

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

Manufacturing expansion highest in 28 months

BNZ - Business NZ PMI for March 2010

- The BNZ - Business NZ seasonally adjusted PMI for March (56.3) increased 2.7 points from February to record its highest value in 28 months. It was also the highest March value since 2007, and the third highest of any March values since the survey began in 2002.
- All five seasonally adjusted main diffusion indices remained in expansion – the first consecutive expansion across all main indices since the end of 2007. *Production* (59.4) was the highest value, with levels not seen since August 2007. *New orders* (56.9) remained healthy, with the last five values for the index within a tight band. *Employment* (50.1) slipped from February to show almost no change, while *finished stocks* (52.8) were in positive territory for the second consecutive time after a prolonged period in contraction. *Deliveries* (57.0) rose 3.4 points to stand at its highest result since October 2007.
- Unadjusted results by region showed most in expansion during March. This was again led by the Canterbury region (58.6), which experienced a slight dip from February. Both the Northern (57.8) and Otago/Southland (57.5) regions experienced similar levels of expansion, with both at their highest level since November 2009. While the Central region (49.0) remains in contraction, the March result was an improvement on February.
- Manufacturing by industry sub-groups was almost all in expansion for March. The categories experiencing the strongest expansion included *metal product manufacturing* (62.4) and *machinery & equipment manufacturing* (58.1), with both building on activity levels from February. The *petroleum, coal, chemical & associated product* sector (50.5) also showed further improvement from the previous month, pulling itself out of contraction.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for March (56.7) fared even better, with a 70-month high. This was due to production and new orders picking up pace globally. The USA PMI (59.6) was the highest since July 2004, while the Australian PMI (50.2) eased back from the February result.
- The proportion of negative comments made by respondents took a significant dive to 43%, compared with 66% in February. Positive comments focused strongly on increased domestic and offshore demand.

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 highest since November 2007.

All five main indices recorded expansion for second consecutive time.

Unadjusted regional activity was in expansion across most regions.

The global manufacturing scene shows strong recovery, with significant boosts to production and new orders.

***Next BNZ - Business NZ PMI:
13 May 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.

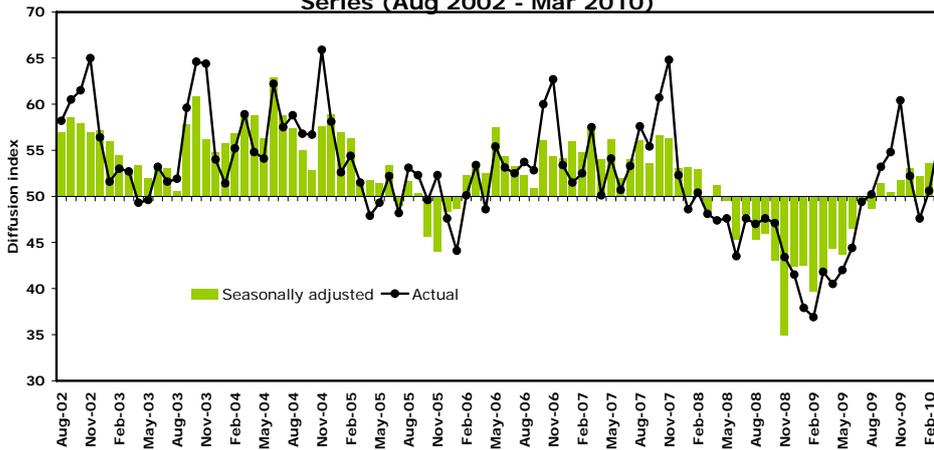
BNZ (www.research.bnz.co.nz)

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

BNZ - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Mar 2010)



March time series tables

National Indexes	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010
BNZ - Business NZ PMI (s.a)	51.7	53.6	57.7	48.2	41.9	56.3
Production (s.a)	52.8	54.0	61.4	45.3	39.2	59.4
Employment (s.a)	48.6	50.6	50.1	50.3	40.1	50.1
New Orders (s.a)	50.3	54.1	58.5	44.4	42.1	56.9
Finished Stocks (s.a)	51.7	48.8	55.9	51.7	46.3	52.8
Deliveries (s.a)	52.0	54.1	56.4	51.0	41.4	57.0

National Indexes	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010
BNZ - Business NZ PMI (s.a)	51.7	53.6	57.7	48.2	41.9	56.3
Northern	52.6	53.8	55.0	47.8	41.3	57.8
Central	47.8	50.8	54.6	45.8	45.2	49.0
Canterbury/Westland	50.6	54.2	64.1	52.4	41.0	58.6
Otago/Southland	54.3	55.8	61.2	46.3	37.6	57.5

(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.

