

BNZ CAPITAL-BUSINESS NZ PSI

BNZ Capital-Business NZ 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. BNZ Capital is a division of the Bank of New Zealand

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Service sector out of decline for first time in 16 months

BNZ Capital - Business NZ PSI for July 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for July increased 5.1 points from June to stand at 50.1. This was the first result over the no change mark of 50.0 since March 2008. The July result was also up from the July 2008 value (48.9).
- Three of the five diffusion indices that make up the PSI exhibited contraction during July, but the key indicators of *activity/sales* (51.7) and *new orders/business* (56.5) exhibited its highest values since March 2008 and February 2008 respectively. *Employment* (47.9) improved to its highest level since November 2008, while *stocks/inventories* (42.1) increased 1.1 points since June. *Deliveries* (46.0) picked up from its lowest ever result, as well as being the highest value since March 2009.
- Activity was positive in two of the four main regions in July, with the *Canterbury/Westland* (53.1) and *Northern* (51.2) regions displaying their strongest level since December 2008 and February 2008 respectively. However, the *Otago/Southland* region (43.7) showed a slight dip after some recovery in June, while the *Central* region (45.8) continued to record its lowest level of activity since the survey began.
- Results for the various service sectors were mixed for July in terms of showing a range of expansion and decline. However, there was general improvement across the board compared with the June figures. *Health & community services* (57.1) led the way with the strongest level of expansion, followed by *transport & storage* (53.5). *Retail trade* (48.8) continued to show a decline, although if we were to take out the seasonal effect of Christmas shopping in December, it was at its highest value since March 2008.
- Three of the four firms by employment size showed contraction during July, with expansion only evident with micro firms (1-10 workers) (51.5). Both small-medium firms (11-50 workers) (49.3) and medium-large firms (51-100 workers) (49.7) were close to the level of no change, while large firms (101+ workers) (47.8) showed some improvement in activity from June.
- The improvement in overall activity levels was mirrored by the proportion of negative comments from respondents dropping to 51.9% in July, compared with 58.8% in June, 59.1% in May and 56.7% in April. When comparing activity with the same time last year for positive and negative comments, results were generally positive. Activity for those with negative comments (3.80*) was 0.02 points down for July. For positive comments, it fell 0.11 points to stand at 2.51. Overall, it stood at 3.18.

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HIGHLIGHTS

- **Service sector activity showed first sign of expansion since March 2008.**
- **Both activity/sales and new orders were in positive territory.**
- **Regional activity was again mixed, with the Northern region at its highest level since February 2008.**

Next BNZ Capital - Business NZ PSI: 21 September 2009

SPONSOR STATEMENT

BNZ Capital 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. BNZ Capital is a division of Bank of New Zealand Ltd.

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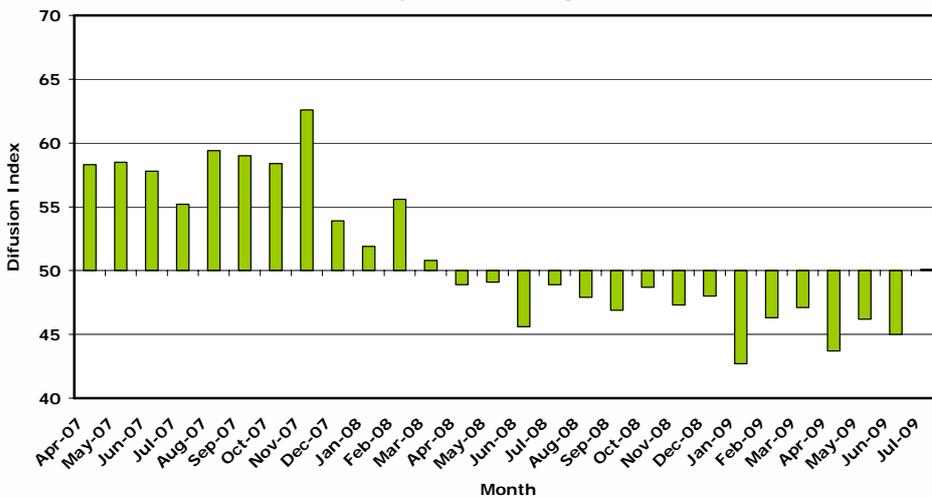
*Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

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BNZ Capital - Business NZ Performance of Services Index Time Series (April 2007 - July 2009)



PSI time series tables

National Indexes	July 2007	July 2008	Apr 2009	May 2009	June 2009	July 2009
BNZ Capital - Business NZ PSI	55.2	48.9	43.7	46.2	45.0	50.1
Activity/Sales	56.4	47.9	40.9	43.9	43.9	51.7
Employment	51.7	47.5	42.5	46.3	43.6	47.9
New Orders/Business	61.8	52.7	47.6	49.7	50.8	56.5
Stocks/Inventories	49.4	46.7	42.6	44.7	41.0	42.1
Supplier Deliveries	52.4	48.2	44.9	44.7	42.2	46.0

