

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 climbs further into expansion

### BNZ - BusinessNZ PSI for September 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for September stood at 54.8, up 2.9 points from August and the highest level of activity since June 2010. The September 2010 result was also the second highest September figure since the survey began (2.3 points below the peak of 57.1 in 2007).
- Four of the five sub-indices were still in expansion mode in September. Both *new orders/business* (57.0) and *activity/sales* (57.4) continued to show similar levels of activity, increasing 2.7 and 3 points respectively. *Employment* (53.5) nudged up again to record its highest value for a September month, while *stocks/inventories* (49.8) came close to the level of no change. *Supplier deliveries* (53.0) increased 5 points from August, and reached its highest level of activity since November 2007.
- For the first time since March 2010 unadjusted activity was positive throughout all of the country. The *Northern* region (58.5) again led the way with its highest result since November 2007. The *Central* region (54.5) recovered after two consecutive months in decline. The South Island also saw a return to expansion, with the *Canterbury/Westland* region (51.6) and *Otago/Southland* (55.8) regions climbing out of five months of contraction.
- Results for the various service sectors displayed almost all positive results for September. *Wholesale trade* (58.2) continued to build on its August result, while *retail trade* (54.6) also showed further improvement. *Property & business services* (60.0) returned to values experienced in June, as did *health & community services* (57.1).
- All firms by size were in expansion during September, which had not been the case since March 2010. Micro-sized firms (1-10 workers) (51.8) showed expansion after three consecutive months in decline. The remaining firms by size all experienced similar levels of expansion, ranging from 59.0 for small-medium firms (11-50 workers) to 61.5 for medium-large firms (51-100 workers).
- The pick-up in the level of expansion during September meant a corresponding lift in positive comments, rising to 53.5%, compared with 46.2% in August, 40.1% in July and 47.9% in June.

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#### HIGHLIGHTS

- **Service sector activity increased 2.9 points in September.**
- **Four of the five sub-indices were in expansion, with activity/sales and new orders/business leading the way.**
- **Regional activity was positive throughout the country**
- **Strong level of activity for medium-large firms.**

**Next BNZ - BusinessNZ PSI:  
15 November 2010**

#### 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.

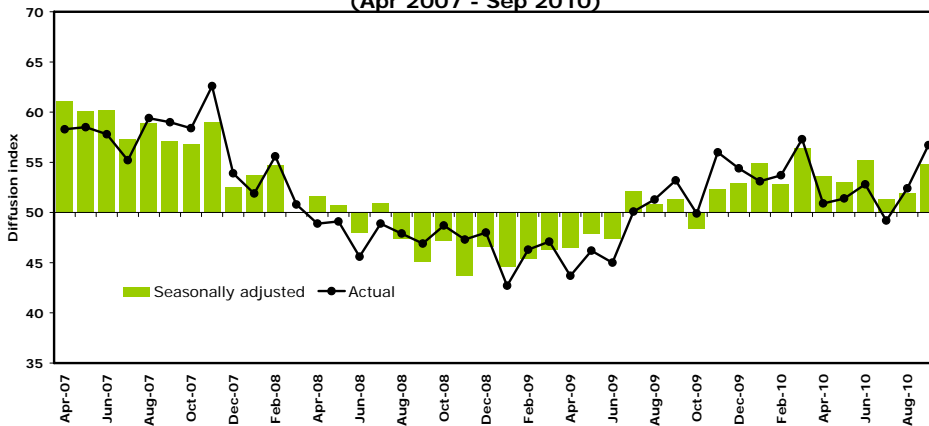
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**BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Sep 2010)**



### PSI time series tables

National Indexes	Sep 2007	Sep 2008	Sep 2009	July 2010	Aug 2010	Sep 2010
BNZ - BusinessNZ PSI (s.a)	57.1	45.0	51.3	51.3	51.9	54.8
Activity/Sales (s.a)	57.6	40.8	54.9	51.1	54.4	57.4
Employment (s.a)	52.9	45.6	47.8	51.2	52.1	53.5
New Orders/Business (s.a)	63.9	47.9	57.1	54.4	54.3	57.0
Stocks/Inventories (s.a)	53.9	49.8	43.7	52.0	47.2	49.8
Supplier Deliveries (s.a)	55.1	43.9	47.6	48.4	48.0	53.0

