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BusinessNZ

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

Devil in the detail for service sector expansion

BNZ - BusinessNZ PSI for April 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for April stood at 52.6, which was 1.5 points higher than March, and the highest level of activity since September 2010.

- At first glance, activity by region shows some startling changes, but the context of these changes needs to be fully understood. The *Canterbury/Westland* region led the way with the highest activity result for April at 57.5, compared with 39.5 in March. However, this was mainly due to a combination of these businesses picking up additional customers because of reduced supply, as well as the relocation of many businesses into other areas. The *Otago/Southland* region (46.3) returned to its January result, while both the *Northern* (49.3) and *Central* (50.4) regions hovering around the no change mark.

- All five sub-indices were in expansion during April, which last occurred in September 2010. *New orders/business* (53.8) led the way, followed by *employment* (53.0). *Stocks/inventories* (52.7) recorded its highest value since August 2008.

- The various service sectors were again a mix of expansion and decline in April. *Property & business services* (55.1), and *health & community services* (51.5) showed positive growth, while *retail trade* (46.9) slipped slightly from March and *wholesale trade* (47.4) went into contraction for the first time since January.

Inside BNZ Commentary this Month (page 4)

In this edition BNZ Senior Economist, Craig Ebert, has a look into New Zealand's in-bound tourism sector. While it has struggled since 2003/04, and has been especially hard hit by the Christchurch and Japan disasters, signs of stability, even rebound, have emerged in April. The next test is the winter (ski) season, followed by the Rugby World Cup in the Spring, although the big test for the industry will be the path of the global economy over the coming years.

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HIGHLIGHTS - PSI

- ***Service sector activity for April showed increased activity, but devil in the detail.***
- ***Regional activity showed Canterbury/Westland leading activity, but due to fall out from earthquake, rather than standard growth***
- ***All major sub indices in expansion for April.***

HIGHLIGHTS – PERFORMANCE OF COMPOSITE INDEX (PCI)

- ***Both options for measuring PCI show increased activity.***
- ***Global PCI slowed sharply in April, due to easing in both manufacturing and service sectors.***

Next BNZ - BusinessNZ PSI/PCI: 20 June 2011

SPONSOR STATEMENT

BNZ is delighted to be associated with both 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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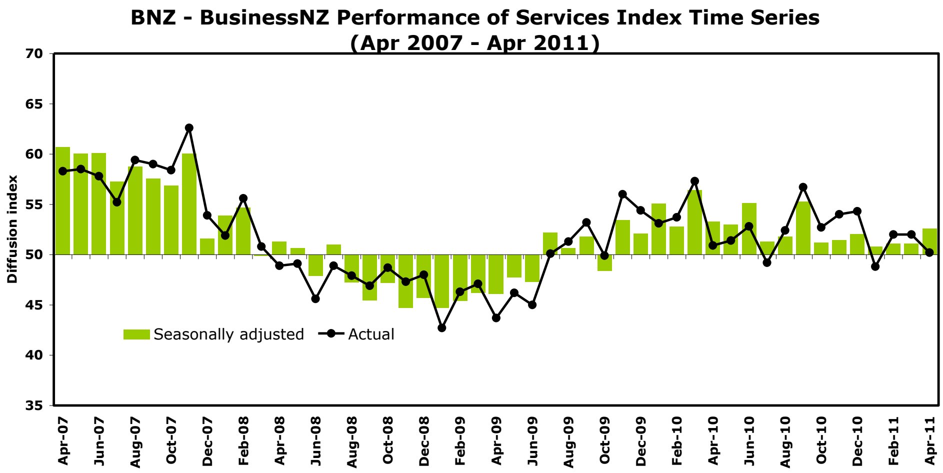

PSI time series tables

National Indexes	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Mar 2011	Apr 2011
BNZ - BusinessNZ PSI (s.a)	60.7	51.3	46.1	53.3	51.1	52.6
Activity/Sales (s.a)	64.0	52.4	45.0	53.3	52.3	52.9
Employment (s.a)	53.3	47.0	44.8	53.5	50.6	53.0
New Orders/Business (s.a)	70.4	57.4	49.7	56.7	53.3	53.8
Stocks/Inventories (s.a)	54.0	48.4	44.1	50.7	48.9	52.7
Supplier Deliveries (s.a)	57.2	49.7	46.8	49.9	43.7	50.4

Regional Indexes	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Mar 2011	Apr 2011
BNZ - BusinessNZ PSI (s.a)	60.7	51.3	46.1	53.3	51.1	52.6
Northern	57.8	49.8	42.8	50.8	54.6	49.3
Central	62.5	53.8	48.8	56.4	57.5	50.4
Canterbury/Westland	56.0	48.1	43.1	47.4	39.5	57.5
Otago/Southland	59.2	42.8	44.8	48.6	39.5	46.3

