

## BNZ-BUSINESS NZ PMI

BNZ-Business NZ PMI is a monthly survey of the manufacturing sector providing an early indicator of activity levels. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

pmi

## New orders keep manufacturing activity on right track

### BNZ - Business NZ PMI for January 2010

- The BNZ - Business NZ seasonally adjusted PMI for January (52.0) decreased 1 point from December to return almost to November's level of activity. Since expansion returned in September, activity has remained within a band of only 3 points between the highest and lowest values.
- Three of the five seasonally adjusted main diffusion indices displayed contraction, however the key indicators of *production* (52.3) and *new orders* (56.2) remained in expansionary mode. *Employment* (49.6) is still just under the level of no change, and *deliveries of raw materials* (49.3) produced a similar result. *Stocks of finished products* (46.9) remained the lowest indicator, with 13 consecutive months in contraction.
- While the overall seasonally adjusted result was in expansion, the unadjusted results showed all regions in decline during January. The biggest drop was in the Northern region (45.8), which had shown the strongest level of regional expansion for the previous two months. The Canterbury/Westland region (49.7) experienced a slight decline, and the Central (48.9) and Otago/Southland (48.8) regions displayed almost identical levels of activity.
- Manufacturing by industry sub-groups was a mix of expansion and contraction during January. The *food, beverage & tobacco* sector (40.6) fell sharply from December, with the *wood & paper product* (39.5) and *petroleum, coal, chemical & associated product* (40.0) sectors at similar levels. In contrast, the *metal product* (58.5) and *machinery & equipment* (50.4) sectors both displayed expansion for the month.
- New Zealand's result was less robust than the global PMI for January. The JPMorgan Global PMI for January (56.1) displayed a five-and-a-half year high, with the growth of production and new orders gaining traction at its fastest pace since mid-2004. The USA PMI (58.4) continued its movement upwards, while the Australian PMI (51.0) returned to positive territory.
- The proportion of negative comments made by New Zealand PMI respondents swung upwards in January, rising to 54.7%, compared 43.6% in December, 47.0% in November, 55.0% in October and 60.6% in September. Seasonal influences were the most common negative comment received.

The BNZ - Business NZ Performance of Manufacturing Index is a monthly survey of the manufacturing sector providing an early indicator of activity levels. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

#### HIGHLIGHTS

**Seasonally-adjusted PMI starts off 2010 with expansion in the manufacturing sector.**

**Three of the five main indices recorded contraction, although the key indicators of production and new orders remain in expansion.**

**Unadjusted regional activity was in decline throughout the country.**

**The global manufacturing scene reached new highs, with the strongest level of expansion in over five years.**

**Next BNZ - Business NZ PMI:  
11 March 2010**

#### SPONSOR STATEMENT

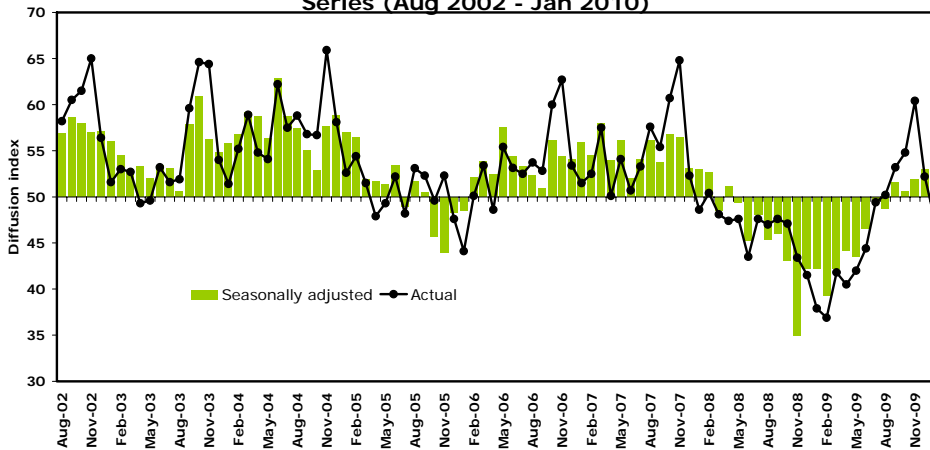
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business NZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand manufacturing sector.

