

## BNZ-BusinessNZ PMI

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

## Moderate manufacturing expansion in May

### BNZ - BusinessNZ PMI for May 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for May (54.5) is still in expansion mode, though down 4.1 points from April (58.6). This is the ninth consecutive month of expansion and a significantly better place than May one year ago when manufacturing was very much in contraction territory.
- Four of the five of the seasonally adjusted main diffusion indices remained in expansion, with the one exception being *employment*, which slipped back into contraction at 49.3, but is still close to no change. *Production* (55.3) was down 7.2 points on last month. *New orders* were also down on last month by 4.2 points (56.4) but are still in solid expansion territory. *Finished stocks* (52.4) are in positive territory for the fourth month running after a prolonged period in contraction, while *deliveries* (57.6) are still in expansion, though 0.9 points behind April.
- Unadjusted results by region showed all were in expansion during May, apart from Northern (48.3). Expansion was led by the Otago/Southland region (58.5) followed by the Canterbury region (57.6) and the Central region (52.3).
- Manufacturing by industry sub-groups were not all in expansion for May as they were for April. The categories experiencing the strongest expansion included *textile, clothing, footwear & leather manufacturing* (63.7), *machinery & equipment manufacturing* (59.7). The other main categories of *petroleum, coal, chemical & associated product* (46.9), *wood & paper product manufacturing* (47.5) and *metal product manufacturing* (49.6) were all not far away from being in positive territory, but not there yet.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for April (57.2) continued its march upwards, albeit easing from April's near record high, which is consistent with the New Zealand result. In a similar trend the Australian PMI also grew solidly in May (56.3), though also easing back from the high level achieved in April.
- The comments about market conditions were not quite 50/50 with negative comments being slightly higher (54.3%), than positive (45.7%). Negative comments were largely around low demand/orders and seemed domestically focused, while positive comments were largely relating to exports or industry sectors that are performing better, such as the dairy sector.

*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 expansion, though easing back from April.***

***Four of the five main indices recorded expansion.***

***Unadjusted regional activity was in expansion across all regions, apart from the Northern region.***

***The global manufacturing scene shows continued solid expansion, but also easing back from April.***

***Next BNZ - BusinessNZ PMI:  
15 July 2010***

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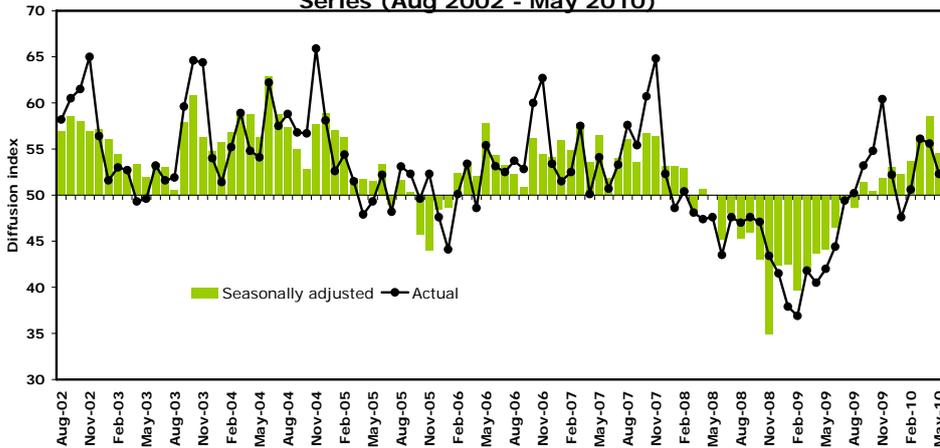
*BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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 - May 2010)**



### May time series tables

National Indexes	May 2005	May 2006	May 2007	May 2008	May 2009	May 2010
BNZ - BusinessNZ PMI (s.a)	51.5	57.8	56.5	49.9	44.1	54.5
Production (s.a)	51.7	59.4	56.8	48.6	43.3	55.3
Employment (s.a)	48.2	52.2	50.1	47.9	43.7	49.3
New Orders (s.a)	51.7	59.4	58.3	49.9	43.8	56.4
Finished Stocks (s.a)	51.0	54.8	57.5	50.6	46.4	52.4
Deliveries (s.a)	51.8	55.9	54.4	50.8	43.9	57.6

