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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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# Weak demand continues in service sector

## BNZ Capital - Business NZ PSI for February 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for February rose 3.6 points from January to stand at 46.3. Despite the improvement in the overall result, the value for the current month was still the third lowest since the survey began, and 9.3 points down from the same month in 2008.

- All five diffusion indices that make up the PSI continued to exhibit contraction during February, although all experienced some level of improvement from January. *Activity/sales* (42.9) rose above the 40 point mark, while *employment* (44.9) rose 1.4 points. *New orders/business* (49.8) returned to the same value as December, while *stocks/inventories* (48.3) showed a similar uplift. *Deliveries* (47.2) rose 3 points, although still showing contraction. In comparison with February 2008, almost all sub-indices were considerably lower.

- For the first time, activity by region was negative throughout the whole country, as the *Central* region (46.9) experienced a sub-50 result for only the second time. In contrast, the *Northern* region (45.3) improved from its sub-40 result in January to return to activity levels seen in December. In the South Island, the *Canterbury/Westland* region (48.9) was relatively unchanged from January, while the *Otago/Southland* region (48.0) improved from a significant drop in activity in January.

- Results for the various service sectors were almost all negative for February. *Retail trade* (40.7) continued to fall back in activity after the Christmas/holiday season, whilst also recording the lowest value for the month. *Property & business services* (43.8) continued to show some improvement, although still at low levels. In contrast, *health & community services* (55.2) continued to show expansion, despite a slight drop in activity from the previous month.

- All firms by employment size continued to experience contraction during February. Both micro firms (1-10 workers) (46.2) and large firms (101+ workers) (48.5) showed stronger pick up in activity for February, while small-medium firms (11-50 workers) (45.9) and medium-large firms (51-100 workers) (45.3) produced more measured improvements.

- The improvement in overall activity levels was mirrored by the proportion of negative comments from respondents during February falling to 57.8%, compared with 63.6% in January and 58.9% in December. However, when comparing activity with the same time last year for positive and negative comments, the gap closed. The fall in activity for those with negative comments (3.9*) was the same as January. For positive comments, there was also a lift to 2.6, compared with 2.5 in January.

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**HIGHLIGHTS**

- ***Service sector activity rose from January, but still the third lowest result.***
- ***Activity/sales (42.9) improved slightly, while employment (44.9) remained in contraction for the 12th consecutive month.***
- ***For the first time all regions exhibited contraction during February.***
- ***Retail trade (40.7) continued to slip, recording its worst result.***

***Next BNZ Capital - Business NZ PSI: 20 April 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.*

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

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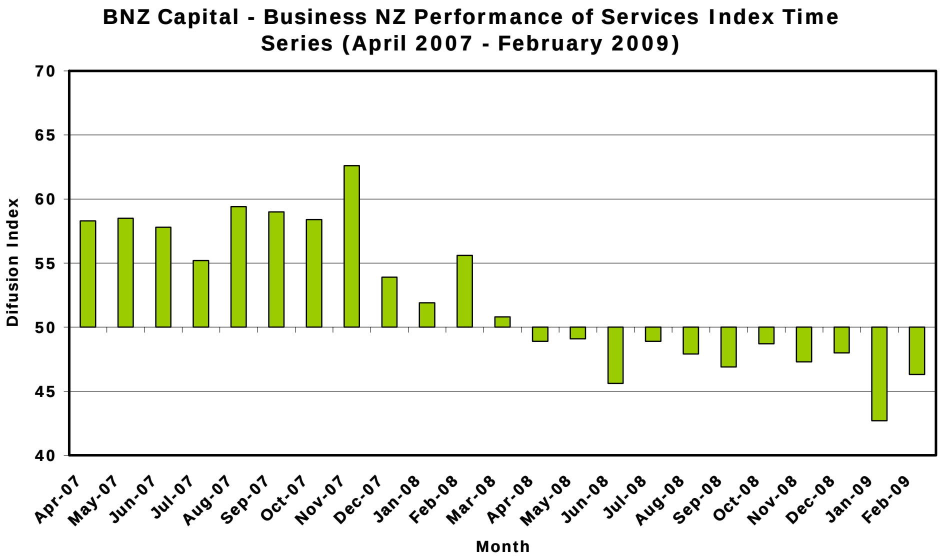



## PSI time series tables

| National Indexes | Feb 2008 | Oct 2008 | Nov 2008 | Dec 2008 | Jan 2009 | Feb 2009 |
|---|---|---|---|---|---|---|
| BNZ Capital - Business NZ PSI | 55.6 | 48.7 | 47.3 | 48.0 | 42.7 | 46.3 |
| Activity/Sales | 56.2 | 46.8 | 45.7 | 45.2 | 37.3 | 42.9 |
| Employment | 52.1 | 47.1 | 49.5 | 46.4 | 43.5 | 44.9 |
| New Orders/Business | 61.4 | 50.0 | 45.9 | 49.8 | 45.2 | 49.8 |
| Stocks/Inventories | 51.3 | 52.0 | 51.1 | 49.2 | 45.7 | 48.3 |
| Supplier Deliveries | 53.5 | 50.2 | 46.6 | 51.4 | 44.2 | 47.2 |

| Regional Indexes | Feb 2008 | Oct 2008 | Nov 2008 | Dec 2008 | Jan 2009 | Feb 2009 |
|---|---|---|---|---|---|---|
| BNZ Capital - Business NZ PSI | 55.6 | 48.7 | 47.3 | 48.0 | 42.7 | 46.3 |
| Northern | 52.8 | 48.4 | 44.8 | 45.6 | 39.3 | 45.3 |
| Central | 55.6 | 55.4 | 50.4 | 50.8 | 53.9 | 46.9 |
| Canterbury/Westland | 60.2 | 52.3 | 55.3 | 54.6 | 48.3 | 48.9 |
| Otago/Southland | 61.1 | 37.7 | 47.6 | 53.8 | 40.4 | 48.0 |

