

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

## Steady as she goes for service sector pick-up

### BNZ - BusinessNZ PSI for June 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for June stood at 55.7, up 2.2 points from May and the eighth consecutive month in expansion. The June 2010 result was also the highest June figure recorded since 2007.
- All five sub-indices were in expansion mode for the fourth consecutive month, with four of them recording a higher value than in May. *Activities/sales* (57.9) rose 2.6 points from May, while *new orders/business* (59.0) rose 2.9 points. *Employment* (55.2) experienced the greatest lift, rising 4.5 points from May to record its highest level since June 2007. Both *supplier deliveries* (51.7) and *stocks/inventories* (50.1) remained within a fairly tight band of results that have continued for eight and four months respectively.
- Unadjusted activity was again positive in the North Island, but negative in the South Island. The *Northern* region (58.1) led the way with activity for the first time since September 2009. The *Central* region (51.6) dropped 3.3 points from May, but still remained in expansion. In contrast, both South Island regions remained in contraction for the third consecutive month. The *Canterbury/Westland* region (46.0) improved slightly from May, while the *Otago/Southland* region (38.7) experienced a significant fall.
- Results for the various service sectors showed some contrasting results for June. At the positive end, *property & business services* (60.1) remained largely unchanged with strong growth, while *transport & storage* (58.0) improved considerably from May. In contrast, *retail trade* (41.5) fell back, while *accommodation, cafes & restaurants* (39.9) continued to stay just below the 40.0 mark.
- Two of the four firms by employment size showed expansion during June, with small-medium sized firms (11-50 workers) (57.6) just ahead of medium-large sized firms (51-100) (56.9). Micro-sized firms (1-10 workers) (47.7) dipped further to show ongoing contraction; while large sized firms (101+ workers) (49.1) fell back into contraction after improvement last month.
- The pick-up in the level of expansion during June did not help the proportion of positive comments received, which decreased to 47.9% in June, compared with 50.6% in May and 53.2% in April.

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#### HIGHLIGHTS

- **Service sector activity continues to expand, lifting 2.2 points in June.**
- **All sub-indices were again in expansion for the fourth consecutive month.**
- **Regional activity again showed differences between the two islands.**
- **Despite the positive result, the proportion of negative comments increased.**

**Next BNZ - BusinessNZ PSI:  
16 August 2010**

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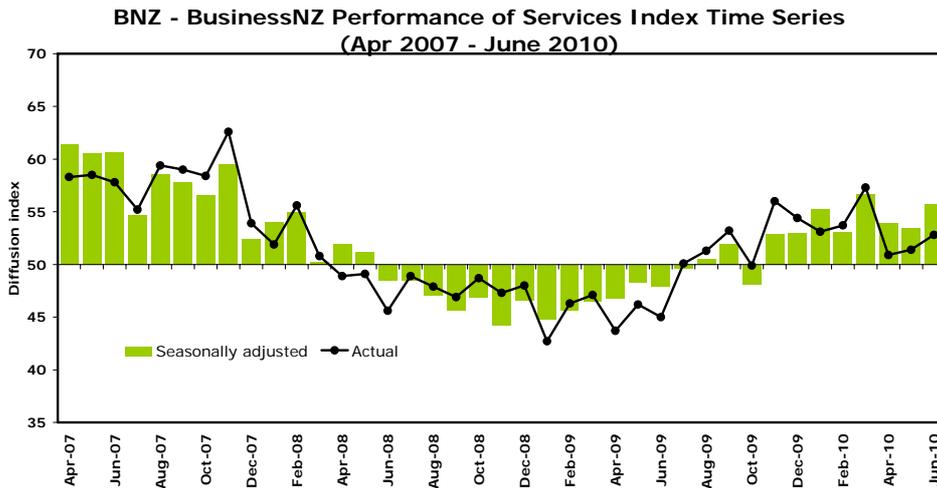
BNZ is delighted to be associated with the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ and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

