

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 conditions pick up in February

BNZ - Business NZ PSI for February 2010

- The BNZ - Business NZ Performance of Service Index (PSI) for February stood at 53.7, up 0.6 points from January and the first improvement from the previous month since November 2009. The February 2010 result was also well above the result for the same month in 2009 (46.3).
- Three of the five sub-indices were in expansion mode, with only *stocks/inventories* (49.2) showing slight contraction after three consecutive months of slight expansion. *New orders* (58.9) continued to lead the way with another strong result, while *activity/sales* (55.6) also picked up from January to record a value similar to December. *Employment* (50.6) fell 2.1 points from January, but still remained in expansion for the fifth consecutive month. *Supplier deliveries* (50.0) slipped 0.3 points from the previous month to remain unchanged for February.
- Activity was positive for three of the four main regions during February, with the *Otago/Southland* region (55.7) just ahead of the *Northern* region (54.7). The *Central* region (51.1) again fell back for the second consecutive month, while the *Canterbury/Westland* region (46.8) experienced its first contraction since June 2009. This was mainly due to a fall off in all sub-indices except new orders/business, which remained strong in that region.
- Results for the various service sectors were a mixture of expansion and decline during February. *Health & community services* (58.8) led the way for February, followed by *wholesale trade* (54.2). *Accommodation, cafes & restaurants* (52.6) picked up from January, while *property & business services* (52.4) experienced expansion after two months of decline. *Retail trade* (47.6) went into contraction during February, as did *transport & storage* (47.8).
- All firms by employment size showed expansion during February, with micro sized firms (1-10 workers) (52.3) recovering from its contraction in January. Both small-medium sized firms (11-50 workers) (53.2) and medium-large sized firms (51-100) (59.0) fell from the previous month, while large sized firms (101+ workers) (54.6) changed little from January.
- The improvement in the level of expansion during February meant the proportion of positive comments from respondents increased to 57.0%, compared with 51.5% in January, 56.0% in December, 54.5% in November, and 49.8% in October.

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HIGHLIGHTS

- **Service sector activity improves, with results similar over last three months.**
- **Most sub-indices remain in expansion, with new orders/business still strong.**
- **Regional activity expansionary across most parts of the country.**

**Next BNZ - Business NZ PSI:
19 April 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.

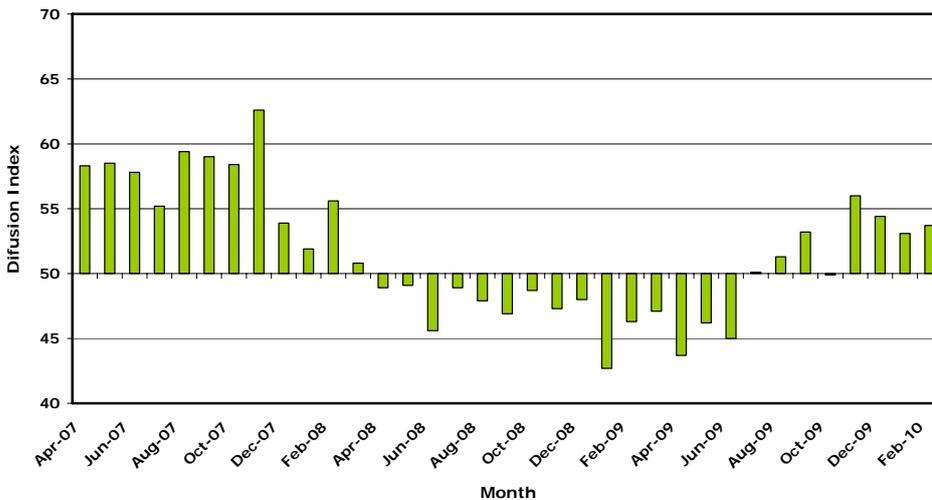
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**BNZ - Business NZ Performance of Services Index Time Series
(April 2007 - February 2010)**



PSI time series tables

National Indexes	Feb 2008	Feb 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010
BNZ - Business NZ PSI	55.6	46.3	56.0	54.4	53.1	53.7
Activity/Sales	56.2	42.9	58.7	55.1	53.6	55.6
Employment	52.1	44.9	51.2	51.1	52.7	50.6
New Orders/Business	61.4	49.8	61.1	60.0	56.1	58.9
Stocks/Inventories	51.3	48.3	50.6	50.3	50.3	49.2
Supplier Deliveries	53.5	47.2	54.3	52.0	50.3	50.0

Regional Indexes	Feb 2008	Feb 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010
BNZ - Business NZ PSI	55.6	46.3	56.0	54.4	53.1	53.7
Northern	52.8	45.3	54.8	52.5	52.4	54.7
Central	55.6	46.9	59.3	60.9	54.3	51.1
Canterbury/Westland	60.2	48.9	56.0	56.1	51.7	46.8
Otago/Southland	61.1	48.0	59.4	54.4	59.0	55.7

