

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 PSI and sub-index results are seasonally adjusted.

psi

Service sector expansion at snail's pace

BNZ - BusinessNZ PSI for July 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for July stood at 50.5, down 4.6 points from June and the lowest level of activity since October 2009. The July 2010 result was also the second lowest July figure recorded since the survey began.
- Three of the five sub-indices were still in expansion mode in July. *New orders/business* (54.0) decreased 4.6 points, although remained in expansion for the 15th consecutive month. *Employment* (51.2) returned to expansion levels experienced in May, while *stocks/inventories* (52.3) were the only sub-index to experience an increase for July. Of those that declined, *activity/sales* (48.9) decreased sharply after an eight month period of expansion, while *supplier deliveries* (48.0) fell back after four months of slight expansion.
- Unadjusted activity was mainly negative throughout the country. The *Northern* region (50.9) was the only one to show some expansion for July, although down 7.2 points from June. The *Central* region (43.3) dropped 8.3 points to its lowest level since the survey began, as activity and new orders/business decreased significantly. In the South Island, both the *Canterbury/Westland* (46.2) and *Otago/Southland* (46.0) regions experienced an almost identical level of decline, although the later experienced a noticeable improvement on June.
- Results for the various service sectors again displayed a range of results for July. At the positive end, *transport & storage* (56.6) followed up its June result with another solid level of expansion, while both *property & business services* and *health & community services* experienced an identical result of 50.3. In contrast, *retail trade* (40.5) continued its poor performance, while *wholesale trade* (48.0) experienced its first decline since October 2009.
- Activity for firms by employment size showed the lackluster performance by the service sector was mainly due to micro-sized firms (1-10 workers) (41.4) experiencing a significant decline in activity for July. In comparison, all other firms by size experienced expansion for the current month, led by medium-large sized firms (51-100) (56.3) which remained largely unchanged in activity from June.
- The fall in the level of expansion during July meant the proportion of positive comments received also fell to 40.1%, compared with 47.9% in June, 50.6% in May and 53.2% in April.

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HIGHLIGHTS

- **Service sector activity drops 4.6 points in July.**
- **Three of the five sub-indices still in expansion, although activity/sales decreased significantly.**
- **Regional activity showed most in decline.**
- **Overall decline led by micro sized firms (1-10 workers).**

**Next BNZ - BusinessNZ PSI:
20 September 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.

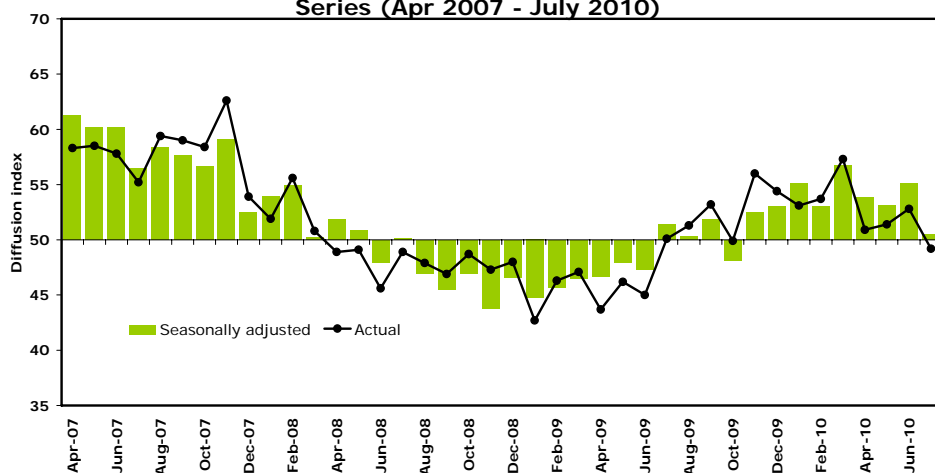
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BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - July 2010)



