

BNZ-BusinessNZ 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. The main PMI and sub-index results are seasonally adjusted.

psi

Pass mark for mid year report

BNZ - BusinessNZ PSI for July 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for July stood at 54.5. Although this was down 0.2 points from June, it represented an ongoing and steady level of expansion for the second month running, as well as being the highest July result since 2007 (57.5).
- Four of the five sub-indices were in expansion during July, with *new orders/business* (58.6) continuing its upwards trend with its highest result since March 2010, while *activity/sales* (56.3) slipped slightly from its June result. *Stocks/inventories* (53.5) also dipped from June, although *supplier deliveries* (52.0) recorded its highest value since September 2010. Lastly, *employment* (48.8) recorded its first decline in employment since January 2011.
- Activity by region represented a tale of two islands for July. The *Northern* region (53.5) increased 1.4 points from June to record its highest result since March 2011, while the *Central* region (54.1) slipped for the second consecutive month. The *Canterbury/Westland* region (45.4) experienced a significant drop to its lowest result since March 2011, while the *Otago/Southland* region (46.0) continued to slowly improve on recent results, although remains in contraction for the seventh consecutive month.
- The various service sectors were mostly in expansion during July, with *retail trade* (50.4) and *accommodation, cafes & restaurants* (55.2) showing improved activity. *Wholesale trade* (49.9) fell to a level of all but no change for July, while *health & community services* (55.9) continued its expansionary path.

Inside BNZ Commentary this Month (page 4)

The last week has seen a number of upbeat New Zealand economy indicators published. The positive PSI reading came after relatively optimistic data on retail spending, housing, consumer confidence and, of course, the PMI. However, the global equity market rout will inevitably take its toll on the economy. Nonetheless, BNZ Head of Research Stephen Toplis, remains quietly confident that New Zealand can still fumble its way towards better days.

The BNZ - BusinessNZ 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. The main PSI and sub-index results are seasonally adjusted.

HIGHLIGHTS - PSI

- **Service sector expansion dips slightly in July.**
- **Four of the five major sub indices in expansion.**
- **Regional activity showed tale of two islands.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Both options for measuring PCI lost some steam in July.**
- **Global PCI picked up slightly in July, mainly due to increase in service sector offsetting weaker increase in the manufacturing sector.**

Next BNZ - BusinessNZ PSI/PCI: 19 September 2011

SPONSOR STATEMENT

BNZ is delighted to be associated with both the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand services sector.

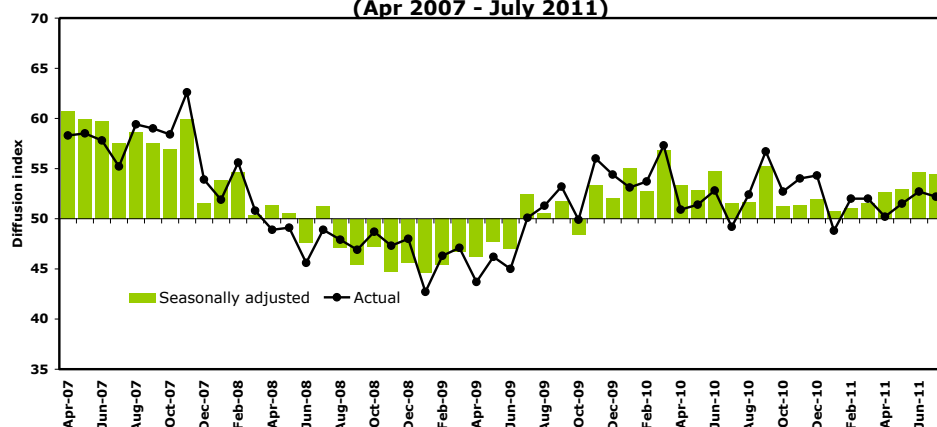
BNZ (www.research.bnz.co.nz)

BNZ-BusinessNZ PSI

BNZ-BusinessNZ 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. The main PMI and sub-index results are seasonally adjusted.

