

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

Service sector not out of the woods yet

BNZ Capital - Business NZ PSI for April 2009

- The BNZ Capital - Business NZ Performance of Service Index (PSI) for April decreased 3.4 points from March to stand at 43.7. This was the second lowest overall result, and a return to values close to the start of 2009.
- All diffusion indices that make up the PSI exhibited contraction during April, with all also showing deterioration from March. *Activity/sales* (40.9) fell to its second lowest value, while *employment* (42.5) contracted further to also reach its second lowest level since the survey began. Both *new orders/business* (47.6) and *deliveries* (44.9) went from expansion to decline in April, while *stocks/inventories* (45.4) slipped further to its lowest point over the history of the survey. In comparison with April 2007 and 2008, all sub-indices were lower.
- Activity was negative in all four main regions monitored in April. The *Northern* region (42.8) recorded its lowest result since January this year, while the *Central* region (48.8) experienced a small deterioration in activity. The *Canterbury/Westland* region (43.1) reverted back to negative territory with its lowest ever result, while the *Otago/Southland* region (44.8) improved somewhat after a significant fall in March.
- Results for the various service sectors were almost all negative for April. *Wholesale trade* (39.3) experienced a significant fall in April, dropping to its lowest ever result. *Retail trade* (44.6) continued to recover (albeit slowly), while *accommodation, cafes & restaurants* (43.4) also experienced a modest recovery. *Health & community services* (51.1) continued its run of positive results for 2009, and the only service sector to show expansion for the month.
- All firms by employment size continued to experience contraction during April, with results similar across all sizes. Both micro firms (1-10 workers) (44.3) and small-medium firms (11-50 workers) (43.3) recorded a significant drop in activity from March, while medium-large firms (51-100 workers) (42.5) experienced a smaller decrease. Large firms (101+ workers) (44.2) improved on its March result, although still well in contraction mode.
- The drop in overall activity levels was again mirrored by the proportion of negative comments from respondents during April increasing to 56.7%, compared with 54.6% in March, 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 were worse off. The fall in activity for those with negative comments (4.0*) was 0.2 points up from March. For positive comments, there was also an increase of 0.07 points to stand at 2.62 for April.

The BNZ Capital - Business NZ Performance of Services Index 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.

HIGHLIGHTS

- **Service sector activity deteriorated for April, with the sector spending 13 months in contraction.**
- **Employment sunk to its second lowest result.**
- **All regions experienced deterioration in activity levels, while wholesale trade recorded a sharp fall in activity.**

Next BNZ Capital - Business NZ PSI: 15 June 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.

BNZ Capital (www.bnzcapiital.co.nz)

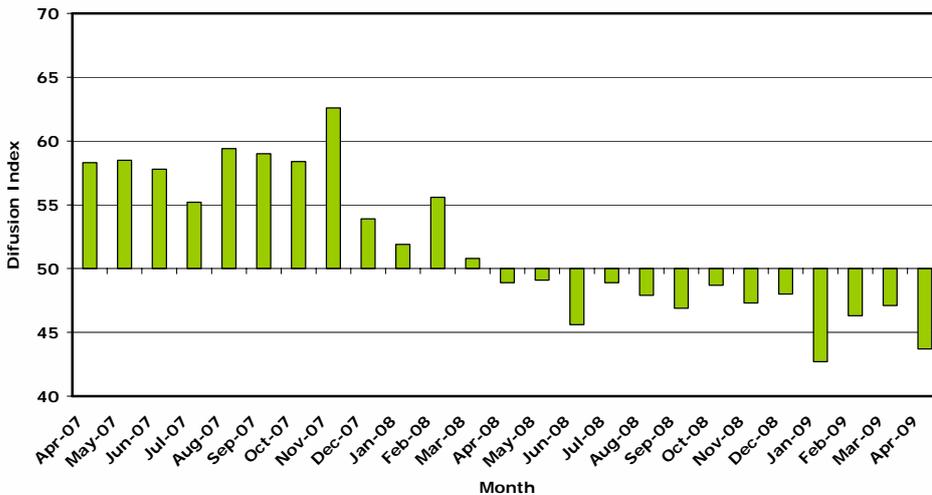
*Respondents are asked for a score from 1-5, where 1= large rise and 5= large fall.