PSI time series tables

| National Indexes | July 2007 | July 2008 | July 2009 | May 2010 | June 2010 | July 2010 |
|----------------------------|-----------|-----------|-----------|----------|-----------|-----------|
| BNZ - BusinessNZ PSI (s.a) | 56.5 | 50.2 | 51.4 | 53.2 | 55.1 | 50.5 |
| Activity/Sales (s.a) | 57.6 | 49.1 | 52.9 | 54.9 | 57.4 | 48.9 |
| Employment (s.a) | 52.3 | 48.1 | 48.5 | 51.2 | 53.9 | 51.2 |
| New Orders/Business (s.a) | 64.3 | 55.2 | 59.0 | 55.7 | 58.6 | 54.0 |
| Stocks/Inventories (s.a) | 52.3 | 49.6 | 45.0 | 50.8 | 50.2 | 52.3 |
| Supplier Deliveries (s.a) | 54.8 | 50.6 | 48.4 | 51.2 | 51.5 | 48.0 |

| Regional Indexes | July 2007 | July 2008 | July 2009 | May 2010 | June 2010 | July 2010 |
|----------------------------|-----------|-----------|-----------|----------|-----------|-----------|
| BNZ - BusinessNZ PSI (s.a) | 56.5 | 50.2 | 51.4 | 53.2 | 55.1 | 50.5 |
| Northern | 57.6 | 48.2 | 51.2 | 52.4 | 58.1 | 50.9 |
| Central | 55.3 | 54.9 | 45.8 | 54.9 | 51.6 | 43.3 |
| Canterbury/Westland | 49.1 | 51.1 | 53.1 | 44.7 | 46.0 | 46.2 |
| Otago/Southland | 55.9 | 40.4 | 43.7 | 48.3 | 38.7 | 46.0 |

(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

16 August 2010

Global Growth Expectations Defy Negative Press

- PSI fall is another indication of rough patch
- But that doesn't mean the broader recovery is over
- Consensus view on world growth certainly still firm
- In spite of negative global news
- NZ trading-partner path beating June MPS view

Today's Performance of Services Index (PSI) has rained on the parade of last week's retail sales figures, echoing the slowing PMI in the process. Is the NZ economic recovery fast losing friends? We don't believe so. Indeed, there are probably dangers in being led by specific pieces of news right now, when there are still reasons to believe the broader outlook remains reasonably positive. And this seems as true for the international economy, as it does for New Zealand, if the latest consensus forecasts are any guide.

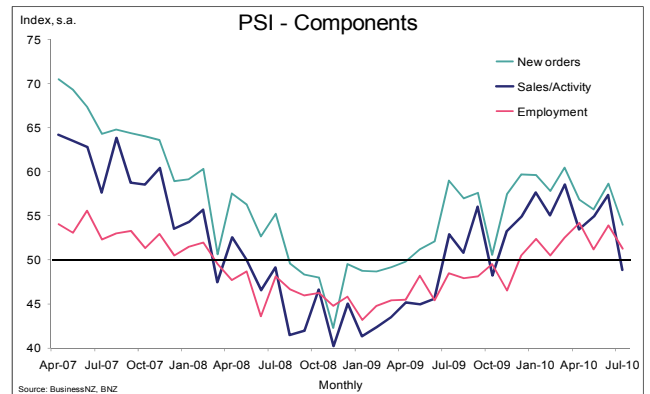
There was no denying July's PSI was another piece of unwelcome news, in slipping to a seasonally adjusted 50.5, from 55.1. But then June quarter retailing was supposed to be soft, when in fact it expanded strongly in real terms and was nominally strong in the June month. The point is that a lot of the recent data have been unusually noisy, and therefore very difficult to trust.

Speaking of which, there were perhaps even greater reasons to downplay July's PSI "weakness" than there was with the month's PMI. For instance, it was peculiar to see the retail (40.5) and hospitality (43.8) sectors remaining big negatives, when we know the recent statistics on these particular sectors have been positive. What's more, the majority of the industry groups in the PSI maintained expansive positions in July.

And while PSI new orders slowed, they remained positive, at a seasonally adjusted 54.0. This suggests the reported sudden fall in the survey's activity measure, to 48.9, from 57.4, might overstate any underlying weakness.

It was also the case that the PSI employment index, like that of the PMI, persisted in positive territory, albeit at a milder 51.2. It's yet another indication that the labour market is continuing to improve in a gradual fashion, albeit that this had been hard to discern in the "official" quarterly statistics on such, which have been highly volatile.

