

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 crease bound?

### BNZ - BusinessNZ PSI for December 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for December stood at 50.6. This was 5.6 points down from November and the lowest level of activity since November 2010.
- For the first time since August 2011, only three of the five sub-indices showed expansion in December. This was again led by *new orders/business* (53.6) followed by *employment* (52.7) and *stocks/inventories* (51.9). *Activity/sales* (49.7) went into decline for the first time since July 2010. Likewise, *supplier deliveries* (48.6) went into contraction for the first time since March 2011.
- Unadjusted activity was again expansionary for all four main regions in December. The *Canterbury/Westland* region (55.3) led the way, although it recorded its lowest level of expansion since July 2011. The *Central* region (54.5) was close behind, while the *Northern* region (51.7) lost most of its gains in November. The *Otago/Southland* region (50.5) managed to just keep its head above water, despite falling 10.3 points from November.
- Given the drop in the overall result, various service sector results were more subdued in December. *Health & community services* (50.2) showed minimal expansion compared with November, while *wholesale trade* (55.0) also fell back from the previous month. *Accommodation, cafes & restaurants* (53.1) experienced a significant fall compared to both October and November, while *property & business services* (49.8) slipped back into decline.

### *Inside BNZ Commentary this Month (page 4)*

*Bank of New Zealand senior economist Craig Ebert says the December PSI gives a sense of ongoing progression, underscored by its employment component remaining in expansion territory. This corresponds with other surveys produced in the last couple of months, all signaling growth on the jobs front.*

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#### HIGHLIGHTS - PSI

- *Service sector expansion falls back to October levels.*
- *Three of the five major sub indices in expansion.*
- *Regional activity still remains positive throughout the country.*

#### HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- *Options for measuring PCI show a dead even result.*
- *Global PCI improves slightly, but still at modest level.*

**Next BNZ - BusinessNZ PSI/PCI: 20 February 2012**

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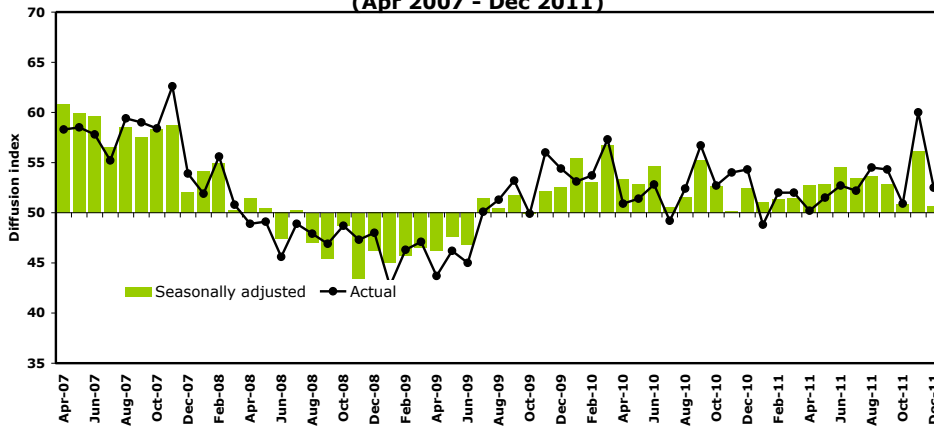
*BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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 Performance of Services Index Time Series (Apr 2007 - Dec 2011)**



## PSI time series tables

National Indexes	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Nov 2011	Dec 2011
BNZ - BusinessNZ PSI (s.a.)	52.0	46.1	52.5	52.5	56.2	50.6
Activity/Sales (s.a.)	53.1	44.6	54.5	56.7	59.1	49.7
Employment (s.a.)	50.9	46.2	50.9	49.8	53.1	52.7
New Orders/Business (s.a.)	58.0	48.6	58.8	56.6	60.5	53.6
Stocks/Inventories (s.a.)	50.9	46.7	47.8	50.5	50.7	51.9
Supplier Deliveries (s.a.)	48.5	49.6	50.2	50.1	52.4	48.6

Regional Indexes	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Nov 2011	Dec 2011
BNZ - BusinessNZ PSI (s.a.)	52.0	46.1	52.5	52.5	56.2	50.6
Northern	55.2	45.6	52.5	54.7	60.4	51.7
Central	52.4	50.8	60.9	51.6	59.9	54.5
Canterbury/Westland	56.3	54.6	56.1	50.1	56.7	55.3
Otago/Southland	44.7	53.8	54.4	61.0	60.8	50.5

(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 New Zealand

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## Dead even for end of year result

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for December returned to historical patterns with the two options for measuring the PCI showing the exact same result. This was mainly due the sub indices for both options producing very similar values throughout.
- The GDP-Weighted Index (50.7) fell 3.8 points from November, while the Free-Weighted Index (50.7) fell only 0.1 points from the previous month. For 2011, they averaged 52.5 and 52.2 respectively.
- The JPMorgan Global Combined Index continued to show some recovery at 53.0 in December, up further from October's 27-month low of 51.4. Given the overall index has moved in a broad sideways direction through the last three quarters of 2011, it suggests that the trend in global GDP growth remains steady, albeit only modest during that period.