15 April 2010

Manufacturing Trend Growth Strengthens

- Manufacturing recovery gathers pace
- Strengthening growth is off a low base
- Australia's strength and weak NZD/AUD helping
- Re-stocking phase providing short-term growth impulse
- Outlook dependent on domestic demand recovery

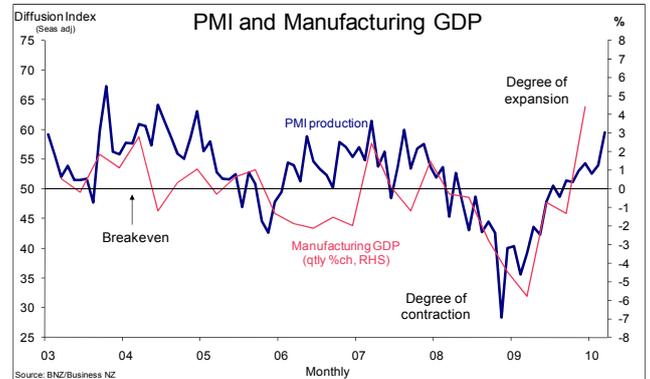
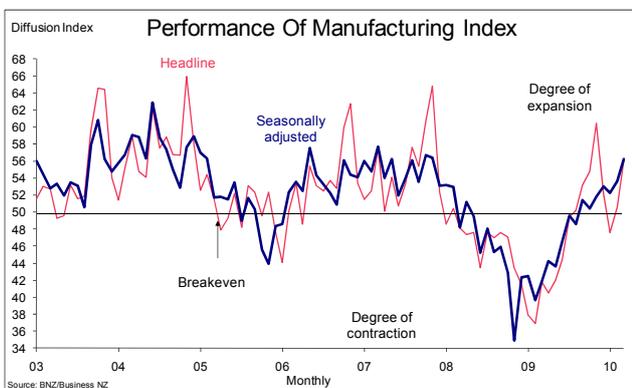
New Zealand's manufacturing sector took another significant step forward in March. This extends progress out of the deep hole that the sector was in through 2008 and 2009. Indeed, March was the seventh consecutive month of expansion.

Encouragingly, the trend recovery that has been underway since mid-to-late last year appears to have accelerated. In lifting to a seasonally adjusted 56.3 in March, from 53.6 in February, the Performance of Manufacturing Index has hit its highest level since late 2007.

Further signs of recovery can be found in the detail. For the second month running, all five sub indices, on a seasonally adjusted basis, are above the breakeven 50 mark. The initial recovery in new orders and production is now encouraging employment and some inventory rebuild.

Production is cranking up. In March, the production index jumped more than 5 points to 59.4 seasonally adjusted, the highest reading since mid-2007. This bodes well for positive manufacturing GDP growth in Q1, although we suspect not as chunky as the outsized 4.5% expansion in 2009 Q4. Even so, on a trend basis, the recovery seems to be gathering pace.

What is driving the growth? We see three high level factors.



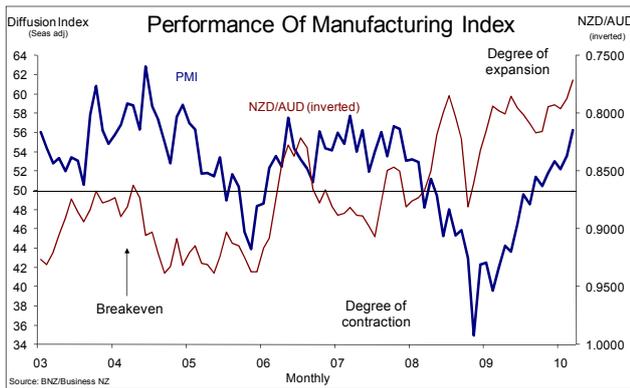
First, the starting point. Not exactly a driver of growth, but the low base does allow for fast gains. The manufacturing sector was one of the hardest hit by the global and domestic recession. And even though the sector was by far the biggest positive contributor to overall GDP growth in Q4, keep in mind that, even after this expansion, the level of manufacturing activity is still more than 16% below its previous peak back in 2005. The improving signs should be seen in the context of still making up for lost ground.

Second, Australia. The recent strength of the Australian economy has been a boon to many kiwi manufacturers. Not only did Australia not have a recession during the global crisis, the prospects have improved such that the Reserve Bank of Australia has hiked interest rates five times since last October.

The relative strength of the Australian economy and higher interest rates have seen the Australian dollar well bid, including against the NZ dollar.

This provides a win-win for NZ manufactures supplying the Australian market. Not only have Australian incomes lifted with economic growth, but the stronger Australian currency boosts the purchasing power of those incomes in New Zealand. Or put another way, higher incomes breed an expanding market and the lower NZ dollar helps make kiwi products more competitive against their Australian equivalents.

