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

August angst

BNZ - BusinessNZ PMI for August 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for August stood at 47.2, which was 2.2 points down from July, and the lowest overall result since November 2011. Compared with previous August results, the 2012 value was the lowest since 2008.

- All five seasonally adjusted main diffusion indices were in contraction in August, the first time this has occurred since October 2011. The worst result was for *employment* (45.4), which fell 2.1 points from July and the lowest result since July 2009. This was followed by *production* (47.6), which fell 1.9 points. The remaining sub-indices were in a very tight band of activity, with *new orders* and *deliveries* both on 48.1, while *finished stocks* (48.0) was the only sub-index to improve, rising 0.4 points from July.

- Despite the main results showing overall contraction, unadjusted results by region was not quite as negative. The *Central* region (52.7) again led the way, increasing 2.0 points from July, and the first time it has led regional activity since March this year. This was followed by the *Otago/Southland* region (50.9), which went back into expansion after two consecutive months in contraction. Unfortunately, the two largest manufacturing regions both suffered a sizeable drop in activity, with the *Northern* (45.4) and *Canterbury/Westland* (45.9) regions experiencing similar levels of decline.

- Manufacturing by industry sub-groups was mainly in negative territory for August. *Petroleum, coal, chemical & associated products* (47.0) dropped 7.0 points from July, while *metal product manufacturing* (43.8) also dropped the same number. *Machinery & equipment manufacturing* (44.0) continued the trend downwards, although both *textile, clothing, footwear & leather manufacturing* (48.3) and *food, beverage & tobacco manufacturing* (46.5) both showed improvement from the previous month.

- Given the drop in overall activity, the proportion of positive comments (39.9%) experienced a sizeable fall, mainly due to issues relating to the exchange rate and an overall lack of demand/orders. Globally, the JPMorgan Global Manufacturing PMI contracted further in August (48.1), slumping to a 38-month low due to rising headwinds in key economic regions and falling levels of international trade.

Inside BNZ Commentary this Month (page 3)

Bank of New Zealand's Economist, Doug Steel, takes a look at NZ's August PMI result in an international context. He finds that it sits within the range of international indices. While this will be of little solace to the local manufacturing sector, it does add some context.

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 fell to 47.2 in August.

All five main indices were in decline, with employment scoring the lowest result.

Unadjusted regional activity was more positive with two regions showing some expansion.

Next BNZ - BusinessNZ PMI:
11 October 2012

SPONSOR STATEMENT

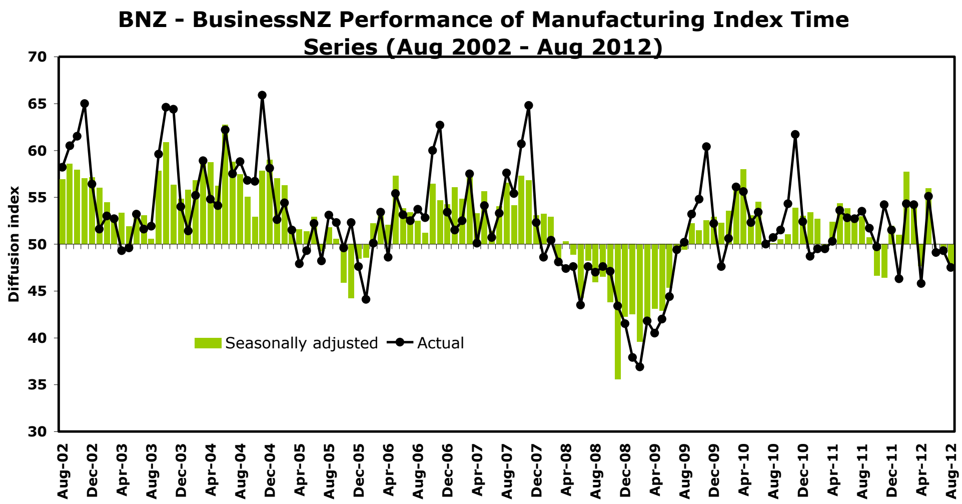
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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)

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



August time series tables

National Indexes	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012
BNZ - BusinessNZ PMI (s.a.)	56.5	45.9	49.4	50.1	53.0	47.2
Production (s.a.)	60.0	42.8	48.8	51.5	53.6	47.6
Employment (s.a.)	50.5	44.9	47.4	52.0	50.0	45.4
New Orders (s.a.)	59.1	45.8	52.5	49.4	54.7	48.1
Finished Stocks (s.a.)	53.2	50.5	47.2	47.3	52.3	48.0
Deliveries (s.a.)	54.6	49.1	48.6	48.8	54.8	48.1

National Indexes	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011	Aug 2012
BNZ - BusinessNZ PMI (s.a.)	56.5	45.9	49.4	50.1	53.0	47.2
Northern	56.8	48.6	47.3	53.4	51.5	45.4
Central	58.1	45.9	52.3	46.9	49.9	52.7
Canterbury/Westland	59.3	43.9	56.4	52.0	57.2	45.9
Otago/Southland	56.9	48.9	48.2	44.7	61.8	50.9

(s.a. denotes seasonally adjusted)

The BNZ - BusinessNZ PMI contains data obtained through BusinessNZ'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.

