

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

Lacklustre start to service sector activity for 2011

BNZ - BusinessNZ PSI for January 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for January stood at 50.8, down 1.3 points from December, but still showing slight expansion. The 2011 result was lower than the 2010 result (55.2), but up on 2009 (44.8).
- Despite the drop in the level of expansion, only one of the five sub-indices was in decline during January. Encouragingly, *new orders/business* (54.8) experienced the highest level of expansion, while *stocks/inventories* (51.0) showed slight expansion. *Activity/sales* (50.3) and *supplier deliveries* (50.2) were both close to no change, while employment (47.8) took a step backwards with its lowest result since August 2009.
- Unadjusted activity by region exhibited more of a similar level of activity throughout the country compared with recent months. The *Northern* region (50.0) fell to its lowest level since October 2009, while the *Central* region (49.3) dipped below the 50.0 point mark for the first time since August 2010. The South Island also experienced a fall in activity, with the *Canterbury/Westland* region (44.7) returning to activity levels experienced in November 2010, and the *Otago/Southland* region (46.3) returning to declines.
- All service sectors struggled in January, with most lying in the 46-49 point range of activity. One exception was *transport & storage* (50.8) which showed some expansion due to strong employment and new orders results.

Inside BNZ Commentary this Month (page 4)

In this edition, the Bank of New Zealand Research team discusses the brand new Performance Composite Index – a natural agglomeration of the PMI and PSI. The PCI offers a bigger picture take on the economy's pulse along with the detail on such things as production, new orders and employment. January's PCI results remain in expansion mode, as they have been since late-2009. The PCI does not signal a strong pick-up is underway, although there is some encouragement from the positive new orders.

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HIGHLIGHTS - PSI

- **Service sector activity was generally lacklustre in January, falling 1.3 points to stand at 50.8.**
- **Despite the dip, four of the five sub-indices were technically in expansion.**
- **Regional activity was negative for three of the four regions.**

HIGHLIGHTS – PERFORMANCE OF COMPOSITE INDEX (PCI)

- **January 2011 represents first time a regular monthly combined PMI/PSI result will be published.**
- **Combined activity shows similar pattern back to October 2010.**
- **Despite the dip, indicators have remained in expansion for 15 consecutive months.**

Next BNZ - BusinessNZ PSI/PCI: 14 March 2011

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.

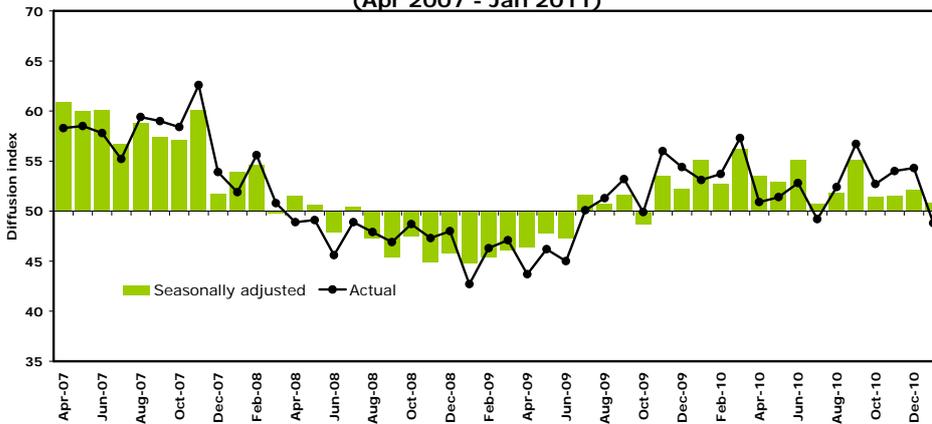
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BNZ-BusinessNZ PSI

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BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Jan 2011)



PSI time series tables

National Indexes	Jan 2008	Jan 2009	Jan 2010	Nov 2010	Dec 2010	Jan 2011
BNZ - BusinessNZ PSI (s.a)	54.0	44.8	55.2	51.5	52.1	50.8
Activity/Sales (s.a)	54.5	41.6	57.9	50.9	55.8	50.3
Employment (s.a)	51.6	43.3	52.5	48.8	49.3	47.8
New Orders/Business (s.a)	59.2	48.8	59.7	54.8	56.2	54.8
Stocks/Inventories (s.a)	48.7	45.9	50.5	50.2	51.1	51.0
Supplier Deliveries (s.a)	51.7	44.8	50.9	48.1	48.9	50.2

Regional Indexes	Jan 2008	Jan 2009	Jan 2010	Nov 2010	Dec 2010	Jan 2011
BNZ - BusinessNZ PSI (s.a)	54.0	44.8	55.2	51.5	52.1	50.8
Northern	52.7	39.3	52.4	55.9	54.7	50.0
Central	51.8	53.9	54.3	55.3	51.6	49.3
Canterbury/Westland	55.6	48.3	51.7	44.6	50.1	44.7
Otago/Southland	40.9	40.4	59.0	44.7	61.0	46.3

