

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

Weaker production and new orders slow manufacturing recovery

BNZ Capital - Business NZ PMI for August 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for August (48.7) decreased 0.9 points from July after a general period of improvement since the start of the year. The August 2009 value was still higher than for August 2008 (45.4), but continued a period of contraction now lasting 16 months.
- Four of the five seasonally adjusted main diffusion indices displayed contraction. *Production* (48.8) went back to showing contraction after moving into positive territory in July. *New orders* (50.3) remained above 50 for the third successive month, although down from the July result. Encouragingly, *employment* (46.9) reached its highest level since May 2008, and a significant improvement on the 39.5 recorded two months earlier. *Deliveries of raw materials* (48.0) experienced further improvement (albeit at a minimal level), while *finished stocks* (48.7) rose 6 points to its highest result since February 2009.
- Unadjusted activity for August showed a similar pattern to July for most regions. Activity in the Northern region (47.3) was largely unchanged, down 0.1 points from July. Both the Central (52.3) and Canterbury/Westland (56.4) regions remained in expansion, with the former decreasing 0.4 points and the latter rising 1.5 points. The Otago/Southland region (48.2) continued to seesaw in terms of the level of contraction.
- Manufacturing by industry sub-groups continued to be a combination of expansion and contraction during August, with some sub-sectors showing significant change from the previous month. The *petroleum, coal, chemical & associated products* sector (46.8) experienced a sharp fall following its first expansionary month since February 2008, while the *food, beverage & tobacco* sector (56.3) rose 4.5 points to record the highest expansion for August. *Metal product manufacturing* (48.3) experienced a small drop from July, while *textile, clothing, footwear & leather manufacturing* (52.6) saw a larger fall.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for August (53.1) rose to a 26-month high. The USA PMI (52.9) showed its highest result since June 2007, while the Australian PMI (51.7) showed expansion for the first time after 14 months of contraction.
- With the rate of contraction similar to July, the proportion of negative comments made by respondents also remained largely unchanged (60% in August), compared with 59.9% in July, compared with 67.0% in June and 75.6% in May.

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 decreased 0.9 points to 48.7.

Four of the five main indices continued to show ongoing contraction, but the key indices of production and new orders both fell back from their July results.

Activity by region continued to show expansion in the middle parts of the country.

The global manufacturing scene showed ongoing recovery with its highest result for 26 months.

Next BNZ Capital - Business NZ PMI: 15 October 2009

SPONSOR STATEMENT

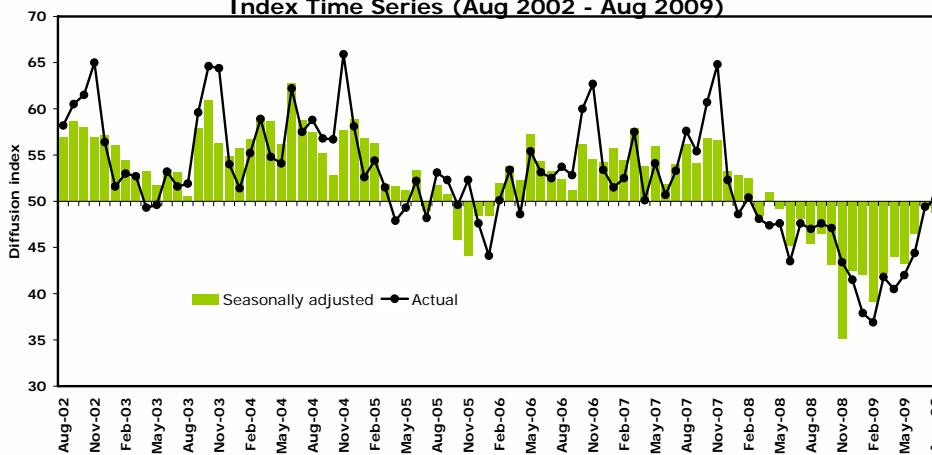
BNZ Capital is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ Capital. We look forward to continuing our association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

