

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 bounce back for November

### BNZ - BusinessNZ PSI for November 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for November stood at 56.6. This was 5.6 points up from October and the highest level of activity since March 2010.
- The recovery in expansion meant all five sub-indices showed expansion in November. This was led by *new orders/business* (60.2) followed by *activity/sales* (58.5). Both of these indices recorded their highest values since March 2010. *Employment* (53.0) and *supplier deliveries* (52.9) experienced almost identical levels of expansion, while *stocks/inventories* (50.5) improved marginally on its October value.
- Activity was expansionary for all four main regions for the first time since December 2010. Like the PMI, the *Otago/Southland* region (60.8) led the way, closely followed by the *Northern* region (60.4) which recorded its highest value since November 2007. The *Central* region (59.9) more than recovered from its dip in expansion in October, while the *Canterbury/Westland* region (56.7) was the only region to drop from the previous month.
- Given the overall strong result, the various service sectors were all in expansion during November. Both *health & community services* (59.9) and *wholesale trade* (59.4) sectors experienced significant lifts in expansion, while *property & business services* (57.3) recovered from three consecutive months of decline to record its highest value since July 2011.

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

Bank of New Zealand Economist Doug Steel puts the large PSI jump in context. He concludes that while we should not over interpret the strength of one month, it would be wrong to discount it altogether especially as it lines up with improvement in some other service sector indicators.

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#### HIGHLIGHTS - PSI

- **Service sector expansion highest since March 2010.**
- **All five major sub indices in expansion.**
- **Regional activity positive throughout the country.**

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

- **Options for measuring PCI showed largest gap between the two measurements.**
- **Global PCI improved slightly, but mainly due to service sector recovery.**

**Next BNZ - BusinessNZ PSI/PCI: 30 January 2012**

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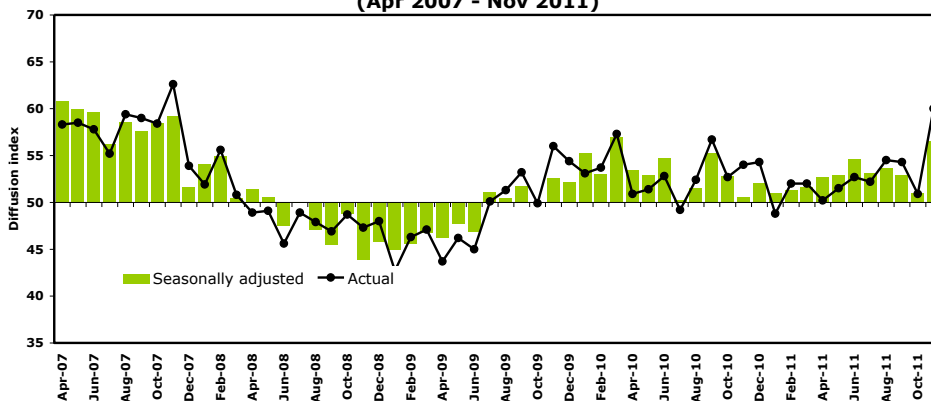
BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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BNZ ([www.research.bnz.co.nz](http://www.research.bnz.co.nz))

**BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Nov 2011)**



## PSI time series tables

National Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Oct 2011	Nov 2011
BNZ - BusinessNZ PSI (s.a.)	59.2	43.9	52.6	50.6	51.0	56.6
Activity/Sales (s.a.)	60.4	40.2	53.2	49.3	51.4	58.5
Employment (s.a.)	53.9	45.8	47.5	47.9	49.9	53.0
New Orders/Business (s.a.)	63.2	41.9	57.1	54.2	52.7	60.2
Stocks/Inventories (s.a.)	59.6	47.1	46.6	49.7	50.2	50.5
Supplier Deliveries (s.a.)	54.3	43.6	51.3	47.0	50.2	52.9

Regional Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Oct 2011	Nov 2011
BNZ - BusinessNZ PSI (s.a.)	59.2	43.9	52.6	50.6	51.0	56.6
Northern	64.1	44.8	54.8	55.9	48.6	60.4
Central	61.9	50.4	59.3	55.3	54.5	59.9
Canterbury/Westland	59.6	55.3	56.0	44.6	64.2	56.7
Otago/Southland	62.0	47.6	59.4	44.7	43.7	60.8

(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

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## Split in sectors causes split in PCI measurement

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for November again showed a contrast in the two options for measuring the PCI. This was mainly due to the difference in the performance of the manufacturing and service sector industries.
- The GDP-Weighted Index (54.2) was at its highest level since June 2011, while the Free-Weighted Index (50.6) returned to expansion after contraction in October. The difference between the two indices was the largest since measurement began.
- The JPMorgan Global Combined Index recovered slightly to 52.0 in November, compared with October's figure of 51.3. Global growth improved somewhat on the back of a slight acceleration in service sector activity even as output in the manufacturing sector continued to downshift.

