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

May march for manufacturing activity

BNZ - BusinessNZ PMI for May 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for May stood at 54.7, which was up 2.7 points from April, and the highest level of activity since June 2010. Compared with previous May results, the 2011 figure was the highest recorded since 2007.
- Four of the five seasonally adjusted main diffusion indices were in expansion during May, with *deliveries* (57.6) leading the way, followed by *new orders* (56.7) and *production* (55.2). *Employment* (50.8) returned to slight expansion for May, while *finished stocks* (49.3) dipped below the no change mark of 50.
- Unadjusted results by region showed three of the four main regions in expansion, with *Canterbury/Westland* (57.7) leading the way with its highest value since November 2010. This was mainly due to improved production and new order results (both domestically and offshore). The *Central* region (57.1) bounced back from a sluggish April result, while the *Northern* region (52.3) returned to a very consistent level of activity for three of the last four months. In contrast, the *Otago/Southland* region (45.3) remained in contraction for four consecutive months with employment in the region experiencing a significant drop.
- Manufacturing by industry sub-groups were a mix of expansion and contraction during May, with *machinery & equipment manufacturing* (62.3) building on its April figure. In contrast, *food, beverage & tobacco* (46.4) fell into contraction for the first time since May 2010.
- Despite the improvement in the overall index number, comments about market conditions saw a small pick-up in the proportion of negative comments (52.8% for May compared with 49% for April). Earthquakes and exchange rates were included in a number of negative comments, although for other manufacturers the exchange rate was viewed as a positive with reduced raw material prices and improved orders in certain countries.

Inside BNZ Commentary this Month (page 3)

Bank of New Zealand's Economist, Doug Steel, looks at some of the cyclical drivers of economic recovery at present and concludes that further manufacturing expansion appears ahead. Strong commodity prices are boosting rural incomes and will fuel demand for some manufactured goods. Meanwhile, consumer demand seems to be improving from a low base. New orders have moved ahead of inventory in the PMI indices, pointing to stronger future production and a potential strong inventory cycle.

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 expansion increased 2.7 points to stand at 54.7 for May.

Four of the five main indices recorded expansion, with improved production and new orders levels.

Unadjusted regional activity showed all but the Otago/Southland region in expansion.

Despite the lift in overall activity, the proportion of negative comments picked up in May.

Next BNZ - BusinessNZ PMI:
14 July 2011

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)

BNZ-BusinessNZ PMI

pmi

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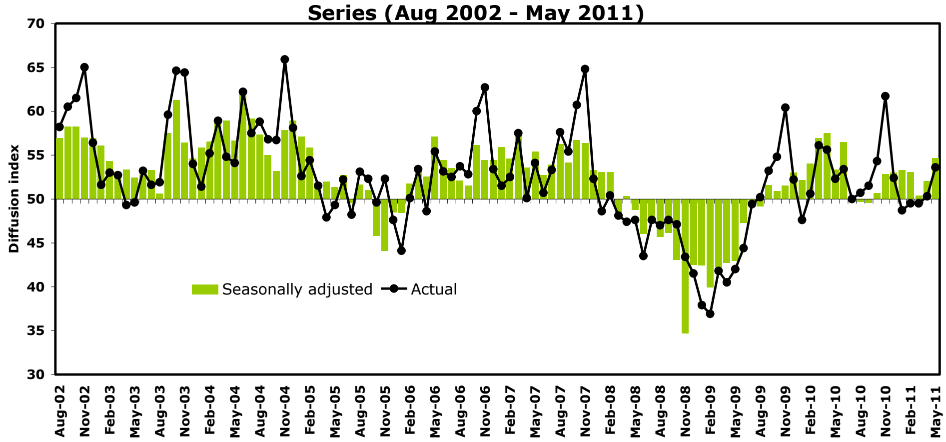


May time series tables

National Indexes	May 2006	May 2007	May 2008	May 2009	May 2010	May 2011
BNZ - BusinessNZ PMI (s.a.)	57.1	55.4	48.8	43.0	53.3	54.7
Production (s.a.)	58.1	55.4	47.2	42.2	54.2	55.2
Employment (s.a.)	52.2	50.1	48.0	44.0	49.8	50.8
New Orders (s.a.)	59.0	57.4	48.3	41.5	53.7	56.7
Finished Stocks (s.a.)	54.1	56.7	49.8	45.7	51.8	49.3
Deliveries (s.a.)	55.8	54.0	50.0	42.6	56.1	57.6

