

BNZ CAPITAL-BUSINESS NZ PMI

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

Manufacturing shows glimmers of hope

BNZ Capital - Business NZ PMI for April 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for April (43.7) increased 1.8 points from March, and the highest result since September 2008. However, the sector was still showing contraction, with the 2009 result still 7.0 points under the previously lowest April figure.
- All five seasonally adjusted main diffusion indices continued to display contraction, although almost all improved from March. *Production* (42.7) rose above 40 for the first time since December 2008, while *employment* (44.8) improved 5.8 points from the previous month. *New orders* (42.8) also showed continued easing in its downturn, while *deliveries of raw materials* (43.6) increased to the same level as December 2008. *Finished stocks* (46.3) decreased 1.3 points from March, and is now at its lowest level since the survey began.
- Unadjusted activity for March told a tale of two islands. In the North Island, the Northern region (38.9) fell back to a sub-40 result after a relatively strong improvement in March. Likewise, the Central region (40.4) also experienced a drop compared with March. In the South Island, the Canterbury/Westland region (44.7) recorded its strongest value since December 2008, while the Otago/Southland region (40.4) improved somewhat after a significant fall in March.
- Almost all manufacturing industry sub-groups again displayed contraction during April, although most showed some improvement from March. The *textile, clothing, footwear & leather manufacturing* (38.4), *wood & paper product manufacturing* (38.8) and *petroleum, coal, chemical & associated products* (40.3) sectors experienced the lowest results for the current month. In contrast, the *food, beverage & tobacco* sector (54.3) improved to show expansion in April, after a level of no change for March.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for April (41.8) continued to improve with a seven-month high. In contrast, the Australian PMI (30.1) worsened to its lowest ever result, while the USA PMI (40.1) experienced its first above 40.0 result since September 2008.
- Conversely, while the rate of decline continued to ease in April, the proportion of negative comments made by respondents rose to its highest level (sitting at 78.3%), compared with 70.3% in March, 75.1% in February and 69.5% in January.

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 rose again to 43.7.

All five main indices continued to show ongoing contraction, but most improved from March.

The North Island regions weakened further in activity for April, while the South Island regions showed some improvement.

The global manufacturing scene continued to show signs of recovery, although the Australian sector sunk to a new low.

Next BNZ Capital - Business NZ PMI: 11 June 2009

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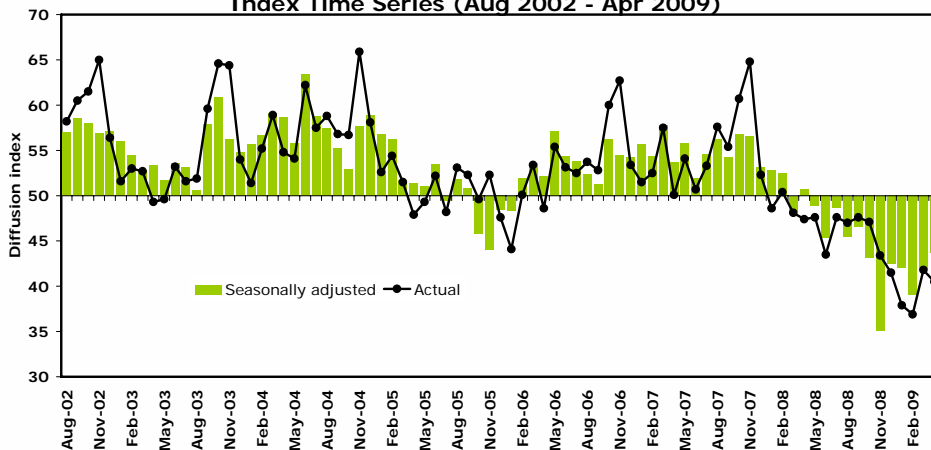
BNZ Capital is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ Capital. We look forward to continuing our association 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 Performance of Manufacturing Index Time Series (Aug 2002 - Apr 2009)



