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Business NZ

BNZ CAPITAL-BUSINESS NZ PMI

BNZ Capital-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. BNZ Capital is a division of the Bank of New Zealand.

pmi

What a difference a year makes for manufacturing activity

BNZ Capital - Business NZ PMI for November 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for November (51.8) increased 1.3 points from October to record its highest level of expansion since February 2008. The November 2009 result was also 16.9 points above the November 2008 result – the lowest point since the survey began.

- Four of the five seasonally adjusted main diffusion indices displayed expansion. *Production* (52.8) continued to build on previous results, while *new orders* (56.0) reverted back to the September result after a dip in October. *Employment* (50.1) remained largely unchanged during November after contraction during the previous month. *Deliveries of raw materials* (50.2) was also close to no change during November, while *finished stocks* (46.6) was the only sub-index that fell from its October result, and the only one in which to show contraction.

- Unadjusted activity for November showed the third consecutive expansion for all regions, with some recording levels of expansion not seen in some time. The Northern region (62.9) experienced a strong increase in activity for November, with its highest result since November 2006. Both the Otago/Southland (61.9) and Central (58.9) regions posted their highest level of expansion since November 2007, while the Canterbury/Westland region (54.4) remained largely unchanged from the previous month.

- Manufacturing by industry sub-groups were again largely expansionary in November. The *food, beverage & tobacco* sector (66.3) continued to lead the way, although slightly down on the previous month. Both the *petroleum, coal, chemical & associated products* (62.4) and *metal product manufacturing* (63.4) sectors displayed results above 60, while the *machinery & equipment* sector (55.3) improved for the fourth consecutive month.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for November (53.6) fell back slightly from its 39-month high the previous month, although new orders and production remain at very elevated levels. The USA PMI (53.6) retreated slightly, while the Australian PMI (51.2) remains close to the New Zealand result.

- The proportion of negative comments made by respondents fell considerably in November (47.0%), compared with 55.0% in October, 60.6% in September, 60% in August and 59.9% in July. Increasing demand and new orders were the most common positive comments.

The BNZ Capital - 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 showed ongoing expansion leading into the end of the year.

Four of the five main indices recorded expansion, with almost all improving from October.

Regional activity showed significantly higher expansion in some areas.

The global manufacturing scene showed ongoing recovery, led by further improvements in production and new orders.

Next BNZ Capital - Business NZ PMI: 21 January 2010

SPONSOR STATEMENT

BNZ Capital 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 Capital. 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 Capital is a division of Bank of New Zealand Ltd.

BNZ Capital (www.bnzcapital.co.nz)

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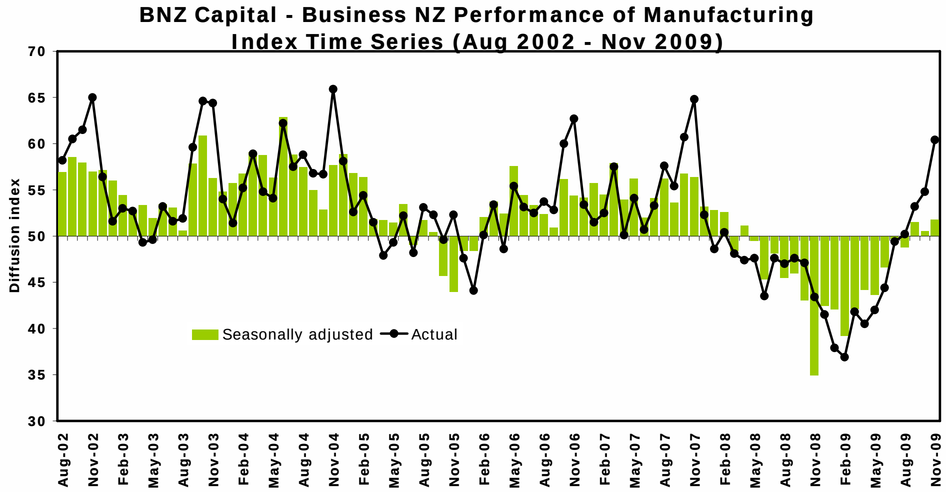
pmi



