

BNZ-BUSINESS NZ PMI

BNZ-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.

pmi

Manufacturing expansion gains further foothold in February

BNZ - Business NZ PMI for February 2010

- The BNZ - Business NZ seasonally adjusted PMI for February (53.3) increased 1.2 points from January to show a slow and steady improvement in manufacturing activity. Since expansion returned in September, activity has remained within a tight margin of only 2.8 points between the highest and lowest values.
- In a more positive trend since January all five seasonally adjusted main diffusion indices displayed expansion, with *production* being up 1.2 points (53.4), *employment* up 1.8 points (51.8), *new orders* remaining constant (56.1), *finished stocks* in expansionary territory for the first time since December 2008 (50.3) and *deliveries* up from January at 52.9.
- While the overall seasonally adjusted result was in expansion, the unadjusted results showed all regions in decline during February, apart from Canterbury (59.2) which has bounced back with an expansion of 9.5 points ahead of January. Of the regions that are still in contraction, they are all in a better position than they were in January, apart from Central which is on much the same level of activity (48.3).
- Manufacturing by industry sub-groups was a mix of expansion and contraction during February. The categories experiencing expansion included *metal product manufacturing* (54.9) and *machinery & equipment manufacturing* (52.4), with employment levels in the former also in expansion mode. Of those in contraction, the *petroleum, coal, chemical & associated product* sector (47.7) improved from the previous month.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for February (55.2) displayed a slight easing from January (56.1), but it is still the second highest reading in almost four years. The USA PMI (56.5) also eased back slightly by two points, while the Australian PMI (53.8) headed further into positive territory.
- The proportion of negative comments made by respondents swung upwards in February to two thirds, compared to 54.7%, in January, with slow sales and a lack of new orders being common themes.

The BNZ - 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 continues with expansion in the manufacturing sector.

All five main indices recorded expansion.

Unadjusted regional activity was in decline throughout the country apart from Canterbury.

The global manufacturing scene is still at its second highest reading in almost four years.

***Next BNZ - Business NZ PMI:
15 April 2010***

SPONSOR STATEMENT

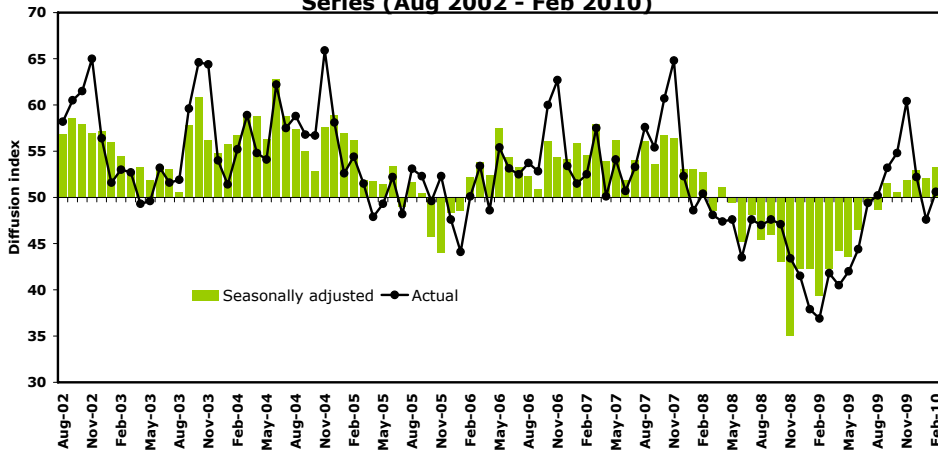
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business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

BNZ-BUSINESS NZ PMI

BNZ-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.

pmi

BNZ - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Feb 2010)



February time series tables

National Indexes	Feb 2005	Feb 2006	Feb 2007	Feb 2008	Feb 2009	Feb 2010
BNZ - Business NZ PMI (s.a)	56.2	52.2	54.6	52.7	39.3	53.3
Production (s.a)	57.8	54.0	54.4	53.2	35.0	53.4
Employment (s.a)	52.9	48.8	53.3	48.7	40.0	51.8
New Orders (s.a)	58.7	53.3	56.9	55.1	39.6	56.1
Finished Stocks (s.a)	51.0	50.0	51.7	52.9	47.9	50.3
Deliveries (s.a)	56.0	52.2	54.3	53.3	41.0	52.9

National Indexes	Feb 2005	Feb 2006	Feb 2007	Feb 2008	Feb 2009	Feb 2010
BNZ - Business NZ PMI (s.a)	56.2	52.2	54.6	52.7	39.3	53.3
Northern	53.8	46.8	52.3	48.9	33.2	49.1
Central	51.0	49.1	53.0	48.9	38.7	48.3
Canterbury/Westland	63.1	59.4	51.4	57.0	41.5	59.2
Otago/Southland	51.0	48.9	53.9	52.4	44.5	49.5

(s.a denotes seasonally adjusted)

The BNZ - 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.

