

## BNZ CAPITAL-BUSINESS NZ PMI

BNZ Capital-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. BNZ Capital is a division of the Bank of New Zealand.

pmi

## Manufacturing activity agonisingly close to expansion

### BNZ Capital - Business NZ PMI for July 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for July (49.7) increased 3.2 points from June, and the highest value for a particular month since April 2008. The July 2009 value was also higher than for July 2008 (48.1), and overall close to showing expansion in the sector.
- While three of the five seasonally adjusted main diffusion indices continued to display contraction, the two key indicators of *production* (51.0) and *new orders* (55.1) both showed expansion. The lift in *production* meant it recorded its highest value since April 2008, while *new orders* displayed its highest value since December 2007. *Employment* (44.0) showed some improvement from June, while *deliveries of raw materials* (47.6) lifted from three close results ranging from 43.0-43.5. *Finished stocks* (42.8) decreased another 1.2 points from June to reach its third consecutive new low since the survey began.
- Unadjusted activity for June showed more encouraging signs for most parts of the country. The Northern region (47.4) was up 5.7 points from June, and its highest result since August 2008. Both the Central (52.7) and Canterbury/Westland (54.9) regions experienced their highest level of activity since May and February 2008 respectively. With the former, it was only the second time in 20 months that any level of expansion had been recorded. The Otago/Southland region (39.8) remains in a volatile position, with a drop from 48.8 in June.
- Manufacturing by industry sub-groups were a combination of expansion and contraction during July, with some sub-sectors showing expansion for the first time in some months. The *petroleum, coal, chemical & associated products* sector (55.9) showed its first expansionary month since February 2008, while the *metal product* sector (49.7) displayed its highest value since August 2008. The *food, beverage & tobacco* sector (51.8) showed an identical result to June, and has remained in slight expansion for the last three months.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for July (50.0) rose to an 18-month high. The USA PMI (48.9) showed another strong improvement, while the Australian PMI (44.5) improved for the third consecutive month.
- With the rate of contraction improving in July, the proportion of negative comments made by respondents fell significantly to 59.9%, compared with 67.0% in June, 75.6% in May and 78.3% in April.

*The BNZ Capital - 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 increased 3.2 points to 49.7.***

***Three of the five main indices continued to show ongoing contraction, but the key indices of production and new orders both showed expansion.***

***Activity by region showed expansion in the middle parts of the country.***

***The global manufacturing scene showed ongoing recovery with a level of no change for July, and the main manufacturing bases showing positive production for the first time in many months.***

***Next BNZ Capital - Business NZ PMI: 17 September 2009***

#### SPONSOR STATEMENT

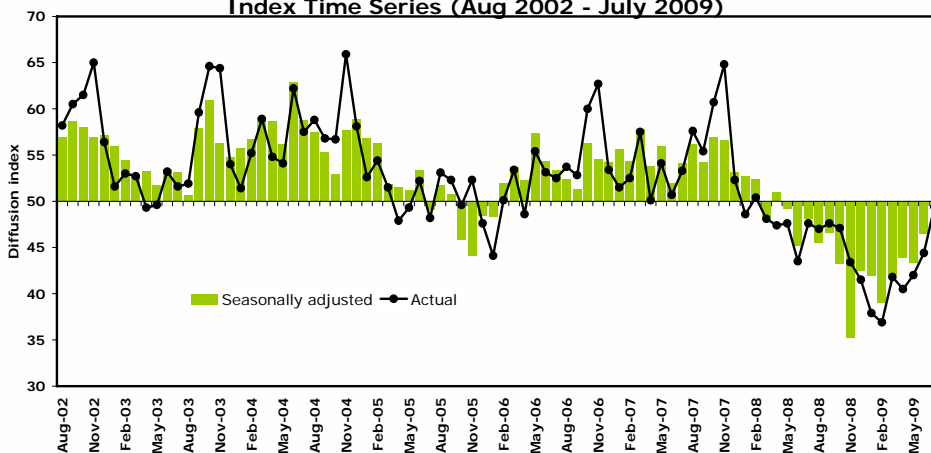
*BNZ Capital is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ Capital. We look forward to continuing our association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

