

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.



April shows slight upturn in manufacturing activity

BNZ - BusinessNZ PMI for April 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for April stood at 51.5, which was up 1.3 points from March. Compared with previous April results, the 2011 figure was at the lower end of expansion, but an obvious improvement on 2009.
- Four of the five seasonally adjusted main diffusion indices were in expansion during April, with *finished stocks* (54.8) leading the way, followed by *new orders* (52.9). *Employment* (49.9) was the only index to exhibit a sub-50 point value, although the April result represented all but no change for the current month.
- Unadjusted results by region showed that the clear distinction between the two islands in March had now wavered, with the *Central* region (40.9) experiencing its lowest level of activity since May 2009. This was mainly due to very low new orders and production levels. Both the *Canterbury/Westland* (47.8) and *Otago/Southland* (47.2) regions experienced a relative improvement from March, although both regions were still in decline. The *Northern* region (56.7) continued to show improvement, with its highest result since November 2010.
- Manufacturing by industry sub-groups tended to show contraction during April, with a few exceptions. *Machinery & equipment manufacturing* (59.0) experienced its highest result since November 2010, while *food, beverage & tobacco* (57.7) remained very consistent for the fourth month in a row.
- The comments about market conditions saw a significant drop in the proportion of negative comments, which stood at 49% for April, compared with 57.3% in March. The aftermath of the Christchurch earthquake continued to dominate negative comments, although such comments were also starting to appear as a positive influence on activity.

Inside BNZ Commentary this Month (page 3)

Bank of New Zealand's Economist, Doug Steel, said that the progress over the past seven months, albeit slow, is a remarkable given the events that have occurred. The outlook is brighter, with many awaiting a lift in construction activity from its current very low ebb. Encouragingly, some leading indicators are starting to point in the right direction suggesting acceleration in manufacturing activity over the next year or two.

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 expansion increased 1.3 points to stand at 51.5 for April.

Four of the five main indices recorded expansion, with finished stocks leading the way.

Unadjusted regional activity showed all but the Northern region in decline.

The proportion of negative comments decreased sharply for April.

The Christchurch earthquake continued to dominate comments.

***Next BNZ - BusinessNZ PMI:
16 June 2011***

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.

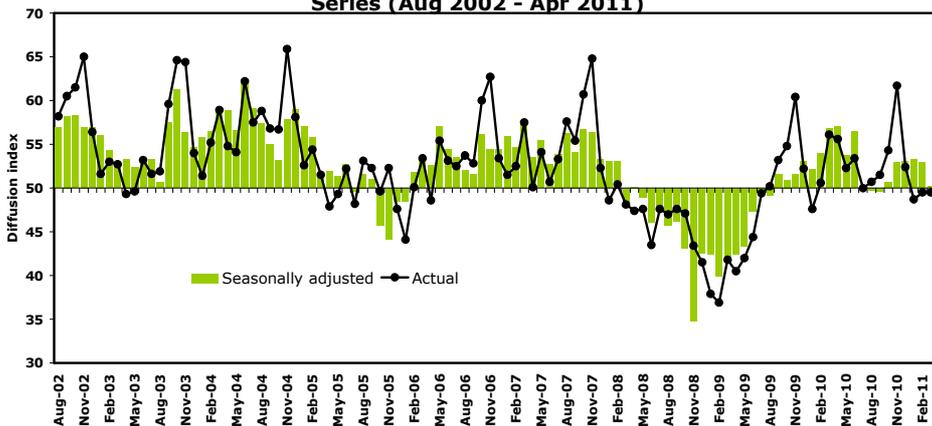
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BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Apr 2011)



April time series tables

National Indexes	Apr 2006	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Apr 2011
BNZ - BusinessNZ PMI (s.a.)	52.6	53.5	50.2	42.4	57.1	51.5
Production (s.a.)	51.4	53.0	50.8	40.5	60.2	50.8
Employment (s.a.)	51.6	48.7	47.8	44.8	52.5	49.9
New Orders (s.a.)	53.9	56.8	50.9	42.2	59.8	52.9
Finished Stocks (s.a.)	51.6	55.1	51.3	45.1	52.7	54.8
Deliveries (s.a.)	53.7	53.8	50.8	42.3	57.0	51.6

National Indexes	Apr 2006	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Apr 2011
BNZ - BusinessNZ PMI (s.a.)	52.6	53.5	50.2	42.4	57.1	51.5
Northern	46.9	48.7	46.8	38.9	54.3	56.7
Central	50.7	47.7	47.7	40.4	56.6	40.9
Canterbury/Westland	44.0	52.5	46.4	44.7	58.0	47.8
Otago/Southland	56.3	57.0	52.6	40.4	53.4	47.2

(s.a. denotes seasonally adjusted)

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



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



Central (Employers' Chamber of Commerce 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.

