

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

Oktoberfest

BNZ - BusinessNZ PSI for October 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for October stood at 57.4. This was an increase of 7.5 points from September, and the highest result since November 2011 (57.7). Compared with previous October results, the 2012 value was the second highest recorded (the highest being 57.5 in 2007).
- All five main sub-indices were in expansion during October. *Activity/sales* (64.2) led the way with its highest result since the survey began in 2007. Likewise, *new orders/business* (62.7) recorded its highest value since November 2007, although almost on par with its result in May this year. *Employment* (52.1) returned to activity levels last seen in July, while *supplier deliveries* (54.7) also bounced back from three months in contraction. *Finished stocks* (51.0) was the only sub-index to experience a fall in expansion levels during October, although consistent with results over the last six months.
- Three of the four regions were in expansion during October. In the North Island, the *Northern* region (60.7) continued its upwards momentum, with its highest value since November 2007. In contrast, the *Central* region (48.8) showed almost no change from the previous month. In the South Island, the *Canterbury/Westland* region (56.0) displayed its highest result since June, while the *Otago/Southland* region (55.6) managed to break the shackles of five consecutive months of contraction to show growth in October.
- Service sector results were mostly positive in October. *Wholesale trade* (65.1) continued to display healthy levels of expansion, while *health & community services* (56.0) also displayed ongoing momentum. *Property & business services* (53.2) bounced back from slight contraction in September to show a solid level of expansion.

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HIGHLIGHTS - PSI

- ***Service sector breathes back into life for October.***
- ***All five major sub indices in expansion, with activity/sales and new orders/business strong.***
- ***Regional activity positive in three of four main regions.***

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- ***Options for measuring PCI activity again both showed healthy expansion in October.***
- ***Global PCI for October shows expansion, but down on September.***

Next BNZ - BusinessNZ PSI/PCI: 17 December 2012

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.

BNZ (www.research.bnz.co.nz)

Inside BNZ Commentary this Month (page 4)

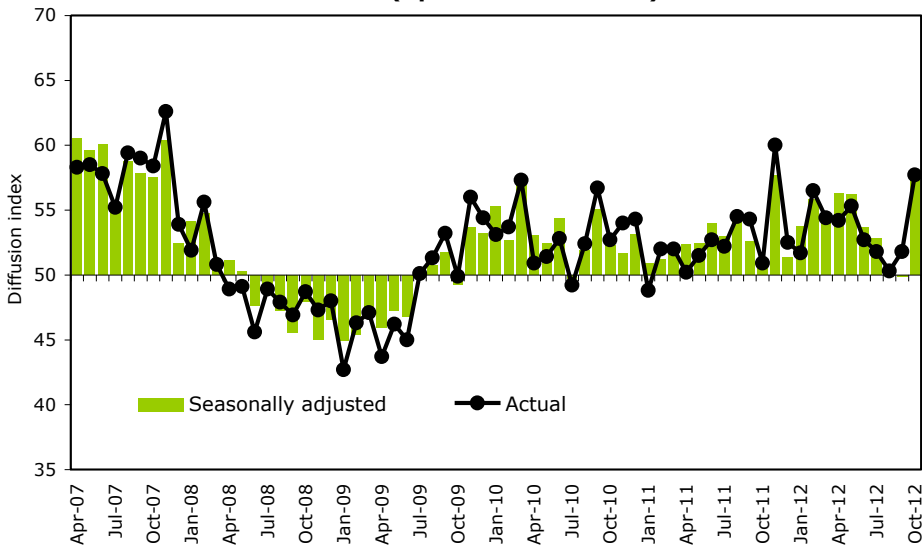
Doug Steel, BNZ Economist, discusses the October PSI results in the context of the recent run of poor economic data. How does it fit with higher unemployment and falling retail sales in Q3? What does it mean for what the RBNZ might do, or not do, with interest rates? He cautions against drawing strong conclusions from one data point, the PSI results certainly cause some pause for thought.

BNZ-BusinessNZ PSI

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BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Oct 2012)



October PSI time series tables

National Indexes	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Oct 2011	Oct 2012
BNZ - BusinessNZ PSI (s.a.)	57.5	47.9	49.2	52.3	50.5	57.4
Activity/Sales (s.a.)	58.6	47.0	48.8	54.9	50.7	64.2
Employment (s.a.)	51.6	46.8	50.2	50.0	50.0	52.1
New Orders/Business (s.a.)	65.5	49.7	52.8	55.1	52.7	62.7
Stocks/Inventories (s.a.)	53.7	49.1	44.4	50.6	51.1	51.0
Supplier Deliveries (s.a.)	54.6	47.8	46.8	50.5	50.3	54.7

