

## BNZ-BUSINESS NZ PMI

BNZ-Business NZ 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

## Steady but improved end for manufacturing year

### BNZ - Business NZ PMI for December 2009

- The BNZ - Business NZ seasonally adjusted PMI for December (52.9) increased 1 point from November to record its highest level of expansion since December 2007. Expansion for the last four months of 2009 was relatively consistent, with a margin of only 2.3 points between the highest and lowest values.
- Three of the five seasonally adjusted main diffusion indices displayed expansion. Both *production* (54.1) and *new orders* (57.2) both displayed their highest results since November 2007. *Employment* (48.7) remained in contraction, while *finished stocks* (47.5) reverted back to a level similar to October. *Deliveries of raw materials* (52.9) continued to expand with its highest result since February 2008.
- Unadjusted activity for December showed the fourth consecutive expansion for all regions, although all were down from the traditionally strong November period leading into Xmas. Interestingly, the difference in expansion between all the regions was very small. The Northern region (52.6) recorded the strongest level of expansion, followed by both the Canterbury/Westland and Otago/Southland regions at 52.2. The Central region (51.7) recorded the smallest gain over the month.
- Manufacturing by industry sub-groups were mostly expansionary in December. The *food, beverage & tobacco* sector (60.6) continued to lead the way, although again down on the previous month. The *petroleum, coal, chemical & associated products* (59.4) displayed continued healthy gains, while both the *metal product manufacturing* (48.2) and *machinery & equipment* (45.8) sectors showed contraction.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for December (55.0) displayed a 44-month high, with the rates of growth in production and new orders accelerating. The USA PMI (55.9) moving upwards, while the Australian PMI (48.5) showed decline after four consecutive rises.
- The proportion of negative comments made by respondents continued to show sizeable falls, dropping to 43.6% in December, compared with 47.0% in November, 55.0% in October, 60.6% in September and 60% in August. Seasonal influences were the most common positive comment received.

*The BNZ - Business NZ 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 showed steady but positive end to 2009.***

***Three of the five main indices recorded expansion, with production and new orders improving.***

***Regional activity expansion was very similar across the country.***

***The global manufacturing scene showed ongoing recovery, led by further improvements in production and new orders.***

***Next BNZ - Business NZ PMI:  
11 February 2010***

#### SPONSOR STATEMENT

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

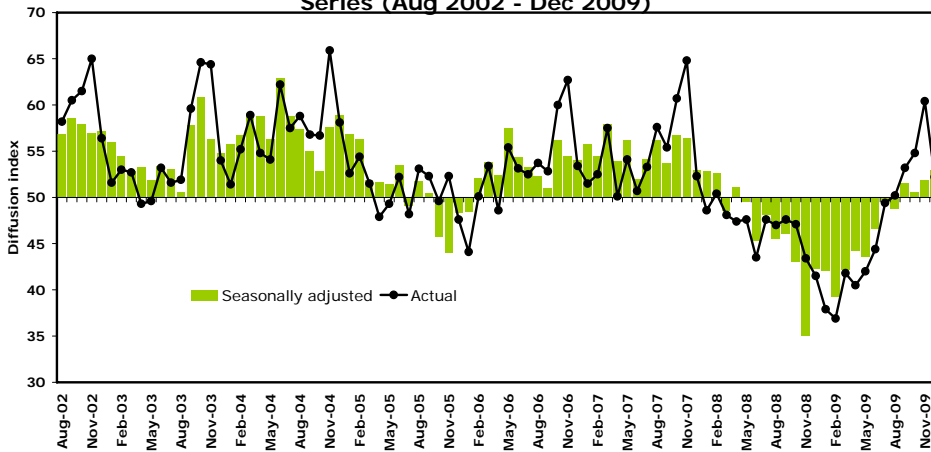
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# pmi

**BNZ - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Dec 2009)**



### December time series tables

National Indexes	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009
BNZ - Business NZ PMI (s.a)	58.9	48.3	54.1	53.0	42.2	52.9
Production (s.a)	62.8	47.6	55.1	53.5	39.8	54.1
Employment (s.a)	55.1	46.8	50.2	50.9	42.0	48.7
New Orders (s.a)	61.4	48.3	56.9	55.0	41.9	57.2
Finished Stocks (s.a)	53.7	53.3	52.5	51.9	50.3	47.5
Deliveries (s.a)	56.4	49.5	54.9	53.2	43.2	52.9

