

PERFORMANCE OF SERVICES INDEX



Service sector continues weak run through to Xmas

Bank of New Zealand - Business NZ PSI for December 2008

- The Bank of New Zealand - Business NZ Performance of Service Index (PSI) continued its run of contraction for the ninth consecutive month, with the December result (48.0) in a fairly consistent range of values since April. The December result was 0.7 points up from November, but 5.9 points down from the same month in 2007.
- Four of the five diffusion indices that make up the PSI again exhibited contraction during December. *Activity/sales* (45.2) fell further from November, while *employment* (46.4) dropped 3.1 points from the previous month. *New orders/business* (49.8) recovered from its worst result in November, although still not showing signs of expansion. *Stocks/inventories* (49.2) dipped slightly, while *deliveries* (51.4) continued to seesaw between expansion and decline.
- Activity by region was generally positive, with the obvious exception of the *Northern* region (45.6). This region has now been in contraction for seven consecutive months. The *Central* region (50.8) experienced a minor lift in expansion for December, although still close to the no-change mark. In the South Island, the *Canterbury/Westland* region (54.6) continued to show favourable expansion, while the *Otago/Southland* region (53.8) recovered from a series of poor results to show expansion for the first time since March 2008.
- Results for the various service sectors were mixed during December. The *accommodation, cafes & restaurants* sector (55.4) picked up slightly from November, as did the *retail* sector (55.3). However, the pick-up in retail would likely be seasonal, and follows eight consecutive months of contraction. *Property & business services* (39.9) experienced another sizeable fall in activity, which again was mostly due to seasonal effects with businesses closing over that period.
- Three of the four firms by employment size experienced contraction during December, with only large firms (101+ workers) (53.3) experiencing a value above 50.0 (mainly due to stronger activity/sales along with new orders/business). Micro firms (1-10 workers) (49.3) was largely unchanged during the month, while both medium-large firms (51-100 workers) (45.3) and small-medium firms (11-50 workers) (45.9) produced similar results.
- The slight improvement in overall activity was mirrored by the proportion of negative comments from respondents during December dropping very slightly to 58.9%, compared with 59.2% in November. There continued to be a difference comparing activity with the same time last year for positive and negative comments, with this gap increasing. Activity for those with negative comments (3.6*) was down 0.2 points from November. For positive comments there was a return to October levels, moving from 2.8 in November to 2.4 in December.

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.

HIGHLIGHTS

- ***The overall level of activity for the service sector continued to remain in contraction for the ninth consecutive month.***
- ***Activity/sales (45.2) again fell in December, although new orders/business (49.8) improved.***
- ***The Northern region continued to show lackluster activity with contraction for seven consecutive months.***
- ***The slight improvement in overall activity meant the proportion of negative comments from respondents dipped slightly to 58.9%***

Next Bank of New Zealand - Business NZ PSI: 16 February 2009

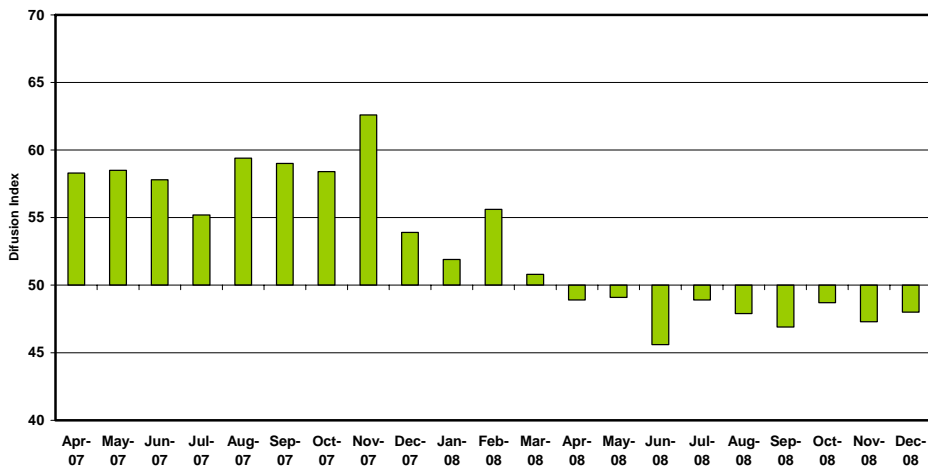
SPONSOR STATEMENT

Bank of New Zealand Ltd 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)

