

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

Sun shines on service sector

BNZ - BusinessNZ PSI for January 2012

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for January stood at 53.6. This was up 2.7 points from December and the third highest January value recorded.
- Four of the five sub-indices showed expansion in January. This was again led by *new orders/business* (58.2), increasing 4.0 points from December. *Employment* (54.2) increased to its highest level since November 2007, and the third highest result since the survey began. *Activity/sales* (53.3) went back into expansion after a slight dip the previous month, while *supplier deliveries* (50.6) did likewise. *Stocks/inventories* (47.2) dropped 4.5 points to its lowest level since May 2011.
- Unadjusted activity was in contraction for the North island, but expansionary in the South Island. Both the *Northern* (49.7) and *Central* (47.7) regions both posted a sub-50.0 result for the first time since June 2009. In contrast, both the *Canterbury/Westland* (64.5) and *Otago/Southland* (63.2) regions improved on their December results, mainly due to strong sales, orders and employment.
- Despite a pick-up in the overall result, service sector results were a combination of expansion and contraction in January. *Retail trade* (59.2) continued to display strong growth, while *health & community services* (51.9) picked up slightly after weaker expansion in December. In contrast, *wholesale trade* (49.0) continued to fall back, while *property & business services* (49.5) slipped further back into decline.

Inside BNZ Commentary this Month (page 4)

BNZ economist Doug Steel discusses the further improvement in service sector employment and the flow-on effect to retail trade. These are initial signs of acceleration in the wider service sector, amid a still mixed overall picture.

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HIGHLIGHTS - PSI

- *Service sector expansion picks up in January.*
- *Four of the five major sub indices in expansion, with employment picking up.*
- *Regional activity negative in the North but positive in the South.*

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- *Options for measuring PCI show improvement for both.*
- *Global PCI reaches 11 month high as new business strengthens.*

Next BNZ - BusinessNZ PSI/PCI: 19 March 2012

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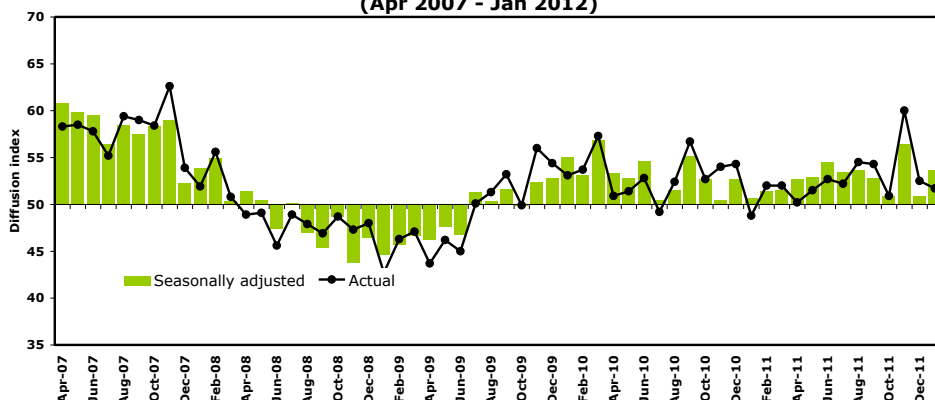
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand services sector.

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

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



PSI time series tables

National Indexes	Jan 2008	Jan 2009	Jan 2010	Jan 2011	Dec 2011	Jan 2012
BNZ - BusinessNZ PSI (s.a.)	53.8	44.6	55.0	50.7	50.9	53.6
Activity/Sales (s.a.)	54.7	41.8	58.1	50.5	49.8	53.3
Employment (s.a.)	51.8	43.5	52.7	48.0	52.7	54.2
New Orders/Business (s.a.)	58.5	48.1	59.0	54.1	54.2	58.2
Stocks/Inventories (s.a.)	49.5	46.7	51.3	51.8	51.7	47.2
Supplier Deliveries (s.a.)	51.7	44.8	50.9	50.3	48.6	50.6

