

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 PSI and sub-index results are seasonally adjusted.

psi

Wild weather dampens service sector activity for May

BNZ - BusinessNZ PSI for May 2010

- The seasonally adjusted BNZ - Business NZ Performance of Service Index (PSI) for May stood at 53.3, down 0.6 points from April but the seventh consecutive month in expansion. The May 2010 result was also the highest May figure recorded since 2007.
- All five sub-indices were in expansion mode for the third consecutive month - the first time since late 2007. Encouragingly, *activities/sales* (55.0) rose 1.7 points from April, although *new orders/business* (55.7) dipped to its lowest value since October 2009. *Employment* (50.8) slipped 3.6 points from April to be at a similar level to February. *Supplier deliveries* (51.2) returned to a similar level experienced in January, while *stocks/inventories* (50.9) returned exactly to its March result.
- Unadjusted activity was positive in the North Island, but negative in the South Island. The *Central* region (54.9) again led the way, albeit lower than in April. The *Northern* region (52.4) improved 1.6 points from April after a significant fall the previous month. Both South Island regions remained in contraction in May, with the *Canterbury/Westland* region (44.7) slipping further. The *Otago/Southland* (48.3) region was largely unchanged from April.
- Results for the various service sectors showed a variety of results for May. At one end, *property & business services* (59.1) continued to display strong growth, in addition to *retail trade* (57.5) picking up significantly from April. At the other end, *accommodation, cafes & restaurants* (39.4) fell further in decline during May, while *transport & storage* (47.1) recovered somewhat from April.
- Three of the four firms by employment size showed expansion during May, with medium-large sized firms (51-100) (54.6) again leading the way in terms of expansion (albeit at a lower level than April). Small-medium sized firms (11-50 workers) (49.7) dipped to show slight contraction, while micro-sized firms (1-10 workers) (52.4) showed the reverse with an improvement on April's result. Large sized firms (101+ workers) (51.9) improved significantly from the previous month, returning to activity levels experienced in March.
- The further dip in the level of expansion during May also meant the proportion of positive comments from respondents decreased to 50.6%, compared with 53.2% in April. The largest proportion of negative comments was centred on the wet weather conditions experienced throughout the country.

The BNZ - BusinessNZ 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. The main PSI and sub-index results are seasonally adjusted.

HIGHLIGHTS

- **Service sector activity continues to expand, although there was further easing in May.**
- **All sub-indices were again in expansion for the third consecutive month.**
- **Regional activity showed mix of expansion and contraction.**
- **Weather conditions play role in easing of expansion for May.**

**Next BNZ - BusinessNZ PSI:
19 July 2010**

SPONSOR STATEMENT

BNZ is delighted to be associated with 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.

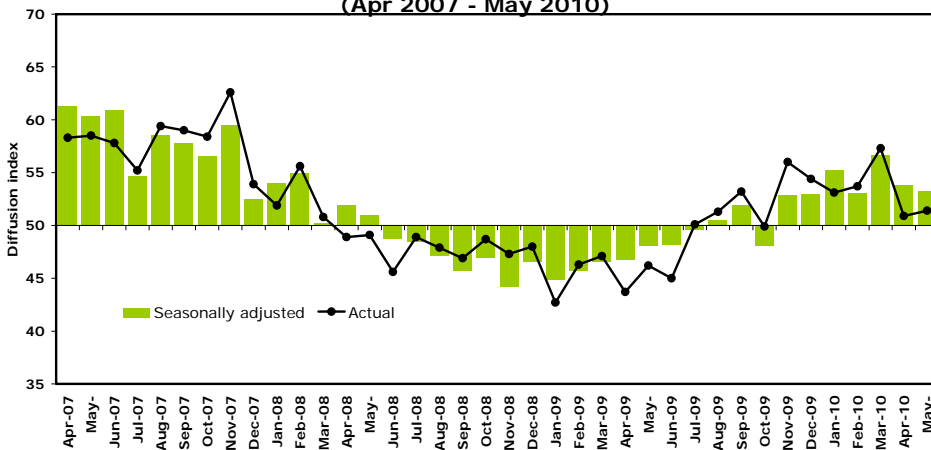
BNZ (www.research.bnz.co.nz)

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 PSI and sub-index results are seasonally adjusted.

psi

BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - May 2010)



PSI time series tables

National Indexes	May 2007	May 2008	May 2009	Mar 2010	Apr 2010	May 2010
BNZ - BusinessNZ PSI (s.a)	60.4	51.0	48.1	56.7	53.9	53.3
Activity/Sales (s.a)	63.5	50.1	45.0	57.6	53.3	55.0
Employment (s.a)	52.7	48.3	47.8	52.3	54.4	50.8
New Orders/Business (s.a)	69.2	56.2	51.1	60.7	57.0	55.7
Stocks/Inventories (s.a)	51.9	49.5	47.1	50.9	52.0	50.9
Supplier Deliveries (s.a)	57.7	47.8	47.7	50.9	50.3	51.2