## BNZ-BUSINESS NZ PMI

BNZ-Business NZ PMI is a monthly survey of the manufacturing sector providing an early indicator of activity levels. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

# pmi

**BNZ - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Jan 2010)**



### January time series tables

National Indexes	Jan 2005	Jan 2006	Jan 2007	Jan 2008	Jan 2009	Jan 2010
BNZ - Business NZ PMI (s.a)	56.9	48.5	55.8	53.0	42.2	52.0
Production (s.a)	56.3	49.3	56.8	51.7	40.0	52.3
Employment (s.a)	54.8	45.4	51.6	49.6	43.0	49.6
New Orders (s.a)	61.1	50.4	58.1	54.5	41.4	56.2
Finished Stocks (s.a)	54.4	49.2	51.1	54.3	48.3	46.9
Deliveries (s.a)	55.5	47.2	58.1	55.1	42.2	49.3

National Indexes	Jan 2005	Jan 2006	Jan 2007	Jan 2008	Jan 2009	Jan 2010
BNZ - Business NZ PMI (s.a)	56.9	48.5	55.8	53.0	42.2	52.0
Northern	53.8	42.3	51.6	47.2	34.4	45.8
Central	51.2	44.8	52.6	42.3	40.7	48.9
Canterbury/Westland	49.4	49.4	53.7	55.2	36.8	49.7
Otago/Southland	54.9	42.8	43.4	58.8	48.4	48.8

(s.a denotes seasonally adjusted)

The BNZ - Business NZ PMI contains data obtained through Business NZ's regional organisations:



*Northern* (Employers and Manufacturers Association - Northern): Northland, Auckland, Waikato, Bay of Plenty



*Central* (Employers and Manufacturers Association - Central): Gisborne, Hawke's Bay, Taranaki, Manawatu, Wanganui, Wellington, Nelson, Tasman



*Canterbury/Westland* (Canterbury Employers Chamber of Commerce): Canterbury, Marlborough, West Coast



*Otago/Southland* (Otago Southland Employers Association): Otago, Southland.

11 February 2010

## Modest Manufacturing Expansion

- Production recovery is underway
- Growth not strong enough for net job creation, yet
- Forward indicators suggest employment to turn around mid-year

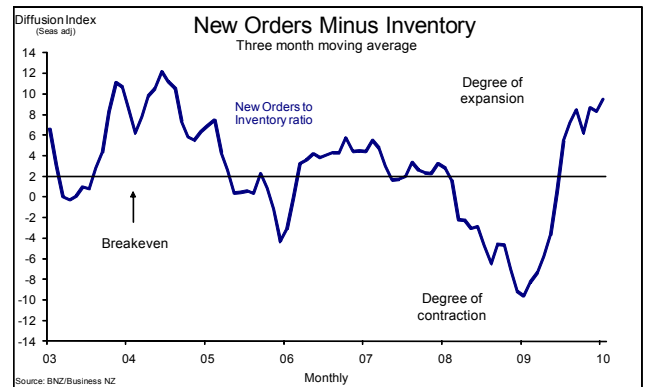
New Zealand's manufacturing sector started the New Year much as it finished the final few months of 2009 – modestly in expansion mode. This is the broad conclusion from January's Performance of Manufacturing Index, despite it easing a touch to a seasonally adjusted 52.0, from 53.0 in December last year. Still, being above 50, it represents the fifth consecutive month of expansion following more than a year of intense pain caused by the potent cocktail of parallel global and domestic recessions. Encouragingly, the past two months are the highest readings over the past two years.

The expansionary flavour of the PMI overall, including in the production index, over recent months is consistent with our view that manufacturing GDP posted positive growth in Q4 last year. Further growth is likely in Q1. However, this should be read as a modest recovery off a low base, rather than a position of strength, given that it follows seven consecutive quarters of decline.

Growth is not yet strong enough for net positive job creation in the manufacturing sector. This was clearly evident, at least to Q4 last year, in the official employment figures released last week where the manufacturing sector, on net, continued to shed jobs. However, as with all top level statistics, this is likely to mask a wide variation across industries within the sector and a likely even wider variation across individual firms.

