

BNZ CAPITAL-BUSINESS NZ PSI

BNZ Capital-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. BNZ Capital is a division of the Bank of New Zealand

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New orders/business boosts service sector activity for August

BNZ Capital - Business NZ PSI for August 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for August increased 1.2 points from July to stand at 51.3. This was the highest overall result since February 2008, and 3.4 points higher than the August 2008 result.
- Only two of the five diffusion indices that make up the PSI exhibited expansion during August, but one of the key indicators involving *new orders/business* (57.6) built on its strong gains in July to exhibit its highest result since February 2008. *Activity/sales* (50.5) fell 1.2 points from the previous month, but still remained in positive territory. *Employment* (49.3) continued to show improvement with its highest level since November 2008, while *stocks/inventories* (48.0) rose significantly from July. *Deliveries* (47.9) continued to pick up from an historic low in June, as well as being the highest value since March 2009.
- Activity was positive in all of the four main regions during August, with the strongest activity levels in the South Island. The Northern region (50.2) slipped 1 point from July, although remained in positive territory and the first time since January/February 2008 that it recorded consecutive monthly expansion. The Central region (51.6) showed expansion for the first time since January 2009, and climbed out of the June/July results which were historic lows. Both the *Canterbury/Westland* (53.9) and *Otago/Southland* (58.0) regions improved from July, with the latter experiencing its first level of expansion since December 2008, and its highest level since February 2008.
- Results for the various service sectors were generally positive for August. *Accommodation, cafes & restaurants* (61.8) led the way with its highest result since December 2007, followed by *cultural, recreational & personal services* (57.4). *Retail trade* (47.7) slipped slightly from July, although still one of its highest results over 2009. *Wholesale trade* (51.0) continued to improve, while *property & business services* (54.1) showed expansion after two months of decline.
- Three of the four firms by employment size showed expansion during August, with decline only evident with micro firms (1-10 workers) (48.6), after showing expansion the previous month. Small-medium firms (11-50 workers) (50.8) showed expansion for the first time since October 2008, while both medium-large firms (51-100 workers) (59.6) and large firms (101+ workers) (58.1) experienced their highest results since November 2007.
- The improvement in overall activity levels was mirrored by the proportion of negative comments from respondents dropping to 49.5% in August, compared with 51.9% in July, 58.8% in June and 59.1% in May.

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HIGHLIGHTS

- **Service sector activity was in expansion for the second consecutive month**
- **New orders/business highest since February 2008.**
- **Regional activity positive across the entire country, with stronger expansion evident in the South Island.**

Next BNZ Capital - Business NZ PSI: 19 October 2009

SPONSOR STATEMENT

BNZ Capital 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 Capital is a division of Bank of New Zealand Ltd.

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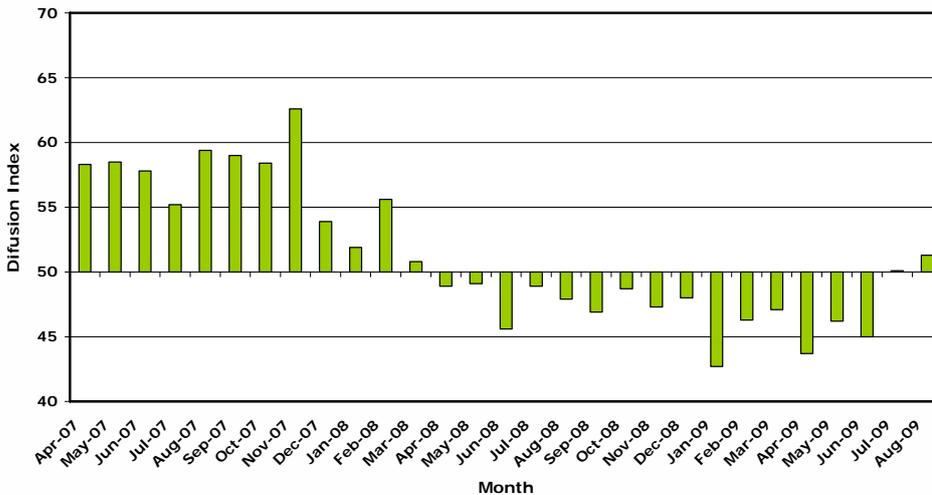
*Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

