

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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New business improves, but sector still contracting

BNZ Capital - Business NZ PSI for June 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for June decreased 1.2 points from May to stand at 45.0. The June result continued the recent series of activity levels within a fairly tight band, although the 2009 result was still lower than in June 2008 (45.6).
- Four of the five diffusion indices that make up the PSI exhibited contraction during June, but exhibited a mixture of results compared with May. *Activity/sales* (43.9) remained exactly the same as May, while *employment* (43.6) dipped after an improvement in the previous month. *New orders/business* (50.8) went into positive territory for the first time since March, and for only the third time in ten months. *Stocks/inventories* (41.0) dropped to its lowest level since the survey began, while *deliveries* (42.2) did likewise, undershooting the previous low of 42.7 experienced in June 2008.
- Activity continued to remain negative in all four main regions in June, however the South Island showed some recovery. The *Canterbury/Westland* region (47.5) recorded its highest value since March, while the *Otago/Southland* region (44.8) recovered back to levels experienced in April.
- The *Northern* region (44.4) dipped after a sizeable improvement in May, while the *Central* region (45.8) recorded its lowest level of activity since the survey began.
- Results for the various service sectors were again almost all negative for June, with *transport & storage* (35.3), *retail trade* (44.3) and *wholesale trade* (45.9) recording the lowest results, albeit with *retail trade* improving slightly from May. *Health & community services* (48.6) and *accommodation, cafes & restaurants* (48.4) recorded the strongest level of activity, both up from the previous month.
- All firms by employment size again showed contraction during June, with the strongest contraction being the smaller firms. Micro firms (1-10 workers) (44.8) fell back slightly from May, while small-medium firms (11-50 workers) (44.5) displayed a similar level of decline. Both medium-large firms (51-100 workers) (46.8) and large firms (101+ workers) (46.8) displayed identical results.
- The drop in overall activity levels was not mirrored by the proportion of negative comments from respondents, which dropped slightly to 58.8% in June, compared with 59.1% in May, 56.7% in April and 54.6% in March. When comparing activity with the same time last year for positive and negative comments, results were mixed. The fall in activity for those with negative comments (3.82*) was 0.07 points up for June. For positive comments, it fell 0.09 points to stand at 2.62.

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HIGHLIGHTS

- **Service sector activity remained in contraction for 15th consecutive month.**
- **Activity/Sales remained unchanged compared with May, while new orders/business showed slight expansion.**
- **Regional activity was again mixed, with both South Island regions improving, but the Central region displaying a new low.**

Next BNZ Capital - Business NZ PSI: 17 August 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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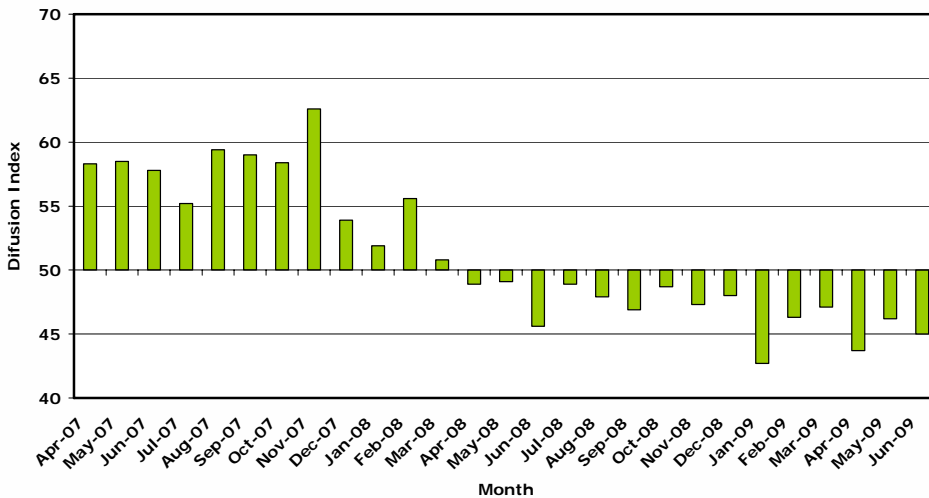
*Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

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BNZ Capital - Business NZ Performance of Services Index Time Series (April 2007 - June 2009)