psi

**BNZ - BusinessNZ Performance of Services Index Time Series
(Apr 2007 - July 2011)**



PSI time series tables

National Indexes	July 2007	July 2008	July 2009	July 2010	June 2011	July 2011
BNZ - BusinessNZ PSI (s.a)	57.5	51.2	52.4	51.5	54.7	54.5
Activity/Sales (s.a)	59.3	50.8	54.6	50.6	57.6	56.3
Employment (s.a)	52.2	48.0	48.4	51.2	50.9	48.8
New Orders/Business (s.a)	63.8	54.7	58.5	53.5	58.2	58.6
Stocks/Inventories (s.a)	52.0	49.3	44.7	52.0	53.9	53.5
Supplier Deliveries (s.a)	54.4	50.2	48.0	47.6	50.1	52.0

Regional Indexes	July 2007	July 2008	July 2009	July 2010	June 2011	July 2011
BNZ - BusinessNZ PSI (s.a)	57.5	51.2	52.4	51.5	54.7	54.5
Northern	57.6	48.2	51.2	50.9	52.1	53.5
Central	55.3	54.9	45.8	43.3	55.6	54.1
Canterbury/Westland	49.1	51.1	53.1	46.2	59.2	45.4
Otago/Southland	55.9	40.4	43.7	46.0	44.1	46.0

(s.a denotes seasonally adjusted)

PARTICIPANTS

BusinessNZ gratefully acknowledges the participation of the following associations in contributing to the PSI:

Employers & Manufacturers Association (Northern)

Employers' Chamber of Commerce Central

Canterbury Employers' Chamber of Commerce

Otago Southland Employers Association

Hospitality Association of New Zealand

BNZ-BusinessNZ 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. The main PMI and sub-index results are seasonally adjusted.

psi

Composite index loses some steam

BNZ - BusinessNZ Performance of Composite Index (PCI) for July 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for July shows both options for measuring the PCI losing a little steam after three consecutive increases in activity.
- Despite the dip in expansion, almost all sub-indices for both indicators were in expansion during July, with the GDP-weighted employment sub-index (49.5) being the only one in decline.
- The JPMorgan Global Combined Index increased slightly in July to stand at 52.6, compared with 52.2 in June. This increase was mainly due to faster growth of services business activity offsetting a weaker increase in manufacturing production.

About the Performance of Composite Index

The BNZ - BusinessNZ Performance of Composite Index (PCI) takes into account results from both the Performance of Manufacturing Index (PMI) and the Performance of Services Index (PSI).

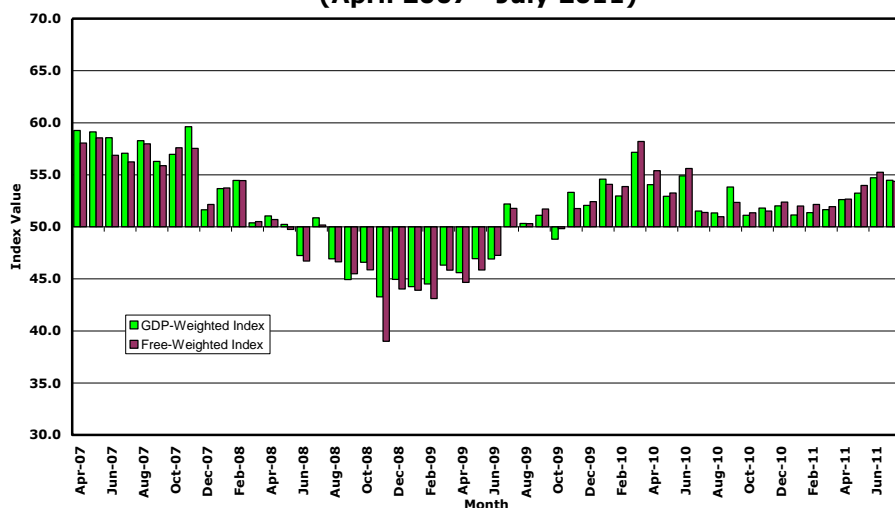
Combined results are shown in two ways:

GDP-Weighted Index: Apportions the weight of the manufacturing and services index within the economy to produce an overall result.

