

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 remains flat in August

BNZ - BusinessNZ PMI for August 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for August was flat (49.3), down 1 point from July, and a departure from the steady expansion we saw in the sector for the first half of the year.
- Of the five seasonally adjusted main diffusion indices, *production* was much the same as July and still in expansion (51.2). *Employment* was down marginally on July and still in expansion (51.3), while *finished stocks* was also in expansion (50.4), though down 1.9 points on last month. Of more concern *new orders* continue to be in contraction (47.2) down 1 point from July, the lowest level in the last 15 months. *Deliveries* were also in slight contraction (49.4) which is much the same as last month.
- Unadjusted results by region showed an improvement in the Northern region which is in expansion (53.4) up 5.6 points and an improvement in Canterbury/Westland (52.0), up 2.6 points with Central slipping back into contraction (46.9) which is a considerable softening on last month (down 9.1 points). The *Otago/Southland* stayed in contraction (44.7) down 3.6 points.
- While the results from Canterbury manufacturers were collected for the period prior to the Earthquake, it is not expected that earthquake will have an overly negative impact on manufacturing in the region since the larger manufacturers escaped relatively unscathed due to newer buildings and most were only briefly interrupted. While some manufacturers will be concerned about a possible downturn in local trading and getting access to buildings, new spending to rebuild the region is expected to have a positive economic benefit in the medium term.
- Manufacturing by industry sub-groups were a mixture of expansion and slight contraction in August. The categories experiencing the strongest expansion included *food, beverage & tobacco* (60.5) continuing similar growth to last month, while *petroleum, coal, chemical & associated product* was flat (50.3). *Metal product manufacturing* was slightly in contraction (47.3). *Machinery & equipment manufacturing*, while still in contraction (48.0) improved significantly on last month. *Wood & paper product manufacturing* stayed pretty flat (49.3).
- The comments about market conditions showed negative comments (52.8%) were lower than last month, versus 47.2% of comments that were positive. Negative comments again focused on orders slowing domestically with flat customer demand. Positive comments were again largely relating to export orders and the usual seasonal increase for the time of the year creating some positivity.

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 flat for August, a departure from the steady expansion in the first half of the year.

Three of the five main indices recorded expansion, though only just, and two indices (new orders and deliveries) continued their second consecutive month in contraction.

Unadjusted regional activity was a mixed bag, with a lift in activity in the Northern and Canterbury/Westland regions, and contraction in Central and Otago/Southland regions.

The proportion of negative comments was lower than July. Positive to negative comments were nearly 50/50 for August.

**Next BNZ - BusinessNZ PMI:
14 October 2010**

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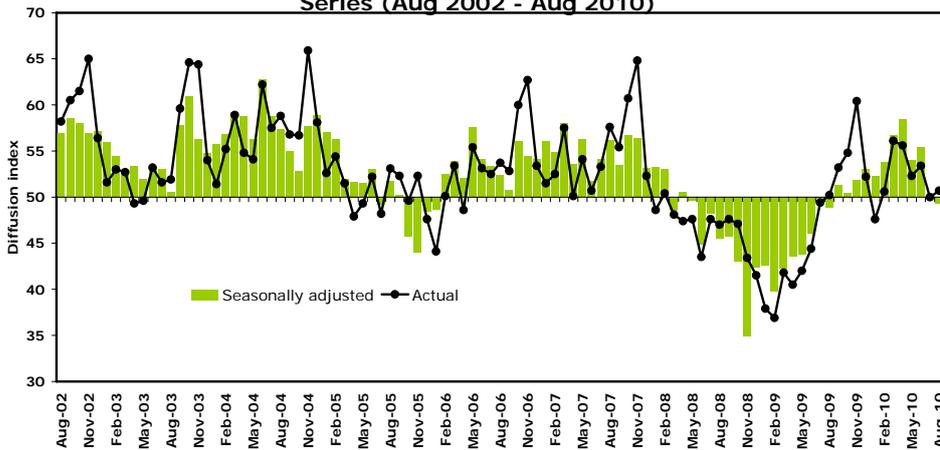
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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pmi

BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Aug 2010)



August time series tables

National Indexes	Aug 2005	Aug 2006	Aug 2007	Aug 2008	Aug 2009	Aug 2010
BNZ - BusinessNZ PMI (s.a)	51.7	52.4	56.2	45.5	48.8	49.3
Production (s.a)	52.7	52.3	59.8	42.6	48.5	51.2
Employment (s.a)	51.1	49.1	50.5	44.7	47.0	51.3
New Orders (s.a)	51.5	56.4	58.7	45.0	51.0	47.2
Finished Stocks (s.a)	51.2	50.8	54.0	52.2	49.7	50.4
Deliveries (s.a)	53.0	49.6	54.8	49.4	49.1	49.4

National Indexes	Aug 2005	Aug 2006	Aug 2007	Aug 2008	Aug 2009	Aug 2010
BNZ - BusinessNZ PMI (s.a)	51.7	52.4	56.2	45.5	48.8	49.3
Northern	54.0	52.5	56.8	48.6	47.3	53.4
Central	51.3	53.5	58.1	45.9	52.3	46.9
Canterbury/Westland	47.6	55.7	59.3	43.9	56.4	52.0
Otago/Southland	60.9	58.2	56.9	48.9	48.2	44.7

(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.