13 September 2012

Manufacturing Slips Further In August

- August PMI adds to July's worry
- Employment and other details increase the angst
- NZ PMI in line with global comparators
- At least inventory control looks excellent
- And there are still some pockets of optimism

We suggested last month that the dip in the July PMI below the breakeven 50 mark was 'a bit of a worry'. Its further drop in August has only intensified the angst.

Actually, it is not so much the dip in the overall Performance of Manufacturing Index to 47.2 in August, from 49.4 in July, that has raised our level of concern. It is more the widespread weakness across the major components that makes the results overall look a bit more worrisome.

The production index at 47.6 is on the wrong side of 50. This indicator can bump around a bit month-to-month on the likes of variability in primary production. But combined with lower new orders and another drop in employment there are obviously bigger drivers at play.

International concerns, including further signs of slowdown in China and Australia, rank high among these judging by respondent comments this month. The associated strength in the NZ dollar is another major drag for manufacturers – from both an exporting and import-competing perspective.

The international environment has contributed to lower prices (particularly in the commodity-related industries) and/or fewer orders. The result has been lower production and lower employment.

In falling to 45.4 in August, from 47.5 in July, the employment index is now significantly below 50 and at its lowest level in more than three years. The general message of manufacturing contraction in August is clear.

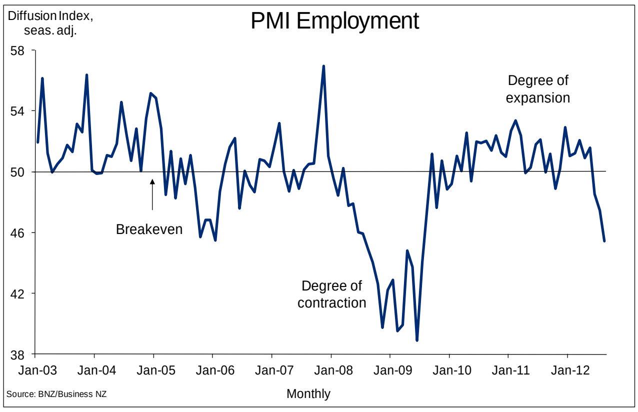
The strong NZD is undoubtedly a major headache for many manufacturers. But we think it is at least as much a symptom of the problem as it is the cause. If it was the cause, one would think that the manufacturing sector in the country with the correspondingly weaker currency would be thriving and their PMI's strong and well above 50. This is not the case.

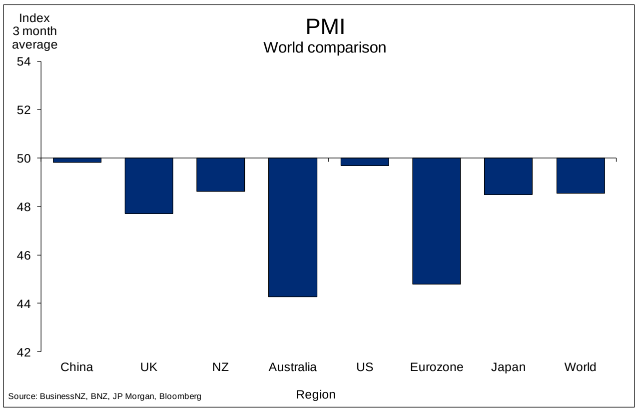
In fact, manufacturing globally is struggling. For example, the August PMI readings for the US, the UK, Australia, Japan and Eurozone all sit sub-50 (and have been for the past three months). Even the mighty China doesn't look that flash with the official and HSBC PMI series currently sitting at 49.2 and 47.6 respectively. We are not alone.

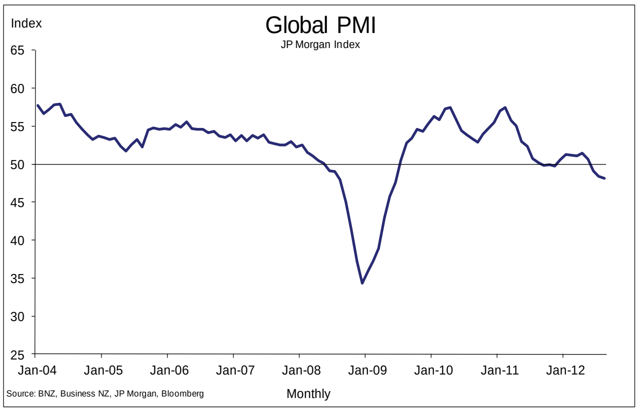
A good global summary comes in the form of JP Morgan's PMI. This index sat at 48.1 in August.

