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.

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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.

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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)

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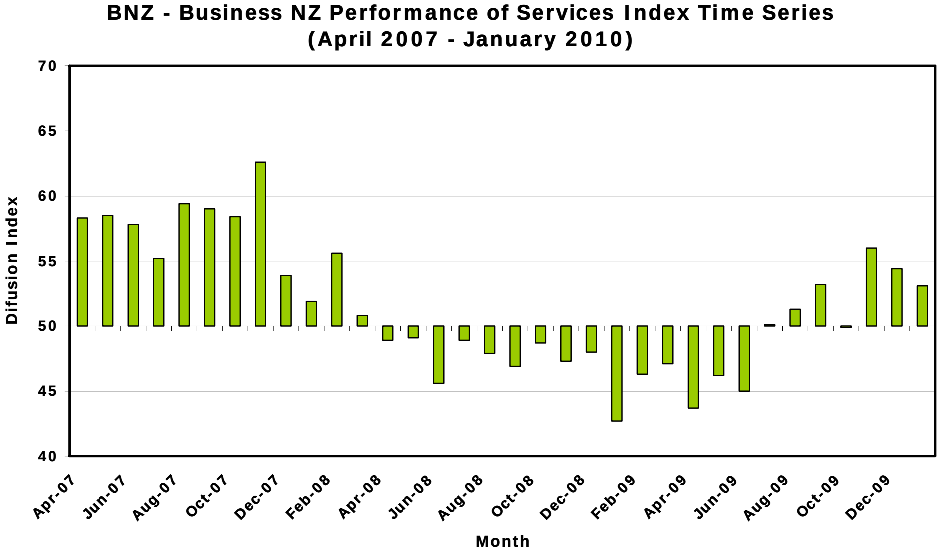


PSI time series tables

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

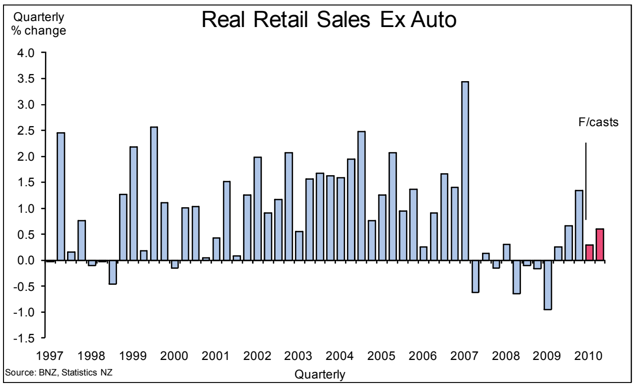
Retail Trade			
Q4 (volume) %	Actual	Mkt Expected	Q3
qtly	+1.0	+1.4	+0.3
- ex-auto	+1.3		+0.7
annual	-0.9	-0.5	-2.8
- ex-auto	+1.3		-0.2
December (nominal) %	Actual	Mkt Expected	November
Total m/m	flat	+0.5	+0.8
Total y/y	+2.2		+1.6
Ex-auto m/m	-1.8	+0.3	+0.8
Ex-auto y/y	+1.6		+3.5
All data seasonally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

The 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.