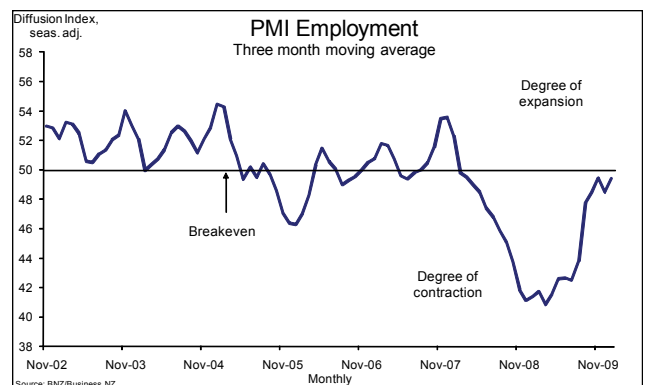
Even so, with the sector accounting for greater than 11% of total employment in New Zealand, the retreat in manufacturing employment played its part in the economy-wide unemployment rate shooting up to 7.3% in Q4 from 6.5% in the previous quarter.

Of course, it is common to have employment and other general labour market indicators following the production or economic cycle with a lag. For example, firms do not shed staff at the first sign of a downturn in sales – preferring instead to take the hit on short-term productivity and profitability or by reducing hours worked. The reverse happens in the initial stages of recovery such that employment growth lags behind a pickup in sales and production.



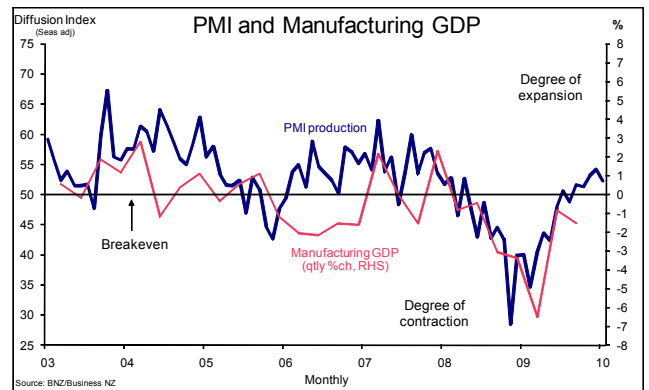
The details of the January survey (as well as the previous few surveys) exhibit the classic signs of a sector in the early stages of recovery. New orders are now firmly in positive territory and the strongest of the sub indices. Some of these orders have been filled from existing inventory, such that the inventory index is the lowest of all sub indices. Consistent with an inventory rundown, the rise in production has, to date, not matched the lift in new orders.

This dynamic means the new orders to inventory ratio provides some guide to where production, and thus employment, may go next. On this front, it is encouraging to note that the three month average of this ratio has hit its highest level in five and a half years – a promising signal for production and employment growth ahead. Indeed, a turnaround in official manufacturing employment might well be imminent judging by the rise in the employment index over the past year. At 49.6 in January, it is just a whisker away from expansionary territory. This is consistent with our wider economy view that employment is on the turn and the unemployment rate is close to a peak.



Sustained new orders and production from here would likely see employment growth by mid-year. Of course, firms need the confidence that the outlook is positive enough to commit to raising staffing levels. On this front, ongoing economic growth in Australia and a favourable cross exchange rate are positives. But uncertainty and risk in other parts of the world, including Europe, will likely keep firms a little cautious for a while yet.

For now, in the manufacturing sector, rising productivity – the result of production picking up and employment lagging – is turning profitability around. In fact, according to the January Quarterly Survey of Business Opinion, profitability in the manufacturing sector has just ticked positive for the first time in six years. Long may it last.



doug\_steel@bnz.co.nz

## Contact Details

### BNZ Research

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

**Craig Ebert**  
Senior Economist  
+(64 4) 474 6799

**Doug Steel**  
Economist  
+(64 4) 474 6923

**Danica Hampton**  
Senior Strategist  
+(64 4) 472 4767

**Mike Jones**  
Strategist  
+(64 4) 472 4767

### Main Offices

**Wellington**  
60 Harbour Quays  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Phone: +(64 4) 474 6145  
FI: 0800 283 269  
Fax: +(64 4) 474 6266

**Auckland**  
80 Queen Street  
Private Bag 92208  
Auckland 1142  
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

### National Australia Bank

**Peter Jolly**  
Head of Research  
+(61 2) 9237 1406

**Alan Oster**  
Group Chief Economist  
+(61 3) 8634 2927

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

**John Kyriakopoulos**  
Currency Strategist  
+(61 2) 9237 1903

**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 – Sam Hehir

**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 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 NAB), 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. 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 Bank of New Zealand 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 nabSecurities, 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 nabSecurities, 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 nabSecurities, 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.

**National Australia Bank Limited is not a registered bank in New Zealand.**