11 March 2010

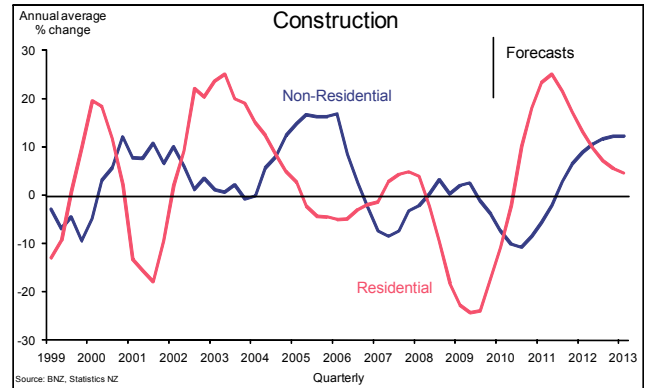
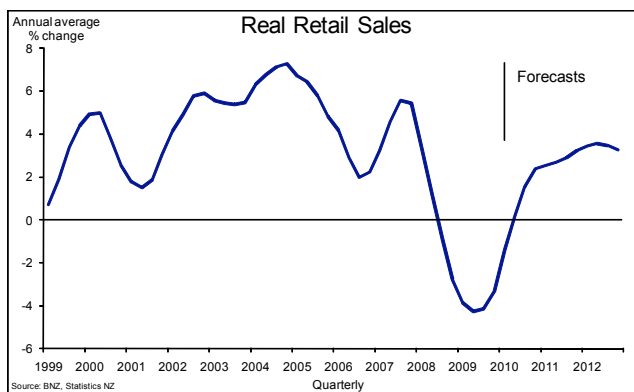
Data Support Manufacturers' Hopes

- Retailers' stocks in decline
- Residential construction turns the corner
- Non-residential remains problematic
- Exporter environment continues to improve
- NZD/AUD weakness a boon

Latest economic data, by and large, support the optimism expressed in the February PMI. These data also corroborate our basic tenet that the broader macro economic environment is on the improve assisted by the positive lagged impact of easy monetary and fiscal policy, relatively strong net migration inflows, improving dairy sector output, the inventory cycle and continued improvement in expectations for trading partner growth.

At face value one of the weaker links in the economy is domestic household spending. While ex-auto retail sales volumes rose 1.3% through the December quarter of last year much of this was driven by heavy discounting rather than a genuine upswing in demand. Moreover, nominal sales in the month of December actually fell 1.8%. To cap things off Electronic Card Transactions data for February indicate retail sales may have contracted in that month also.

However, even this relatively soft current picture offers some optimism for manufacturers. While discounting is not great news for anyone, the fact that retail stock-to-sales ratios continue to decline is a positive for future manufacturing supply into the domestic market. Moreover, we still stick to our view that household spending is on a slow trend improvement. We are forecasting that retail sales volumes (ex-auto) will be 2.7% higher in calendar 2010 than in 2009 and a further 3.2% up in 2011.

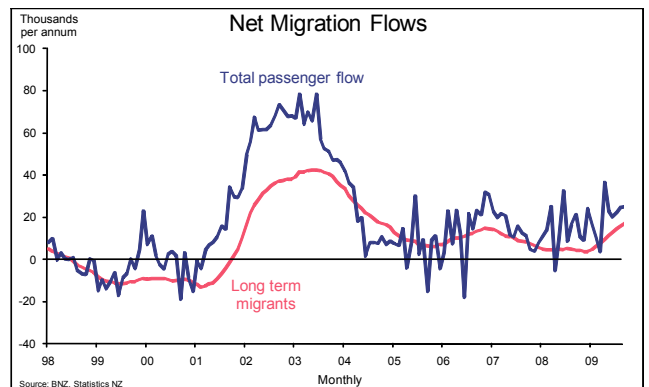


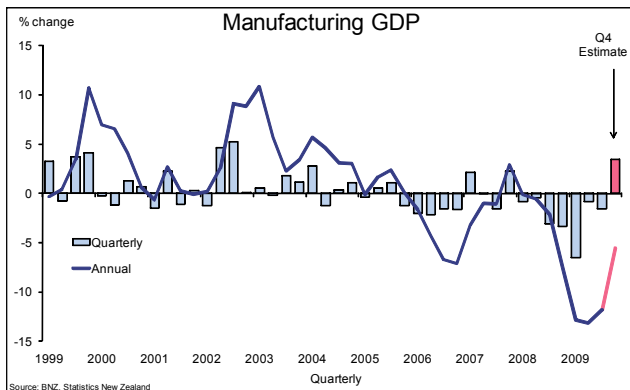
Residential construction has been one of the very weak spots in the economy but, now, work put in place data are beginning to reveal the turnaround in activity that the leading indicators have been foretelling.

