

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

## Manufacturing still flat in October, but small green shoots

### BNZ - BusinessNZ PMI for October 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for October (49.7) remained almost unchanged from September and shows the sector has yet to get over the line and back into expansionary territory. It was much the same as this time last year and the third consecutive month under the 50.0.
- On a more positive note, three of the five seasonally adjusted main diffusion indices were in slight expansion, with *employment* (51.5) *new orders* (51.0) and *deliveries* (52.0), all edging into positive territory. *Production* (46.0) dipped two points from September and down 5.5 points on this time last year. *Finished stocks* (49.9) recovered 1.9 points on last month but remains flat.
- Unadjusted results by region showed some change in activity levels for most regions. The *Northern* (56.3), *Central* (54.8) and *Otago/Southland* regions (53.7) were in expansion and improved on last month, while *Canterbury/Westland* (49.5) slipped back into contraction, though the relatively strong expansion in new orders for that region (56.1) bodes well for future growth being just around the corner. Canterbury and Westland could have been feeling the delayed after effects of the earthquake.
- Manufacturing by industry sub-groups continued to be a mixture of expansion and decline during October. The categories experiencing the strongest expansion again included *food, beverage & tobacco* (64.2) continuing similar growth to last month. *Petroleum, coal, chemical & associated products* (52.4) is still expanding, *metal product manufacturing* improved 5.1 points into expansion territory (52.1), while *machinery & equipment manufacturing* (56.5) went up 5.9 points on last month. Of those in contraction, *wood & paper product manufacturing* (47.8) continued to contract, but is 2.4 points better than last month. New orders are all in expansion for the categories mentioned above, apart from *wood and paper manufacturing* which still has some way to go (40.6).
- The comments about market conditions showed the proportion of negative comments (56.2%) versus positive comments (43.8%) were virtually unchanged from last month. Negative comments focused mainly on customer caution and slow demand. Positive comments that were recurring themes were exporting, particularly the Australian market and new orders relating to the season.
- The Australian manufacturing sector is also subdued on 49.4 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 remains almost unchanged from September to October, recording a third consecutive value under 50.0.***

***On a more positive note, three of the five main indices recorded expansion, although only just.***

***Unadjusted regional activity shows all are in expansion now, apart from Canterbury/Westland, though new orders in that region bode well for future months.***

***The proportion of negative comments is largely the same as last month, with comments focused on a lack of orders and customer caution.***

**Next BNZ - BusinessNZ PMI:  
16 December 2010**

#### SPONSOR STATEMENT

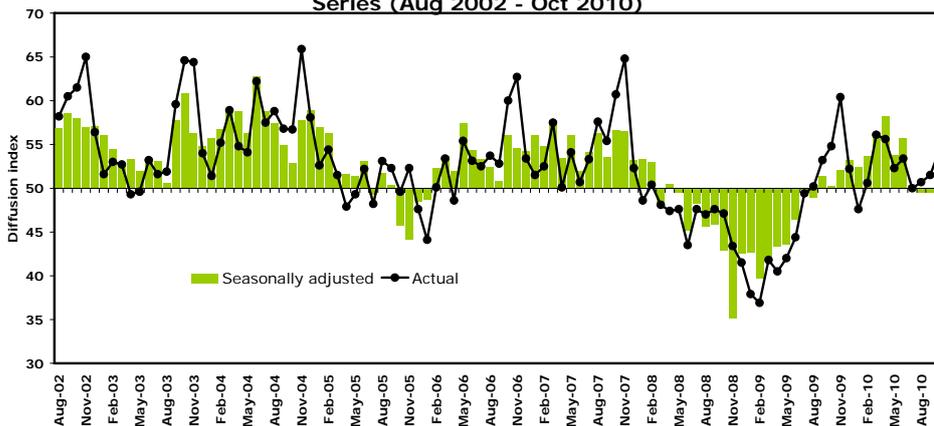
*BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand manufacturing sector.*

## BNZ-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 (Aug 2002 - Oct 2010)**



### October time series tables

National Indexes	Oct 2005	Oct 2006	Oct 2007	Oct 2008	Oct 2009	Oct 2010
BNZ - BusinessNZ PMI (s.a)	45.7	56.0	56.6	42.9	50.3	49.7
Production (s.a)	44.8	58.0	57.1	42.9	51.5	46.0
Employment (s.a)	45.7	50.8	53.4	42.3	47.1	51.5
New Orders (s.a)	46.5	60.1	58.0	41.6	53.2	51.0
Finished Stocks (s.a)	48.6	52.3	55.7	46.4	46.8	49.9
Deliveries (s.a)	45.5	56.0	58.8	43.6	49.2	52.0

National Indexes	Oct 2005	Oct 2006	Oct 2007	Oct 2008	Oct 2009	Oct 2010
BNZ - BusinessNZ PMI (s.a)	45.7	56.0	56.6	42.9	50.3	49.7
Northern	48.4	59.3	62.3	43.7	53.2	56.3
Central	48.8	57.8	56.6	47.0	56.3	54.8
Canterbury/Westland	52.7	64.7	60.0	54.3	54.7	49.5
Otago/Southland	54.9	62.4	65.7	54.2	59.0	53.7

(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.

