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

psi

October falls flat for service sector activity

BNZ Capital - Business NZ PSI for October 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for October decreased 3.3 points from September to stand at 49.9. This was the first value below the no change mark of 50.0 since June 2009, but still 1.2 points higher than the October 2008 result.

- The two major contributors to the drop in overall activity came from a 9.6 point fall in *activity/sales* (48.4) and a 6.0 point fall in *new orders/business* (52.6). In contrast, *employment* (50.4) displayed its first (albeit small) expansion since February 2008. Both *stocks/inventories* (47.0) and *deliveries* (49.1) remained largely unchanged from September.

- Activity was positive for two of the four main regions during October, with the *Canterbury/Westland* region (54.5) leading the way with its highest level of expansion since December 2008. The *Central* region (51.6) jumped back to its level experienced in August, while the *Northern* region (48.9) fell 6.9 points after three consecutive months of expansion. The *Otago/Southland* region (47.5) improved on its previous months' result, but remained the poorest performing region for the second consecutive month.

- Results for the various service sectors were a mix of expansion and decline during October. *Transport & storage* (55.2) led the way with another strong improvement on previous results. *Retail trade* (53.6) slipped slightly from September, but still remained in expansion. In contrast, *property & business services* (48.7) remained in contraction, while *accommodation, cafes & restaurants* (43.8) recovering somewhat from the significant fall in activity during September.

- Three of the four firms by employment size showed expansion during October, with both small-medium sized firms (11-50 workers) (51.7) and medium-large sized firms (51-100) (50.8) continuing to show some level of expansion for three consecutive months. Large sized firms (101+ workers) (56.4) recovered strongly from September to record the highest level of expansion for the month, while micro sized firms (1-10 workers) (45.9) recorded its third consecutive contraction.

- The fall in overall activity levels was mirrored by the proportion of negative comments from respondents rising to 50.2% in October, compared with 46.8% in September, 49.5% in August, 51.9% in July and 58.8% in June.

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<u>HIGHLIGHTS</u>

- ***Service sector activity close to no change for October.***
- ***Production and new orders/business weaken compared with September.***
- ***Regional and sector activity again mixed, with a sharp drop in activity for the Northern region.***

Next BNZ Capital - Business NZ PSI:
14 December 2009

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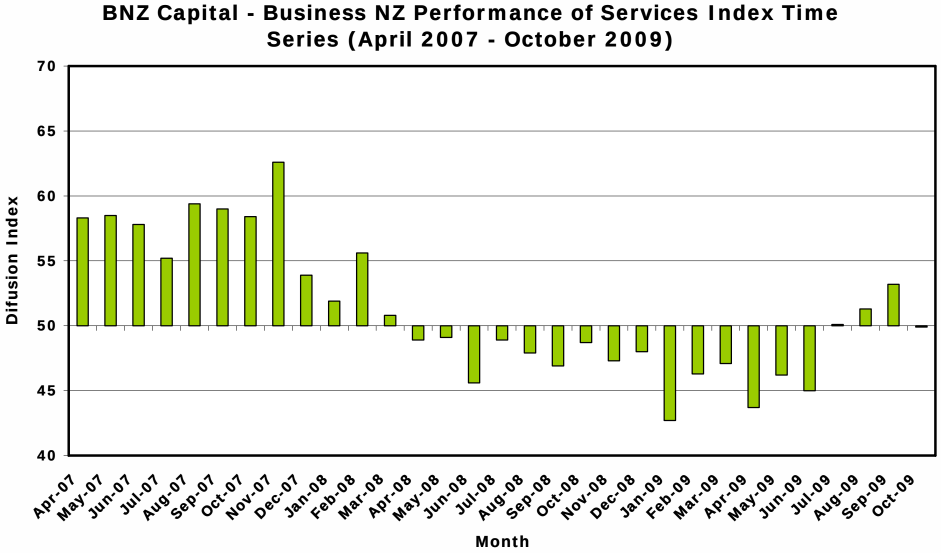

PSI time series tables

National Indexes	Oct 2007	Oct 2008	July 2009	Aug 2009	Sep 2009	Oct 2009
BNZ Capital - Business NZ PSI	58.4	48.7	50.1	51.3	53.2	49.9
Activity/Sales	58.7	46.8	51.7	50.5	58.0	48.4
Employment	52.2	47.1	47.9	49.3	48.0	50.4
New Orders/Business	66.0	50.0	56.5	57.6	58.6	52.6
Stocks/Inventories	56.7	52.0	42.1	48.0	46.9	47.0
Supplier Deliveries	57.0	50.2	46.0	47.9	49.3	49.1

