

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.



## Jumping Jack Frost

### BNZ - BusinessNZ PMI for May 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for May stood at 55.7, which was 7.5 points up from April and a return to levels of activity seen in February/March. Compared with previous May results, the 2012 value was the highest since 2006.
- The increase in overall activity meant all five seasonally adjusted main diffusion indices also showed expansion in May. This was led by *production* (58.8), followed by *new orders* (57.3), which combined make up the greatest weight of the overall result. *Employment* (52.2) experienced a small increase in expansion from April, and remains in a tight band of activity that has continued for five months. *Deliveries* (52.7) bounced back into expansion, while *finished stocks* (50.5) experienced all but no change from April.
- Unadjusted results by region showed activity picking up in parts of the country during May. The *Northern* region (58.8) rebounded strongly from April's result to its highest value since November 2010. Conversely, the *Central* region (44.5) dropped to its lowest result since the end of last year. The *Canterbury/Westland* region (61.3) picked up strongly on the back of strong sales and business building better momentum. The *Otago/Southland* region (50.0) recovered to the no change mark after three months in decline.
- Manufacturing by industry sub-groups produced some strong results for May. *Petroleum, coal, chemical & associated products* (63.1) and *Machinery & equipment manufacturing* (60.1) both posted results over 60 for the first time in some months, while *metal product manufacturing* (52.7) recovered from a decrease in activity in April to return to a similar value in March.
- The improvement in activity also led the proportion of positive comments increasing from 42.1% in April to 55.1% in May. Positive comments continued to mention Australia as a prime export market, while a number could not identify a main influence – rather an overall steady increase in activity from various facets of their business. Globally, the JPMorgan Global Manufacturing PMI stood at 50.6 for May, which was its lowest result in five months.

*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 55.7 for May, up 7.5 points from April.***

***All five main indices were in expansion, with production and new orders leading the way.***

***Unadjusted regional activity was in expansion in the Northern and Canterbury/Westland regions.***

***Next BNZ - BusinessNZ PMI:  
12 July 2012***

#### **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.*

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#### ***Inside BNZ Commentary this Month (page 3)***

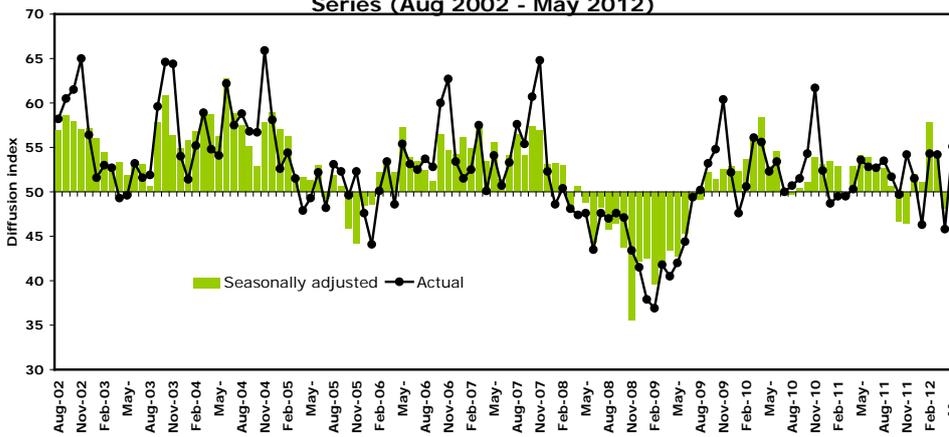
BNZ Economist Doug Steel finds the recent trends in the PMI as supportive of GDP growth through the first half of 2012. But given the obvious risks from Europe at present, he suggests now is not the time to count any chickens despite finding some hints of improvement in expected areas of strength ahead.

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# pmi

**BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - May 2012)**



### May time series tables

National Indexes	May 2007	May 2008	May 2009	May 2010	May 2011	May 2012
BNZ - BusinessNZ PMI (s.a.)	55.6	48.8	42.7	52.9	54.1	55.7
Production (s.a.)	55.7	46.9	41.3	53.0	54.0	58.8
Employment (s.a.)	50.1	48.0	44.0	49.7	50.8	52.2
New Orders (s.a.)	57.4	48.3	41.4	53.4	56.2	57.3
Finished Stocks (s.a.)	56.8	50.0	45.8	51.9	49.3	50.5
Deliveries (s.a.)	53.9	49.6	41.7	54.6	55.5	52.7