National Indexes	May 2006	May 2007	May 2008	May 2009	May 2010	May 2011
BNZ - BusinessNZ PMI (s.a.)	57.1	55.4	48.8	43.0	53.3	54.7
Northern	55.1	49.8	44.1	43.2	48.3	52.3
Central	52.5	54.8	52.8	36.1	52.3	57.1
Canterbury/Westland	59.1	58.0	48.2	48.4	57.6	57.7
Otago/Southland	58.5	61.9	51.8	36.4	58.5	45.3

(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

16 June 2010

Economic Recovery Gathering Momentum

- Manufacturing participating in economic recovery
- Further expansion likely
- Judging by strong cyclical indicators
- Including very strong primary sector revenues
- And improving consumer sentiment
- Currency, weak construction, among manufacturers' concerns

Indicators through the second quarter of the year continue to point to acceleration in underlying economic activity. The manufacturing sector seems to be a part of it, judging by the PMI lifting to 54.7 in May from 52.0 in April and 50.3 in March. That said it is not all one way traffic.

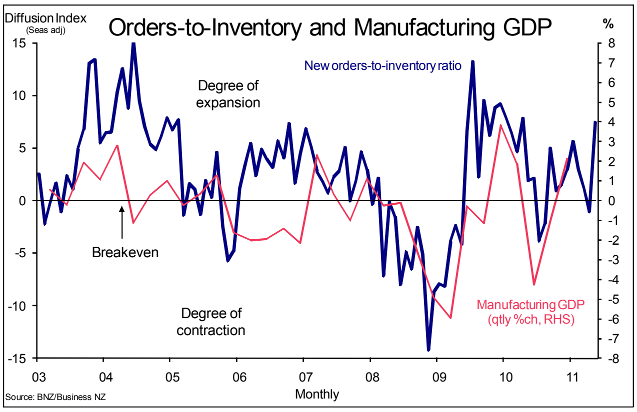
Sure, there were certainly some very positive comments from respondents this month such as 'May was a huge month', 'A new all time record', and 'Huge influx of work in May'. Yes, some are clearly seeing rapid growth occurring.

But not all are upbeat – far from it. Comments like 'Exchange rate killing exports', for instance, was at the extreme end of a general ongoing concern around the strength of the NZ dollar. Then there is still plenty of concern around other factors such as the ongoing negative effects from the likes of the Christchurch earthquakes (note that this survey pre-dates the latest series of strong after-shocks on 13 June), the weakness in the construction sector, poor cashflows, and overdue debtors to note a few of the prominent ones.

Despite the still rather wide variation in performance, the manufacturing sector, on average, appears to be participating in what seems to be a broadening economic recovery.

This very much fits with our forecast of economic acceleration through 2011 and 2012. It is important to note that our long-held view reflects as much a strong cyclical and fundamental pick up as it does the influence of unique factors that are likely to provide an addition boost to economic activity.

The inventory cycle is part of this cyclical pick-up we see. In this regard, the details of the PMI are encouraging. The difference between the new orders and inventory PMI indices can be a good guide to current and future production. The idea being that if new orders are



outpacing inventory this will elicit a production response to satisfy the rising demand.

The difference between new orders and inventory lifted in May, to its highest level in more than a year. This is a positive signal for manufacturing GDP, in Q2, at least.

But the sustainability of any production pick up depends on ongoing new orders and improvement in underlying demand.

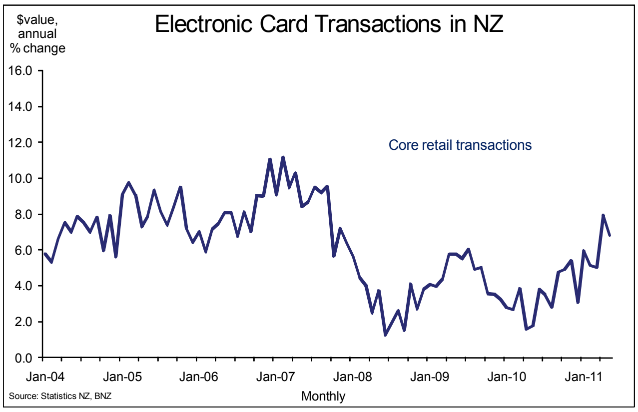
It is not clear what, exactly, has driven new orders higher this month.

