

BNZ-BUSINESS NZ PSI

BNZ-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.

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Service sector expansion softens, but employment picks up

BNZ - Business NZ PSI for April 2010

- The seasonally adjusted BNZ - Business NZ Performance of Service Index (PSI) for April stood at 54.1, down 2.6 points from March but the sixth consecutive month in expansion. The April 2010 result was also the highest April figure recorded since 2007.
- All five sub-indices were in expansion mode for the second consecutive month, with *activities/sales* (53.3) experiencing lower levels of expansion compared with March. *New orders/business* (57.1) also fell, although still at healthy levels. *Employment* (54.3) continued on its road to recovery with its highest result since June 2007. *Supplier deliveries* (50.2) again experienced little change compared with previous months, while *stocks/inventories* (52.2) increased to its highest level since November 2007.
- Unadjusted activity was positive in two of the four main regions during April, with the *Central* region (56.4) again leading the way, albeit lower than in March. The *Northern* region (50.8) displayed slight expansion, but fell 6.9 points from the previous month. Both South Island regions went from expansion to contraction in April, with the *Canterbury/Westland* (47.4) and *Otago/Southland* (48.6) regions experiencing a broadly similar result.
- Results for the various service sectors were a mixture of expansion and decline in April. *Property & business services* (58.3) continued to display strong growth, with *cultural, recreational & personal services* (58.3) at the same level of activity. *Wholesale trade* (54.8) also showed expansion, while *retail trade* (46.3) and *accommodation, cafes & restaurants* (41.4) were both in decline.
- Two of the four firms by employment size again showed expansion during April, with medium-large sized firms (51-100) (58.6) leading the way in terms of expansion. Small-medium sized firms (11-50 workers) (51.9) also showed expansion, albeit lower than for March. Micro sized firms (1-10 workers) (49.3) fell into slight contraction for the current month; while large sized firms (101+ workers) (43.8) recorded its lowest contraction level since March 2009.
- The dip in the level of expansion during April also meant the proportion of positive comments from respondents decreased to 53.2% in April, compared with 62.9% in March, 57.0% in February, 51.5% in January and 56.0% in December.

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HIGHLIGHTS

- **Service sector activity continues to expand, although not as high as the previous month.**
- **All sub-indices were again in expansion, with employment highest since 2007.**
- **Regional activity showed mix of expansion and contraction.**

**Next BNZ - Business NZ PSI:
14 June 2010**

SPONSOR STATEMENT

BNZ 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.

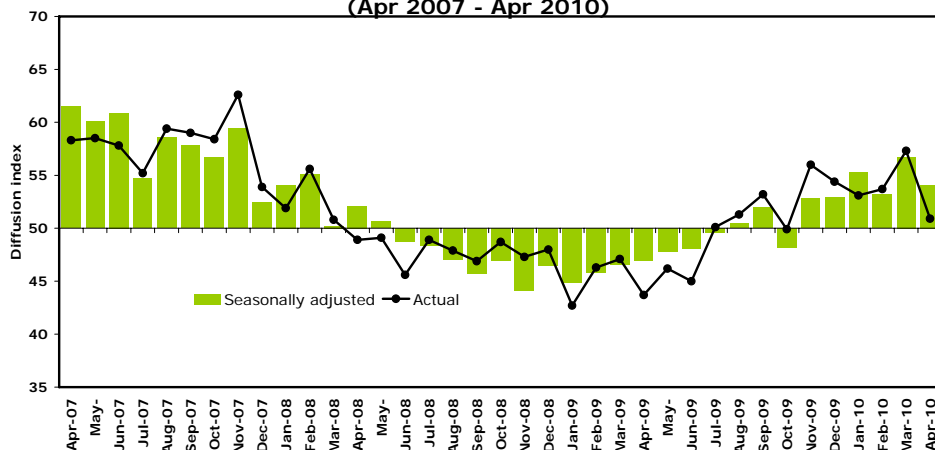
BNZ (www.research.bnz.co.nz)

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BNZ - Business NZ Performance of Services Index Time Series (Apr 2007 - Apr 2010)