Regional Indexes	May 2007	May 2008	May 2009	Mar 2010	Apr 2010	May 2010
BNZ - BusinessNZ PSI (s.a)	60.4	51.0	48.1	56.7	53.9	53.3
Northern	57.0	50.8	47.4	57.7	50.8	52.4
Central	65.5	50.5	47.2	64.9	56.4	54.9
Canterbury/Westland	60.3	50.6	43.7	54.4	47.4	44.7
Otago/Southland	57.6	41.6	37.0	52.5	48.6	48.3

(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 & 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

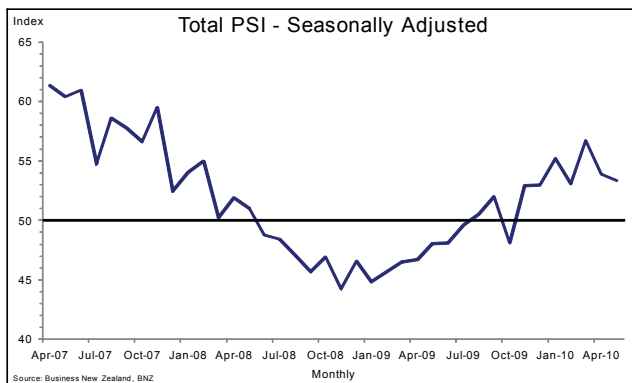
14 June 2010

Service Sector Growth Consolidates

- Service sector growth continues
- But at a slower rate
- Although still enough to raise employment
- Spending caution prevails

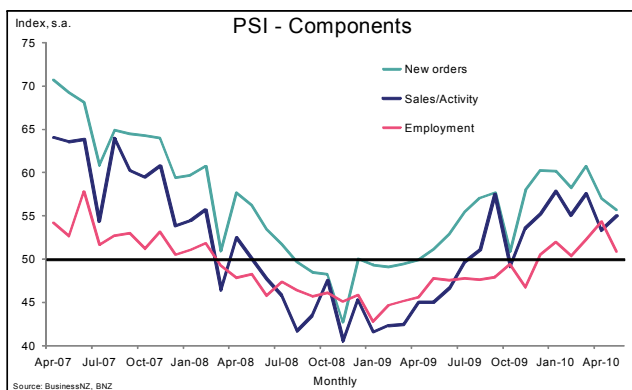
The service sector as a whole continued to push forward in May, but the rate of progress has eased back a touch.

May's Performance of Services Index stood at a seasonally adjusted 53.3, down a smidge from 53.9 in April that itself was down from 56.7 in March. Despite easing over the past two months, the PSI remains above the breakeven 50 mark indicating the sector is expanding.



May is the seventh consecutive month of expansion in the service sector. However, there is an air of growth consolidation going on. This fits with May's result equalling the PSI average over the past seven months.

A growth consolidation theme is also consistent with the mix of results in the detail of May's PSI. The sales and activity index rose this month, but the new orders index dipped a little. Of note is that the levels of these



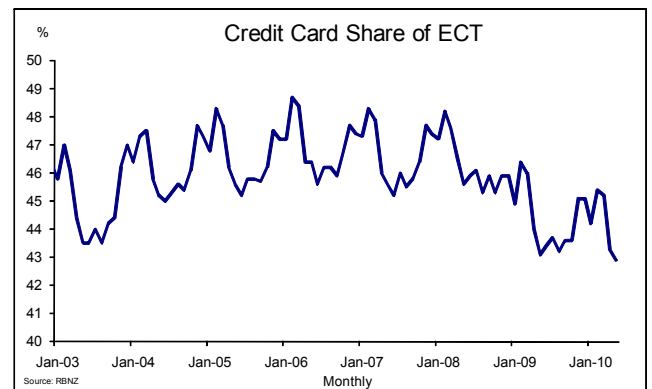
indices are now close to each other, indicative of growth at a sustainable level.

The PSI results tie in with the electronic transactions data that show a similar growth consolidation. Annual growth in the total value of electronic transactions data poked its head above 5% in the first quarter of 2010, but has eased back to 3.4% during the second quarter.

This shape of annual growth is evident for general retailing (durables, apparel, and consumables), hospitality, services, and non-retailing.