National Indexes	May 2005	May 2006	May 2007	May 2008	May 2009	May 2010
BNZ - BusinessNZ PMI (s.a)	51.5	57.8	56.5	49.9	44.1	54.5
Northern	49.4	55.1	49.8	44.1	43.2	48.3
Central	50.1	52.5	54.8	52.8	36.1	52.3
Canterbury/Westland	48.9	59.1	58.0	48.2	48.4	57.6
Otago/Southland	46.8	58.5	61.9	51.8	36.4	58.5

(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 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.*

10 June 2010

## Manufacturing Hits Speed Bump

- May's PMI slows to 54.5
- As details become mixed again
- Q1 manufacturing results also a tad disappointing
- Albeit mainly as drought hits agriculture processing
- Global markets also reassessing degree of optimism

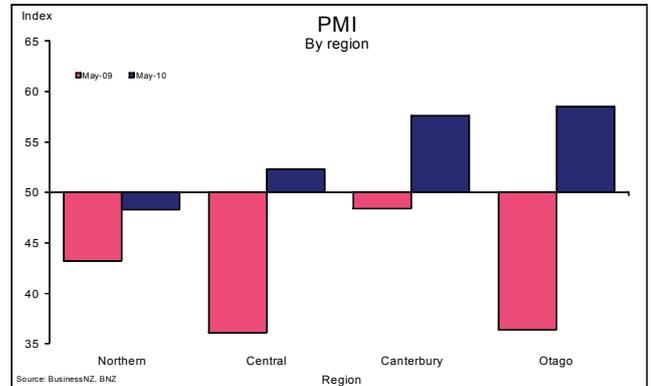
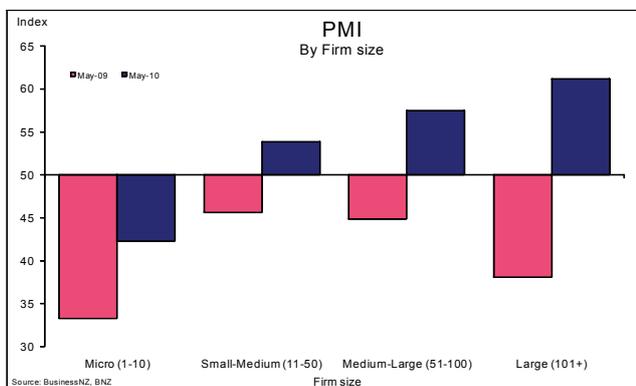
As we suspected, she's likely to be a bumpy road to recovery. After some strong gains over recent months, May's Performance of Manufacturing Index slowed to a moderate pace of 54.5. This follows less than buoyant signals from the March quarter manufacturing statistics, as published by Statistics NZ earlier this week. And the tempered NZ PMI coincides with the global PMI forming something of a peak during May, as financial markets pared their optimism. There is a sense of taking stock in all of this.

Yet it didn't seem a general re-rating of New Zealand's PMI for May. In the detail, it appeared more the case of more components weakening than those holding up or strengthening.

For example, by firm size, it was the small ones that tripped, to 42.3. Large firms stood tall, with 61.2. By industry, five slipped to below the 50-breakeven mark but three strengthened to extremely strong levels. Geographically, the Northern zone was the weak link, with 48.3, while the South Island was looking solid with 57.6 and 58.5 for Canterbury and Otago respectively.

What we're left with, then, is a much more mixed picture by way of the slicing and dicing, compared to the more concerted momentum evident earlier in the year.

As for the March quarter manufacturing statistics, these were also a bit disappointing, albeit restrained by one



sector more than any other, namely dairy and meat processing. Overall, manufacturing sales volumes dipped 2.7%. However, this reflected a 10% drop in agricultural products, with the rest of manufacturing expanding real sales by 2.7%.