National Indexes	May 2007	May 2008	May 2009	May 2010	May 2011	May 2012
BNZ - BusinessNZ PMI (s.a.)	55.6	48.8	42.7	52.9	54.1	55.7
Northern	49.8	44.1	43.2	48.3	52.3	58.8
Central	54.8	52.8	36.1	52.3	57.1	44.5
Canterbury/Westland	58.0	48.2	48.4	57.6	57.7	61.3
Otago/Southland	61.9	51.8	36.4	58.5	45.3	50.0

(s.a. denotes seasonally adjusted)

The BNZ - BusinessNZ PMI contains data obtained through BusinessNZ'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 June 2012

## Manufacturing More in May

- Manufacturing bounces strongly in May
- Domestic demand one likely driver
- While easing currency headwinds help a bit too
- Hints of more growth ahead
- Amid obvious global risks

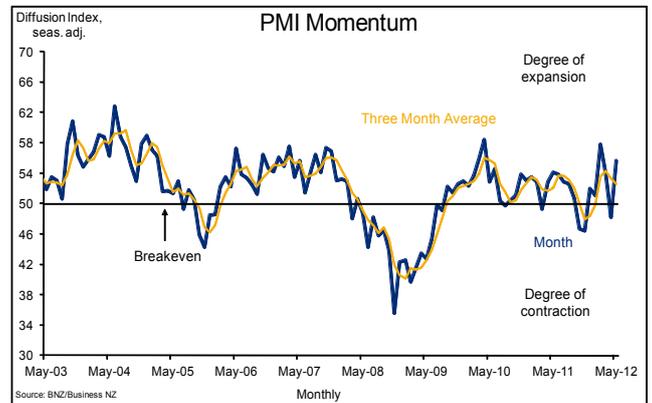
Despite growing concerns about what may or may not happen in Europe, domestic economic indicators continue to point to growth here at home. Sure, it is not particularly fast growth and the indicators remain as volatile as we have become accustomed to over recent times, but there is still clear underlying progress being made.

No doubt this could change if economic and financial conditions were to turn very nasty in Europe. Businesses seem well aware of the risk it could get much worse on the other side of the world with flow on effects here. Indeed, it appears this has dented general confidence a bit, according to other surveys. Fair enough too. These risks are real and need to be acknowledged.

But it is within this backdrop that makes the very strong rebound in May's PMI all that much more encouraging. While general confidence has been knocked back a bit, there is no evidence to date that this has translated into lower levels of activity.

In fact, it seems quite the opposite judging by the big lift in May's PMI to 55.7. After all, the PMI is a survey of business outcomes, not of confidence or expectations. At face value, May's PMI result indicates growth that is bordering on strong. That might well have been the case for May, coming off what looked like a softer April (Easter timing effect?). Still, we caution against getting too carried away with the degree of strength implied by the May result, just like we did not take the dip in April as the harbinger of a new downtrend. Much more important is that the balance of recent results adds to evidence that the economy is still moving forward even if the exact pace of underlying expansion is difficult to pin down through the month-to-month volatility.

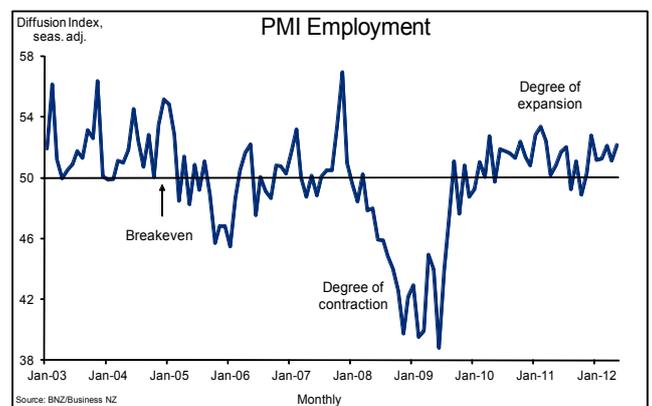
It will be well worth keeping an eye on the gap between confidence and activity measures ahead. We would not be surprised to see, in the likes of the NBBO survey towards the end of the month, confidence being tainted by uncertainty in Europe, but firms' own activity and employment expectations remaining robust. Of course,



if pessimism persists or substantially deepens on, say, escalating European problems, this could ultimately affect real activity. We are not there yet.

