

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

Growth in manufacturing activity remains tentative

BNZ Capital - Business NZ PMI for October 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for October (50.6) decreased 0.9 points from September to record a lower level of expansion. Despite the decrease from September, the October 2009 result was still the second highest result since April 2008.
- Two of the five seasonally adjusted main diffusion indices displayed expansion. *Production* (51.2) experienced a slight drop from the previous month but still recorded expansion, while *new orders* (53.4) decreased 2.3 points from September. After a positive result in September, *employment* (46.5) returned to negative territory with a result similar to August 2009. *Deliveries of raw materials* (49.0) slipped into decline after four consecutive months of improvement, while *finished stocks* (47.4) was the only sub-index that improved from its September 2009 result.
- Unadjusted activity for October showed consecutive expansion for all regions. Otago/Southland (59.0) again led the way with a result similar to the previous month. The central region (56.3) recorded its highest value since November 2007, while the Northern region (53.2) rose 0.5 points from September. The Canterbury/Westland (54.7) region improved during October, after a dip in expansion during the previous month.
- Manufacturing by industry sub-groups were again largely expansionary in October. The *food, beverage & tobacco* sector (68.5) showed further gains in expansion to again record the highest expansion for the month. The *petroleum, coal, chemical & associated products* sector (57.9) also built on its September result, while *metal product manufacturing* (53.1) moved into expansionary mode for the current month. In contrast, the *textile, clothing, footwear & leather manufacturing* (46.3) went into decline after four consecutive months of expansion.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for October (54.4) hit a 39-month high, as there were substantial gains in production and new orders. The USA PMI (55.7) continued to track upwards, while the Australian PMI (51.7) remained largely unchanged from September, decreasing 0.3 points.
- Although the October result fell back from September, the proportion of negative comments made by respondents experienced a significant drop in October (55.0%), compared with 60.6% in September, 60% in August, 59.9% in July and 67.0% in June.

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 slight dip in expansion.

Two of the five main indices recorded expansion, with most falling back from September.

Activity was again expansionary across all regions.

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

Next BNZ Capital - Business NZ PMI: 10 December 2009

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.

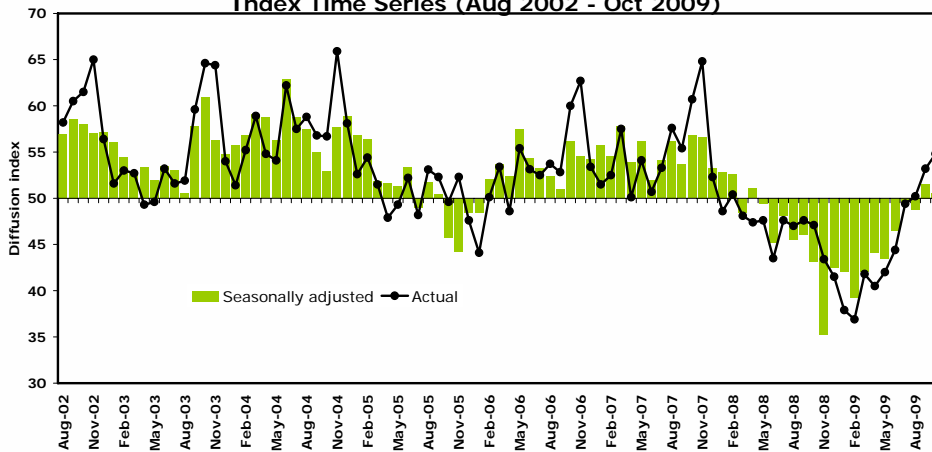
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BNZ CAPITAL-BUSINESS NZ PMI

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BNZ Capital - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Oct 2009)



October time series tables

National Indexes	Oct 2004	Oct 2005	Oct 2006	Oct 2007	Oct 2008	Oct 2009
BNZ Capital - Business NZ PMI (s.a)	52.9	45.8	56.2	56.8	43.1	50.6
Production (s.a)	55.0	44.6	57.9	56.8	42.6	51.2
Employment (s.a)	50.0	45.7	50.7	53.2	41.9	46.5
New Orders (s.a)	56.4	46.4	59.9	58.0	41.7	53.4
Finished Stocks (s.a)	51.5	49.0	52.7	56.1	47.0	47.4
Deliveries (s.a)	50.5	45.3	55.9	58.7	43.5	49.0

National Indexes	Oct 2004	Oct 2005	Oct 2006	Oct 2007	Oct 2008	Oct 2009
BNZ Capital - Business NZ PMI (s.a)	52.9	45.8	56.2	56.8	43.1	50.6
Northern	56.8	48.4	59.3	62.3	43.7	53.2
Central	57.7	48.8	57.8	56.6	47.0	56.3
Canterbury/Westland	56.0	52.7	64.7	60.0	54.3	54.7
Otago/Southland	54.8	54.9	62.4	65.7	54.2	59.0

(s.a denotes seasonally adjusted)

The BNZ Capital - Business NZ 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.

12 November 2009

PMI Jobs Reversal Queries Recovery Strength

- October's PMI jobs fall notable
- Querying strength/durability of recovery
- While EMA survey describes stalling wage growth

The stumble in October's Performance of Manufacturing Index (PMI) was a reminder not to ask too much of the recovery at this early stage. And the slippage in its employment component, back into negative territory, seemed an especially important hint that firms might not be entirely convinced of the definite pick up they propound.

