

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.



The tale of two manufacturers

BNZ - BusinessNZ PMI for January 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for January stood at 50.5, which was 1.1 points down from December. Compared with previous January results, the 2012 value was the third lowest result since the survey began in 2002.
- Three of the five seasonally adjusted main diffusion indices were in expansion during January, led by *production* (51.7) and followed by *employment* (51.2). *New orders* (50.4) fell 1.8 points from December, while *finished stocks* (49.9) was generally unchanged in January. *Deliveries* (49.5) slipped back into contraction after a slight improvement the previous month.
- Unadjusted results by region showed that activity was stronger the further one travelled south. The *Northern* region (43.0) fell back to its lowest level of activity since June 2009, while the *Central* region (45.9) improved 3.2 points from December but still in contraction for the third consecutive month. Both the *Canterbury/Westland* (51.3) and *Otago/Southland* (52.8) regions again experienced expansion, although the two South Island regions experienced a second consecutive drop in expansion. For the later, it was their lowest level of activity since July 2011.
- Manufacturing by industry sub-groups showed a combination of expansion and decline during January. *Food, beverage & tobacco* (65.4) remained strong, with five of the last six months exhibiting a 60+ result. However, the *metal product* (44.9), *machinery & equipment* (43.9) and *petroleum, coal, chemical & associated products* (37.7) sectors were all in decline during January, with the last one mentioned experiencing a significant drop from the previous month.
- The overall drop in activity mirrored the proportion of negative comments for January increasing to 54.5%, compared with 49.0% for December. The details of comments received outlined similar issues, but with contrasting outcomes. Globally, the JPMorgan Global Manufacturing PMI stood at 51.2 for January, which was a seventh month high.

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 50.5 for January, down 1.1 points from December.

Three of the five main indices recorded expansion, with production leading the way.

Unadjusted regional activity was stronger the further one traveled south.

**Next BNZ - BusinessNZ PMI:
15 March 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.

BNZ (www.research.bnz.co.nz)

Inside BNZ Commentary this Month (page 3)

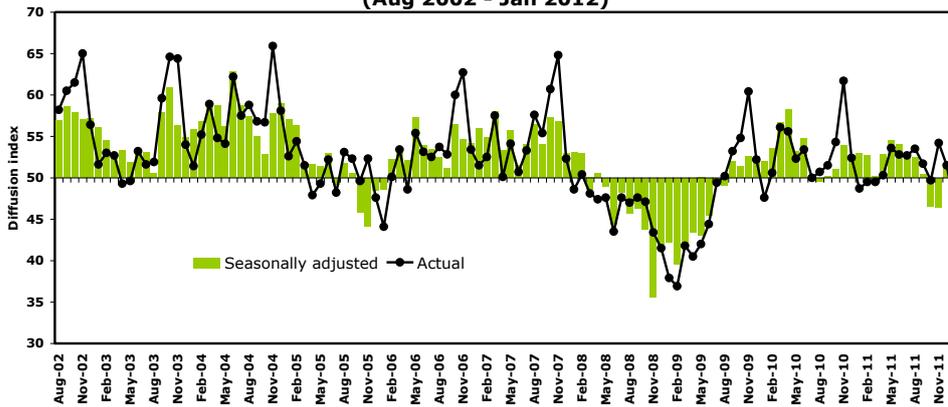
BNZ Economist Doug Steel discusses the recent inventory indicators. Looking at the PMI and other indicators he concludes that negative output risks from a previous large inventory build look to have reduced, thanks in part to some improvement in demand. However, a decent pick-up in demand and production still largely hinges on a recovery in construction.

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pmi

BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Jan 2012)



January time series tables

National Indexes	Jan 2007	Jan 2008	Jan 2009	Jan 2010	Jan 2011	Jan 2012
BNZ - BusinessNZ PMI (s.a.)	55.9	53.0	42.2	51.9	53.0	50.5
Production (s.a.)	57.2	51.9	40.2	52.4	51.5	51.7
Employment (s.a.)	51.6	49.6	42.9	49.3	52.8	51.2
New Orders (s.a.)	58.1	54.2	40.6	55.2	55.8	50.4
Finished Stocks (s.a.)	51.3	54.7	49.0	47.9	51.1	49.9
Deliveries (s.a.)	58.4	55.7	43.2	50.7	52.1	49.5

National Indexes	Jan 2007	Jan 2008	Jan 2009	Jan 2010	Jan 2011	Jan 2012
BNZ - BusinessNZ PMI (s.a.)	55.9	53.0	42.2	51.9	53.0	50.5
Northern	51.6	47.2	34.4	45.8	49.2	43.0
Central	52.6	42.3	40.7	48.9	49.0	45.9
Canterbury/Westland	53.7	55.2	36.8	49.7	43.1	51.3
Otago/Southland	43.4	58.8	48.4	48.8	57.0	52.8

(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

16 February 2012

PMI Positive, But Not Strong

- PMI keeps nose above water in January
- As it holds the majority of December's bounce
- Enough to maintain a positive hue
- Growth threat from previous inventory build seems reduced
- Food processing a standout performer

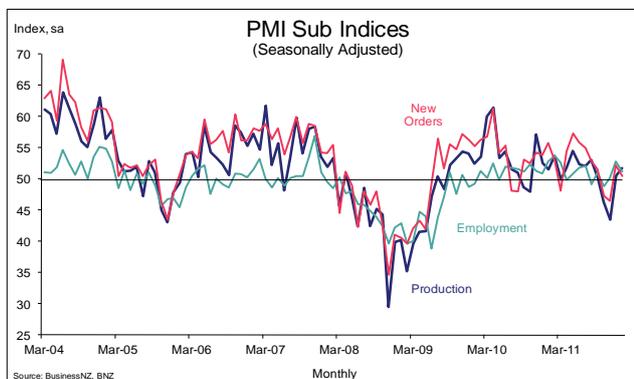
The negative PMI readings back in October and November were starting to ask serious questions of our view that the economy was still on a positive trending path. As we held to our core view, we were relieved to see the PMI bounce back to positive territory in December.