16 September 2010

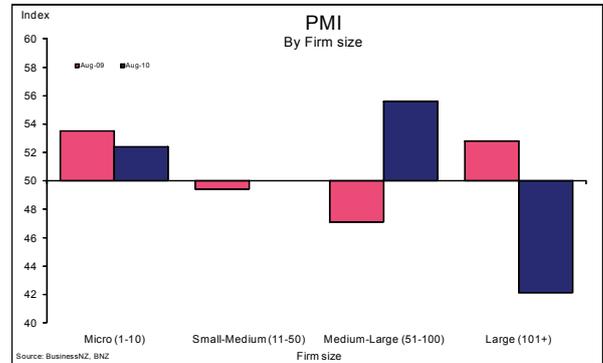
Manufacturing Loses Momentum

- PMI straddles breakeven line
- Large firms downbeat
- Short term production looks soft on new orders
- Quake reconstruction to help, in time
- Strong Australia, favourable crossrate positives
- Drought recovery to boost primary processing

The manufacturing sector has lost momentum over recent months, judging by the Performance of Manufacturing Index. Over July and August the PMI has sat in 'no man's land', oscillating the breakeven 50 line registering 50.3 and 49.3 seasonally adjusted over the two months respectively. As concerning as the mediocre level is the rather brisk slide in the PMI from a solid 55.1 average in the first half of the year. While it is far from the depths of sub-40 during the worst of the recession, the recent PMI readings certainly point to a sector currently jogging on the spot rather than pushing forward.

Although the PMI is back to around the same level as a year ago, there is a marked difference across firm size. The PMI for large firms (more than 100 employees) has fallen sharply from a year ago and is deeply negative. But the PMI for medium-to-large sized firms (51 to 100 employees) has increased strongly and is distinctly positive. The cause of this divergence (which is the largest in the eight year history of the survey) is not clear but is evidence that there has not been a blanket stalling in growth.

Even so, the broader details from the survey generally reinforce the loss of momentum sentiment from the overall PMI. While the production and employment indices remain mildly in expansion mode, both reading just over 51 seasonally adjusted in August, it is the drying up of new orders through July and August that sounds the

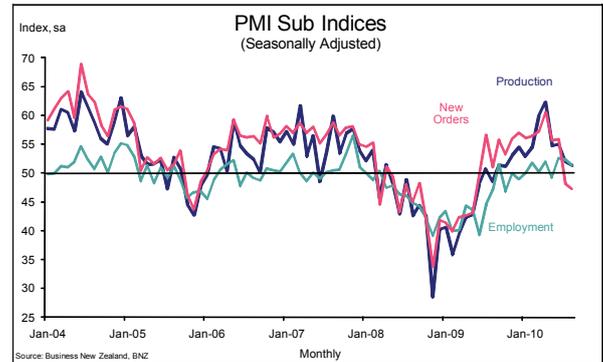
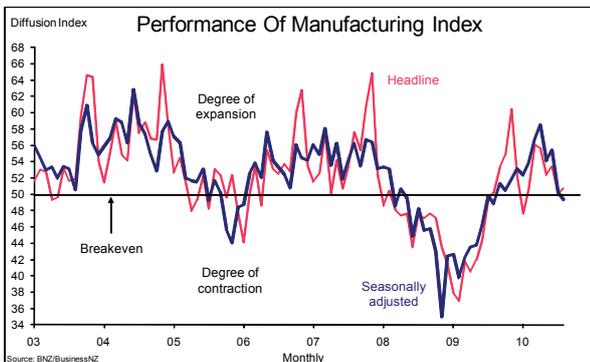


