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 closes 2010 on similar note

BNZ - BusinessNZ PSI for December 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for December stood at 52.5, up 0.8 points from November. The 2010 December result was also exactly the same as the 2009 figure.
- Three of the five sub-indices were in expansion mode during December, with two indices remaining largely unchanged compared with previous months. *Employment* (49.4) remained within the 49-point range for the third consecutive month, while *stocks/inventories* (50.9) remained in the 50-point range for the fourth consecutive month. Encouragingly, *new orders/business* (56.8) continued to improve, closely followed by *activity/sales* (56.3). *Supplier deliveries* (48.7) remained in contraction for the second consecutive month.
- After a tale of two islands during October and November, December saw all four main regions experience expansion. The *Northern* region (54.7) remained in expansion, although slightly down on previous results. Interestingly, the Northern region was the only one to experience expansion for every month of 2010. The *Central* region (51.6) returned to expansion levels experienced in October, while both the *Canterbury/Westland* (50.1) and *Otago/Southland* (61.0) improved from almost identical levels of activity in November.
- Results for the various service sectors were generally positive for December, as most experienced healthy levels of expansion. The one exception was *property & business services* (48.3), which fell 4.2 points from November. However, the December result was similar to 2009 (48.6), and indicative of such businesses closing over the Christmas break.
- All firms by size were again in expansion during December, which has now occurred for four consecutive months. Small-medium firms (11-50 workers) (56.9) led the way in December with the highest level of activity. Micro-sized firms (1-10 workers) and medium-large workers (51-100 workers) experienced a similar level of activity at 52.6 and 52.5 respectively, while large firms (101+ workers) saw the lowest level of expansion for the month.
- Positive comments from respondents were still in the majority, although down on November to stand at 52%. Globally, the JPMorgan PSI reached a 41-month high, as there was a significant improvement in new business inflows for many countries.

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<u>HIGHLIGHTS</u>

Service sector activity picked up slightly in December, and at the same level as December 2009.

Three of the five sub-indices were in expansion, with new orders/business leading the way.

Regional activity was positive throughout the country.

All firms by size were again in expansion.

Next BNZ - BusinessNZ PSI:
21 February 2011

<u>SPONSOR STATEMENT</u>

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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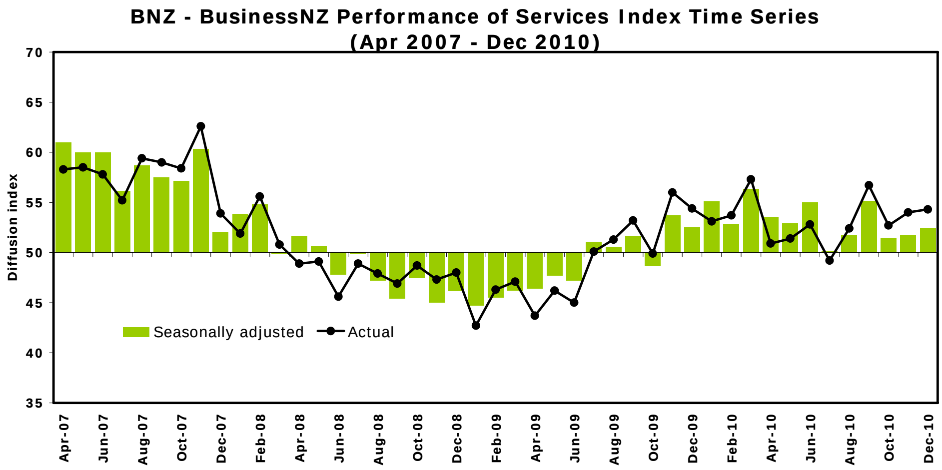


