

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.

pmi

## June jump keeps manufacturing activity on track

### BNZ - BusinessNZ PMI for June 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for June (56.2) picked up 2.2 points from May to remain firmly entrenched in expansion mode for the tenth consecutive month, as well as averaging 56.4 over the last quarter. This was also the second highest June result since the survey began, being only eclipsed by the June 2004 result (62.8).
- All five of the seasonally adjusted main diffusion indices were in expansion. The strongest improvement was in *employment* (52.4), which went from contraction in May to record its highest result since November 2007. *Production* (56.2) picked up 1.2 points after a drop in May, while *new orders* (58.0) did likewise. *Finished stocks* (54.7) increased to its highest value since October 2007, while *deliveries* (56.6) experienced its second consecutive dip in expansion.
- Unadjusted results by region showed all were in expansion during June. Expansion was again led by the *Otago/Southland* region (58.4), which largely stayed unchanged from May. The *Northern* region (51.6) recovered from a small decline during the previous month, while the *Canterbury* (53.4) and *Central* (53.8) displayed similar results.
- Manufacturing by industry sub-groups were a mixture of expansion and slight decline during June. The categories experiencing the strongest expansion included *machinery & equipment manufacturing* (57.1) and *food, beverage & tobacco* (54.9). The other main categories of *petroleum, coal, chemical & associated product* (49.9) and *metal product manufacturing* (48.8) were all on the cusp of no change during the month.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for June (55.0) showed further easing of activity after its record high-point in April. In a similar trend the Australian PMI also experienced a softening of activity (52.9), while the USA PMI (56.2) returned to levels seen in February.
- The comments about market conditions showed movement towards negative comments (57.4%) being higher than last month. These comments again focused on issues such as low demand/orders as the effects of the recession still linger. Positive comments were again largely relating to obtaining offshore orders and the return of major customers.

*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 continues solid activity as expansion improves during June***

***All five main indices recorded expansion, with employment highest since November 2007.***

***Unadjusted regional activity was in expansion across all regions.***

***Despite the improvement, the proportion of negative comments picked up, showing recessionary effects still lingering.***

***Next BNZ - BusinessNZ PMI: 12 August 2010***

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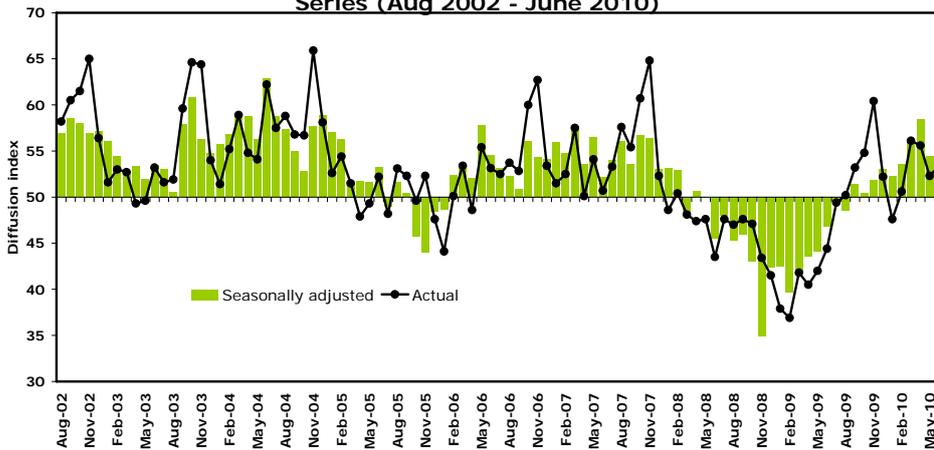
*BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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# pmi

**BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - June 2010)**



### June time series tables

National Indexes	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010
BNZ - BusinessNZ PMI (s.a)	53.2	54.6	52.2	45.5	46.8	56.2
Production (s.a)	52.7	55.4	49.2	43.9	48.9	56.2
Employment (s.a)	50.9	47.7	49.0	46.2	39.2	52.4
New Orders (s.a)	52.7	56.8	55.9	44.6	51.7	58.0
Finished Stocks (s.a)	53.7	52.4	52.9	51.7	44.2	54.7
Deliveries (s.a)	52.8	55.6	53.1	44.3	44.6	56.6

National Indexes	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010
BNZ - BusinessNZ PMI (s.a)	53.2	54.6	52.2	45.5	46.8	56.2
Northern	50.5	53.2	49.3	42.2	41.7	51.6
Central	53.0	53.6	50.0	45.6	44.7	53.8
Canterbury/Westland	54.4	46.7	56.2	42.2	48.8	53.4
Otago/Southland	54.7	60.4	48.3	47.9	48.8	58.4