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

Bank of New Zealand - Business NZ Performance of Services Index Time Series (April 2007 - December 2008)



PSI time series tables

National Indexes	Dec 2007	Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008
Bank of New Zealand - Business NZ PSI	53.9	47.9	46.9	48.7	47.3	48.0
Activity/Sales	53.7	41.2	43.9	46.8	45.7	45.2
Employment	51.1	48.1	45.8	47.1	49.5	46.4
New Orders/Business	59.2	50.2	49.4	50.0	45.9	49.8
Stocks/Inventories	53.4	53.2	53.0	52.0	51.1	49.2
Supplier Deliveries	50.3	51.3	45.6	50.2	46.6	51.4

Regional Indexes	Dec 2007	Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008
Bank of New Zealand - Business NZ PSI	53.9	47.9	46.9	48.7	47.3	48.0
Northern	55.2	47.3	46.5	48.4	44.8	45.6
Central	52.4	55.4	52.7	55.4	50.4	50.8
Canterbury/Westland	56.3	47.7	50.9	52.3	55.3	54.6
Otago/Southland	44.7	39.3	37.0	37.7	47.6	53.8

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

Beware Seasonality

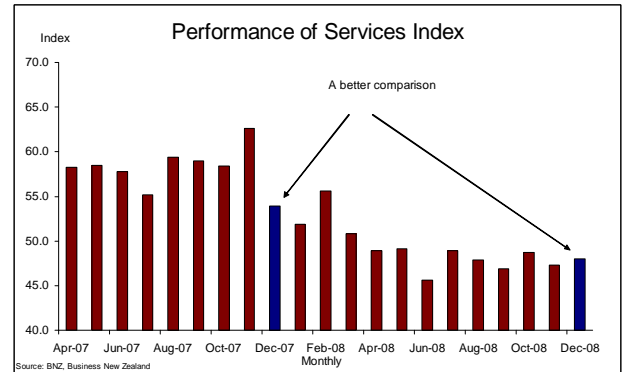
- December's headline result boosted by Christmas
- Comparison with year-earlier results confirms slowdown
- As do seasonal influences seen elsewhere
- Underlying story still likely very weak

At first glance December's PSI looks half decent. At the very least, the level recorded for the headline index, of 48.0, was an increase – albeit modest – from November's 47.3. As welcome as such a lift is, particularly given the parlous state of the broader economy, it's important to note that the headline PSI data comes with a caveat, namely, that it's not seasonally adjusted.

Simply put, this means that the published PSI figures are subject to the swings and roundabouts of seasonal changes in economy activity. The period either side of Christmas is the most obvious example: economic activity peaks as manufacturers and retailers gear-up for the Christmas rush, and January sees a sharp slowdown as much of the country goes on holiday. (The seasonal peaks and troughs of the agricultural production cycle are another obvious example.)

Seasonal adjustment is a statistical technique used to remove such seasonal influences, and thus strip back the headline figures to get to the "real", underlying story. But this process requires that the time series is sufficiently long – at least three years, usually – so that seasonal patterns can be correctly identified. The PSI survey, only running since April 2007, simply isn't long enough, yet.

So where does that leave us when interpreting the PSI data? One approach is to compare the figures with those of the same month in the previous year, which effectively avoids any problems of seasonality. The December 2008 figure, for instance, of 48.0, thus compares with December 2007's reading of 53.9. That suggests a slowdown much more in keeping with the recessionary backdrop currently in place than does a simple month-on-month comparison.



That the generally gloomy economic backdrop is still of major concern to many service sector operators is reinforced by the comments received from respondents to the December survey. A scan of this qualitative information hardly supports the view that conditions might be improving, in an underlying sense.

Another means of gauging how strong the seasonal influence might be is to look at how other, related series with seasonal patterns look before and after seasonal adjustment. For example, sales figures from Statistics New Zealand on the retail sector (which comprises a significant portion of the broader services sector) show that sales activity in the December month is typically boosted by at least 20% purely due to the impact of seasonal factors (i.e. Christmas).

Translating what this means in precise terms for the PSI is further complicated by the fact that it is a diffusion index (in which a reading above 50 represents expansion, and below 50 signalling contraction), rather than a measure of actual activity. But the key message remains the same: one should exercise a degree of caution when interpreting the PSI data, particularly figures for times of the year when seasonal influences are likely to be most pronounced. Now is just such a time, and while December's "improvement" is welcome, the underlying story is still much weaker than the headline suggests.

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