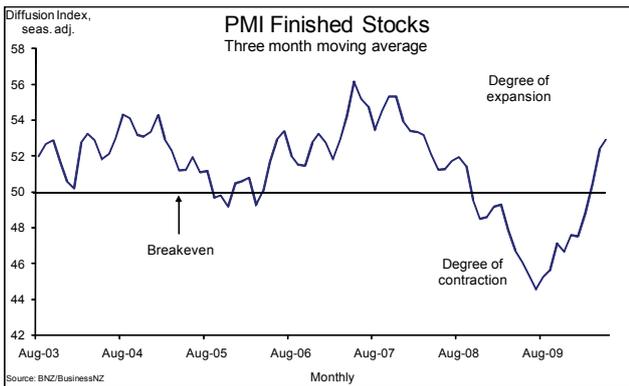
While much of the drop in agriculture sales is probably just timing – in this always-volatile category – it does serve as a reminder that drought was beginning to impact in the March quarter. Sure, this looked to have boosted meat processing (with numbers outweighing lower weights, in all probability) and thus was good for manufacturing activity. However, it will probably just create a lack of animals to slaughter in the June quarter.

As for on-farm milk-solid production, this will simply go from bad to worse from Q1 to Q2 – in relation to what was a great first half to the June-year production season.

These drought-driven unwinds will take a direct bite from Q1 GDP growth and will probably make a meal of Q2, by way of manufactured processing as much as on-farm production. Watch out for it.

But it is an ill wind that blows nobody any good. The restricted dairy product supply in the latter part of the season, for instance, will no doubt have contributed to the much higher prices being received. The latter is why dollar sales of manufactured products actually rose, by 0.9%, in the March quarter.

The price gains will likely further support incomes in the June quarter, and into next season. To the extent this is spent, rather than used to reduce debt, GDP growth will be supported. This is also something to keep tabs on, with commodity prices key in this regard.



The other factor underpinning activity continues to be inventory rebuilding. There were indications that this process continued in May's PMI, with the finished stocks index staying positive, at 52.4.

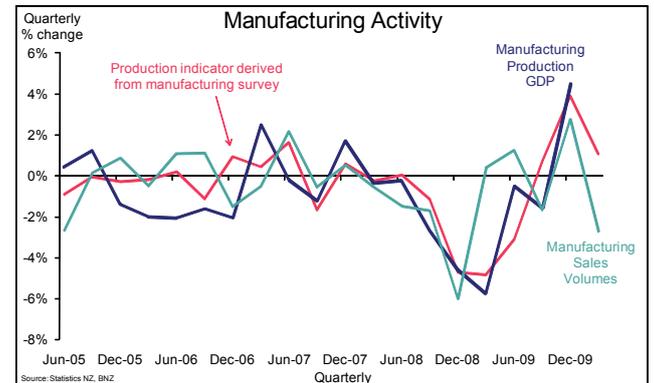
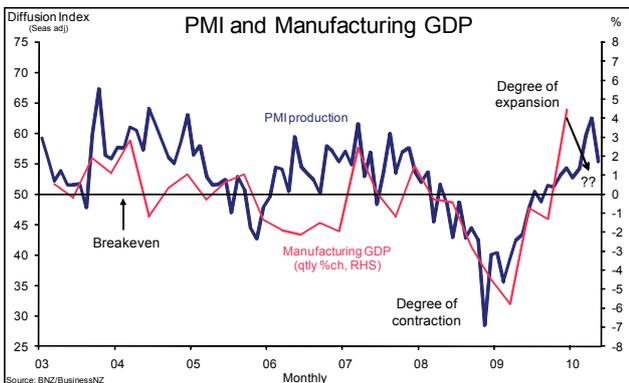
Similarly, there seemed positive stock signals in the Q1 manufacturing survey, which complemented the expansion of increasing core sales volumes. Combined, we were left with the impression manufacturing GDP increased about 0.5% (albeit with a wide band of uncertainty). While much slower than Q4's reported 4.5% expansion, it would represent a creditable continuance.

Arguably the bigger thing to monitor, however, is the international situation. We say this with signs that the world manufacturing bounce-back – which has outpaced almost every other sector in the recovery phase – is peaking. The JPMorgan global PMI, as published by Markit, edged down to 57.2 in May, from 57.8. This included China's PMI dipping to 52.7.

If nothing else, the world's manufacturing activity, and expectations thereof, might be dampened, even if just transitorily, by the renewed ructions doing the rounds in financial markets of late. We'll be watching the next batch of global PMI results with this in mind.

While we still believe the fundamental path is one of continued recovery – internationally and domestically – we're also of the opinion it will probably be a bumpy one, rather than of the strong and sustained variety so often seen post recession nadirs. Today's softer PMI is thus a timely reminder of the potential for bumps.

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