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# psi



### PSI time series tables

National Indexes	June 2007	June 2008	June 2009	April 2010	May 2010	June 2010
BNZ - BusinessNZ PSI (s.a)	60.7	48.5	47.9	53.9	53.5	55.7
Activity/Sales (s.a)	63.3	47.1	46.1	53.5	55.3	57.9
Employment (s.a)	56.9	44.9	46.7	54.3	50.7	55.2
New Orders/Business (s.a)	67.8	53.1	52.5	57.2	56.1	59.0
Stocks/Inventories (s.a)	51.8	51.2	45.6	51.9	50.8	50.1
Supplier Deliveries (s.a)	57.1	47.9	47.4	50.4	51.3	51.7

Regional Indexes	June 2007	June 2008	June 2009	April 2010	May 2010	June 2010
BNZ - BusinessNZ PSI (s.a)	60.7	48.5	47.9	53.9	53.5	55.7
Northern	57.2	43.9	44.4	50.8	52.4	58.1
Central	63.1	47.9	45.8	56.4	54.9	51.6
Canterbury/Westland	57.2	51.1	47.5	47.4	44.7	46.0
Otago/Southland	55.8	36.1	44.8	48.6	48.3	38.7

(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
- New Zealand Retailers Association
- Tourism Industry Association New Zealand

19 July 2010

## Services Index Stiffens Growth Resolve

- June PSI strengthens good-growth pulse
- Despite market turmoil, anecdotal weakness
- Matching PMI's expansionary messages
- Consistent with solid GDP growth, overall

June's Performance of Services Index was encouraging on many levels. For a start, it obviously edged up a bit from May's 53.5, to a seasonally adjusted 55.7. This was important for consolidating itself in a good-growth zone (much like we saw for the month's PMI, which registered 56.2), when a drop of similar magnitude would have been a significant blow to recovery expectations.

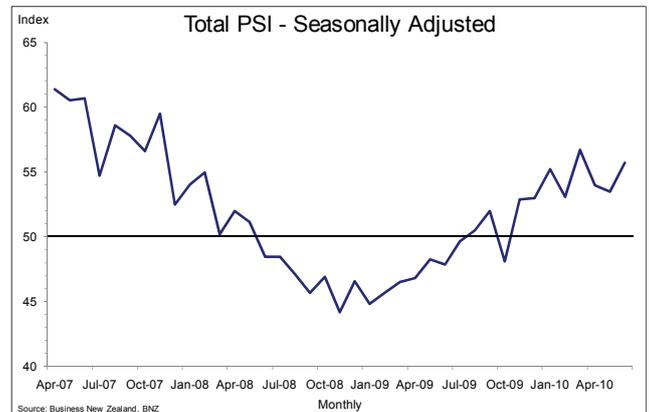
And a drop did seem the more palpable risk this month, given the market turmoil of late, which has certainly been reflected in a number of global PSI and PMI indices falling by the wayside, including in respect of China. A couple of key regional manufacturing surveys from the United States last week, for instance, suggested its national PMI is now stalling back down at around the 50-breakeven mark, having been one of the most positive indicators on the US economy since late last year.

The relative robustness of the NZ PSI (and PMI) in June is also significant in that it runs counter to the signs of sharp domestic slowdown suggested from recent anecdotal and sentiment surveys.

This is interesting, as it might well be saying more about how overly optimistic general confidence had become rather than signifying any material change of heart about businesses' expectations for their own activity. Through the year, confidence has come down from the heavens, while firms' reports and expectations for their own activity have actually improved to respectable levels. The latter has been further displayed in the latest PSI, and PMI.

Is it too much to suggest, therefore, that we now simply have reasonable confidence in the likelihood of reasonable growth, rather than overly ambitious expectations of performance that was always going to feel disappointing by comparison to reality?

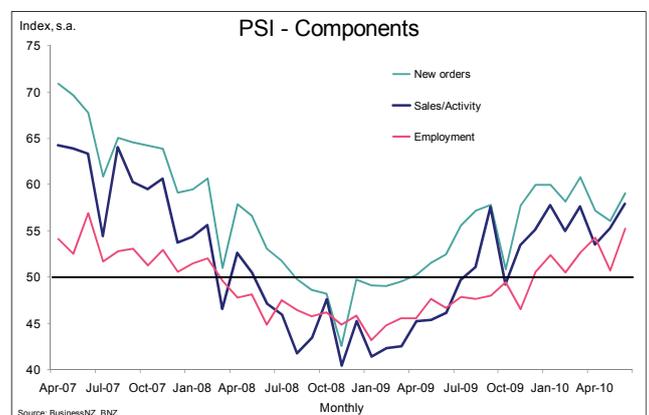
The other importance of "June's" PSI survey – and the PMI one for that matter – was that it was filled out in the second week of July or so. It thus carries along the torch of respectable results seen in the last NBNZ business survey and QBSO – which were conducted around mid-June – even having had the chance of digesting more of the worsening global news.