These points are not to deny the sense of slowdown and disappointment in July's PSI, or the threat of it turning into something nasty. However, we think it highly premature to presume the survey confirms any stalling in the underlying economic expansion.



Indeed, for what it's worth, the consensus view on NZ GDP growth has withstood a lot of slings and arrows over recent months, to be largely unchanged. This means the general view amongst analysts is that GDP advances at about 0.8% per quarter from here until the end of next year. While this is about what we think too, it is faster than what we presume for the economy's (potential) speed limit over the period, meaning that, while growth won't look fast, it will be increasing pressure on underlying inflation.

Seemingly at odds with this economic view, the financial markets would seem to have no qualms in pricing not much more than half a percent of upside to the cash rate over the next twelve months, which would leave the OCR not much higher than the "very supportive" level the RBNZ described the present 3% rate as. The latter implies NZ GDP will struggle over the coming year or two.

Perhaps the markets have been more influenced by international "developments"? But then pitfalls in reading too much into negative specifics also applies on this front, it would seem. Granted, there has been no shortage of global bad news stories, and evidence of slowdown in the data. Nevertheless, the latest Consensus view on global growth, published at the end of last week, remained as solid as it was a month ago – albeit with a few ups and downs within it and exhibiting a clear sign of peaking, overall.

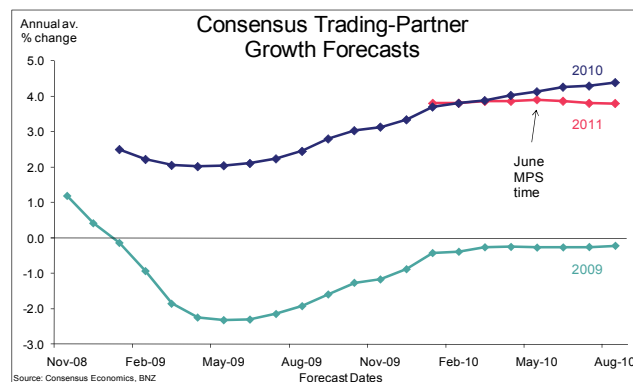
Interestingly, the latest consensus numbers imply a growth path for New Zealand's trading-partner GDP stronger than was used for the June Monetary Policy Statement. We can imagine most folk would have presumed a much frailer profile by now, given all the dastardly global news over the last few months.

To be sure, the strength, compared to RBNZ expectations, is solely for calendar 2010 (expectations for 2011 look to be down one notch, in annual average terms). The top-up for this year looks to be as much as 0.4% (we can't be precise about this as our trading-partner growth estimates have not exactly matched the Bank's trading-partner computations).

This, in turn, highlights the way many of our trading-partner economies, predominantly throughout Asia, have printed much better than expected GDP results this year so far, meaning stronger levels of demand. Yes, the emerging-market economies now appear to be slowing, and with some specific countries in this respect looking vulnerable. However, the consensus view has long foreseen a slowdown for this part of the world, so it's no great surprise to see, really.

It's also worth noting the latest consensus expectations subsume a downgrade for US GDP growth expectations, with a couple of notches knocked off each of 2010 and 2011 – to 2.9% and 2.8% respectively. It might yet need to be trimmed further.

But then expectations for Euro-zone GDP growth in 2010 have been bumped up to 1.2%, from 1.1% – and will probably have to be revised up another couple of points, given the far better than expected Q2 GDP results published last Friday. The view on UK growth has already been upgraded to 1.5%, from the previously foreseen 1.3%. And each had growth expectations for calendar 2012 preserved, at 1.4% and 2.1% respectively.



The Australian economy is seen chugging along at 3.0% for this year and 3.4% next. Sure, the risks around this might well be tilted toward disappointment rather than to feats of strength. Still, these are relatively robust numbers to be starting with, especially these days. In the end, most economies would kill to have Australia as their biggest trading partner, and probably China as its second, which, of course, is exactly what New Zealand has.

It would be different if we were a Canada, which has the US as its biggest trading partner.

Certainly from a "world" perspective one can argue that downside risks still lurk around the latest central Consensus outlook. However, there seems plenty to cope with some pruning, before the global GDP track is looking anywhere near "weak". For the moment it foretells an expansion a bit above the long-term norm for the next year or two. Still.

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