12 May 2010

Manufacturing Awaiting Construction Lift

- Manufacturing fortunes diverse
- Quake aftermath negative for some, positive for others
- Construction sensitive industry currently downbeat
- But outlook looks brighter, in our view
- Some indicators already moving in right direction

Influences on the manufacturing sector at present are about as varied as the sector itself. Exerting pressures one way or another on domestic manufacturers are: the quake aftermath, a weak construction sector, high commodity prices, high NZD/USD exchange rate, low NZD/AUD exchange rate and a generally strong Australian economy.

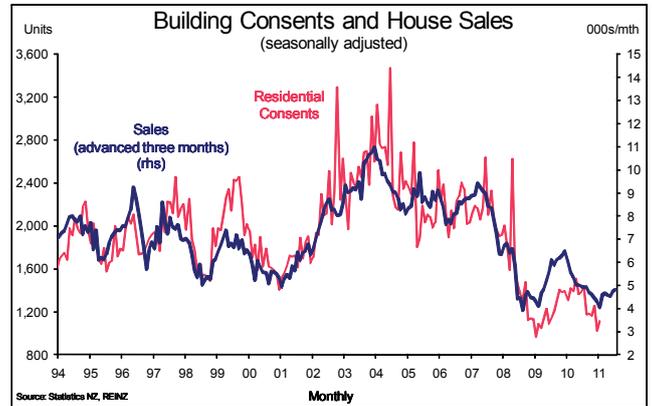
Pulling all the threads together, we find a sector that, on average, posted its seventh consecutive month of expansion in April. Sure, the rate of progress is not fast and it is still coming from a relatively low base. But given what has occurred over recent months it is quite a remarkable performance.

Indeed, April's PMI reading of 51.5 is encouraging. Not only in that it is above the breakeven 50 mark, but it has improved on the first reading post-quake of 50.2 recorded in March. Again, not a big improvement but it is good to see things headed the right way.

This fits with our view that the manufacturing sector is likely to accelerate through 2011 and 2012, partly as the initial hit from the earthquake abates but also as activity in the construction sector bounces back from its current slumber (and not only because of the reconstruction effort in Christchurch, although that will certainly be a boost).

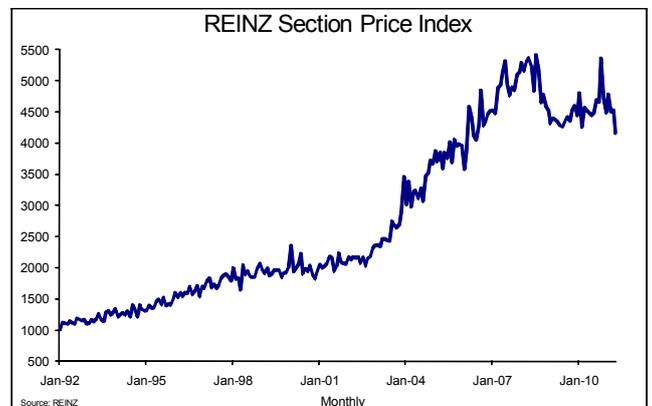
Certainly, the Christchurch earthquake continued to dominate respondent comments. Of those firms that noted the earthquake as the major influence on business activity over the previous three months, negative comments outnumbered positive comments at a ratio of 7 to 5.

Among those firms operating in Canterbury this ratio was a more-negative 5 to 2. Whereas for firms operating outside of the Canterbury region, there were more positive comments than negative regarding the influence of the earthquake on activity levels with positive comments outnumbering negative at a ratio of 3 to 2.



This fits with our thinking that while major disruption and dislocation continues in parts of Christchurch, the initial net impact on the wider economy has been more muted. Moreover, the ongoing clean-up, repair and rebuilding of Christchurch is more likely to lift manufacturing activity levels than depress them from their current position.

More generally, manufacturers, around the country, are downbeat on the current state of construction activity. As well they might be, given the very low level of building consents and the strong influence that building activity has on demand for many manufactured goods. There is no doubting the current weakness in construction activity. Indeed, the monthly trend in residential building consents has been barely above 1000 in the first few months of this year. It is below 1000 excluding apartment consents. But the future looks brighter, in our view, and not just because of the eventual rebuilding work to be done in Christchurch.



There are already some positive signals appearing. This week's REINZ housing market statistics were certainly supportive of a rise in construction activity ahead.

The 4,987 house sales across the country in April equate to a 1.8% seasonally adjusted increase from March. Encouragingly this builds on the 4.9% gain in March. February. Rising turnover activity in the existing house market is usually followed by a rising consents for new house construction with a lag of around three months, give or take. We expect this time to be no different with an additional boost coming from Christchurch in due course.