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

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



August time series tables

National Indexes	Aug 2003	Aug 2004	Aug 2005	Aug 2006	Aug 2007	Aug 2008	Aug 2009
BNZ Capital - Business NZ PMI (s.a)	50.6	57.4	51.7	52.4	56.2	45.4	48.7
Production (s.a)	47.7	58.7	52.9	52.4	60.0	42.9	48.8
Employment (s.a)	51.3	50.7	51.1	49.1	50.4	44.7	46.9
New Orders (s.a)	55.3	62.3	51.5	56.4	58.5	44.6	50.3
Finished Stocks (s.a)	50.5	55.3	51.2	50.7	53.7	51.5	48.7
Deliveries (s.a)	47.5	57.8	52.3	48.9	53.9	48.4	48.0

National Indexes	Aug 2003	Aug 2004	Aug 2005	Aug 2006	Aug 2007	Aug 2008	Aug 2009
BNZ Capital - Business NZ PMI (s.a)	50.6	57.4	51.7	52.4	56.2	45.4	48.7
Northern	52.2	61.1	54.0	52.5	56.8	48.6	47.3
Central	48.6	55.9	51.3	53.5	58.1	45.9	52.3
Canterbury/Westland	60.2	59.6	47.6	55.7	59.3	43.9	56.4
Otago/Southland	63.4	57.5	60.9	58.2	56.9	48.9	48.2

(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.

17 September 2009

Manufacturing Fumbles for Foothold

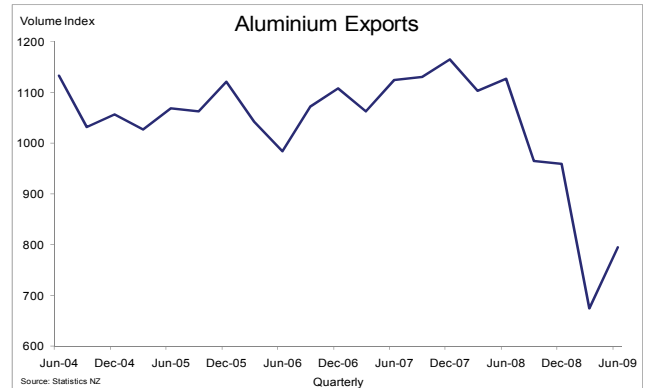
- Q2 manufacturing survey implies production drop
- As inventory bloat reduced
- All in keeping with PMI messages over April-June
- July's PMI suggested expansion emerging
- Although August's slip to 48.9 counsels caution

New Zealand's Performance of Manufacturing Index continues to prove its worth. For a start, its sub-50 readings over the April-June period turned out to be a very good forerunner to the continued negative undertones we saw in Tuesday's Q2 manufacturing survey. And while it was good to see July's PMI recovering a sense of stability, its slight slippage in August is a timely note of caution.

To be sure, we maintain our view – one we've held since early this year – that a mild economic expansion would be emerging around about now, for manufacturing as much as the economy at large. But we also continue to counsel that folk should be taking things one step at a time, rather than taking a running jump with their expectations.

While the shape of the recovery remains uncertain there is little doubt about the depth of the hole needed to be climbed out of in order to restore "normality". In respect to Tuesday's manufacturing survey, we reckon it implied a further 3.0% drop in production in the June quarter. This, in turn, infers a 16% contraction from a year ago. That's twice as bad as the previous worst annual decline of 7.5% back in the early 1990s.