Regional Indexes	Oct 2007	Oct 2008	July 2009	Aug 2009	Sep 2009	Oct 2009
BNZ Capital - Business NZ PSI	58.4	48.7	50.1	51.3	53.2	49.9
Northern	60.4	48.4	51.2	50.2	55.8	48.9
Central	54.7	55.4	45.8	51.6	50.4	51.6
Canterbury/Westland	59.6	52.3	53.1	53.9	51.5	54.5
Otago/Southland	55.3	37.7	43.7	58.0	45.6	47.5

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

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16 November 2009

Discounting Props Patchy Retail Recovery

- Headline retail results as mild as expected
- Q3 ex-auto volumes stronger than imagined, at 0.5%
- But only up on appliance binge, on discounting
- Bulk of retail data very patchy, and down per capita
- We still expect reasonable gains in Q4
- No news for the RBNZ

Retail Trade			
Q3 (volume) %	**Actual**	Mkt Expected	Q2
qtly	**+0.1**	flat	**+0.5**
- ex-auto	**+0.5**		**+0.3**
annual	**-2.8**	-3.1	**-3.9**
- ex-auto	**-0.2**		**-1.0**
September (nominal) %	**Actual**	Mkt Expected	August
Total m/m	**+0.2**	+0.4	**+1.1**
Total y/y	**-0.4**		**-0.6**
Ex-auto m/m	**flat**	+0.4	**+1.2**
Ex-auto y/y	**+3.1**		**+2.8**
All data seasonally adjusted			

Much like this morning's Performance of Services Index, last week's retail sales statistics were not yet showing any clear signs of advancement, although there is patently a sense of stability forming in both. Underneath it all, we believe an improvement is beginning to emerge, such that we'll see some moderate expansion through the December quarter.

The only real surprise in last Thursday's retail trade figures was the 0.5% increase in ex-auto volumes, when (unpolled) expectations for this core measure seemed about as tepid as the headline retail results proved to be. But before anyone gets excited about this we should note the 0.5% was propped up by a whopping 6.5% increase in spending on appliances. And on signs of discounting to boot, rather than reflecting any housing sector impact – as categories such as hardware and furniture were hardly strong.

While good for imports, and the distribution sector, the binge on appliances is hardly supportive for domestic production more generally. In this respect, it's worth noting that real spending on appliances is now around 18% higher than it was at the end of 2007 – about when the NZ recession began. The priorities of New Zealander consumers would seem clear.

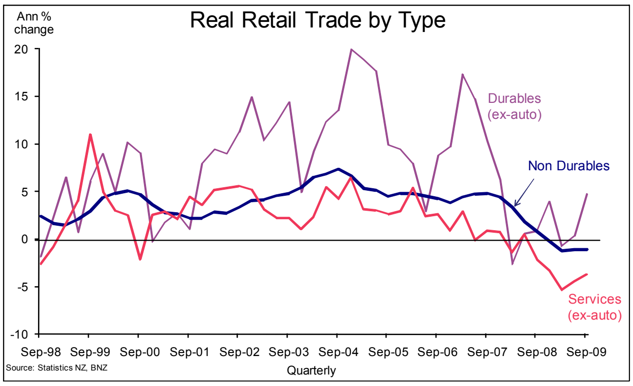
And we say this noting the recent surge in the exchange rate will be making imports, more generally, even more "competitive" for the foreseeable future, which will be as good for consumers as it is bad for local producers competing with imported product.

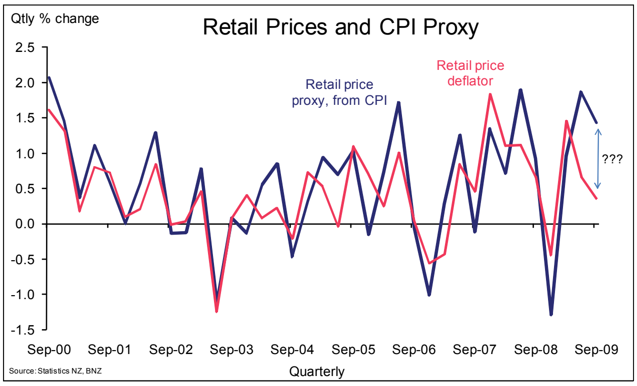
This highlights the other important channel through which a strong exchange rate is ultimately a drag for the local economy, while engineering imbalances, as it reinforces the more direct, and higher-profile, headwinds for exporters.

While we weren't completely surprised by the increase in appliance spending, we were certainly stunned by the extent of the rise in their volume. And most of this was because prices were much weaker than the CPI version of appliance prices implied.

To wit, the CPI-based price of appliances slipped 0.2% in Q3, to be 1.6% higher than a year ago. But the retail deflator for appliances dropped 1.3% in the quarter, to be 2.6% lower than the same period a year ago. It's like chalk and cheese.

