bnz capital

Business NZ

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

psi

Service sector still in the shadows

BNZ Capital - Business NZ PSI for May 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for May increased 2.5 points from April to stand at 46.2. While this was the 14th consecutive month in contraction, the level of contraction over this period has remained relatively stable, with the sector yet to post a sub-40 result.

- All diffusion indices that make up the PSI exhibited contraction during May, but most showed improvement from April. *Activity/sales* (43.9) recovered somewhat from a significant drop in April, while *employment* (46.3) recorded its highest value since December 2008. *New orders/business* (49.7) came close to a level of no change for May, while *stocks/inventories* (44.7) increased 2.1 points from April. Lastly, *deliveries* (44.7) remained relatively unchanged from the previous month. In comparison with May 2007 and 2008, all sub-indices were lower.

- Activity was again negative in all four main regions for May, however half showed a pick-up from April. The *Northern* region (47.4) recorded its highest value since October 2008, while the *Central* region (47.2) continued to slip further. The *Canterbury/Westland* region (43.7) recorded its second lowest ever result (although up from April), while the *Otago/Southland* region (37.0) dipped under the 40-mark for the first time since October 2008.

- Results for the various service sectors were again almost all negative for May, with *transport & storage* (41.4), *accommodation, cafes & restaurants* (42.9) and *retail trade* (43.5) recording the lowest results. *Wholesale trade* (47.7) recovered significantly from its lowest ever result in April, while *property & business services* (54.6) showed expansion for the first time since October 2008.

- All firms by employment size continued to experience contraction during May, but all showed improvement from April. Both micro firms (1-10 workers) (45.1) and medium-large firms (51-100 workers) (45.3) displayed similar levels of decline, while small-medium firms (11-50 workers) (46.6) recovered somewhat after a sizeable drop in April. Large firms (101+ workers) (49.3) continued to show improvement from previous months, reaching its highest result since December 2008.

- The improvement in overall activity levels was not mirrored by the proportion of negative comments from respondents, which actually increased to 59.1% in May, compared with 56.7% in April, 54.6% in March and 57.8% in February. However, this was still not as high as the January result (63.6%). 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 (3.75*) was 0.25 points down for May. For positive comments, it increased 0.09 points to stand at 2.71.

The BNZ Capital - 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.

<u>HIGHLIGHTS</u>

- ***Service sector activity improved for May, although 14th consecutive month in decline.***
- ***Employment posted its best result since December 2008, while new orders/business was close to no change.***
- ***Regional activity was mixed, with the Northern region improving from April, while Otago/Southland slipping back to a sub-40 result.***

Next BNZ Capital - Business NZ PSI: 20 July 2009

<u>SPONSOR STATEMENT</u>

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.

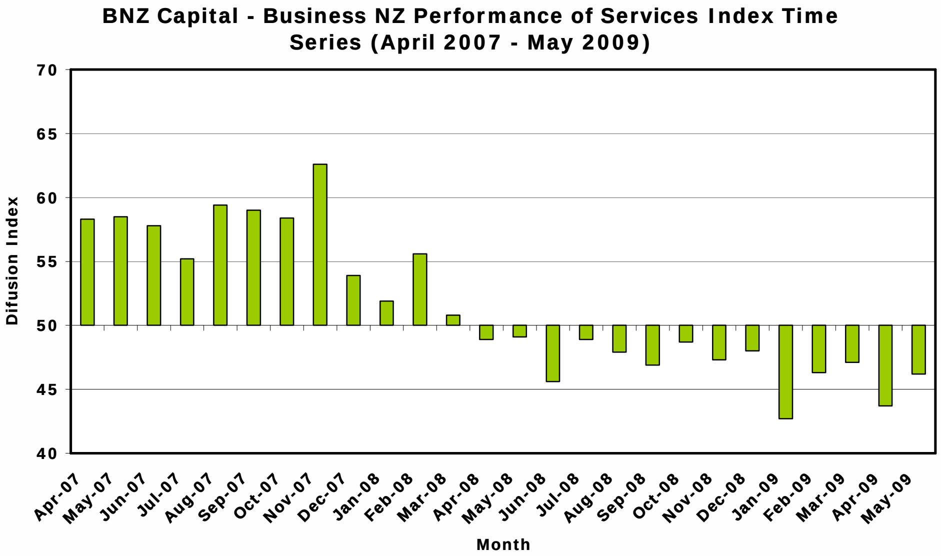
BNZ Capital (www.bnzcapital.co.nz)