In this context, it is good to see the PMI keeping its nose above water in January. At 50.5, it is not strong by any stretch of the imagination. But it is on the right side of 50, indicating expansion.

Importantly, the PMI held onto the majority of the bounce from November's 46.5, although it is a touch down from December's 51.6. In this respect it largely solidifies December's improvement, enough to maintain our mildly positive trend view on the manufacturing sector and the economy more generally.

The PMI employment index at 51.2 not only fits with this mildly positive assessment, but suggests firms have at least some confidence in this being maintained to the extent they are taking on more staff.

Adding to the list of not-strong-but-positive indicators was the PMI production index. This rose to 51.7 in January from 50.5 in December. Still, we think this is important – more for what it suggests about the inventory cycle and implied demand in the bigger picture that what it necessarily says about production in January.

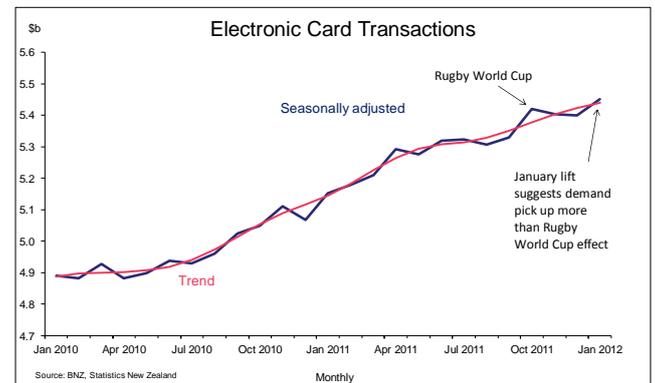


We have been wary of a growth-suppressing inventory unwind following the very strong inventory build in Q3 last year, as detailed in the national accounts released just before Christmas. Manufacturing was a big part of this.

We still expect to see an unwind in the official GDP statistics for Q4. But it looks as though a reasonable lift in demand/sales has limited production declines.

The very strong 2.2% Q4 retail sales volume growth, as published by Statistics New Zealand yesterday, attests to a marked improvement in final demand. Some of this would have fed back through the domestic supply chain.

January's PMI shows a mild acceleration in production and little change in inventories. This suggests a degree of comfort with inventory levels as well as some underlying improvement in sales. The latter fits with the lift we have seen in January's electronic card transactions.



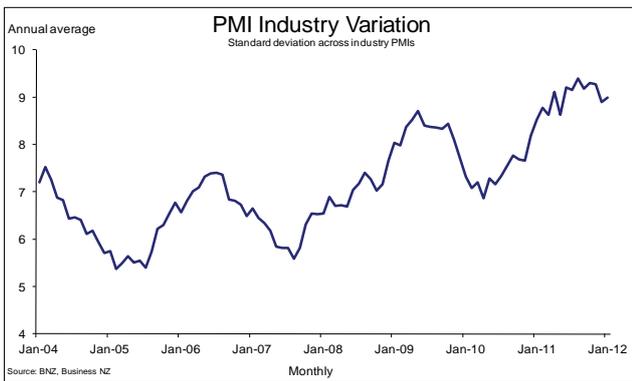
This is not to portray a strong story here. Rather it is to highlight that the hangover from Q3's large inventory build may not be as detrimental to growth as it could have been, thanks to improving demand.

In terms of manufacturing GDP, we always thought the inventory build played a big part in the 2.3% gain in Q3 last year and would bring a future dip in production. We still have a 1.0% contraction pencilled in for Q4 manufacturing GDP.

January's PMI production and inventory combination and their implication for demand suggest a return to growth in the first quarter of 2012. This fits nicely with the 1.0% expansion we have for Q1 manufacturing GDP in our forecasts.

Yes, choppy results for manufacturing over recent quarters but with what looks to be a positive balance through it, at least on average.

There is certainly still plenty of choppiness in the PMI detail, beneath some of the mild positives discussed above. There is still significant divergence across industries, regions and firm size – reflecting to some extent the vast array of influences that has shunted the manufacturing sector and economy this way and that over the past year or so. A simple illustration of this is the strong lift in the standard deviation across industry PMI's over the past year.



Food processing is a standout performer. With an actual PMI reading of 65.4, it is the strongest among the broad industry groups. We see this as more tangible signs of the very good growing conditions the majority of pastoral farmers have been enjoying this season and the additional produce now being processed. This is good for GDP and exports. Of course, we have already seen the beginnings of the export boost with record dairy exports in December.

Looking ahead for general manufacturing, as the inventory story washes out, production will ultimately be determined by demand. For all the discussion above that suggests demand growth is positive, it is still not currently strong. The PMI new orders index says as much, sitting only just above 50 at 50.4.

We are still of the opinion that a material improvement in new orders and general manufacturing sales hinges on the forecast pick up in construction sector activity coming closer into view.

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