

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.

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Slow slog for service sector heading into Xmas

BNZ - BusinessNZ PSI for November 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for November stood at 51.4, up only 0.2 points from October. The 2010 result was also the second lowest November figure since the survey began.
- Despite the small pick up in expansion, only two of the five sub-indices were in expansion mode during November. *Supplier deliveries* (47.5) experienced the lowest result, followed by *employment* (48.8). *Stocks/inventories* (49.9) remained largely unchanged from the previous month, although now technically in contraction. Encouragingly, *new orders/business* (54.4) improved from its October result to lead the way in November, although *activity/sales* (50.5) dropped 2.5 points, albeit still in expansion.
- Unadjusted activity by region exhibited the same pattern as the previous month, with the North Island showing expansion and the South Island showing decline. In fact, the difference between the two islands became more pronounced in November. The *Northern* region (55.9) again led the way, closely followed by the *Central* region (55.3). The South Island experienced another consistent level of decline, with the *Canterbury/Westland* (44.6) and *Otago/Southland* (44.7) regions falling back into contraction for seven of the last eight months.
- Results for the various service sectors were a mixture of expansion and decline during October. *Retail trade* (46.3) continues to struggle with the lowest result for the month. In comparison, both *property & business services* (52.5) and *health & community services* (55.3) continued to show expansion, while *accommodation, cafes & restaurants* (50.0) experienced no change.
- All firms by size were again in expansion during November, which has now occurred for three consecutive months. Micro firms (1-10 workers) (51.0) experienced a value similar to October, while small-medium firms (11-50 workers) (55.1) improved after a drop in expansion the previous month. Both medium-large firms (51-100) and large firms (101+ workers) experienced a lift in expansion (57.0 and 58.2 respectively).
- Encouragingly, positive comments from respondents rose to 56.8%, compared with 47.9% in October, 53.5% in September, 46.2% in August and 40.1% in July.

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HIGHLIGHTS

- **Service sector activity was largely unchanged from the previous month, rising to 51.4 in November.**
- **Only two of the five sub-indices were in expansion.**
- **Regional activity was again positive in the North Island and negative in the South Island.**
- **All firms by size were again in expansion.**

**Next BNZ - BusinessNZ PSI:
24 January 2011**

SPONSOR STATEMENT

BNZ is delighted to be associated with 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.

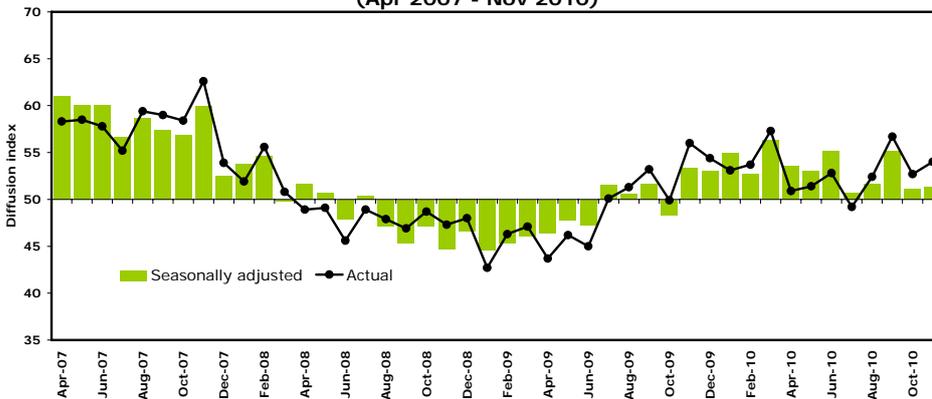
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BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Nov 2010)



PSI time series tables

National Indexes	Nov 2007	Nov 2008	Nov 2009	Sep 2010	Oct 2010	Nov 2010
BNZ - BusinessNZ PSI (s.a)	60.0	44.7	53.4	55.1	51.2	51.4
Activity/Sales (s.a)	61.6	41.4	54.4	57.1	53.0	50.5
Employment (s.a)	54.8	46.7	48.4	53.5	49.4	48.8
New Orders/Business (s.a)	63.4	42.1	57.3	56.8	53.1	54.4
Stocks/Inventories (s.a)	59.8	47.3	46.8	49.9	50.1	49.9
Supplier Deliveries (s.a)	54.8	44.1	51.8	53.3	50.1	47.5

