

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.



No Xmas cheer for manufacturing

BNZ - BusinessNZ PMI for November 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for November stood at 45.7, which were a further 0.9 points down from October and the lowest level of activity since June 2009. Compared with previous November results, the 2011 value was only the third time a decline in manufacturing activity was recorded for that month.
- Four of the five seasonally adjusted main diffusion indices were in decline during November, with *production* (43.6) recording the lowest result. This was followed by *new orders* (45.8) and *deliveries* (47.5). *Employment* (49.6) improved one point but still in technical contraction, while *finished stocks* (51.2) was the only index in expansion.
- Unadjusted results by region showed three of the four regions in expansion, with the *Otago/Southland* region (71.0) again leading the way. However, while the *Northern* (54.9) and *Canterbury/Westland* (56.9) regions returned to expansion from October, the *Central* region (43.2) fell back to its lowest level since April 2011.
- Manufacturing by industry sub-groups showed gains and losses from October. *Food, beverage & tobacco* (57.5) remained in expansion, although down from the 60+ results for the last three months. The *petroleum, coal, chemical & associated products* sector (62.9) experienced its first post 60 value since November 2010, while *metal product manufacturing* (49.6) improved from 40.6 in October, although still in contraction.
- The November result showing contraction did not lead to a pick up in negative comments, with the proportion of negative comments reaching 47.3%, compared with 58% for October.

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 stood at 45.7 for November, down 0.9 points from October.

Four of the five main indices recorded contraction, with the lowest result being production.

Unadjusted regional activity showed the central region dropping into decline.

***Next BNZ - BusinessNZ PMI:
26 January 2012***

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)

Inside BNZ Commentary this Month (page 3)

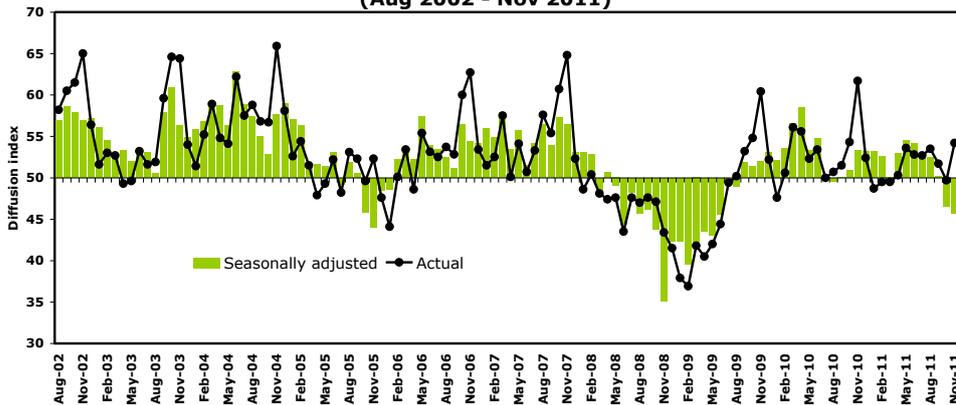
The November PMI is worrisome reflecting a combination of softening global demand for metals and an extremely weak domestic construction sector. However, this is miles away from the GFC meltdown of 2008/09 and we remain hopeful that a pick-up in building activity and solid primary goods exports will support the sector through calendar 2012.

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BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Nov 2011)



November time series tables

National Indexes	Nov 2006	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011
BNZ - BusinessNZ PMI (s.a.)	54.4	56.5	35.1	52.0	53.3	45.7
Production (s.a.)	57.5	58.5	29.6	54.4	57.2	43.6
Employment (s.a.)	50.6	56.7	39.4	50.3	50.7	49.6
New Orders (s.a.)	56.2	58.3	34.0	56.4	53.6	45.8
Finished Stocks (s.a.)	54.5	53.6	48.1	47.3	51.5	51.2
Deliveries (s.a.)	55.9	56.9	37.5	50.6	57.5	47.5

National Indexes	Nov 2006	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011
BNZ - BusinessNZ PMI (s.a.)	54.4	56.5	35.1	52.0	53.3	45.7
Northern	63.1	59.7	41.6	62.9	61.5	54.9
Central	61.5	63.1	43.8	58.9	60.6	43.2
Canterbury/Westland	54.3	71.8	43.4	54.4	61.0	56.9
Otago/Southland	61.8	70.2	51.6	61.9	66.0	71.0

(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



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

15 December 2011

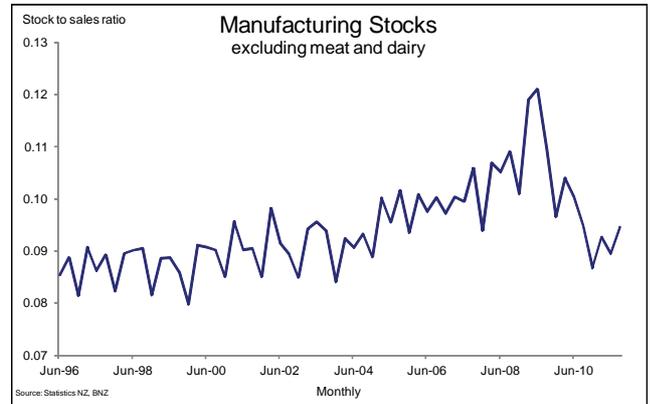
A Sober Stock-Take on Manufacturing

- PMI fails to bounce in November
- Pointing to Q4 fall in manufacturing production
- Inventory run-down part of the explanation
- Along with distinctly regional cold spots
- Wider manufacturing metrics not that negative

We held hope that the dip in October's Performance of Manufacturing Index (PMI) was mainly a wobble. This has been dashed, or at least severely questioned, by November's more-negative reading, of 45.7. Does this mean New Zealand's manufacturing sector is heading into another recessionary phase? Well, possibly, but not probably, in our view.