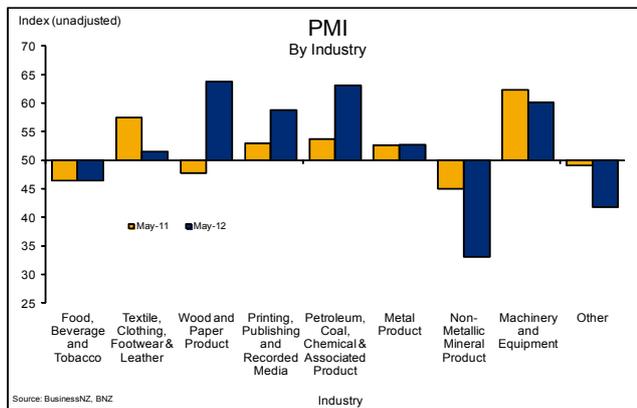
May's strong PMI result confirms a decent rebound from the dip in April and it shows activity has not been dented like general confidence. While improvement is far from uniform, there are a few hints of forecast growth drivers starting to appear. It is certainly enough to keep our long held view in tact that the manufacturing sector is on a mildly positive trend.

Despite the volatility in the headline PMI figures, one important indicator has remained relatively stable and moderately positive. The employment index pushed just over a point higher in May, to sit at 52.2. This is the seventh consecutive month this component has been above the 50 mark, indicating expansion of the manufacturing workforce. Another pointer to the underlying recovery we think is occurring in the sector as a whole.



There were some other heartening aspects in the May PMI details too. The overall improvement was driven by very strong gains in new orders and production. While it is difficult to be sure of the underlying reasons, previous gains and further signs of improvement in the housing market off a low base along with the associated durable spending will be helping demand for manufactured goods.

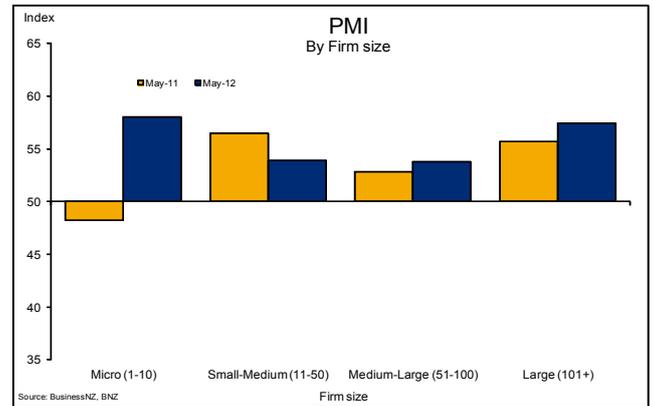
House sales and building consents have already increased markedly from their lows. Construction is set to follow with downstream benefits to manufacturing. We wonder if the large lift in the wood and paper product industry in May's PMI is a sign of things to come in this regard. Sure it is just one strong month after a prolonged period of general weakness, so could yet prove to be a rogue result. But, at 63.8, it is the strongest monthly PMI reading for this industry since 2003 so it would be foolish to discount completely. It is one hint of the much anticipated pick up in construction starting to come through.



A pullback in the NZ dollar from its April heights will have been welcomed by exporters and those competing with imports. Not that the current overall level of the currency is likely to be considered helpful by manufacturers, but at least it has become a little less unhelpful.

Micro firms (10 or less employees) have often had the lowest PMI readings, particularly during the slow recovery period. In this context it is interesting to note a very strong

lift in this segment in May, to a hearty 58.0. This might just be a hint to a broadening of recovery and would fit with some improvement in domestic demand. Of course, any strong conclusion on this would be premature, especially given it is just one month and follows a dismal April reading of 40.3. Still, it's encouraging and makes June's result worth keeping tabs on.



There is also a hint of improving activity in Canterbury, with the region's PMI leading the regional stakes at 61.3. Again, it is early days and it follows a reading of 42.2 so difficult to fully trust as an indicator of genuine and ongoing strength. Still, it is Canterbury's strongest PMI reading since late 2007. Time will tell if this is a signal of the much anticipated rebuilding effort generating activity in the local manufacturing sector.

While there are some hints of the expected future domestic growth drivers appearing, we are not counting any chickens. Not with such large international risks still lurking. For now, what we do know is that the recent PMI results indicate that the manufacturing sector looks set to make decent positive contribution to Q2 GDP growth, following what we think will also be the case for Q1 when the official numbers are published next Thursday.

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