Residential construction rose 7.4% in the fourth quarter of 2009 – the first meaningful increase since Q3 2007. With approvals for new dwelling permits running roughly 25% ahead of year earlier levels more of the same can be expected.

In large part this is being driven by strong net migration inflows. In the year to January 2010 a net inflow of 22,800 people was recorded. While strength in the Australian economy will soon act as a drag on this figure, there is little sign yet of the inflows abating.

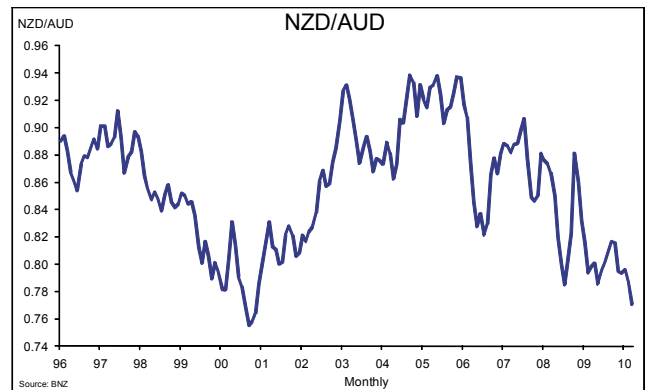
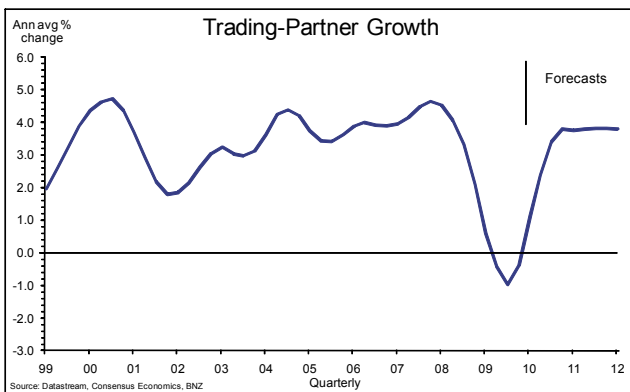
While a recovery in building is cause for optimism we are quick to note that activity levels now are just 63% of their Q2 2004 peak. Moreover, while residential construction may be on the improve there is no evidence that non-residential will turn the corner any time soon given the





degree of spare capacity currently in the New Zealand economy. Non-residential activity fell 6.8% in Q4 to be 16.8% down on year earlier levels.

The really positive news for manufacturers continues to come from the export sector. Dairy, wood and fuel exporters appear to be faring particularly well at the moment though, more generally, exporters into Australia continue to benefit from a resurgent Australian economy and the very weak NZD/AUD cross rate, which has plumbed lows not seen since November 2000.



The strength in the export base showed through in December's Economic Survey of Manufacturing. We had thought this survey would reveal an increase in real output of around 1.5%. However, by our calculations the actual increase is more like 3.5%. If we are right, manufacturing will, for the first time in two years, prove to be a major contributor to GDP growth.

More generally, it is notable that expectations for global growth continue to be raised. The world is now expected to expand 2.6% in calendar 2010, a significantly more robust expansion than the 1.9% view when forecasters were at their most pessimistic. An even stronger expansion of 3.1% is foretold for 2011. The news for New Zealand exporters is even better in that our trading partner basket is heavily influenced by Asia and Australia. Trading partner growth is thus expected to average 3.8% per annum over the next three years – a far cry from the 0.4% contraction reported for calendar 2009.

All in all then, while conditions are still far from rosy, it looks to us that the cautious optimism expressed in today's PMI is very much warranted.

stephen_toplis@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

Danica Hampton
Senior Strategist
+(64 4) 472 4767

Mike Jones
Strategist
+(64 4) 472 4767

Main Offices

Wellington
60 Harbour Quays
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
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) 9237 1406

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

Wellington
Foreign Exchange
Fixed Income/Derivatives

+800 642 222
+800 283 269

Sydney
Foreign Exchange
Fixed Income/Derivatives

+800 9295 1100
+(61 2) 9295 1166

London
Foreign Exchange
Fixed Income/Derivatives

+800 333 00 333
+(44 20) 7796 4761

New York
Foreign Exchange
Fixed Income/Derivatives

+1 800 125 602
+1877 377 5480

Hong Kong
Foreign Exchange
Fixed Income/Derivatives

+(85 2) 2526 5891
+(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

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 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 NAB), 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. 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 Bank of New Zealand 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 nabSecurities, 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 nabSecurities, 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 nabSecurities, 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.

National Australia Bank Limited is not a registered bank in New Zealand.