

## 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

## Service sector growth moderates in January

### BNZ - Business NZ PSI for January 2010

- The BNZ - Business NZ Performance of Service Index (PSI) for January stood at 53.1. This was down 1.3 points from December, and the second consecutive monthly dip in expansion. However, the result was the highest January figure since the survey began in 2007.
- For the third consecutive month all sub-indices were in expansion mode. *New orders* (56.1) continued to lead the way, although expansion dropped below 60.0 for the first time since October. *Activity/sales* (53.1) also edged downwards, while *supplier deliveries* (50.3) fell 1.7 points. *Stocks/inventories* (50.3) remained unchanged from December, while *employment* (52.7) reached its highest level since November 2007, as well as being in expansion for its fourth consecutive month.
- Activity was again positive for all four main regions during December, with the *Otago/Southland* region (59.0) returning to expansion levels experienced in November. The *Central* region (54.3) fell back from two consecutive months of strong expansion, while the *Canterbury/Westland* region (51.7) dropped 4.4 points. The *Northern* region (52.4) remained largely unchanged from December, decreasing 0.1 point.
- Results for the various service sectors were again almost all in expansion during January. *Accommodation, cafes & restaurants* (50.6) fell back from its top position in December, while *property & business services* (48.6) continued to feel the seasonal effects with many businesses closed during the first part of January. *Transport & storage* (56.9) rose 2.2 points from December, followed by *retail trade* (55.0).
- Three of the four firms by employment size showed expansion during January. Micro sized firms (1-10 workers) (46.9) went into contraction for the first time since October, while both small-medium sized firms (11-50 workers) (55.7) and medium-large sized firms (51-100) (61.5) improved from the previous month. Large sized firms (101+ workers) (54.8) dropped 7.3 points, after recording its second highest value in December.
- The dip in the level of expansion during January also meant the proportion of positive comments from respondents fell to 51.5%, compared with 56.0% in December, 54.5% in November, 49.8% in October and 53.2% in September.

The BNZ - 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.

#### HIGHLIGHTS

- ***Service sector activity moderates, but still highest January result recorded.***
- ***All major sub-indices remain in expansion, with employment picking up pace.***
- ***Regional activity expansionary across all parts of the country for third consecutive month.***

**Next BNZ - Business NZ PSI:  
15 March 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.

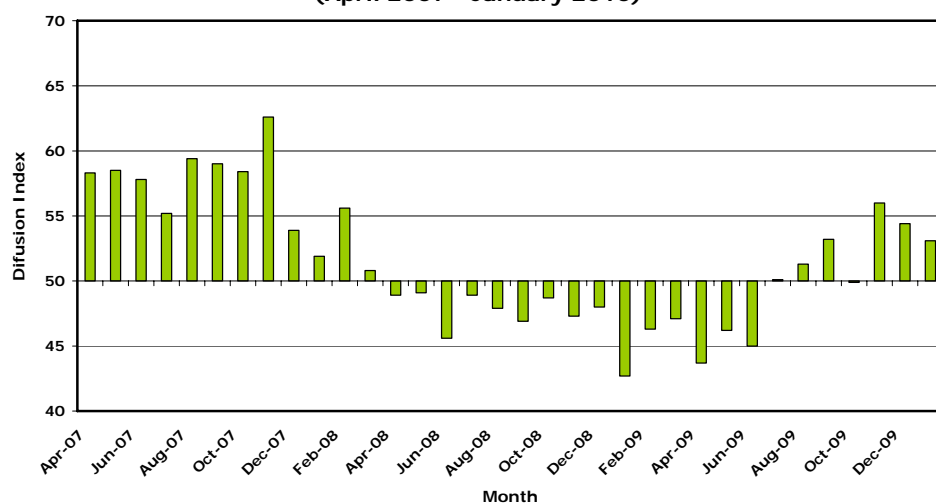
BNZ ([www.research.bnz.co.nz](http://www.research.bnz.co.nz))

## 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

**BNZ - Business NZ Performance of Services Index Time Series  
(April 2007 - January 2010)**



### PSI time series tables

National Indexes	Jan 2008	Jan 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010
BNZ - Business NZ PSI	51.9	42.7	49.9	56.0	54.4	53.1
Activity/Sales	50.2	37.3	48.4	58.7	55.1	53.6
Employment	51.8	43.5	50.4	51.2	51.1	52.7
New Orders/Business	55.6	45.2	52.6	61.1	60.0	56.1
Stocks/Inventories	48.5	45.7	47.0	50.6	50.3	50.3
Supplier Deliveries	51.1	44.2	49.1	54.3	52.0	50.3