National Indexes	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009
BNZ - Business NZ PMI (s.a)	58.9	48.3	54.1	53.0	42.2	52.9
Northern	58.8	47.3	51.8	52.0	35.4	52.6
Central	56.8	45.1	50.4	44.9	45.4	51.7
Canterbury/Westland	56.5	54.6	59.4	57.5	49.4	52.2
Otago/Southland	58.2	44.5	59.5	60.9	51.1	52.2

(s.a denotes seasonally adjusted)

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



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



*Central* (Employers and Manufacturers Association - 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.

21 January 2010

## Manufacturing Begins Climb, Out of Big Hole

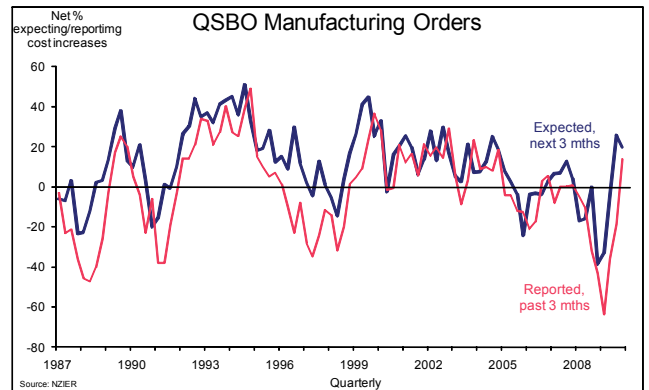
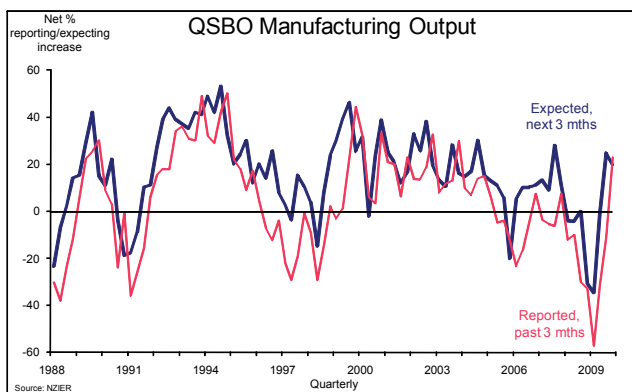
- December's PMI affirms manufacturing recovery
- As inventory pruning matures
- And overdue-debtor issues ease, profits improve
- Stronger signs of output expansion through Q4
- But it's a big hole to climb out of

In the closing months of 2009, New Zealand's manufacturing sector looked to be expanding, for sure, for the first time since 2007. This was certainly portrayed in December's Performance of Manufacturing Index, which strengthened to a seasonally adjusted 52.9, from 51.9. While hardly raging away, it was the best level in two years. The same could be said for the production and new orders components of the PMI.

And these results gel very well with the manufacturing section of the latest Quarterly Survey of Business Opinion (QSBO), as was published last week. It told of a net increase in production over the final few months of 2009. This followed QSBO reports of a slight contraction in previous quarter (effectively Q3), which turned out to be a good steer on the drop in manufacturing GDP that was registered for that period.

Shifting forward, net 20% of respondents were picking an increase in industrial production for first few months of 2010. And the production recovery would seem to be coming as much from domestic sales, as export sales, according to the QSBO.

This was corroborated by manufacturing orders in the QSBO registering a reasonable increase in recent history, and expected for the next few months. Similarly, the PMI new-orders series strengthened to all of 57.2 in December, in seasonally adjusted terms. That's pretty

