

## BNZ-BUSINESS NZ PSI

BNZ-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.

psi

## Xmas shows spring in step for service sector

### BNZ - Business NZ PSI for December 2009

- The BNZ - Business NZ Performance of Service Index (PSI) for December stood at 54.4. While this was down 1.6 points from November, it was the highest recorded December value since the survey began in 2007.
- For the second consecutive month all sub-indices were in expansion mode. Although all were lower than November, the seasonal factor of holidays meant a corresponding drop in the level of expansion for that month. The two major contributors to the continuing expansion for December came from *activity/sales* (55.1) and *new orders/business* (60.0). *Employment* (51.1) remained almost unchanged from the previous month, as did *stocks/inventories* (50.3). *Deliveries* (52.0) fell 2.3 points, but still the second highest result since February 2008.
- Activity was again positive for all four main regions during December, with the *Central* region (60.9) leading the way with its highest result since November 2007. This was followed by the *Canterbury/Westland* region (56.1), which experienced its highest result since February 2008. The *Otago/Southland* region (54.4) fell back during the month, while the *Northern* region (52.5) did likewise.
- Results for the various service sectors were again almost all in expansion during December. *Accommodation, cafes & restaurants* (58.4) led the way with another strong result. This was followed by *wholesale trade* (56.1), *health & community services* (55.6) and *transport & storage* (54.7). *Property & business services* (48.7) experienced a decline in activity, which was mostly due to seasonal effects with businesses closing over that period.
- All firms by employment size showed expansion during December for the second consecutive month. The larger the business the stronger activity was, with large sized firms (101+ workers) (62.1) experiencing its strongest level of activity since October 2007. The remaining businesses by size were relatively similar in terms of activity, with medium-large sized firms (51-100) at 54.4, followed by small-medium sized firms (11-50 workers) (53.9) and micro sized firms (1-10 workers) (53.3).
- Despite the dip in the level of expansion during December, the proportion of positive comments from respondents rose to 56.0% in December, compared with 54.5% in November, 49.8% in October, 53.2% in September and 50.5% in August.

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#### HIGHLIGHTS

- **Service sector activity records its highest December value.**
- **Activity/sales and new orders/business continue healthy expansion.**
- **Regional activity expansionary across all parts of the country for second consecutive month.**

**Next BNZ - Business NZ PSI:  
15 February 2010**

#### SPONSOR STATEMENT

BNZ 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.

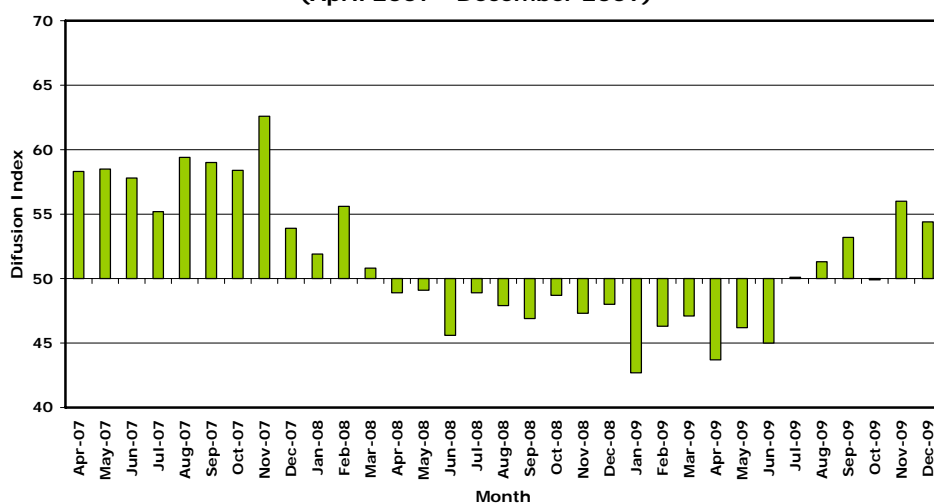
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# psi

**BNZ - Business NZ Performance of Services Index Time Series  
(April 2007 - December 2009)**



### PSI time series tables

National Indexes	Dec 2007	Dec 2008	Sep 2009	Oct 2009	Nov 2009	Dec 2009
BNZ - Business NZ PSI	53.9	48.0	53.2	49.9	56.0	54.4
Activity/Sales	53.7	45.2	58.0	48.4	58.7	55.1
Employment	51.1	46.4	48.0	50.4	51.2	51.1
New Orders/Business	59.2	49.8	58.6	52.6	61.1	60.0
Stocks/Inventories	53.4	49.2	46.9	47.0	50.6	50.3
Supplier Deliveries	50.3	51.4	49.3	49.1	54.3	52.0

