bnz

Business NZ

BNZ-BusinessNZ PSI

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

Tale of two islands for service sector activity

BNZ - BusinessNZ PSI for March 2011

- Given the events of 22 February in Christchurch, BNZ and BusinessNZ decided not to run the February PSI. To compensate for the missing data for that month, the values for March have also been applied to February, with standard seasonal adjustment taking place.

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for March stood at 50.8, which continues a very similar level of activity for the first quarter of 2011.

- However, due to the recent earthquake unadjusted activity by region exhibited a tale of two islands. Both the *Northern* (54.6) and *Central* (57.5) regions continued to show relatively healthy levels of expansion, with the later recording its highest value since March 2010. In contrast, both the *Canterbury/Westland* (39.5) and *Otago/Southland* (39.5) regions experienced a significant dive in activity, with the former recording its first sub-40 result.

- Three of the five sub-indices remained in expansion during March. Encouragingly, *activity/sales* (52.3) continued to show expansion, while *new orders/business* (53.4) also remained consistent. *Employment* (50.4) went into slight expansion for the first time since September 2010.

- The various service sectors were a mix of expansion and decline in March. *Property & business services* (57.7), *health & community services* (53.7) and *wholesale trade* (52.7) all showed positive growth, while others such as *retail trade* (47.5) and *accommodation, cafes & restaurants* (33.7) continued to struggle.

Inside BNZ Commentary this Month (page 4)

In this edition, the Bank of New Zealand Research team discusses the similarities and differences between the PSI and PMI results for March. On the one hand, results by location and firm size show contrasting results. However, there is still a fair degree of staffing resilience with the employment index holding its own. Similar employment results have been occurring in other surveys, which tends to suggest that unemployment is not blowing out like some have feared.

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HIGHLIGHTS - PSI

- ***Service sector activity for March continued a very similar pattern compared with recent months.***
- ***Regional activity showed a tale of two islands, with the effects of the recent earthquake clearly evident.***
- ***Both activity/sales and new orders remained in expansion mode.***

HIGHLIGHTS – PERFORMANCE OF COMPOSITE INDEX (PCI)

- ***Despite declines in manufacturing and service sector activity in the South Island, overall activity remained positive.***
- ***International PCI lowest in six months due to Japanese earthquake.***

Next BNZ - BusinessNZ PSI/PCI: 16 May 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.

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

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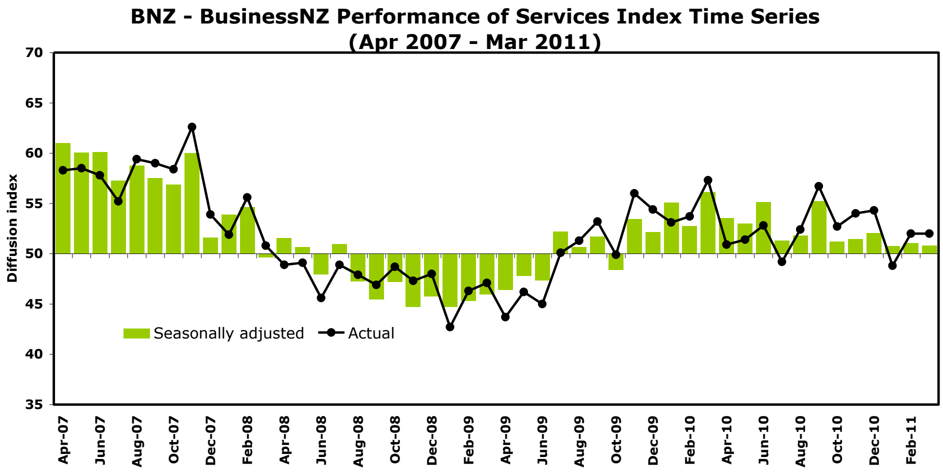