(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

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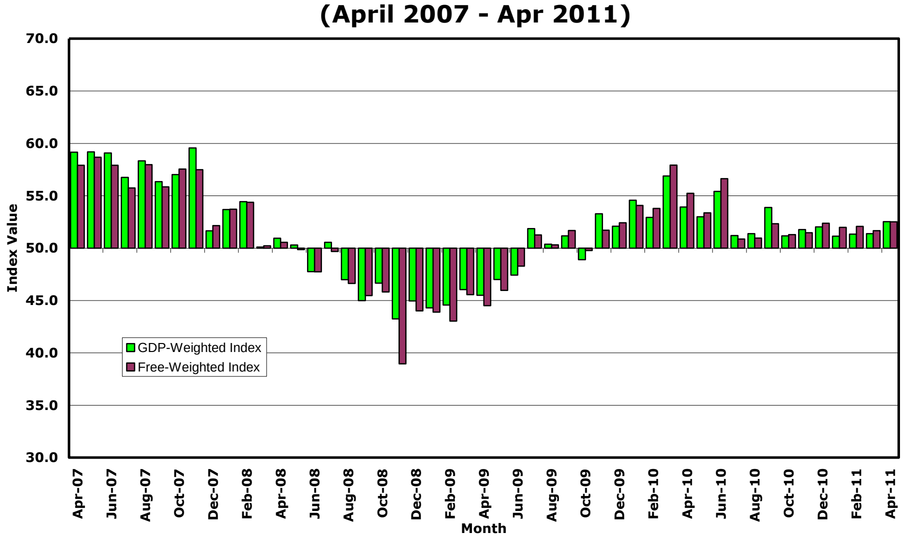
Composite index expansion picks up in April

BNZ - BusinessNZ Performance of Composite Index (PCI) for April 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for April shows both options for measuring the PCI improving on the March result, with the highest values for some months.
- All sub-indices for both indicators were in expansion during April, which occurred for the first time since June 2010.
- Compared with previous results in April, both the GDP-Weighted and Free-Weighted Indexes were both middle of the pack.
- The JPMorgan Global Combined Index slowed sharply in April to stand at 51.8, well below February's near five-year peak of 59.1. This was due to easing in both the manufacturing and service sectors, with the slowdown in services particularly marked.

BNZ - BusinessNZ PCI Seasonally Adjusted Time Series (April 2007 - Apr 2011)



Performance of Composite Index time series tables

Combined National Indexes	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Mar 2011	Apr 2011
GDP-Weighted Index (s.a)	59.2	50.9	45.5	53.9	51.4	52.5
Free-Weighted Index (s.a)	57.9	50.5	44.5	55.2	51.7	52.5

About the Performance of Composite Index

The BNZ - BusinessNZ Performance of Composite Index (PCI) takes into account results from both the Performance of Manufacturing Index (PMI) and the Performance of Services Index (PSI).

Combined results are shown in two ways:

GDP-Weighted Index: Apportions the weight of the manufacturing and services index within the economy to produce an overall result.

Free-Weighted Index: Combines data from both indexes to produce an overall result.

Both time series for the PCI are then seasonally adjusted.

16 May 2011

Tourism Far From All Bad, Looking to Fillips

- Inbound tourism markets have struggled for years
- And hard hit by recent natural disasters
- But evidence of stability/recovery through April
- As the late Easter masked underlying robustness
- On way to Rugby World Cup boost, and beyond

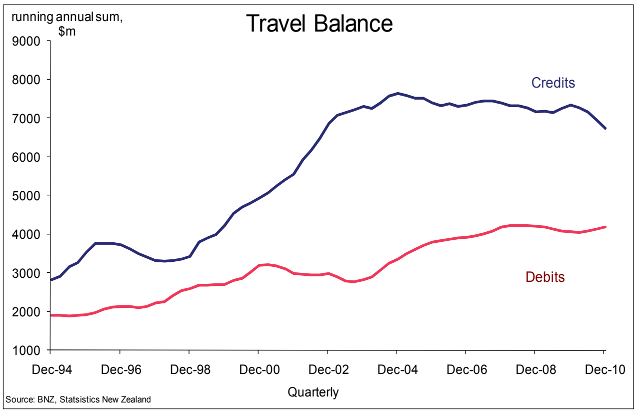
In many ways New Zealand's in-bound tourism market has reflected the path of the broader economy. It has struggled to even stand still over recent years, as per person spending has fallen. Tourist arrivals have also obviously been hit hard by the recent natural disasters. However, evidence of resilience is already beginning to emerge in April's statistics. Later in the year there is, of course, the Rugby World Cup to boost tourist arrivals and expenditure. Beyond that, the performance of New Zealand's international tourism market will largely depend on the state of the global economy, which could break either way.

