

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.



## Tail wind continues

### BNZ - BusinessNZ PMI for August 2013

- The BNZ-BusinessNZ seasonally adjusted PMI for August stood at 57.5, which was 2.0 points lower than July but indicative of another month of very healthy growth in the manufacturing sector. Compared with previous August results, the 2013 value was the highest since the survey began in 2002. Overall, the most recent four months of 2013 have averaged a strong 57.8.
- Given the ongoing healthy levels of activity in the sector, all five seasonally adjusted main diffusion indices were again in expansion for August, which has now occurred for the last four months. *New orders* (60.9) led the way for August with another post-60 result. *Production* (58.3) experienced a slight dip in expansion levels during August, while *deliveries of raw materials* (55.9) reverted back to similar levels of activity during June. *Finished stocks* (54.1) experienced its fourth consecutive monthly increase in activity, while *employment* (54.1) continued to show ongoing increases in activity levels.
- Expansion was again experienced in all parts of the country in August. The *Central* region (61.9) led the way for the first time since March, given its strong pick up in new orders and production. The *Northern* region (53.8) eased somewhat after robust growth during the previous three months. In the South Island, the *Canterbury/Westland* region (56.7) remained in health expansion mode, while the *Otago-Southland* region (58.8) produced its highest result since May 2013.
- Manufacturing by industry sub-groups all remained in expansion during August. *Food, beverages & tobacco* (69.2) continued to lead the way with a result that was almost identical to July. *Machinery & equipment manufacturing* (55.6) experienced slightly lower expansion levels for the current month, followed by *metal product manufacturing* (53.0) and *petroleum, coal, chemical & associated product manufacturing* (52.4).
- Given the ongoing level of positive activity, the proportion of positive comments for August (57.5%) was healthy, although somewhat down on the stellar result for July (67.3%). Globally, the JPMorgan Global Manufacturing PMI for August was 51.7, which was up 0.9 points from July. This was the fastest signaled growth level since June 2011.

*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 solid at 57.5.**

**All five main indices were again in expansion for the fourth month running.**

**Unadjusted regional activity remains positive throughout all of the country.**

**Next BNZ - BusinessNZ PMI:  
10 October 2013**

#### 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](http://www.research.bnz.co.nz))

#### *Inside BNZ Commentary this Month (page 3)*

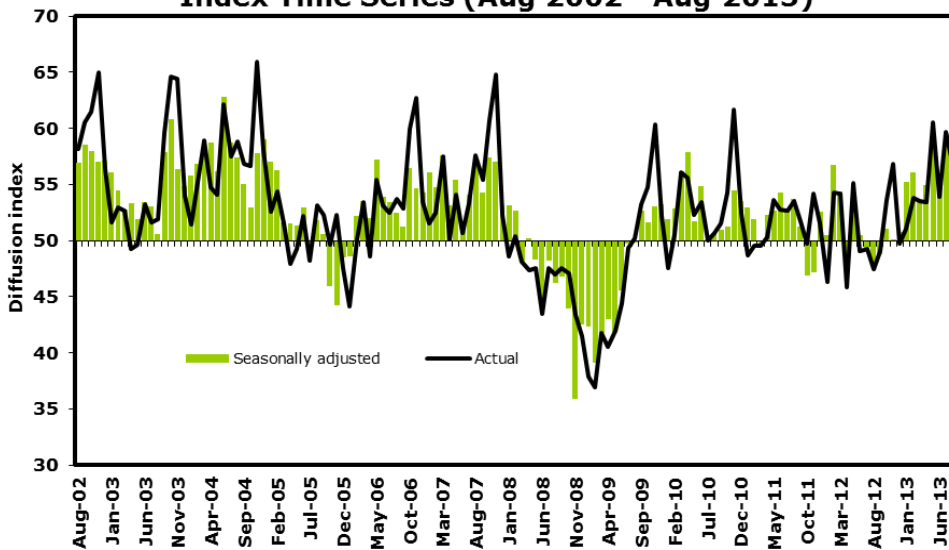
Manufacturing sales and stocks statistics for Q2 are out. BNZ Economist Doug Steel takes a look and finds sales were down as the drought hit to food processing coincided with flat non-meat and dairy manufactured goods sales associated with what looks like a pause in an otherwise strong construction upswing. Importantly, the leading indicators are positive, including the PMI.

