

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

Service sector expansion within tight band

BNZ - BusinessNZ PSI for September 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for September stood at 53.2. This was down 0.6 points from August, although results over the last three months have been very consistent, ranging in value by only 0.6 points.
- Four of the five sub-indices were in expansion during September, with *new orders/business* (56.2) again leading the way although slightly down on expansion from August. *Activity/sales* (51.2) dipped significantly in expansion, while *supplier deliveries* (52.1) decreased one point from August. *Stocks/inventories* (49.8) improved slightly from August, although still under the no change mark of 50.0, while *employment* (53.5) experienced its highest result since April 2010.
- Activity was again expansionary for three of the four main regions. This was led by the *Canterbury/Westland* region (57.2) which increased 0.7 points from August. The *Central* region (57.0) was close behind in terms of overall activity, with its highest result since March 2011. The *Northern* region (55.8) dipped in expansion during September, while at the other end of the scale the *Otago/Southland* region (34.4) experienced worsening results with its lowest level of activity since the PSI began in April 2007.
- The various service sectors were mostly in expansion during September, with *wholesale trade* (54.9) showing softening activity compared with August. At the other end of the scale, *property & business services* (45.9) experienced its second consecutive month of contraction, while *health & community services* (50.6) managed to keep its head above water.

Inside BNZ Commentary this Month (page 4)

Bank of New Zealand Economist Doug Steel looks at some of the unusual detail in the PSI results. He concludes that with many strong forces influencing the service sector at present, such as the Rugby World Cup, care should be taken not to extrapolate current indicators, positive or negative, into the future.

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HIGHLIGHTS - PSI

- **Service sector expansion for September on par with previous months.**
- **Four of the five major sub indices in expansion.**
- **Regional activity showed Otago/Southland at lowest point since survey began.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Both options for measuring PCI continued to slide in September.**
- **Global PCI experienced slight pickup as global output and new orders rose.**

Next BNZ - BusinessNZ PSI/PCI: 14 November 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.

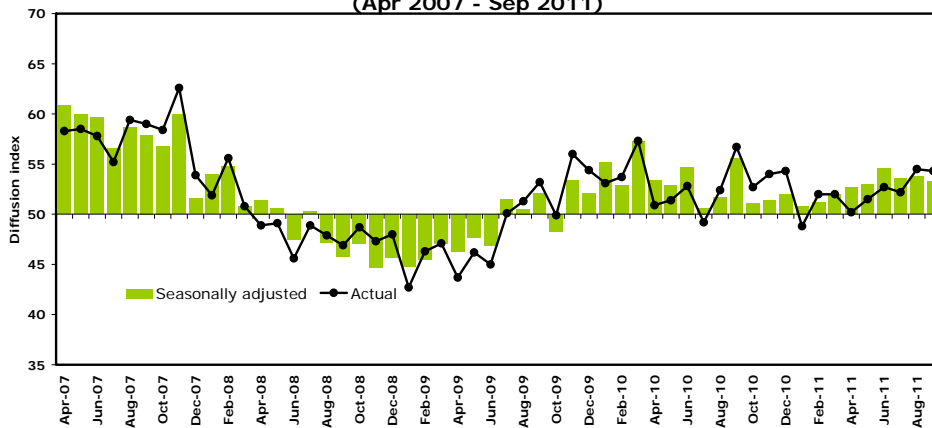
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BNZ-BusinessNZ PSI

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



PSI time series tables

National Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Aug 2011	Sep 2011
BNZ - BusinessNZ PSI (s.a.)	57.9	45.8	52.1	55.6	53.8	53.2
Activity/Sales (s.a.)	58.8	42.0	56.1	58.7	56.4	51.2
Employment (s.a.)	52.3	45.0	47.2	52.9	49.4	53.5
New Orders/Business (s.a.)	64.5	48.5	57.7	57.6	58.5	56.2
Stocks/Inventories (s.a.)	54.1	50.0	43.9	50.0	49.4	49.8
Supplier Deliveries (s.a.)	56.1	44.9	48.6	54.0	53.1	52.1