Regional Indexes	Dec 2007	Dec 2008	Sep 2009	Oct 2009	Nov 2009	Dec 2009
BNZ - Business NZ PSI	53.9	48.0	53.2	49.9	56.0	54.4
Northern	55.2	45.6	55.8	48.9	54.8	52.5
Central	52.4	50.8	50.4	51.6	59.3	60.9
Canterbury/Westland	56.3	54.6	51.5	54.5	56.0	56.1
Otago/Southland	44.7	53.8	45.6	47.5	59.4	54.4

### 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

25 January 2010

## Retail Spending Really Jumping, For Now

- November's retail figures surprise to the upside
- Implying Q4 volume jump, so a boon for GDP
- Aided by price discounting, on NZ dollar high
- So let's not get too excited, too soon
- Especially with housing looking shakier by the day

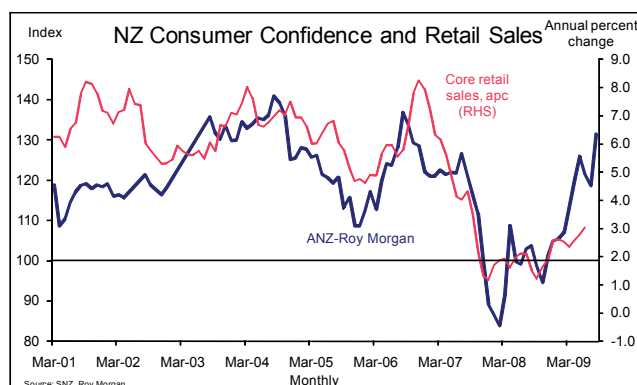
Like December's PSI, November's retail trade report was positive, implying real momentum under the surface. While the headline gain, of 0.8%, was not substantially higher than the 0.5% expected the 0.8% advance in ex-auto spending certainly was.

Of course, it's difficult to get carried away with the retail results when they relied on some unusually big bounces in just a few categories - principally, the 7.3% spike in the catch-all category of "other retailing" and a 9.0% leap in liquor sales. Higher petrol prices were also a factor.

Such things, and the fact the electronic card transactions take on spending was simply bumbling along, right the way into December, lead us to think December's retail spending increase will affirm just a steady upward trend.

Nevertheless, November's upward surprise in retailing, especially in ex-auto terms, arithmetically helps set the scene for a bigger jump in Q4 retail volumes than we previously thought. This and the fact last week's CPI implied retail prices will be on the weak side, probably to the point of deflation.

If we're right about a big retail expansion, in real terms, this will not only verify some "catch-up" to such things as the more solid consumer confidence of late, but will provide strong support to Q4 GDP calculations.



Retail Trade			
November (nominal) %	Actual	Mkt Expected	October
Total m/m	+0.8	+0.5	+0.1
Total y/y	+1.7		+1.7
Ex-auto m/m	+0.8	+0.2	+0.5
Ex-auto y/y	+3.6		+2.5
All data seasonally adjusted			

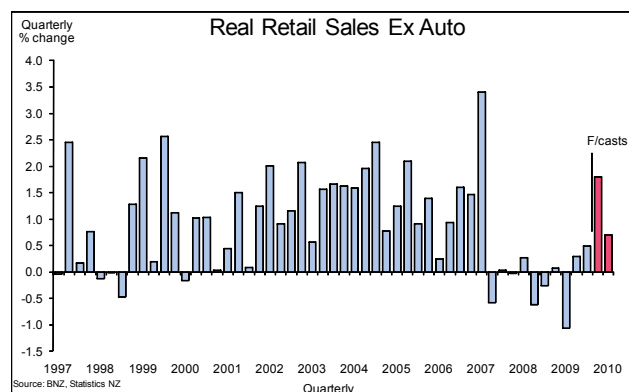
In this vein, it was interesting to see consumer confidence surged fared in last Thursday's ANZ-Roy Morgan poll of such. It hit 131.4, from December's 118.6.

