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

New orders keep manufacturing activity on right track

BNZ - Business NZ PMI for January 2010

- The BNZ - Business NZ seasonally adjusted PMI for January (52.0) decreased 1 point from December to return almost to November's level of activity. Since expansion returned in September, activity has remained within a band of only 3 points between the highest and lowest values.
- Three of the five seasonally adjusted main diffusion indices displayed contraction, however the key indicators of *production* (52.3) and *new orders* (56.2) remained in expansionary mode. *Employment* (49.6) is still just under the level of no change, and *deliveries of raw materials* (49.3) produced a similar result. *Stocks of finished products* (46.9) remained the lowest indicator, with 13 consecutive months in contraction.
- While the overall seasonally adjusted result was in expansion, the unadjusted results showed all regions in decline during January. The biggest drop was in the Northern region (45.8), which had shown the strongest level of regional expansion for the previous two months. The Canterbury/Westland region (49.7) experienced a slight decline, and the Central (48.9) and Otago/Southland (48.8) regions displayed almost identical levels of activity.
- Manufacturing by industry sub-groups was a mix of expansion and contraction during January. The *food, beverage & tobacco* sector (40.6) fell sharply from December, with the *wood & paper product* (39.5) and *petroleum, coal, chemical & associated product* (40.0) sectors at similar levels. In contrast, the *metal product* (58.5) and *machinery & equipment* (50.4) sectors both displayed expansion for the month.
- New Zealand's result was less robust than the global PMI for January. The JPMorgan Global PMI for January (56.1) displayed a five-and-a-half year high, with the growth of production and new orders gaining traction at its fastest pace since mid-2004. The USA PMI (58.4) continued its movement upwards, while the Australian PMI (51.0) returned to positive territory.
- The proportion of negative comments made by New Zealand PMI respondents swung upwards in January, rising to 54.7%, compared 43.6% in December, 47.0% in November, 55.0% in October and 60.6% in September. Seasonal influences were the most common negative 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 starts off 2010 with expansion in the manufacturing sector.

Three of the five main indices recorded contraction, although the key indicators of production and new orders remain in expansion.

Unadjusted regional activity was in decline throughout the country.

The global manufacturing scene reached new highs, with the strongest level of expansion in over five years.

Next BNZ - Business NZ PMI:
11 March 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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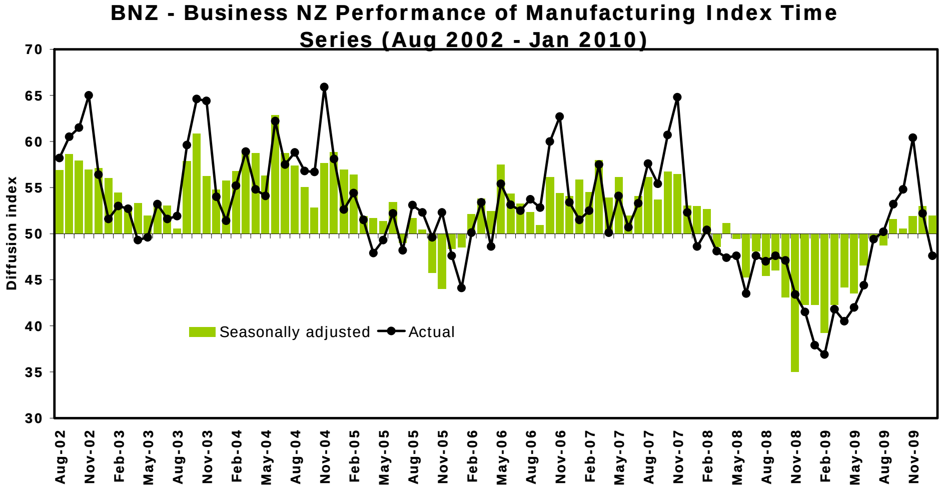
pmi



January time series tables

National Indexes	Jan 2005	Jan 2006	Jan 2007	Jan 2008	Jan 2009	Jan 2010
BNZ - Business NZ PMI (s.a)	56.9	48.5	55.8	53.0	42.2	52.0
Production (s.a)	56.3	49.3	56.8	51.7	40.0	52.3
Employment (s.a)	54.8	45.4	51.6	49.6	43.0	49.6
New Orders (s.a)	61.1	50.4	58.1	54.5	41.4	56.2
Finished Stocks (s.a)	54.4	49.2	51.1	54.3	48.3	46.9
Deliveries (s.a)	55.5	47.2	58.1	55.1	42.2	49.3

National Indexes	Jan 2005	Jan 2006	Jan 2007	Jan 2008	Jan 2009	Jan 2010
BNZ - Business NZ PMI (s.a)	56.9	48.5	55.8	53.0	42.2	52.0
Northern	53.8	42.3	51.6	47.2	34.4	45.8
Central	51.2	44.8	52.6	42.3	40.7	48.9
Canterbury/Westland	49.4	49.4	53.7	55.2	36.8	49.7
Otago/Southland	54.9	42.8	43.4	58.8	48.4	48.8

(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.

