

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.



Mid-year middling

BNZ - BusinessNZ PMI for June 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for June stood at 50.2, which was 5.6 points down from May and indicative of the sector experiencing close to no change. Compared with previous June results, the 2012 value was the lowest since 2009.
- Despite the fall, three of the five seasonally adjusted main diffusion indices were still in expansion in June. This was led by *new orders* (51.2), followed by *production* (50.8). *Finished stocks* (50.3) were the only other main index to experience expansion, with three consecutive months of close results. *Employment* (48.9) experienced contraction in June, and only its second in 10 months. *Deliveries* (46.5) dropped 5.5 points from May to its lowest level of activity since October 2011.
- Unadjusted results by region showed far less variation in activity levels during June. The *Northern* region (50.7) led the way, although down 8.1 points from May. The *Otago/Southland* region (49.8) remained almost identical to its result for May, although just slipping into contraction. The *Central* region (48.0) increased 3.5 points from the previous month, while the *Canterbury/Westland* region (46.7) continued to show its volatile nature with a drop from 61.3 in May.
- Manufacturing by industry sub-groups produced a mix of results for June. *Metal product manufacturing* (55.9) led the way for June, up 3.2 points from May. *Machinery & equipment manufacturing* (49.3) fell back from its May result to experienced all but no change for June. Both *petroleum, coal, chemical & associated product* (47.3) and *food, beverage & tobacco* (46.0) experienced similar levels of decline in June, with the former showing only minor change from May.
- The decline in activity towards a stance of no change was also reflected in the proportion of positive and negative comments during June, which was 51.1% and 48.9% respectively. Those providing negative comments tended to use general descriptors such as sluggish, slow and flat, while positive comments continued to mention Australia as a prime export market, while for others it was business as usual. Globally, the JPMorgan Global Manufacturing PMI contracted in June (48.9), which was the first time it recorded a sub-50.0 value since November 2011.

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 50.2 for June, down 5.6 points from May.

Three of the five main indices were in expansion, with new orders leading the way.

Unadjusted regional activity was in expansion in the Northern region, but in contraction elsewhere.

**Next BNZ - BusinessNZ PMI:
16 August 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)

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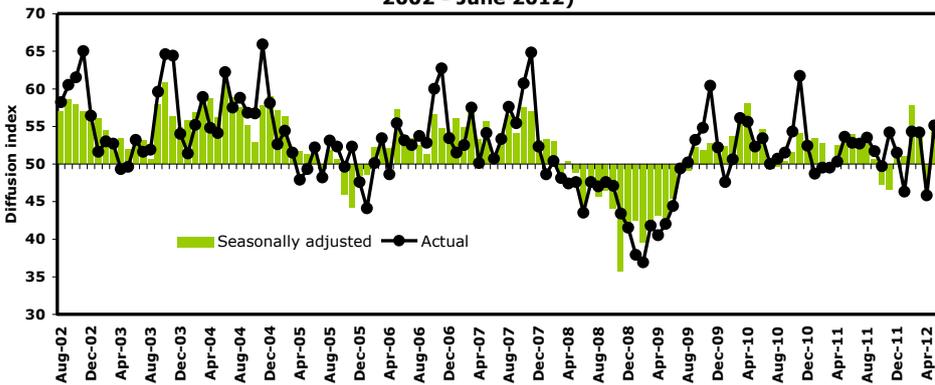
BNZ Economist Doug Steel looks into some of the June PMI details. He finds a big drop in the PMI for large firms and although there is no obvious driver he suggests it is one to watch going forward. On the positive side, he also finds encouragement from signs that a pick-up in domestic construction is appearing.

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pmi

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



June time series tables

National Indexes	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012
BNZ - BusinessNZ PMI (s.a.)	51.4	44.3	45.4	54.6	54.0	50.2
Production (s.a.)	48.1	42.6	47.4	54.6	52.6	50.8
Employment (s.a.)	48.9	46.0	39.0	52.2	52.1	48.9
New Orders (s.a.)	54.6	42.6	49.1	54.9	55.5	51.2
Finished Stocks (s.a.)	53.1	52.0	44.5	55.2	49.5	50.3
Deliveries (s.a.)	52.4	42.9	42.6	54.3	55.7	46.5

National Indexes	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012
BNZ - BusinessNZ PMI (s.a.)	51.4	44.3	45.4	54.6	54.0	50.2
Northern	49.3	42.2	41.7	51.6	55.2	50.7
Central	50.0	45.6	44.7	53.8	53.9	48.0
Canterbury/Westland	56.2	42.2	48.8	53.4	52.1	46.7
Otago/Southland	48.3	47.9	48.8	58.4	41.3	49.8

(s.a. denotes seasonally adjusted)

The BNZ - BusinessNZ PMI contains data obtained through BusinessNZ'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.