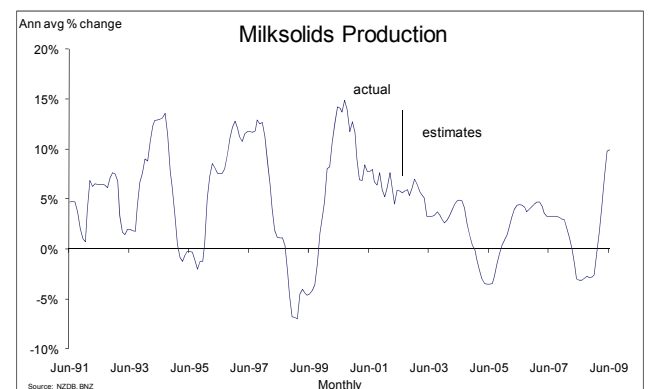
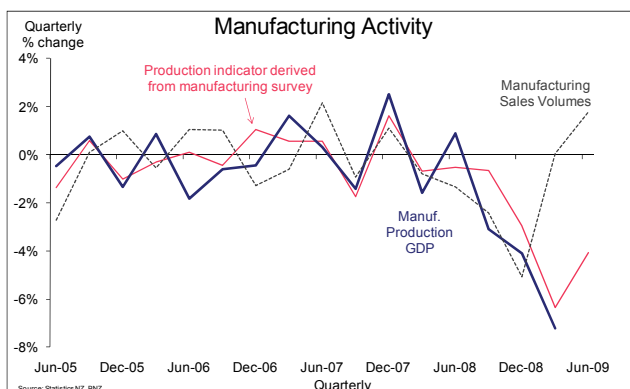
To be fair, this downfall has come amid the worst global economic performance in many a decade and more so in respect to trade and manufacturing. In this respect, New Zealand can be especially thankful it's not a producer of vehicles.



We also note that some of the damage to the NZ results has been accentuated by a fall-off in aluminium production from the country's Tiwai Point smelter. Yes, there were signs, via export volumes, that ingot extrusion stepped up in Q2. Nevertheless, it looks far from fully recovered from the sharp downscaling that occurred over September through March, partly related to a bung pot that few seemed in a rush to restore at the time, given very low aluminium prices.

However, the excuses run only so far. It's also worth bearing in mind the local manufacturing slump of the last twelve months traversed a sizable rebound in dairy production (following the severe drought the previous year) that would normally have been enough for manufacturing output to expand, overall.

And the overall contraction we judge for the June quarter of 2009, in particular, was all the more disappointing in that it came despite signs that meat processing increased, aluminium production improved and forestry activity bounced back on buoyant exports, albeit mainly logs to China.



This implies the rest of NZ manufacturing must have remained very poorly indeed, up to June. This highlights the plight of the manufacture of investment-type goods, such as plant, machinery and equipment, electronic goods and other elaborately transformed manufactures.

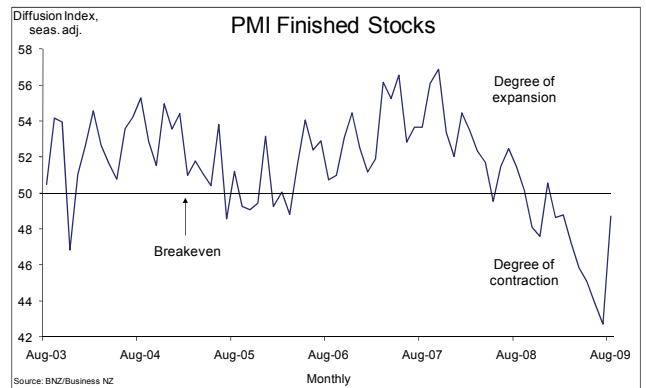
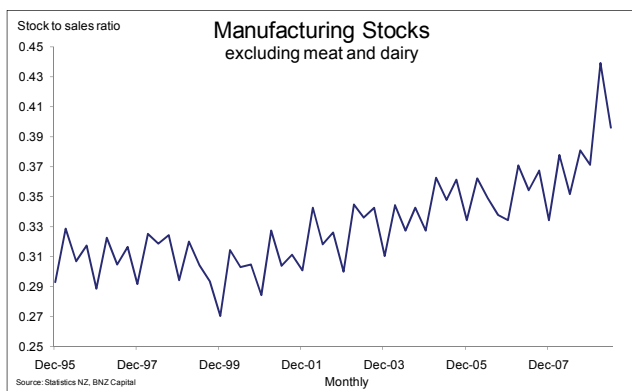
And this might well remain an area of vulnerability given that investment spending – here and abroad – will likely be one of the last areas to join the recovery bandwagon, considering the extent and duration of spare capacity to bedevil the process yet. We would very much include Australia – still New Zealand’s biggest market for manufactured goods – in this equation. Its capex outlook remains cloudy, with some business investment already brought forward on account of increased depreciation allowances, and investment to GDP ratios relatively high for this point in the cycle.