Regional Indexes	Sep 2007	Sep 2008	Sep 2009	July 2010	Aug 2010	Sep 2010
BNZ - BusinessNZ PSI (s.a)	57.1	45.0	51.3	51.3	51.9	54.8
Northern	58.7	46.5	55.8	50.9	54.3	58.5
Central	56.5	52.7	50.4	43.3	49.7	54.5
Canterbury/Westland	61.2	50.9	51.5	46.2	46.4	51.6
Otago/Southland	61.9	37.0	45.6	46.0	47.2	55.8

(s.a denotes seasonally adjusted)

### **PARTICIPANTS**

BusinessNZ gratefully acknowledges the participation of the following associations in contributing to the PSI:

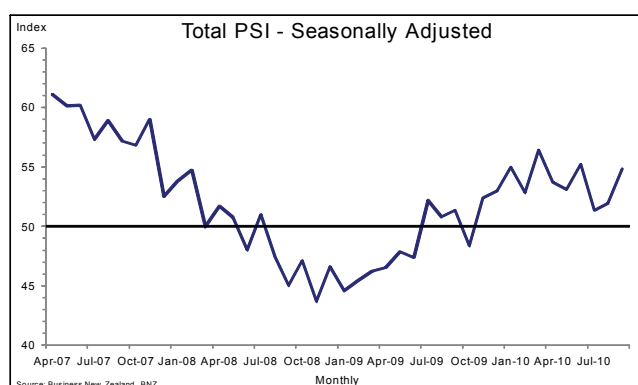
- Employers & Manufacturers Association (Northern)
- Employers' Chamber of Commerce Central
- Canterbury Employers' Chamber of Commerce
- Otago Southland Employers Association
- Hospitality Association of New Zealand
- New Zealand Retailers Association
- Tourism Industry Association New Zealand

18 October 2010

## Service Sector Improves

- PSI jumps higher in September
- Despite earthquake, bad weather
- Seems more than just a pre-GST spend-up boost
- Patchy economic recovery in tact

The service sector accelerated in September following two months of more modest gains. The Performance of Services Index jumped to a seasonally adjusted 54.8 in September, up almost 3 points from August's read of 51.9 and up 3.5 points from July's print of 51.3.



This is an encouraging sign following a string of generally weak and disappointing economic indicators for Q2 and much of Q3 including the revelation that the economy slowed to a crawl in Q2, with just a 0.2% increase in GDP for the quarter.

Since then, much of the monthly data – mainly for August – has maintained a sombre tone. An awful looking and large drop in building consents, fewer accommodation guest nights, and further weakness in core retail sales spring to mind. Throw in a so-so reading on the NBNZ business survey and an outright disappointing Quarterly Survey of Business Opinion, it is little wonder many were starting to question if the economic recovery had stalled altogether.

This is what makes the bounce in September's PSI important. While only time will tell if it is the forerunner to a more general economic improvement into year's end, for now, at least, it has broken the run of weaker data that prevailed for the early part of Q3.

Actually, the lift in the PSI is not alone in suggesting some increase in momentum in the later part of Q3 and

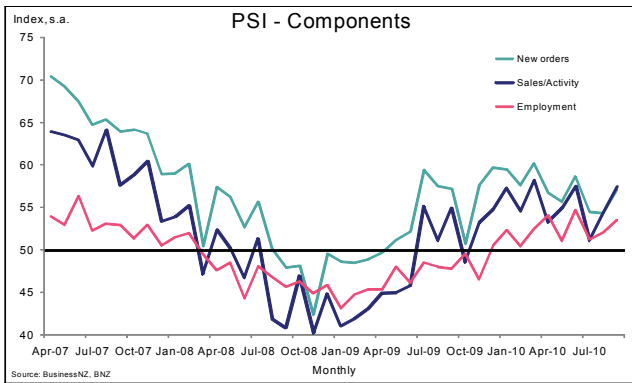
into Q4. In fact, there is even something of a list forming of indicators – for September and October – that have ticked up.