## BNZ-BusinessNZ PMI

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# pmi

**BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Aug 2013)**



### August time series tables

National Indexes	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012	Aug 2013
BNZ - BusinessNZ PMI (s.a.)	46.2	49.8	50.6	53.7	48.0	57.5
Production (s.a.)	43.1	49.4	52.3	54.6	48.8	58.3
Employment (s.a.)	44.9	47.4	52.1	50.0	45.6	54.1
New Orders (s.a.)	45.9	52.6	49.7	55.2	48.9	60.9
Finished Stocks (s.a.)	50.8	47.8	48.1	53.4	49.0	54.1
Deliveries (s.a.)	49.2	48.8	49.1	55.3	48.5	55.9

National Indexes	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012	Aug 2013
BNZ - BusinessNZ PMI (s.a.)	46.2	49.8	50.6	53.7	48.0	57.5
Northern	48.6	47.3	53.4	51.5	45.4	53.8
Central	45.9	52.3	46.9	49.9	52.7	61.9
Canterbury/Westland	43.9	56.4	52.0	57.2	45.9	56.7
Otago/Southland	48.9	48.2	44.7	61.8	50.9	58.8

(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.*

13 September 2013

## A Quarter To Forget

- Q2 manufacturing results poor
- On drought impact, construction pause
- Leading indicators point to big bounce in Q3
- Enough for us to maintain our positive trend view

Manufacturers would have been glad to see the back of the second quarter of the year, judging by Monday's Economic Survey of Manufacturing and what it said occurred in the period. There was not much to like in the results. The survey revealed sales volumes fell 3.4% in Q2, excluding usual seasonal variation. That is the largest quarterly decline in four years.

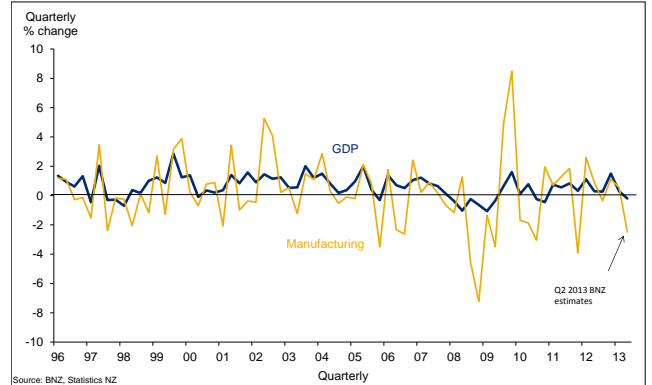
The dollar value of sales fell a somewhat smaller 2.0%, implying some upward movement in average prices. But the implied positive price movements weren't celebrated widely, with price gains concentrated in the combined meat and dairy component of the manufacturing sector (with dairy playing the key role). Implied prices for manufacturing excluding meat and dairy fell in Q2.

The Statistics NZ report does not estimate manufacturing production or GDP as such. But it looks likely that the industry's output fell in the quarter, probably by more than 2%, when you construct an estimate based on the sales and stocks information given.

It doesn't matter which way you look at it, it was a disappointing quarter for the manufacturing sector for sure. Monday's data add to a run of economic information over the past week or so indicating that the economy appears to have stuttered in the second quarter of the year.

The printing of a minus sign in front of Q2 GDP growth as we think will be the case will not be a good look (the

### Manufacturing and Total GDP

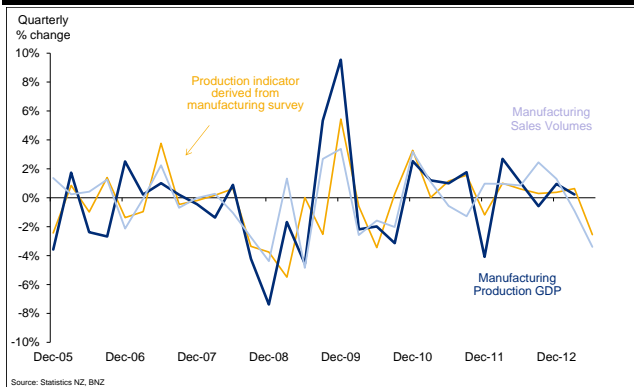


actual result due next Thursday). But we aren't getting too downbeat on the economy, given that the leading indicators are going from strength-to-strength making for a positive outlook.

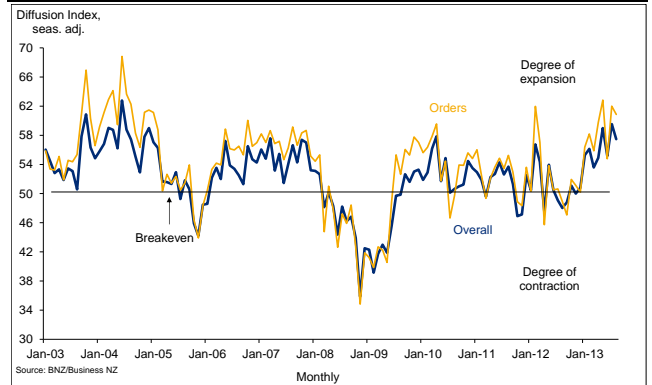
Monday's manufacturing figures essentially confirm such things as a giant (if largely predictable) hole in primary food processing, post the early-2013 drought. The 10.0% drop in meat and dairy product manufacturing sales volumes reflects falls in milk production and animal kill over the period.

