

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.

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Small steps for service sector expansion

BNZ - BusinessNZ PSI for May 2011

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for May stood at 52.8, up only 0.2 points from April, but the fourth consecutive month of improved expansion. It was also the highest value recorded since September 2010.
- Four of the five sub-indices were in expansion during May, with *stocks/inventories* (47.4) returning to levels experienced in February. Encouragingly, *new orders/business* (56.4) recorded its highest result since September 2010, while *activity/sales* (55.7) produced its highest result since 2010. *Employment* (50.8) dipped but remained in expansion, while *supplier deliveries* (50.3) remained unchanged from the previous month.
- Activity by region showed most areas in expansion during May. The *Central* region (56.6) returned to robust levels of expansion after a dip in April, while the *Northern* region (52.1) returned to growth. The *Canterbury/Westland* region (50.2) bordered on a level of no change for May after a bounce back in April, while the *Otago/Southland* region (39.3) fell back to similar levels of decline in February and March. So far for 2011, the lower half of the South Island has yet to register expansion.
- The various service sectors were mostly in expansion during May, although some prominent sectors like *retail trade* (37.6) and *accommodation, cafes & restaurants* (38.0) continued to struggle. At the other end of the scale, *wholesale trade* (54.3) bounced back from contraction in April, while *health & community services* (53.5) and *property & business services* (52.2) continued to expand.

Inside BNZ Commentary this Month (page 4)

Bank of New Zealand's Senior Economist, Craig Ebert, looks at some regional themes and trends in the NZ economy, which look set to cause clear divergences. While this reflects commodity income, earthquakes and the Budget, the regional divergence is something for all sectors and businesses to give some thought to for the coming years.

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HIGHLIGHTS - PSI

- **Service sector expansion continues, but at a slow pace.**
- **Four of the five major sub indices in expansion for May.**
- **Regional activity showed expansion in most areas, although Otago/Southland still struggling.**

HIGHLIGHTS - PERFORMANCE OF COMPOSITE INDEX (PCI)

- **Both options for measuring PCI show increased activity.**
- **Global PCI recovered slightly in May, due to pick up in service sector.**

Next BNZ - BusinessNZ PSI/PCI: 18 July 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.

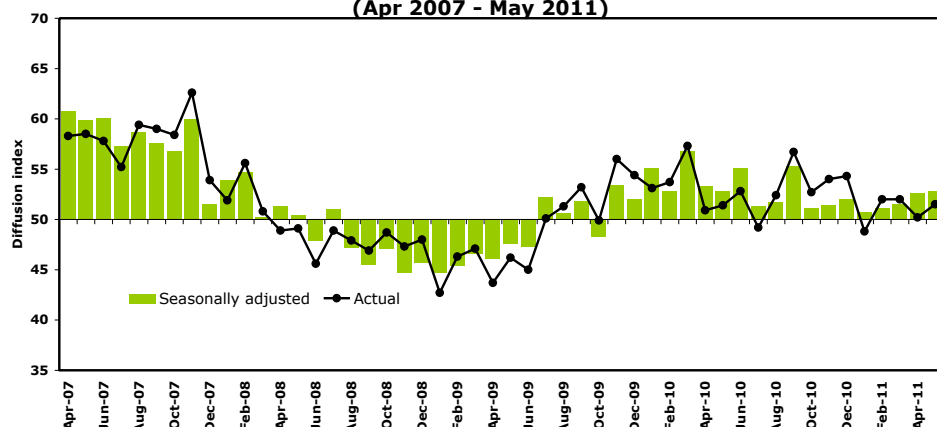
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BNZ-BusinessNZ PSI

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



PSI time series tables

National Indexes	May 2007	May 2008	May 2009	May 2010	Apr 2011	May 2011
BNZ - BusinessNZ PSI (s.a)	59.9	50.5	47.6	52.8	52.6	52.8
Activity/Sales (s.a)	63.1	49.7	44.6	54.5	53.0	55.7
Employment (s.a)	53.0	48.6	48.1	51.1	53.0	50.8
New Orders/Business (s.a)	68.9	55.9	50.8	55.4	54.0	56.4
Stocks/Inventories (s.a)	51.9	49.5	47.1	50.9	53.0	47.4
Supplier Deliveries (s.a)	57.2	47.3	47.2	50.6	50.3	50.3

Regional Indexes	May 2007	May 2008	May 2009	May 2010	Apr 2011	May 2011
BNZ - BusinessNZ PSI (s.a)	59.9	50.5	47.6	52.8	52.6	52.8
Northern	57.0	50.8	47.4	52.4	49.3	52.1
Central	65.5	50.5	47.2	54.9	50.4	56.6
Canterbury/Westland	60.3	50.6	43.7	44.7	57.5	50.2
Otago/Southland	57.6	41.6	37.0	48.3	46.3	39.3