(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.*

15 July 2010

## Reorienting Growth

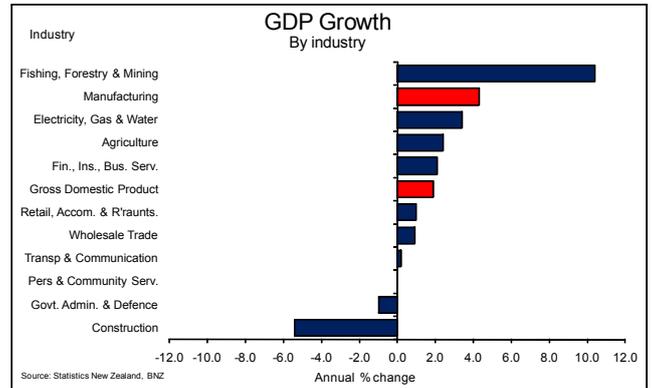
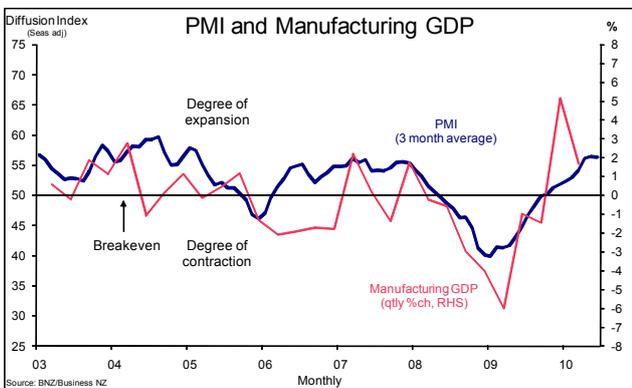
- Manufacturing recovery continues
- As export markets improve
- Domestic conditions are tougher
- Further manufacturing out-performance likely
- Judging by buoyant confidence

The manufacturing sector continued to push forward at a solid pace in June. There was even a hint of acceleration from May, as the BNZ Performance of Manufacturing Index nudged up from 54.4 to 56.2. An improving manufacturing sector is welcome news as some other economic growth indicators have recently softened a touch.

The PMI details also made pleasant reading with solid increases in new orders and production in the month. Encouragingly, hiring is back on the agenda. The PMI employment index posted the strongest increase across the major components rising from 49.5 in May to 52.4 in June. This index is at its highest level since late 2007. It seems likely that the sector added jobs, on net, in Q2 as it did in Q1.

Significantly, from an output perspective, the three month average of the PMI has settled at a healthy position of over 56, well above the breakeven 50 mark. This strongly suggests another positive quarter of manufacturing growth occurred in Q2.

This is important as the rebound in manufacturing production, foretold by the PMI, has been a major thrust behind the economic recovery to date. The manufacturing sector grew 1.6% in Q1, providing the strongest positive contribution to nationwide GDP growth for the second consecutive quarter. Manufacturing activity is up 4.3%



on year ago levels – displaying more than twice the pace of growth in the economy overall.

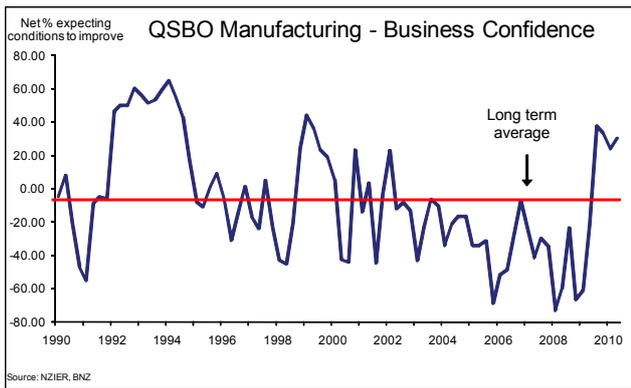
Of course, manufacturing – both at home and globally – was hit very hard by recession as big ticket durable purchases were delayed or cancelled by consumers and businesses alike. So, to keep the current positive signs in perspective, the recent growth has been off that depressed base.

Even so, there is a sense of growth reorientation going on within the economy toward the manufacturing and primary sectors of the economy. The latest GDP annual growth figures clearly show this. The manufacturing, mining and forestry sectors have been standouts.

