

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.



Brighter end to the year for manufacturers

BNZ - BusinessNZ PMI for December 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for December stood at 51.9, which was 5.9 points up from November and the highest level of activity since August 2011. Compared with previous December results, the 2011 value was more towards the lower end of expansion.
- Four of the five seasonally adjusted main diffusion indices were in expansion during December, as opposed to only two in the previous month. *Employment* (52.7) led the way for the first time since March 2011, while *new orders* (52.0) increased 5.7 points from November. *Finished stocks* (51.8) rose 0.5 points, while *production* (50.0) experienced no change for the second time in four months. *Deliveries* (49.8) improved 1.6 points over the month, although still in technical contraction.
- Unadjusted results by region showed two of the four regions in expansion, along with a large spread of expansion and decline. The *Otago/Southland* region (65.6) again led the way, although slightly down on November's result. Both the *Northern* (51.9) and *Canterbury/Westland* (54.2) regions also experienced lower expansion levels, while the *Central* region (42.7) fell further into decline with its lowest result since April 2011.
- Manufacturing by industry sub-groups showed generally positive results for November. *Food, beverage & tobacco* (60.7) improved on its level of expansion, returning to a 60+ result that has occurred for three of the last four months. The *petroleum, coal, chemical & associated products* sector (54.1) returned to its October value, while *metal product manufacturing* (43.4) fell further back after some improvement in November.
- Despite the overall improvement in activity, the proportion of negative comments for December increased to 49.0%, compared with 47.3%, for November. Globally, the JPMorgan Global Manufacturing PMI stood at 50.8 for December.

Inside BNZ Commentary this Month (page 3)

There was a sense of relief on viewing the December PMI results, and the bounce back seemed to validate the stance we took that October and November's negativity was probably over-rated.

However the seasonally adjusted 51.9 for December was hardly strong, and there are still question marks hanging around the industry's overall inventory management.

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 stood at 51.9 for December, up 5.9 points from November.

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

Unadjusted regional activity showed softening across the country.

***Next BNZ - BusinessNZ PMI:
16 February 2012***

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.

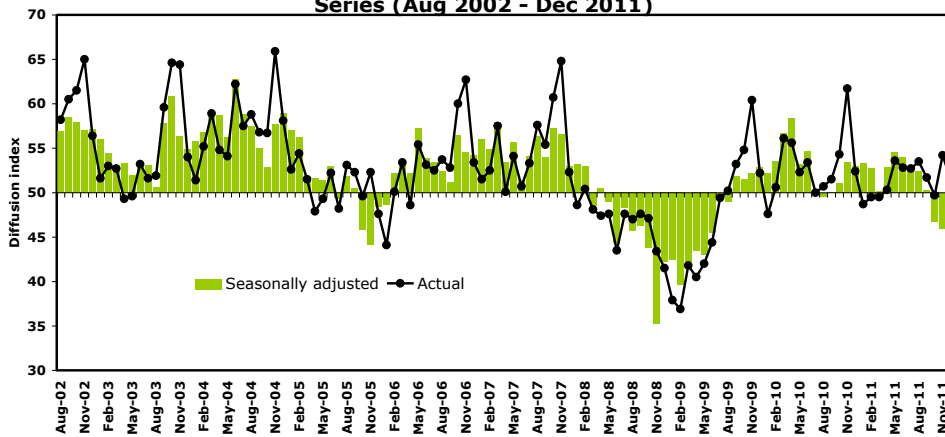
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BNZ-BusinessNZ PMI

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



December time series tables

National Indexes	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011
BNZ - BusinessNZ PMI (s.a.)	54.2	53.0	42.2	52.8	52.9	51.9
Production (s.a.)	55.2	53.4	39.5	53.7	52.1	50.0
Employment (s.a.)	50.3	51.0	42.2	48.7	50.8	52.7
New Orders (s.a.)	56.1	54.2	41.0	56.2	53.7	52.0
Finished Stocks (s.a.)	52.5	52.0	50.4	47.4	51.2	51.8
Deliveries (s.a.)	55.1	53.3	42.9	51.9	53.5	49.8