Regional Indexes	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Oct 2011	Oct 2012
BNZ - BusinessNZ PSI (s.a.)	57.5	47.9	49.2	52.3	50.5	57.4
Northern	60.4	48.4	48.9	55.3	48.6	60.7
Central	54.7	55.4	51.6	51.5	54.5	48.8
Canterbury/Westland	59.6	52.3	54.5	45.0	64.2	56.0
Otago/Southland	55.3	37.7	47.5	45.5	43.7	55.6

(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

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Hospitality New Zealand

Back in black

BNZ - BusinessNZ Performance of Composite Index (PCI) for October 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for October showed the two options for measuring the PCI back in healthy expansion.
- The GDP-Weighted Index (56.9) increased 7.7 points from September, with its highest result since March 2010. The Free-Weighted Index (54.9) also showed a pick up, rising 5.9 points from September. The major influence for both indices was the strong service sector result.
- The JPMorgan Global Combined Index for October (51.3) was slightly down from September, with a contracting manufacturing sector remaining the main drag.

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).

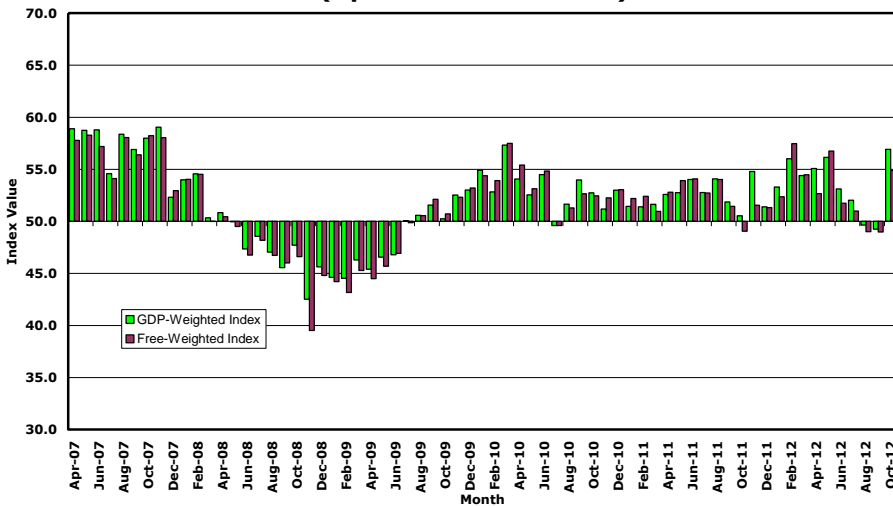
Combined results are shown in two ways:

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 - Oct 2012)



Performance of Composite Index October time series table

Combined National Indexes	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Oct 2011	Oct 2012
GDP-Weighted Index (s.a.)	58.0	47.7	50.2	52.7	50.5	56.9
Free-Weighted Index (s.a.)	58.2	46.6	50.7	52.4	49.1	54.9

19 November 2012

The Big Bounce

- PSI takes off in October
- Activity rises to survey record
- In stark contrast to soft Q3 indicators
- Gives RBNZ time to assess evolving economy

Just when it seemed that negative New Zealand economic data surprises were becoming the norm, the Performance of Services Index has exploded higher.

To be sure, there is no market survey for this index to judge expectations. But even if there was, we very much doubt that anyone, probably not even in their wildest dreams, would have picked the massive bounce to 57.4 in October, from 49.9 in September.

For us, while we were hopeful for some sort of bounce back above the breakeven 50 line, the extent of improvement is quite staggering. The lift is almost three standard deviations away from the average monthly move. Translation: it is unusually big. In fact, it is the biggest monthly increase in the PSI since the survey began back in 2007.

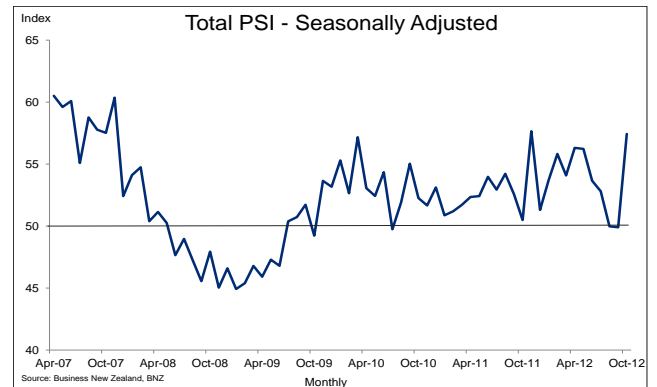
Of course, we need to be a bit careful not to get too excited by one positive number. We have seen something similar before, only for it to reverse the very next month. For example, there was a very strong lift in November last year which was almost completely unwound the following month.