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BNZ Capital - Business NZ Performance of Services Index Time Series (April 2007 - August 2009)



PSI time series tables

National Indexes	Aug 2007	Aug 2008	May 2009	June 2009	July 2009	Aug 2009
BNZ Capital - Business NZ PSI	59.4	47.9	46.2	45.0	50.1	51.3
Activity/Sales	63.5	41.2	43.9	43.9	51.7	50.5
Employment	54.4	48.1	46.3	43.6	47.9	49.3
New Orders/Business	65.4	50.2	49.7	50.8	56.5	57.6
Stocks/Inventories	50.6	53.2	44.7	41.0	42.1	48.0
Supplier Deliveries	56.5	51.3	44.7	42.2	46.0	47.9

Regional Indexes	Aug 2007	Aug 2008	May 2009	June 2009	July 2009	Aug 2009
BNZ Capital - Business NZ PSI	59.4	47.9	46.2	45.0	50.1	51.3
Northern	59.9	47.3	47.4	44.4	51.2	50.2
Central	58.2	55.4	47.2	45.8	45.8	51.6
Canterbury/Westland	59.4	47.7	43.7	47.5	53.1	53.9
Otago/Southland	58.4	39.3	37.0	44.8	43.7	58.0

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

21 September 2009

Spring Is In The Air

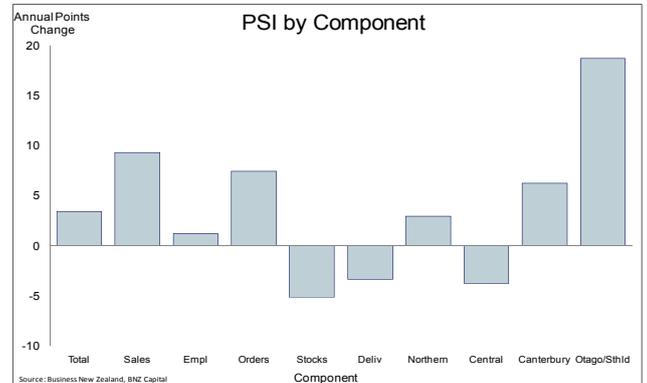
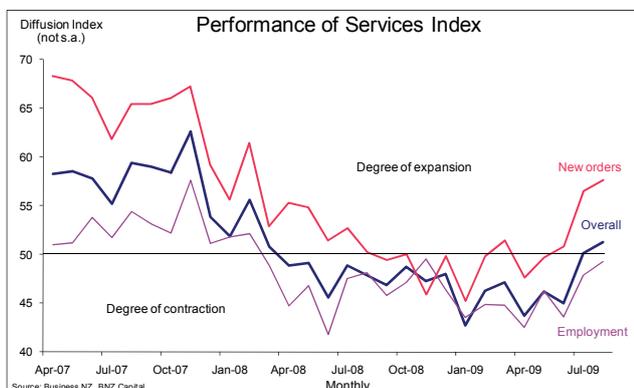
- Services sector stays positive
- Dairy price jump, Government activity and a pile of Aussies prove helpful
- Even employment off its death bed
- Further evidence of recession's end
- Though not for all

The first signs of spring, a jump in dairy prices, an active Government and heaps of Aussies seem to have been the recipe for further optimism in New Zealand's services sector in the month of August. Indeed, so optimistic are they that the headline PSI has climbed to 51.3, the second consecutive reading above the allegedly neutral 50 mark and the highest reading since February 2008.

As with many of the confidence indicators being released, the data come with the health warning that hard evidence of a recovery is now going to be needed to keep confidence headed in the right direction and, so far, such evidence is still sparse. Nonetheless, we do feel the data is yet further confirmation of our view that the recession is done and dusted, that activity levels have now stabilised, and a genuine pick up is set in place for calendar 2010.

Of great importance, in this regard, is the fact that the PSI is mimicking other indices in suggesting that even the laggard labour market is starting to show signs of life. While the employment indicator still shows that a net majority of services companies intend to lay off further staff, the 49.3 reading is the strongest since February 2008 and well up on the 42.5 trough reported as recently as April.

