

The Bank of New Zealand - Business NZ Performance of Services Index 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.

# psi

## Growth in service sector activity stalls in April

### Bank of New Zealand - Business NZ PSI for April 2008

- The April Bank of New Zealand - Business NZ Performance of Service Index (PSI) dropped 1.9 points from March to stand at 48.9 in April, which represents a decline in overall activity. The PSI now sits at its lowest level since the survey began, and 9.4 points lower than the 58.3 recorded in April 2007.
- Four of the five diffusion indices that make up the PSI exhibited some level of decline, with *activity/sales* (48.3) showing its first contraction. Employment (44.7) followed on from its decrease in March, while *stocks/inventories* (46.9) and *supplier deliveries* (47.8) also recorded some level of contraction. In contrast, *new orders/business* (55.3) picked up from March, but at that level still represents its second worst result.
- Activity by region showed contraction in most areas. The two South Island regions both showed declines, with the *Otago/Southland* region (42.8) close to its poor result recorded in January. The *Canterbury/Westland* region (48.1) experienced its second straight decline, while the *Northern* region (49.8) remained close to no change for the month. Only the *Central* region (53.8) remained in positive territory.
- The various service sectors were largely in contraction mode during April. The worst result was again *accommodation, cafes & restaurants* (39.2), which continues the slide in activity levels since the start of the year. In contrast, both the *health & community* (55.6) and *property & business services* (54.5) sectors showed upwards movement from March.
- Positive comments about activity fell to 42.2% in April compared with 47.3% in March and 52.8% in February. Comparing the data to the same time last year saw activity for those with positive April comments stand at 2.3\*. Activity for those with negative comments also worsened, at 3.5. The overall national result for activity for all comment was 3.0.

#### HIGHLIGHTS

- The overall activity level for the service sector stood at 48.9 in April down 1.9 points from March.*
- New orders/business (55.3) was again the leading index, but activity/sales (48.3) fell.*
- Most regions experienced contraction, with only the central region remaining in positive territory.*
- The proportion of positive comments continued to decrease to 42.2%.*
- Next Bank of New Zealand - Business NZ PSI: June 16, 2008*

#### SPONSOR STATEMENT

Bank of New Zealand is delighted to be associated with the Performance of Services Index (PSI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business NZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand services sector.

Bank of New Zealand ([www.bnz.co.nz](http://www.bnz.co.nz))

#### PARTICIPANTS

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

Employers & Manufacturers Association (Northern)

Employers & Manufacturers Association (Central)

Canterbury Employers' Chamber of Commerce

Otago Southland Employers Association

Hospitality Association of New Zealand

New Zealand Retailers Association

Tourism Industry Association New Zealand

National Indexes	Apr 2007	Feb 2008	Mar 2008	Apr 2008
<b>Business NZ PSI</b>	<b>58.3</b>	<b>55.6</b>	<b>50.8</b>	<b>48.9</b>
Activity/Sales	59.9	56.2	51.8	48.3
Employment	51.0	52.1	48.9	44.7
New Orders/Business	68.3	61.4	52.9	55.3
Stocks/Inventories	52.5	51.3	49.0	46.9
Supplier Deliveries	55.3	53.5	50.3	47.8

Regional Indexes	Apr 2007	Feb 2008	Mar 2008	Apr 2008
<b>Business NZ PSI</b>	<b>58.3</b>	<b>55.6</b>	<b>50.8</b>	<b>48.9</b>
Northern	57.8	52.8	49.7	49.8
Central	62.5	55.6	57.1	53.8
Cant/Westland	56.0	60.2	47.7	48.1
Otago/Southland	59.2	61.1	52.9	42.8

\* Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

## A Less Labour-Intensive Services Sector

- Services sector hit by consumer hibernation
- Staffing adjustments the next thing to watch
- April's PSI certainly had weaker hiring indices
- And employment intentions have also dropped

April's Performance of Services Index (PSI) indicated a distinct loss of momentum – quite possibly in signalling very tepid growth, at best, but certainly something slower in relation to this time last year. In this respect, the PSI very much fits with all else that says New Zealand's services sector, having held up remarkably well into the end of 2007, has since starting to struggle.

A good part of this, of course, reflects the sector's very direct exposure to the crunch working its way through the household sector. As we saw in last week's retail trade figures, consumer spending is now stalling – indeed is probably falling – the way house prices have been doing for many months now. So it was little surprise to see the retail sub-index of the PSI down at 48.5, compared to the relatively robust level of 52.7 in April 2007.

But the clearest weak spot seemed to be in the accommodation, cafes and restaurants category. The PSI reading for this was just 39.2 in April. While some of this weakness might well reflect seasonality, it has certainly slumped from the 58.9 level of April 2007. That's interesting because it's an area of spending reliant on discretion at a time when squeezed budgets have consumers getting back to the basics.

The other notable feature of the PSI was the weakness apparent in the employment indicators. Again, compared to a year ago (to help control for seasonality in hiring patterns), this index was 6.3 points lower, at 44.7.