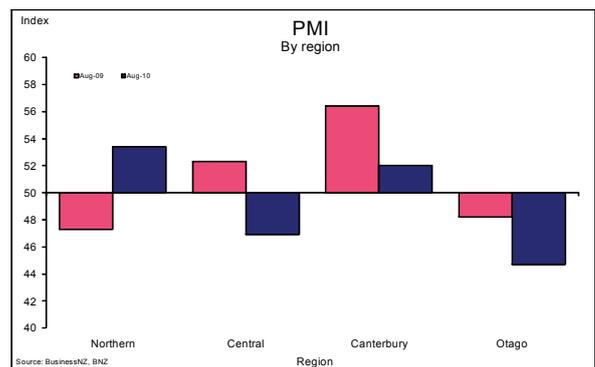
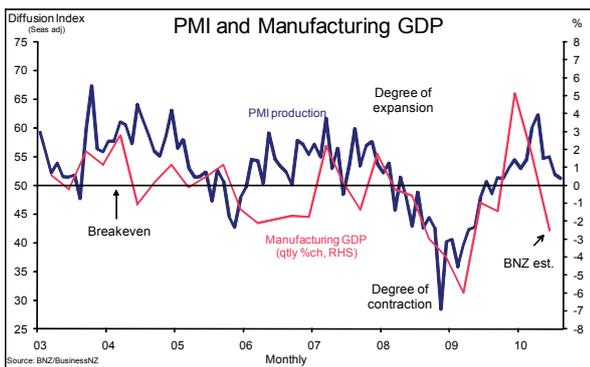
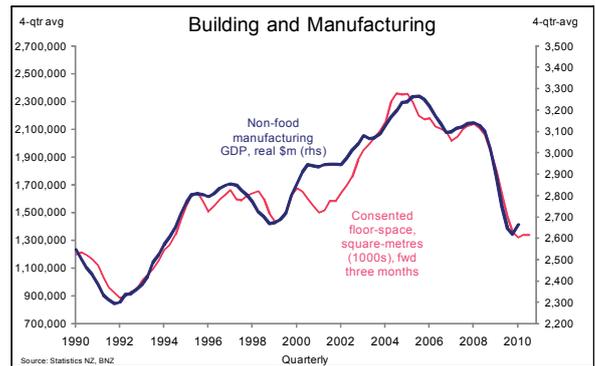
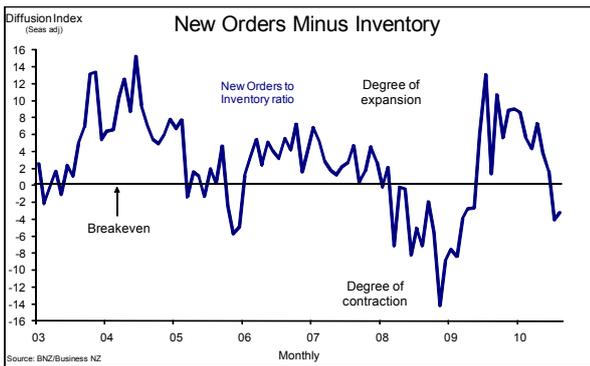
loudest warning. The PMI new orders index has slipped to 47.2 seasonally adjusted in August, from a recent peak of 60.5 in April.

Moreover, the new-orders-to-inventory ratio can be a good guide to future production. The idea being that if either new orders rise or inventory falls (or both), production will need to rise in future to either meet the new demand or replenish stocks. This ratio remains negative, despite the smallest of improvements in August, suggesting more production weakness in the short term.

We say 'more' weakness in production as Statistics NZ's recently released quarterly manufacturing survey left us with the distinct impression that production fell in Q2. That survey does not explicitly measure production, but the 1.8% drop in sales volumes and softer-looking inventory data imply a production slump, we think in the order of 2 to 3%. The survey also tends to whip about a bit, but the undertones are certainly consistent with a slowing in momentum if not a outright stalling of growth in the manufacturing sector.

Of course, some of this reflects the drop in primary processing as a consequence of the early-2010 drought,





but there also appeared to be weakness elsewhere despite reasonable looking PMI reads through the quarter. We await the final verdict on Q2 manufacturing production when GDP is published on 23 September.

Through all the wiggles and wobbles in the data, the trends put the manufacturing sector at some sort of crossroads. Momentum has stalled. But which way next? With the PMI oscillating 50, the sector is sitting on the cusp. But on the cusp of what exactly? Another downturn, a bump in a slow and bumpy recovery, or a pause before a major push forward? We favour the middle scenario, as we have for some time now.

Sure, manufacturing activity still faces a significant headwind from the slump in building intentions, as measured by consented floor space. Not that you would have known judging by the very strong lift in both residential and non-residential building work done in Q2. Still, consented non-residential building floor space has plummeted over recent quarters, offsetting a mild lift in the equivalent for residential buildings. Non-food manufacturing activity as a whole tends to closely follow building construction. Indeed, it is the building-related components of the PMI like non-metallic mineral product and metal product manufacturing that are the most

negative at present. These have been part of the overall dip in the PMI over recent months.

We will be watching the PMI closely over coming months to detect any impact from Canterbury's earthquake. Over time, we anticipate an improvement on a lift in demand as the repair and reconstruction of damaged property gets into full swing. But there was nothing in this month's survey in this regard. No surprise given that the survey asked about conditions through to August, even though the survey was conducted after the 4 September earthquake. Also of no surprise was the fact that the two respondents that did mention the earthquake this month noted it was the major negative influence on their business.

There are other positives around including a favourable NZD/AUD crossrate and robust Australian economic growth. Also, a recovery in agricultural production from last summer's drought should help primary processing down the track. So while momentum in manufacturing has clearly stalled for the time being, we anticipate some improvement as we move into 2011 if not before.

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