November time series tables

National Indexes	Nov 2004	Nov 2005	Nov 2006	Nov 2007	Nov 2008	Nov 2009
BNZ Capital - Business NZ PMI (s.a)	57.7	44.0	54.4	56.4	34.9	51.8
Production (s.a)	58.5	42.5	56.9	57.4	28.2	52.8
Employment (s.a)	53.5	46.7	50.6	56.6	39.3	50.1
New Orders (s.a)	61.0	43.7	56.1	58.1	33.8	56.0
Finished Stocks (s.a)	55.0	49.4	54.4	53.3	47.5	46.6
Deliveries (s.a)	60.4	43.5	55.7	56.7	37.2	50.2

National Indexes	Nov 2004	Nov 2005	Nov 2006	Nov 2007	Nov 2008	Nov 2009
BNZ Capital - Business NZ PMI (s.a)	57.7	44.0	54.4	56.4	34.9	51.8
Northern	68.0	50.7	63.1	59.7	41.6	62.9
Central	62.2	57.7	61.5	63.1	43.8	58.9
Canterbury/Westland	61.0	54.3	64.3	71.8	43.4	54.4
Otago/Southland	67.9	46.5	61.8	70.2	51.6	61.9

(s.a denotes seasonally adjusted)

The BNZ Capital - Business NZ PMI contains data obtained through Business NZ's regional organisations:

EMA

Northern (Employers and Manufacturers Association - Northern): Northland, Auckland, Waikato, Bay of Plenty

EMA CENTRAL

Central (Employers and Manufacturers Association - Central): Gisborne, Hawke's Bay, Taranaki, Manawatu, Wanganui, Wellington, Nelson, Tasman

CANTERBURY EMPLOYERS' CHAMBER OF COMMERCE

Canterbury/Westland (Canterbury Employers Chamber of Commerce): Canterbury, Marlborough, West Coast

OTAGO SOUTHLAND Employers ASSOCIATION INC.

Otago/Southland (Otago Southland Employers Association): Otago, Southland.

10 December 2009

More Signs of Manufacturing Consolidation

- Statistics NZ data supports PMI consolidation
- Q3 sales volume down on meat exports
- But core manufacturing looking better, in general
- More inventory wind-down to come, perhaps

The manufacturing sector has had more than its fair shares of woes during the course of the recession. New Zealand's PMI spent 16 consecutive months in contractionary (sub-50) territory from May 2008 onwards. Consistent with that, manufacturing GDP shrank during each of the four quarters to June 2009.

More recently, though, the sector has started to look a little better. The PMI managed to squeeze above 50 in September and has roughly held its own since then, capped by this morning's November reading of 51.8. It's hardly a surge, but it does suggest some stabilisation is underway.

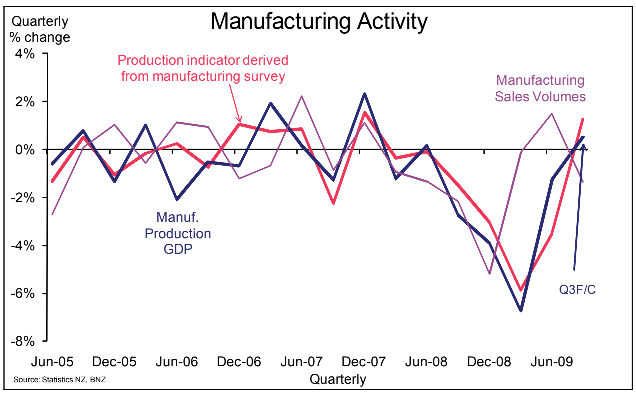
That slow but steady theme was reiterated in September quarter's Economic Survey of Manufacturing (ESM), published by Statistics New Zealand earlier this week, even if the headline result made for miserable reading. The volume of total sales fell by 1.4% during Q3, seasonally adjusted, effectively reversing the lift of the previous quarter. But that result was driven by a big (16.0%) fall in the volume of meat sales. Stripping out that, and similarly volatile dairy product sales, left a gain in real sales during the quarter of around 1.0%. That fits better with the picture of consolidation in evidence in the PMI.