April time series tables

National Indexes	April 2003	April 2004	April 2005	April 2006	April 2007	April 2008	April 2009
BNZ Capital - Business NZ PMI (s.a)	53.3	58.7	51.4	52.2	53.6	50.7	43.7
Production (s.a)	53.9	60.3	51.1	50.7	53.2	51.9	42.7
Employment (s.a)	50.0	51.0	51.3	51.6	48.7	47.7	44.8
New Orders (s.a)	55.1	64.1	52.6	53.6	56.5	50.9	42.8
Finished Stocks (s.a)	53.4	51.6	51.1	51.7	55.5	52.1	46.3
Deliveries (s.a)	52.7	59.8	51.3	53.7	54.0	51.4	43.6

National Indexes	April 2003	April 2004	April 2005	April 2006	April 2007	April 2008	April 2009
BNZ Capital - Business NZ PMI (s.a)	53.3	58.7	51.4	52.2	53.6	50.7	43.7
Northern	48.7	53.7	46.6	46.9	48.7	46.8	38.9
Central	49.7	54.4	45.4	50.7	47.7	47.7	40.4
Canterbury/Westland	53.5	59.8	53.2	44.0	52.5	46.4	44.7
Otago/Southland	43.9	49.6	51.3	56.3	57.0	52.6	40.4

(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.

13 May 2009

NZ Manufacturing Sniffs Global Repair

- NZ PMI improves to 43.7, from 41.9
- In keeping with global PMI hitting 41.8, from 37.3
- New orders becoming less negative
- China's PMI positive, but broader April data falters
- Australian business survey better, but PMI very low

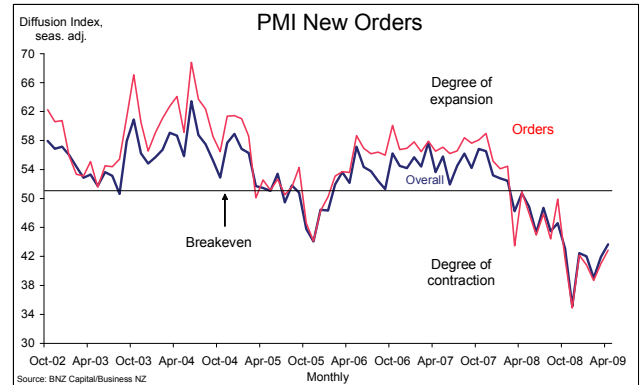
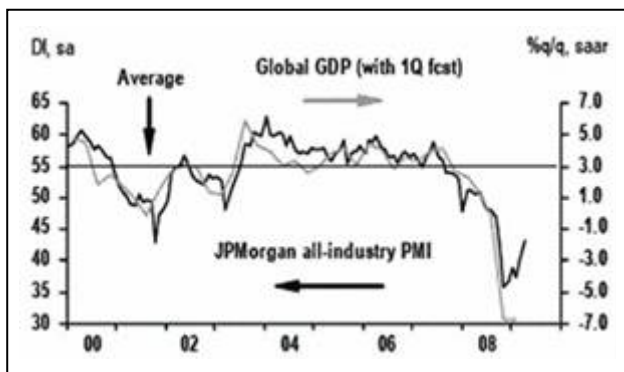
New Zealand's Performance of Manufacturing Index recovered a dollop further in April. It battled its way up to a seasonally adjusted 43.7, from 41.9 in March, and 39.0 in February. New orders were tracking higher as well, reaching 42.8. The employment sub-index posted its best result in eight months, with 44.8.

While not exactly positive end-points, these are encouraging trends. Every improvement has to start somewhere, even if in small steps.

And in New Zealand's case the PMI "recovery" would seem to be in good company – with the large majority of global manufacturing indices also seeing a lift over the last couple of months. Indeed, the global PMI – as produced by JPMorgan and Markit Economics – rose to 41.8 in April, from 37.3 in March. New orders for manufactured goods recovered further, to 43.8, from 35.9.

As part of this, China's PMI has recently returned to positive (above-50) territory. This was true not only of the main PMI, which tends to be dominated by domestic industries, but also the CLSA version of the PMI, which has more of an export/import flavour to it. They hit 53.5 and 50.1, respectively, in April.