Hospitality Association of 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).

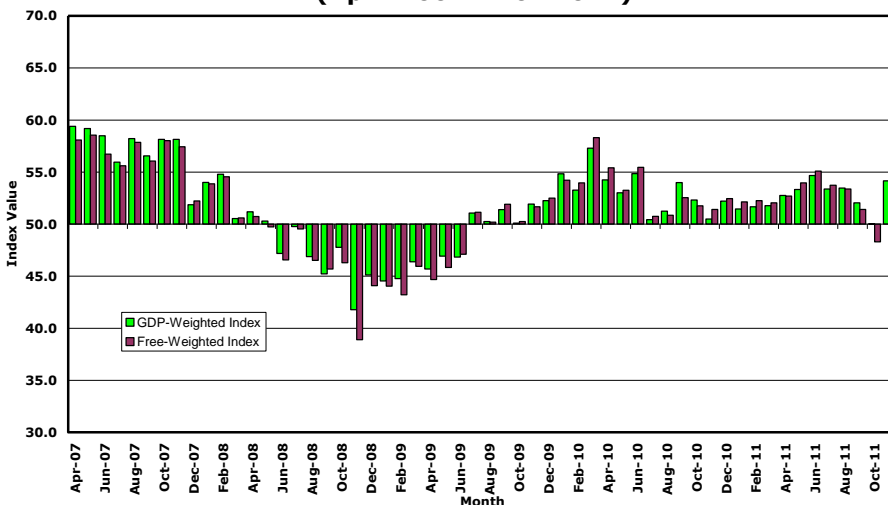
Combined results are shown in two ways:

**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 - Nov 2011)**



#### Performance of Composite Index time series tables

Combined National Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Oct 2011	Nov 2011
GDP-Weighted Index (s.a.)	58.1	41.8	51.9	50.5	50.0	54.2
Free-Weighted Index (s.a.)	57.4	38.9	51.7	51.4	48.3	50.6

19 December 2011

## Service Sector Soars

- PSI stunningly higher in November
- With improvement throughout survey
- In contrast to last week's weak PMI
- More reason to be wary of NZ's volatile data
- But growth still looks positive, on balance

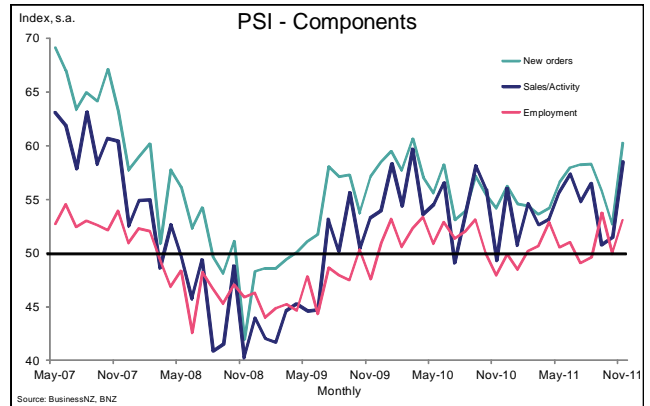
Following a poor November reading from the PMI late last week and the slowing in the PSI over recent months, we have to admit to being a bit nervous awaiting the November PSI results.

After all, October's PSI was barely above the breakeven 50 line. As such a sub-50 November result was distinctly possible especially given the ongoing abundance of gloomy international news and potential hangover following the Rugby World Cup. A sub-50 result would have had us starting to seriously question our long-held view that the economy is growing, in a trend sense, at a moderate pace.

That is the context to what turned out to be an absolutely stunning result in November, with the PSI bolting higher to 56.6. This is a material upside surprise when, really, we would have taken anything marginally above 50. Not only is November's result a significant jump from October but is the highest level in more than a year and a half and the second highest since the start of the global financial crisis.

But as good as the November results look we need to be careful not to over interpret the strength of one month, just as we were reluctant to get too downbeat on the dip in October.

