

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.



## Middling May

### BNZ - BusinessNZ PMI for May 2014

- The BNZ-BusinessNZ seasonally adjusted PMI for May stood at 52.7, which was 1.7 points lower than the previous month, although still showing expansion. Despite the second consecutive dip in expansion levels, the sector has now been in expansion for 20 consecutive months.
- All five seasonally adjusted main diffusion indices were in expansion during May. *Production* (55.2) again led the way for the current month with a value unchanged from April. In contrast, *new orders* (51.6) fell to its lowest level of expansion since December 2012. *Employment* (53.8) remained in healthy territory, despite falling 0.5 points over the month. *Finished stocks* (52.6) went back into expansion during May, while *deliveries* (51.4) dropped for the fourth consecutive month.
- Three of the four regions were in expansion during May. In the North Island, the *Northern* region (57.4) increased 4.4 points, while the *Central* region (56.4) recovered most of the drop it experienced the previous month. In the South Island, the *Canterbury/Westland* region (56.7) showed solid expansion levels, while the *Otago-Southland* region (48.1) slid 9.6 points to record its first decline in activity since April 2013.
- Manufacturing by industry sub-groups were mostly in expansion during May. *Machinery & equipment manufacturing* (61.4) continued to build momentum with a strong result for the current month, while *petroleum, coal, chemical & associated product manufacturing* (55.0) went back into expansion. *Food, beverage & tobacco manufacturing* (53.1) slipped downwards, most probably due to the change of seasons, while *metal product manufacturing* (53.0) increased from April.
- Despite the dip in overall activity, the proportion of positive comments for May (60.8%) was up from April (58%), although still slightly down from March (61.3%). Globally, the JPMorgan Global Manufacturing PMI for May (52.2) ticked higher in May, as companies raised output in response to rising levels of new business and international trade volumes.

*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 dips again, although remains in expansion.***

***All five main indices were in expansion, with production holding but new orders slipping.***

***Unadjusted regional activity remained expansionary in three of the four regions.***

***Next BNZ - BusinessNZ PMI:  
10 July 2014***

#### **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](http://www.research.bnz.co.nz))

#### ***Inside BNZ Commentary this Month (page 3)***

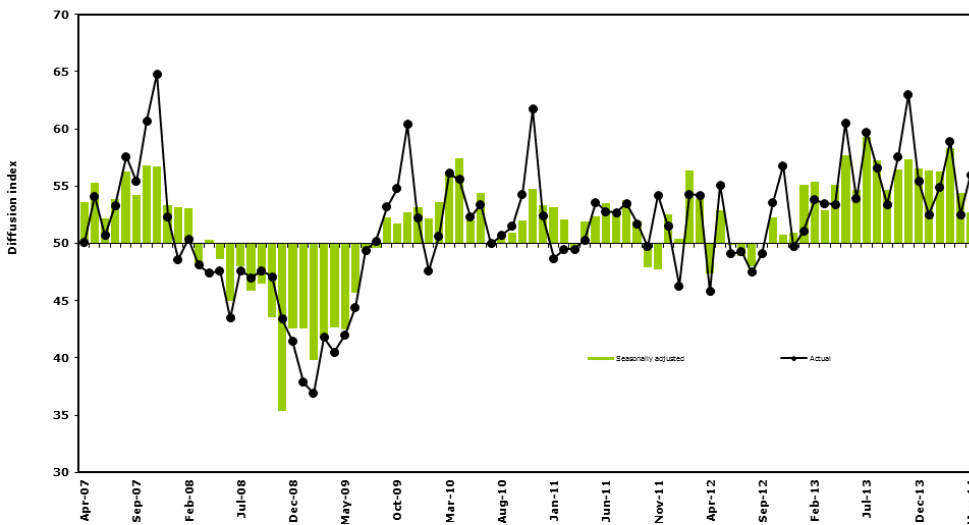
In this edition, BNZ senior economist, Craig Ebert notes that while large chunks of the latest PMI remain encouraging, the interplay of softening orders alongside rising inventory counsels a bit of caution regarding the extent of manufacturing growth in the pipeline.

## 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

**BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Apr 2007 - May 2014)**



### May time series tables

National Indexes	May 2009	May 2010	May 2011	May 2012	May 2013	May 2014
BNZ - BusinessNZ PMI (s.a.)	42.5	52.0	52.3	52.9	57.6	52.7
Production (s.a.)	41.3	52.4	52.3	55.9	59.3	55.2
Employment (s.a.)	43.6	49.1	49.9	50.9	54.7	53.8
New Orders (s.a.)	40.5	51.6	53.5	53.4	62.1	51.6
Finished Stocks (s.a.)	45.9	52.1	49.4	50.5	51.8	52.6
Deliveries (s.a.)	41.5	54.1	54.8	51.7	55.5	51.4

National Indexes	May 2009	May 2010	May 2011	May 2012	May 2013	May 2014
BNZ - BusinessNZ PMI (s.a.)	42.5	52.0	52.3	52.9	57.6	52.7
Northern	43.2	48.3	52.3	58.8	60.5	57.4
Central	36.1	52.3	57.1	44.5	55.4	56.4
Canterbury/Westland	48.4	57.6	57.7	61.3	67.0	56.7
Otago/Southland	36.4	58.5	45.3	50.0	60.7	48.1

(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 (Business 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.*

13 June 2014

## May Be a Real Slowdown?

- May's PMI slows further, to 52.7
- Production, employment, expansion solid
- But new orders taper amid inventory rise
- A dynamic to keep an eye on
- As RBNZ anticipates economy to slow a bit

The slowdown we saw in April's Performance of Manufacturing Index (PMI) we put down to volatility and the likelihood of trading-day impacts. So the further moderation it registered in May – down to an 18-month low of 52.7, in fact – has come as something of a surprise. While we wouldn't describe it as concerning, it is certainly something to note (along with the Performance of Services Index as a cross reference, with May's edition of this published Monday).

