BNZ-BusinessNZ PSI

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 keeps its head above water

BNZ - BusinessNZ PSI for October 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for October stood at 52.0, down 2.9 points from September and a return to the level of activity experienced in August. The October 2010 result was also the highest October figure since 2007 (57.7).

- Despite the reduction in expansion, four of the five sub-indices were again in expansion mode during October. Both *new orders/business* (53.1) and *activity/sales* (54.9) reversed gains experienced in September, falling 3.8 and 2.4 points respectively. *Employment* (49.8) was flat in October, down 3.6 points from the previous month, and the lowest value since November 2009. *Stocks/inventories* (50.1) were largely unchanged from September, while *supplier deliveries* (50.5) fell 2.5 points.

- Unadjusted activity by region returned to a similar pattern experienced earlier in the year, with the North Island showing expansion and the South Island showing decline. The *Northern* region (55.3) again led the way, although down 3.2 points from September. The *Central* region (51.5) experienced a similar drop from the previous month, returning to levels seen in June. The South Island experienced a consistent level of decline, with the *Canterbury/Westland* (45.0) and *Otago/Southland* (45.5) regions falling back into contraction for six of the last seven months.

- Results for the various service sectors were a mixture of expansion and decline during October. Both *wholesale trade* (48.0) and *retail trade* (49.2) fell back after healthy expansion in September. *Property & business services* (55.9) experienced a lower level of expansion, as did *health & community services* (54.1).

- All firms by size were again in expansion during October, which was the first consecutive time this had occurred since earlier this year. All firms by size experienced a drop in expansion, with medium-large firms (51-100 workers) and large firms (101+ workers) decreasing to the same level of expansion (55.2). Micro firms (1-10 workers) (50.1) experienced no change, while small-medium firms (11-50 workers) returned to levels seen in August.

- The drop in the level of expansion during October meant a corresponding fall in positive comments, decreasing to 47.9%, compared with 53.5% in September, 46.2% in August, 40.1% in July and 47.9% in June.

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HIGHLIGHTS

- ***Service sector activity decreased 2.9 points in October, but remained in expansion.***
- ***Four of the five sub-indices were again in expansion, although most down from the previous month.***
- ***Regional activity was positive in the North Island, and negative in the South Island.***
- ***All firms by size were again in expansion.***

Next BNZ - BusinessNZ PSI:
20 December 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.

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

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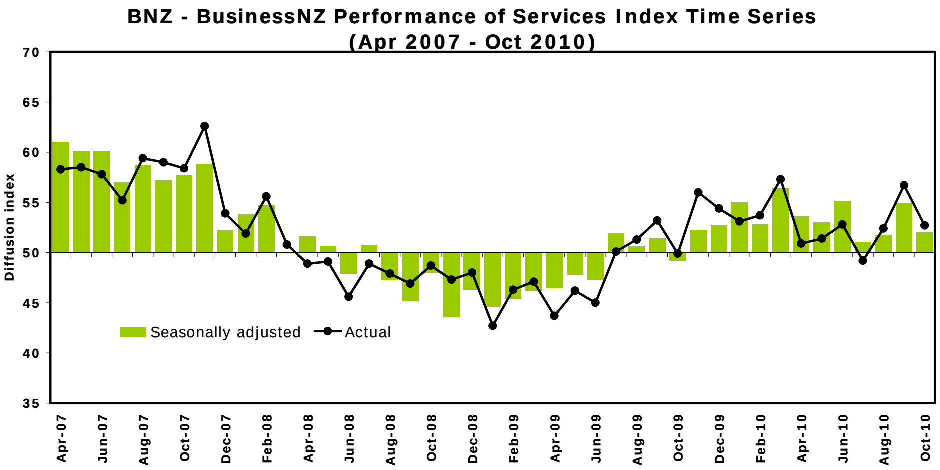

PSI time series tables

National Indexes	Oct 2007	Oct 2008	Oct 2009	Aug 2010	Sep 2010	Oct 2010
BNZ - BusinessNZ PSI (s.a)	57.7	48.0	49.2	51.8	54.9	52.0
Activity/Sales (s.a)	59.7	47.8	49.4	54.2	57.3	54.9
Employment (s.a)	52.0	46.9	50.2	52.1	53.4	49.8
New Orders/Business (s.a)	64.7	48.7	51.3	54.2	56.9	53.1
Stocks/Inventories (s.a)	53.9	49.2	44.2	47.4	49.9	50.1
Supplier Deliveries (s.a)	55.0	48.2	47.1	48.0	53.0	50.5