(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

New Zealand Retailers Association

Tourism Industry Association New Zealand

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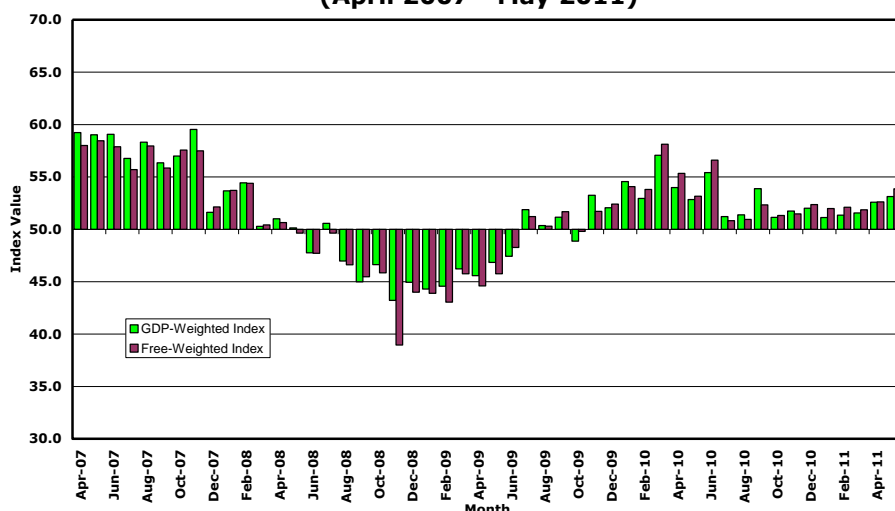
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Composite index heading in the right direction

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

- The seasonally adjusted BNZ - BusinessNZ Performance of Composite Index or PCI (which combines the PMI and PSI) for May shows both options for measuring the PCI continuing to improve at a slow but steady pace with the highest values for at least seven months.
- Sub-indices for both indicators were mostly in expansion during May, with the exception of *stocks* which dipped slightly.
- Compared with previous results in May, both the GDP-Weighted and Free-Weighted Indexes were the second highest.
- The JPMorgan Global Combined Index rose slightly in May to stand at 52.6, compared with 51.8 in April. This pick-up was mainly due to a slight bounce in the service sector.

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



Performance of Composite Index time series tables

Combined National Indexes	May 2007	May 2008	May 2009	May 2010	Apr 2011	May 2011
GDP-Weighted Index (s.a)	59.0	50.1	46.8	52.8	52.6	53.1
Free-Weighted Index (s.a)	58.4	49.6	45.7	53.1	52.6	53.9

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.

20 June 2010

Regional Divergences Becoming Important

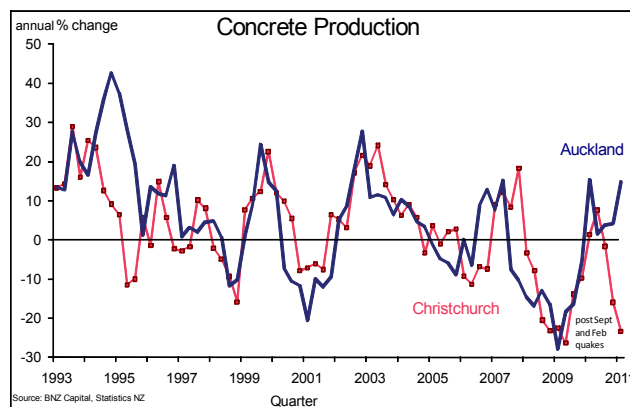
- Auckland continues to lead the economic recovery
- Rural areas now adding juice, on commodity boom
- Wellington capped, Christchurch severely disrupted
- Internal/external migration trends worth monitoring
- Amid limited population growth for NZ as a whole

Regional divergences are becoming important for the New Zealand economy. We'd paraphrase this as Auckland continuing to lead the way, rural-based areas rapidly catching up on the back of booming commodity income, Wellington capped by way of the Budget, and Christchurch severely disrupted. Such things will probably be reinforced by impending trends in internal and external migration, amid mild population growth for the nation as a whole.

Of course, there are always geographical divergences across any defined economic zone. Just look at Continental Europe, and pity its straitjacket of a common currency and policy interest rate when trying to manage the extremes of Germany and Greece. The "United" States is also something of a misnomer in that many of its individual States are as robust as others are extremely poorly. Think Texas versus California. And, as we all know, Australia is more and more becoming a multi-speed economy, characterised largely by a Western resources boom crowding out the urbanites of the Eastern seaboard.

In New Zealand, even before the earthquakes in Christchurch we were seeing signs of the Auckland economy holding up much better than most and beginning to come out of hibernation sooner. We believe this was partly driven by internal migration toward the relative safety that Auckland represented, especially during the recession. Call it a liquidity premium. We are yet to see this confirmed by any up to date population data. But we'll keep this in mind when looking.

