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BusinessNZ

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.

psi

A red start to Spring

BNZ - BusinessNZ PSI for September 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for September stood at 49.6. This was the first time the index had moved into contraction since July 2010. Compared with previous September results, the 2012 value was the second lowest recorded (the lowest being 45.4 in 2008).

- Three of the five main sub-indices were in contraction during September. *Stocks/inventories* (52.6) led the way for the first time since November 2008. *New orders/business* (52.0) remained in positive territory, although continued its trajectory downwards with a forth consecutive fall and its lowest value since July 2010. *Activity/sales* (49.1) fell into contraction for the first time since December 2011, although both *employment* (48.5) and *supplier deliveries* (48.6) both improved from the previous, albeit still in contraction.

- Two of the four regions were in contraction during September. In the North Island, the *Northern* region (52.9) bounced back from contraction in August, and led the way for the current month. In contrast, the *Central* region (48.7) fell 9.2 points after seven consecutive months in expansion. In the South Island, the *Canterbury/Westland* region (50.7) recovered from a dip in August, while the *Otago/Southland* region (48.5) improved from the previous month, but continued to hover within the 45-50 point mark.

- Service sector results continued to show various levels of expansion and decline. *Property & business services* (48.5) eased for the forth consecutive month, while *wholesale trade* (55.8) eased slightly after two months of similar results. *Health & community services* (52.8) moved back into expansion after a dip in the previous month.

Inside BNZ Commentary this Month (page 4)

Bank of New Zealand's Economist, Doug Steel, takes a look at the combination of September's PSI and PMI results and concludes that they show economic growth has slowed since the first half of the year. The bigger question is whether the slow-down will be short-lived or something more serious?

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HIGHLIGHTS - PSI

- ***Service sector in technical contraction for September.***
- ***Three of the five major sub indices in decline, with new orders falling further.***
- ***Regional activity negative in two of four main regions.***

HIGHLIGHTS – PERFORMANCE OF COMPOSITE INDEX (PCI)

- ***Options for measuring PCI activity again both showed contraction in September.***
- ***Global PCI for September shows slight uplift.***

Next BNZ - BusinessNZ PSI/PCI: 19 November 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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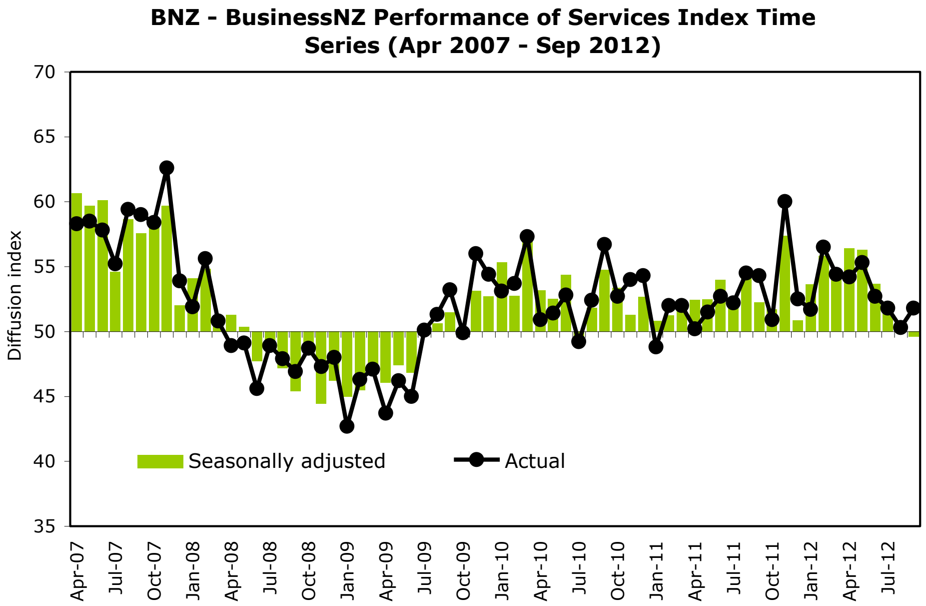

