

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.



Staying the course

BNZ - BusinessNZ PMI for June 2014

- The BNZ-BusinessNZ seasonally adjusted PMI for June stood at 53.3, which was 0.7 points higher than the previous month. The sector has now been in expansion for 21 consecutive months.
- Four of the five seasonally adjusted main diffusion indices were in expansion during June. *Production* (55.9) again led the way for the current month with a value 0.8 points higher than May. In contrast, *new orders* (50.9) continued to fall, dipping another 0.4 points and at its lowest level since December 2012. *Employment* (52.9) also dipped, dropping 0.6 points from May, while *finished stocks* (49.7) fell 2.6 points to record a minor decline for the current month. *Deliveries* (55.1) rose 3.6 points to record its highest result since March.
- Three of the four regions were again in expansion during June. In the North Island, the *Northern* region (50.6) decreased 6.8 points, but remained in slight expansion. The *Central* region (52.8) also fell, but showed moderate expansion levels for June. In the South Island, the *Canterbury/Westland* region (56.6) was all but unchanged from its May result, while the *Otago-Southland* region (48.8) improved slightly from the previous month, although remaining in contraction.
- Manufacturing by industry sub-groups were mostly in expansion during June. *Machinery & equipment manufacturing* (55.8) fell below the 60 point mark, while *metal product manufacturing* (51.6) also dipped from the previous month. *Petroleum, coal, chemical & associated product manufacturing* (46.0) fell back into contraction after a pick-up in May, while the *food, beverage & tobacco manufacturing* (52.3) sector experienced lower expansion levels.
- Although the overall result picked up slightly, the proportion of positive comments for June (55.2%) was down on May (60.8%), April (58%), and March (61.3%). Globally, the JPMorgan Global Manufacturing PMI for June (52.7) made a moderately positive end to the second quarter of the year, due to slight accelerations in the rates of expansion of production, new orders and employment.

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 with slight pick-up in activity levels.

Four of the five main indices were in expansion, with production holding but new orders again slipping.

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

***Next BNZ - BusinessNZ PMI:
14 August 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)

Inside BNZ Commentary this Month (page 3)

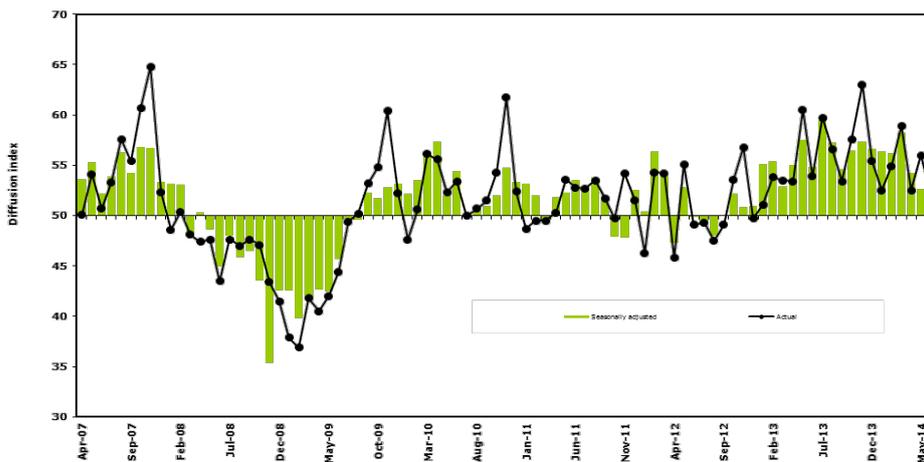
In this edition BNZ economist Craig Ebert compares the latest PMI with the manufacturing category of the NZIER Quarterly Survey of Business Opinion. While these tallied the impression of some loss of momentum, there was enough substance between them to allay any real worries.

BNZ-BusinessNZ PMI

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



June time series tables

National Indexes	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
BNZ - BusinessNZ PMI (s.a.)	45.7	54.4	53.5	49.9	54.9	53.3
Production (s.a.)	47.5	54.3	52.3	50.8	56.0	55.9
Employment (s.a.)	38.9	52.1	52.1	49.0	52.2	52.9
New Orders (s.a.)	49.0	54.7	55.2	50.9	55.4	50.9
Finished Stocks (s.a.)	44.2	54.8	49.2	50.1	53.3	49.7
Deliveries (s.a.)	42.6	54.3	55.5	46.2	55.2	55.1

National Indexes	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014
BNZ - BusinessNZ PMI (s.a.)	45.7	54.4	53.5	49.9	54.9	53.3
Northern	41.7	51.6	55.2	50.7	56.0	50.6
Central	44.7	53.8	53.9	48.0	49.5	52.8
Canterbury/Westland	48.8	53.4	52.1	46.7	53.3	56.6
Otago/Southland	48.8	58.4	41.3	49.8	53.2	48.8

(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.