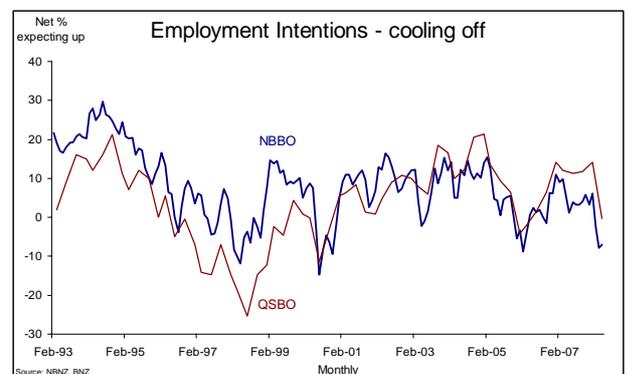
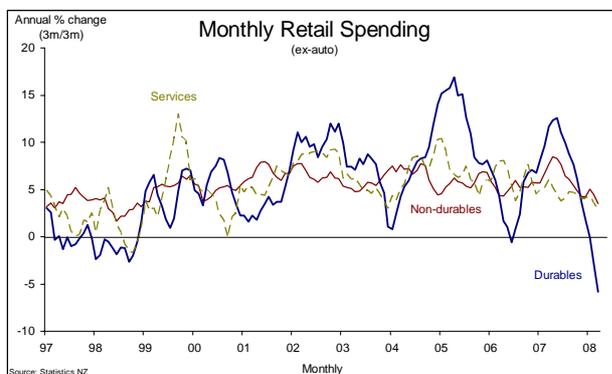
If this, indeed, tells us that the services sector is beginning to pull back from hiring then it will be feeding back into the consumer sector via lost jobs, or at least a less heated employment and wages market than many have taken for normal. In this vein, it's worth reminding that the services sectors, because they tend to be very labour intensive in comparison to, say, manufacturing, or the primary sector, have the potential to shed a disproportionate amount of labour when the process gets underway.

Indeed, we believe this goes some way to explaining the big jobs drop reported in the Q1 Household Labour Force Survey. For a start, it did seem to be mostly from service-type industries. Second, the Q1 employment drop also appeared to reflect service-type people, some of who might not have been employees, as such, but more like agents, consultants, contractors and the self-employed. Real estate agents would be the obvious example.

But quite apart from these aggravating compositional matters, we have definitely seen a moderation in not only the overall PSI jobs indicator but also employment intentions in the likes of the Quarterly Survey of Business Opinion and the monthly business survey published by the National Bank of New Zealand. By and large, they say employment growth is going flat.

The question is whether business employment plans move into outright down-sizing mode over coming months. While that remains to be seen, it would be an understandable response to an economy that is going as flat as we think it is, and to intense pressure on costs and profitability.

[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@bnz.co.nz)



## Contact Details

### Bank of New Zealand Research



**Stephen Toplis**  
Head of Research  
+(64 4) 474 6905

**Craig Ebert**  
Senior Markets Economist  
+(64 4) 474 6799

**Mark Walton**  
Markets Economist  
+(64 4) 474 6923

**Danica Hampton**  
Currency Strategist  
+(64 4) 472 4767

### Main Offices

**Wellington**  
1 Willis Street  
PO Box 2392  
Wellington  
New Zealand  
Phone: +(64 4) 474 6145  
FI: 0800 283 269  
Fax: +(64 4) 474 6266

**Auckland**  
125 Queen Street  
PO Box 2139  
Auckland  
New Zealand  
Phone: +(64 9) 976 5762  
Toll Free: 0800 081 167

**Christchurch**  
129 Hereford Street  
PO Box 1461  
Christchurch  
New Zealand  
Phone: +(64 3) 353 2219  
Toll Free: 0800 854 854

### NAB/nabCapital Research



**Peter Jolly**  
Head of Research  
+(61 2) 9295 1199

**Alan Oster**  
Group Chief Economist  
+(61 3) 8641 3464

**Rob Henderson**  
Chief Economist, Markets  
+(61 2) 9237 1836

**John Kyriakopoulos**  
Currency Strategist  
+(61 2) 9237 1903

### Contact Phone Numbers

**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 +1800 125 602  
Fixed Income/Derivatives +1877 377 5480

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

#### 24 HOUR FOREIGN EXCHANGE SERVICE

**Phone Toll Free** 6am to 10pm NZT – Wellington Office  
**0800 739 707** 10pm to 6am NZT – London Office – Olivia Core

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division which is part of the Institutional Markets & Services division of National Australia Bank Limited, a member of the National Australia Bank Group (the 'National'). The views of the author(s) do not necessarily reflect the views of the National and are subject to change without notice. The National may receive fees for banking services provided to an issuer of securities mentioned in this report. The National, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of the National), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. The National or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither the Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**U.S. DISCLAIMER:** This information has been prepared by National Australia Bank or one of its affiliates or subsidiaries (collectively, "NAB"). If it is distributed in the United States, such distribution is by nabCapital Securities, LLC (formerly NACM) which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabCapital Securities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabCapital Securities, LLC or NAB and/or its affiliates may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