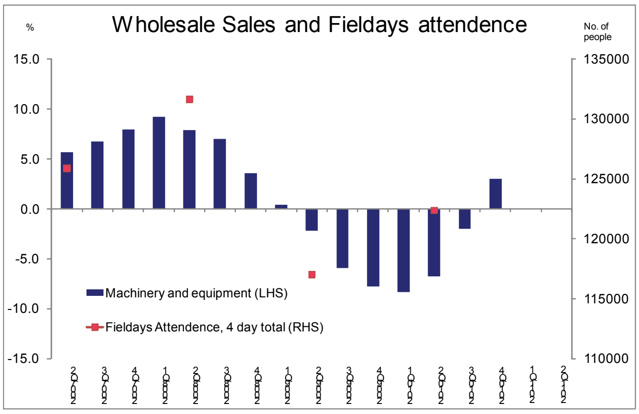
Can it be that retail sales have been stronger than many expected? The decent 0.9% rise in Q1 retail sales volumes, released yesterday, was conceivably firm enough to catch some by surprise.

While the details of yesterday's retail trade survey did not reveal any drastic move in retailers' stocks, the improving retail sales picture might well have been enough to have some retailers calling through new orders to local manufacturers.

This improving retail demand story seems to extend through to May, judging by the buoyancy in the electronic card transactions data. The value of these EFT-POS and credit card transactions at core-retail outlets have lifted 4.5% since the end of last year, to be a firm 6.8% higher in May this year compared to last.

Further strengthening seems likely, given consumer confidence picked up strongly in June, according to the latest ANZ-RM survey, as was released yesterday.





Sure, a lot of these indicators are coming off a reasonable low base, as is manufacturing production itself. But the improving domestic demand indicators bode well for manufacturers' new orders and further recovery in the sector.

What about exports? Can it possibly be that exports are doing better than expected, despite the strength in the New Zealand dollar?

The currency's strength is certainly a concern for many manufacturers. Indeed, of the many respondents that mentioned the dollar as the major influence on their business activity over the past three months, negative comments outweighed positive comments by a ratio of 4 to 1.

Still, there were some positive currency comments mainly relating to the lower level of the NZ dollar against the Australian dollar. Certainly some noted new export orders coming in. Perhaps more encouraging was from those respondents that explicitly mentioned exports, positive comments outweighed negative comments by a ratio of 7 to 6. As such, although there are some pockets of strength, exports do not appear to be a widespread and direct driver of manufacturers' new orders at present.

But, exports, indirectly, are having a large influence on many local manufacturers' order books. We say this knowing that many PMI respondents mentioned the rural sector as a major influence on their business, with positive comments outweighing negative comments by a ratio of 8 to 1.

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We have long thought that the very strong prices that New Zealand primary producers are currently receiving will form a key part of a strong cyclical pick up in the wider economy. Today's PMI results are further evidence that these strong primary revenues are starting to filter through to other parts of the economy.

By way of trying to judge, in close to real time, what sort of pick up in farmer spending might be in the offing, keep an eye on attendance at this week's National Fieldays at Mystery creek.

Attendance numbers can give a guide to farmers' propensity to spend. For example, there is a positive correlation between Fieldays attendance and wholesale sales of machinery and equipment.

Any improvement on last year's Fieldays attendance of just over 122,000 people over the four day event, would point to more sales growth ahead. In turn, any improvement is likely to see some flow through to domestic manufacturers. Indeed, it is already happening judging by PMI respondent comments.

All up, these increasingly strong cyclical indicators keep what we think will be a robust economic recovery on track. Throw in accommodative interest rate settings, the Rugby World Cup and eventual rebuilding in Christchurch and there is at least an even chance that economic growth surprises on the upside. This is, of course, if the world economy continues to chug along and navigate its way through the numerous risks still lurking about.

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