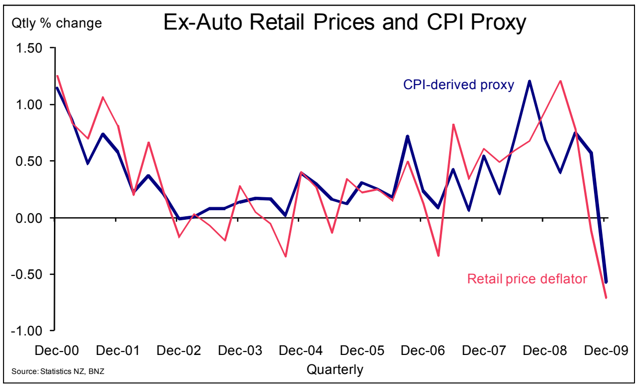


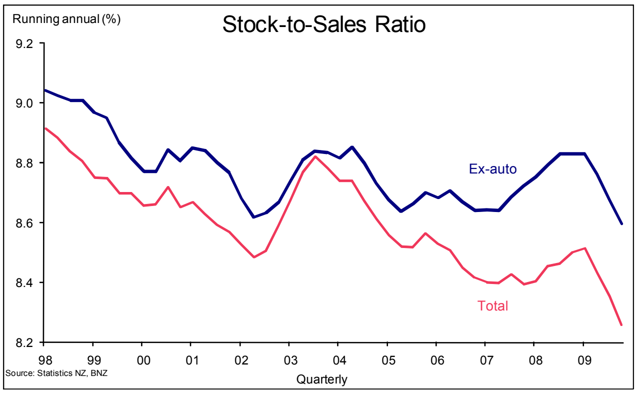
The good news for retailers was that discounting has helped not just to shift goods, but to cull inventory too, by the look of it. Stock-to-sales ratios implied by last week's retail report continued to reduce, to relatively low levels.

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



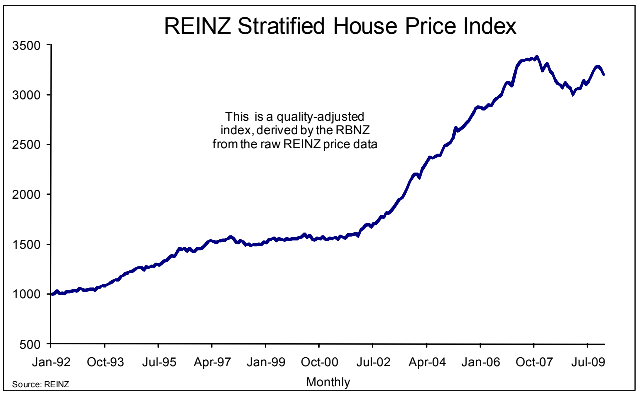


spending growth, of 0.7% in Q4 barely average, when above-normal growth is needed to begin taking up the slack in the industry.

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.

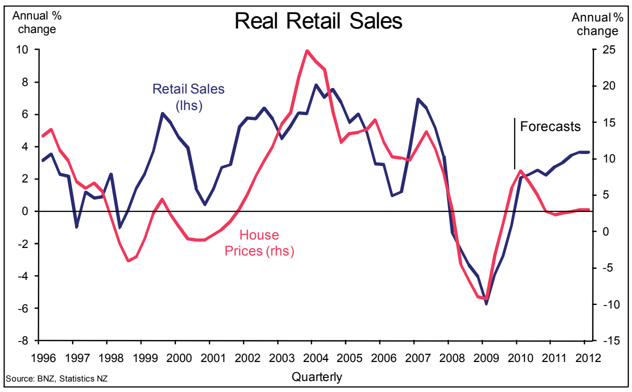
Perhaps the fact the Government has just ruled out land taxes and risk-free rate of return charges on housing investors, and a comprehensive capital gains tax for that matter, will be a source of relief to some, such that they dip their toes back in.

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

Contact Details

BNZ

Stephen Toplis	Craig Ebert	Doug Steel	Danica Hampton	Mike Jones
Head of Research	Senior Economist	Economist	Senior Strategist	Strategist
+(64 4) 474 6905	+(64 4) 474 6799	+(64 4) 474 6923	+(64 4) 472 4767	+(64 4) 472 4767

Main Offices

Wellington	Auckland	Christchurch
60 Waterloo Quay	80 Queen Street	129 Hereford Street
Private Bag 39 806	Private Bag 92 208	PO Box 1461
Wellington Mail Centre	Auckland 1142	Christchurch 8140
Lower Hutt 5045	New Zealand	New Zealand
New Zealand	Phone: +(64 9) 976 5762	Phone: +(64 3) 353 2219
Phone: +(64 4) 474 6145	Toll Free: 0800 081 167	Toll Free: 0800 854 854
FI: 0800 283 269		
Fax: +(64 4) 474 6266		

National Australia Bank

Peter Jolly	Alan Oster	Rob Henderson	John Kyriakopoulos
Head of Research	Group Chief Economist	Chief Economist, Markets	Currency Strategist
+(61 2) 9237 1406	+(61 3) 8634 2927	+(61 2) 9237 1836	+(61 2) 9237 1903

Wellington		**New York**	
Foreign Exchange	+800 642 222	Foreign Exchange	+1 800 125 602
Fixed Income/Derivatives	+800 283 269	Fixed Income/Derivatives	+1877 377 5480
Sydney		**Hong Kong**	
Foreign Exchange	+800 9295 1100	Foreign Exchange	+(85 2) 2526 5891
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