PSI time series tables

National Indexes	Mar 2008	Mar 2009	Mar 2010	Jan 2011	Feb 2011	Mar 2011
BNZ - BusinessNZ PSI (s.a)	49.6	45.9	56.1	50.8	51.0	50.8
Activity/Sales (s.a)	48.2	44.2	59.3	50.5	54.3	52.3
Employment (s.a)	49.0	44.9	52.0	48.2	49.9	50.4
New Orders/Business (s.a)	50.7	49.2	60.5	54.6	54.3	53.4
Stocks/Inventories (s.a)	49.9	46.3	50.6	50.2	47.5	48.5
Supplier Deliveries (s.a)	48.7	49.8	51.5	49.8	45.3	44.0

Regional Indexes	Mar 2008	Mar 2009	Mar 2010	Jan 2011	Feb 2011	Mar 2011
BNZ - BusinessNZ PSI (s.a)	49.6	45.9	56.1	50.8	51.0	50.8
Northern	49.7	47.0	57.7	50.0	54.6	54.6
Central	57.1	49.6	64.9	49.3	57.5	57.5
Canterbury/Westland	47.7	50.2	54.4	44.7	39.5	39.5
Otago/Southland	52.9	40.7	52.5	46.3	39.5	39.5

(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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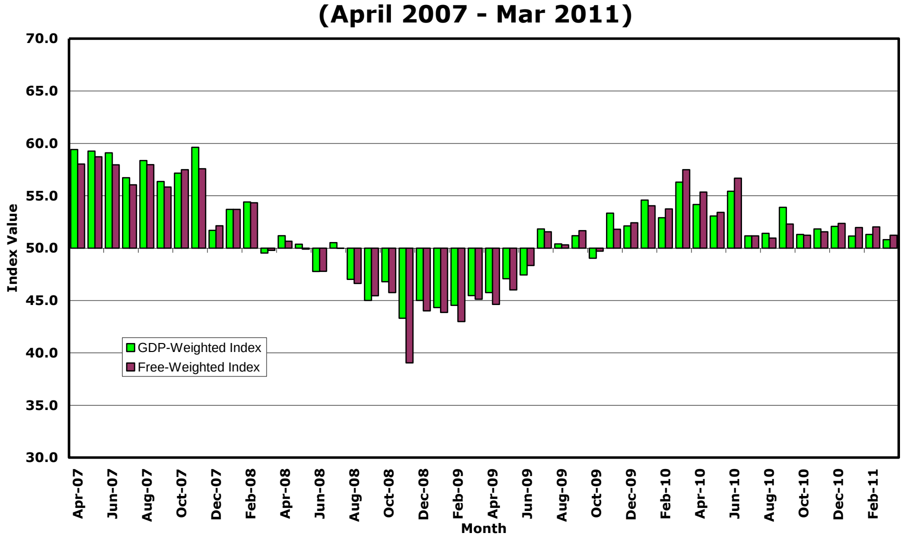
Composite index remains positive, but expansion slipping

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for March shows both options for measuring the PCI continuing to dip lower, although still remaining in expansion.
- Both *new orders/business* and *production/sales* remain in expansion for both indicators.
- Compared with previous results in March, both the GDP-Weighted and Free-Weighted Indexes held up comparatively well with only values from 2010 surpassing the 2011 result.
- The JPMorgan Global Combined Index fell sharply to a six-month low of 54.7, following slower growth of both manufacturing output and service sector activity. This was mainly due to the Japanese earthquake.

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



Performance of Composite Index time series tables

Combined National Indexes	Mar 2008	Mar 2009	Mar 2010	Jan 2011	Feb 2011	Mar 2011
GDP-Weighted Index (s.a)	49.5	45.5	56.3	51.1	51.3	50.8
Free-Weighted Index (s.a)	49.8	45.1	57.5	52.0	52.0	51.2

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.