10 July 2014

Testing Manufacturing's Mettle

- PMI steadies at 53.3 but orders still flattening
- Manufacturers in QSBO less confident
- But no worse than average re real activity
- While manufacturers' investment intentions high

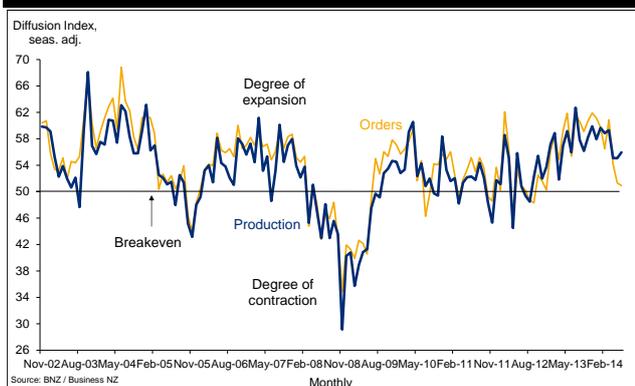
It is timely to compare the results of today's Performance of Manufacturing Index (PMI) with the manufacturing component of Tuesday's Quarterly Survey of Business Opinion (QSBO). And not just because of their chronological proximity. Since there has been something of a slowdown in the PMI over recent months it seemed worthwhile cross-checking this with the manufacturing messages from the QSBO. While these tallied the impression of some loss of momentum there was enough substance between them to allay any real worries.

The NZ PMI did manage to improve in June. But only slightly – to 53.3, from the 18-month low of 52.6 established in May. Its 3-month average has slipped to 53.4, from 56.9 three months ago. It's still growth, but not quite as we've known.

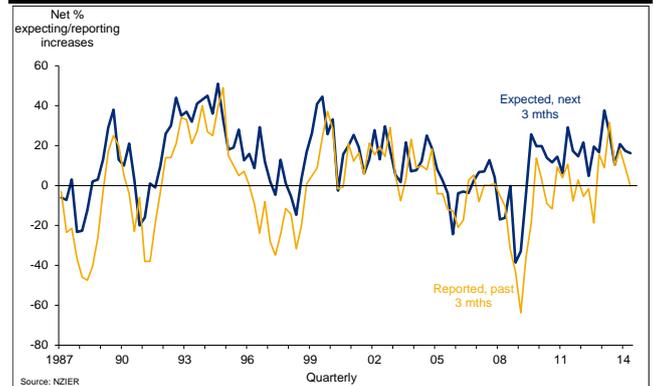
As part of this, the PMI's production component has slowed noticeably. But at 55.9 in June it remained consistent with solid growth in output. Neither was the PMI employment index any genuine issue. It hung in there at 52.9, from 53.5 in May. Meanwhile, the inventory component of the PMI flattened off to 49.7, from 52.3.

So this distills our concern about the PMI to what's happening around its new orders. These continued to slow in June - to just 50.9, in fact. Just three months earlier they were raging away 10 points higher, at 60.9. As a leading indicator the latest doesn't inspire great confidence.

Performance of Manufacturing Index



QSBO Manufacturing Orders



So the first thing we thought we'd check in the manufacturing component of the latest QSBO was its information around orders. We found a similarly soft tone. At least for orders received over the last three months. This index was pretty much flat for the June quarter, so a bit below the long-term average of +6%.