This is not to say it is a seasonal thing. These moves are over and above usual seasonal variation. And, regardless, today's figures are for October not November like last year. Rather it is to illustrate that one month does not make a trend.

That said it is pleasing to see some signs of life following what, by many accounts now, was a soggy third quarter of the year.

Importantly, the improvement is rife through the October survey, across industries, regions and firm size. It provides some evidence that the resilient consumer confidence and business confidence and expectations of future activity – even through the third quarter soft patch – is translating into action.

The PSI is a survey of activity and outcomes not of expectations. This is an important distinction. The positive result is not a forecast of improvement, rather one that firms have recorded.



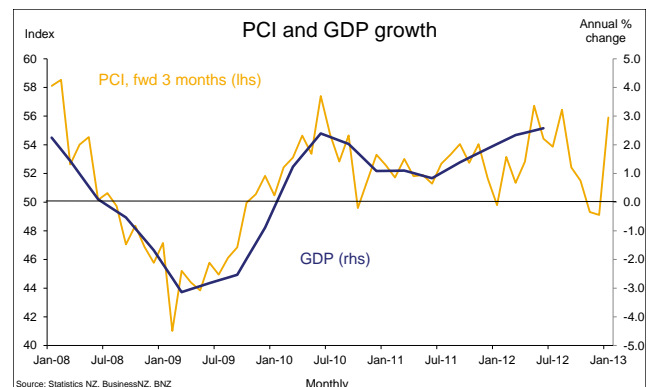
This is supported by the detail. The sales activity index not only posted its biggest ever monthly gain, but, in reaching 64.2 in October, is at its highest level since the survey began. The new orders index showed very similar results.

The big improvement in October's PSI follows on from the stabilization in the Performance of Manufacturing Index released last week.

The PCI combines the PSI and PMI to give an overall picture of the service and manufacturing sectors. It gives a good lead to economic growth. This index gave an early steer on the likelihood of a very soft Q3 GDP result.

Of course, the official result for that quarter will not be known until just before Christmas, but a host of indicators since the weak PCI through August and September have added to the case for a weak quarter. These have included a drop in official employment and a fall in retail sales volumes.

The PCI, after appearing to have correctly signaled a weak Q3 GDP a few months ago, is now sniffing at a big



turnaround. Could it be that what looks like a reasonable chance of contraction in Q3 GDP is followed by a gain of 1% in Q4? We really need more than one month to reach such a conclusion with any degree of conviction. But the possibility is there.

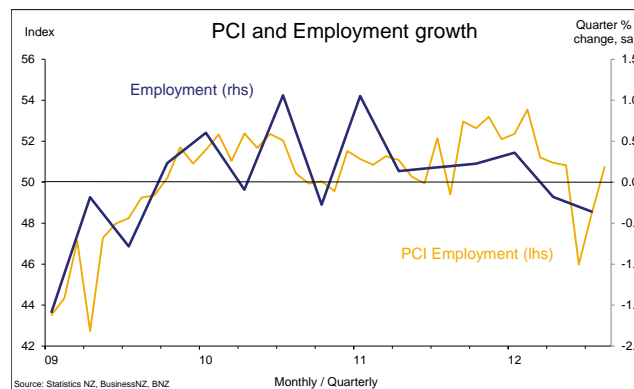
But even with results along those lines, the second half of 2012 would still be slower than the first half.

More important than the precise quarterly wiggles in economic growth is the bigger picture. The current level of the PCI indicates annual growth of around 3% down the track.

The better looking activity numbers may well prove important for near term policy considerations. We think the RBNZ will be giving some thought whether to cut interest rates in the wake of Q3 data that showed low inflation, higher unemployment and soft retail sales.

In the least, the PCI data add some weight to the idea that any hole that may have developed is not getting bigger. More likely, if growth did indeed stall recently, it may be resuming at a reasonable clip.

This means the increase in spare capacity that appears to have taken place may prove temporary. If so, there is no need for the RBNZ to respond with even lower interest rates.



Of course, we need more than one data point to be sure. But the improvement in the likes of today's PSI gives the RBNZ a bit of time to assess the evolving domestic economic landscape, in the wake of some horrible looking numbers for Q3.

We say this with regards to employment also. The PSI employment index rose to 52.1 in October, having been sub-50 in August and September. The combined PCI employment index averaged 50.7 in October, a level, if sustained through November and December, that would indicate a return to employment growth in Q4 overall.

All this might just be enough to convince the RBNZ to give the underlying economic recovery story the benefit of the doubt cast by the run of weak Q3 figures.

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