#### 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).

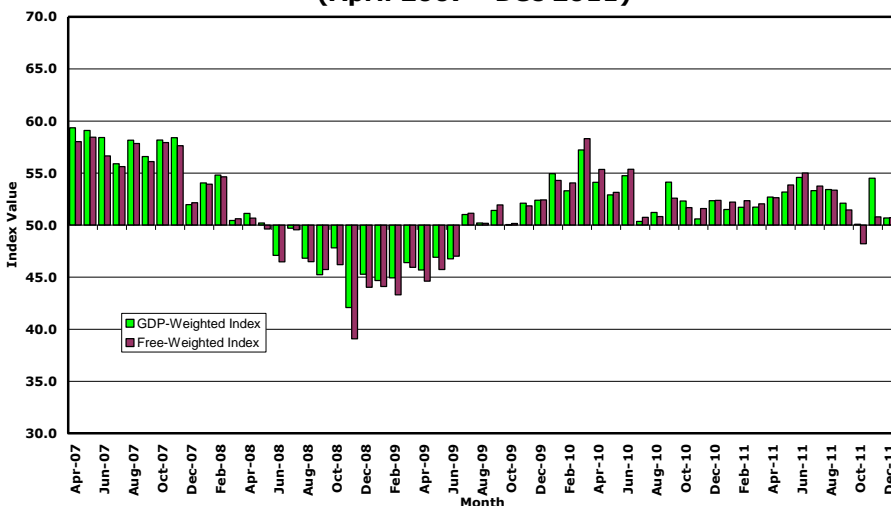
Combined results are shown in two ways:

**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 - Dec 2011)**



#### Performance of Composite Index time series tables

Combined National Indexes	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Nov 2011	Dec 2011
GDP-Weighted Index (s.a.)	52.0	45.3	52.4	52.3	54.5	50.7
Free-Weighted Index (s.a.)	52.1	44.0	52.4	52.4	50.8	50.7

30 January 2012

## Employment Intentions Remain Positive

- PSI gives sense of ongoing progression
- As its staffing indicator remains positive
- As did the PMI employment pointer
- Other business surveys also upbeat on jobs
- Suggesting solid labour market for 2012

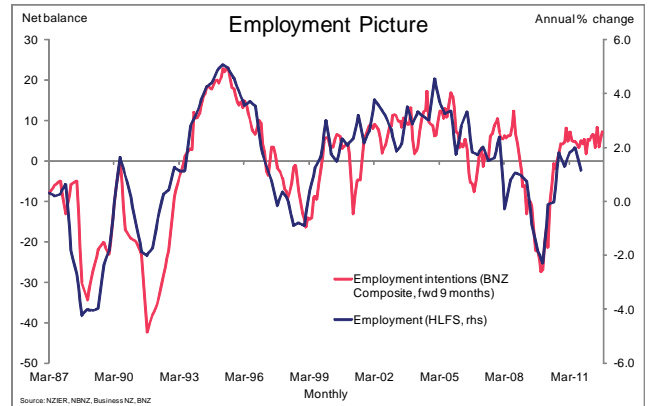
While December's Performance of Services Index (PSI) slowed from its November heights, its underlying trend remained positive amid the volatility. This was underscored by the fact its employment component stayed in expansion territory. We saw the same thing in December's (much-recovered) PMI of last week.

Indeed, most every business survey we've clapped eyes on over the last month or two has maintained a constructive view on staffing. This is encouraging. The one from the NBNZ survey held up at +5, pretty much its long-term average. The Quarterly Survey of Business Opinion (QSBO), which was a tad slower on the output front, actually saw an improvement in its employment reports and expectations, to above their respective norms.

Cobbling all of this information together we get a clear signal on jobs, one of ongoing growth.

This is a good omen to New Zealand's labour market remaining a backbone to the economy this year. Sure, our composite jobs indicator – by way of the QSBO, NBNZ survey, and more recently the PMI and PSI – is no hard and fast predictor of where the official employment measures will go. It has given false steers, on occasion.

However, two of the main ones that stick out were examples of business expectations on employment proving not overly optimistic, but far too pessimistic –



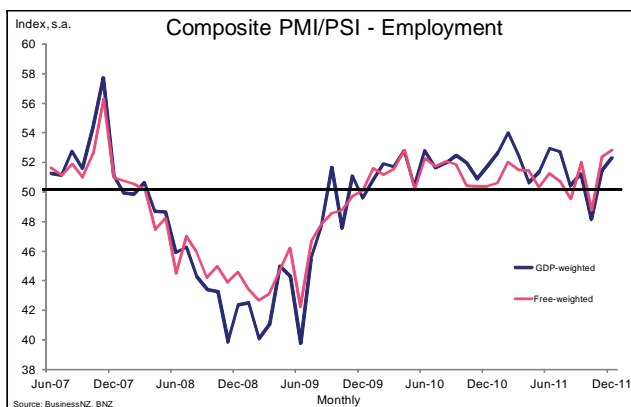
namely in the early 1990s and the year 2000. And the clear overshoot that did occur came in 2008, where firms can probably be forgiven for not seeing the shocks that were to hit the economy, especially from later in that year with the GFC.

Aside from these misalignments, our composite employment indicator has given a decent sense of labour market trends. Eyeballing the latest results, essentially to December, suggest employment growth, barring any shocks, will mosey along at about a 2% annual pace in 2012.

The immediate test of this view, of course, will come in next week's labour market reports. On Thursday, 9 February, we're due the Q4 Household Labour Force Survey (HLFS). We are looking for this to register further expansion in the number of people employed, to the tune of 0.4%. This would deliver annual growth in employment of 1.9%, and reduce the unemployment rate a bit. Before the HLFS - on Tuesday, 7 February - we have the Quarterly Employment Survey and Labour Cost Indexes to peruse.

Even if these reports are a bit flat, there's every chance they'll look more assured in three to six months' time. At least that's what the range of employment intentions is currently saying – of course, conditional on there being no further big shocks on the economic and/or financial front. Put another way, employment intentions can afford to moderate a bit from present levels before they begin to suggest the labour market recovery is set to stall.

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