

BNZ-BusinessNZ 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.



Middling May

BNZ - BusinessNZ PMI for May 2014

- The BNZ-BusinessNZ seasonally adjusted PMI for May stood at 52.7, which was 1.7 points lower than the previous month, although still showing expansion. Despite the second consecutive dip in expansion levels, the sector has now been in expansion for 20 consecutive months.
- All five seasonally adjusted main diffusion indices were in expansion during May. *Production* (55.2) again led the way for the current month with a value unchanged from April. In contrast, *new orders* (51.6) fell to its lowest level of expansion since December 2012. *Employment* (53.8) remained in healthy territory, despite falling 0.5 points over the month. *Finished stocks* (52.6) went back into expansion during May, while *deliveries* (51.4) dropped for the fourth consecutive month.
- Three of the four regions were in expansion during May. In the North Island, the *Northern* region (57.4) increased 4.4 points, while the *Central* region (56.4) recovered most of the drop it experienced the previous month. In the South Island, the *Canterbury/Westland* region (56.7) showed solid expansion levels, while the *Otago-Southland* region (48.1) slid 9.6 points to record its first decline in activity since April 2013.
- Manufacturing by industry sub-groups were mostly in expansion during May. *Machinery & equipment manufacturing* (61.4) continued to build momentum with a strong result for the current month, while *petroleum, coal, chemical & associated product manufacturing* (55.0) went back into expansion. *Food, beverage & tobacco manufacturing* (53.1) slipped downwards, most probably due to the change of seasons, while *metal product manufacturing* (53.0) increased from April.
- Despite the dip in overall activity, the proportion of positive comments for May (60.8%) was up from April (58%), although still slightly down from March (61.3%). Globally, the JPMorgan Global Manufacturing PMI for May (52.2) ticked higher in May, as companies raised output in response to rising levels of new business and international trade volumes.

The BNZ - BusinessNZ 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 dips again, although remains in expansion.

All five main indices were in expansion, with production holding but new orders slipping.

Unadjusted regional activity remained expansionary in three of the four regions.

***Next BNZ - BusinessNZ PMI:
10 July 2014***

SPONSOR STATEMENT

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

BNZ (www.research.bnz.co.nz)

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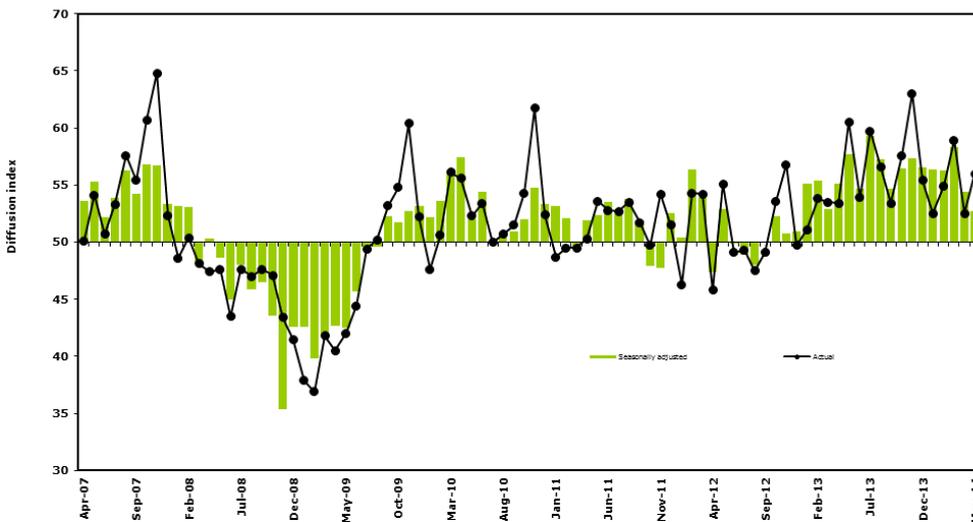
In this edition, BNZ senior economist, Craig Ebert notes that while large chunks of the latest PMI remain encouraging, the interplay of softening orders alongside rising inventory counsels a bit of caution regarding the extent of manufacturing growth in the pipeline.

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BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Apr 2007 - May 2014)



