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Business NZ

BNZ CAPITAL-BUSINESS NZ PSI

BNZ Capital-Business NZ 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. BNZ Capital is a division of the Bank of New Zealand

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Service sector has tough start to 2009

BNZ Capital - Business NZ PSI for January 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) experienced its lowest value since the survey began, with the January result (42.7) falling 5.3 points from December. The result was also 9.2 points down from the same month in 2008.

- All five diffusion indices that make up the PSI exhibited contraction during January, while three of these experienced their lowest ever result. *Activity/sales* (37.3) fell significantly from December, while *employment* (43.5) recorded its second lowest value. *New orders/business* (45.2) returned to a similar level recorded in November, and the fourth time in five months it has been under the no change mark of 50. *Stocks/inventories* (45.7) fell for the fifth consecutive month, while *deliveries* (44.2) again recorded contraction after an improvement in December.

- Activity by region was generally negative, with the only exception being the *Central* region (53.9). The *Northern* region (39.3) continued to display lower activity levels with its first sub-40 result. In the South Island, the *Canterbury/Westland* region (48.3) went into contraction for the first time since August 2008. After an encouraging result for December, the *Otago/Southland* region (40.4) returned to levels experienced in the latter half of 2008.

- Results for the various service sectors were mainly negative for January. *Property & business services* (42.8) improved slightly from December, although the continued low result was mostly due to seasonal effects with businesses closed for the holiday period. *Accommodation, cafes & restaurants* (38.7) and *wholesale trade* (39.6) both experienced a sub-40 result, while *retail trade* (45.9) fell back to a decline after a spike for the Christmas/holiday season.

- All firms by employment size experienced contraction during January, with all except medium-large firms (51-100 workers) (44.1) displaying their lowest ever value. Micro firms (1-10 workers) (41.7) was the hardest hit, falling 7.6 points from December. Small-medium firms (11-50 workers) (43.1) experienced its third consecutive decline, while large firms (101+ workers) fell back into contraction after expansion in December.

- The significant fall in overall activity was mirrored by the proportion of negative comments from respondents during January rising to 63.6%, compared with 58.9% in December and 59.2% in November. When comparing activity with the same time last year for positive and negative comments, the gap widened. The fall in activity for those with negative comments (3.9*) was up 0.3 points from December. However, for positive comments there was also a lift to 2.5, compared with 2.4 in December.

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HIGHLIGHTS

- ***Service sector activity fell to its lowest ever result since the survey began in April 2007.***
- ***Activity/sales (37.3) dropped below 40 for the first time, while new orders/business (45.2) also fell.***
- ***Most regions exhibited contraction during January, with the Northern region recording its first value below 40.***
- ***The significant drop in overall activity meant the proportion of negative comments from respondents rose sharply to 63.6%.***

Next BNZ Capital - Business NZ PSI: 16 March 2009

SPONSOR STATEMENT

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

BNZ Capital (www.bnzcapital.co.nz)

*Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

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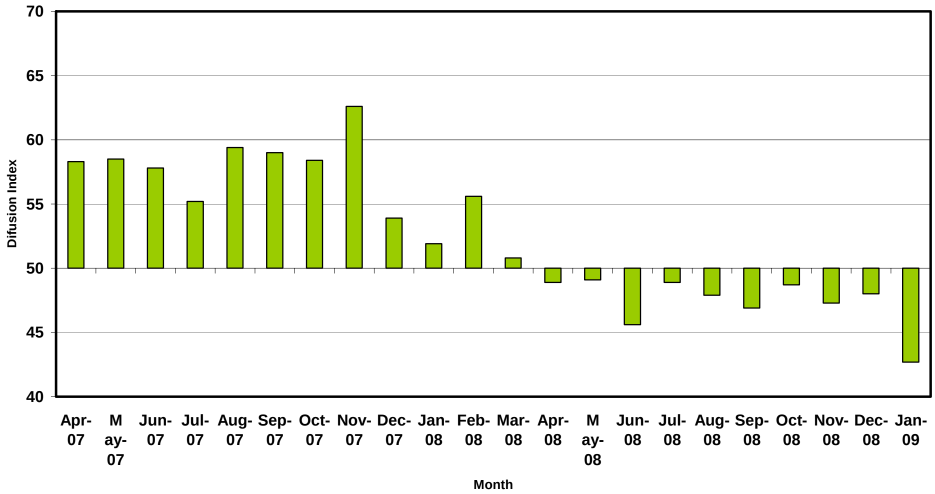
BNZ Capital - Business NZ Performance of Services Index Time Series (April 2007 - January 2009)



