

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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Services sector still weak

BNZ Capital - Business NZ PSI for March 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for March rose 0.8 points from February to stand at 47.1. This was the second consecutive lift in the overall result, but still 3.7 points down from the same month in 2008.
- Three of the five diffusion indices that make up the PSI exhibited contraction during March, although most experienced some improvement from February. *Activity/sales* (47.8) lifted to its highest value since July 2008, while *employment* (44.8) remained weak. *New orders/business* (51.4) produced its highest result since July 2008, while *deliveries* (51.4) returned to its December 2008 level. *Stocks/inventories* (45.4) fell 2.9 points, with a result similar to the start of 2009. In comparison with March 2008, almost sub-indices were lower, with the exception of deliveries.
- Activity was negative in three of the four main regions monitored, with results mixed compared with February. The *Northern* region (47.0) recorded its highest result since October 2008, while the *Central* region (49.6) was close to the no-change mark of 50.0. The *Canterbury/Westland* region (50.2) produced a result over the no-change mark after two consecutive months of contraction, while the *Otago/Southland* region (40.7) reverted back to a similar significant level of contraction experienced in January.
- Results for the various service sectors were generally negative for March. *Retail trade* (43.5) improved from February, but still showing contraction. *Wholesale trade* (50.1) continued to recovery, showing its highest result since May 2008. *Accommodation, cafes & restaurants* (41.9) experienced a fall from activity experienced in February, while *health & community services* (50.6) continued to show expansion, despite another drop in activity from the previous month.
- All firms by employment size continued to experience contraction during March, although most improved from the previous month. Both micro firms (1-10 workers) (47.8) and small-medium firms (11-50 workers) (48.4) showed a noticeable pick-up in activity from February, while medium-large firms (51-100 workers) (45.7) was largely unchanged. Large firms (101+ workers) (42.9) recorded an almost identical result to January 2009.
- The improvement in overall activity levels was again mirrored by the proportion of negative comments from respondents during March falling to 54.6%, compared with 57.8% in February and 63.6% in January. When comparing activity with the same time last year for positive and negative comments, both indicators improved. The fall in activity for those with negative comments (3.8*) was 0.1 points less than February. For positive comments, there was a drop of 0.05 points to stand at 2.55 for March.

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HIGHLIGHTS

- ***Service sector activity again improved for March, although overall still in contraction.***
- ***Both activity/sales and new orders produced their highest results since July 2008.***
- ***Most regions experienced an improvement in activity levels.***

**Next BNZ Capital - Business NZ PSI:
18 May 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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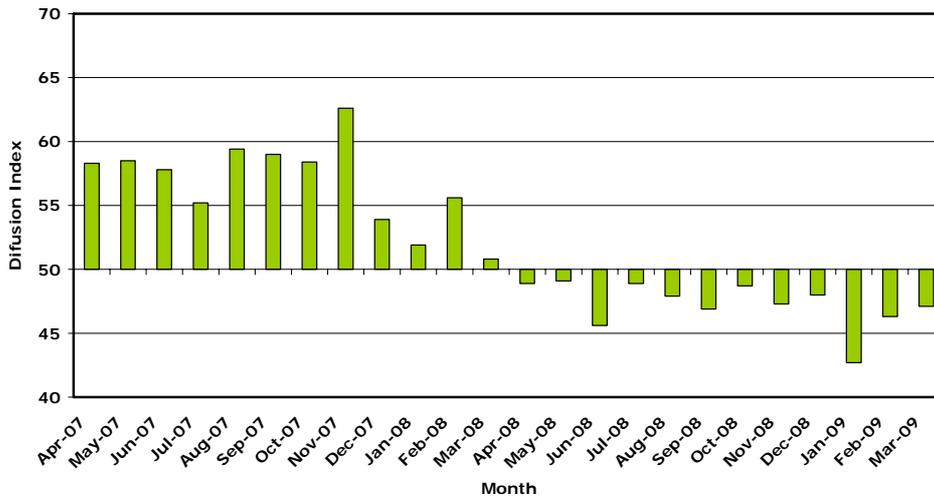
*Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

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



PSI time series tables

National Indexes	Mar 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	Mar 2009
BNZ Capital - Business NZ PSI	50.8	47.3	48.0	42.7	46.3	47.1
Activity/Sales	51.8	45.7	45.2	37.3	42.9	47.8
Employment	48.9	49.5	46.4	43.5	44.9	44.8
New Orders/Business	52.9	45.9	49.8	45.2	49.8	51.4
Stocks/Inventories	49.0	51.1	49.2	45.7	48.3	45.4
Supplier Deliveries	50.3	46.6	51.4	44.2	47.2	51.4