Free-Weighted Index: Combines data from both indexes to produce an overall result.

Both time series for the PCI are then seasonally adjusted.

BNZ - BusinessNZ PCI Seasonally Adjusted Time Series (April 2007 - July 2011)



Performance of Composite Index time series tables

Combined National Indexes	July 2007	July 2008	July 2009	July 2010	June 2011	July 2011
GDP-Weighted Index (s.a)	57.1	50.9	52.2	51.5	54.7	54.5
Free-Weighted Index (s.a)	56.2	50.2	51.8	51.4	55.2	54.4

15 August 2011

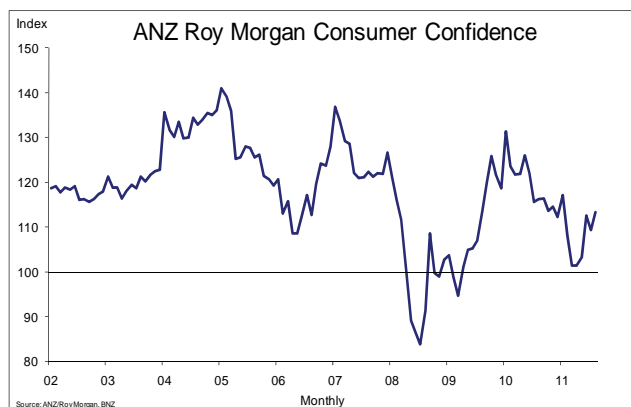
Struggling Against the Odds

- PSI strength further evidence of pre-equity-shock momentum
- Retail, housing and consumer confidence also supportive
- But current financial market volatility cannot be ignored
- Neither can we be confident where it will all end
- That said, there is still hope that we can fumble our way towards better days

Today's Performance of Services Index was yet another reminder that the New Zealand economy is, or at least was, headed in the right direction. At 54.5 the seasonally adjusted index was well above the average reading of 52.0 since the inception of the survey. Importantly, activity and sales were at 56.3 (compared to an average of 52.5) and new orders a very robust 58.6 (cf. 56.3). The only sub-standard indicator was employment at 48.8.

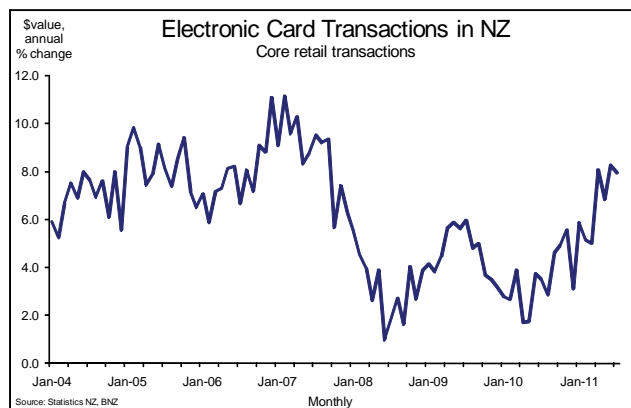
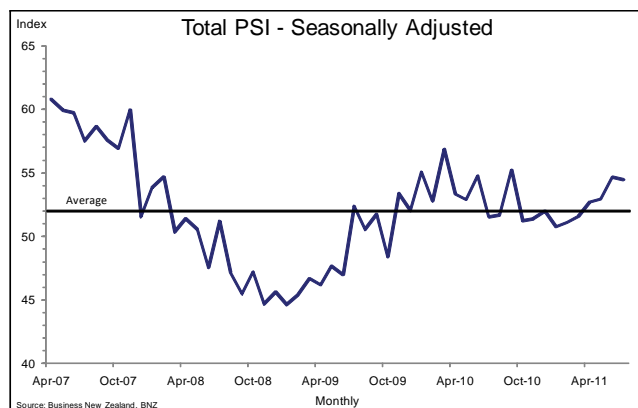
These data were matched by the recently published Performance of Manufacturing Index which sat at 53.2 for the month of July. Together it is hard to conclude anything other than the economy is on the improve.