PSI time series tables

National Indexes	June 2007	June 2008	Mar 2009	Apr 2009	May 2009	June 2009
BNZ Capital - Business NZ PSI	57.8	45.6	47.1	43.7	46.2	45.0
Activity/Sales	61.1	44.9	47.8	40.9	43.9	43.9
Employment	53.8	41.8	44.8	42.5	46.3	43.6
New Orders/Business	66.1	51.4	51.4	47.6	49.7	50.8
Stocks/Inventories	47.2	46.6	45.4	42.6	44.7	41.0
Supplier Deliveries	51.9	42.7	51.4	44.9	44.7	42.2

Regional Indexes	June 2007	June 2008	Mar 2009	Apr 2009	May 2009	June 2009
BNZ Capital - Business NZ PSI	57.8	45.6	47.1	43.7	46.2	45.0
Northern	57.2	43.9	47.0	42.8	47.4	44.4
Central	63.1	47.9	49.6	48.8	47.2	45.8
Canterbury/Westland	57.2	51.1	50.2	43.1	43.7	47.5
Otago/Southland	55.8	36.1	40.7	44.8	37.0	44.8

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

20 July 2009

Good Service, Bad Service

- Services sector nearing base in June?
- After mixed Q1 GDP evidence
- Finance and business services holding up
- But transportation services kept plunging in Q1
- And communications registered first -y/y, ever

Monitoring the “service” sector is frustrating at the best of times. It’s such an amorphous beast – with as many parts as there are definitions of what comprises the total. Yet we do know the service sector tends to grow in proportion to any maturing economy. So keeping tabs on it is well recommended, especially when more visible industries can easily grab the limelight in its stead.

By and large, New Zealand’s service sector has held up better than many of the higher profile, and more easily defined, sectors around, such as manufacturing, the housing market, forestry and, most recently, the dairy sector. But it hasn’t been immune from the recession.

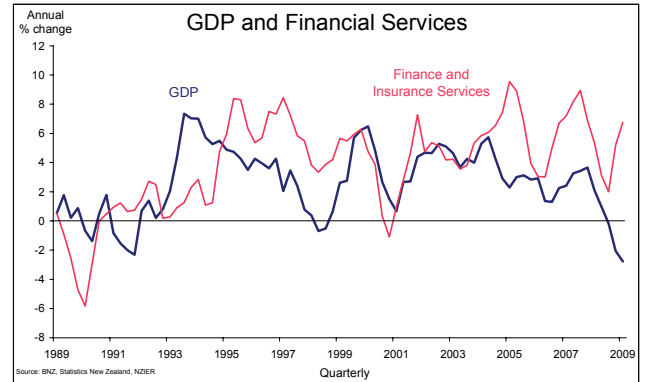
To be sure, June’s Performance of Services Index mirrored its manufacturing (PMI) cousin of last week, in registering the first positive index for forward orders in a long while, amid evidence that over-stocking was being dealt with in an aggressive manner. These are good omens for forward production.

However, the PSI, like the PMI, also suggested that output continued to slip for the meantime. Indeed, the PSI has been sub-50 since April 2008, and clearly so in the early part of 2009.

On the surface, New Zealand’s service sector would seem to have avoided, in the Q1 GDP accounts, those heavily negative auguries. According to Statistics NZ definitions, services sector activity slipped just 0.1%, to be 0.1% higher than a year ago. Let’s call it flat. Overall GDP, of course, dropped 1.0% in Q1, to be 2.7% lower than its year-earlier level.

Yet not all’s well in the services sector. Not by a long chalk. The steady overall results comprised some of the larger components growing very well, but with many more of the smaller components going backwards at a serious rate of knots.

