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

Mix brings steady expansion for manufacturing

BNZ - BusinessNZ PMI for August 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for August stood at 52.9, which was down 0.3 points from July, and the third consecutive drop in expansion levels. However, the August figure represents a continuation of overall results within a very narrow band since November 2010.

- Despite the dip in expansion, four of the five seasonally adjusted main diffusion indices were still in expansion during August. *Deliveries* (55.8) led the way with a result similar to June 2011, followed by *new orders* (54.3). Encouragingly, *production* (53.7) increased 1.2 points from July 2011, while *finished stocks* (52.3) also displayed a rise. *Employment* (49.2) was the only main sub-index to fall below 50, with its lowest result since December 2009 (49.1).

- Unadjusted results by region showed the South Island in better heart during August. The *Otago/Southland* region (61.8) led the way with its first expansionary result since January this year, and also led the way for all regions in August. The *Canterbury/Westland* region (57.2) built on its solid result in July, with three of the last four months showing expansion levels over 56. The *Northern* region (51.5) continued to slip with its lowest result since January 2011, while the *Central* region (49.9) also fell to a level of almost no change for August.

- Manufacturing by industry sub-groups were mainly in expansion during August, with a notable exception: The *petroleum, coal, chemical & associated products* sector (38.2) experienced its third consecutive fall in activity, with a figure at its lowest point since May 2009. This is mainly due to decreased production and orders for their sector. At the other end of the scale, metal product manufacturing (59.6) experienced its highest result since November 2010.

- Although expansion dipped slightly in August, there was a significant fall in the proportion of negative comments by respondents for the current month (45.8% compared with 54.2% for July and 52.2% for June).

Inside BNZ Commentary this Month (page 3)

Bank of New Zealand's Economist, Doug Steel, notes the dangers of drawing general conclusions from partial data in an economy that has many moving parts. This follows from the widening variation in the detail of the PMI compared to the remarkably steady headline results.

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 52.9 for August, slightly down on the July result.

Four of the five main indices recorded expansion, led by deliveries.

Unadjusted regional activity showed a return to expansion for the Otago/Southland region.

Despite the slight dip in expansion, the proportion of negative comments by respondents fell significantly.

Next BNZ - BusinessNZ PMI:
13 October 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)

BNZ-BusinessNZ PMI

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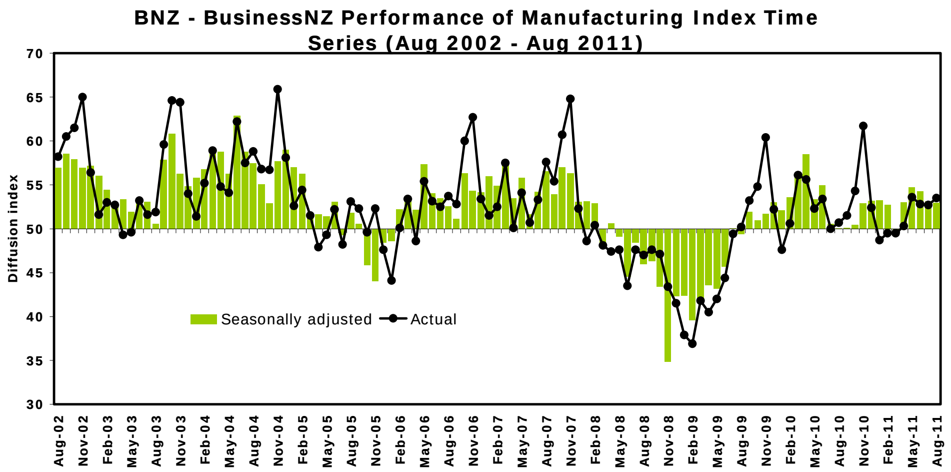
pmi



August time series tables

National Indexes	Aug 2006	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011
BNZ - BusinessNZ PMI (s.a.)	52.5	56.6	46.0	49.4	50.0	52.9
Production (s.a.)	52.5	60.1	42.9	48.9	51.7	53.7
Employment (s.a.)	49.1	50.5	44.8	47.2	51.6	49.2
New Orders (s.a.)	56.5	59.1	46.0	52.6	49.4	54.3
Finished Stocks (s.a.)	50.6	53.3	50.5	47.2	47.3	52.3
Deliveries (s.a.)	49.8	55.2	49.8	49.5	49.9	55.8

