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

Close call for service sector expansion

BNZ - BusinessNZ PSI for October 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for October stood at 50.6. This was down 2.3 points from September, and the lowest level of activity since July 2010.

- Despite the drop in overall expansion, four of the five sub-indices still remained in expansion during October, although only just. *New orders/business* (54.1) continued to lead the way, although dropping 1.5 points from September. *Activity/sales* (50.4) remained close to its September result, while *supplier deliveries* and *stocks/inventories* (both at 50.1) recorded the minimal amount to show expansion. Interestingly, *supplier deliveries* was the only sub-index to improve. *Employment* (49.5) fell back into contraction after an upwards jump in September.

- Activity was expansionary for two of the four main regions. While the *Canterbury/Westland* region (64.2) again lead the way with a strong result, comments from respondents outline subsequent earthquake related work being the main driver for boosting activity. The *Central* region (54.5) dipped in expansion, although the October result represented its ninth consecutive month of expansion. Like its sister survey the PMI, the *Northern* region (48.6) also saw contraction in the PSI, while the *Otago/Southland* region (43.7) showed some improvement from the previous two months, yet still lags behind by a considerable margin.

- Given the fall in overall expansion, the various service sectors were a combination of expansion and decline in October. At the positive end, *health & community services* (55.7) returned to a healthier level of expansion, while *wholesale trade* (51.1) showed ongoing softening but still kept its head above water. In contrast, *property & business services* (49.6) remained in contraction for three consecutive months.

Inside BNZ Commentary this Month (page 4)

- *PSI reveals another slump in confidence*
- *Global ructions in part to blame*
- *Construction delays concerning too*
- *Fiscal accounts pressured*
- *Our guarded optimism yet more guarded*

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HIGHLIGHTS - PSI

- ***Service sector remains in expansion, but only just.***
- ***Four of the five major sub indices in expansion.***
- ***Regional activity showed Northern region at lowest level since 2009.***

HIGHLIGHTS – PERFORMANCE OF COMPOSITE INDEX (PCI)

- ***Options for measuring PCI showed differing directions for only the third time.***
- ***Global PCI continued to slip as economic activity only shows modest increase.***

Next BNZ - BusinessNZ PSI/PCI: 19 December 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)

BNZ-BusinessNZ PSI

psi

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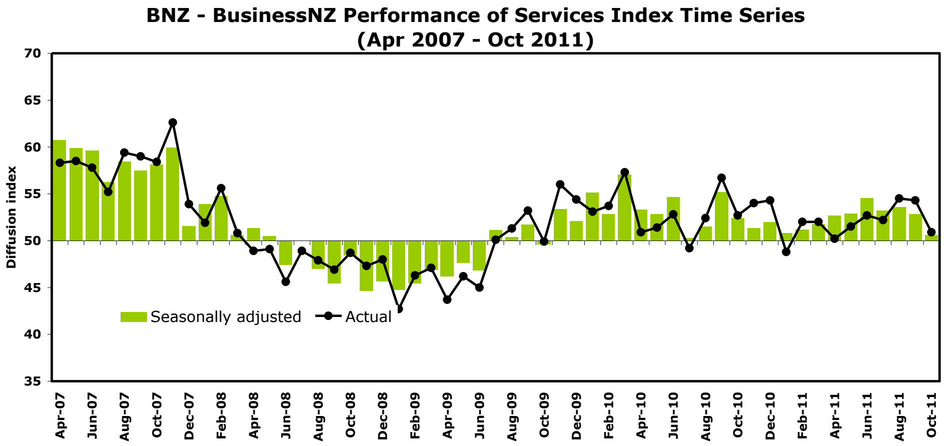

PSI time series tables

National Indexes	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Sep 2011	Oct 2011
BNZ - BusinessNZ PSI (s.a.)	58.1	48.4	49.6	52.4	52.9	50.6
Activity/Sales (s.a.)	59.6	47.7	49.3	54.8	50.6	50.4
Employment (s.a.)	51.7	46.6	49.9	49.5	53.7	49.5
New Orders/Business (s.a.)	68.5	52.5	55.1	56.8	55.6	54.1
Stocks/Inventories (s.a.)	53.8	49.1	44.1	50.0	49.8	50.1
Supplier Deliveries (s.a.)	54.9	48.1	47.0	50.5	51.6	50.1