National Indexes	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011
BNZ - BusinessNZ PMI (s.a.)	54.2	53.0	42.2	52.8	52.9	51.9
Northern	51.8	52.0	35.4	52.6	51.9	51.9
Central	50.4	44.9	45.4	51.7	53.1	42.7
Canterbury/Westland	59.4	57.5	49.4	52.2	48.4	54.2
Otago/Southland	59.5	60.9	51.1	52.2	61.3	65.6

(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.

25 January 2012

Manufacturing Comes Up For Air

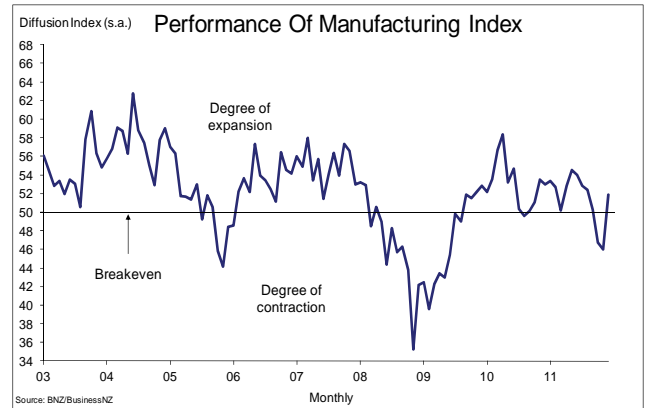
- PMI regains positive footing in December
- But still bumpy in its details
- Trading-partner expectations supportive
- Key Australian market relatively robust
- Low NZD/AUD exchange rate also helps

More than anything else, we were relieved to see New Zealand's Performance of Manufacturing Index (PMI) regain a positive footing in December. The bounce appeared to validate the stance we took around October's and November's negativity, that it was probably overstated. Phew. We might instead have been hung out to dry.

Still, the seasonally adjusted reading of 51.9 for the closing month of 2011 was hardly strong. Reservations also lingered in the survey's details. The Central zone remained the stark laggard, along with metal product and non-metallic mineral manufacturing by way of type, while lesser-scaled firms were struggling to match the very upbeat indications from the big-sized outfits.

There were also question marks around the industry's overall inventory management. This was something we talked about last month. We saw further smoke signals in last week's Quarterly Survey of Business Opinion (QSBO), with manufacturing respondents reporting a sizable lift in stocks over the last three months and a relatively high (but not extreme) reading on the "stocks too high" variable.

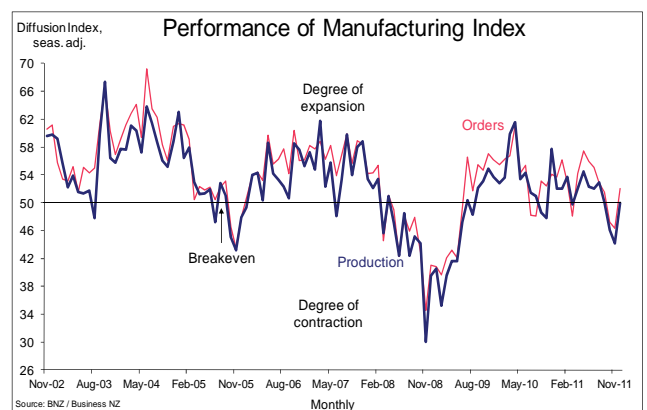
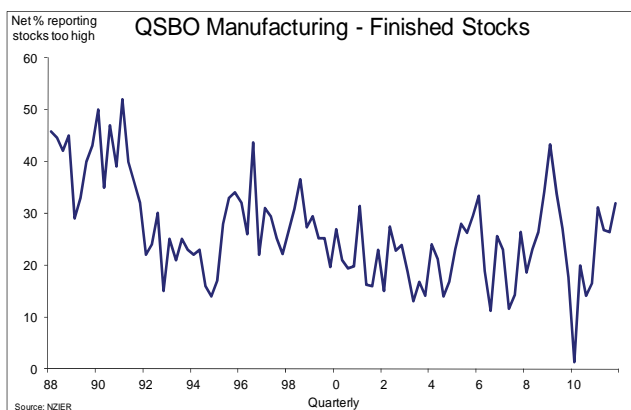
We suspect this will choke manufacturing production, at least to some extent – but likely only temporarily by the look of December's PMI. Encouragingly, its production index stabilised (at 50.0), having been heavily negative in