Might this mean the 28 July NBNZ business survey remains robust in its own-activity expectations, even though its net confidence measure falls?

The rest of the PSI plaudits were to do with the regular component detail. It was still the case, for example, that new orders were still champing at the bit, with a seasonally adjusted 59.0. The activity indicator was solid, at 57.9. Employment was a healthy looking 55.2 – the highest in three years. The laggard was inventories, with 50.2, but this is not necessarily a bad sign if it reflects stocks are simply being well managed.

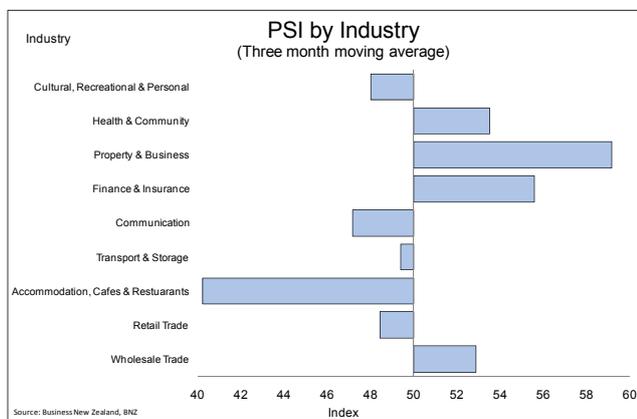
To be sure, not all was positive in June's PSI. The deep south of the country would seem the weakest link, regionally, with an unadjusted 38.7. The northern zone was at the other end of the scale, with 58.1. We're not sure what's going on with these relativities (although seasonality might have something to do with it).



The more understandable weakness was by way of industry type, in the form of hospitality and retailing. Their indices were an unadjusted 39.9 and 41.5 respectively. While this might be overstated by seasonality it certainly aligns with the softness we've seen in the retail sales data for the country. No real news in that, however.

What this really highlights is that there's obviously much more to the services sector, let alone the overall economy, than just retailing, accommodation and eateries, otherwise the overall indices wouldn't be so good.

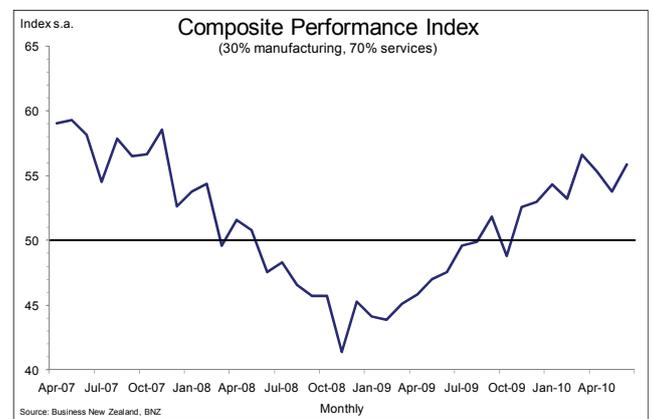
A more general inspection of June's PSI saw the likes of property and business services, wholesale trade, finance and insurance, and health and community services well into positive growth territory. Even communications – which had been a notable weak spot in Q1 GDP, by the way – had recovered to the breakeven mark in the June PSI.



All of this, of course, just goes to show just how big the services sector is, especially in relation to the manufacturing industry, by way of example. Depending on definitions, it ranges anywhere from 60 to 75% of any developed economy, New Zealand included. This is another reason to judge the recent robustness in the PSI as important.

Indeed, we've been so bold as to cobble the PSI with the PMI to see what a Composite Performance Index would look like. We've elected a weighting of 70% services, 30% manufacturing. This might not be properly representative. But then it wouldn't really matter at the moment, in that the PSI and PMI are looking very similar anyway – in total and through their components – such that they formulate a reasonably robust picture on GDP growth. It's more than a relief. The recovery fights back.

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