September PSI time series tables

National Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012
BNZ - BusinessNZ PSI (s.a.)	57.6	45.4	51.5	54.8	52.2	49.6
Activity/Sales (s.a.)	57.6	40.9	55.1	57.9	50.6	49.1
Employment (s.a.)	52.8	45.2	47.3	52.8	53.3	48.5
New Orders/Business (s.a.)	64.5	48.4	57.6	57.5	56.1	52.0
Stocks/Inventories (s.a.)	53.9	49.9	43.9	50.2	50.1	52.6
Supplier Deliveries (s.a.)	55.3	43.9	47.4	52.7	50.5	48.6

Regional Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012
BNZ - BusinessNZ PSI (s.a.)	57.6	45.4	51.5	54.8	52.2	49.6
Northern	58.7	46.5	55.8	58.5	55.8	52.9
Central	56.5	52.7	50.4	54.5	57.0	48.7
Canterbury/Westland	61.2	50.9	51.5	51.6	57.2	50.7
Otago/Southland	61.9	37.0	45.6	55.8	34.4	48.5

(s.a. denotes seasonally adjusted)

PARTICIPANTS

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

Employers & Manufacturers Association (Northern)

Employers' Chamber of Commerce Central

BNZ-BusinessNZ PSI

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Canterbury Employers' Chamber of Commerce

Otago Southland Employers Association

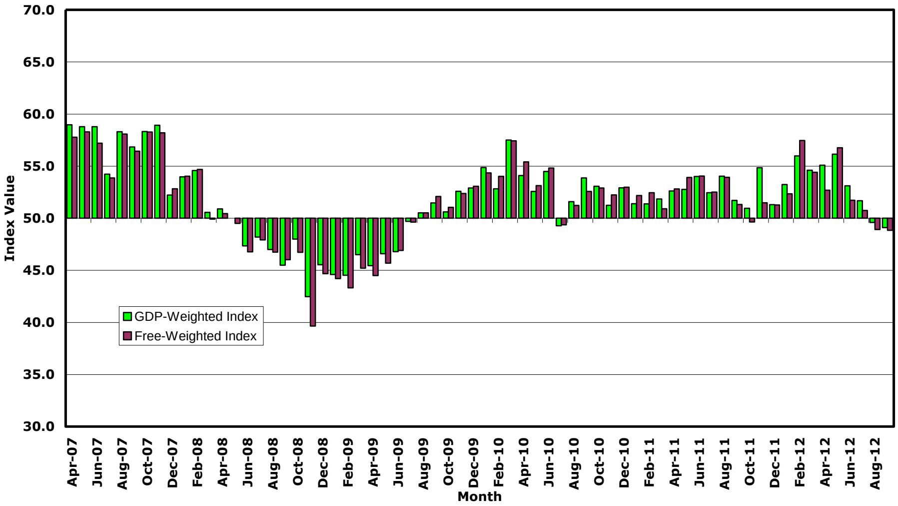
Hospitality New Zealand

Continued easing for both indices

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for September showed the two options for measuring the PCI again both in contraction.
- The GDP-Weighted Index (49.1) decreased a further 0.5 points from August, with its second lowest result for September. The Free-Weighted Index (48.8) again faired slightly worse, as well as being the first time since mid 2009 that both indices have been in contraction in consecutive months.
- The JPMorgan Global Combined Index for September (52.5) was slightly up from August, although the mild acceleration masked the ongoing divergence between the manufacturing and services sectors.

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



Performance of Composite Index September time series table

Combined National Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012
GDP-Weighted Index (s.a.)	56.8	45.5	51.5	53.9	51.7	49.1
Free-Weighted Index (s.a.)	56.4	46.0	52.1	52.6	51.3	48.8

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.

Performance of Services Index

15 October 2012

Clouds Darken

- Clearer signs economic growth slower in H2
- As service sector contracts in September
- Echoing move in manufacturing activity
- A passing shower or something more serious?

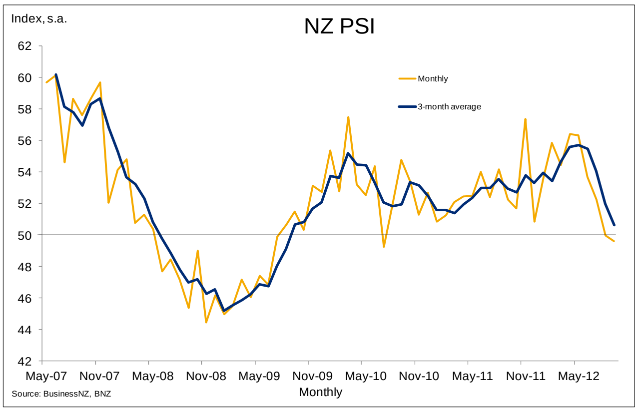
We are more convinced that economic growth has slowed down, possibly quite sharply. September's Performance of Services Index is the latest in a series of indicators pointing to slower economic growth in the second half of 2012, following what was a very solid performance in the first half of the year.