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

BNZ CAPITAL-BUSINESS NZ PSI

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



PSI time series tables

National Indexes	May 2007	May 2008	Feb 2009	Mar 2009	Apr 2009	May 2009
BNZ Capital - Business NZ PSI	58.5	49.1	46.3	47.1	43.7	46.2
Activity/Sales	62.4	49.0	42.9	47.8	40.9	43.9
Employment	51.2	46.8	44.9	44.8	42.5	46.3
New Orders/Business	67.8	54.8	49.8	51.4	47.6	49.7
Stocks/Inventories	49.5	47.1	48.3	45.4	42.6	44.7
Supplier Deliveries	54.7	44.8	47.2	51.4	44.9	44.7

Regional Indexes	May 2007	May 2008	Feb 2009	Mar 2009	Apr 2009	May 2009
BNZ Capital - Business NZ PSI	58.5	49.1	46.3	47.1	43.7	46.2
Northern	57.0	50.8	45.3	47.0	42.8	47.4
Central	65.5	50.5	46.9	49.6	48.8	47.2
Canterbury/Westland	60.3	50.6	48.9	50.2	43.1	43.7
Otago/Southland	57.6	41.6	48.0	40.7	44.8	37.0

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

15 June 2009

Pains Pains and Automobiles

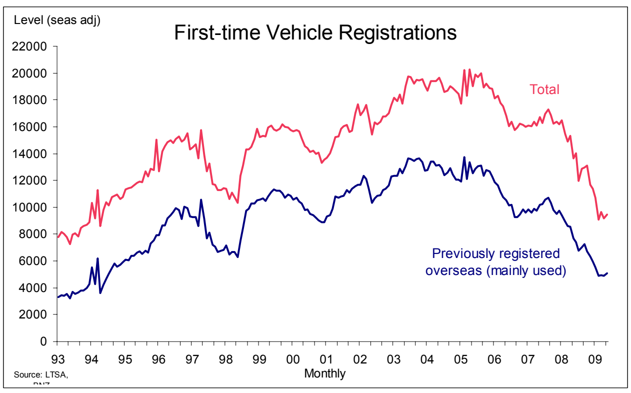
- Vehicle spending slump has routed retailing
- Little impact on production, as we don't make cars
- But import implosion has hit the distribution sector
- Are we close to finding a base?

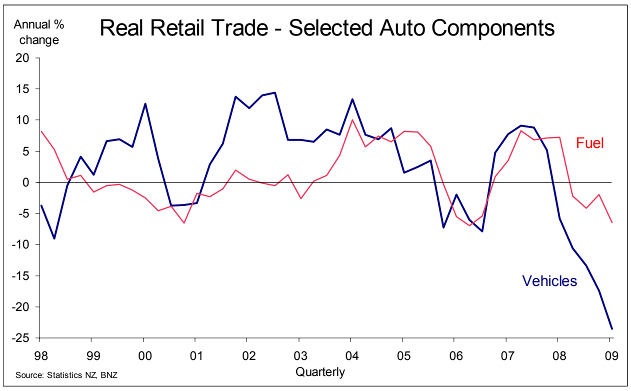
Thank goodness New Zealand moved away from producing cars over recent decades. Or, should we say, stopped pretending to get wealthy assembling them. Nonetheless, the recent slump in domestic car sales has hit our economy hard – by way of lessening throughput for the wholesale distribution sector, and in pruning the vehicle retailing industry. Servicing and repairs business has also slipped to some degree. But might the worst soon be behind us?

While vehicle sales effectively peaked back in 2005, things didn't really hit the skids until 2008. This, of course, was integral to the broader household sector correction that began to take hold, following a consumer spending and borrowing binge of unprecedented proportions.

Global factors also came to bear. Car spending suffered terribly, here and abroad, being the biggest of big-ticket items, requiring of borrowing, hungry for increasingly expensive fuel and hardly cheap in respect of keeping on the road. Flattening net inward migration to New Zealand didn't help either.

First-time NZ registrations of cars (whether new or imported used) hit 230,000 during calendar 2005. They numbered 198,000 in 2007. But by May 2009 the annual total had slumped to 136,000. This was similar to levels of 1998, but strictly the lowest since 1995 – so a 14-year low. In the three months to May 2009 alone, registrations were down 36% y/y.



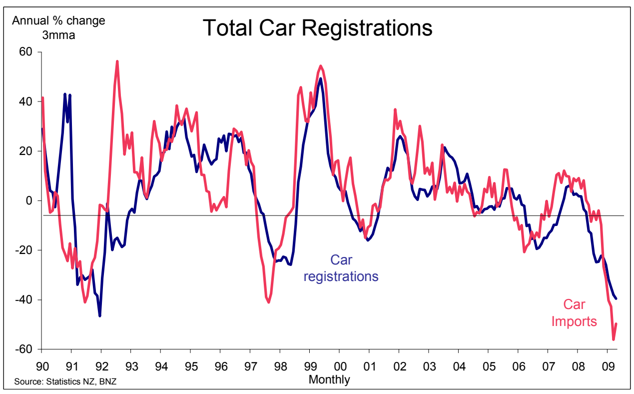


The collapse has been more pronounced in new-car registrations, although NZ registration of cars previously registered overseas (essentially used import) has not fared that much better by comparison.