While there may well be methodological differences to appreciate here, we think the retail version of appliance





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prices makes more sense. We need only walk down the main street, read the newspaper, turn on the latest-model flat-screen television, or surf the web via the snazziest PC, to get the impression there's still a lot of discounting out there in retail land. The buy now, pay later, interest-free deals remain in full force, it would seem.

And beyond the appliance stores, too. It would appear that retail stores of many varieties are still earnestly trying to shift product, partly to clear the decks before the all-important festive season arrives.

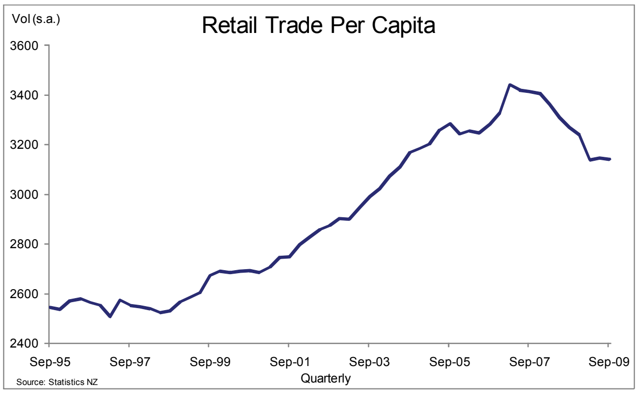
In keeping with our perception of ongoing hesitation in the industry, we judge that, excluding appliances, retail volumes in the September quarter fell 0.4% in core terms, and dropped 0.6% overall. This squares with the impression we got of the latest retail figures, of the sector remaining patchy, in general, with half of the store-types registering declines.

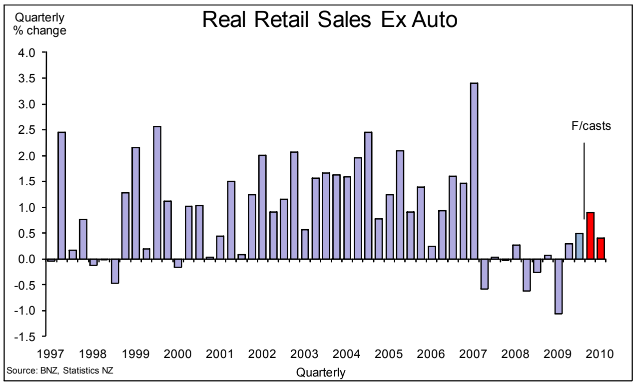
The other reason to remain guarded about the latest retail data was that they failed to keep pace with population growth, which is picking up (on the back of migrant departures falling by more than arrivals). It's now running at about 0.4% per quarter, in working-age population terms.

And so per capita retail spending was about flat in nominal terms in Q3 and was down 0.2% in real terms. Excluding appliances and the volatile auto categories, per capita retail spending volumes dropped about 0.7% in the September quarter, to be 1.3% lower than a year ago.

Nonetheless, we remain of the view (of PSI included) that an underlying pick-up is in train. With last week's retail data, overall, being broadly in line with our expectations, the technical picture still looks set for a reasonable expansion in the Q4 statistics – as the improvement in such things as consumer sentiment, and the housing market, have been pointing to. But it's nothing that looks particularly strong at the moment – as October's flattish electronic card transactions have already made plain.

craig_ebert@bnz.co.nz





Contact Details

BNZ Capital

Stephen Toplis	Craig Ebert	Mark Walton	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
1 Willis Street	125 Queen Street	129 Hereford Street
PO Box 2392	PO Box 2139	PO Box 1461
Wellington 6140	Shortland Street	Christchurch 8140
New Zealand	Auckland 1140	New Zealand
Phone: +(64 4) 474 6145	New Zealand	Phone: +(64 3) 353 2219
FI: 0800 283 269	Phone: +(64 9) 976 5762	Toll Free: 0800 854 854
Fax: +(64 4) 474 6266	Toll Free: 0800 081 167	

National Australia Bank

Peter Jolly	Alan Oster	Rob Henderson	John Kyriakopoulos
Head of Research	Group Chief Economist	Chief Economist, Markets	Currency Strategist
+(61 2) 9295 1199	+(61 3) 8634 2927	+(61 2) 9237 1836	+(61 2) 9237 1903

Contact Phone Numbers

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
Fixed Income/Derivatives	+(61 2) 9295 1166	Fixed Income/Derivatives	+(85 2) 2526 5891
London			
Foreign Exchange	+800 333 00 333		
Fixed Income/Derivatives	+(44 20) 7796 4761		

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