Regional Indexes	Oct 2007	Oct 2008	Oct 2009	Aug 2010	Sep 2010	Oct 2010
BNZ - BusinessNZ PSI (s.a)	57.7	48.0	49.2	51.8	54.9	52.0
Northern	60.4	48.4	48.9	54.3	58.5	55.3
Central	54.7	55.4	51.6	49.7	54.5	51.5
Canterbury/Westland	59.6	52.3	54.5	46.4	51.6	45.0
Otago/Southland	55.3	37.7	47.5	47.2	55.8	45.5

(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

15 November 2010

Interest Rate Risk Rising

- Service sector confidence remarkably strong
- But retailers under pressure
- As the savings ethic seems to be taking hold
- RBNZ to hibernate until March 2011
- But be warned, interest rates may already be at cyclical lows

It's a pity that the overall sentiment in the services sector dropped away in October. But, perhaps, on reflection, it's remarkable that confidence is as high as it is given that business (on average) was being adversely impacted by the Canterbury earthquake; the Southland storms; the post GST sales' malaise and ongoing softness in housing market activity across the nation. We thus take some heart that the seasonally adjusted PSI of 52.0 remains consistent with our story that the economy slowly, but surely, continues to expand.

A key component of New Zealand's services' sector is retail sales. At about the same time that you get this, Statistics New Zealand will be announcing Q3 retail sales data. As far as we can see, Q3 volume growth was very modest, at best. Moreover, there were some clear signs that spending, particularly on fuel and big-ticket items, was brought forward into September to beat the 1 October GST hike. Accordingly, this sets up Q4 to record a modest drop in volumes (on a seasonally adjusted basis). This, clearly, is not great news for retailers many of whom are already struggling. Indeed, it is worth highlighting now that folk in the sector should be wary about assuming that the Christmas period will deliver the normal seasonal surge in sales that many rely on.

It is somewhat ironic that sales are struggling given that the broader economic environment is, believe it or not, actually quite supportive of sales growth. In short:

– employment rose 1.8% over the last year;

– the unemployment rate has fallen;

– average weekly earnings rose 2.0%;

– tax cuts have added a significant boost to disposable incomes;

– benchmark interest rates have declined;

– commodity price strength is providing a significant boost to rural sector incomes; and

– measured consumer confidence remains relatively lofty.

Under normal circumstances this would portend growth not only in retail sales, but across the wider economy, much stronger than we are currently witnessing.

We think the explanation for this apparent dichotomy is the paradox of thrift. As a nation state we have long postulated that households need to save more. For now, at least, they appear to be taking heed of this message assisted by a widespread feeling of uncertainty and a very soggy housing market. The extra income being earned is being saved not spent. Believe it or not, this is great news for the economy, over a longer term basis, in that it will enhance the likelihood that the expansion that is currently building can be sustained. Be that as it may, the downside is that every dollar saved is one that will not bolster the coffers of retailers. Our suspicion is that this "rebalancing" will continue for some time to come and is one of the reasons we are forecasting just 1.5% private consumption growth through calendar 2011 against a total GDP expansion of 3.5%.

While the sales' prognosis is not great for those in the services sector, at least some solace can be taken from the fact that the Reserve Bank has recently confirmed it has no intention to raise its cash rate any time soon. Indeed, we think the tightening process will not begin until the end of the first quarter 2011. At the same time, longer dated interest costs are falling on the back of rallying global markets. And credit conditions, more generally, are slowly starting to ease.

That said, we believe these developments are a clear signal to those with debt that they should be taking a close look at their interest rate exposure. While we strongly believe the Reserve Bank is in no hurry to raise interest rates, we are equally of the view that the next move in the cash rate is up. Moreover, we believe that the global bull market for bonds is approaching its end (ie. longer-dated interest rates are approaching their cyclical lows too). On this basis, borrowers would be well advised to assess their interest rate risk. The last thing leveraged businesses would want to see is the benefits of the forecast modest economic expansion being substantively eroded by, potentially avoidable, rising debt costs.

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