PSI time series tables

National Indexes	Dec 2007	Dec 2008	Dec 2009	Oct 2010	Nov 2010	Dec 2010
BNZ - BusinessNZ PSI (s.a)	52.0	46.1	52.5	51.5	51.7	52.5
Activity/Sales (s.a)	52.8	44.3	54.2	53.7	51.5	56.3
Employment (s.a)	50.5	45.8	50.5	49.5	49.0	49.4
New Orders/Business (s.a)	58.2	48.8	59.0	53.3	54.9	56.8
Stocks/Inventories (s.a)	51.3	47.1	48.2	50.1	50.0	50.9
Supplier Deliveries (s.a)	47.1	48.2	48.8	50.2	47.6	48.7

Regional Indexes	Dec 2007	Dec 2008	Dec 2009	Oct 2010	Nov 2010	Dec 2010
BNZ - BusinessNZ PSI (s.a)	52.0	46.1	52.5	51.5	51.7	52.5
Northern	55.2	45.6	52.5	55.3	55.9	54.7
Central	52.4	50.8	60.9	51.5	55.3	51.6
Canterbury/Westland	56.3	54.6	56.1	45.0	44.6	50.1
Otago/Southland	44.7	53.8	54.4	45.5	44.7	61.0

(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

25 January 2011

Retailers Eye Better 2011

- Retail sales trending sideways at end of last year
- The retail component of the PSI joins a list of better looking surveys
- January bounce in consumer confidence encouraging
- Signs household finances less stressed
- Retail sales expected to rise in 2011
- A soft property market remains a headwind

Retailers have experienced consumer spending restraint first-hand over recent years. Underlying restraint has extended to late 2010, judging by last week's retail sales data for November and the previously released dip in electronic card transactions in December. The latest data have continued the recent traits of consumer spending – volatile with underlying weakness.

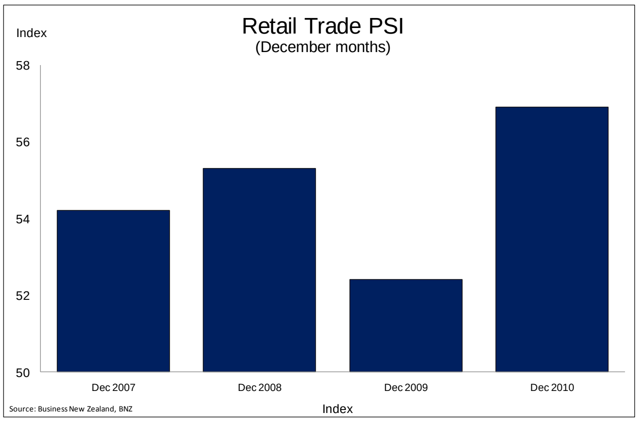
The 1.5% lift in November retail sales looked decent enough at face value. This was slightly above market and our expectations, but overall the detail revealed a still weak underbelly. The November rise in total sales followed a 2.4% decline in October, which itself was a comedown from the 2.0% pre-GST hike spend-up in September. It does not get much more volatile than that!

Meanwhile, core retail sales were weak in November. Sure, the 0.2% fall was not particularly large and driven entirely by food-dominated stores thus probably related to the retreat in food prices in the month. But, the bounce in other core sales only partially recovered the softness in October.

All up, looking through the wobbliness, trend sales were about flat at the end of 2010. Not all that surprising, but still disappointing from a near-term activity point of view.

A lack of demand growth is a key concern. Indeed, according to the latest QSBO, 85% of merchants report 'demand' as the most limiting factor to increasing turnover. Concern about demand is not uncommon, but it is more widespread than usual – the 10-year average for this indicator sits at 72%.

Why, then, are merchants so confident? Despite the spending slumber, merchant confidence is solidly positive according to the QSBO. In fact, confidence is higher among merchants than across the wider business community. This optimism seems to be based on expectations of a better 2011, rather than recent sales. It would have to be.



Merchants' sales expectations over the first six months of 2011 are positive with a net 13% of firms expecting higher sales volumes over the period. This is more than average. But expectations have been positive for a while, only to have been met with disappointment. Importantly, there are some more encouraging signs this time around.