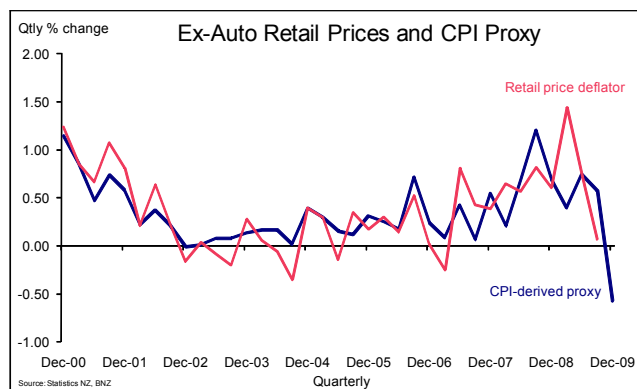
Having noted all of this, there's every chance the market will read too much into any big Q4 real retail gain (the actual results are due for publication, 12 February).

For starters, a good part of the bounce may simply reflect consumers enjoying strong price competition amongst retailers, afforded by the strong currency exchange against the very countries New Zealand tends to import its retail goods from these days, particularly China. The CPI certainly gave the impression of discounting in the retail stores, in order to coax EFTPOS cards from consumers' wallets.

Also bear in mind that any retail volume jump in Q4 will, at least to some extent, be offset, in GDP computations, by higher imports and/or downward pressure on inventories.

In the end, a bit of a burst in consumer spending, principally fuelled by cheaper imports, does not seem the way to get local production expanding in a strong and sustained manner. Indeed, it would be like a return to the unsustainable days of old.

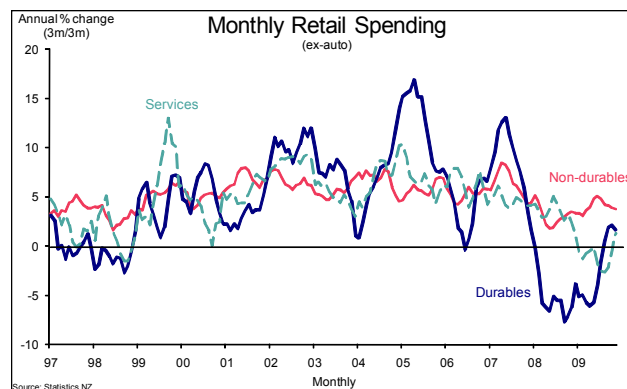
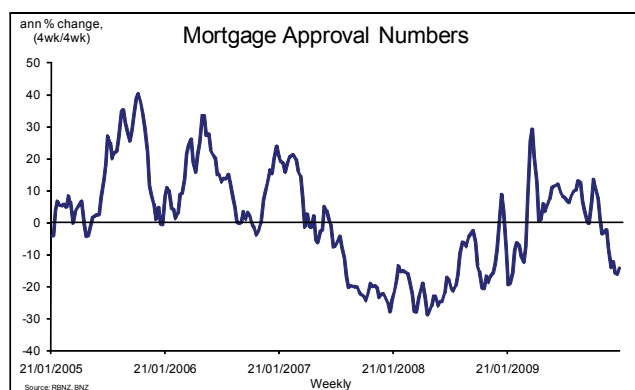




The other reason to not get too excited by near-term consumer spending figures is that one of the drivers – increased optimism in the housing market – may not push on as far as many would seem to be taking for granted.

While there is no denying existing home prices have squeezed up since mid-2009, or that new home construction is picking up from recent lows, we're nervous about one of the key leading indicators of the sector, home sales. These have been falling noticeably, in seasonally adjusted terms.

And further slippage seems the theme into this New Year, if the latest mortgage approvals data are anything to go by. Sure, it's a still a relatively illiquid time of the year for such things. Nonetheless, approvals tend to be nearly two-thirds ramped up by mid-January, so not as unreliable as one might think.



Compared to a year ago, loan approval numbers were down by 1,005 (or 18%). Smoothing over the four weeks to 15 January the numbers were lower by 14.3%. And it wasn't as though the corresponding period a year ago was in any way strong or spiked. In fact, it was pretty poorly.

It was the March/April 2009 period when approvals soared, as many rushed to beat expected mortgage hikes, with the RBNZ having said it had, for all intents and purposes, finished dropping its OCR.

In any case, it's the outright level of mortgage approvals that interests us the most. And this looks to be weakening to the point of being very soft. As a demand-type indicator, this suggests the falls we've seen in home sales over the October to December period (and even in respect of home prices in December, composition controlled) may well be continuing into the New Year.

This puts a lot of focus on the various housing reports over the coming months, with the first of these due over the first week or two of February. Watch these very closely.

It's one of many reasons to remain a little wary on the outlook for consumer spending, even though November's retail figures give confidence that a clear pick-up, in volume terms at least, is coming through for the meantime.

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