18 April 2010

Signs of Spine in Staffing

- PSI averts contraction, albeit only just, post quake
- Extremely mixed by region/industry, like the PMI
- Employment hanging in there, overall
- Adding to signs unemployment is not blowing out

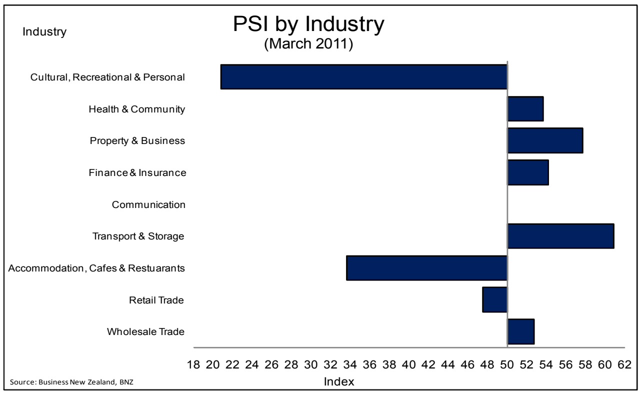
The March Performance of Services Index (PSI) told a similar story to the month's manufacturing index. While the Christchurch earthquake has obviously wrought a big dent, the PSI had enough of a buffer beforehand to avert going negative. Just. Whether one sees this as a glass half full or half empty result largely boils down to personality type.

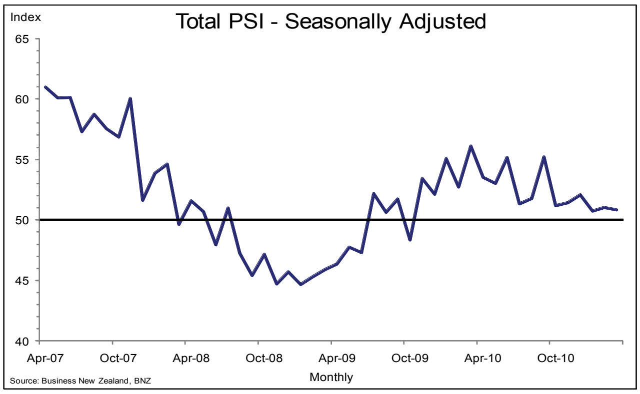
The PSI also looked much like the PMI in its details. Understandably, the Canterbury/Westland region has taken the biggest hit, to the lowest level, although the deeper South, namely Otago, has been dragged down quite a bit as well. In sharp contrast, the Central and Northern regions were very comfortably positive.

The PSI industry detail was also little surprise, post the quake. Retail dipped to 47.5, Accommodation, Cafes and Restaurants slumped to 33.7, while Cultural, Recreational and Personal Services collapsed to 20.8. These results fit with the destruction and disruption to these types of businesses in and around central Christchurch.

Related to this, there were also indications that the smaller the firm the more the hurt. Specifically, micro firms – those of between 1 to 10 staff – registered an adjusted index of 42.7. Firms with more than 100 workers posted 54.6, while those with between 51-100 employees seemed to be doing well, with an index reading of 59.0.

However, there were some points of difference between the March PSI and PMI. Generally speaking, the PSI production and new orders components held up better



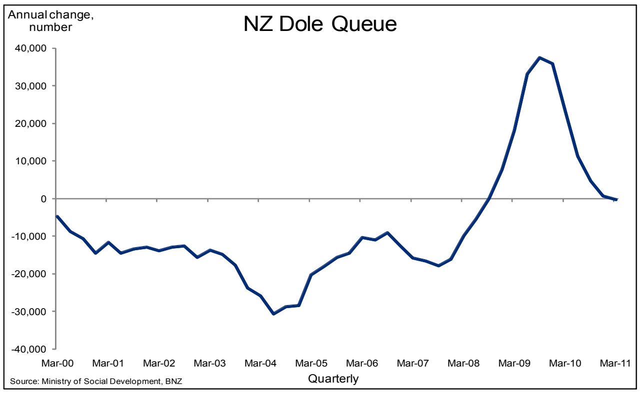


than the flattened versions in the PMI. On the other side of the coin, the PSI employment index was about flat, compared to the reasonably positive staffing index in the March PMI.

Still, the PSI employment index has, if anything, improved since late last year. And combined with its PMI equivalent paints a picture of the jobs market holding together relatively well, in the circumstances. This suggests firms are looking through the near-term disruptions as best they can, to ongoing recovery underneath and ahead.