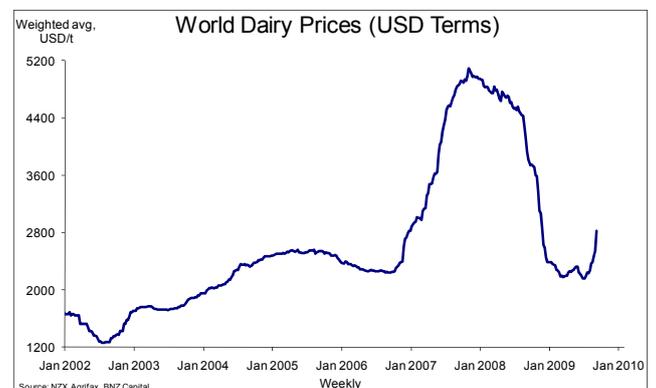
The combined impact of the positive factors that we have listed above should not be underestimated.



Early August saw the first serious recorded jump in dairy commodity prices after a long string of heartbreaking falls. Agri-fax reports that its weighted average dairy price was 11.9% higher by the end of August than it was at the end of July. Perhaps more importantly, Fonterra's auction prices rose by more than double the Agri-fax measure and this is proving to be a good leading indicator of the eventually reported price. With further gains in the Agri-fax and auction prices since the PSI survey was put together there should be follow through in optimism in the regions.

Of course, this is not to say that dairy farmers are out of the woods. Those who are highly leveraged still face severe cash flow constraints and significant balance sheet concerns as land prices tumble. Nonetheless, for those less pressured by debt constraints, the recent news should provide solace that the worst is behind them which, of course, is not only good news for the farmers themselves but also the service community that supports them.

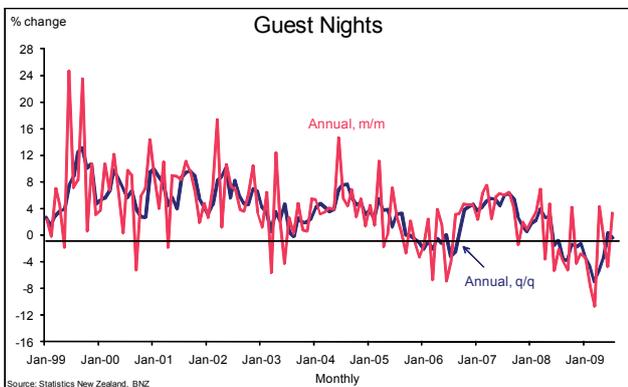
Given the impact that the dairy sector has on the southernmost regions of New Zealand, it is perhaps



no surprise that the biggest jump in confidence was in Otago/Southland. One assumes that this boost was also supported by the fact that the South has been the beneficiary of a very good snow season and an influx of Australians.

It may be a rarity for the average Kiwi to celebrate an Australian invasion but there is no doubt that New Zealand’s tourism and accommodation industry would have looked much sicker than it has had our trans-Tasman colleagues not come here in droves over the winter.

Importantly, there is now hope that the turnaround in the global economy will result in an uptick in more generalised tourism and we are hearing the first mutterings that forward bookings may be starting to pick up, albeit off extreme lows in many cases.



One assumes that these factors are also being reflected amongst the increased optimism being expressed by the accommodation, cafes and restaurants sector more broadly.

Anecdotal evidence would have us believe that central North Island businesses are benefiting from a flurry of Government and Government-impacted activity with consultants across a number of fields finding a number of opportunities to keep them busy as policy evolves.

Last but not least, one assumes that the improvement being seen in the housing sector is being reflected in the reported pick up in property and business services, finance and insurance confidence.

But all is not well everywhere. Consistent with the recently weak data coming out of the manufacturing sector, including the manufacturing PMI, and relatively soft retail sales data, we see businesses exposed to these sectors maintaining a relatively negative outlook. Retail, transport and storage feature in this regard.

We are quick to note that the survey size for the industry groups is in many cases very small so the data are prone to compositional changes and severe volatility. Nonetheless, the overall survey and its component parts do fit with our priors that the economy, generally, is on the mend. Nonetheless, equally, it’s a very mixed bag and New Zealand remains vulnerable to even the most modest of shocks.

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