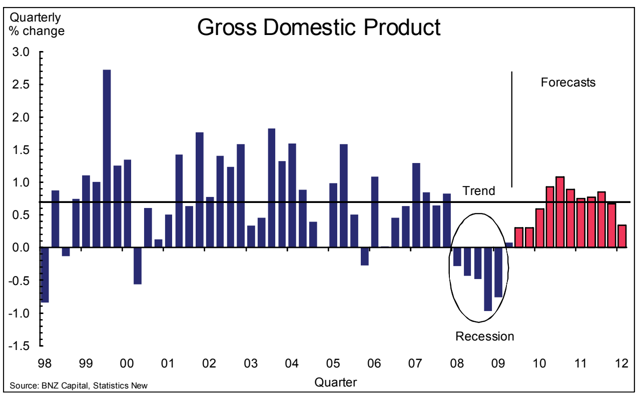
The problem with meat and dairy product sales is that their timing is often tied to export flows, and can bear little relation to the level of production during the quarter. To remedy such issues, we prefer to supplant the survey results for meat and dairy processing with a "purer" production based measure, based on slaughtering information at hand and (our best estimate of) milk production. This gives us a much better feel for what the ESM figures mean in manufacturing GDP terms, we think. It's also a similar approach to that adopted by SNZ, incidentally, even if we're not privy to the same data sources that it uses.

So where does that leave us? It turns out that agri-production for Q3 was, like the impression gleaned of the rest of manufacturing from the ESM, up slightly, in seasonally adjusted terms. A quick scan of SNZ/MAF livestock slaughtering figures suggests meat processing edged up, and we reckon something similar was also true of milk production. In other words, slotting in our alternative agri-processing calculations simply reinforced our feeling that the manufacturing sector as a whole might have eked out some modest, but nonetheless positive, growth, in the third quarter. Again, that seems to gel with the story of broad improvement evident in the PMIs lately.

Not that that is to deny mixed results, still, in the detail. The ESM saw big quarterly gains in wood and basic metal sales volumes, underpinned, ultimately, by demand from emerging Asia (read: China). But nearly half of the industry groupings captured by the manufacturing survey saw their sales volumes slip further during September quarter, a sure sign that while manufacturing, generally, is staging a recovery, it's hardly broad-based.

The same, in fact, could be said of the New Zealand economy as a whole during the September quarter. We're of the view GDP expanded 0.3% in Q3 – a forecast we nudged slightly higher in the wake of the manufacturing survey data – but also cognisant that

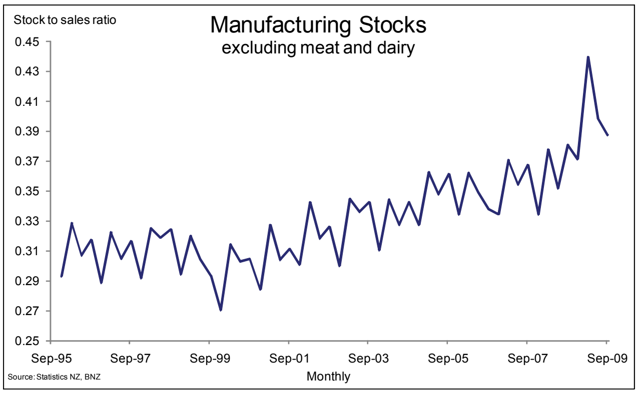




the aggregate result will likely disguise sectoral winners industry-specific partial GDP indicators for Q3 still to roll in. But some sectoral struggles aside, the activity indicators we have seen thus far, not to mention resurgent business and consumer confidence during the quarter, give the distinct impression the economy was finding a more solid footing in the three months to September.

If there's a final warning to come from the ESM figures, it is in what they suggest about the level of inventories held by manufacturers. A key metric in this regard is the ratio of stocks to sales, which recognises that ultimately it is not just the level of inventories that matters, but the rate at which they are being moved out the factory door. From the horrendously high levels seen at the beginning of the year, stocks as a ratio to sales have returned to more manageable levels over the past two quarters. And that ratio will probably improve further as the volume of manufacturing sales continues to improve, as we expect.

At the same time, though, manufacturing stock levels still look fairly robust, and well above the point we'd expect



them to be if they were to make a significant contribution to GDP growth in quarters ahead. Indeed, the risk is that manufacturers (and NZ firms more broadly) look to whittle down their stocks further in coming quarters, at least until broad-based signs of improving demand emerge more strongly. This could yet be a drag on GDP, if only in an accounting sense.

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