May time series tables

| National Indexes | May 2009 | May 2010 | May 2011 | May 2012 | May 2013 | May 2014 |
|-----------------------------|----------|----------|----------|----------|----------|----------|
| BNZ - BusinessNZ PMI (s.a.) | 42.5 | 52.0 | 52.3 | 52.9 | 57.6 | 52.7 |
| Production (s.a.) | 41.3 | 52.4 | 52.3 | 55.9 | 59.3 | 55.2 |
| Employment (s.a.) | 43.6 | 49.1 | 49.9 | 50.9 | 54.7 | 53.8 |
| New Orders (s.a.) | 40.5 | 51.6 | 53.5 | 53.4 | 62.1 | 51.6 |
| Finished Stocks (s.a.) | 45.9 | 52.1 | 49.4 | 50.5 | 51.8 | 52.6 |
| Deliveries (s.a.) | 41.5 | 54.1 | 54.8 | 51.7 | 55.5 | 51.4 |

| National Indexes | May 2009 | May 2010 | May 2011 | May 2012 | May 2013 | May 2014 |
|-----------------------------|----------|----------|----------|----------|----------|----------|
| BNZ - BusinessNZ PMI (s.a.) | 42.5 | 52.0 | 52.3 | 52.9 | 57.6 | 52.7 |
| Northern | 43.2 | 48.3 | 52.3 | 58.8 | 60.5 | 57.4 |
| Central | 36.1 | 52.3 | 57.1 | 44.5 | 55.4 | 56.4 |
| Canterbury/Westland | 48.4 | 57.6 | 57.7 | 61.3 | 67.0 | 56.7 |
| Otago/Southland | 36.4 | 58.5 | 45.3 | 50.0 | 60.7 | 48.1 |

(s.a. denotes seasonally adjusted)

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



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



Central (Business 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.

13 June 2014

May Be a Real Slowdown?

- May's PMI slows further, to 52.7
- Production, employment, expansion solid
- But new orders taper amid inventory rise
- A dynamic to keep an eye on
- As RBNZ anticipates economy to slow a bit

The slowdown we saw in April's Performance of Manufacturing Index (PMI) we put down to volatility and the likelihood of trading-day impacts. So the further moderation it registered in May – down to an 18-month low of 52.7, in fact – has come as something of a surprise. While we wouldn't describe it as concerning, it is certainly something to note (along with the Performance of Services Index as a cross reference, with May's edition of this published Monday).

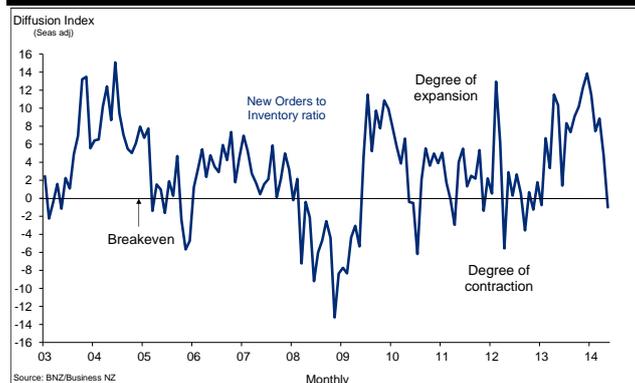
To be sure, large chunks of the PMI remained very encouraging. For example, the production index stayed stout, at a seasonally adjusted 55.2. And the employment index was holding up relatively well, at 53.8, close to the average since late last year. These are consistent with above-normal rates of expansion in GDP and employment respectively.

And while some weakness did appear in the region of Otago during the month, and the industries of printing, publishing and recording along with non-metallic mineral product manufacture, there did not seem to be a pervasive weakness creeping in across industry type, firm size or by way of region.

However, not so encouraging has been the interplay between falling new orders and rising inventory, which has us wondering about the extent of growth we can reasonably expect in the pipeline. The PMI new orders index dipped to 51.6 in May while its index of finished stocks increased to 52.6. In this there is a hint of a stalling, with the orders-to-inventory index that we construct subsiding to 49.0. At the end of last year it was riding high, at 64.6. If nothing else, it represents a pronounced loss of momentum and so warrants some attention.

In the least, the slower tone in the latest PMI might be providing more evidence that GDP growth, at least for the moment, is not accelerating as rapidly as some other business surveys have suggested as a 6 to 12-month-ahead proposition. That's not a major issue for us, as our economic forecasts have never gone as far as recent

New Orders Minus Inventory



business and consumer confidence and expectations have done. If we swallowed them hook, line and sinker we would be forecasting GDP growth of 6-7%. The reality is that we're still forecasting GDP growth of around 4.0% for this year, slowing a tad, to 3.4%, next year. In this context, the latest PMI is no genuine affront, at this stage.

Nor would it be particularly out of line with RBNZ thinking. We say this with yesterday's Monetary Policy Statement having forecast a slowdown, of sorts, for the economy from about the middle of this year (when annual GDP growth peaks around 4.0%, enough to signal the economy is back in excess demand mode). Without some sort of slowdown inflation will pick up by more than the RBNZ already assumes. That's the message from the central bank.

The Reserve Bank's slowdown story rests upon such things as a moderation in net immigration flows, further falls in the terms of trade and withering house price inflation. It remains to be seen whether, and quite how, this occurs.

For the meantime there are still some big economic forces acting to propel the New Zealand economy forward. And so, while the further slowdown in May's PMI warrants attention, we also have to acknowledge the many factors that promise to underpin the local manufacturing sector over the coming year or two.

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