This fits with a general theme we have been running with right through the latter part of 2011 namely: few NZ data points were going to be indicative of underlying trends. Events like the Rugby World Cup, the change in school

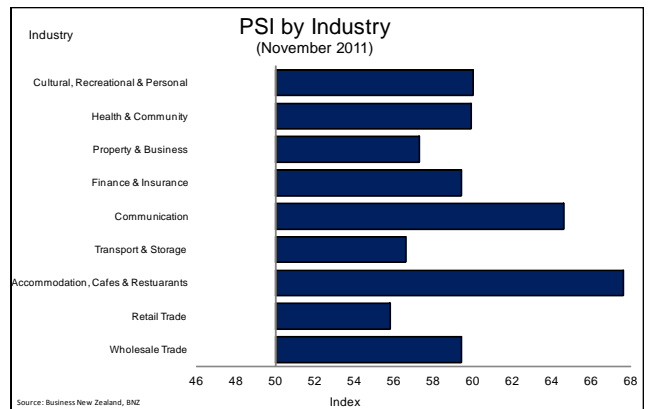
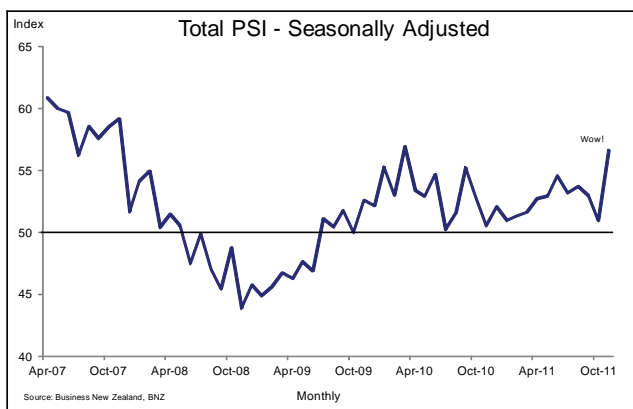


holiday timing, recovery from earthquake, and the election were always going to make New Zealand's data flow choppy. And so it has been. Another decent bout of global uncertainty and good grass growing conditions has only added to the ambiguity.

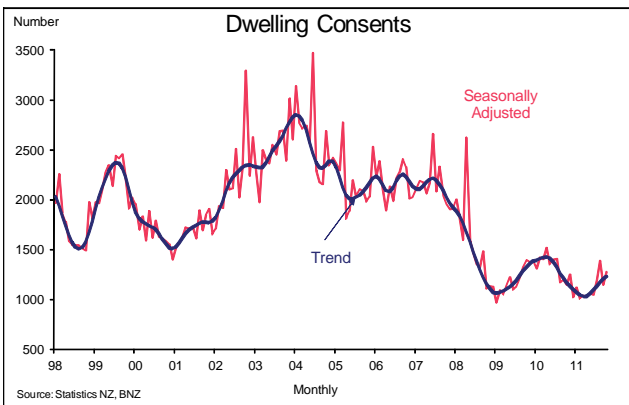
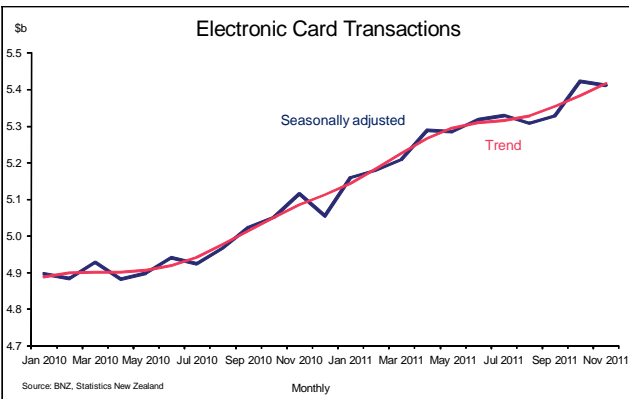
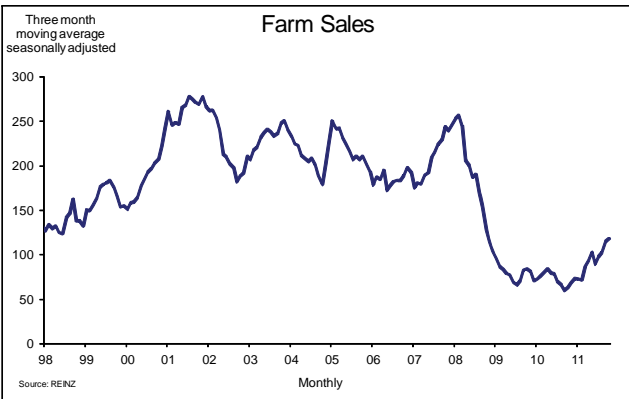
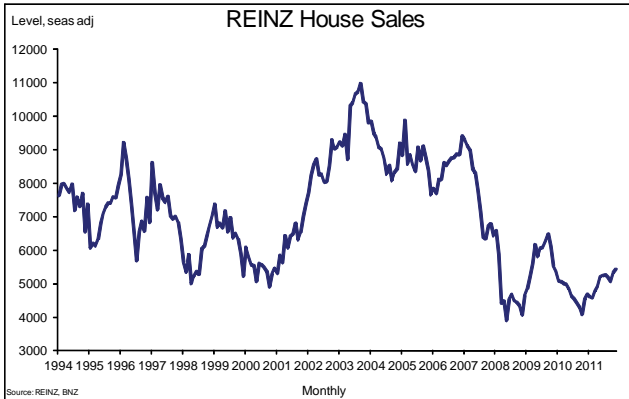
Equally though, we should not completely discount the big bounce in November's PSI either. We say this for two main reasons.