11 November 2010

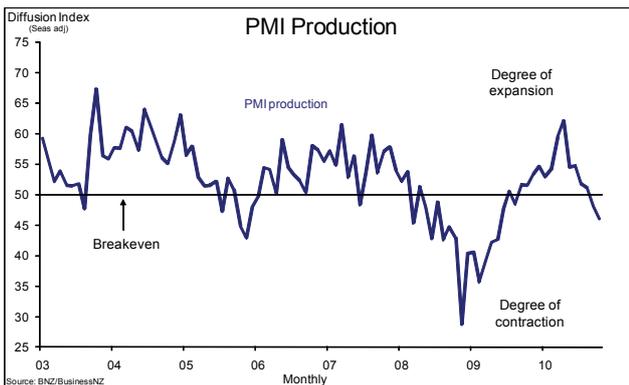
## The Good and the Bad

- PMI plateaus, at breakeven
- Current production soft
- Earthquake a negative
- New orders, employment encouraging

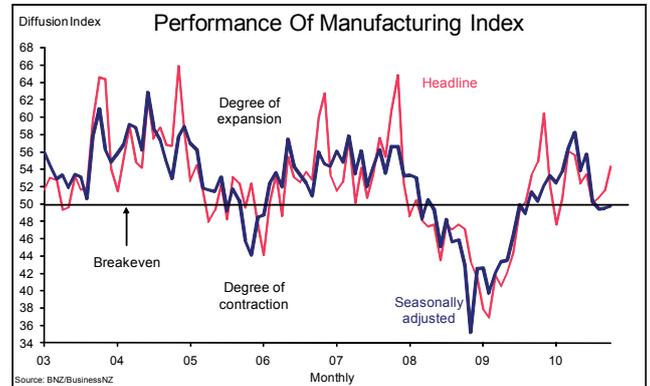
The PMI sits close to where it has been over the past four months around the breakeven 50 mark (on a seasonally adjusted basis). This gives the sense the manufacturing sector has reached a plateau in recent months following a rather sharp, but short, bounce earlier in 2010. This earlier bounce, which saw the PMI rise above 58 in April (the highest since 2004), was, of course, off the very low base established during the recession.

The flattening out and general feeling of stabilisation in the overall PMI over recent months masks some opposing and distinct undercurrents in the details. There were certainly good bits and bad bits in the October survey, even though they broadly net each other out.

The bad bits seem centred on the here and now. This is most noticeable in current production. The PMI production sub-index has slid significantly, following its most recent peak above 60 (seasonally adjusted) in April this year. Last month, the production index dipped below 50 for the first time in over a year when it fell to 48.0. Disconcertingly, the decline continued to 46.0 in October.

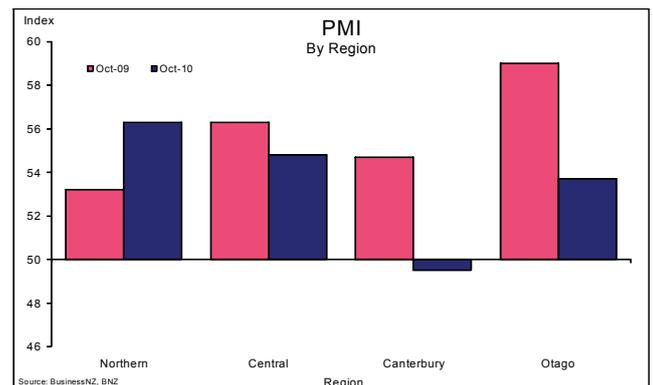


Ongoing sluggishness in domestic demand is likely one factor behind the weakening production picture. Households have shown spending restraint over recent times despite some improvement in the labour market and solid levels of consumer confidence. Balance sheet improvement appears to be high on the household agenda, partly at the expense of current consumption and investment.



Certainly the housing market remains soft. The renewed weakness in building consents and house construction is likely one factor dampening manufacturing production. This will be adding to the softness in the non-residential building sector that has been evident for some time.