In line with all of this, car retail volumes in the March quarter of this year were 23% down on the corresponding period in 2008. Along with this, fuel sale volumes declined 5%. Auto repair work was down 7%, while servicing fell 5%.

Excluding the auto components real retail sales decreased 1.9% over the year to March 2009. Include the auto categories and the fall was a much more marked 5.8%. This highlights how instrumental collapsing expenditure on cars has been to the retail sector and its broad statistics.

It's a consolation, then, that New Zealand doesn't make cars, even (re)assemble them any more these days. Look at the countries that still do – including the United States, Japan, other Asian nations, and a number

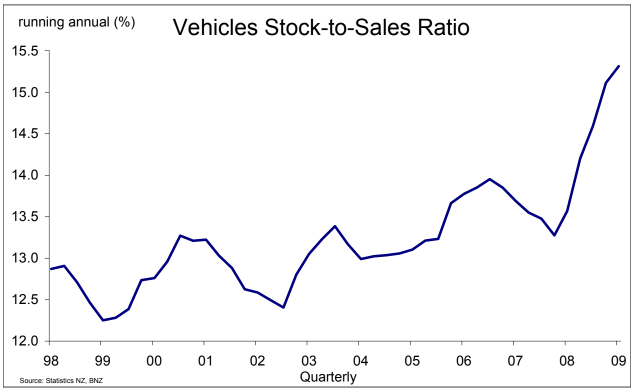


of European ones – and it's easy to understand why they're currently suffering the most, especially in their manufacturing industries.

Nonetheless, the collapse in domestic car spending has hit the NZ economy in material ways. As it has retailing, it has also crimped imports, which affects port activity and wholesale distribution networks down the chain.

In respect of car imports, the value of these in the three months to April 2009 was half of what it was a year earlier. And we suspect such inflows will remain on the weak side for a wee while yet. That's because, while vehicle inventories were reduced by 20% over the year to March 2009 (according to the quarterly retail data published by Statistics NZ) they still look high relative to the recent level of sales.

Related to this, wholesale distribution has suffered from the auto slump too. Don't underestimate the hit from this. It's part of the reason why wholesale activity, as measured in the GDP accounts, dropped 4.9% in Q4, to be 9.1%



down on the same quarter a year prior. We expect further damage to be confirmed for Q1, meaning wholesale distribution remains one of the weakest spots in GDP.

And one of the added problems has been the need to put through price increases – at least in respect of the "official" prices registered by Statistics NZ. The retail car price increased 2.5% in the first quarter of this year, which put a stop to the annual deflation that had been the prior feature. This pressure to hike prices undoubtedly relates to the broadly lower exchange rate (notwithstanding its recent partial rebound).

It's a complete reversal of the money-for-jam times of over-cooked, debt-fuelled demand, coupled with a high exchange rate that was making imports cheap.

So, where is it all heading? To be sure, there may yet be more structural adjustment around household budgets and debt management to work through, which would keep such big-ticket spending sedate. In the least, no one should be budgeting for a return to the heady heights of 2005-07 any time soon, especially if petrol prices remain on the high side.

However, there are also reasons to believe we might be near an end to the rout. Net immigration, for example, is beginning to pick up to historical norms, having been very low over the last few years. And while vehicle upgrades can be deferred a year or three, anything longer starts to wear thin.

But, in answer to the back-seat entreaties of "are we there yet?" perhaps the clearest sign we might just about be is simply the extent to which car expenditure has corrected to date – especially on a per capita basis.

craig_ebert@bnz.co.nz

Contact Details

BNZ Capital

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

Craig Ebert
Senior Economist
+(64 4) 474 6799

Mark Walton
Economist
+(64 4) 474 6923

Danica Hampton
Senior Strategist
+(64 4) 472 4767

Main Offices

Wellington
1 Willis Street
PO Box 2392
Wellington 6140
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
125 Queen Street
PO Box 2139
Shortland Street
Auckland 1140
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) 9295 1199

Alan Oster
Group Chief Economist
+(61 3) 8641 3464

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

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Contact Phone Numbers

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+800 9295 1100
Fixed Income/Derivatives	+(61 2) 9295 1166

London

Foreign Exchange	+800 333 00 333
Fixed Income/Derivatives	+(44 20) 7796 4761

New York

Foreign Exchange	+1 800 125 602
Fixed Income/Derivatives	+1877 377 5480

Hong Kong

Foreign Exchange	+(85 2) 2526 5891
Fixed Income/Derivatives	+(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 – Olivia Core

National Australia Bank