12 July 2012

The Large Drop

- June PMI at breakeven 50
- Details a bit mixed
- Large-firm PMI falls sharply
- Overall trends indicate Q2 expansion
- Outlook: watch construction, world, currency, weather...

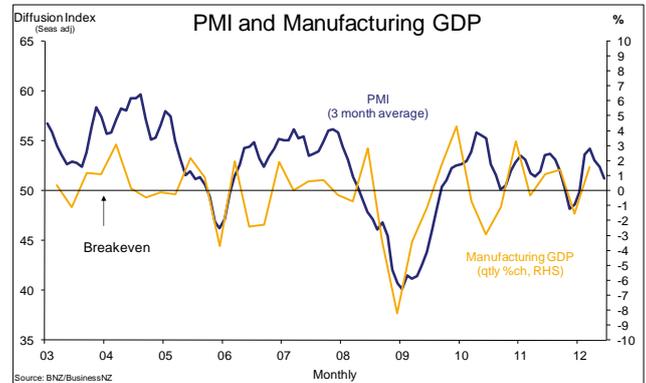
Since the end of last year, the PMI has largely followed a see-saw pattern: up one month, down the next. Following the lurch higher in May that had the index perched at a lofty 55.8 a dip in June seemed inevitable. True to recent form the PMI dipped in June, to 50.2. So a bit like night following day, there were no surprises here.

Being close to the breakeven 50 mark, June's result indicates an industry marking time following May's expansion.

While that might be the strict interpretation of the past couple of months' results, the recent volatility in various domestic data series, including the PMI, would caution against being too literal.

Right through the ups and downs we have concentrated on the trends. Encouragingly, these remain positive. Not strong by any stretch and they have tempered a bit in Q2 compared to Q1. For example, the PMI averaged 51.2 through Q2, not quite as firm as the 54.2 average in Q1.

This suggests manufacturing GDP in Q2 will not repeat its hefty 1.8% expansion recorded in Q1. Not that we ever thought it would. But the above 50 readings in the PMI do suggest a bit more growth in Q2, along the lines of the reasonable 0.5% expansion we currently have on the board. We'll find out what the official statistics say when released toward the end of September.



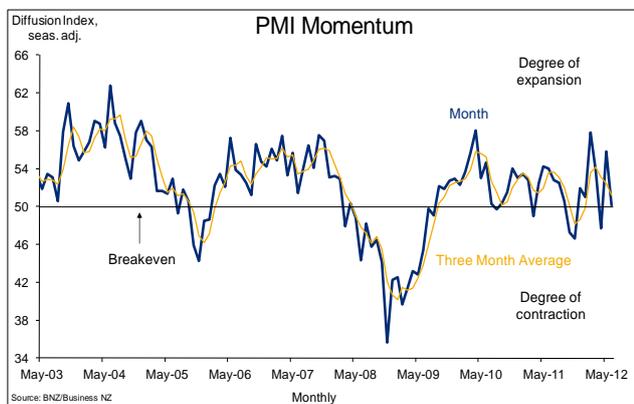
In the PMI details, there were some strong bits and weak bits that caught our eye. Nothing to draw any firm conclusions from just yet, but a couple of features worth noting and watching in future as possible signals to emerging trends.

