

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.

pmi

Stability continues

BNZ - BusinessNZ PMI for July 2014

- The BNZ-BusinessNZ seasonally adjusted PMI for July stood at 53.0, which was 0.4 points lower than the previous month. However, the sector has now been in expansion for 22 consecutive months.
- All five seasonally adjusted main diffusion indices were in expansion during July. *New orders* (55.0) led the way for the first time since March, with an increase from 52.2 in June. In contrast, *production* (54.0) dipped 1.9 points from the previous month to its lowest point since March 2013. *Employment* (51.3) also dipped, dropping 1.4 points from June, while *finished stocks* (51.5) returned to positive territory. *Deliveries* (53.3) dropped 1.9 points after a strong pick up the previous month.
- Two of the four regions were in expansion during July. In the North Island, the *Northern* region (57.5) rose 6.9 points to return to almost the exact level of expansion as May. In contrast, the *Central* region (46.6) fell into contraction for the first time since January. In the South Island, the *Canterbury/Westland* region (52.3) experienced a lower expansion rate, while the *Otago-Southland* region (45.0) slipped further into contraction, which it has now been in for three consecutive months.
- Manufacturing by industry sub-groups were a mixture of expansion and contraction during July. *Machinery & equipment manufacturing* (58.4) rose from June, while *metal product manufacturing* (58.6) improved significantly from the previous month. *Petroleum, coal, chemical & associated product manufacturing* (48.9) improved 2.9 points, albeit still in contraction, while the *food, beverage & tobacco manufacturing* (59.0) sector experienced stronger expansion levels compared with the previous month.
- Although the overall result showed a slightly lower level of expansion, the proportion of positive comments for July (57.4%) was up on June (55.2%) but down on May (60.8%) and April (58%). Globally, the JPMorgan Global Manufacturing PMI for July (52.5) started the third quarter in a similar vein to the end of the second.

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 remains in expansion, although slightly lower than June.

All five main indices were in expansion, with new orders taking the top spot in July.

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

***Next BNZ - BusinessNZ PMI:
12 September 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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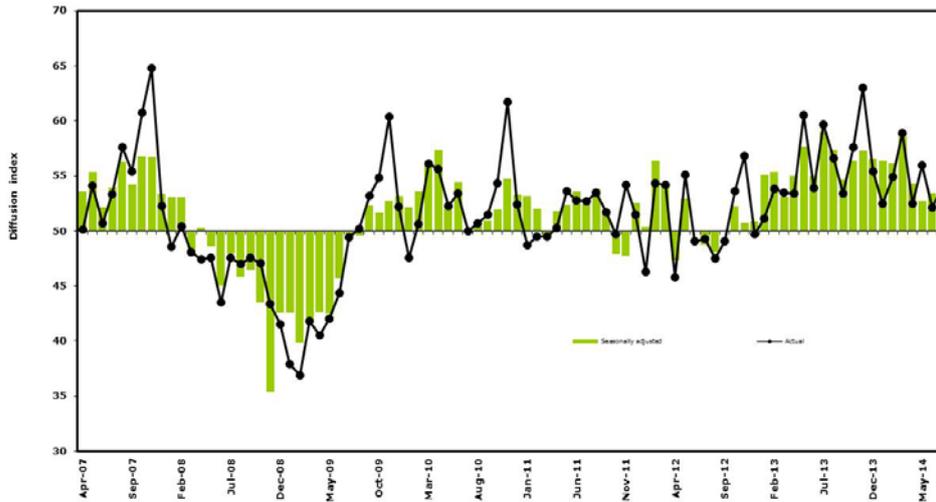
In this edition, BNZ economist Doug Steel looks at a range of recent surveys that point to expanding output and sales, and show manufacturers' optimism remains at above average levels.

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pmi

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



July time series tables

National Indexes	July 2009	July 2010	July 2011	July 2012	July 2013	July 2014
BNZ - BusinessNZ PMI (s.a.)	49.5	49.9	52.4	48.8	59.0	53.0
Production (s.a.)	49.7	50.9	51.8	49.4	62.7	54.0
Employment (s.a.)	44.1	52.1	52.4	47.9	53.4	51.3
New Orders (s.a.)	55.0	46.3	52.8	49.6	60.6	55.0
Finished Stocks (s.a.)	43.5	52.5	51.7	47.4	53.1	51.5
Deliveries (s.a.)	48.3	50.2	53.0	48.9	62.4	53.3

National Indexes	July 2009	July 2010	July 2011	July 2012	July 2013	July 2014
BNZ - BusinessNZ PMI (s.a.)	49.5	49.9	52.4	48.8	59.0	53.0
Northern	47.4	47.8	53.3	49.3	60.2	57.5
Central	52.7	56.0	50.8	50.7	58.3	46.6
Canterbury/Westland	54.9	49.4	56.3	49.1	62.7	52.3
Otago/Southland	39.8	48.3	48.5	45.8	54.7	45.0

(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.

14 August 2014

Overview

Recent surveys point to a manufacturing sector in good spirits. While manufacturers are not quite as confident as they were earlier in the year, optimism remains above average levels. That is a similar message to that of the PMI over recent months, including July's result (of 53.0). A range of surveys show expanding output and sales. This has capacity usage above long-term norms and no doubt part of manufacturers' positive intentions to invest in plant and machinery and employ more staff. The Q2 Household Labour Force Survey saw manufacturing employment 1.6%, or 3,900 people, above year ago levels.