First, the strength was spread throughout the survey with new orders, production, employment up strongly and all industries and all regions registering levels well above 50. This suggests there could well be something fundamental to the improvement rather than a one-off boost in a particular industry or region.

Second, the improvement fits with a few other service sector indicators that are trending higher. These include such things as house sales (up a cumulative 4.6% through the three months to November), farm sales (at their highest level since 2008), electronic card transactions (up a cumulative 1.6% through the three months to



November) and residential building consents (up a cumulative 7.7% in the three months to October). These improvements are all over and above the increases we usually see at this time of year.



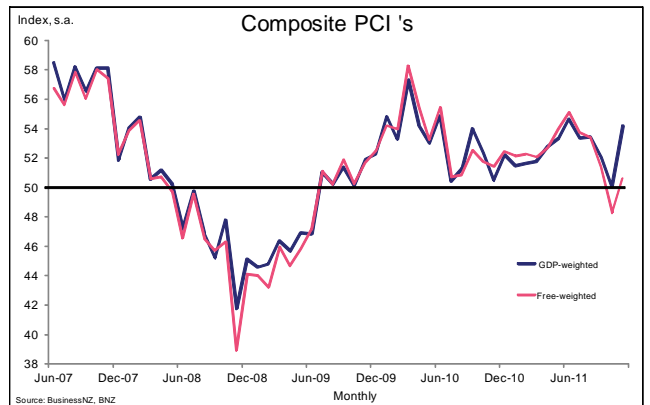
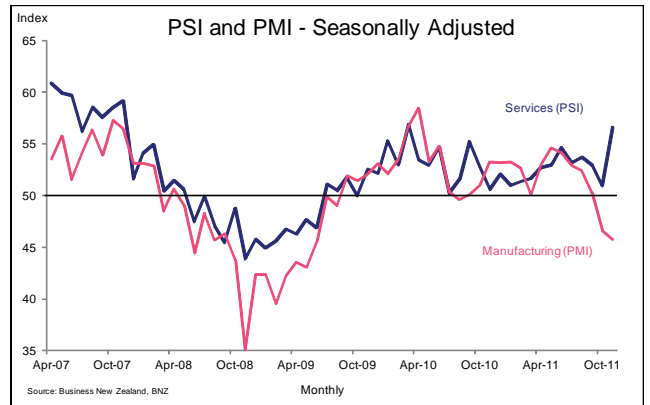
There is no doubt some of these indicators are coming off a low base, but also no doubt that there has been some clear improvement. Through all the wobbles and wiggles in the monthly data there still seems to be enough to suggest service sector expansion is continuing, even if the big jump in November's PSI might be overstating the trend.

If nothing else, it certainly feels a lot more comfortable discounting a high number than it does a low number.

Perhaps the somewhat confused message from New Zealand's economic data over recent times is well illustrated by the difference in the PMI and PSI readings for November. The gap between them has never been wider.

We now routinely pull the PMI and PSI series together to glean an overall snapshot. Unfortunately, this time around it adds little clarity. Depending on whether you use GDP weights or 'free' weights to combine the two indicators the overall story is one of either strong growth or feeble growth. We suspect that the truth probably lies somewhere in between.

With a strong PSI and weak PMI posted for November we are really none the wiser to the actual pace of economic growth through late 2011. Still, looking around other parts of the world, it does feel good to be debating about the pace of growth rather than whether there is any growth at all. Let's hope that remains the case as we head into the New Year.



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