***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 March 2009

# Negative Undertones from Retail Services

- Service-based retail sales nominally OK
- But mainly reflecting lingering inflation
- Service sector retail volumes slipping
- Further exposed to discretion-spend, tourism

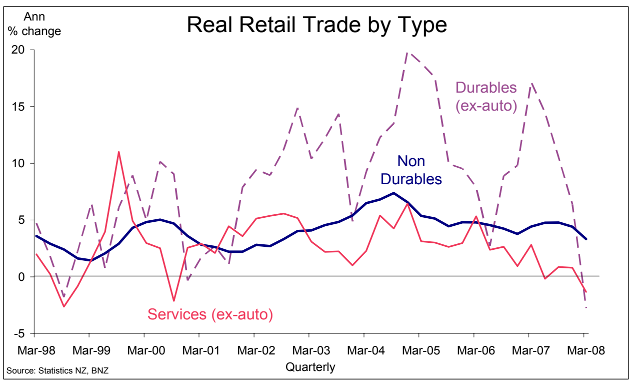
Just as it's important to understand the season-related bounce to February's Performance of Services Index, so it is to note the detail of the recent retail sales statistics.

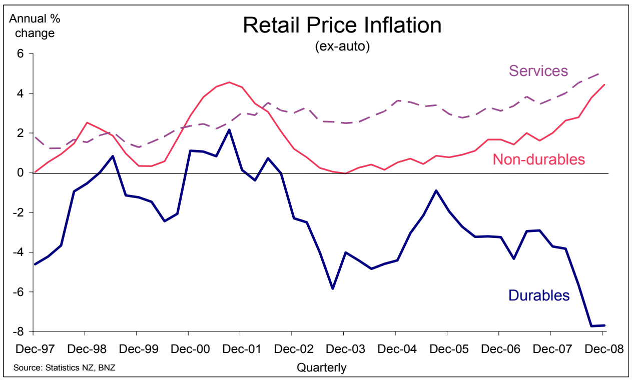
Last Friday's retail numbers for January, for example, fell 1.1%. But this principally reflected a corrective 11% slump in vehicle purchases, in line with the plunge we've seen in car registrations. And spending on fuel decreased, even though petrol prices were rising through the month.

Excluding the volatile auto components of cars, fuel, and motor vehicle servicing and repairs, retail sales rose 0.3% in January.

We can go further, and can dig out from the ex-auto figures the performance of the service-based stores within it. By these we mean such things as accommodation, bars, restaurants, general hiring and repairs. These have given the impression of holding up relatively well, especially in relation to calamitous falls in many other areas of the retail sector. However, the reality is not nearly so cheery.

Granted, the value of spending in service-type stores was steady in the September quarter of last year, and held together in Q4. Overall retail sales, in comparison, fell 0.4% and 1.1% over these respective periods. Nominal growth in the retail services sectors over calendar 2008 held up at 1.6%. Not strong by any means, but hardly recessionary, it would seem.

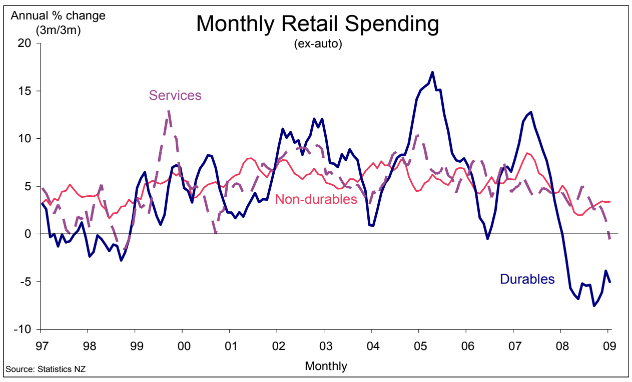



Yet most of this "growth" was, in fact, driven by ongoing inflation in service-based retail prices. These increased 1.1% in the final quarter of 2008, setting the annual pace at 5.1%. Blame it on wages, rents, or the lower exchange rate, but this inflation implied that the volume of turnover shrank 3.3% over 2008, based on contractions of 1.2%, 1.1% and 1.0% in Q2, Q3 and Q4 respectively.

Moreover, January's retail sales showed a further deceleration in the (ex-auto) service-based components, in value terms. In the three months to January, such stores registered a 0.6% decline in sales compared to this corresponding period last year. Three months earlier, the annual result was seemingly sitting pretty, at +3.3%.

This most recent slowdown, in turn, seems mainly in the aforementioned hospitality areas. Such industries, of course, depend on discretionary spending. They are also sensitive to tourism. Both factors suggest the services-based retail sector will remain under pressure for the near term – something that will presumably keep the undertones in the upcoming Performance of Services Indices as weak as they are already.

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