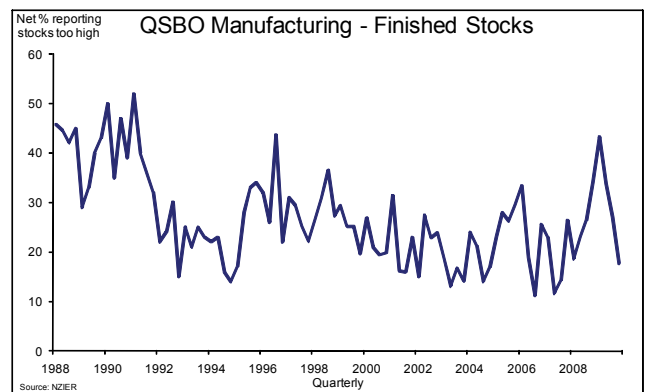


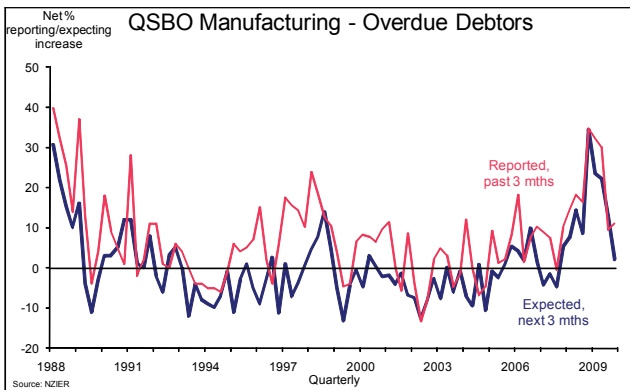
positive (diffusion indices of the PMI type are essentially galloping when they reach 60.0).

Inventories were another area of compatibility across the QSBO and the PMI surveys. Both suggested the big overhang that built up during the first half of 2009 has now been worked down to manageable proportions. While a net 18% of QSBO respondents said manufacturing stocks were too high, this was actually a bit below the long-term norm (for an index that rarely threatens the zero mark). The relative leanness of inventory gives more scope for any pick-up in demand to be met by production.

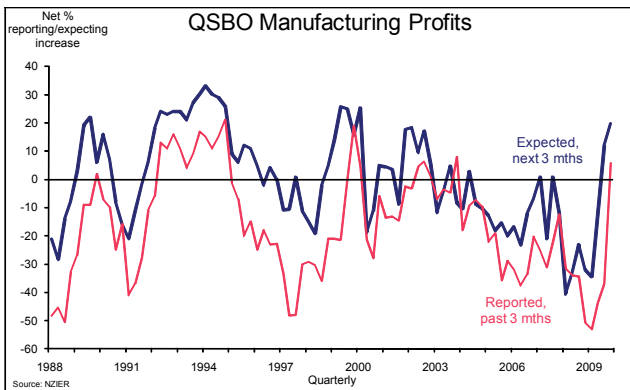
The other good news was that the QSBO suggested overdue-debtor problems in the manufacturing sector were abating. This positive cash-flow trend will also help get some cogs turning again.

Profitability is another, more general, basis for optimism. The QSBO had manufacturers reporting an improvement in the closing stages of 2009. Granted, it was only slight, and following a long period of weakening, so the base is





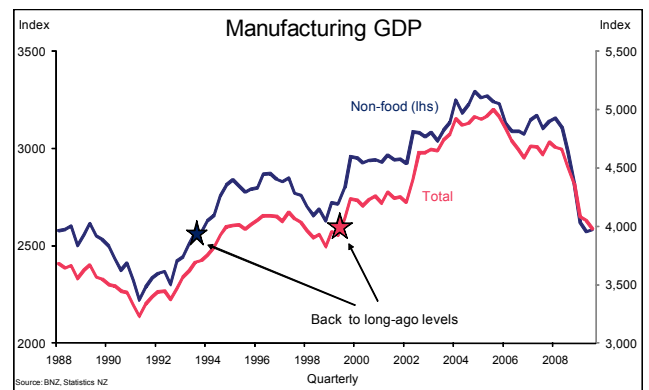
still very low. Nonetheless, manufacturing profit expectations in the QSBO were more clearly positive, at +20 – the strongest in almost ten years.



While such forward-looking indicators promise a solid expansion for New Zealand’s manufacturing sector – at least for the near term – there is no denying the fact that production has a lot to recover from.

The September quarter of 2009 GDP report measured a further drop in manufacturing activity, to put in down 20% from its late-2007 peak, and thus similar to the levels of ten years ago. Excluding food and beverage manufacturing, activity was back down to around the level that last prevailed back in 1993. It’s a big hole to have to climb out of.

That’s where the strengthening in the latest PMI, and its counterpart section of the QSBO, will need to keep on keeping on in order to make material headway. For the meantime, it’s a case of so far, so good.



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