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

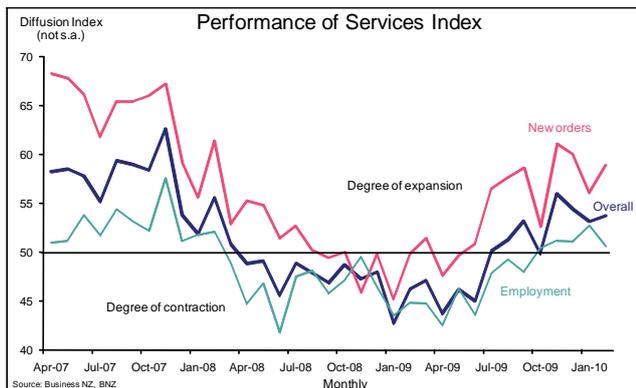
15 March 2010

Service Sector Activity Increasing

- Service sector recovery continues
- Encouraging for wider economy
- Expansion not yet fast enough for strong jobs growth

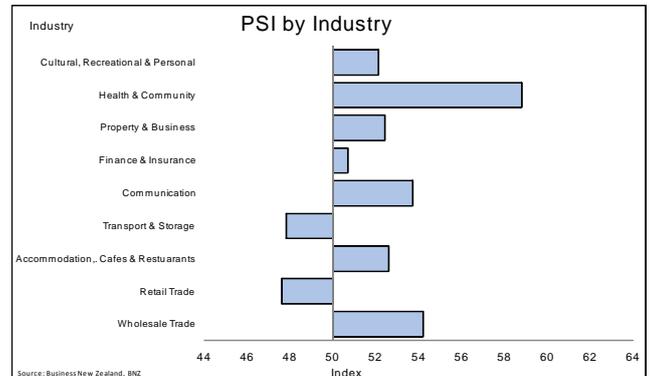
The service sector as a whole continued to push forward in February, extending the recovery that started around July last year. This is the general conclusion from February's Performance of Services Index, as it ticked up to 53.7 from 53.1 in January. Being above 50, it represents expansion within the sector and is a solid step up from the 46.3 recorded last February.

The new orders index continues to lead the way at a healthy 58.9, up 1.8 from January. This is encouraging for the durability of service sector expansion over coming months and for the wider recovery, given the sector makes up around two thirds of the economy.



Expansion was not uniform across all industries within the service sector. Health and community services stood out on the positive side, while retail trade and transport were the underperformers dipping below the 50 level in February from January.

The weakness in retail trade follows solid months in December and January and may simply reflect a pullback for the Christmas and New Year sales period. And with only a one month dip it is hardly a trend. But, it does tie in with weaker looking indicators for retail sales published elsewhere. Official retail sales for January published last Friday were soft at heart, with core sales only eking out a 0.3% rise following a 2.0% drop in December (and these figures remove the usual seasonal movements). Indicators for February tell a similar story. The value of electronic card transactions at retail stores fell 0.4% more than usual in February.



We are starting to wonder if some of the weakness reflects households materially increasing their savings rate (at long last). We say this with signs that employment indicators are improving and consumer confidence has strengthened to a relatively strong level. This is not usually the backdrop to falling spending.

The idea that saving is increasing certainly fits with anecdote that many households have not dropped their mortgage repayments as much as the big fall in mortgage rates has afforded, implying increased paying down of debt. While a pain for shopkeepers, this is fundamentally a good thing in respect of desired de-leveraging.

The other thing we (continue to) wonder about is how much of the disappointing trend in nominal spending reflects aggressive discounting by retailers as opposed to poor volume per se.

This, by the way, is a gentle reminder that the retail sector is probably not the place to look for the leading edge of New Zealand's GDP recovery. That mantle seems to be migrating to the likes of manufacturing, the broader services sector, and even some parts of the construction sector.

As for today's survey, while the main indicators are in positive territory, there is a hint of a plateau developing over recent months. Certainly, across all the sub indices the movements between January and February were all well within the usual monthly volatility. But even back to November, movements have been within relatively tight ranges. So, while service sector activity continues to expand, the acceleration we saw through the mid-to-latter part of 2009 may be tapering off. This would tie in with our view that the economy as a whole likely accelerated in Q4 2009 and maintained, rather than add to, this momentum into the New Year.

On a similar theme, we note that between January and February this year, the overall index, and across all major components, has not lifted as much as over the same months in the previous two years. The three point difference is not huge, but another pointer that the expansion, while ongoing, has not gathered pace early in the New Year.

A lack of acceleration would be important given the current rate of expansion seems enough for only mild net job creation - judging by the employment index just keeping its nose above the 50 line in February. Moreover, the implied labour demand will struggle to keep up with ongoing labour supply, the corollary being an unemployment rate that is likely to stay elevated for a while yet.

The ongoing slack in the labour market means no immediate need to lift interest rates from record lows. This was the clear message and (non) action from the Reserve Bank in its latest Monetary Policy Statement released last Thursday. Indeed, embedded in the Bank's forecast was an expectation of activity accelerating and with this interest rates may start to rise from around the middle of 2010.

All this, of course, is not set in stone and given where the economy has been over the past couple of years we must walk before we run.

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