Regional Indexes	Jan 2008	Jan 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010
BNZ - Business NZ PSI	51.9	42.7	49.9	56.0	54.4	53.1
Northern	52.7	39.3	48.9	54.8	52.5	52.4
Central	51.8	53.9	51.6	59.3	60.9	54.3
Canterbury/Westland	55.6	48.3	54.5	56.0	56.1	51.7
Otago/Southland	40.9	40.4	47.5	59.4	54.4	59.0

### **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 February 2010

## Retail Spending Underwhelming

- Retail sales end 2009 on disappointing note
- Q4 volume gain of 1.0% relied on discounting
- December's 1.8% ex-auto drop widely distributed
- Failing to match high confidence, upbeat anecdote
- And casting doubt on Q1 spending momentum
- As falling home prices are now doing too

The latest retail numbers were underwhelming. They failed to match the hype of soaring consumer confidence. They failed to justify talk of a last-minute spend-up in the lead up to Christmas. Yes, a retail recovery still looks to be in place, especially in volume terms. But it's not nearly as assured as many had been assuming.

The 1.8% fall in December's ex-auto spending was the biggest, and most meaningful, downward surprise. There was not a rogue component we could see. Instead, the weakness appeared reasonably widespread, albeit possibly part payback from November's surprisingly good results (which were unrevised, at 0.8%, ex-auto, and 0.8%, in total).

Yes, Q4 retail volumes expanded a good-looking 1.0%, but this was shy of the 1.4% we and the market polls were picking. Ex-auto volumes grew 1.3%, when we were looking for 1.8%. These outcomes keep the lid on our Q4 GDP growth expectation, which remains at 0.4%, thanks to rounding.

The other thing the retail statistics suggested was a good dollop of discounting. Not only did the overall retail price index go flat in the December quarter but in ex-auto terms it fell 0.7%. Yes, this clearly reflected the impacts of the strong exchange rate, with prices for big-ticket items down 2.6%. But there was also a 0.8% drop in non-durables prices, which was the softest on record. Such things affirm the mild inflation pulse we've already seen in the likes of the CPI and wages.

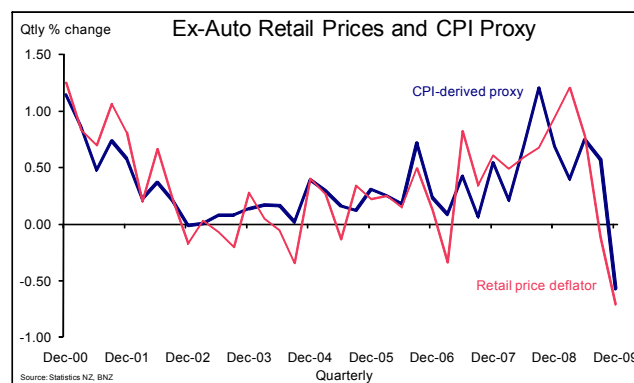
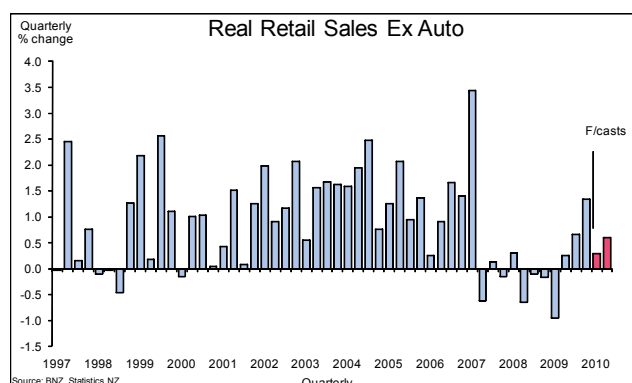
Retail Trade			
Q4 (volume) %	Actual	Mkt Expected	Q3
qtlly	+1.0	+1.4	+0.3
- ex-auto	+1.3		+0.7
annual	-0.9	-0.5	-2.8
- ex-auto	+1.3		-0.2
December (nominal) %	Actual	Mkt Expected	November
Total m/m	flat	+0.5	+0.8
Total y/y	+2.2		+1.6
Ex-auto m/m	-1.8	+0.3	+0.8
Ex-auto y/y	+1.6		+3.5
All data seasonally adjusted			

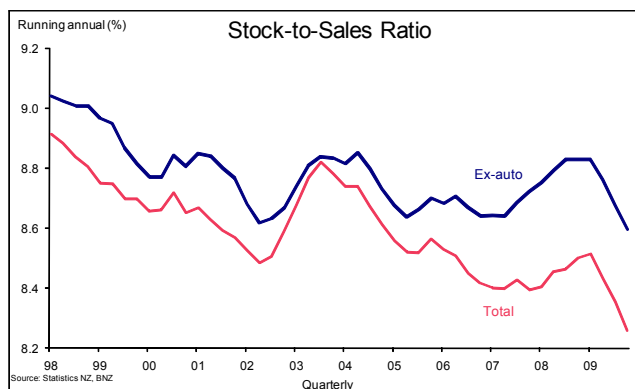
The good news for retailers was that discounting has helped not just to shift goods, but to cull inventory too, by the look of it. Stock-to-sales ratios implied by last week's retail report continued to reduce, to relatively low levels.