Certainly, the NZ dollar well below 80c against its Australian counterpart is encouraging and has no doubt played a part in the recent improvement in export sales reported by manufacturers in the Quarterly Survey of Business Opinion. A net 16% of manufacturers reported

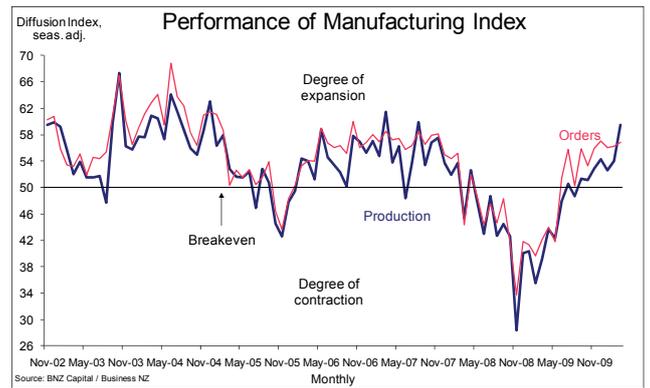
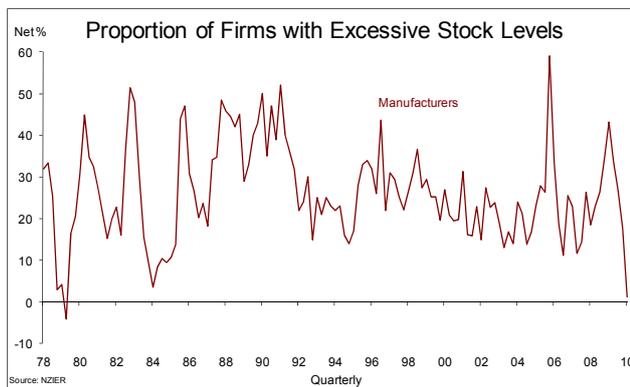


higher export sales in Q1, a better-than-average result (far better than the net 9% that reported a drop in domestic sales over the period). Moreover, a net 23% expected to increase exports over the coming quarter.

This is clearly positive, but we are also conscious of the fact that the longer the China-driven commodity boom lasts and the more Australian resources that are assigned to it, the more vulnerable we become to a correction. This is not to take the gloss of the current improvement, nor a forecast that we think the commodity boom will correct, it is merely a note of the risks associated with increasing dependence on effectively one market.

Of course, it is not all roses in the Australian market and conditions no doubt vary by region and product. There is still intense competition from Asia and other global suppliers, as the Australian dollar lifts against their currencies.

Third, re-stocking. Higher production is also destined to boost inventory, judging by the more than 5 point rise in the finished stocks index over the past two months. No wonder given the marked rundown over recent times.



The latest results from the Quarterly Survey of Business Opinion suggest this restocking has further to run. In Q1, the net percent of manufacturers that reported excessive stock levels dropped to 1.3%. In context, this is the

lowest level for this series since 1979 and is significantly below the 26% historical average. All positive stuff for production ahead, assuming demand remains robust and inventory levels are to return to normal.

However, we do question how long this restocking can last. New orders remained robust in March and firmly in expansion territory. But we note that the production index has now caught up and passed new orders. This is all good for faster trend growth in the short term, but suggests growth may ease off a tad beyond the restocking phase of recovery.

This is where we are a little cautious looking forward. How robust will demand be? We suspect external demand, including from Australia, will continue to strengthen from here, but the other two drivers of recent growth, noted above, seem likely to run out of puff.

Can domestic demand pick up the slack? Data this week were mixed on this score. Weak retail sales data for February released yesterday were disappointing, while a strong lift in March electronic transactions data provides hope. If nothing else, just the volatility suggests some caution is appropriate.

Even so, for now, a solid recovery from a low base is well underway in the manufacturing sector – definitely a marked improvement on recent times.

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

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
Fixed Income/Derivatives

+800 642 222
+800 283 269

Sydney
Foreign Exchange
Fixed Income/Derivatives

+800 9295 1100
+(61 2) 9295 1166

London
Foreign Exchange
Fixed Income/Derivatives

+800 333 00 333
+(44 20) 7796 4761

New York
Foreign Exchange
Fixed Income/Derivatives

+1 800 125 602
+1877 377 5480

Hong Kong
Foreign Exchange
Fixed Income/Derivatives

+(85 2) 2526 5891
+(85 2) 2526 5891

24 HOUR FOREIGN EXCHANGE SERVICE

Phone Toll Free 6am to 10pm NZT – Wellington Office

0800 739 707 10pm to 6am NZT – London Office – Sam Hehir

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabSecurities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabSecurities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabSecurities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

National Australia Bank Limited is not a registered bank in New Zealand.