For one, for the first time in three years in the QSBO, the number of merchants reporting higher sales over the previous three months outweighed the number of merchants reporting fewer sales. Likewise, QSBO merchant new orders have turned positive for the first time in three years. Positive sales expectations are one thing, but they are so much more achievable when they are backed up by received new orders.

Today's PSI continues the theme of positive business survey responses from the retail sector. The retail trade PSI index came in at 56.9 in December – a big lift from the 46.3 recorded in November. Of course, one would expect to see a decent lift in the lead up to Christmas. But there is more to it than that given this is the highest December retail trade PSI result since the survey began. Sure, the survey has not been going too long, and it is only one month, but it suggests that confidence in the retail sector is not as bleak as you might expect given the recent weakness in consumer spending.

This is important as retailing is a significant part of the service sector and wider economy. Including accommodation, cafes and restaurants retailing accounts for about 10% of service sector activity and about 19% of service sector employment. Indeed, retailing accounts for just over 15% of economy-wide employment.

We expect retail sales to rise in 2011. Not aggressively so, but a pick up nonetheless. We are looking for something in the order of 2% volume growth for the year compared to 2010.

We think a generally improving economy will underpin a gradual improvement in the labour market supporting income growth and some more spending. High commodity prices and Canterbury earthquake repair work are obvious catalysts for more general activity through 2011, even though the latter has disrupted retail activity in the interim.

High commodity prices will affect the retail sector in various ways. On their own higher food and fuel prices boost the dollar value of spending at supermarkets and fuel service stations, but leave less to be spent elsewhere. This negative effect on spending tends to get a lot of attention when food and fuel prices are rising. But it is not the complete picture.

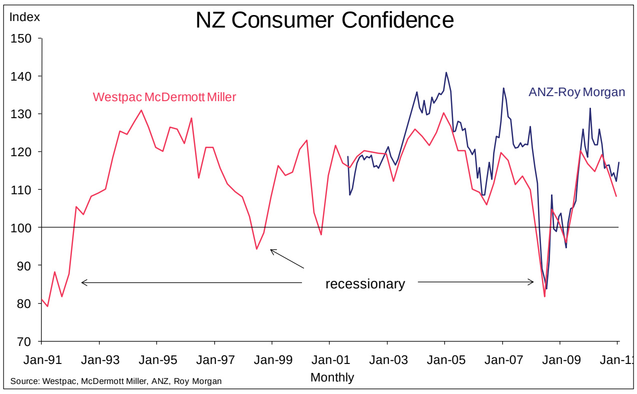
There are gains for the consumer and retailer elsewhere as a result of higher international commodity prices. This is a result of the NZ dollar tending to push higher when prices for our major exports rise on world markets. The higher NZ dollar makes imported goods cheaper, allowing either lower retail prices (and associated more volume growth) or wider retail margins.

Some retail prices have declined over the past year. For example, last week's CPI revealed that through 2010, clothes prices fell by 1.6%, household appliance prices fell 1.4%, telecommunication equipment prices fell 20.9%, audio-visual and computing equipment prices fell 13.3%. Sure, prices for some of these goods normally fall as a result of technological progress. But over the past year they have fallen by more than usual, aided by the strength of the NZ dollar. Lower prices for these goods, leaves more money to be spent elsewhere.

So higher food and fuel prices dampen consumers' purchasing power, while a stronger NZ dollar boosts how far the consumer purse will go. Overall, the effect of higher international commodity prices on NZ retail sales tends to be positive, at least on average and with variable lags.

Another boost to the economy this year will come from the Rugby World Cup. Retailers stand to gain more than most from the large influx of international visitors. Specific events can have a profound impact on spending especially when they are on such a scale, across the country, and for an extended period. On the latter, note that the RWC kicks off 9 September with the final set for 23 October.