Overall, the electronic transactions data gives a clear sense of cautious spending behaviour across the economy. For the service sector and indeed for the economy more broadly, this will constrain growth in the short term. But, it might well be a positive in the longer term by putting what growth there is on a more sustainable footing.

In a further sign of spending caution, it is interestingly to note the credit card share of electronic transactions. Of the almost \$5 billion worth of electronic transactions completed in May, 42.9% was done on credit cards. This is the lowest level for any month since the official data began back in 2002 and is well down on the peak for a month of May at 46.4% back in 2006.



The ongoing growth in the service sector appears strong enough to drive employment higher. But do not expect a mass hiring. The PSI employment index eased back to a seasonally adjusted 50.8 in May, after hitting its highest level since 2007 in April at 54.4. While still above the 50 firing line, for the sixth consecutive month, it suggests only mild employment growth is occurring, on net, in the services sector.

Slow employment growth in the largest sector of the economy has obvious implications for the wider labour market.

Combined with a dip in the Performance of Manufacturing employment indicator released last Thursday, the May PSI employment indicator suggests overall employment growth in Q2, while likely still positive, eased from Q1.

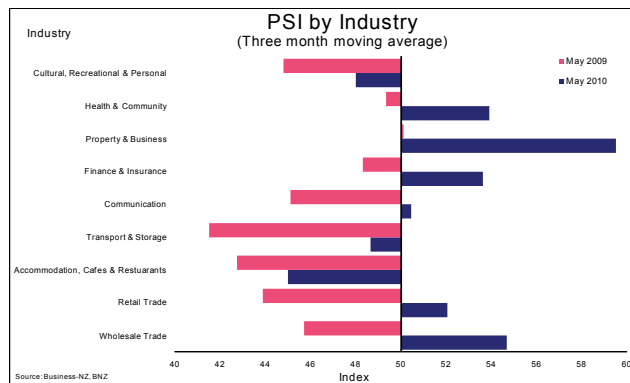
Remember the official statistics revealed a net gain of 22,000 jobs in Q1. This was a large upside surprise at the time when it was released in early May. The PSI and PMI indicators of more subdued employment growth certainly fits with our initial pick that around 9,000 jobs, on net, were added across the economy in Q2. That would still be enough to see annual employment growth turn positive for the first time since early 2009.

So, it seems employment growth now is positive, but subdued. Still, other – forward looking – surveys are more optimistic. Let’s hope confidence translates into action.

Things now are certainly better than a year ago. Looking across the many and varied businesses within the service sector it is not surprising to see a wide range of performance. Even so, a clear trend stands out: the PSI reading for each industry within the service sector is higher than it was a year ago.

Positive growth was scarce a year ago, with the PSI under 50 for all but the property and business services industry. Nowadays, the majority are above 50.

Of course, the time of the year can be a major influence on business. In this regard, it was interesting to note that many firms noted the weather as the major influence on business activity over the month.



For many, like accommodation and tourism associated industries, it was too wet and cold. It is no surprise, then, to see the accommodation, cafes and restaurants industry at the lower end of the PSI scale in May. Still, it is better than last year.

This is consistent with guest nights being 0.8% higher than last year, according to the April accommodation survey released last week. Guest night growth was entirely driven by a 7.4% rise in guest nights at hotels, with declines in all other accommodation types including motels, backpackers and holiday parks.

For others, the recent rain has been very welcome – particularly by North Island farmers as drought conditions ease. In time, this will be a positive for those in the service sector, as confidence returns to the primary sector and farmer spending increases.

doug_steel@bnz.co.nz

Contact Details

BNZ

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Economist
+(64 4) 474 6923

Mike Jones
Strategist
+(64 4) 472 4767

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39 806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
80 Queen Street
Private Bag 92 208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
129 Hereford Street
PO Box 1461
Christchurch 8140
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Wellington
Foreign Exchange
Fixed Income/Derivatives

+800 642 222
+800 283 269

Sydney
Foreign Exchange
Fixed Income/Derivatives

+800 9295 1100
+(61 2) 9295 1166

London
Foreign Exchange
Fixed Income/Derivatives

+800 333 00 333
+(44 20) 7796 4761

New York
Foreign Exchange
Fixed Income/Derivatives

+1 800 125 602
+1877 377 5480

Hong Kong
Foreign Exchange
Fixed Income/Derivatives

+(85 2) 2526 5891
+(85 2) 2526 5891

24 HOUR FOREIGN EXCHANGE SERVICE

Phone Toll Free 6am to 10pm NZT – Wellington Office
0800 739 707 10pm to 6am NZT – London Office – Sam Hehir

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabSecurities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabSecurities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabSecurities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

National Australia Bank Limited is not a registered bank in New Zealand.