What, though, about the scope for an inventory-led pick-up in NZ manufacturing? Well, while many offshore manufacturing industries, particularly in Asia, are recovering, even accelerating, on the back of stock rebuilding, there is little to indicate a similar type of boost for New Zealand manufacturing is either occurring or is in the offing.

It was the BNZ Capital-Business NZ PMI that first suggested an aggressive run-down in manufacturing inventory continued during the June quarter.

And the Q2 manufacturing survey has since yielded evidence of such. It wasn’t just the well-telegraphed ridding of backlogged dairy stocks that drove it either. Manufacturing inventories excluding primary processing also fell further in the June quarter, by the look of it.

The quarterly manufacturing survey went on to suggest the inventory run-down remained an exercise in reducing the bloat, rather than running the shelves bare. We got this distinct impression from the inventory to sales ratios,

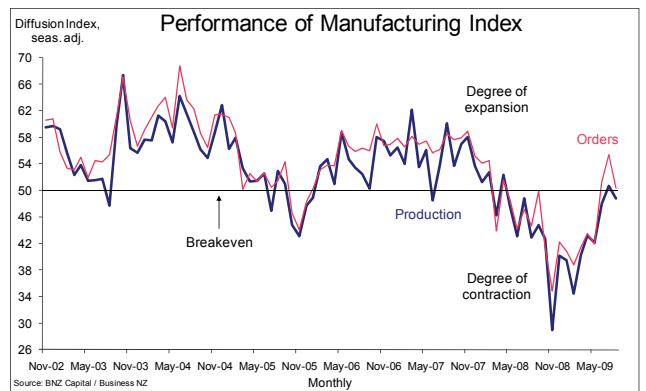


which, while drifting down, remained relatively high in the June quarter. This was true of the ratio for the ex-meat-and-dairy sector as it was for the manufacturing industry as a whole.

Looking ahead, then, we’re probably simply in for a period of better comfort amongst manufacturers about where stocks are at, rather than a fierce rebuilding phase to seriously contemplate. Indeed, this is just what the PMI finished-stocks component for August suggested. While it was not nearly as negative as it was just a few months ago, nor was it, at 48.7, in expansion territory.

Of course, the more generally important message from the August PMI was to not count one’s chickens before they’ve hatched. Following signs of stability in July’s index, August registered a dip. Sure it was just a slight one. And so we don’t believe it spoils the recovery theme we’ve been promoting. However, in keeping with the new orders index falling back to about flat (50.3), from July’s expansive 55.4, the August PMI does sound a cautionary note not to get overly excited about a strong, or sustained, recovery just yet.

craig_ebert@bnz.co.nz



Contact Details

BNZ Capital



Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Mark Walton
Economist
+(64 4) 474 6923

Danica Hampton
Senior Strategist
+(64 4) 472 4767

Mike Jones
Strategist
+(64 4) 472 4767

Main Offices

Wellington
1 Willis Street
PO Box 2392
Wellington 6140
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
125 Queen Street
PO Box 2139
Shortland Street
Auckland 1140
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) 9295 1199

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

Contact Phone Numbers

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 – Olivia Core

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 which is part of nabCapital a 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 the National), 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. BNZ Capital, a division of 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 BNZ Capital 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 nabCapital Securities, 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 nabCapital Securities, 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 nabCapital Securities, 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.