The reorientation of growth is closely associated with the economic rebalancing going on. Latest data show a clear shift in the economy towards production and saving (or less dis-saving) and away from spending and consumption. The stunning reduction in the nation's current account deficit from 8% of GDP a year ago to below 3% now is testimony to this.

Encouragingly, more manufacturing growth seems to be around the corner judging by the general sentiment in the sector. In fact, manufacturers' confidence over the past year suggests that the sector is in something of a sweet spot. Perhaps a sweet spot in a relative sense is a better description, given the acute pessimism that prevailed over most of the previous decade.

According to the NZIER's *Quarterly Survey of Business Opinion* (QSBO) manufacturers are confident. In June, a net 30% of firms expected better business conditions over the coming six months – a huge turnaround from



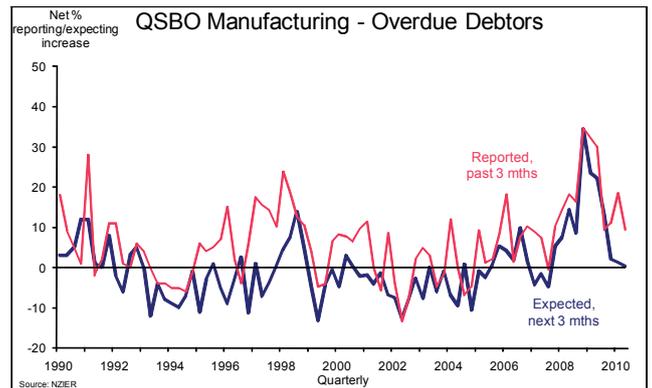
-22% a year ago and light years from the -73% at the beginning of 2008 when New Zealand was plunging into recession. This turnaround certainly gels with the PMI indicators.

Why the optimism? We think top of the list has to be an improving world economy, despite the many risks that remain. Part of this, of course, has been the strong growth in Asia and, by association, in Australia. Throw in a reasonable NZD/AUD cross exchange rate and trading conditions in a major manufacturing export market have improved markedly.

So the optimism seems to be largely driven by exports and export expectations. Indeed, in the QSBO, a net 10% of manufacturers reported an increase in export sales over the past year and expectations are positive. This fits with feedback from the PMI survey – where positive comments in June were again largely relating to obtaining offshore orders and the return of major customers.

It is not good news all round. Indeed, domestic trading conditions remain tough for many – the downside of the rebalancing story and a cautious NZ consumer. In contrast to the rising export indicator in the QSBO, a net 7% of manufacturers reported a decrease in domestic sales over the past year. Again, aligning with comments in the PMI survey that focused on issues such as low demand/orders as the effects of the recession still linger.

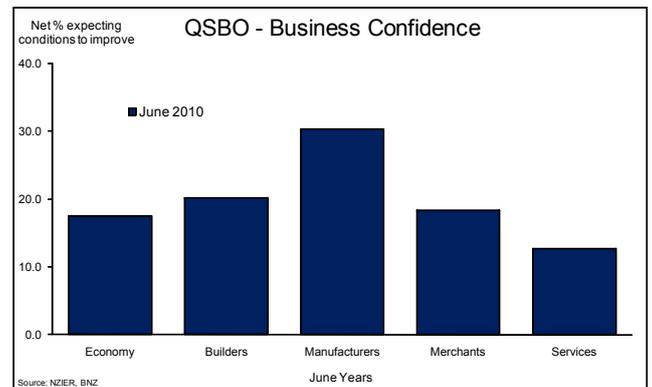
On average though, manufacturers are optimistic. Another encouraging element from the QSBO was manufacturers’ expectations on overdue debtors. There is now the same number of firms expecting overdue debtors to fall as rise over the coming three months. This is a vast improvement from 18 months ago, when firms’ expectations for a rise in overdue debtors spiked to a net 34%. This spike got to a level as bad as the helter-skelter days of the 1970s.



So not only do manufacturers see a broad improvement in output ahead, driven by export sales, but they also see a rising likelihood of being paid on time!

The manufacturing sector seems on track to continue outperforming the wider economy for the remainder of 2010, if business confidence is any guide. The net 30% of manufacturers expecting better business conditions over the coming six months compares favourably to general business confidence of 18%. Staggeringly, this positive gap is the largest in manufacturing’s favour since at least 1970. We take this as a sign that the reorientation of economic growth is only beginning to run its course.

The eventual outcome for both manufacturing and the wider economy is still very dependent on developments aboard. For now, at least, things seem to be moving in the right direction.



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