

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 drops the ball

BNZ - BusinessNZ PMI for October 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for October stood at 46.5, which was down 4.0 points from September and the lowest level of activity since June 2009. Compared with previous October results, the 2011 value was only the third time a decline in manufacturing activity was recorded for that month.
- All five seasonally adjusted main diffusion indices were in decline during October, with *finished stocks* (45.2) recording the lowest result. *Employment* (48.6) was the least affected by the decline, followed by *new orders* (47.7) and *production* (46.4). *Deliveries* (46.1) experienced its second consecutive decline in activity.
- Unadjusted results by region showed that the decrease in overall activity was mainly due to the further slump in the *Northern* region (46.6), which recorded its lowest result since January 2010. The *Canterbury/Westland* region (48.7) also fell into decline after five consecutive months in expansion, while the *Central* region (52.7) remained in expansion despite a slight dip. The *Otago/Southland* region (60.8) produced another strong and consistent result with its third consecutive value over 60.0.
- Manufacturing by industry sub-groups were a combination of highs and lows. On the positive side, *food, beverage & tobacco* (65.4) produced its third consecutive result above 60.0, while *petroleum, coal, chemical & associated products* sector (54.1) increased in expansion from September. However, *metal product manufacturing* (40.6) continued to slide after recording 45.9 for September.
- The October result showing contraction also meant the proportion of negative comments increased from 50% to 58% for the current month.

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 46.5 for October, down 4.0 points from September.

All five main indices recorded contraction, with the lowest result being finished stocks.

Unadjusted regional activity showed the northern region going further into decline.

The proportion of comments by respondents was increasingly negative.

**Next BNZ - BusinessNZ PMI:
15 December 2011**

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)

What was troubling NZ manufacturers in October?

Simply shaken by Rugby World Cup distractions?

Rattled by the weak construction market?

Rolled by an unravelling world?

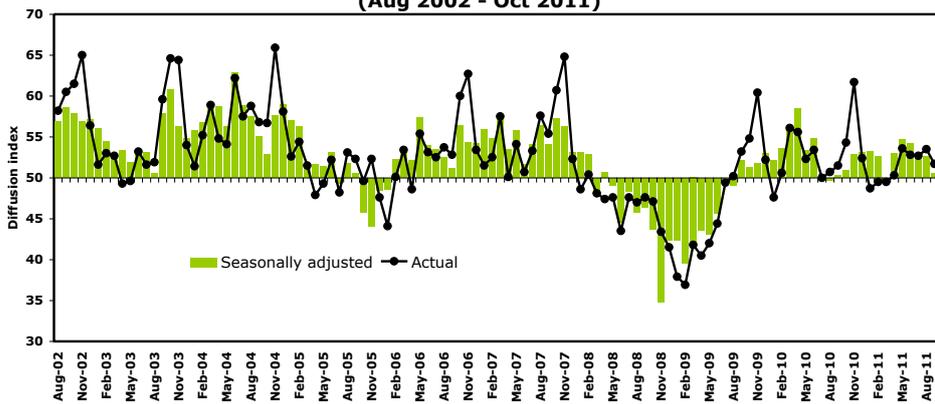
Find out on page 3...

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



October time series tables

National Indexes	Oct 2006	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Oct 2011
BNZ - BusinessNZ PMI (s.a.)	56.4	57.2	43.7	51.3	50.9	46.5
Production (s.a.)	58.6	58.1	44.3	53.2	48.0	46.4
Employment (s.a.)	50.8	53.5	42.5	47.5	52.1	48.6
New Orders (s.a.)	60.0	58.2	42.4	54.7	53.0	47.7
Finished Stocks (s.a.)	52.9	56.5	47.5	48.2	51.4	45.2
Deliveries (s.a.)	56.1	58.9	43.9	49.8	53.0	46.1

National Indexes	Oct 2006	Oct 2007	Oct 2008	Oct 2009	Oct 2010	Oct 2011
BNZ - BusinessNZ PMI (s.a.)	56.4	57.2	43.7	51.3	50.9	46.5
Northern	59.3	62.3	43.7	53.2	56.3	46.6
Central	57.8	56.6	47.0	56.3	54.8	52.7
Canterbury/Westland	64.7	60.0	54.3	54.7	49.5	48.7
Otago/Southland	62.4	65.7	54.2	59.0	53.7	60.8

(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

10 November 2011

Manufacturing: Shaken, Rattled or Rolled?

- What was troubling NZ manufacturers in October?
- The PMI capitulated to 46.5, from 50.5
- Simply shaken by Rugby World Cup distractions?
- Rattled by the weak construction market?
- Rolled by an unravelling world?