PSI time series tables

National Indexes	Apr 2007	Apr 2008	Apr 2009	Feb 2010	Mar 2010	Apr 2010
BNZ - Business NZ PSI (s.a)	61.5	52.1	46.9	53.2	56.7	54.1
Activity/Sales (s.a)	64.0	52.4	45.0	55.1	58.7	53.3
Employment (s.a)	54.1	47.8	45.6	50.5	52.6	54.3
New Orders/Business (s.a)	70.8	57.8	50.1	58.2	60.5	57.1
Stocks/Inventories (s.a)	55.6	50.0	45.7	48.8	51.0	52.2
Supplier Deliveries (s.a)	57.5	50.0	47.1	49.9	50.8	50.2

Regional Indexes	Apr 2007	Apr 2008	Apr 2009	Feb 2010	Mar 2010	Apr 2010
BNZ - Business NZ PSI (s.a)	61.5	52.1	46.9	53.2	56.7	54.1
Northern	57.8	49.8	42.8	54.7	57.7	50.8
Central	62.5	53.8	48.8	51.1	64.9	56.4
Canterbury/Westland	56.0	48.1	43.1	46.8	54.4	47.4
Otago/Southland	59.2	42.8	44.8	55.7	52.5	48.6

(s.a denotes seasonally adjusted)

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

17 May 2010

Mixed Emotions

- Service sector buoyant but retailers subdued
- As households remain conservative
- Recent hopes may be overdoing reality
- With stocks and employment outpacing orders, deliveries
- Nonetheless, our cautious optimism remains

The service sector is a grouping of many and varied businesses often with extremely differing performance characteristics. It comes as no surprise to us then that the responses to this month's survey are extremely varied, particularly given that, at this stage in the expansion, there will be businesses well along the recovery path while tail-end Charlies may be barely off the bottom.

From our perspective, the New Zealand economy is now almost 15 months into its recovery phase. This is an important point to note. The recession was now a very long time ago. That's not to say all is rosy as the expansion so far has only just filled in the hole created by the downturn. Moreover, there are widely varying sectoral responses.

Those doing best at the moment include three of New Zealand's key export industries: dairy, logging and tourism. The gains achieved by these industries will be felt more widely in time but much of the current gain in revenue from these sources is price, not volume related. In the case of the core services sector this means many industry groups will see little immediate benefit. Indicative of this, the transport and storage component of the services sector remains one of the most subdued.

Equally subdued is the retail sector. In light of last week's retail sales report, which showed that real retail sales are still wallowing at the same level as they were almost four years ago, that's not surprising. And while there are strong signs that real disposable income growth

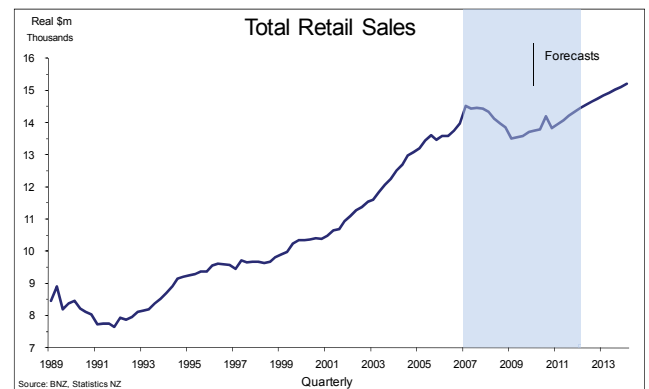
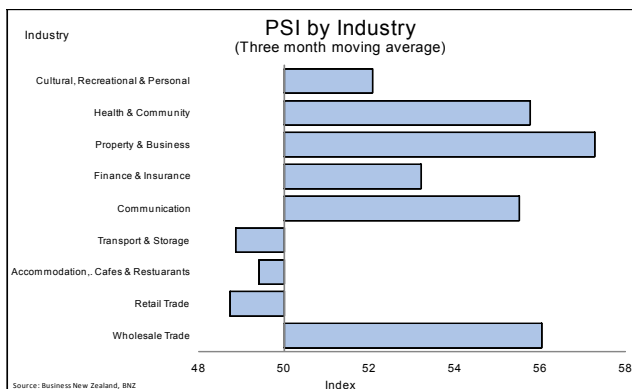
is on the improve, there is equally strong evidence that householders are rebuilding their balance sheets according to recently released Reserve Bank data. As part of that process, the flagging property market has meant that the once popular habit of equity withdrawal is no longer. That's why consumer credit growth is so poor. In addition, the combination of Easter and the school holidays seems to have suppressed sales as will have warmer and drier-than-normal weather.