Sales

The Q2 manufacturing sales figures showed annual growth, excluding the dairy and meat processing sector, of around 4%. The recent Quarterly Survey of Business Opinion (QSBO) revealed positive expectations for both domestic and export sales. Close to average export sales expectations is a commendable result given that the NZ currency remains a long way above average. Export expectations may well lift as the NZ dollar has eased back since the last QSBO and more so if the currency falls further as we think it will, (see below). Meanwhile, the burgeoning expansion in the construction sector expansion is likely to support local manufacturing sales.

Foreign exchange

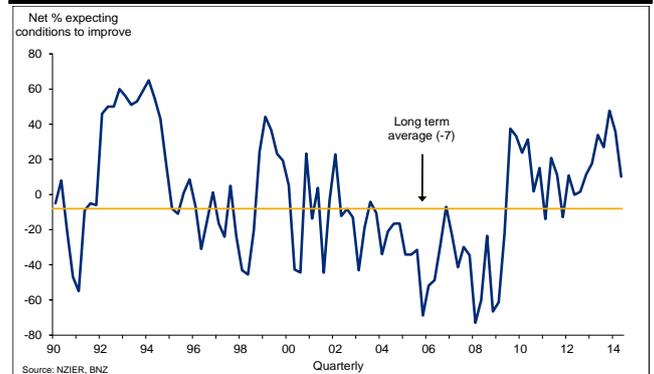
There remain sound reasons for the NZ dollar being so far above its long-term average. These include: New Zealand's strong relative growth outlook; high terms of trade; the declining current account deficit; a much-improved international investment position; a sound fiscal path; comparatively firm interest rates (offering carry-trade opportunities) and; generally low global risk aversion. The NZ TWI also continues to be propped up by a US Federal Reserve sounding reluctant to move its cash rate up. Still, we believe the next big move in the NZ dollar is down as many of the supportive features noted above stabilise and even reverse. While a lower NZD would be supportive to those manufacturers selling abroad, it would also make imported input costs rise.

Construction

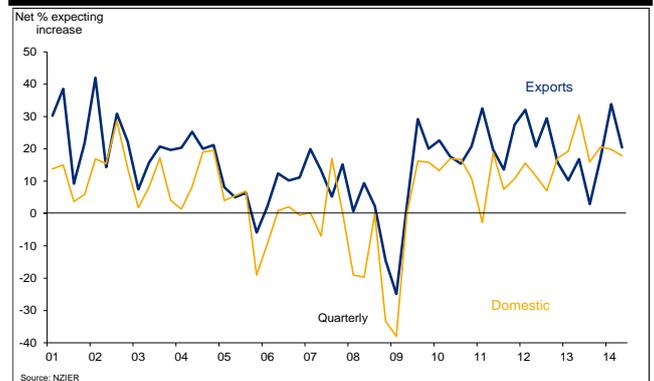
Building consents suggest strong construction growth ahead. This is positive for manufacturing. Compared to a year ago, latest monthly figures show residential building consents are up 27%, the value of additions and alterations higher by 62%, and non-residential building consents stronger by 47%. It is translating into activity, judging by the 23% lift in concrete production in the year to June. While more construction activity should support a fair chunk of manufacturing sales ahead, it would be a big ask for construction to continue at its current pace of growth for too much longer.

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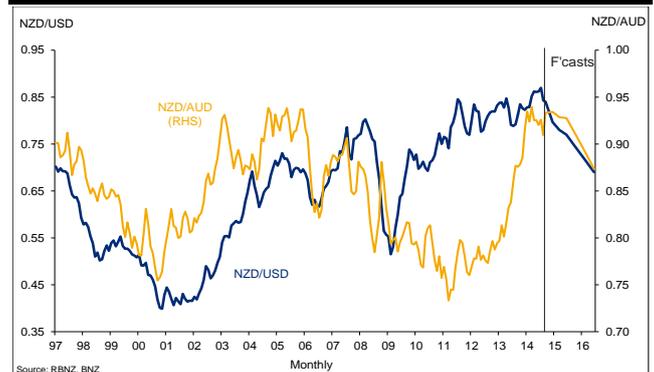
QSBO Manufacturing - Business Confidence



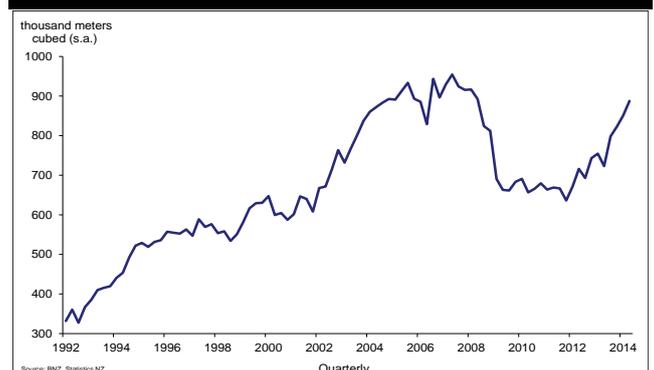
QSBO Manufacturing Sales Expectations



NZD



Ready-Mix Concrete Production



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