Regional Indexes	Mar 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	Mar 2009
BNZ Capital - Business NZ PSI	50.8	47.3	48.0	42.7	46.3	47.1
Northern	49.7	44.8	45.6	39.3	45.3	47.0
Central	57.1	50.4	50.8	53.9	46.9	49.6
Canterbury/Westland	47.7	55.3	54.6	48.3	48.9	50.2
Otago/Southland	52.9	47.6	53.8	40.4	48.0	40.7

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

20 April 2009

PSI "Recovery" An Optical Illusion

- BNZ Services Index "recovers" to 47.1
- But largely seasonal by the look of it
- QSBO services sector certainly very negative
- Matching depths of wider business concern
- Households/Government will struggle to stop the gap

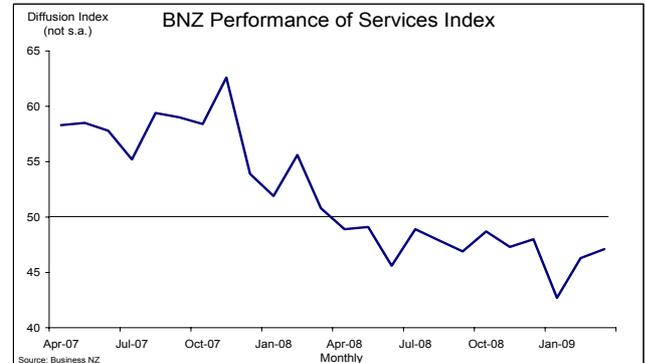
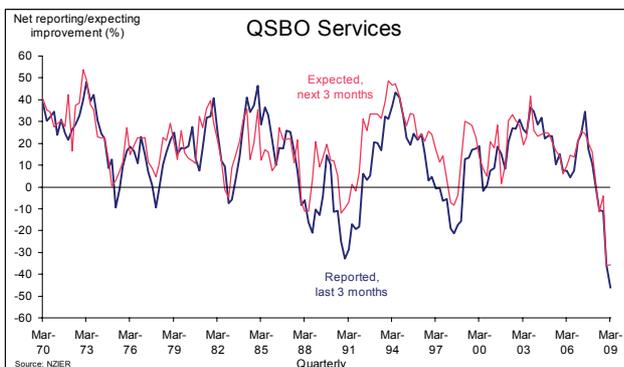
Looking at the March Performances of Services Index (PSI), you might be forgiven in thinking the sector is wriggling its way back to safer ground. The headline index, of 47.1, not only represented the second monthly increase on the trot, but was not that far from the breakeven level of 50.0. And while employment (44.8) remained in contraction territory, the forward-looking index of new orders (51.4) got back into growth mode.

However, we must say, we have our reservations. Much of the issue is that the PSI is not yet a long enough series to allow a reliable seasonal adjustment. So part of its less-negative look for February/March would seem to reflect the time of the year more than anything else.

Of course, we don't know this for sure. Only time will allow a statistically robust testing of this seasonal hypothesis. However, a quick cross-check of the PSI against the services component of the recent Quarterly Survey of Business Opinion (QSBO) bears out our suspicions about a "recovery" being nothing more than a mirage.

Indeed, the latest QSBO quite clearly tells of a services sector going backwards at a fairly rapid rate of knots in the early stages of 2009, and even more so than was reported for the end of last year. Not quite as negative as the picture around manufacturing, but not that different either, in the broad scheme of things.

In respect of output, a net 46% of service sector respondents to the QSBO reported a fall over the last



three months (compared to -36% in Q4). And a balance of 36% expected lower activity over the coming three months. These are, by the way, seasonally adjusted results. And they are about as bad as the overall QSBO trading results were – and these were effectively the lowest since at least 1970.

The QSBO services sub-components were also around as weak as they were within any of the other surveyed sectors. Whether talking about profits, employment, investment or pricing power, the NZ services sector has in no respect been spared from the depths of the downturn assailing the business community as a whole.

So, we should be very careful about reading too much into the "recovery" that might seem implicit in the latest headline Performance of Services Index.

With evidence, instead, of widespread softening in the business sector, including services, there is increasing onus on the consumer and public sectors to drive the nation out of recession.

We're not confident of the household sector doing so – either soon, or forcefully – given the extent of labour market deterioration firms are warning about for the coming year or more.

And while there is a lot of fiscal stimulus still in the pipeline (even after the two rounds of tax cuts we've had over the last six months), there seems little, if any, room for more. That was certainly the view put forth by the OECD, in the economic report on New Zealand it issued last week. Indeed, we might yet be surprised by how austere the 28 May Budget will (need to) be, and its depressing consequences for the economy at large.

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