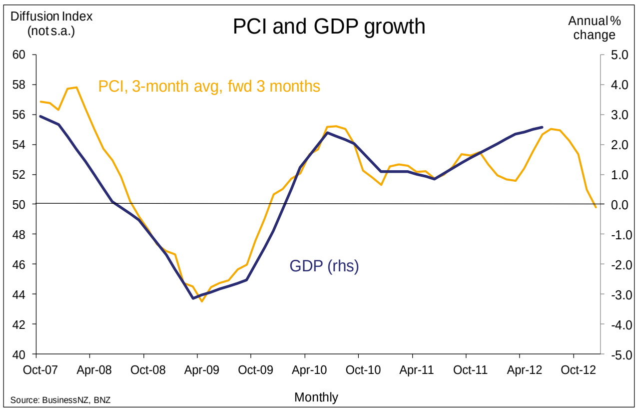
Not that the PSI actually moved much from August's seasonally adjusted 50.0 reading. It only slid a fraction of a point to 49.6.

But two consecutive readings around the breakeven 50 mark carry more weight than one potential blip. It is a significant step down from the above 56 readings of 4 or 5 months ago. And, of course, with the PSI now being below the 50 mark (for the first time in more than 2 years) it strictly indicates service sector contraction, albeit a mild one, in the month. That adds to the negative hue.

We have been a bit nervous and concerned about near term economic activity for a while now. In fact, we went as far as thinking that economic activity might have flattened, even contracted a touch, in the second quarter of the year only to be surprised by the 0.6% expansion in Q2 GDP when the data were released in late September.

The softer partial indicators we were seeing was one factor why, back then, we substantially pushed back the timing of forecast RBNZ OCR hikes to the end of next year.





It looks like we were just a bit quick to build the softer partial data into our GDP estimates. It didn't show up in Q2. But we think the general point of slower near term activity still holds. The more recent data have only hardened our thinking on the point.

This includes the Performance of Manufacturing Index released last Thursday. Sure this index actually bounced a touch to 48.2 in September from August's 47.4, but it is still on the wrong side of 50, indicating contraction.

The composite index, the PCI, pulls the PMI and PSI results together. It is pointing to sharp slowing in GDP growth through the second half of 2012. However, such an outcome is not a given. GDP growth does not always follow the indicator. An example is when the indicator dipped in late 2011 / early 2012, while GDP growth barrelled on, boosted, as it was, by other sectors such as agriculture on the back of exceptional grass growth at the time.

This time around it is unlikely agricultural production will pick up the slack given its sky-high starting point following last season's blockbuster grass growth. That leaves a lot for the other primary industries, utilities or the construction sector to do.

Pulling the pieces together, we are more convinced of our view than growth in the second half of the year will be slower than the first.

Slower near term growth raises the possibility of an OCR cut. Indeed, these indicators, combined with our expectation of a sub-1% annual CPI inflation print in tomorrow's data, may encourage financial markets to build in even more chance of a cut than they already have.

We do not expect an OCR cut. Positive signals coming from the likes of the existing house market, warming credit growth and upward trend in building consents argue against applying more monetary stimulus at this point.

But it would be foolish to completely rule out the possibility of an interest rate cut, especially given the wide range of shenanigans that could yet take place abroad.

Our no-rate-cut view is also underpinned by the generally positive flavour in forward-looking economic indicators like business and consumer confidence, in contrast to the weakness in concurrent indicators like the PSI and PMI.

This contrast in actual activity versus firms' and consumers' expectations of what lies ahead is important to monitor. We are keeping an open mind. If expectations are met, it suggests the current storm clouds we see are likely to result in just a passing shower. But it could, repeat could, be a more serious event if, say, expectations fail to hold up as well as they are currently are.

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