The general message, of course, is that it's unlikely to be all strongly onwards and upwards from here. The economic improvement we envisage still looks like being a gradual one, choppy in its composition, and not without risks of major disappointment, overall. In the meantime, we prefer to keep assessing the recovery on a step by step basis.

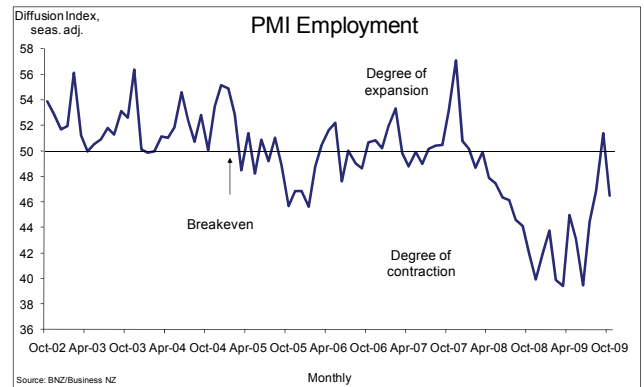
As always, the monthly moves in the PMI need to be treated with caution (even if already seasonally adjusted – as the PMI and its components are). The trend still looks positive, to be sure. But we thought it meaningful that October's PMI tempered its enthusiasm in all of its sub-indices, not just overall.

This, in turn, might well be the first signs of moderation in what has been, over recent months, a constant drumbeat of recovery in the various economic surveys – a relentless tone that has us wondering if the economic expansion we've been expecting since early this year is now looking underdone.

In this vein, the area that gives the strongest impression of turning earlier than we formally forecast is the labour market. Following obviously big job losses over the last twelve months or so (with manufacturing employment especially hard hit, down about 10%), the economic surveys and anecdote have been suggesting that firing is fast giving way to consolidation, even to the point of indicating net staffing increase.

So much so, in fact, that we are wondering if the jobs expansion we see emerging in the June quarter of next year might actually start occurring much sooner than that.

Yet we have not been convinced. And that's where the fall in October's PMI employment index has been notable. If an economic pick up was such a fait accompli, then the PMI jobs indicator should be kicking well above the 50,



breakeven, level – especially following the extent of recent shock, and with Asian markets purportedly rebounding strongly and the Australian economy holding up very well.

Instead, the index has slipped back into contraction territory, at a seasonally adjusted 46.5, following its all too brief move into the expansion zone in September, with its 51.4.

Sure, it's not as negative as the readings of around 40 earlier this year (which, by the way, proved a very good lead to the extent of staffing cuts we saw). And the PMI employment index may well pop back up over the coming months. However, if nothing else, October's slip would seem to warn about reservations on the part of firms about the strength and durability of the recovery they picture.

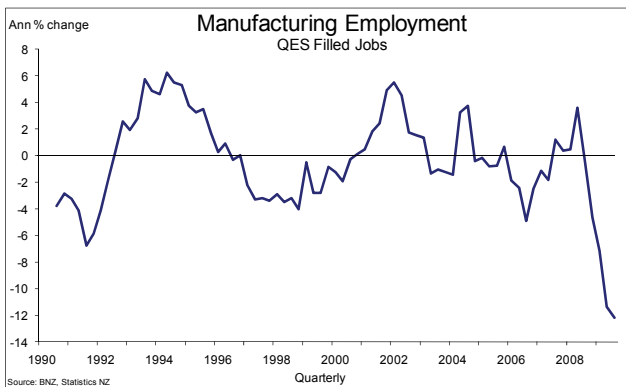
This, to some extent, counters the still-positive PMI results for the new orders (53.4, from 55.7) and production (51.2, from 51.5) sub-indices, and even the 49.0 (from 51.0) result for deliveries in October's survey.

Sure, employment is typically the laggard in the process. By the same token, it offers one of the most reliable signs that prospects are improving well enough, surely enough, to have firms making important decisions about taking on staff, not just offering free-to-air musings about their future.

And if a rebound was really looking that assured on the manufacturing front – to the extent that (re)hiring was firmly back on the agenda – then we also have to wonder why pay rates are under as much downward pressure as recently indicated in a survey conducted by the (Northern) Employers and Manufacturers Association (EMA).

This survey, of 593 firms, registered that “22% of 215 job positions are being paid less this year than last year, and a further 9% of jobs have had no pay rises this year.” The most common increase had been less than one percent. And of the bigger-sized increases, while some were needed to satisfy residual skill shortages in certain areas, others were either the result of agreements made before the recession hit or were offset by lower bonuses.

Underneath it all, it feels like a still-slackening market, with stalling wage growth – just like was evident in the nationwide, industry-wide, labour market data we saw last week.



The Household Labour Force Survey confirmed the higher jobless rate we expected, at 6.5%, with job losses in the manufacturing sector the most pronounced – something also clear in the filled-jobs series of the Quarterly Employment Survey.

And the Labour Cost Indexes highlighted rapidly slowing salary and wage growth in the private sector, with manufacturing one of the clearest examples.

As we can for the labour market, we can also run a smell test on business investment. When this turns, it’s a sure sign that firms can see sustained production gains in the pipeline, and strong enough to soak up spare capacity. Otherwise investment would be a risky, sunk-cost, undertaking.

Perhaps this is what the RBNZ Governor, Alan Bollard, was getting at when he mentioned, in the brief 29 October OCR commentary, that “business spending remains weak...”, meaning we’ll need to see more than just expectations of activity improving. The fuller test will come in seeing actual business spending rising – on the likes of capital goods, materials and general operating costs, and staff. Based on October’s PMI we would seem to have a bit longer to wait.

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