On the positive side, finance and insurance services expanded 2.2% in the March quarter of 2009, to be up 6.7% y/y. And real estate and business services increased 3.2% for an annual gain of 4.4%. These results might well reflect the nursing of an otherwise hard-hit economy,



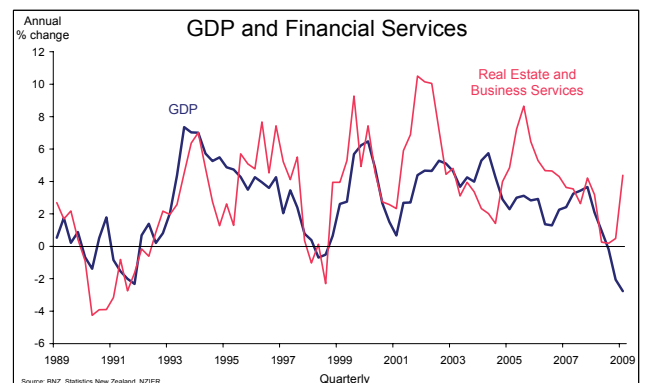
by way of maintained lending, distressed property sales and advice on how to deal with business duress. But it’s a solid performance for this services group nonetheless.

There was also the continued expansion in the public sector. Government administration and defence increased 0.2% to be 4.1% larger than it was in the first quarter of 2008.

However, spare a thought for the many other areas of the service sector that have gone backwards, at a serious clip.

This includes retailing, which is categorised by Statistics NZ as a service industry, in that it sells the goods rather than produces them. It plunged 2.9%, to be 5.5% shy of a year ago. Activity in accommodation, cafes and restaurants dipped 3.0%, to be down a substantial 7.6% on the March quarter of 2008.

Then there was wholesaling, which also continued to plummet. It might have mainly related to vehicles, but throughput collapsed a further 3.7% in Q1, dragging the annual decline down to 11.4%. Ouch.



The bigger acceleration to the downside, however, was seen in the area of transport and storage. Having declined 3.5% across the second half of last year, it collapsed a further 5.6% in Q1 alone. This stunned us. It was the principle reason why Q1 GDP, overall, undershot our expectations.

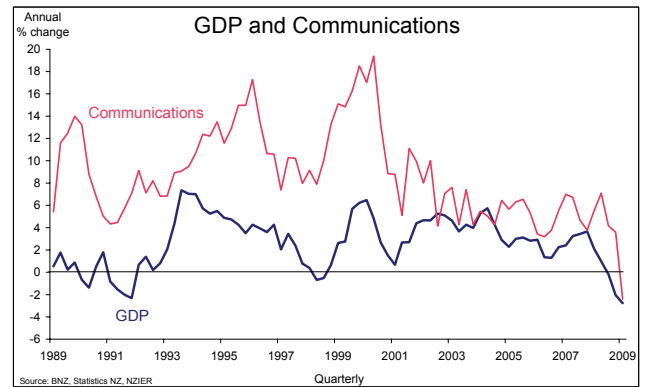
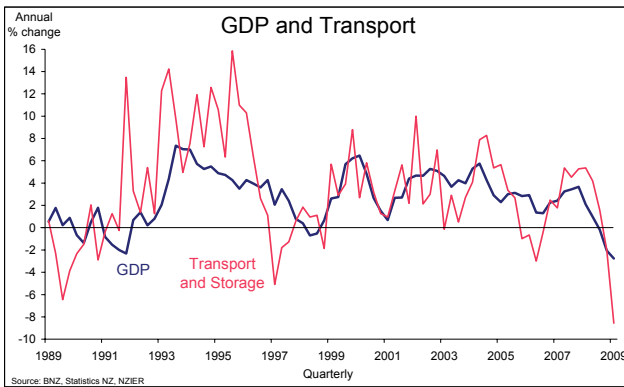
The slump in transport and storage activity reflected falling air transport (understandable in light of the aggressive discounting in the industry) but also a slump in road freight, which is never a good sign for the economy at large.

What also caught our eye in the services economy was the 3.2% fall in communications. By itself, this was not a complete shocker, in that this sector can occasionally wobble around, as it did back in 2008 Q3, with its -2.1%.

However, the latest fall dunked annual growth to -2.4% – the first negative on record, for an industry used to growing relatively fast, year in, year out.

This recent retreat in communications services might reflect such things as saturation in the mobile phone market. But, more generally, it would seem to highlight yet another area of discretionary spending that is giving in, as basic expenditure, and a need to balance budgets, takes centre stage.

For these reasons, New Zealand’s services sector will be well worth keeping tabs on – especially in its components – particularly with some of the higher profile, more easily measurable, sectors likely to indicate some repair is at hand before too much longer.



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