PSI time series tables

National Indexes	Jan 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009
BNZ Capital - Business NZ PSI	51.9	46.9	48.7	47.3	48.0	42.7
Activity/Sales	50.2	43.9	46.8	45.7	45.2	37.3
Employment	51.8	45.8	47.1	49.5	46.4	43.5
New Orders/Business	55.6	49.4	50.0	45.9	49.8	45.2
Stocks/Inventories	48.5	53.0	52.0	51.1	49.2	45.7
Supplier Deliveries	51.1	45.6	50.2	46.6	51.4	44.2

Regional Indexes	Jan 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009
BNZ Capital - Business NZ PSI	51.9	46.9	48.7	47.3	48.0	42.7
Northern	52.7	46.5	48.4	44.8	45.6	39.3
Central	51.8	52.7	55.4	50.4	50.8	53.9
Canterbury/Westland	55.6	50.9	52.3	55.3	54.6	48.3
Otago/Southland	40.9	37.0	37.7	47.6	53.8	40.4

PARTICIPANTS

Business NZ gratefully acknowledges the participation of the following associations in contributing to the PSI:

Employers & Manufacturers Association (Northern)

Employers & Manufacturers Association (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 February 2009

Retail and Housing: Now the Best of a Bad Bunch?

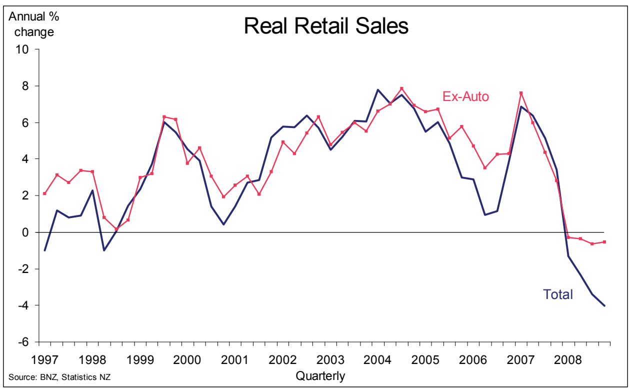
- Dec/Q4 retail sales a bit weaker than expected
- Housing remains soft in January
- Bigger weak spots emerging in rest of economy
- As RBNZ acknowledges ugly global conditions

While there is still understandable focus on New Zealand's long-suffering retail sales and housing markets, we're paying closer attention to other areas, where potentially more worrying weak spots are emerging. We're talking about the business sector, in effect, and especially companies facing global markets that are becoming as ugly as feared by the markets and, now, fully acknowledged by the RBNZ, it would seem.

The international news, especially, should keep downside pressure on NZ rates and the exchange rate, albeit with massive downward adjustments in these having already come to pass.

And that's not to say consumer spending is in any way good. Indeed, last Friday's retail sales statistics confirmed continuing tough times into the close of last year. Despite the 1 October tax cut, tumbling fuel prices, and falling interest rates, real spending declined 0.6% in the December quarter. Sure, the 4.9% fall in cars was a big drag. But even ex-auto spending, inflation-adjusted, was dead flat in Q4.

The nominal monthly retail series also remained on the back foot. They fell 1.0%, in total, and declined 0.6% on an ex-auto basis. By the look of the trends, we still struggle to see any real expansion emerging early this year – even after the moderation in retail spending we saw through the entirety of last year, over which volumes slumped a full 4.0%.