Regional Indexes	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Sep 2011	Oct 2011
BNZ - BusinessNZ PSI (s.a.)	58.1	48.4	49.6	52.4	52.9	50.6
Northern	60.4	48.4	48.9	55.3	55.8	48.6
Central	54.7	55.4	51.6	51.5	57.0	54.5
Canterbury/Westland	59.6	52.3	54.5	45.0	57.2	64.2
Otago/Southland	55.3	37.7	47.5	45.5	34.4	43.7

(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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BNZ-BusinessNZ PSI

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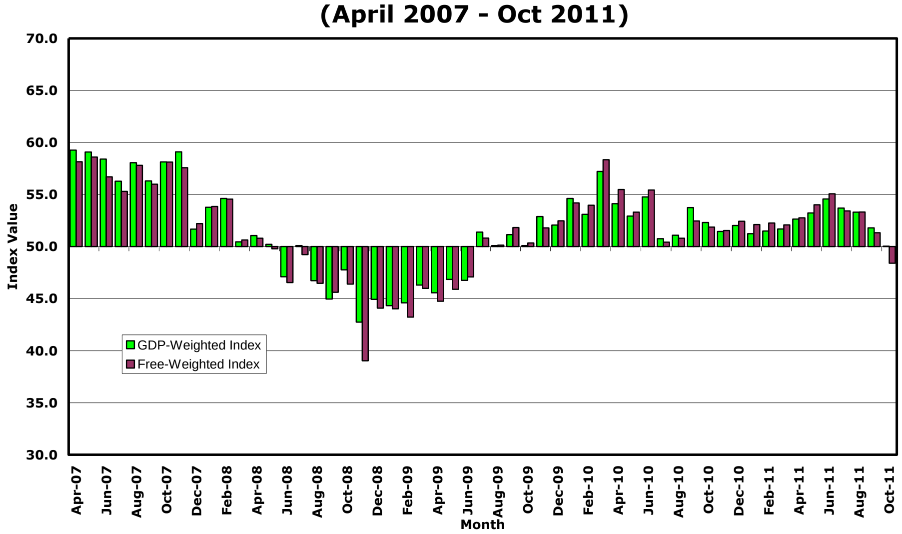
psi

Difference of opinion when measuring PCI

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for October shows a contrast in the two options for measuring the PCI for only the third time.
- The GDP-Weighted Index (50.0) was at the level of no change, while the Free-Weighted Index (48.4) recorded contraction. This was the first time either Index had shown any decline since June 2009.
- The JPMorgan Global Combined Index fell to 51.4 in October, compared with September's figure of 52.0. This signaled that global private sector output and new business expanded at the weakest rates since the recovery began in August 2009.

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



Performance of Composite Index time series tables

Combined National Indexes	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Sep 2011	Oct 2011
GDP-Weighted Index (s.a.)	58.1	47.8	50.1	52.3	51.8	50.0
Free-Weighted Index (s.a.)	58.1	46.4	50.4	51.9	51.3	48.4

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.

14 November 2011

Time to throw in the towel?

- PSI reveals another slump in confidence
- Global ructions in part to blame
- Construction delays concerning too
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It's all getting very uncomfortable out there and the latest PSI data do nothing to change the mood of disquiet. There was always the concern that Q4 2011 would represent a flat patch in the economy's development (and possibly Q1, 2012 as well), as the nation suffered the hangover from the Rugby World Cup. And given the outcome of that aforesaid tournament, it would seem quite appropriate that the hangover might be relatively severe. That said, we had equally hoped that the positive factors driving the New Zealand economy would be sufficiently strong to at least keep the sore heads above water. We are still sticking to that view but concede that our faith is not as strong as it once was as more and more data continue to print on the unhelpful side of the ledger.

The drop off in confidence that we are witnessing is probably the most disconcerting development. At least, in this regard, the PSI is still in positive territory but the question must be asked for how much longer? Other business confidence indicators, such as our own monthly survey are in retreat and the recent drop in the PMI to seriously sub-50 levels was very disconcerting, as we had thought manufacturing had a lot to be upbeat about. In particular manufacturing associated with the broader primary sector should have been cheered by strong supply of product accompanied by relatively strong prices. And manufacturers exporting into (or competing with) Australia currently have a very strong competitive advantage both in terms of wage costs and the NZD\AUD cross.

We suspect that some of the demise in this sector, and the broader economy, is because domestic demand in Australia is currently under significant pressure. The mining sector may be going gangbusters but is, in part, at the expense of other parts of the economy. The realisation of this is beginning to hit home and was made very public with the RBA's recent decision to lower its cash rate against a backdrop of what appears to be a rising unemployment rate. The lucky country may not be looking as lucky as was once thought (though hardly in a state of disrepair by global comparison).