That foreign tourist spending in New Zealand has struggled for a number of years can be seen from a number of angles and statistics. For example, the value of travel services exports, from the Balance of Payments, was $6.7b in calendar 2010. This represented an 8% drop from the year before and a 12% fall from the high-water mark of $7.6b back in 2004.

Consider a bit of price inflation over the period and real spending by foreign tourists would be that much laxer. While we know of no "real" measures of such these days, we do know that the volume of total services exports in the GDP accounts, of which tourism is a large chunk, subsided 15% over the six years to 2010.

The drivers of the decline, while not easily disentangled, seem obvious individually. One is the growing importance of shorter-staying, thus lower-spending, Australians, which now comprise about 45% of total arrivals, compared to about 35% back in 2004. The longer-staying and/or higher-spending Americans, Japanese and Europeans have fallen in proportion of total arrivals.

The other factor in suppressed tourist spending in New Zealand is no doubt the exchange rate. Indeed, it's a reminder that the previous peaks in tourist spending were underpinned by the relative weakness in New Zealand's (trade-weighted) exchange rate over the period 1997 to 2002. It was a purple patch for the industry, with not only a low currency but rapidly expanding trading-partner GDP growth, post the Asian Crisis.



That all started to reverse out from about 2003. Yes, there was a window of currency weakness in 2008/09, but that was during the heart of the Global Financial Crisis. Generally speaking, the NZ dollar has been on the strong side of average ever since 2004, with its most recent strength coinciding with booming commodity export prices. That's cold comfort for the tourism industry, however.

The other factor we'd throw in the mix, to help explain the relative softness of tourist expenditure, is simply the general state of the world economy. Sure, there has been a decent bounce-back in global growth, and strongly so in emerging-market economies. However, much of the Western world is still struggling to regain its footing and there remains a broader caution about the world's medium-term prognosis. This all tends to dampen tourism activity in the first instance and, for those who do still travel, tightens their budgets. Travel is, after all, a very discretionary affair, and will thus depend on a full repair in consumer confidence.

Over very recent months there have been further, severe, impacts on short-term visitor arrivals to New Zealand from natural disasters. As well as the 22 February earthquake in Christchurch there has been the 11 March Tohoku earthquake off the coast of Japan and the devastating tsunami and nuclear disaster it triggered.

It was not unsurprising, therefore, to see tourist arrivals, from all manner of countries, begin to tank from late February. While this trimmed the full February arrivals numbers only a tad, the fall in March, from a year earlier, was a thumping 11%. Moreover, this reflected a week to week trend that had short-term visitor arrivals down 35% in the week ended 3 April. It looked as though the bottom was falling out of the tourism market, a la the Asia Crisis of 1997/98.

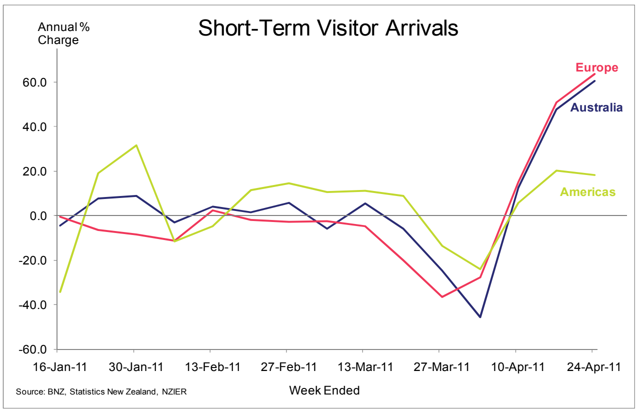
However, a semblance of normality has already returned, at least in the overall numbers. One of the "issues" with the early-April plunges was that they were being overstated by delayed holiday-making this year on account of the later than normal Easter. Fast forward to the latter part of April – when Easter actually occurred – and one can see the significant catch-up in tourist arrivals, in the very countries that tend to observe Easter with holidays.

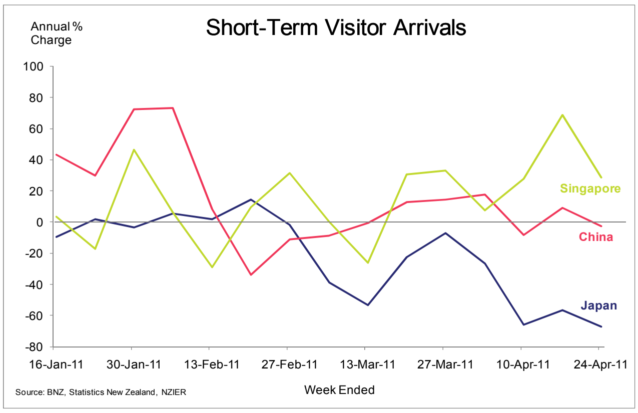
For instance, short-term visitor arrivals from Australia, while down 46% on a year ago for the week ended 3 April 2011, were up 61% y/y in the week ended 26 April. From Europe as a whole, we've gone from -28% to +63%. From the Americas, the turnaround has been from -24% to +18%. Talk about an Easter resurrection. Of course, these results don't mean that things are booming. But they do suggest that the earlier witnessed plunges far over-stated the case, and that these markets are at least holding their own.