Regional Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Aug 2011	Sep 2011
BNZ - BusinessNZ PSI (s.a.)	57.9	45.8	52.1	55.6	53.8	53.2
Northern	58.7	46.5	55.8	58.5	57.4	55.8
Central	56.5	52.7	50.4	54.5	55.9	57.0
Canterbury/Westland	61.2	50.9	51.5	51.6	56.5	57.2
Otago/Southland	61.9	37.0	45.6	55.8	36.9	34.4

(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

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Composite index values slide in September

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for September shows both options for measuring the PCI showing another drop in the level of expansion, mainly due to weakening manufacturing activity.
- Compared with previous September results, the 2011 GDP-Weighted Index value was essentially in the middle of the pack, while the Free-Weighted option was at the lower end.
- The JPMorgan Global Combined Index rose to 52.0 in September, compared with August's 25-month low of 51.5. This increase was mainly due to global output and new orders both expanding at slightly faster rates in September.

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).

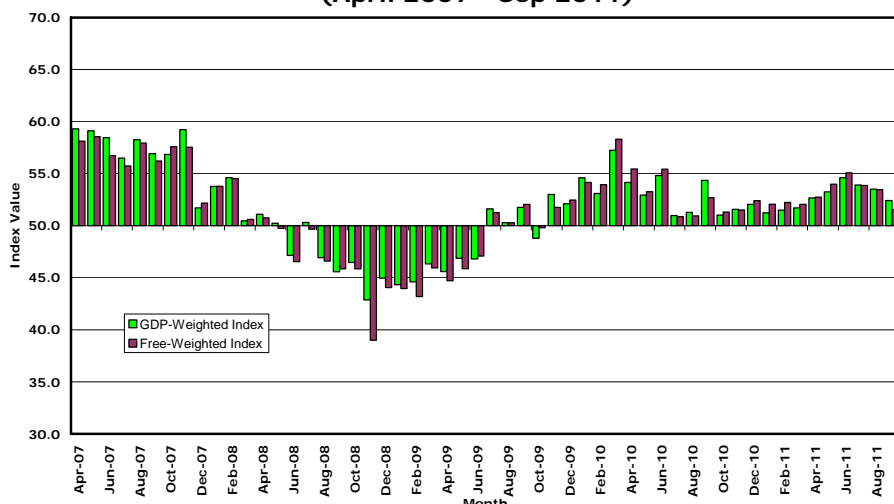
Combined results are shown in two ways:

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 - Sep 2011)



Performance of Composite Index time series tables

Combined National Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Aug 2011	Sep 2011
GDP-Weighted Index (s.a.)	56.9	45.6	51.8	54.4	53.5	52.4
Free-Weighted Index (s.a.)	56.2	45.8	52.1	52.7	53.5	51.6

17 October 2011

Service Sector: Steady or Not?

- Service sector shows steady momentum overall
- Detail all over the place
- As events, like the Rugby World Cup, disrupt normal patterns

The Performance of Services Index has thrown up some strange looking results this month. Not that you could tell by looking at the top level index that came in at 53.2 for September. Being close to both August's 53.8 and the six month average of 53.5, this indicates that the service sector has maintained solid forward momentum over recent months. Taking this at face value bodes well for the ongoing economic recovery.

But there were some quirks in the detail. Such as the significant moves in the sales and employment indices – but in opposite directions.

The sales index dropped from 56.4 in August to 51.2 in September, while the employment index rose from 49.4 to 53.5. Sales and employment moving in opposite directions is unusual and especially so given that these moves were both larger than the normal monthly variation.

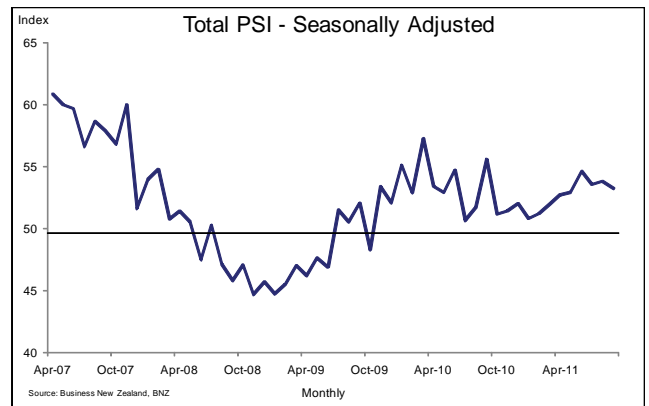
What does this mean? First and foremost we think it highlights the significant noise currently in New Zealand's economic data. So, as we have been stressing for some time, be very careful extrapolating any one data point either across industries, regions, or through time.