Regional Indexes	Nov 2007	Nov 2008	Nov 2009	Sep 2010	Oct 2010	Nov 2010
BNZ - BusinessNZ PSI (s.a)	60.0	44.7	53.4	55.1	51.2	51.4
Northern	64.1	44.8	54.8	58.5	55.3	55.9
Central	61.9	50.4	59.3	54.5	51.5	55.3
Canterbury/Westland	59.6	55.3	56.0	51.6	45.0	44.6
Otago/Southland	62.0	47.6	59.4	55.8	45.5	44.7

(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

20 December 2010

Transport Lift Signals Wider Improvement

- Economy struggled through Q3
- PSI indicating growth ahead
- New orders encouraging
- Transport sector improvement points to general pick up in activity
- Retail and accommodation subdued with stark regional differences

The economy clearly struggled to gain traction in Q3 this year. The final verdict for the quarter comes with the GDP statistics due for release on Thursday. There were some clear negatives like construction. Indicators for manufacturing were a little more mixed, but negative on balance. Judging by the PSI and other service sector indicators for the quarter, we think the service sector eked out enough growth to offset the negatives coming from the goods-producing sector. So, we are looking for a dead-flat result overall. Not the best news to head into the Christmas break, but probably a fair reflection of the patchy economic performance through the quarter.

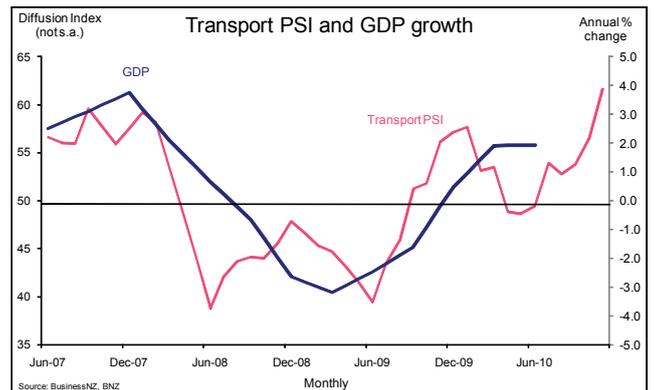
The good news is that we still think the economy is in recovery mode, on trend. In our view, a flat result, or thereabouts, should be read as a pause in the broader recovery process. More timely indicators for Q4 are already showing a bit more life. Things like car registrations, business confidence and activity indicators, electronic card transactions, and even house sales are among those perking up a bit.

The PSI cannot really be included in this group, but it is hanging in there. At 51.4, seasonally adjusted, it is still indicating growth in the service sector overall. This is similar to the 51.2 recorded in October.

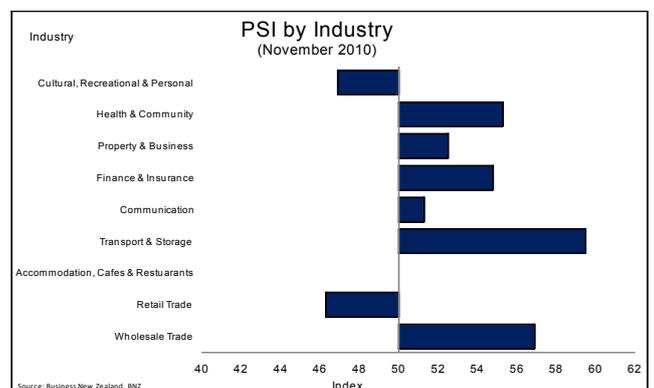
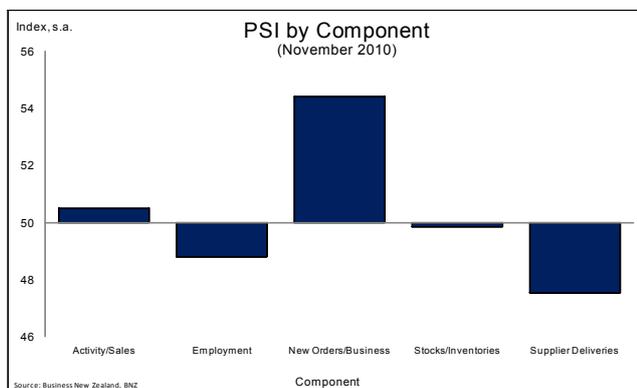
The detail provides a bit more support to the idea that economic growth will pickup into 2011. It is certainly