But while discounting seemed instrumental in encouraging Q4 volumes, we don't believe demand is as fundamentally distressed as the retail statistics for December suggested. Not when complementary indicators such as electronic card transactions, to January, have kept trending higher.

Still, it will take a good bounce-back in January's retail sales to keep some volume growth in the pot for Q1 2010. In this vein, Friday afternoon's credit card billings for January will be well worth hanging around for (especially as their big drop in December proved the best pointer to the weakness in today's retail result).

From a broader context, it was interesting that today's retail figures didn't live up to the hype of consumer confidence and expectations, especially with per capita



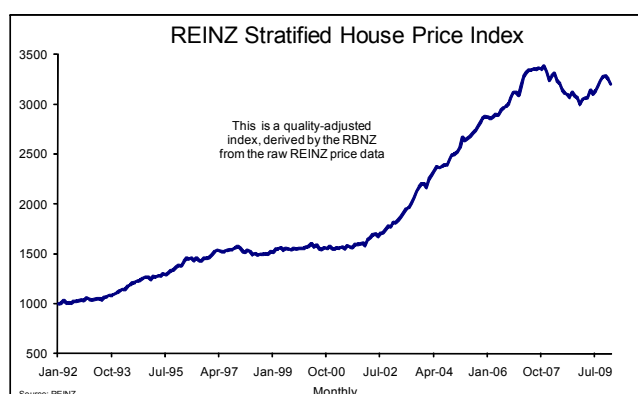


spending growth, of 0.7% in Q4 barely average, when above-normal growth is needed to begin taking up the slack in the industry.

But the “average” spending figures would seem to be in keeping with the reality of ongoing softness in employment and slowing wages.

And the recent signs the housing market recovery is stalling. We say this noting the Real Estate Institute’s “official” release of its January housing report. This confirmed the weakness patent in the data it inadvertently posted (temporarily) earlier last week. Sales continued to slump, to now a very low level. Consistent with this, home prices looked to be rolling over again.

Sure, the 2.8% drop in the REINZ median sales price, to \$350,000, undoubtedly reflected a shift away from the high-end sales that flattered December’s median of \$360,000. However, the REINZ Stratified House Price Index – as computed by the RBNZ for the REINZ – which helps to control for home quality/type, fell 1.6% in January, following its 0.9% decline in December.



Granted, some of the recent weakness in home sales and prices may well reflect hesitations owing to changes to the taxation of housing the Government has been signalling for many months now.

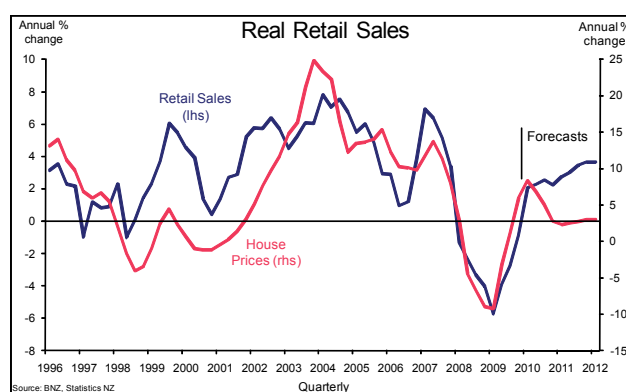
Perhaps the fact the Government has just ruled out land taxes and risk-free rate of return charges on housing investors, and a comprehensive capital gains tax for that matter, will be a source of relief to some, such that they dip their toes back in.

Then again, the culling of depreciation allowances for landlords – as Prime Minister, John Key, essentially confirmed in his speech at the opening of Parliament last Tuesday – might well be enough to keep prospective investors on the sidelines, and cause existing landlords to lighten up on their portfolios (especially those who were in it simply for the tax write-offs). The tightening of the depreciation rules will certainly make a big dent in the equation, made worse by any lack of capital gain in prospect.

The reaction of investors has the potential to soften the housing market up even further, which would be most manifest in climbing inventory and leave first-home buyers, and existing owner-occupiers, in the box seat, for change.

Watch this space. The housing market’s next steps could be crucial for the economy, and even monetary policy, especially if housing valuations – in relation to the fundamentals of income/rents/yields – revert to anything close to longer-term norms.

The outlook for the housing market will, in turn, be important for the retail sector with the risk it puts sand in the wheels of recovery that are only just starting to turn, even now.



[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@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

**Danica Hampton**  
Senior Strategist  
+(64 4) 472 4767

**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.**