Some of the more likely candidates to be causing recent volatility are:

- The Rugby World Cup and the associated change in school holiday timing
- Ongoing disruption in activity following the earthquakes around Christchurch
- Varying levels of concern around the world economic outlook

In September, one big national event was the start of the Rugby World Cup. One initial impulse can be seen in the provisional weekly tourism data through to the week ending 2 October. This suggests that when the official tourist arrivals data for September are released on Friday, the rise will be in the order of 25% on a year ago.

That's roughly 50,000 more people overall compared to the prior trend. This, of course, relates to the period

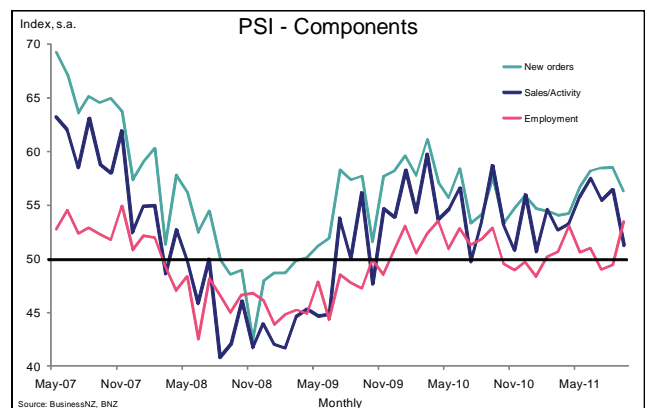


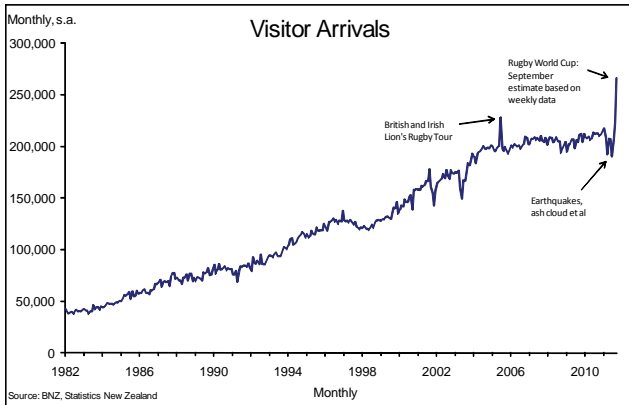
before the quarter finals kicked off on 8/9 October and is in addition to the early-bird arrivals in August. Things seem on track to hit pre-tournament estimates of around 95,000 visitors all up – maybe even a few more.

Bums on seats are one thing, but what about spending? To date, if there has been a massive visitor spend up, it seems to have been offset by weaker domestic spending. For example, last week's overall electronic card transactions data for September only posted a modest rise from August.

The notion of some offset is supported by the PSI sales indicator pullback towards the breakeven line of 50. And, while many service sector firms will have done exceptionally well out of the Rugby World Cup, others have struggled with significant disruption to normal tourism patterns.

In fact, of the many respondents who noted the event as an influence on their business in September, negative comments outweighed positive comments by a ratio of about 2 to 1.





It could be that service sector firms took on more staff gearing up for a big surge in activity during the tournament, but have been disappointed on the sales side.