Regional Indexes	Jan 2008	Jan 2009	Jan 2010	Jan 2011	Dec 2011	Jan 2012
BNZ - BusinessNZ PSI (s.a.)	53.8	44.6	55.0	50.7	50.9	53.6
Northern	52.7	39.3	52.4	50.0	51.7	49.7
Central	51.8	53.9	54.3	49.3	54.5	47.7
Canterbury/Westland	55.6	48.3	51.7	44.7	55.3	64.5
Otago/Southland	40.9	40.4	59.0	46.3	50.5	63.2

(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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Composite index shows swing upwards

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for January showed the two options for measuring the PCI significantly improving from the previous two months.
- The GDP-Weighted Index (53.3) rose 2.3 points from December, while the Free-Weighted Index (52.2) rose 1.3 points. For the later, it was the highest value since August 2011.
- The JPMorgan Global Combined Index reached an 11-month high in January (54.6), compared with 53.0 in December. The rise was due to inflows of new business strengthening, job creation posting a modest bounce and the rate of increase in payroll numbers the quickest since March last year.

Hospitality New Zealand

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).

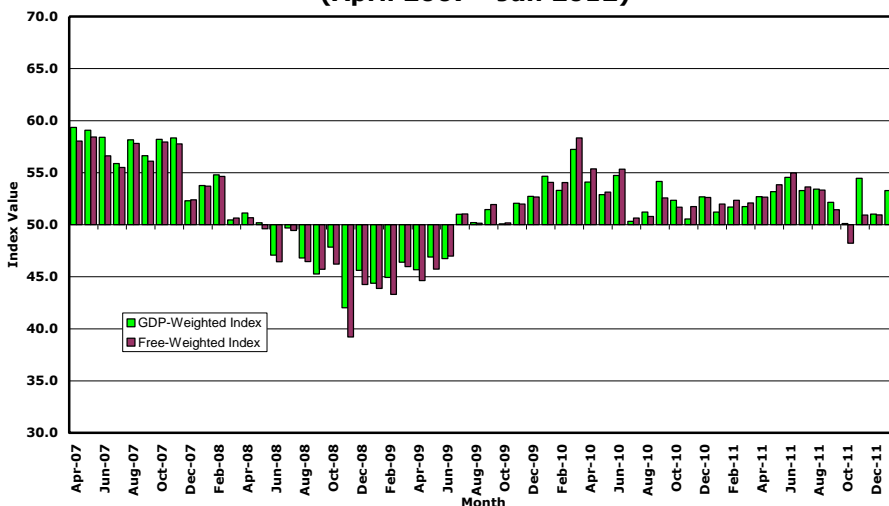
Combined results are shown in two ways:

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 - Jan 2012)



Performance of Composite Index time series tables

Combined National Indexes	Jan 2008	Jan 2009	Jan 2010	Jan 2011	Dec 2011	Jan 2012
GDP-Weighted Index (s.a.)	53.8	44.4	54.6	51.2	51.0	53.3
Free-Weighted Index (s.a.)	53.7	43.9	54.1	52.0	50.9	52.2

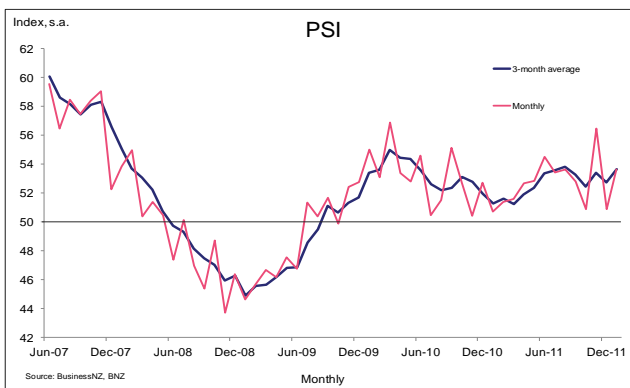
20 February 2012

Service Sector Accelerating?

- PSI lifts in January
- Cementing positive trends
- Employment strongest in years
- Driving improvement in retail trade
- Regional, industry breakdown still mixed

The trends in the PSI have remained positive, even strengthened a bit in January. Given the extremely choppy month-to-month results over recent times we would not read too much into one month's result. But we think it is instructive, and telling, that the PSI three-month average has pushed up to its highest level in five months at 53.6, coincidentally the same value as for January itself.