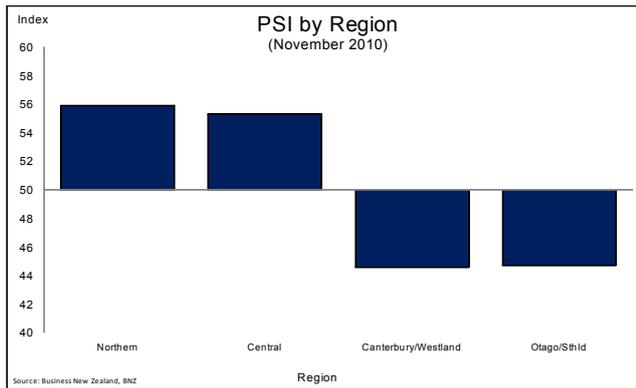
pleasing to see new orders leading the charge among the component indices. This promises a rise in activity ahead.

Other promising signs that general economic activity is improving are coming from the transport sector. Transport activity can give a good guide to the general economic pulse, given its role in many economic transactions. As such, we take some confidence from the fact that the three month average transport PSI index has lifted to 61.6, its highest level since the series began in mid-2007. The recent improvement is all the more impressive given the backdrop of rising fuel costs and suggests activity growth is strengthening as we head into 2011. This assessment certainly fits with other transport indicators like vehicle (car and commercial) registrations and government tax revenue from road user charges.



This is not to give the impression that it is all go in the service sector. It is not. The retail, hospitality, and recreational and personal service industries are still struggling with a cautious domestic consumer. This certainly follows from the weak retail sales figures for October, published last week.



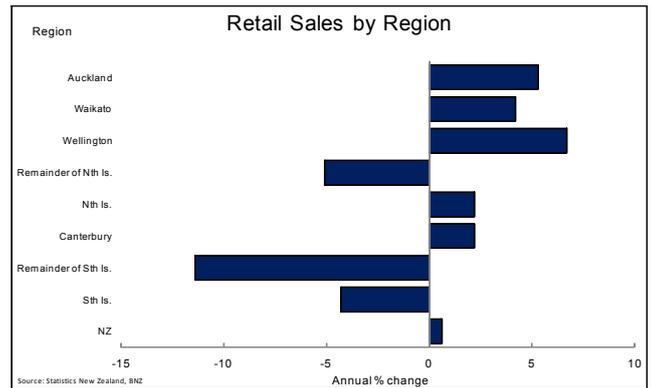


Another interesting breakdown in the November PSI is the geographic split – with the North of the country seemingly doing considerably better than the South. The Northern and Central PSI readings came in at 55.9 and 55.3 respectively, a far cry from the 44.6 and 44.7 recorded in Canterbury/Westland and Otago/Southland respectively.

It would seem the general weakness in the South and retail sectors are connected, judging from what we have seen in the retail sales statistics. The impact of the GST hike on the timing of spending got all the coverage when the weak retail number was released last week. But the detail revealed a distinct difference in spending patterns across regions.

Interestingly it was not Canterbury that stood out, as one might have imagined following the earthquake. Rather it was the 'rest of the South Island' (South Island excluding Canterbury) with sales in this region falling by 7.5% in October, after a 2.8% rise in September. The drop in October was significantly higher than the nationwide fall of 2.5%.

Sure, some of this weakness was undoubtedly a hangover from the pre-GST spend up in September (like elsewhere), but the sales trend has been down since the start of 2010.



October retail sales in the 'rest of the South Island' were 11.4% lower than a year earlier. This pulled total retail sales in the South Island down 4.3% over the year. In contrast, retail sales in the North Island rose 2.2% over the same period, although provincial North Island did record a significant 5.1% drop.

In addition to a cautious consumer, emerging weakness in tourism is also dampening the retail sector and well as contributing to the regional differences. For instance, total guest nights at commercial accommodation establishments eased a touch in October, to be down 1.7% on a year ago. But South Island guest nights were down 5% in October compared to a year ago, while guest nights in the North Island rose 0.5%. At least we know on the tourism front that a big boost is coming next year, in the form of the Rugby World Cup.

Overall, there is enough in the November PSI survey to suggest that the trend economic recovery will continue beyond a soft point in Q3. But even with the trend improvement we see, there are some sectors doing better than others.

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