Indeed, we'd already been seeing signs of this staffing resilience in other surveys. While perceptions of double-dip recessions, and the reality of the 22 February earthquake, have had many wondering about a blow out in New Zealand's unemployment rate, a good number of indicators have given cause for optimism - at least for the immediate term.

A recent example came from New Zealand's official dole queue. Sure, a lot of the 7,144 drop between March and December was seasonal. However there was still a drop



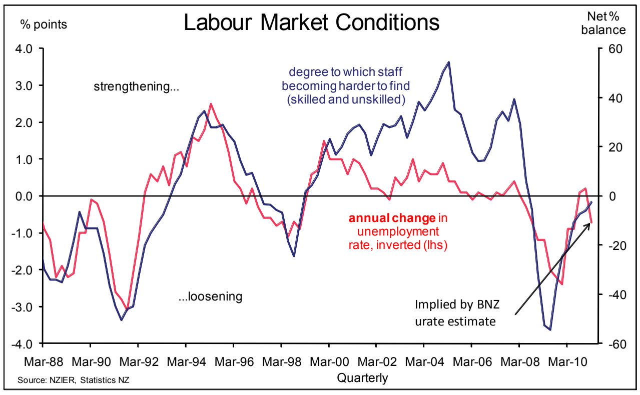
on a year ago – the first such event since 2008, albeit very slight.

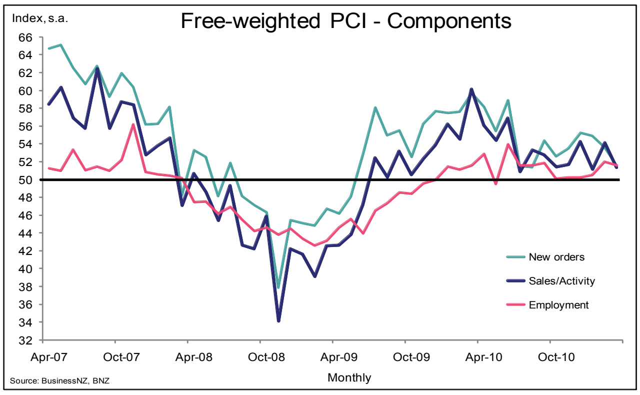
The other positive sign was from the 5 April Quarterly Survey of Business Opinion. While its net employment index regarding the previous three months didn't look strong, at +2, it was enough in relation to its long-term norm to suggest jobs growth.

The QSBO staffing-difficulty variable was also still tending upwards during the March quarter of 2011, warning we might be too pessimistic with our 6.7% pick for the Q1 unemployment rate (compared to Q4's reported 6.8%). Might we instead see something below 6.5%?

Of course, one of the big issues for the Q1 unemployment rate is just how, exactly, it will be measured, given the massive disruptions from the 22 February earthquake. On this, Statistics New Zealand was very helpful, yesterday, in declaring it hasn't actually conducted the Household Labour Force Survey (HLFS) in Christchurch, post the quake. That clears away one technical point of contention.

Statistics NZ went on to say that with Christchurch's 10% weight, and the fact that the city was surveyed in the first half of the March quarter (before the quake) – given





the week to week survey methods – the impact should not be "significant" on the overall results (such as total employment, unemployment, and participation). The Q1 HLFS, still on track for 5 May publication, should in other words be "statistically sound".

Still, to our mind, the lack of Christchurch coverage in the Q1 HLFS post the February earthquake is another reason to expect a not-so-bad result in it. To be sure, it might well just delay the pain to Q2/Q3, especially on the presumed removal of Government income support and other lifelines that were brought into effect after the quake.

Then again, we've also seen the likes of robust employment intentions in various business surveys, no sign of slump in recruitment agency anecdote, not to mention 25% annual growth in job listings on New Zealand's prime premier auction website, Trade Me.

Such things maintain hope that the nation's unemployment rate will hold in, near term, and fall from then on. That would be a great achievement, in the circumstances, and help bolster economic confidence.

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