National Indexes	Aug 2006	Aug 2007	Aug 2008	Aug 2009	Aug 2010	Aug 2011
BNZ - BusinessNZ PMI (s.a.)	52.5	56.6	46.0	49.4	50.0	52.9
Northern	52.5	56.8	48.6	47.3	53.4	51.5
Central	53.5	58.1	45.9	52.3	46.9	49.9
Canterbury/Westland	55.7	59.3	43.9	56.4	52.0	57.2
Otago/Southland	58.2	56.9	48.9	48.2	44.7	61.8

(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

Otago/Southland (Otago Southland Employers Association): Otago, Southland.

15 September 2011

PMI Stays in Tight Range

- PMI remarkably steady
- Amid widening variation in the detail
- Overall trends are positive
- Consistent with our view for the broader economy

Through all the trials and tribulations of the past year, we have maintained the view that the NZ economy remains on an upward trend. We still hold to this view, despite the extreme volatility in global financial markets over recent months.

That is not to say we expect uniform progress, either through time, across regions, or among industries. Indeed, there will always be some degree of variation. Particularly so, when like recently, there are such strong and opposing forces pushing and pulling the economy.

The manufacturing sector reflects these broad themes, as can be seen in the PMI results.

First, at the headline level, the PMI again barely budged this month, coming in at 52.9 in August from 53.2 in July. This indicates growth. Moreover, the PMI has been in a remarkably tight range of less than 2 index points from April through to August – indicative of a positive underlying pulse in the manufacturing sector through the period.

We take encouragement from the fact that the PMI continues to sit above its long term average of 52.5. Especially as this is for the month of August, during which there was a sharp deterioration in global growth prospects.

Second, the remarkably stable headline PMI figures mask considerable variation in the detail. For example, looking across the major industries within the manufacturing sector shows a PMI range of 27 to 66.

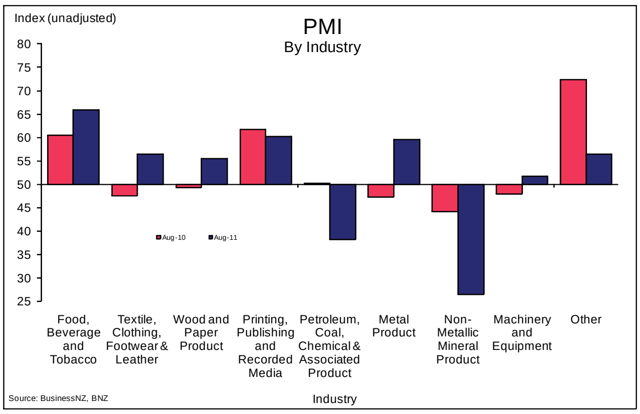
It is impossible to be precise about the drivers of one month's results, but in general, and judging by the flavour of respondent comments, industry performance reflects relative exposures to such influences as:

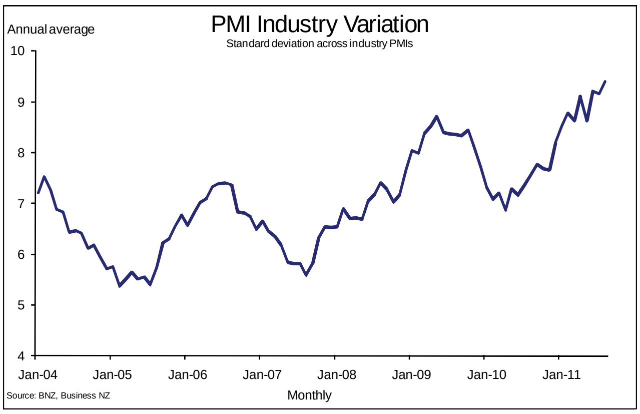
- The generally buoyant agriculture industry.
- The booming Australian mining sector.
- Extra demand stemming from the Rugby World Cup.
- The weak domestic construction industry, but positive outlook.
- The generally high NZD in either crimping exports or intensifying import competition.
- Christchurch and the many consequences of the earthquakes.