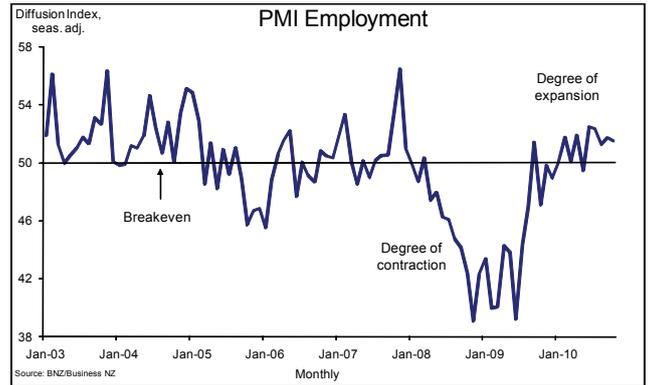
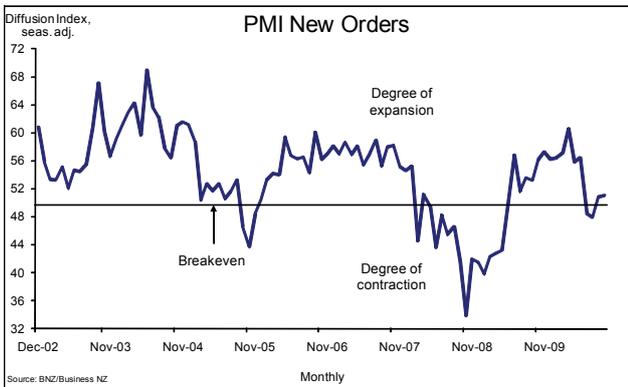
Extra weakness this month seems to be related to the Canterbury earthquake, judging by the unadjusted regional results for the PMI. While the unadjusted nationwide PMI displayed its usual seasonal rise in October in lifting to 54.3, the Canterbury/Westland region was the notable laggard in being the only region where the PMI came in below 50 (on an unadjusted basis). There were a smattering of negative comments from respondents relating to the earthquake and its impact on business.



What about the good bits in this month's survey? These were concentrated in the new orders and employment indices that came in at 51.0 and 51.5 respectively in October. Both these are at similar levels to last month and both indicative of expansion. By their nature, the new orders and employment components are more forward-looking than, say, the current production component. So, we take some comfort that while current

production is looking a bit soft, reflecting the dip in new orders through July and August as well as the earthquake, the forward-looking indicators suggest some improvement ahead.

There were also pockets of positiveness regarding exports. However, looking through the respondent comments regarding exports reveals that external demand conditions are far from uniform for the manufacturing sector at present. Respondent comments regarding exports certainly covered the full spectrum of perspectives. For example, some words used by respondents to describe exports were 'slowdown', 'low', 'non-existent', and 'sluggish'. Yet others described exports with words like 'upturn', 'new business',



'increased orders', and 'more work'. Then there were those in between with 'stabilising' and even one exporter describing exports as both 'strong' and 'tough' depending on the market.

Such a diverse range of views is not surprising and highlights the uneven nature of the world economy as well as the relative strengths and weakness across various currencies. Of those respondents that did mention particular markets there was a general positive Asia/Australia and negative US/Europe theme that fits with the general lopped-sidedness in global economic growth at present.

doug\_steel@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**  
Economist  
+(64 4) 474 6923

**Mike Jones**  
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  
FI: 0800 283 269  
Fax: +(64 4) 474 6266

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

**Christchurch**  
129 Hereford Street  
PO Box 1461  
Christchurch 8140  
New Zealand  
Phone: +(64 3) 353 2219  
Toll Free: 0800 854 854

### National Australia Bank

**Peter Jolly**  
Head of Research  
+(61 2) 9237 1406

**Alan Oster**  
Group Chief Economist  
+(61 3) 8634 2927

**Rob Henderson**  
Chief Economist, Markets  
+(61 2) 9237 1836

**John Kyriakopoulos**  
Currency Strategist  
+(61 2) 9237 1903

**Wellington**  
Foreign Exchange  
Fixed Income/Derivatives

+800 642 222  
+800 283 269

**Sydney**  
Foreign Exchange  
Fixed Income/Derivatives

+800 9295 1100  
+(61 2) 9295 1166

**London**  
Foreign Exchange  
Fixed Income/Derivatives

+800 333 00 333  
+(44 20) 7796 4761

**New York**  
Foreign Exchange  
Fixed Income/Derivatives

+1 800 125 602  
+1877 377 5480

**Hong Kong**  
Foreign Exchange  
Fixed Income/Derivatives

+(85 2) 2526 5891  
+(85 2) 2526 5891

#### 24 HOUR FOREIGN EXCHANGE SERVICE

**Phone Toll Free** 6am to 10pm NZT – Wellington Office

**0800 739 707** 10pm to 6am NZT – London Office – Sam Hehir

**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.

**US DISCLAIMER:** This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabSecurities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabSecurities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabSecurities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

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