More immediately, and regarding the domestic consumer, we were pleased to see consumer confidence rise in early January. Also published late last week, the ANZ-RM consumer confidence index rose to 117.1 in January, from 112.2 in December. While not a huge lift, and partly seasonal, we think it is important. If nothing else, it reduces the concern about the drop in December on



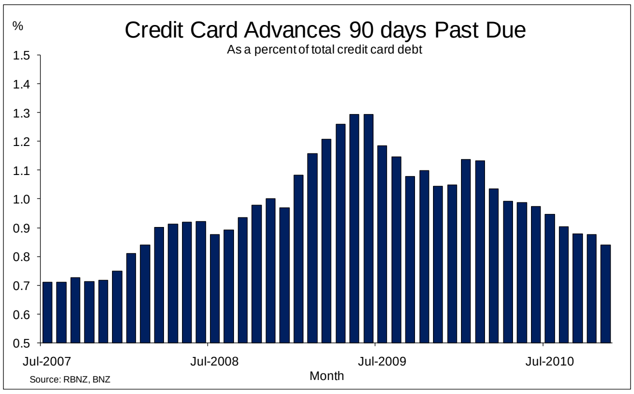
Westpac's quarterly measure that could well be on course to post a bounce in March.

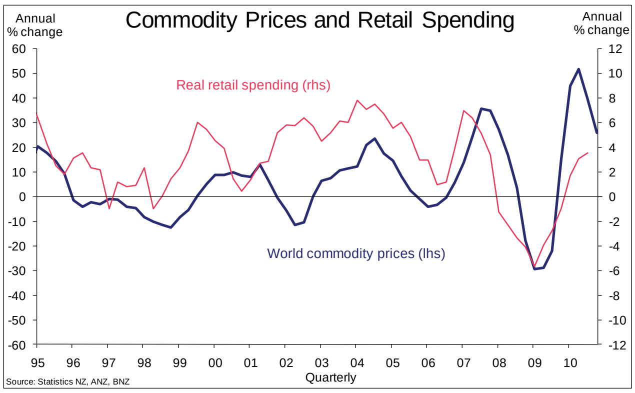
It wasn't just the technicalities that gave us comfort. The relatively good level of the ANZ-RM index for January suggests consumers are in relatively good heart – despite a soft housing market, despite signs of flat spending, despite the recent fuel price spikes, and despite patchy news on the economy in general.

Why the optimism then? Indications that households are now saving a lot more, and getting on top of their debt loads, and so feeling less vulnerable? First-home buyers feeling more able to purchase, with no rush? A labour market that continues to improve, albeit tentatively, amid an unemployment rate that's held in rather well in the wake of the recession? Improved weather, including some rain in the right places? Perhaps even some of the bad-news human-interest stories of late-2010 unwinding into the New Year?

The point is that the current level of consumer confidence is fundamentally encouraging.

Another positive for future spending are the signs of receding consumer financial stress. The QSBO had a hint of this with merchants' overdue debtors indicator improving. Not heaps, but going the right way. This follows a downward trend in overdue credit card advances both in absolute terms and as a share of total credit card debt.





So, while consumers are not aggressively opening their wallets today, they are slowly but surely getting themselves into a better position for the future. This can only be a good thing for longer term and sustainable growth in the economy and in the retail sector.

So there are reasons for positive sales growth ahead. But there are also some strong headwinds. There are still the local negative effects of the Canterbury earthquakes on retailing to get through judging by the latest retail sales figures. These confirm, at least through to November, the negative effect of the quakes on local retailing with Canterbury recording three consecutive monthly sales declines following the first quake.

More generally, and on a national basis, the biggest headwinds for retail sales ahead appear to be the soft property market and associated reduced appetite for debt. These look set to remain a negative influence for a while yet.

Later in the year, if the economy recovers as anticipated and inflationary threats emerge, interest rates are likely to rise. These will also temper spending growth.

No wonder retailers are tentative on raising staff levels. Merchant employment in the QSBO was a tick below long term average. More encouraging, employment intentions are above their long term average, but, as is usually the case, it seems firms will only hire once they see sales rising rather than the other way around.

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