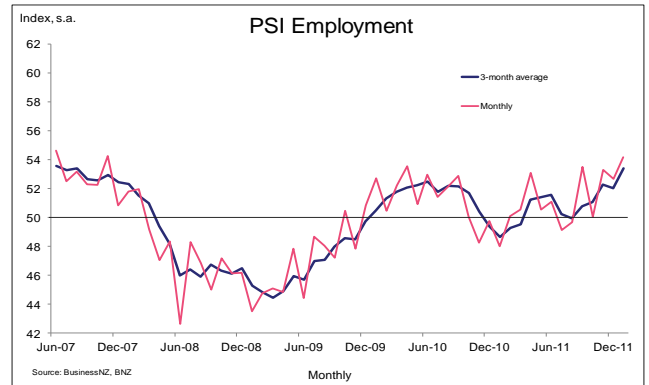
This suggests that, on average, the service sector is posting reasonable growth with even a hint of acceleration creeping in.



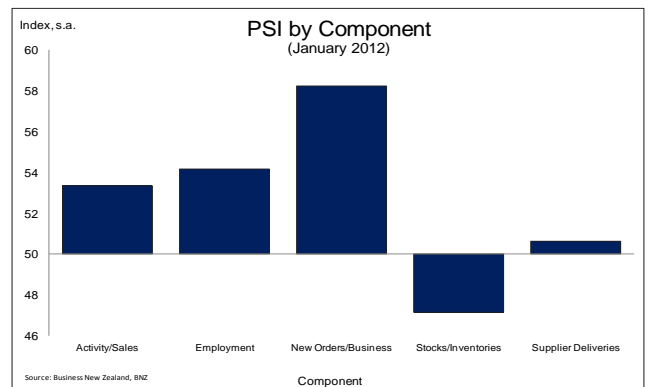
The most obvious sign of service sector acceleration is in employment. We noted last month that employment indicators from a variety of business surveys, including the PSI and PMI, were giving positive signals. January's PSI has strengthened this vibe.

In jumping up to 54.2 in January, the PSI employment index is at its highest level since June 2007 (before the global financial crisis and domestic recession hit). The improvement is not a one-month phenomenon. The three-month average employment index has lifted to 53.4, a significant step up in this relatively stable series from 52.0, in December, and a clear acceleration from about 50.0 recorded six months ago.

Service sector firms seem to be gearing up for stronger growth ahead. Healthy looking new orders are no doubt part of this. We wonder too, if firms sense a reduction



in the international fear factor and are responding, rightly or wrongly, to the (relatively) positive domestic signals rather than remaining beholden to the risks from abroad. As for sales and activity themselves, these have maintained their recent reasonable rate of expansion but could well accelerate judging by buoyant new orders and firms' willingness to act on them regarding staffing levels.



Strong employment growth in such a large part of the economy like the service sector has wider macro economic implications. We might have already seen some of these indirect effects filtering through. Take the very strong 2.2% rise in Q4 retail sales for example. As we noted when these were released last week, we think it is too simplistic to write the strong rise off as only a function of hosting the Rugby World Cup. There seemed much more to it than that.

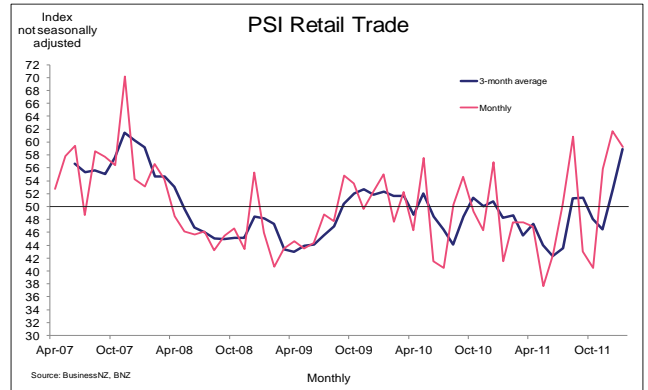
We suspect there is underlying improvement in domestic spending underway, supported by some improvement in the labour market. Stronger service sector employment growth is part of this picture, as is the latest lift in

consumer confidence in February (after adjusting for usual seasonal variation). A potential fly in the ointment is a couple of months of weaker job ads. Could it be that previously advertised positions are being filled rather than a weakening in labour demand?