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

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



PSI time series tables

National Indexes	Apr 2007	Apr 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009
BNZ Capital - Business NZ PSI	58.3	48.9	42.7	46.3	47.1	43.7
Activity/Sales	59.9	48.3	37.3	42.9	47.8	40.9
Employment	51.0	44.7	43.5	44.9	44.8	42.5
New Orders/Business	68.3	55.3	45.2	49.8	51.4	47.6
Stocks/Inventories	52.5	46.9	45.7	48.3	45.4	42.6
Supplier Deliveries	55.3	47.8	44.2	47.2	51.4	44.9

Regional Indexes	Apr 2007	Nov 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009
BNZ Capital - Business NZ PSI	58.3	48.9	42.7	46.3	47.1	43.7
Northern	57.8	49.8	39.3	45.3	47.0	42.8
Central	62.5	53.8	53.9	46.9	49.6	48.8
Canterbury/Westland	56.0	48.1	48.3	48.9	50.2	43.1
Otago/Southland	59.2	42.8	40.4	48.0	40.7	44.8

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

18 May 2009

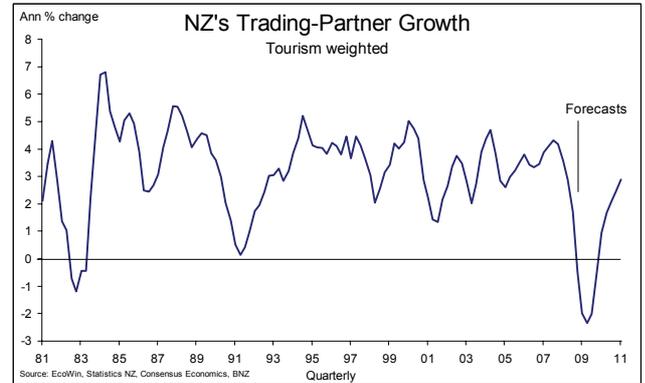
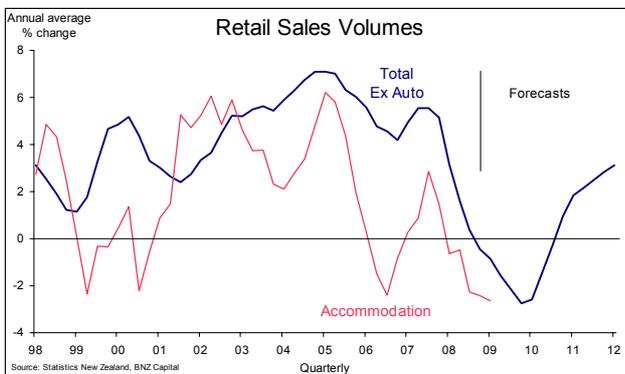
Tourism Troubles

- Tourism a key to service sector performance
- It's facing a torrid time
- Global supply drivers the worst for decades
- Domestic unemployment spike unhelpful
- Roll on 2011

The tourism industry is of fundamental importance to the strength of the broader New Zealand services sector given its reach across a multitude of differing businesses including transport, accommodation, restaurants and cafés and the wider retail sector. Accordingly, the headwinds that tourism currently faces are proving to be a substantial headache for the economy as a whole.

Tourism's success, or otherwise, is split between the revenues it accrues from domestic expenditure in addition to its offshore sourced earnings. In the current environment both are under threat.

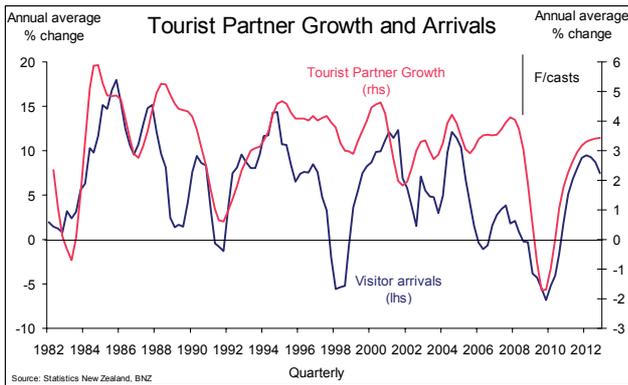
Domestically, it's clear that household spending is under substantial pressure, as evidenced by the sharp falls we are seeing in total retail sales. Unfortunately, in this sort of environment, it is discretionary spending that takes the biggest hit and that includes holidays. It should thus come as no surprise that, while total ex-auto sales volumes, for the March quarter, were down 1.9% on year earlier levels, accommodation spending fell a more dramatic 5.3% and is now 9.4% down from its peak. Unfortunately, while the household spending malaise persists, and it is likely to do so for some time given the expected increase in the unemployment rate, accommodation will continue to suffer disproportionately. The same can be said for bars whose sales volumes in the March quarter were down 8.1% for the year and restaurants -6.9%.