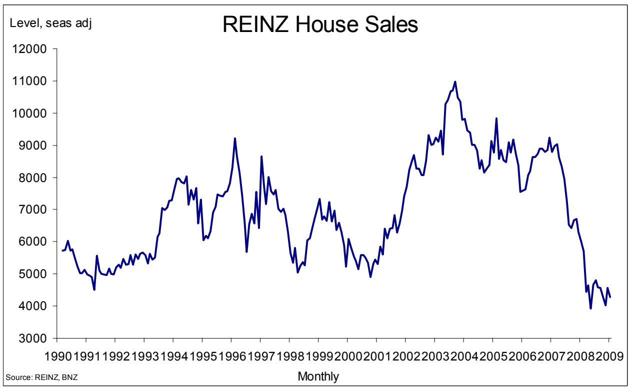
Yes, we have the next round of tax cuts to look forward to, on 1 April. And retail interest rates continue to plunge from mid-2008 peaks. However, the rapidly softening labour market is becoming a bigger, negative, factor for households, with the deepening global recession simply adding to uncertainty and fears.

The same factors are, of course, important for the housing market. While there are many supporting factors coming into play – most notably the falling mortgage rates – the negative factors, especially the jobs market, suggests further slippage in the housing market this year.

In the meantime, a holding pattern, at best, appears to be the way for the NZ housing market. The Real Estate Institute's housing report for January, published Friday morning, backed this up. Sales turnover slipped, to be around 29% lower year-on-year. This implied a seasonally adjusted reversal of December's increase, leaving the sales level about as weak as it's been in modern history.

The REINZ median home sale price figure was also about as weak as we thought. It fell 1.1%, to $325,000, to be 4.6% lower than a year earlier. While that's not too bad (and certainly not, compared to the degrees of decline we've seen in many overseas markets), we believe like-for-like house price falls are effectively greater, and further weakness will ensue for a while yet.

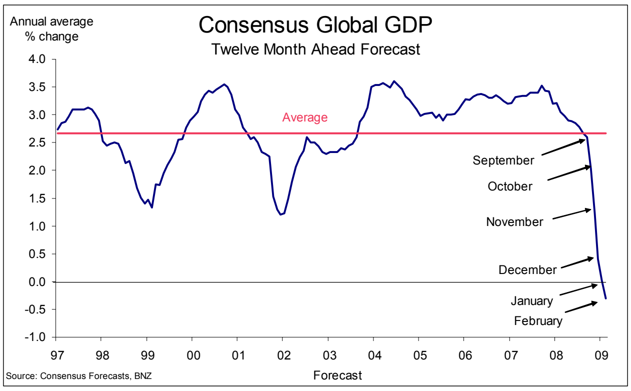
As sombre as these stories are around housing and retail spending, other areas of the economy are now garnering our greater attention. As we've mentioned earlier, this year will mostly be about how the NZ business sector copes with the global recession, following last year's slowdown that was mainly about the household sector



beginning to pull its horns in. Employment and capital expenditure will thus be the big things to watch from here.

All the while, the global news is becoming uglier and uglier. This was formalised in the very latest Consensus economic projections, also published last Friday, which confirmed further big downgrades. The international economy is now expected to outright contract this year. This implied a similar thing for New Zealand's trading-partner GDP, which is now seen shrinking 0.9%, compared to the 0.2% slippage seen in January's Consensus survey.

The financial markets have feared such a slump for a while now, in pricing a major, global, recession. Now more and more folk are waking up to how bad it's getting.



The RBNZ officials now fully appreciate the severity of it, it would seem. On Thursday, we saw comments from RBNZ Deputy Governor, Grant Spencer, about how the global economic recession has surprised people most in its suddenness and severity, and how the adjustments needed to be worked through will take some time.

Then, early Friday morning, Governor Alan Bollard gave an on-the-record briefing to the press about what he and Treasury Secretary, John Whitehead, had heard, first hand, from their recent tiki tour around the world.

While we don't know the details of what was discussed, a story from Dow Jones mentioned that Bollard said "global economic conditions appear to have worsened considerably, adding the domestic economy is faced with difficult times". In Bollard's own words, "No one is immune from this (crisis)…and there's no talk of de-coupling from all of this".

While this is hardly any news to us and most market participants, it certainly helps to get the message across to the broader community. While others might want to sick their head in the sand in regard to the global implosion we incline ourselves to the attitude that forewarned is forearmed.

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