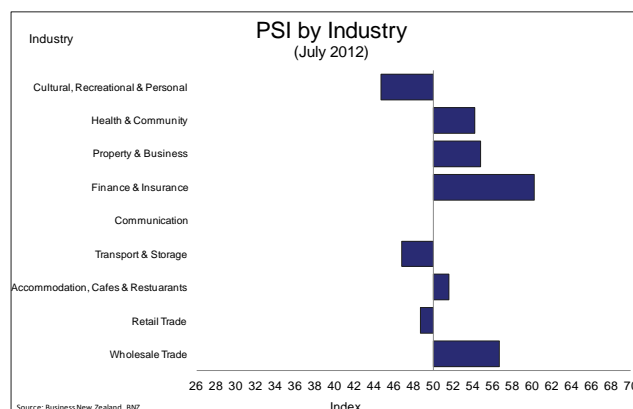
It comes as no surprise then to still see a lot of chop in the PSI details. You do not have to scrape too far beneath the headline figure to get a more muddled view on the rate of progress in the service sector. For example, the PSI activity and employment components, each at just over 52, suggest only a modest rate of expansion. Meanwhile, the new orders index up at 58.8 points suggests the sector is fair humming along.



Trying to make sense of, or find explanations for, the various wiggles in the even finer details is unlikely to yield much in the way of firm conclusions. But that in itself is instructive. While the overall results suggest there is progress being made on average, there is still a lot of variation depending on such things as where you are located, how big you are and what you do and who you sell to.

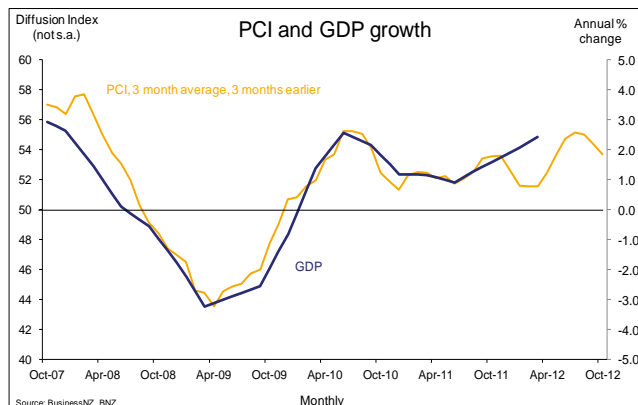
If there is one segment of the economy where there seems to be a strong impulse in train, it is the housing market. Maybe not yet uniformly across the country, but certainly reflected in national average sales, prices, days to sell, mortgage approvals and general confidence.

We see the effects of this and the associated positive outlook for construction in July's PSI industry detail, with finance and insurance along with the property and business industries among the stronger performers.



But standing back from the detail can be a good strategy to gauge overall progress, especially when there are so many conflicting signals.

In this sense, the PCI (a composite of the PSI and PMI indices) takes a wide lens. The PCI is a reasonable indicator of annual GDP growth, with about a 3 month lead. The 3 month average of both the free-weighted and GDP-weighted PCI indices suggests annual GDP growth of a bit over 2% in Q2 and Q3. That is much in line with what we anticipate. Indeed, we are happy to stick with this moderate growth story until the general mix of indicators give a clear steer one way or another.



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