What we do know is retail sales picked up in Q4. And electronic card transactions data for January posted a decent gain, following a lull in November and December post the World Cup. We can now add to that a decent reading from the PSI for the retail industry. In fact, across the major industries the retail sector had the highest PSI reading at 59.2. This is more than just seasonal strength. This is the highest retail PSI reading for the month of January since the survey started back in 2007. Sure, it has been a tough few years for retailers, but there seems to be a few indicators starting to point in the right direction.

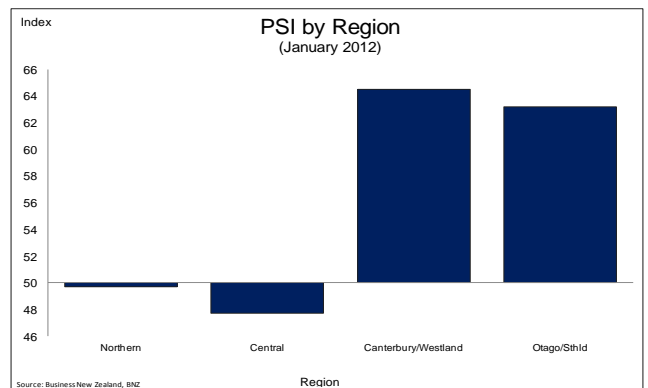
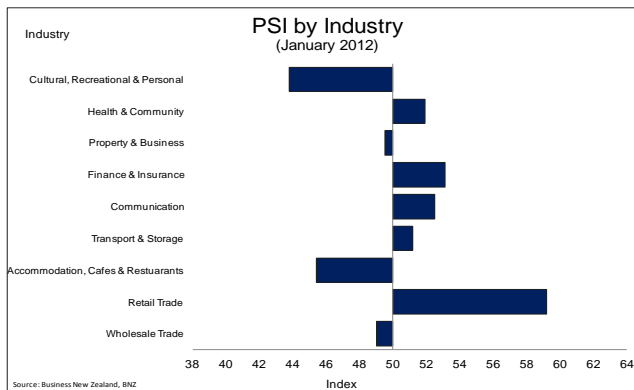
Retail trade is likely to be the first recipient of a genuine pick up in household spending. As such, the improvement here could well be a harbinger of things to come for the wider service sector.

For now, the improvement in retail looks to be the exception rather than the rule. It is still a mixed picture across service sector industries.



This mixed picture goes for the regional indicators too. South Island PSI indicators look particularly strong, while the North Island PSI indicators have cooled off. Some of the cooling in the North Island appears seasonal, but not all of it.

We would have more confidence in the hints of headline indicator acceleration being sustained if we were to see a broadening of strength in the detail. This is one to watch going forward. Still, initial signs have to start somewhere, so we will take the generally positive picture from January's PSI as another small step along the road of recovery.



doug_steel@bnz.co.nz

Contact Details

BNZ

Stephen Toplis

Head of Research
+(64 4) 474 6905

Craig Ebert

Senior Economist
+(64 4) 474 6799

Doug Steel

Economist
+(64 4) 474 6923

Mike Jones

Strategist
+(64 4) 924 7652

Kymerly Martin

Strategist
+(64 4) 924 7654

Main Offices

Wellington

60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch

81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Head of Research
+(61 2) 9237 1406

Alan Oster

Group Chief Economist
+(61 3) 8634 2927

Rob Henderson

Chief Economist, Markets
+(61 2) 9237 1836

Emma Lawson

Currency Strategist
+(61 2) 9237 8154

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney

Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London

Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +(44 20) 7796 4761

New York

Foreign Exchange +1 800 125 602
Fixed Income/Derivatives +1 877 377 5480

Hong Kong

Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

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