- Commodity prices in September rose to within a whisker of their record highs. World prices for NZ's major primary exports are 33% higher than a year ago providing significant support to the economy.
- BNZ's October confidence survey showed a decent gain with a net 18% of respondents expected the economy to improve over the coming year, compared to a net 1% expecting the economy to deteriorate in the previous survey.
- Car registrations in September rose 3.5% in the month on our seasonally adjusted estimate, including a substantial 10.3% lift in new car registrations.
- The value of electronic card transactions rose a seasonally adjusted 1.0% overall in September, including a 1.5% lift in the retail component.

Of course, the car registrations and electronic card transactions data would have been boosted by some last-minute beat-the-GST-hike spending. It is impossible to know how much exactly, but in the case of the transactions data there was certainly a decent lift judging by the Paymark data on the final day of September. But then again, the September figures were also clouded by the Canterbury earthquake with the likely positive and negative influences. Underneath it all, we judge that there was some improvement in underlying spending in September over-and-above the pre-GST boost. This is consistent with a pick up in the services sector this month.

We are also encouraged by the details of the PSI in September with all major components showing improvement from August.

Sales/activity has lifted to a very solid 57.4, which is now more than 6 points higher than the recent trough of 51.1 registered in July. Sure, activity probably benefited from some pre-GST-hike boost. However, new orders are surely less likely to have been influenced by the change in GST and these posted a healthy lift, to 57.0 from 54.3. This is clearly a positive signal for sales and activity for Q4 and beyond, as is a further improvement in the employment component in lifting to 53.5 in September from 52.1 and 51.2 in August and July respectively.

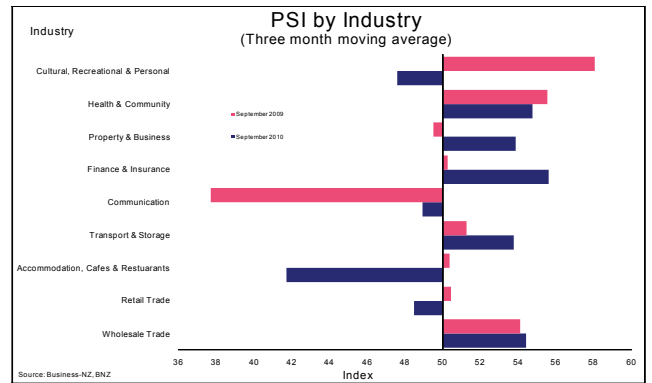


Improvement in the PSI was across all firm sizes, although small firms remain the underperformers with a PSI reading of 51.8 compared to the larger-firm indicators ranging from 59.0 through to 61.5.

By region, there was also widespread improvement with all regions showing a higher PSI in September compared to the previous month and compared to a year ago. Interestingly, there was no discernible impact from the Canterbury earthquake, at least at the headline level.

Overall responses from Canterbury moved in a similar fashion to the rest of the country. However, it is worth noting that of those Canterbury-based respondents that did comment about the earthquake as the major influence on their business over the past month – negative responses outweighed positive responses at a ratio of 5 to 3. In addition, there were an equal number of positive and negative responses regarding the earthquake from firms in other regions.

Many respondents, from all over the country, also noted the weather as the major influence on activity over September. Most were negative comments. Ordinarily weather effects would be removed by



seasonally adjusting the base data, but given the unusually wild weather during September the weather may well have dented the overall results. If so, it makes the gain in the PSI in September even more meaningful in an underlying sense.

Even so, all was not positive in the PSI. Looking across the industries there are still clear areas of weakness including accommodation, cafes, restaurants and general retail along with cultural, recreational and personnel services. These sectors may well have been disproportionately affected by the earthquake and the weather as well as directly exposure to the still cautious NZ consumer.

The overall tenor of the PSI is an encouraging one and fits with our view that the economy is still pushing on, albeit in a patchy fashion. We are also optimistic that growth will continue in Q4, helped by the 1 October (net) tax cuts coming through. Activity should rise further through 2011 as the Canterbury rebuild and the Rugby World Cup provide a boost.

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