If that wasn't enough, the ANZ-Roy Morgan Index released last week climbed to a solid 113.3 from 109.9. At these levels consumer confidence would normally be associated with a reasonable rise in consumer spending. Such optimism by consumers should have been bolstered further by heightened expectations that interest rates will stay lower for longer thanks to last week's dramatic repricing of the likelihood of a September rate hike. As if this wasn't enough falling petrol prices should also provide some well-needed relief on the effective real disposable income front.



Even the housing market appears to be stabilising. Sure there is no evidence yet of any significant pick up in prices but there is a lot of evidence to suggest that downside risks are abating. This was exemplified with the released of REINZ's latest data which, although showing a further 0.6% drop in house prices for the month of July, lent further weight to the view that turnover is picking up from year earlier levels, which is usually a precursor to some upward price adjustment. Barfoot and Thompson's data painted a similar picture with sales up 21.0% on year earlier levels while listings continue to fall. Rents too, while a tad down on a month ago, were still up 2.2% on this time last year.

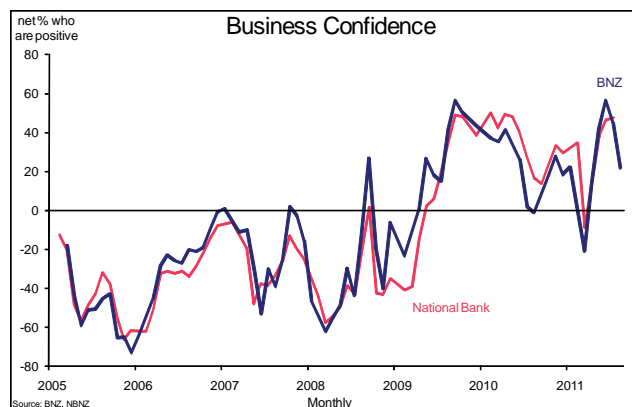
Even actual retail spending wasn't looking too bad. Core retail electronic card transactions in July were 0.5% up for the month and a very hefty 8.0% for the year. Given that retail is one of the hardest hit sectors in the economy, this is hardly a devastating result.



Of course, all the above reflect the state of the world, and the New Zealand economy, prior to the disastrous week we have just experienced in global equity markets as fears over the European debt crisis grew and the perceived outlook for the US economy deteriorated. The real question is what damage will the ructions do to New Zealand looking forward and are they sufficient to derail the recovery that we were experiencing? Alas, the answer is it will take some time before we can have any confidence in the answer.

There will be two initial transmission mechanisms to monitor. To the extent that the global rout causes a drop in global demand New Zealand will be adversely impacted. That said, it is important to realise that this drop in demand must feed through into Asia and Australia for that hit to be meaningful. This would appear likely but equally, it is likely that the negative shock will be nowhere near as bad in these regions as will be the case for the "old-world" of Europe and the United States.

Secondly is the impact that the fallout has directly on domestic confidence. In this regard we may already have some unwelcome confirmation that the hit will be real. Last week's BNZ business confidence survey revealed a sharp drop in business optimism from net 45% optimistic to just 22%. This still leaves confidence at levels consistent with modest growth but this survey would have only just picked up the first step in the global correction. A further fall of this magnitude when the next survey is conducted would be very worrisome indeed.



We hate to say it but it's now all a matter of just wait and see. There is significant day to day volatility in markets and it could take some time before it begins to settle down. Only when it starts to do so will we have a better feel as to the damage that this process has caused. Whatever the final outcome, the uncertainty created is, by itself, sufficient to have a modest negative impact on the outlook. But that said, for now at least, we stick to our view that there was sufficient pre-volatility momentum in the economy to provide some confidence that we might fumble our way through this mess. Today's survey lends further support to that hope.

stephen_toplis@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

Mike Burrowes

Strategist
+(64 4) 924 7652

Kymberly Martin

Strategist
+(64 4) 924 7654

Main Offices

Wellington

60 Waterloo Quay
Private Bag 39806
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 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch

81 Riccarton Road
PO Box 1461
Christchurch 8022
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 +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 +1 877 377 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 – 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. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. 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.