Still, we need to be careful about extending the trend in the PMI's, when the economic and financial backdrop remains as problematic as it is. To presume the gargantuan global de-leveraging process, which all and



sundry have been rightly acknowledging over recent quarters, is suddenly all over and done with seems premature to say the least.

Indeed, if all we're seeing in the recent PMI rebounds is simply a bit of catch-up or relief production, a bigger slump could yet transpire. Nothing can be ruled out at this early stage – negative or positive. The veracity, strength and sustainability of any recovery will ultimately depend on what's really going on under the surface, not on a line on a chart.

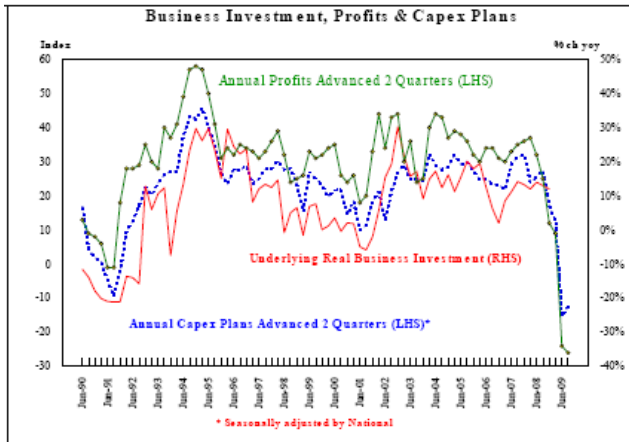
In this vein, we note yesterday's Chinese industrial production figures for April fell short of expectations. Instead of advancing 8.6% y/y, they increased 7.3%. This was not only slower than the 8.3% y/y result of March, but is less than half the pace China has become accustomed to over recent years. It's way below trend, in other words.

The same was obviously true of Chinese exports in April, which declined a greater than anticipated 22.6% on a year ago. Imports also undershot, in falling 23.0%. Meanwhile, China's lending figures come off much more sharply than usual between March and April, which was taken as a sign of nervousness about the quality of lending recently dictated by authorities.

This sobering news about China was only partially offset by slight upward surprises in its retail spending, and investment spending, figures, for April.

The news for Australia has also been mixed, but with concerning undertones. The relief was that April's NAB business survey got back some lost ground, fairly much across the board. But the deeper messages around

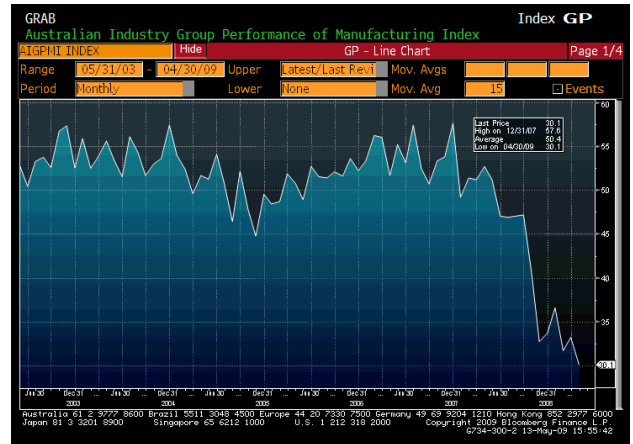
NAB (Australia) Business Survey



manufacturing were that things remained tough. And the NAB March quarter survey – more detailed than the monthly version – sounded a particular warning bell on collapsing capital expenditure.

Perhaps this is why Australia’s manufacturing PMI has been dragging the chain on the global “recovery” story. Indeed, it fell to a record-low 30.1 in April. Production was 28.8, while new orders slumped to 26.7. These all signal very strong rates of contraction.

Australian PMI



This is not a good sign for New Zealand’s manufacturing sector – for which Australia remains its biggest market – even though our broader PMI looks to be clawing its way back from the brink for the moment. We hope to report genuinely positive results before too many more months have passed. But we won’t be presuming this as a matter of course.

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