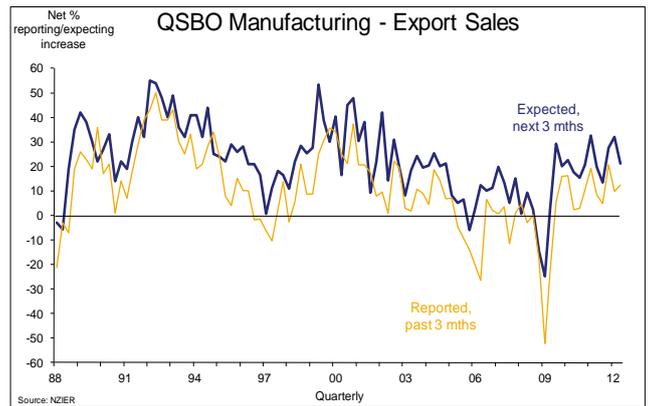
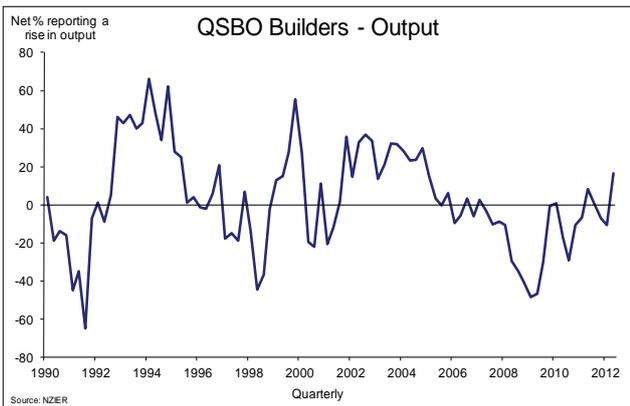
The metal and non-metallic mineral product manufacturing industries stood out on the strong side. Both industries' PMI were driven by new orders and production and may reflect the beginning of some traction in the long anticipated improvement in domestic construction. Let's hope so because, in general, there were still many negative respondent comments regarding the current very weak state of construction.

We anticipate a strong pick up in construction ahead. Residential building consents are now well off their lows, although you could hardly call them strong yet. Anyway, forecasts are one thing, consents are another, but it is activity that matters.

That's why we were encouraged to see signs that the recent upward trend in building consents is starting to translate into actual construction activity, judging by builders' responses to the Quarterly Survey of Business Opinion (QSBO) released by NZIER this week.

In fact, QSBO builders' output and new order indicators posted their highest readings in more than seven years; likewise for builders' overtime worked and productivity. It is important to note that these are indicators of change. So they represent improvement from a low base rather than outright strength. But it is heartening to see movement in the right direction.

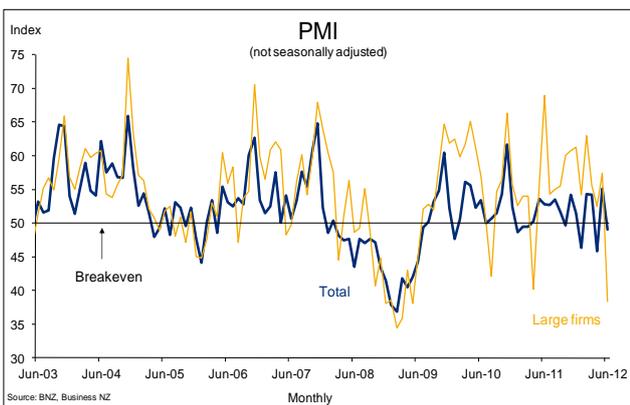




To be sure, there were some weak parts in the June PMI details too. One was a particularly big drop, and to a low level, in the PMI for large firms (101+ employees). This was in marked contrast to the mild decline and more average looking results across all other firm size categories. It is also completely contrary to a general theme over the past few years where the PMI for larger firms has been stronger than that for smaller firms.

Still, we are not reading much into just one month's result. It could well prove temporary like previous similar results back in April 2011 and August 2010, or like the various extreme positive results we have also seen in the past.

There was certainly no obvious driver of the large-firm PMI decline this time around. One possible candidate might be weaker export markets, given that larger firms are more likely to be exposed to international markets than smaller firms. This seems plausible given heightened growth concerns pervading many overseas markets at present. A strong bounce in the NZ dollar over the past month strengthens the case.



Possible, but the QSBO manufacturing export indicators do not support the notion. Manufacturers in that survey indicated both higher export sales in the past three months and expect higher export sales in the coming three months. Moreover, both these variables are close to their long term averages and recent movements have not been unusual.

So, the June PMI drop for large firms remains a curiosity. It will be interesting to see what the July survey brings. This applies to large firms and the overall results alike.

Looking further ahead, we are certainly of the view that an improving domestic construction sector, ongoing international market challenges and generally high currency will be some of the important macro economic influences for the manufacturing sector to roll with.

Also, getting larger on the horizon is the growing threat of El Nino weather conditions. One indicator of such, the Southern Oscillation Index, has just dipped into El Nino territory. El Nino weather conditions have the potential to dent primary production especially from last season's strong result, with follow on effects for food processors. It could matter for others too, to the extent that El Nino conditions might affect hydro lake levels and the wholesale electricity market.

Ah, the weather, yet another factor to keep an eye on in a world of many moving parts.

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