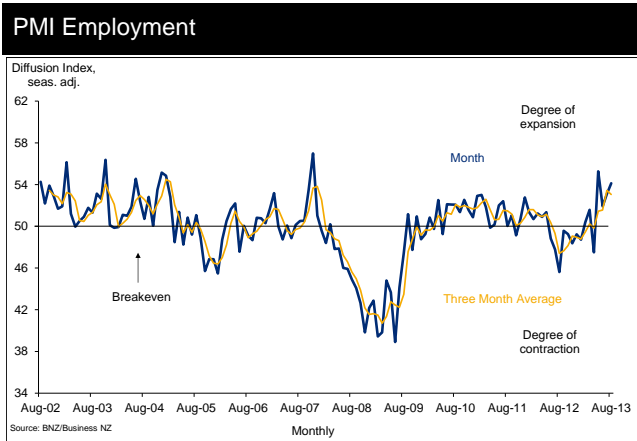
While manufacturing sales volumes excluding meat and dairy were not negative in Q2, they were still disappointing in posting only the smallest of gains from the previous quarter. This coincided with what clearly looks like an against-the-trend dip in building work in the quarter something which, incidentally, was foreshadowed by a pullback in concrete production.

### Manufacturing Activity

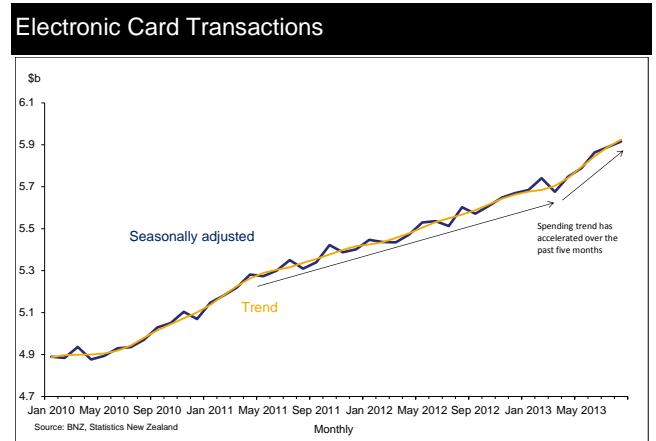


### PMI Momentum

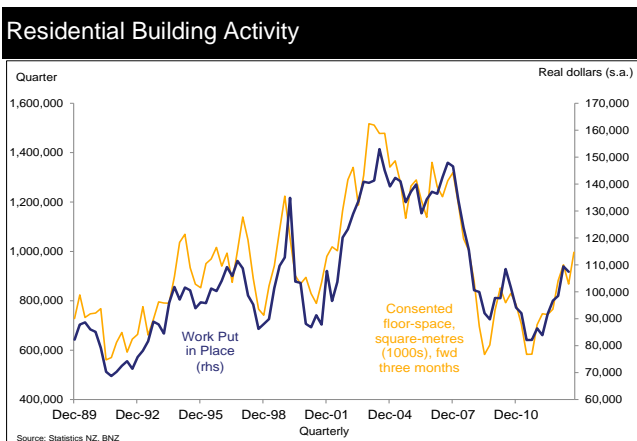




Importantly, in the bigger picture, the leading indicators suggest a strong bounce back has occurred in construction and associated parts of the manufacturing sector during Q3. Indeed, for as soft as GDP appears to have been in Q2 (as a whole and for manufacturing specifically), we have been revising our estimates for Q3 higher. We currently have Q3 GDP growth pegged at +1.3%, following what looks to have been a -0.2% in Q2.



The PMI offers a lot of encouragement regards a strong lift in manufacturing production in Q3. Combining August's 57.5 result with July's 59.5 not only averages higher than what occurred in Q2, the 2013 July-August combination is the highest 2-month average PMI reading in over 9 years. The details are positive too, with key indices for production, new orders and employment all averaging higher in Q3 than they did in Q2.



These results fit with the optimism manufacturers have reported in other business surveys. Fair enough given consented building floor space continues to track higher (most forcefully in residential but increasingly so for non-residential), net migration has swung aggressively positive, and spending indicators seem to be shifting up a gear including for durable goods. Meanwhile, the warmest winter on record has helped with agriculture's recovery from drought which will ultimately flow through to the processing part of the supply chain.

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