Bank of New Zealand

BusinessNZ

BANK OF NEW ZEALAND - BUSINESS NZ PERFORMANCE OF SERVICES INDEX

The Bank of New Zealand - Business NZ Performance of Services Index 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.

psi

Service sector activity falls sharply

Bank of New Zealand - Business NZ PSI for June 2008

- The Bank of New Zealand - Business NZ Performance of Service Index (PSI) experienced a sharp fall in June to stand at 45.6, the lowest result since the survey began in 2007. The latest PSI result was also 12.2 points down from June 2007.

- Four of the five diffusion indices that make up the PSI continued to exhibit decline, while all exhibited their lowest values to date. *Activity/sales* (44.9) displayed its third consecutive level of contraction, while *employment* (41.8) dropped significantly from May. *Supplier deliveries* (42.7) was also in strong decline, however *new orders/business* (51.4) remained in positive territory.

- Activity by region showed almost all areas in contraction mode. The *Otago/Southland* region (36.1) continued to be the worst hit, following two months of falls in activity. Both the *Northern* (43.9) and *Central* (47.9) regions experienced a decrease after the May result of largely no change, while the *Canterbury/Westland* region (51.1) remains the only area where results over recent months have steadily improved.

- The various service sectors were almost all in contraction during June. The only exception was *health & community services* (56.8), which experienced the same result as May, mainly due to strong activity/sales. *Retail trade* (45.7) saw a further drop in activity for the fourth consecutive month, while *wholesale trade* (46.4) reverted to a similar result to April.

- The strong level of decline in overall activity for June saw a significant corresponding lift in the proportion of negative comments from respondents, which rose from 55.1% in May to 65.8% in June. Compared with the same time last year, activity for those with positive comments (2.4*) and negative comments (3.5) for June stayed the same as May.

National Indexes	June 2007	Apr 2008	May 2008	June 2008
Business NZ PSI	**57.8**	**48.9**	**49.1**	**45.6**
Activity/Sales	61.1	48.3	49.0	44.9
Employment	53.8	44.7	46.8	41.8
New Orders/Business	66.1	55.3	54.8	51.4
Stocks/Inventories	47.2	46.9	47.1	46.6
Supplier Deliveries	51.9	47.8	44.8	42.7

Regional Indexes	June 2007	Apr 2008	May 2008	June 2008
Business NZ PSI	**57.8**	**48.9**	**49.1**	**45.6**
Northern	57.2	49.8	50.8	43.9
Central	63.1	53.8	50.5	47.9
Cant//Westland	57.2	48.1	50.6	51.1
Otago/Southland	55.8	42.8	41.6	36.1

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

HIGHLIGHTS

- ***The overall level of activity for the service sector stood at its lowest level recorded – 45.6 for June.***
- ***Activity/sales (44.9) experienced its third consecutive decline.***
- ***All regions except Canterbury/Westland saw a decline in activity.***
- ***The proportion of negative comments rose to 65.8%.***
- ***Next Bank of New Zealand - Business NZ PSI: 18 August 2008***

SPONSOR STATEMENT

Bank of New Zealand Ltd 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.

Bank of New Zealand (www.bnz.co.nz)

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

Fading Job Security

- Employment indicators turning negative
- In services, manufacturing and the rest
- Coming six months the big test for the jobs market
- Unemployment rate bound to rise
- Wage growth will lose its heat

Another month, another weakening in New Zealand's Performance of Services Index (PSI). June's result dipped to just 45.6, from May's 49.1.

While the extent of this contraction might be overstated by seasonal effects (the PSI is not yet a long enough series to make seasonal adjustments viable), it was certainly a substantial loss of momentum compared to the strongly expansionary level of 57.8 we witnessed at the same time last year.

But, arguably, the most obvious slump has occurred in the employment sub-index of the PSI. It fell to 41.8 in June, from 46.8 in May and 53.8 a year ago. This fits with a number of other measures that warn us the jobs market is about to come off the boil much more obviously than has been the case in the official records to date.

As another harbinger, we need only look back to the staffing index from last week's Performance of Manufacturing Index for June. It sagged a great deal too, to 45.6, from May's 48.2. And this was a seasonally adjusted result – so is a more reliable gauge of waning demand for labour from one month to the next.

Both the PMI and PSI data gel with last week's Quarterly Survey of Business Opinion (QSBO), which signalled a more general cooling in the business sector's requirement for extra workers. Indeed, a net 6% of QSBO respondents said they intended to reduce staff. Broadly speaking, this fits with our view that employment growth will fall flat for the foreseeable future, if not go backwards

Yet it is also worth noting that company reports about hiring over the June quarter looked reasonable (if a little slower than earlier quarters). This, and the fact the big drop recorded in Q1 employment looked overstated, suggests the official jobs measure for the June quarter, as will be published in the early-August Household Labour Force Survey, might well register a part recovery.

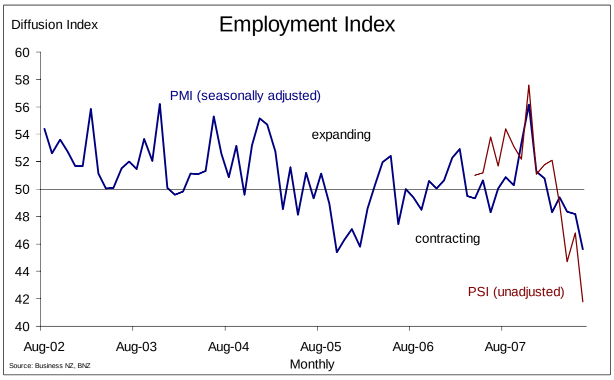
But this will be largely statistical noise. Even with a bit of a technical bounce in Q2 employment, we anticipate the unemployment rate will edge up further – to around 3.8%, from 3.6%.

Sure, that would still represent a very tight market, in the grand scheme of things. However, knowing how staffing adjustments work with a long lag to the economic cycle, the jobless rate looks bound to slacken more obviously over the coming twelve months. Firms have little option but to prune costs in reaction to the declining economic situation and outlook, and falling profitability. Stalling, perhaps falling, employment will, of course, maintain downward pressure on total household income and thus spending.

This process will be exacerbated by the way the softening in employment will also take the steam out of wage inflation. Gone will be the days where many had many alternative jobs they could jump to, which would guarantee a big pay rise jump whether one actually moved or not.

We suspect this will cause the biggest angst among the younger generation, who seem to have taken the recent boom years as the norm as to how labour markets operate. They will thus be in for the rudest shock when they experience, for the first time in their working lives, the down part of the economic cycle.

The fact we haven't had a good old fashioned economic rinse-out since 1998, and the early 1990s before that, doesn't mean the economic cycle ever died a death.



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