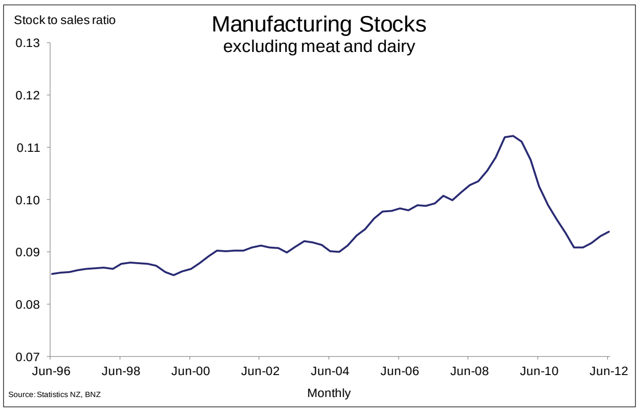
Sitting alongside these international results, NZ's August PMI does not look that bad. Of course, this is of little solace to the local manufacturing sector, but it does add some context.

Ultimately, we think the global manufacturing weakness reflects softer demand. It's the pointy-end of the de-leveraging and (especially western) consumer and business caution economic commentators have been talking about for some time.









While the headlines remain a bit of a worry, it is worth pointing out that they remain significantly above levels seen during the depths of the 2008/09 recession when our own PMI was lurking in the low 40s, and even dipped into the 30's on occasion, while the global PMI printed in the 30s for five months in a row at one point through that period.

Back to the domestic results for August, there were still some pockets of strength and optimism for the future. This included, like last month, signs of the slowly improving construction activity filtering through to the manufacturing sector. It is slow going and from a low base. But the 59.5 reading in the non-metallic mineral product manufacturing industry is a beacon. It fits with the strong gains we are seeing in ready-mix concrete production.

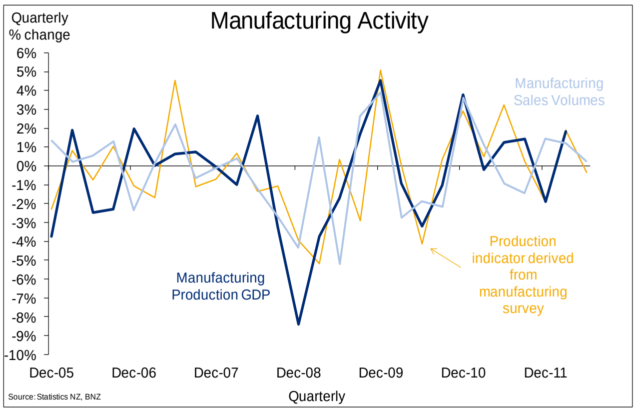
Also hidden in the generally downbeat assessment of the manufacturing sector in August is an important inventory story. It appears that manufacturers are managing their inventories well. Lower demand, it appears, has been anticipated. The PMI inventory index has not lurched higher as it might if a demand slowdown was unanticipated. Likewise, inventories-to-new-orders are close to balance.

This is important should demand improve, as we think it will, at least for some industries, as the likes of the Christchurch rebuild gets into full swing. At this point, manufacturers do not seem to have excessive inventory to unload meaning that any pick up in demand could quickly translate into more production.

This is a similar inventory message that we got from Monday's official Economic Survey of Manufacturing for Q2. Neither the quarterly nor the annual stocks-to-sales ratio looked out of line relative to history.

But the positive inventory story, if indeed there is one when the food processing industries are included, has come at the expense of softer current production. Indeed, we think the balance of sales and stock changes from Monday's release suggest that manufacturing production posted a small decline in Q2. The July and August PMI point to further contraction in Q3.

But unlike Q2, we think the economy overall can post reasonable growth in Q3 thanks to a pick up in construction and retailing (the latter supported by a solid lift in core retail electronic transactions in August data released on Tuesday).



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

Kymberly Martin
Strategist
+(64 4) 924 7654

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
81 Riccarton Road
PO Box 1461
Christchurch 8022
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

Emma Lawson
Currency Strategist
+(61 2) 9237 8154

Wellington
Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney
Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London
Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +(44 20) 7796 4761

New York
Foreign Exchange +1 800 125 602
Fixed Income/Derivatives +1877 377 5480

Hong Kong
Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(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