(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
- Canterbury Employers' Chamber of Commerce
- Otago Southland Employers Association
- Hospitality Association of New Zealand
- New Zealand Retailers Association
- Tourism Industry Association New Zealand

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Steady trend continues into 2011 for PCI

BNZ - BusinessNZ Performance of Composite Index (PCI) for January 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for January shows both options for measuring the PCI falling from December, although continuing a similar pattern of activity since October 2010.
- Despite the dip in combined expansion, both indicators have been in expansion for 15 consecutive months.
- Compared with previous results in January, both the GDP-Weighted and Free-Weighted Indexes were lower than 2009.
- The JPMorgan Global Combined Index stood at 58.3, up from 57.0 in December and at its highest level since April 2006.

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).

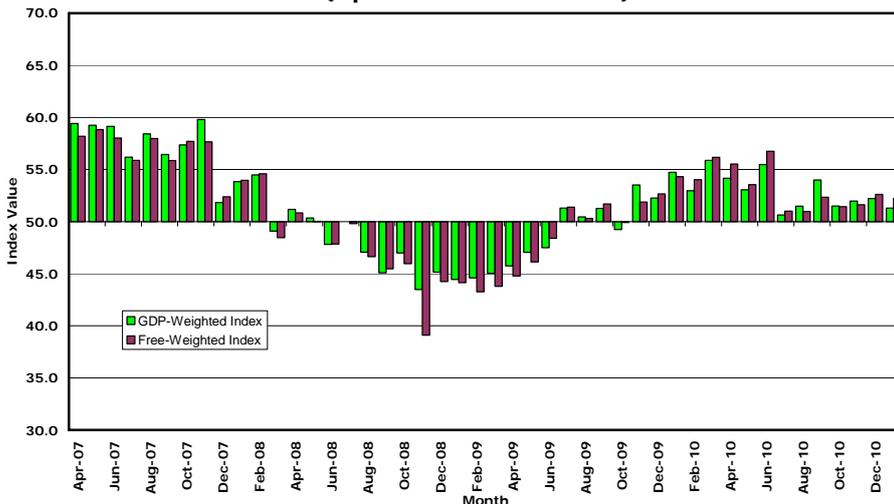
Combined results are shown in two ways:

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.

BNZ - BusinessNZ PCI Seasonally Adjusted Time Series (April 2007 - Jan 2011)



Performance of Composite Index time series tables

Combined National Indexes	Jan 2008	Jan 2009	Jan 2010	Nov 2010	Dec 2010	Jan 2011
GDP-Weighted Index (s.a)	53.8	44.5	54.7	52.0	52.2	51.3
Free-Weighted Index (s.a)	54.0	44.1	54.3	51.6	52.6	52.2

21 February 2011

A Magnum for the New Composite PI

- We publish the inaugural PCI, as PMI+PSI
- Altogether representing 80% of the economy
- The PCI remained moderately expansive in January
- Albeit with the PMI bits doing better than the PSI
- Although orders, in general, suggest ongoing recovery

Like many a female, we had thought of Magnum PI. Not in a dreamy way, you understand, but as the practical name for the new composite performance index Business New Zealand has constructed, by way of melding the PMI and PSI. Instead, we agreed to settle on PCI as the name. The Performance Composite Index, if you must.

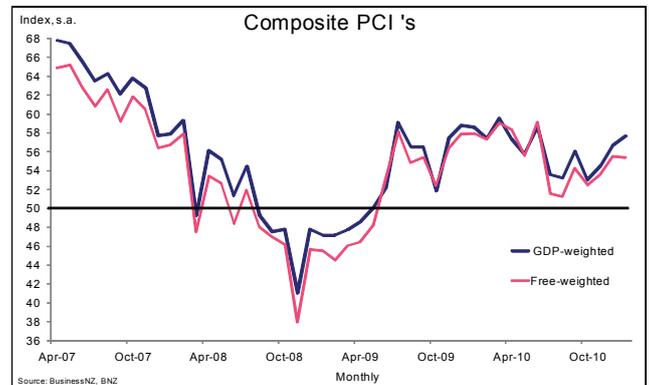
It made sense to agglomerate the information content of the long-running PMI and more newly minted PSI survey. Apart from increasing the sample size, the PCI offers a bigger picture take on the economy's pulse. And not only from an "overall" point of view, but by way of the production, new orders, employment, and other sub-detail of the PMI and PSI surveys.

Still, there were some technical issues to resolve. The main one was how to weight the inputs into a composite. It's not as straightforward as it sounds. And so we've decided on two versions of the PCI.