Regional Indexes	July 2007	July 2008	Apr 2009	May 2009	June 2009	July 2009
BNZ Capital - Business NZ PSI	55.2	48.9	43.7	46.2	45.0	50.1
Northern	57.6	48.2	42.8	47.4	44.4	51.2
Central	55.3	54.9	48.8	47.2	45.8	45.8
Canterbury/Westland	49.1	51.1	43.1	43.7	47.5	53.1
Otago/Southland	55.9	40.4	44.8	37.0	44.8	43.7

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

17 August 2009

Service Sector Stems Slippage

- July's PSI achieves stability, at 50.1
- Details mixed by region and industry type
- But new orders rising, inventory being pruned
- Laying foundation for output gains
- As NZ PSI overtakes stalled global PSI

Just like we saw for New Zealand's manufacturing PMI last week, its service sector cousin, the PSI, continued to recover in July. Indeed, in climbing to 50.1, it achieved the point of stability that the PMI came so agonisingly close to grasping just before it.

It wasn't thoroughly good news. The overall stability in July's PSI masked a very mixed performance in the details. For example, although the region of Canterbury/Westland hit 53.1, its neighbour Otago/Southland languished at 43.7. And while the retailing, wholesaling and transport industries looked much more stable, the likes of finance and insurance, communications and hospitality appeared to be going backwards.

We hope to see a more concerted pulse in the subsequent NZ PSI surveys.

And there seems a good chance of seeing this, if some of the deeper, more forward-looking, indicators are to be believed.

For example, just like for the PMI, the PSI new orders index moved into clearly positive territory in July. To be sure, as a raw (unadjusted) number, its move to 56.5, from June's 50.8, might overstate the case, as we come

out of winter. However, if the much longer spanning PMI is anything to go by, the seasonal effect is probably not a big deal at this time of year (it's more of an issue toward the end of the calendar year). And so the PSI new orders index probably does signal genuinely higher production is in store.

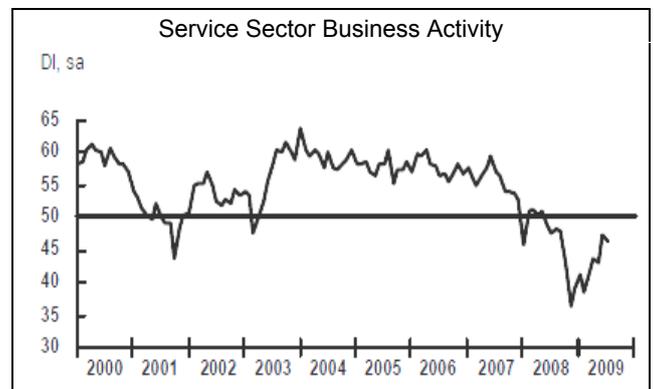
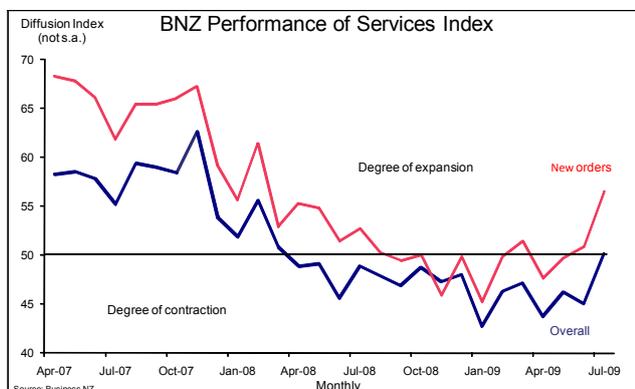
So too does the evidence of aggressive culling of inventory in the service sector (something we're also seeing amongst manufacturers). The PSI index on such remained relatively weak, at 42.1 in July. Of course, this is not good news for the economy for the meantime. But it is a sign of progress in that firms are clearing the decks, and aggressively so.

Even in respect to service sector employment, the PSI jobs index, at 47.9, was the least negative (sub-50) since November 2008. It was only three months prior that it was lulled at 42.5.

Indeed, we might even say that New Zealand's PSI, overall, is now getting the better of its global comparators. While we moved up in July, the global JP Morgan PSI – as compiled and published by Markit economics – slipped back to 46.5, from 47.4. This was led by the US, whose PSI reduced to 46.4, with its new orders index down to 48.1.

Still, the overall, and underlying, trends remain encouraging, following the severe points of contraction of early this year.

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