Perhaps of more concern to domestic suppliers is the fact that the long-hoped for pick up in construction activity is just not happening. Anecdotal evidence everywhere is of a construction sector continuing to wallow in the depths. Recently Steel and Tube reported a weaker than anticipated result and profit guidance, and reports from our client base match this. Of importance is the fact that the rebuild process in Christchurch is becoming more and more protracted. This is providing great frustration for the people of Christchurch and also for those businesses which have geared up in anticipation of a flood of work.

We continue to believe construction activity will be a cornerstone of the economic expansion through calendar 2012 and into calendar 2013 but we also warn that there is a real risk that project commencement will be further delayed. In part this will be due to Christchurch specific issues but we also expect that work, more generally, will be delayed by the typical election stagnation that occurs (despite the odds being that there is a clear understanding of the likely policy mix for the next three years); the arrival of Christmas; and simply the widely held feeling of uncertainty attributed to the horror developments offshore.

And, yes, what's going on outside of New Zealand is very good reason for concern. We have long cautioned that the Greek debacle was but a sideshow to the fear that bigger economies such as Italy and Spain might capitulate. That fear is now being recognised and realised.

Our core view remains that the Euro will survive and that the solution to the European problem will be a decade or more of pain for the region. The latter is almost certain, the former (Euro sustainability, at least in its current form) is less so.

There are three ways that the European problem can transmit its way into New Zealand:

- Low growth in Europe reduces our scope for exports to the region;
- Low growth in Europe undermines Asia (in particular China) and this affects New Zealand much more adversely;
- The closure of European funding markets means that the New Zealand banking system is unable to access the funds that it needs to meet its domestic lending needs.

Of these it is points two and three that we are most fearful of. Already there is strong evidence that Asia is being adversely affected. Last week alone Chinese export data proved to be relatively poor (bear in mind that China's exports to Europe are greater than to the US) and the Indonesians surprisingly felt the need to slash their cash rate by 50 basis points.

More generally, falling commodity prices, (particularly pertinent for New Zealand is the trend decline in dairy prices and the accompanying reduced payout forecast by Fonterra) in part reflect the growing Asian tensions. Watch this space very carefully for New Zealand is far more exposed to the Asian region than it is exposed to any other part of the planet.

European term funding markets are certainly already proving problematic and are putting upward pressure on domestic funding costs. It is for this reason that the Reserve Bank last week decided to delay the requirement for New Zealand banks to raise their Core Funding Ratio (domestic deposits and longer term offshore funds) to 75% from 70% until January 2013, from July 2012. This could yet prove very helpful in the event that the European banking system does not stabilise soon. And who'd want to bet on that?

On the slightly brighter front, there is evidence that US Q3 GDP will be revised up to 2.8%, on an annualised basis, and that Q4 is headed for 2.5%. This is a long way from the recession that had been feared by some and is likely in Europe.

Of course overarching the global maelstrom is the fact that global financial markets are less and less trading off the back of announced and expected economic data and more and more trading politics and political developments. This being so, it unsurprising that both financial market volatility and market and business confusion is as high as it is.

As if we hadn't had enough unsettling data and developments recently, last week's fiscal figures showed some undesirable trends on tax receipts that tended to confirm that the New Zealand economy is on the softer side of expectations. One thing's for sure, in the current environment the last thing we need is a deterioration in the fiscal positioning as an enticement for further rating agency consternation. One may debate the relative merits of the policies of the parties in the run-up to this year's General Election but it is heartening to see that the rhetoric of fiscal austerity is at least shared by the two major parties. The strength of the Government's accounts is one of the factors that continues to distance New Zealand from much of the rest of the world.

And if all this didn't have you feeling worried enough, spare a thought for the poor old kiwi fruit growers. PSA is looking nothing short of disastrous for the industry and will be responsible (at least in the short term) for serious numbers of job and wealth losses particularly in the Bay of Plenty region. Its impact should not be underestimated.

When you put all this together then it is hardly surprising that confidence has taken a beating. Perhaps the remarkable thing is that indicators such as the October PSI are as strong as they are. Uncertainty itself breeds a loss in confidence. We don't see any significant reduction in uncertainty in the near future so even further deterioration in confidence is plausible if not probable. Nonetheless, we are not throwing in the towel yet and a re going to stick with our view that New Zealand can muddle its way through the morass albeit that the path to survival is clearly getting more problematic by the day.

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