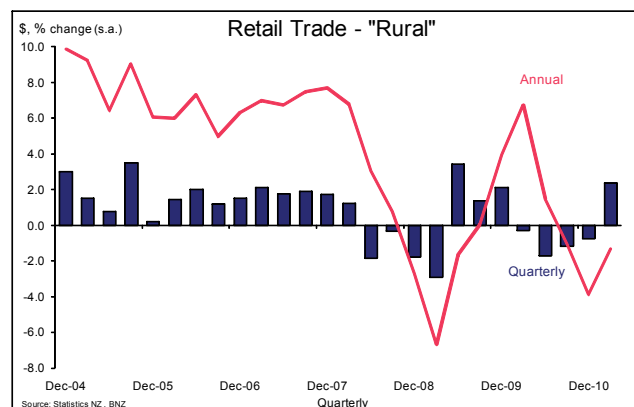
The regional variances we presume have certainly been apparent in the housing data. In particular, prices. For example, the QVNZ home price index for Auckland is down only a few percent from its late-2007 high-water mark and most recently has been edging up. Prices in Hamilton and Tauranga are down more than 10% (and so more than 20% in inflation-adjusted terms). Wellington (and Dunedin) nominal home prices have slipped somewhere between 5-10% from peak. For Christchurch it has become just too difficult to tell, with severely disrupted/destroyed supply offset by withered demand.



In relation to the housing market we also note the contrasting fortunes of ready-mix concrete production across the country. It was clearly on the up in Auckland during the March quarter while for Canterbury was down quite a bit, for obvious reasons. The remaining areas of the country were mixed, so to speak.

This divide was also clear in last week's Q1 retail trade statistics, with Auckland registering a 3.2% expansion in nominal sales in the quarter, while Canterbury suffered a 2.2% decline. Nonetheless, the results for Canterbury weren't as bad as feared. And for the rural-driven areas there were the beginnings of what we believe will become a bigger expenditure pulse throughout the land.

For instance, the dairy-intensive Waikato region experienced a 3.2% lift in nominal retail sales through the March quarter of this year, with the "Remainder of the North Island" seeing a 2.2% gain. Outside of Canterbury, the rest of the South Island turned a string of heavy negatives last year into a 2.0% bounce-back in Q1.



This, of course, mirrors the sharp turnaround we've seen in the fortunes of the pastoral sector. While its prices were beginning to recover last year, production was hit by vicious storms and serious drought. The weather has since turned extremely favourable in 2011, while export prices have gone from strength to strength, well outpacing the stronger currency. The income from all of this sets the foundation for a bigger recovery in spending throughout the provinces (even with some of the bounty no doubt to be used to control debt and address deferred maintenance on-farm).

This has been corroborated by the recent reads on consumer confidence. The Westpac McDermott Miller survey saw a more robust result for Waikato in June and big bounce-backs for the likes of Taranaki/Manawatu-Wanganui and Southland, with Northland also much perkier. We heard similar stories from the last weeks' ANZ Roy Morgan poll of consumer sentiment. When it comes to rural income there's always an element of "seeing is believing".

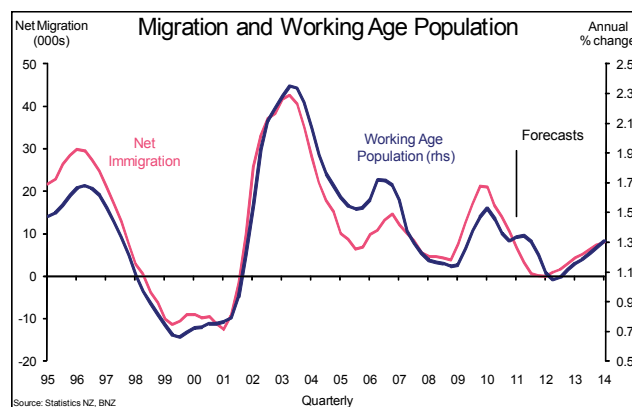
In respect to Christchurch we can't pretend to be precise about how things there are going to pan out, other than to say it will be significant and long-lasting. This includes potentially sizable impacts on the population. We know that immediately after the 22 February earthquake a good many folk exited the city and that the city's school pupil numbers are still down a fair bit. However, it's hard to say how many have moved away for good. Migrant departures from Christchurch to overseas, while up in April, were far from a torrent.

Decisions to relocate can never be taken lightly but, we suspect, because of the great difficulties being faced by many Christchurch residents, there will be an increasing outflow to either other parts of the country, or abroad. It will be something to watch over the coming years, not just months. In this respect, the end of the school year

seems a litmus test. And speaking of education, there is the capacity for student numbers to re-allocate around the country, whether by choice or by necessity.

Overall, however, we can imagine the nation's population growth will run at an even lower pace than it has over recent years. We say this with little indication that a lot of foreigners are looking to come and settle in New Zealand. Applications granted for NZ residency have this year been falling.

There may eventually be a drag-in migrant effect to the extent the reconstruction work in Christchurch will require more labour than NZ residents alone can provide (adding to the "building" population that will go some way to replacing everyday migrant departures from Christchurch). However, for the New Zealand as a whole, we envisage a relatively restrained population and labour-force expansion, with people and resources shifting around the country, in keeping with regional divergences that will probably become more marked over the coming years.



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