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# pmi

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



### July time series tables

National Indexes	July 2003	July 2004	July 2005	July 2006	July 2007	July 2008	July 2009
BNZ Capital - Business NZ PMI (s.a)	53.1	58.8	49.0	53.3	54.1	48.1	49.7
Production (s.a)	51.8	61.6	47.1	53.6	53.9	49.1	51.0
Employment (s.a)	51.8	52.4	49.2	49.9	49.9	45.7	44.0
New Orders (s.a)	54.3	63.6	50.5	55.9	56.0	46.9	55.1
Finished Stocks (s.a)	53.3	54.2	48.6	52.9	53.6	52.4	42.6
Deliveries (s.a)	54.3	56.5	51.2	53.5	55.6	48.4	47.6

National Indexes	July 2003	July 2004	July 2005	July 2006	July 2007	July 2008	July 2009
BNZ Capital - Business NZ PMI (s.a)	53.1	58.8	49.0	53.3	54.1	48.1	49.7
Northern	51.5	60.6	44.8	54.7	54.5	46.8	47.4
Central	51.5	55.2	50.6	48.4	54.4	44.9	52.7
Canterbury/Westland	49.5	60.9	54.6	48.8	50.9	52.5	54.9
Otago/Southland	55.0	45.8	50.7	61.6	49.0	47.5	39.8

(s.a denotes seasonally adjusted)

The BNZ Capital - 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.

13 August 2009

## Global Manufacturing Outlook Brightens

- Global PMI hits the magical 50 mark
- New orders and output the key drivers
- Cost controls aid profitability
- UK the G7 outperformer
- China improvement continues

It perhaps should have been no surprise that the New Zealand PMI forged higher again this month as it simply mirrors what we have seen elsewhere as the global news for manufacturers continues to improve. Consensus forecasts for economic activity are pushing higher, financial market asset prices are reflecting the belief that the impending recovery is sustainable, and even the global PMI indices are now going from strength to strength.

This is not to suggest there is a widespread belief that the world will suddenly become a wonderful place but it is growing confirmation that the worst is probably behind us.

On the PMI front it was particularly noteworthy that last week's JPMorgan Global Manufacturing PMI finally clawed its way back to the "neutral" 50 level. This was the highest reading in 14 months and marked a further 3.0 point increase from June's 47 reading.

Importantly, the strength in the headline index is being driven by new orders, which were at a 20-month high of 53.3 and output, an 18-month high of 54.3. Similarly, for New Zealand new orders led the way rising to a 19-month high of 55.1. Moreover, the implication is that the improving prospective sales line will result in a sharp increase in profitability as firms continue to address their cost structures. Indicative of this, the 47.6 reading for global input prices suggests that input costs continue

to fall, albeit at a lower rate, and employment, at 45.1, is following a similar track.

It is worth noting that the improvement in PMIs is a relatively widespread phenomenon with manufacturing data out of the UK, US, Europe and China all further underpinning hopes about a global recovery.

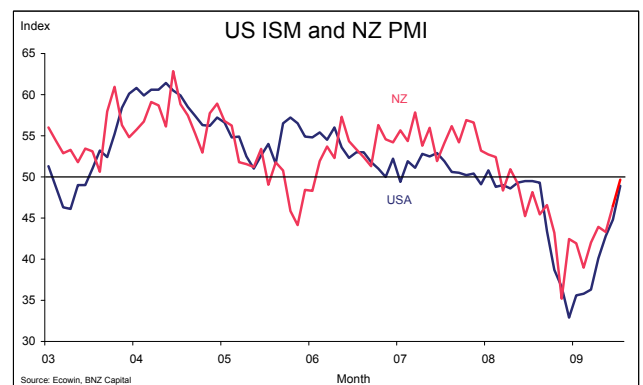
The UK PMI jumped to 50.8 in July, well above the 47.8 forecast. In so doing, the UK became the first economy in the G7 to have broken above the 50 level suggesting that manufacturing in the region may again be expanding.

The US ISM also beat expectations climbing to 48.9 in July versus a forecast of 46.5. Similarly, in the Eurozone, the manufacturing PMI for July was 46.3, a tad higher than the originally published flash estimate and up from June's 42.6. This leaves the European index at its highest level since August 2008, immediately before the collapse of Lehman Brothers.

To cap things off, JP Morgan reports that "Rates of expansion hit a 14-month high in China and growth steadied at an elevated level in India". Moreover, indices in East Europe and Russia also improved.

It is thus not surprising that equities, commodities and commodity currencies are all currently in the ascendancy. Of course, for New Zealand this is a double-edged sword. An improvement in global demand will be highly beneficial but competitiveness will face headwinds to the extent that the NZD finds further support. That said, a strong global economy and a strong NZD are preferable to weakness in both.

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