It is true that with less money to go around, Kiwis will, in theory, be more likely to holiday at home than abroad but this will only prove to be a partial offset to the wider deterioration. Moreover, with the extremely cheap deals being offered for international travel, particularly to Australia, it in fact may not be the case for some that it is more cost effective to holiday at home.

While the weakness in the domestic economy poses its own risk, the international situation is even more problematic. First and foremost the decision to travel to New Zealand is influenced by the well-being of folk in their home economies. As a proxy for this GDP growth is as good a measure as any. And this is where things get very ugly indeed. We calculate a tourism weighted trading partner growth track using visitor numbers to derive the weights. On this basis, tourism weighted activity contracts 1.7% in calendar 2009 and bounces back only 1.8% the following year. Our data series goes back to 1981 and this represents by far and away the worst global backdrop that we have witnessed during this period. This being so, it is no surprise that visitor numbers are dropping sharply. We forecast further falls ahead and caution that, given past relationships between the growth and visitor numbers, substantial downside risk remains.

Overall numbers are being held up by the fact that 41% of our tourists come from Australia. The Australian economy is faring much better than many, the NZD/AUD cross is favourable and Australians, too, are looking for cheaper holidays closer to home.



Chinese visitor numbers are also hanging in there thanks to the much stronger performance of that economy and the increasing ties we are developing with China as a nation state. Chinese tourists now account for 5.0% of total.

In contrast, however, the industry is getting absolutely clobbered by the demise of the UK and US economies which provided 11.0% and 8.0% of our tourists respectively. With the ongoing problems that these countries face, more of the same can be expected.

Tourist Arrival						
	% of total	Growth Outlook				
		2007	2008	2009	2010	2011
Australia	40.8	4.0	2.1	-0.3	1.7	2.9
United Kingdom	11.0	3.0	0.7	-3.0	0.5	1.8
United States	8.2	2.0	1.1	-2.8	1.7	3.1
China	4.7	11.9	9.0	7.0	8.3	9.1
Japan	4.1	2.0	-0.7	-5.8	0.7	1.6
Korea	3.0	5.0	2.5	-3.0	3.5	4.8
Germany	2.6	2.5	1.3	-4.5	0.5	1.6
Canada	2.1	2.7	0.5	-1.8	2.3	2.8
Singapore	1.2	7.7	1.1	-4.7	3.2	5.4
Netherlands	1.1	3.5	2.1	-3.0	-0.1	1.4
Total	100.0	4.1	1.9	-1.7	1.9	3.2

We are seeing the first signs that the worst of the global growth phase is behind us. Certainly the pace of downgrades is slowing substantially which simply has to happen before any genuine pick up can occur. However, with households remaining under pressure for some time to come, it may yet be a long time before folk in the tourism sector can have another day in the sun. Roll on the Rugby World Cup!

stephen_toplis@bnz.co.nz

Contact Details

BNZ Research



Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Mark Walton
Economist
+(64 4) 474 6923

Danica Hampton
Currency Strategist
+(64 4) 472 4767

Main Offices

Wellington
1 Willis Street
PO Box 2392
Wellington 6140
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
125 Queen Street
PO Box 2139
Shortland Street
Auckland 1140
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
129 Hereford Street
PO Box 1461
Christchurch 8140
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

NAB/nabCapital Research



Peter Jolly
Head of Research
+(61 2) 9295 1199

Alan Oster
Group Chief Economist
+(61 3) 8641 3464

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Contact Phone Numbers

Wellington
Foreign Exchange
Fixed Income/Derivatives

+800 642 222
+800 283 269

Sydney
Foreign Exchange
Fixed Income/Derivatives

+800 9295 1100
+(61 2) 9295 1166

London
Foreign Exchange
Fixed Income/Derivatives

+800 333 00 333
+(44 20) 7796 4761

New York
Foreign Exchange
Fixed Income/Derivatives

+1 800 125 602
+1877 377 5480

Hong Kong
Foreign Exchange
Fixed Income/Derivatives

+(85 2) 2526 5891
+(85 2) 2526 5891

24 HOUR FOREIGN EXCHANGE SERVICE

Phone Toll Free 6am to 10pm NZT – Wellington Office
0800 739 707 10pm to 6am NZT – London Office – Olivia Core

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division which is part of nabCapital a division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of the National), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. BNZ Capital, a division of Bank of New Zealand, strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither BNZ Capital nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabCapital Securities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabCapital Securities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabCapital Securities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