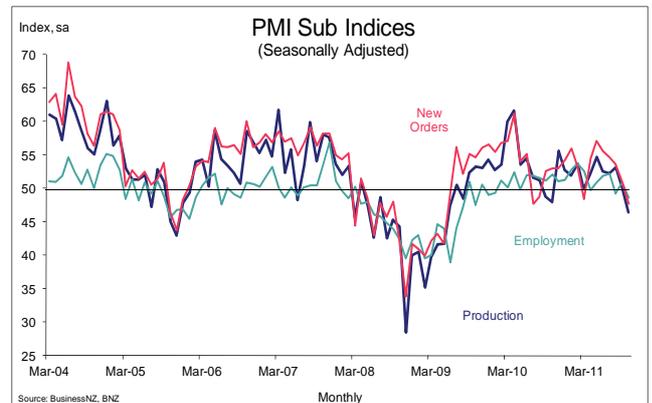
There was no getting around the fact that October's Performance of Manufacturing Index (PMI) was weak. Its overall result of 46.5, strictly speaking, denoted a sector going backwards once again while its new orders (47.7) and employment (48.6) components did not inspire confidence in the underlying trends. Is this a genuine stalling we should be worried about, or just another big bump in the road to recovery? Unfortunately, it's very hard to tell.

If there was a common thread of reversal, it wasn't apparent from the breakdown by firm-size, region or industry. Indeed, through all of these lenses huge variety remained, within which some were doing as spectacularly well as others were doing poorly.

- In respect to firm size, the very biggest ones now had a noticeably positive gap on the struggling bunch of others
- By region, Otago was now leading the pack (having been the clear laggard a few months ago), Canterbury's solid run seems to have faltered, but the weakest was the top half of the North Island
- By industry, things to do metals and textiles were buckling in October, while food and beverages were going to town

With this ongoing changeability and variability in the detail, we decided to have a deeper dig, into the anecdotal feedback, to see if we could understand what was troubling NZ manufacturers in October. This exercise did hint at a few themes that might be relevant, each with different implications for the way forth.

The first was attitudes to the Rugby World Cup. While a number of respondents noted this as a positive influence, two and a half times as many suggested it was probably a negative influence on their immediate business. This is not to be disparaging of the tournament itself, which,



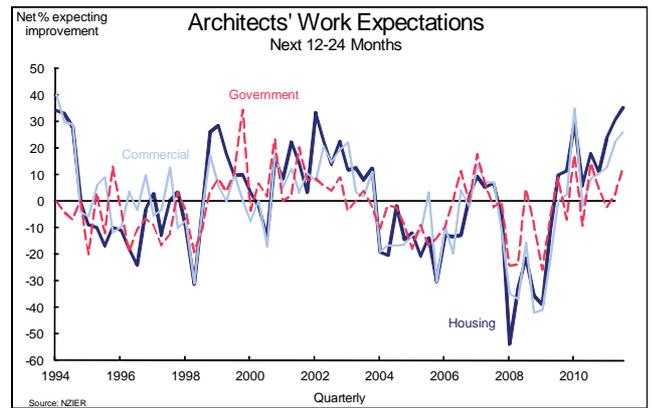
by most accounts, was an enormous success. More that it distracted folk from their day jobs, and caused expenditure switching. Some will no doubt have taken time off, even shuttered their businesses for a number of weeks. The RWC was also cause for school holidays being delayed from September to October.

We also mention this potential Rugby World Cup distortion on economic activity having heard about it as an explanatory factor in recently subdued home sales, even the bumpiness of car registrations of late. To the extent the RWC had been a wonderful distraction to the general populace then we might expect a back to the grindstone effect to kick in from here.

The other story that crept off the pages of October's PMI survey, in a net-negative sense, was reference to the construction market. And not just in Canterbury, where frustrations with delays, partly related to ongoing seismic activity and (re)insurance issues, were understandable. A number of respondents based in Auckland expressed unhappiness with the state of their building sector too.

Regards this, all we can really say is to try to hang on in there as best one can. While there is clear evidence construction has ebbed - right across the country - the data also clearly suggest a base is forming, and a turning point is budding.

That the construction sector was forming a base was further indicated by ready-mix concrete figures for the September quarter. While these were still patently down from their peak of 2007 they have been stabilising for



the last couple of years and have been trending gradually higher over recent quarters. Stronger upturn has been evident in the more forward-looking indicators, with residential consents, for example, well off their mid-2011 lows. We drew deeper pipeline confidence from the positive murmurings of architects in the recent Quarterly Survey of Business Opinion.

In general, we can still see a lot to drive New Zealand's construction sector off its lows. The eventual rebuilding of Christchurch City is just one of them. A generalised uplift should provide a solid underpinning to the domestic manufacturing sector. The only question to us is degree and timing.

The other theme we detected in the latest PMI anecdotal feedback was a simmering concern about export markets. This, unlike the two aforementioned themes of the

Rugby World Cup and construction, has the potential to prove more than a transitory affair. The situation in Europe is obviously not good, while the rest of the world is running either slowly or slower.

Of course, this doesn't help with forecasting the fortunes of New Zealand's manufacturing sector. The global prognosis clouds the way ahead, perhaps darkly so. The local construction sector has every potential be a force for good, but we just can't be sure of the degree and timing. As for the Rugby World Cup, we should hope that it has been as much a distraction for economic activity, as a selective boon, in that it means a back-to-work effect might also help mend the PMI over coming months.

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