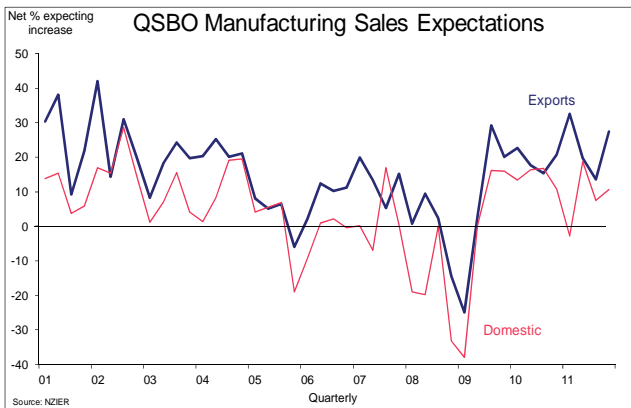


November, at 44.2. New orders were that much better besides, recharging to an expansive 52.0, from a below breakeven (50.0) reading of 46.3. This is no guarantee of ongoing acceleration. But it certainly improves the chances.

The other saving grace worth noting is that, as much as domestic sales of manufactured goods appear to be struggling (amid a depressed construction sector), export sales are doing better. We don't get this breakdown in the PMI. But the Quarterly Survey of Business Opinion, published last week, certainly showed exports continuing to do better than domestic sales. December's NBNZ business survey also demonstrated manufacturers had a solid exports outlook.

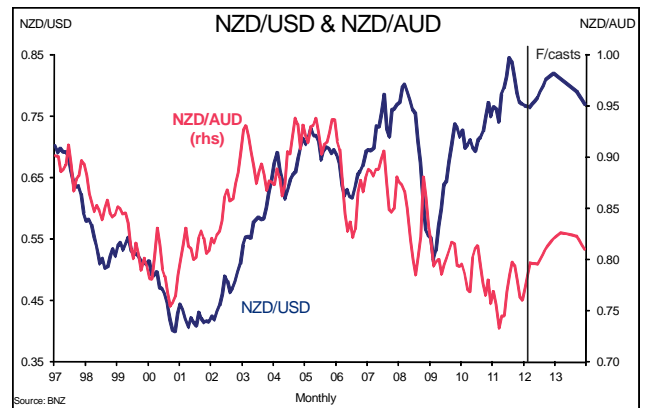
This is all the more heartening, given all the negative news about the world economy. Yet it's not all that surprising, considering most of New Zealand's manufactured exports still go to the (relatively robust) Australian market. To put this is some perspective, while 23% of New Zealand's





total merchandise exports go to Australia, it's around 41% of machinery products and almost 70% of textiles clothing and footwear exports.

Sure, the Australian economy has slowed. However, it is doing better than most, and is expected to expand 3.4% this calendar year and 3.3% in 2013. These are close enough to trend rates these days. And with a heavy emphasis on capital investment and engineering work it's not hard to imagine NZ manufacturers getting a slice of this action.



This is reinforced by the fact that New Zealand manufacturers have a competitive advantage over Australian sellers in Australia, in that the exchange rate to the Australian dollar remains extremely low. At 77 cents it's around 10% south of its long-term fair value, which we judge at around 87 cents. This shores up revenues when converted to NZ dollars.

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