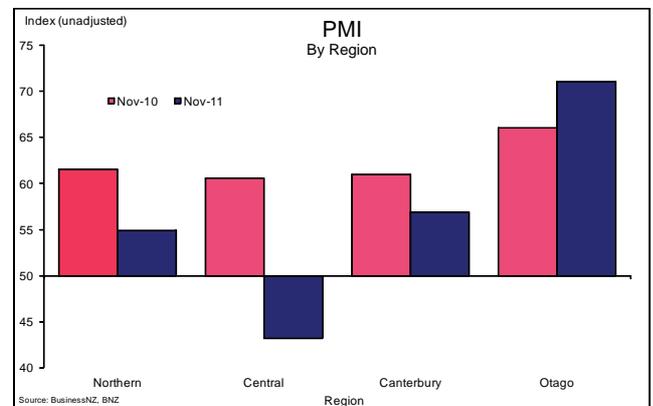
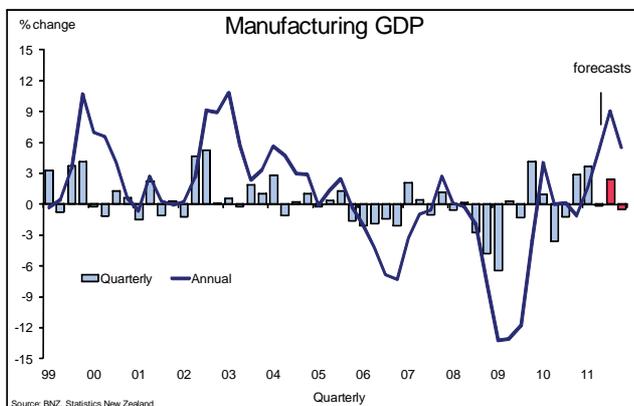
For a start, even with the contraction the PMI points to for the sector in the December quarter, manufacturing would still be well up on a year ago. This is aided by the hefty production gain we anticipate for the industry in next week's Q3 GDP report. Specifically, we're picking a 2.4% jump. This would set manufacturing output about 9% higher than the corresponding quarter last year. From this, a pause is not necessarily a bad thing.

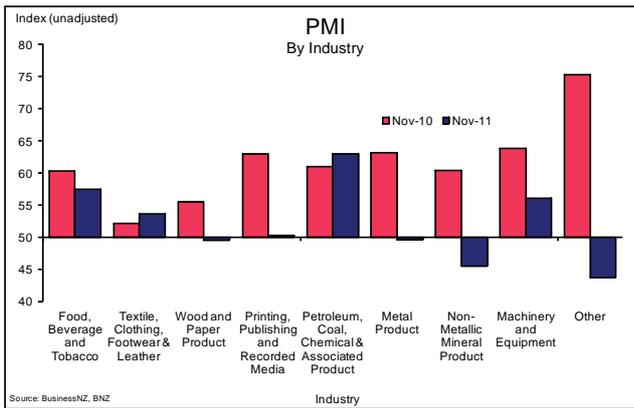
The other factor that suggests manufacturing is encountering more of a rest in Q4, than the start of another plunge, is that there looks to be some inventory adjustment at play, from what we estimate was a stocks accumulation through Q3. So a run-down in Q4 would be understandable. This may be related to the Rugby World Cup cycle and/or reservations about the global outlook. The PMI new-orders index was certainly not encouraging, at 45.8. However, the stock-to-sales ratio we infer from the quarterly manufacturing survey has hardly blown its top, the way it did amid the 2008/09 slump. This suggests any run-down in inventory can be measured.



We also query the conclusion of a widespread, globally dominated, manufacturing slump in that there are still stark regional and industry-type divergences in the PMI report for November. The one that really sticks out is the slump in the Central zone. In unadjusted form, it drooped to 43.2, from 52.7 in October and compares to 61.0 of November 2010. The Northern, Canterbury and Otago regions registered 54.9, 56.9 and a whopping 71.0 respectively.

By way of industry, metal and non-metallic mineral products remained decidedly below par, with weakness emerging in the miscellaneous "other" category, and publishing and media was going flat. On the positive side of the ledger, food and beverage manufacturing was doing okay, along with machinery and equipment, while the petroleum, coal and chemical industry appeared to be picking up a head of steam.





So, while we don't deny the latest PMI raises big question marks over New Zealand's manufacturing upswing, we are not convinced it means the sector is necessarily rolling over again. Still, we also need to see the evidence that the main reason for the latest stuttering is mainly an inventory run-down, along with specific regional and industry cold spots. However, should the poorly PMI be more related to weakening global markets, and serves as a prelude to weakness in other manufacturing indicators and surveys, then a bigger stock-take on the way ahead will be well justified.

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