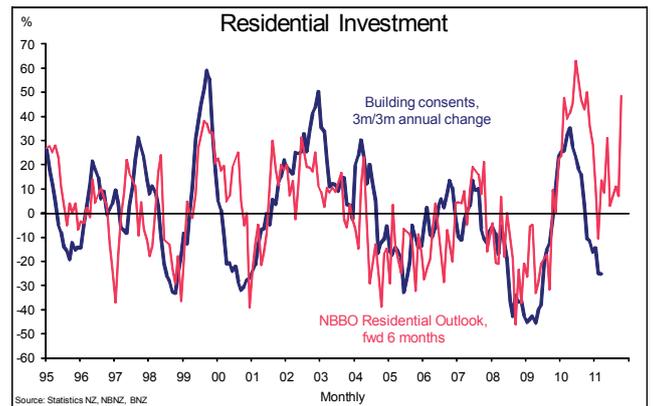
In addition to some improvement in existing house sales, there looks to have been some further downward correction in section prices in April according to the REINZ statistics. This will aid the economics of residential development, at the margin.

We are optimistic that residential building consents will start to pick up from around about now. On an annual basis, our projections have residential building consents bottoming out a bit above 13,000 around the middle of this year, before rising to around 14,000 by year's end and up to around 20,000 in 2012 and 2013.

This improvement in residential building consents through the second half of this year and beyond is expected to form the backbone of a general pick up in consented floor space over the next few years. The components of manufacturing that are linked into the construction cycle will benefit from such a pick up in activity, a benefit that can not come quick enough.

We are not alone in seeing a pick up ahead in residential construction. The latest NBNZ survey show construction sector firms with a very upbeat view on residential construction activity. Indeed, a net 48% of firms expect a rise in residential building over the coming 12 months. A very strong reading compared to the long term average of a net 7% expecting an improvement.

Why not a return to the booming days of 30,000+ annual residential building consents? Such an upside scenario is a clear risk to our 'around 20,000' consent forecast, but



we see a few significant headwinds preventing an aggressive building phase.

One headwind is an expected rise in construction costs. There is already upside pressure. For example, very strong export log prices driven by demand from China, while a major positive for the domestic forestry sector and log exports, is putting considerable pressure on domestic wood processors' margins. Indicative of this pressure is the wood and paper manufacturing industry recording the lowest industry reading in today's PMI at 34.2.

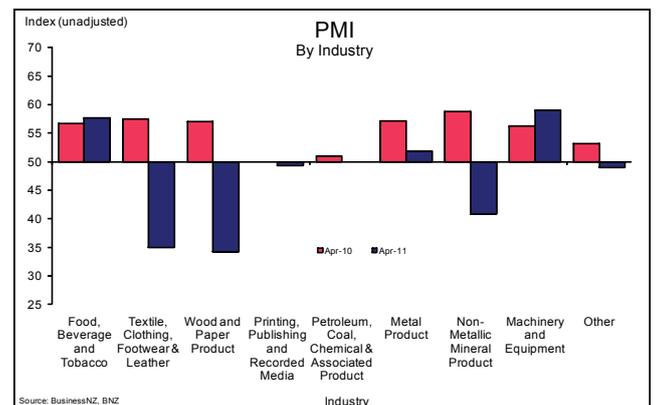
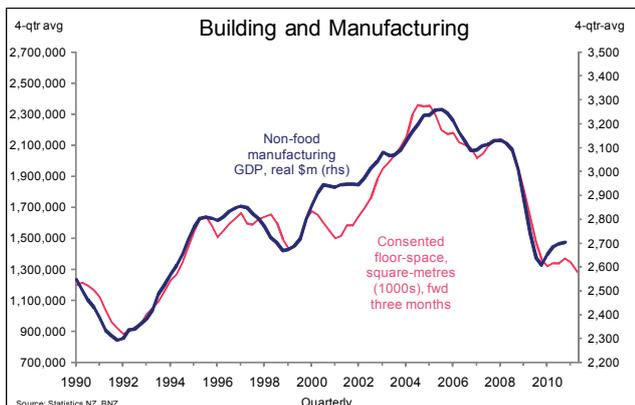
In addition, future construction is likely to face more general resource constraints especially at a time when reconstruction efforts are likely to be well-under way in Queensland and Japan.

Also containing the extent of forecast pick up in construction is the beginnings of interest rate normalisation from around the end of this year as the RBNZ looks to guard against more generalised inflationary pressures.

There are certainly plenty of moving parts at present. Looking at the brightening outlook for the construction sector, we suspect it will not be too long before the construction-related manufacturing sectors jump on the coat tails.

This should see the PMI higher later in the year as these sectors add to the current strength in the food processing and machinery and equipment manufacturing industries.

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