One of these strictly adheres to the proportion that each of the PMI and the PSI represents of GDP. According to the national accounts, manufacturing makes up about one-eighth of real production-based GDP, while the services sector (excluding Government administration and defence) is measured at approximately two-thirds. Sure, even these weights, and definitions of manufacturing and services, are open to debate, and they change over time. However, to be clear, this is the basis on which the GDP-weighted PCI has been constructed.

The strength of the GDP-weighted PCI, of course, is its representativeness of the industries that comprise the economy. However, it is also the case that it relies upon a PSI survey that is not only shorter-running, but has, for the meantime, a sample size less-deep in respect of the wider sector it purports to represent.

In regard to this caveat, we thought the other valid way of combining the PMI and PSI was simply to throw all the responses together and see what bubbled to the surface. It's democracy in action. We denote this as the free-weighted PCI. Sure, this, like the GDP-weighted PCI, is not perfect. But we think the two should capture the



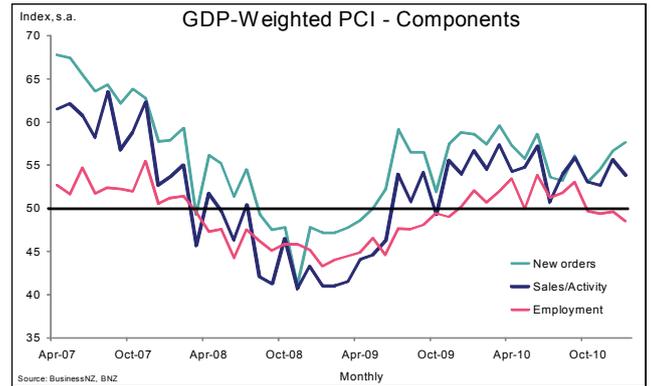
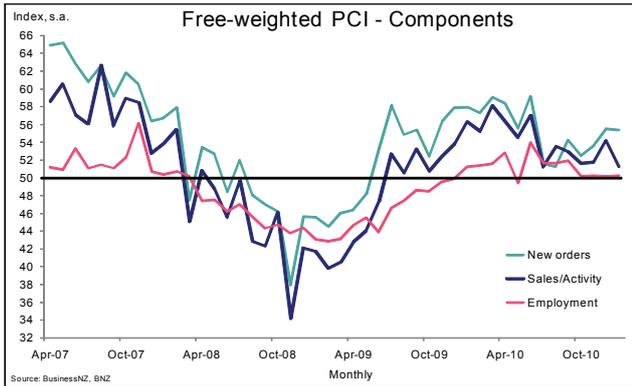
bounds of belief in the economy's performance, while leaving readers to assign the emphasis they prefer.

So what do these brand new Composite Indices show? Over time (which means since April 2007, when the PSI began), the free-weighted PCI has clearly been choppier than the GDP-weighted PCI, even in seasonally adjusted terms, technically because of its higher weighting toward the PMI, which has had a rougher ride over recent years. Yet the free-weighted PCI also arguably gave a better warning of the degree of recession the economy was entering in 2008/09.

Since about mid-2009, however, the two composite indices have been similar enough. And, funnily enough, they were at very similar levels in their latest reading, for January 2011. Of course, this simply meant they both portrayed a lack of follow-through, on what was only a faint growth signal over the closing stages of 2010. The GDP-weighted PCI was a seasonally adjusted 51.3 (from 52.2 in December) while the free-weighted PCI was 52.2 (from 52.6). While still positive, these results don't inspire confidence of a strong pick-up being underway.

This has been the net result of the PSI pulse almost stalling in January, while that of the PMI picking up.

Yet, combined, they also remained in expansion mode, as they have been since late-2009. This bears mentioning, as there have been a lot of commentators starting to conclude the NZ economy is re-entering recession. This is not the message of the Composite indices (nor the range of other business surveys, for that matter). More that earlier optimism has given way to a sense of frustration. Quite different to how things looked a couple of years ago, including by way of perusing the Bank of New Zealand-Business New Zealand Composite indices.



There have also been solaces in the Composite index components to recognise. Sure, the employment indices looked flat, at best, having crept into slightly positive territory last year. However, the production indicators were positive, with the GDP-weighted version comfortably so.

But the greater confidence came in the new-orders indicators. For the free-weighted PCI it was a solid 55.5 in January, while the GDP-weighted version strengthened to 57.6. These results are inconsistent with the notion the economy is going flat, let alone backwards.

Still, the near-term indicators will need to be monitored closely in order to gauge which way the winds blow in what remains a potentially turbulent year. In this regard, we think the new PCI will add to the information content, in being not only a fairly broad representation of economic activity, but as timely a pulse as is publicly available. Now, where's that Magnum, of champagne, you understand, to bless the newly launched PCI. Long may she help navigate the unpredictable seas of economic assessment and forecasting.

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