11 February 2010

Modest Manufacturing Expansion

- Production recovery is underway
- Growth not strong enough for net job creation, yet
- Forward indicators suggest employment to turn around mid-year

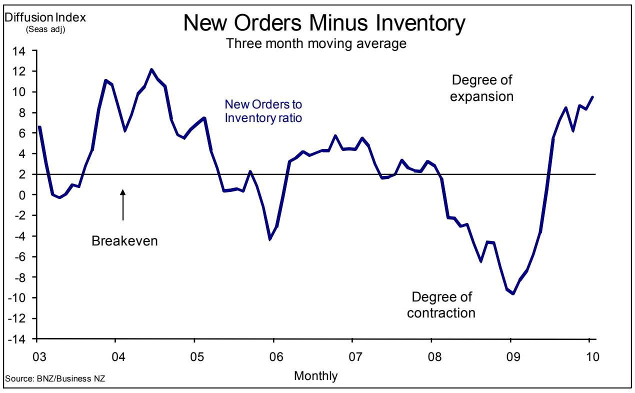
New Zealand's manufacturing sector started the New Year much as it finished the final few months of 2009 – modestly in expansion mode. This is the broad conclusion from January's Performance of Manufacturing Index, despite it easing a touch to a seasonally adjusted 52.0, from 53.0 in December last year. Still, being above 50, it represents the fifth consecutive month of expansion following more than a year of intense pain caused by the potent cocktail of parallel global and domestic recessions. Encouragingly, the past two months are the highest readings over the past two years.

The expansionary flavour of the PMI overall, including in the production index, over recent months is consistent with our view that manufacturing GDP posted positive growth in Q4 last year. Further growth is likely in Q1. However, this should be read as a modest recovery off a low base, rather than a position of strength, given that it follows seven consecutive quarters of decline.

Growth is not yet strong enough for net positive job creation in the manufacturing sector. This was clearly evident, at least to Q4 last year, in the official employment figures released last week where the manufacturing sector, on net, continued to shed jobs. However, as with all top level statistics, this is likely to mask a wide variation across industries within the sector and a likely even wider variation across individual firms.

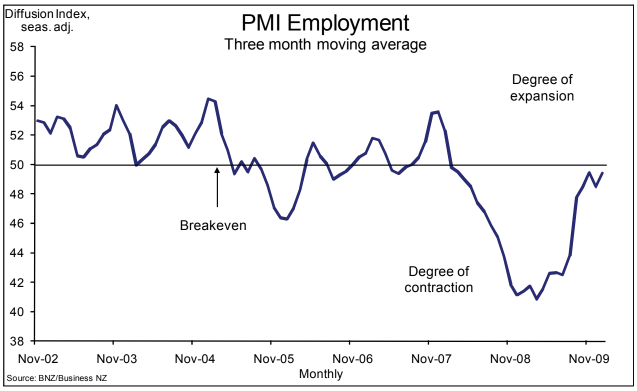
Even so, with the sector accounting for greater than 11% of total employment in New Zealand, the retreat in manufacturing employment played its part in the economy-wide unemployment rate shooting up to 7.3% in Q4 from 6.5% in the previous quarter.

Of course, it is common to have employment and other general labour market indicators following the production or economic cycle with a lag. For example, firms do not shed staff at the first sign of a downturn in sales – preferring instead to take the hit on short-term productivity and profitability or by reducing hours worked. The reverse happens in the initial stages of recovery such that employment growth lags behind a pickup in sales and production.



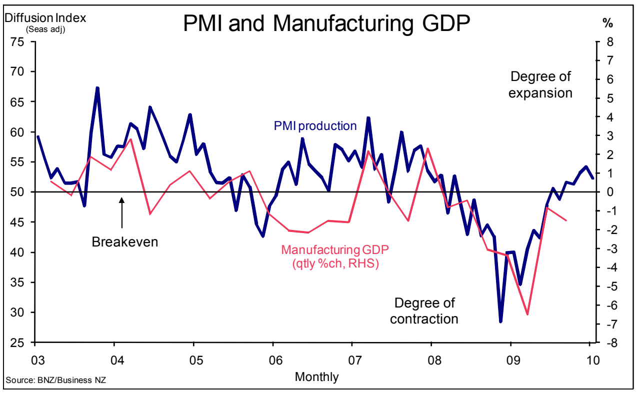
The details of the January survey (as well as the previous few surveys) exhibit the classic signs of a sector in the early stages of recovery. New orders are now firmly in positive territory and the strongest of the sub indices. Some of these orders have been filled from existing inventory, such that the inventory index is the lowest of all sub indices. Consistent with an inventory rundown, the rise in production has, to date, not matched the lift in new orders.

This dynamic means the new orders to inventory ratio provides some guide to where production, and thus employment, may go next. On this front, it is encouraging to note that the three month average of this ratio has hit its highest level in five and a half years – a promising signal for production and employment growth ahead. Indeed, a turnaround in official manufacturing employment might well be imminent judging by the rise in the employment index over the past year. At 49.6 in January, it is just a whisker away from expansionary territory. This is consistent with our wider economy view that employment is on the turn and the unemployment rate is close to a peak.



Sustained new orders and production from here would likely see employment growth by mid-year. Of course, firms need the confidence that the outlook is positive enough to commit to raising staffing levels. On this front, ongoing economic growth in Australia and a favourable cross exchange rate are positives. But uncertainty and risk in other parts of the world, including Europe, will likely keep firms a little cautious for a while yet.

For now, in the manufacturing sector, rising productivity – the result of production picking up and employment lagging – is turning profitability around. In fact, according to the January Quarterly Survey of Business Opinion, profitability in the manufacturing sector has just ticked positive for the first time in six years. Long may it last.



doug_steel@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Economist
+(64 4) 474 6923

Danica Hampton
Senior Strategist
+(64 4) 472 4767

Mike Jones
Strategist
+(64 4) 472 4767

Main Offices

Wellington
60 Harbour Quays
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
129 Hereford Street
PO Box 1461
Christchurch 8140
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+800 9295 1100
Fixed Income/Derivatives	+(61 2) 9295 1166

London

Foreign Exchange	+800 333 00 333
Fixed Income/Derivatives	+(44 20) 7796 4761

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Foreign Exchange	+(85 2) 2526 5891
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