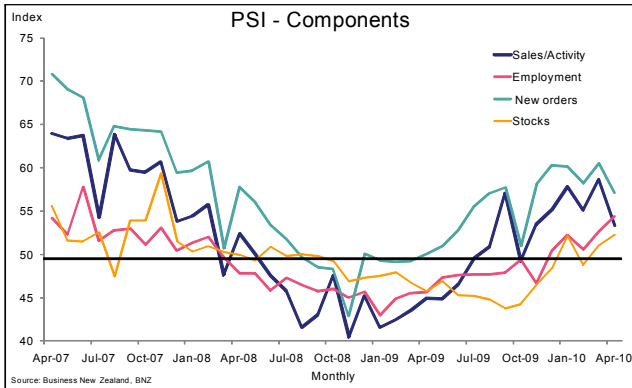
In contrast, folk involved in wholesale trade are particularly buoyant. They are involved directly in improving export activity, including that of New Zealand's manufacturing sector which reported very robust survey results in last week's PMI. In addition, wholesalers get the benefit of what has been a very strong inventory cycle in the economy as businesses of all ilk's reposition themselves for an expected improvement.

With ongoing growth in communication services it is not surprising that this sector remains optimistic and health and community services continue to "benefit" from the growing demand for their outputs.

What may seem surprising is the strength in the finance & insurance and property & business sectors but there may be good reason for this. The insurance sector often benefits in times of great uncertainty as people become more risk averse. Similarly, increased savings should be benefiting the broader superannuation sector and banks are breathing a sigh of relief that the world, notwithstanding the risks surrounding Greece, continues to improve.

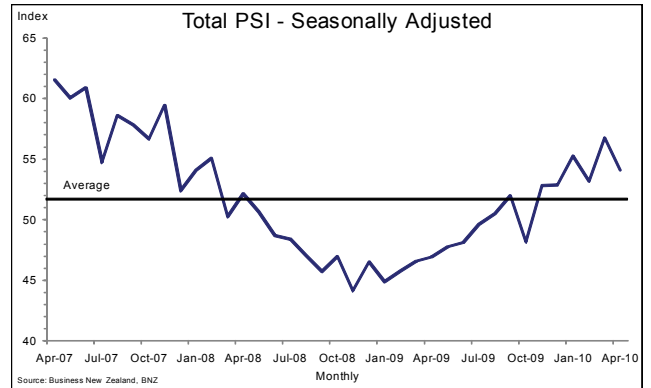
Property & business services will also be benefiting from increased volatility in their advisory capacity but given the ongoing weakness in property sales it is unlikely that real estate agents will be dancing in the streets.





Nonetheless, the number of real estate agents has shrunk markedly from its peaks so at least the survivors will be benefiting from market share gains.

Overall, the services sector remains net optimistic with its seasonally adjusted reading of 54.1 remaining well above the series average of 51.8. (Yes, the PSI is now being expressed in seasonally adjusted form.) Indeed, this is the sixth consecutive month when this has been so. Nonetheless, there are a few warning signs in the latest survey.



To start with, it represented a modest pull back from the 56.7 reported last month. But, perhaps more bothering was the fact that activity, new orders and supplier deliveries fell at the same time that stocks and employment rose. At face value this would tend to suggest that business hopes may have got a tad ahead of reality.

Be that as it may, on balance, we believe that this survey's outcome is yet another piece of economic evidence that has us feeling guardedly optimistic about the way ahead.

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