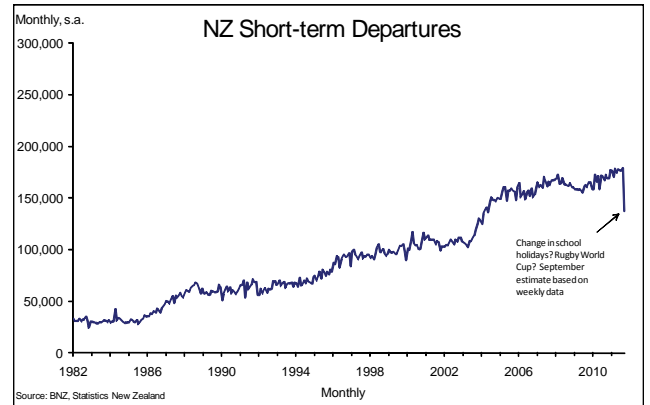
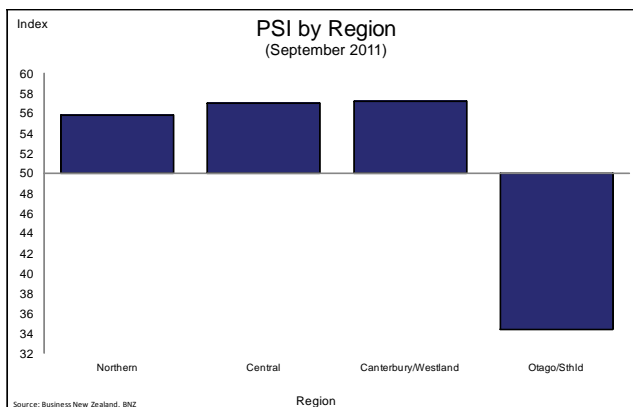
We suspect it might have more to do with the major change in normal tourism patterns, including domestic travel. Not least because the school holidays were pushed back into October to coincide with the World Cup final.

Evidence of the change in Kiwi's travel behaviour can be seen in the provisional weekly NZ resident short-term international departures data. These suggest there was a large drop in September. This is probably indicative of at least the direction in domestic travel during the month. In addition to the school holiday effect, Kiwis, on net, may have chosen to stay home for the Cup.

Judging by respondent comments this seems to have affected service sector activity most in the Southern Regions, with a disproportionate amount relative to other regions noting the negative aspects of the disruption to normal tourism patterns.

To date though, given the sales indicators discussed above it appears that Kiwis have not spent the would-be-international-holiday-money at home.

Many have interpreted the mediocre electronic card transactions data through August and September as a



sign of increased consumer caution. It might be. But, if so, you would expect to see a reasonable dip in consumer confidence. There was absolutely no sign of such in last week's data.

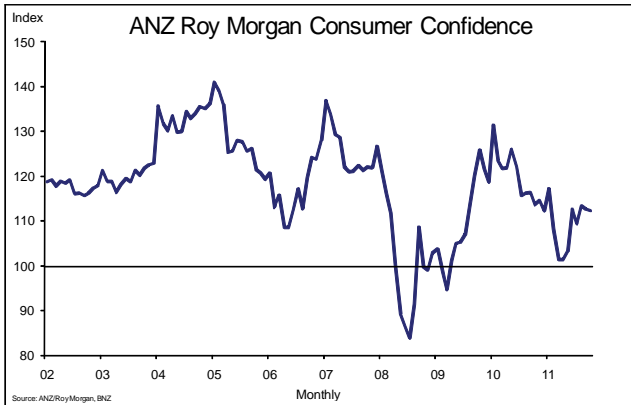
Another possibility is that it reflects the temporary change in travel patterns including the lack of bigger-than-average-value travel and package purchases that have softened the totals a bit. This would fit with August and September declines in the 'non-retail' component of the electronic card transactions data. If so, watch for a strong bounce back over the coming months.

In terms of the macro economic data, the changes to date have to show up somewhere. At this stage, we are sticking to our view that a fair chunk will show up in the current account – given the likely combination of higher foreign visitor spending and flat-to-negative domestic spending (and implied higher domestic savings). We have the current account deficit narrowing to 3.3% of GDP by year's end from the latest read of 3.7% in the year to June 2011.

Regardless of the near-term data, the success or otherwise of the Rugby World Cup was never going to be determined by one month's figures or indeed overall spending during the period of the tournament itself. There are many other aspects to consider including both lead up costs and benefits as well as the longer term implications of the nation's heightened international exposure.

Of course, the service sector is very diverse and certainly influenced by many factors beyond the current Rugby World Cup. From an employment perspective, the outlook is often just as important as current conditions.

We say this as another interpretation on the strong gains in the PSI employment index. Perhaps it has little to do with the World Cup and is more a statement about firms' optimistic view of the future. This view would fit with the fact that the PSI new orders index remained the strongest sub-index coming in at a very healthy level of 56.2 in September, not significantly different from August's 58.5. The PSI employment index has only been higher on two



previous occasions. Both times were back in 2007, the year the survey began.

This is clearly a good thing. But, just like some of the more negative aspects of the survey and ups and downs in other recent data, we are cautious to read too much into it.

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