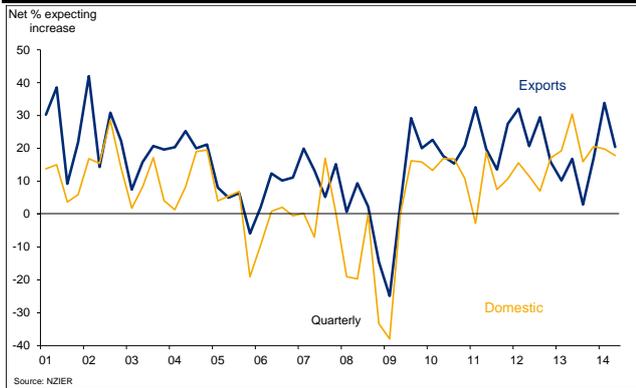
However, there didn't seem any undertone of alarm extending from this, in that a net 16% of manufacturing respondents to the QSBO expected orders to increase over the next 3 months. This was about five points higher than the norm.

We got a similar imprint from many of the other series in the manufacturing component of the QSBO. While they tended to moderate they were not much, if any, worse than normal. For example, while the reported output index amongst manufacturers in the latest QSBO slowed to +6% – from +14% in Q1 and +27% in Q4 – the historical norm is +10 (with a range of -57 to +64).

And a net +20% expected output to expand over the coming 3 months, a few points higher than average. This, by the way, was evenly split between export sales and domestic sales (rather than there being any overweight to local sales, perhaps related to the local construction boom, while export sales are supposed to be struggling under the weight of a high currency).

As for net confidence amongst QSBO manufacturers, while this was down to +10%, from +48% 6 months earlier, it's worth bearing in mind the long-term average is actually -6%. It was a similar theme in respect to profitability, where the reported -7% and expected +2% were each a slab better than their respective long-term averages of -19% and -4%. It's all relative, in other words.

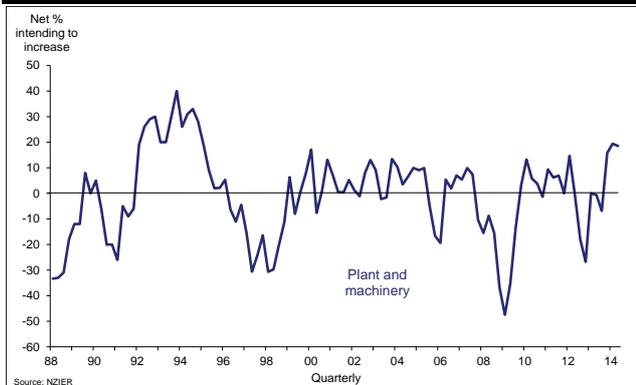
QSBO Manufacturing Sales Expectations



Employment reports regarding the last 3 months also appeared contractionary, with a net -6%, but weren't really in that they have tended to oscillate around that level over the long term, without necessarily implying a fall in manufacturing jobs.

If manufacturers who submit to the QSBO were really turning downbeat then one would expect to see their investment being pulled back. There was no sign of it, at least not in terms of plant machinery and equipment.

QSBO Manufacturing - Investment



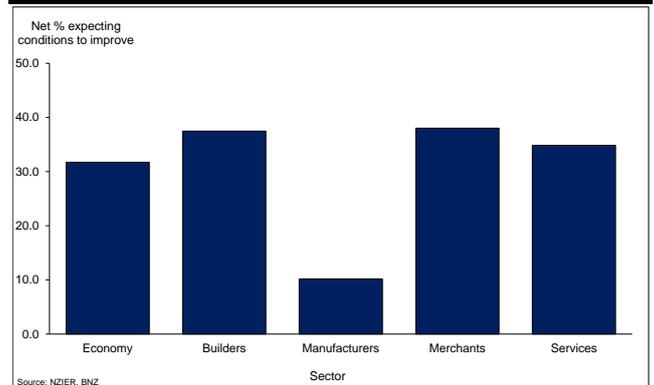
Indeed, a net 19% expected to increase expenditure in this area, which is (along with Q1) the strongest reading in high on 20 years.

It's also worth mentioning that there was little sign in the June quarter QSBO that manufacturers were having problem with inventory. Overdue debtors were also viewed as relatively benign in the industry.

So, when we wade through the manufacturing component of the latest QSBO while there are clear hints of moderation, it seems mainly a settling down into normal growth patterns rather than any sort of stalling. We get a similar impression for the recent PMI levels and trends, with its weak spot seemingly concentrated in new orders. It's something to watch, while not getting any knickers in a twist for the meantime.

And even if New Zealand's manufacturing sector is definitely losing a bit of momentum at present it does not look to be the case in the services, merchant and building sectors, according to the QSBO. So we're left with the impression of a strongly expanding economy, overall.

QSBO - Business Confidence



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