That's not to deny underlying weakness in arrivals from Japan. These began falling immediately after the Christchurch earthquake (-53% y/y in the week ended 13 March, for example) and have stayed very weak right through to late April. Yes, this is the shoulder season. Still, numbers in the four weeks to 26 April, at 2,064, were less than half of what they where a year ago. How much of this reflects Japan's disasters is difficult to fully know, however, especially as we've seen similar sized falls – in percentages and numbers – in the South Korean source market (like Japan, a market extremely sensitive to bad news).

Arrivals from most every part of Asia have been far less impacted. For example, from China there was a dip just after the Christchurch earthquake, but then positive year-on-year comparisons emerged by early April and have most recently been about sideways. In the four weeks to 26 April Chinese short-term visitor arrivals amounted to almost 10,000 – a reminder of the way this up and coming market had, even before the natural disasters, overtaken the importance of the traditional Japanese and South Korean markets in respect to tourism.

And some Asian markets just kept on keeping on. For example, growth in tourist visitations from Singapore





remained comfortably positive right through the January to March period. In April it surged well into the double-digits.

From all source countries, short-term visitor arrivals have gone from being down 34% y/y in the week ended 3 April to being up 39% y/y by the week ended 26 April. This suggests a good chance of seeing a comfortably positive result for the month of April as a whole, compared to the corresponding month of 2010. These data are due for publication this Friday, 20 March. They should at least go some way to settling some nerves around the plunge reported for March.

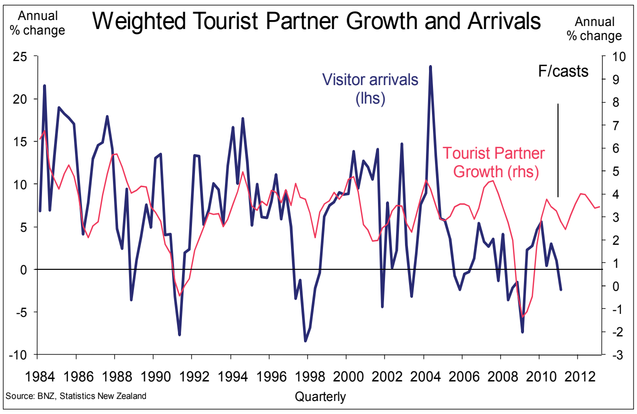
Before we get to the Rugby World Cup later this year there is the winter ski season to contemplate. This is especially important in respect to Australian visitors, which make up an even greater proportion of arrivals through this time of year. Things look to have gotten off |to a good start, with the early cold snap in April that has dusted the mountains. Yes, Christchurch has been severely damaged by the earthquake - but not at all in terms of being the gateway to the South Island, where the vast majority of New Zealand's ski fields are located. In addition, there is the increased scope these days for tourists to fly directly into Queenstown, even Dunedin, in order to access the (lower) South Island fields.

As for the Rugby World Cup – which, for the record, kicks off 9 September and culminates in the final on 23 October – will obviously be a boon to the tourism sector. We just don't know the precise extent of it. In terms of GDP, we're working on the assumption of a net GDP lift of between 0.25 to 0.75% over the second half of 2011. In terms of the suggested 70,000 attendees from abroad, this is about 3% of New Zealand's recent annual totals of 2.5m. Of course, these will be squeezed into just a few months, only to fade out of the equation after that.

When gauging the impact on the macro economy we have taken into account not only foreign arrivals, but also stay-at-home NZ residents and the spin offs through the wider economy, while also the "crowding out" of someeconomic activity that the event will engender. In the end, we don't want to overplay the impact of the

Rugby World Cup on the economy, and certainly not from a sustained-impact point of view, especially in that there are a host of cyclical drivers to the GDP acceleration we envisage (even aside from the rebuilding, post earthquakes).

In thinking about New Zealand's in-bound tourism industry for the medium term, much will depend on where the world goes. And on this much remains uncertain. As a central view, the consensus is forecasting ongoing steady growth in the global economy. However, the potential for it to pick up a head of steam, or slump again – either overall, or in key segments – remains material. So the industry needs to be flexible as much as anything else in its views and planning.



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