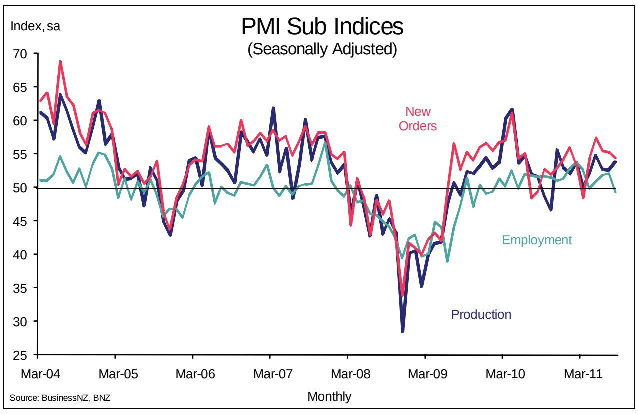
The above list of influences on the manufacturing sector is hardly exhaustive. But with this range of diverse and powerful drivers, many of which have been around for a while, it should come as no surprise that PMI variation across industries over the past year has been at its widest since the survey began back in 2002.

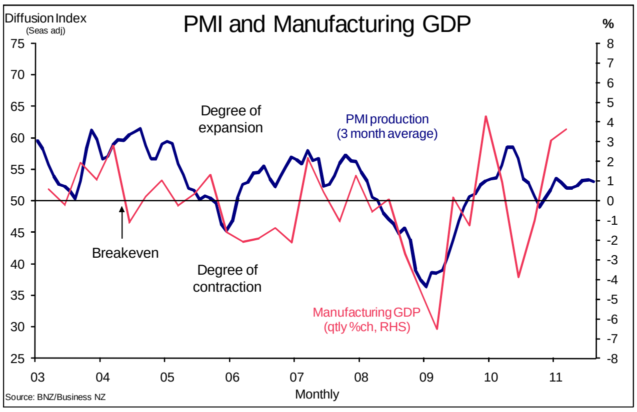
Clearly progress has not been uniform. It is in times like these one must be very wary of taking any one piece of information and extrapolating it to gain insight into the bigger picture.

This goes for the PMI sub-indices as well. The employment sub index dipped to 49.2 in August, from 52.1 in July. This hints at a degree of caution among firms through August, perhaps related to the jitters in world markets especially early in the month. However, it is premature to draw any firm conclusions on what this means for the way ahead.









We say this with an eye on the latest results from the Manpower employment survey released earlier in the week. Employment intentions across the economy in this survey have increased. A net 29% of firms intend to hire more staff in the quarter ahead, from a net 26% in the previous quarter. This net result reflects the combination of, both more firms intending to hire more staff, and fewer firms looking to reduce staffing levels.

The manufacturing sector was among the most optimistic, with the net employment outlook for the manufacturing sector at a net 33%, from +24% in the previous quarter.

This fits with the PMI production sub index edging a touch higher to 53.7 in August, from 52.5 in July. In addition, new orders are still buoyant 54.3, despite being a nudge down from 55.3 in July.

All this suggests that activity grew around the same rate through August and July. Overall, the positive underlying growth pulse remains intact.

This gives us confidence to stick with a positive outlook for manufacturing. That said, do not be surprised to see a mild negative contribution to GDP from the manufacturing sector in Q2 following a hefty positive contribution in Q1.

In fact, we think this will be the flavour for Q2 GDP overall. We expect a modest 0.2% expansion following the decent 0.8% increase in Q1. This might lead some to leap to the conclusion of a drastic slowdown in trend economic growth. This response might even be quite extreme if Q2 GDP dips a bit, as it well could.

Even though we are forecasting modest 0.2% Q2 GDP growth, we caution against reading too much into it. Likewise, a decent bounce in Q3 and Q4 GDP growth on account of the Rugby World Cup will need to be kept in perspective.

As illustrated above, in the current economic environment it pays not to put to much weight on any one number. Rather, we prefer to keep a close eye on the overall trends and especially the forward looking indicators. These are still encouragingly positive, on both counts.

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