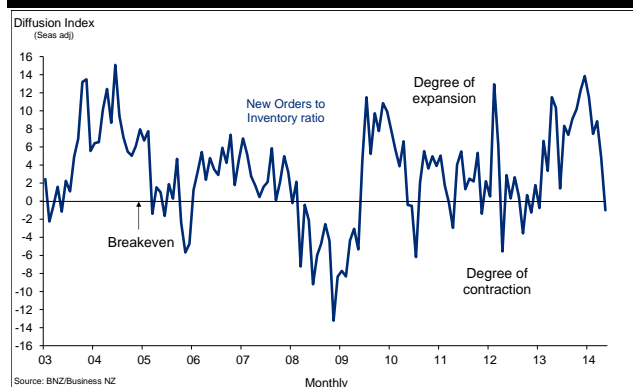
To be sure, large chunks of the PMI remained very encouraging. For example, the production index stayed stout, at a seasonally adjusted 55.2. And the employment index was holding up relatively well, at 53.8, close to the average since late last year. These are consistent with above-normal rates of expansion in GDP and employment respectively.

And while some weakness did appear in the region of Otago during the month, and the industries of printing, publishing and recording along with non-metallic mineral product manufacture, there did not seem to be a pervasive weakness creeping in across industry type, firm size or by way of region.

However, not so encouraging has been the interplay between falling new orders and rising inventory, which has us wondering about the extent of growth we can reasonably expect in the pipeline. The PMI new orders index dipped to 51.6 in May while its index of finished stocks increased to 52.6. In this there is a hint of a stalling, with the orders-to-inventory index that we construct subsiding to 49.0. At the end of last year it was riding high, at 64.6. If nothing else, it represents a pronounced loss of momentum and so warrants some attention.

In the least, the slower tone in the latest PMI might be providing more evidence that GDP growth, at least for the moment, is not accelerating as rapidly as some other business surveys have suggested as a 6 to 12-month-ahead proposition. That's not a major issue for us, as our economic forecasts have never gone as far as recent

### New Orders Minus Inventory



business and consumer confidence and expectations have done. If we swallowed them hook, line and sinker we would be forecasting GDP growth of 6-7%. The reality is that we're still forecasting GDP growth of around 4.0% for this year, slowing a tad, to 3.4%, next year. In this context, the latest PMI is no genuine affront, at this stage.

Nor would it be particularly out of line with RBNZ thinking. We say this with yesterday's Monetary Policy Statement having forecast a slowdown, of sorts, for the economy from about the middle of this year (when annual GDP growth peaks around 4.0%, enough to signal the economy is back in excess demand mode). Without some sort of slowdown inflation will pick up by more than the RBNZ already assumes. That's the message from the central bank.

The Reserve Bank's slowdown story rests upon such things as a moderation in net immigration flows, further falls in the terms of trade and withering house price inflation. It remains to be seen whether, and quite how, this occurs.

For the meantime there are still some big economic forces acting to propel the New Zealand economy forward. And so, while the further slowdown in May's PMI warrants attention, we also have to acknowledge the many factors that promise to underpin the local manufacturing sector over the coming year or two.

[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@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**

Senior Economist  
+(64 4) 474 6923

**Kymerly Martin**

Senior Market Strategist  
+(64 4) 924 7654

**Raiko Shareef**

Currency Strategist  
+(64 4) 924 7652

### Main Offices

**Wellington**

60 Waterloo Quay  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Phone: +(64 4) 474 6145

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Phone: +(64 9) 976 5762  
Toll Free: 0800 081 167

**Christchurch**

81 Riccarton Road  
PO Box 1461  
Christchurch 8022  
New Zealand  
Phone: +(64 3) 353 2219  
Toll Free: 0800 854 854

### National Australia Bank

**Peter Jolly**

Global Head of Research  
+(61 2) 9237 1406

**Alan Oster**

Group Chief Economist  
+(61 3) 8634 2927

**Ray Attrill**

Global Co-Head of FX Strategy  
+(61 2) 9237 1848

**Skye Masters**

Head of Interest Rate Strategy  
+(61 2) 9295 1196

**Wellington**

Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

**Sydney**

Foreign Exchange +800 9295 1100  
Fixed Income/Derivatives +(61 2) 9295 1166

**London**

Foreign Exchange +800 333 00 333  
Fixed Income/Derivatives +(44 20) 7796 4761

**New York**

Foreign Exchange +1 800 125 602  
Fixed Income/Derivatives +1877 377 5480

**Hong Kong**

Foreign Exchange +(85 2) 2526 5891  
Fixed Income/Derivatives +(85 2) 2526 5891

**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.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

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