

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 in November finally in expansion

BNZ - BusinessNZ PMI for November 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for November (52.7) has continued an improving trend from October and is now in expansion across all five indices, which is much more positive than the flatness of the previous three months.
- All of the five seasonally adjusted main diffusion indices are now in expansion, with *employment* (50.7) *new orders* (52.3), *deliveries* (57.4), *production* (55.4) and *finished stocks* (51.3).
- Unadjusted results by region showed an improvement in activity levels for all regions. The *Northern* region was up 5.2 points (61.5), *Central* region up 5.8 points (60.6), *Otago/Southland* region was up 12.3 points (66.0), while *Canterbury/Westland* seems to have rebounded from the effects of the earthquake and was up 11.5 points (61.0).
- Manufacturing by industry sub-groups also moved firmly into expansion territory in November. The categories experiencing the strongest expansion again included *food, beverage & tobacco* (60.3) *petroleum, coal, chemical & associated products* (61.0) *metal product manufacturing* (63.2), while *machinery & equipment manufacturing* was up 7.3 points (63.9). *Wood & paper product manufacturing* moved from contraction last month to expansion this month, going up 7.7 points (55.5). *Textile, clothing, footwear and leather manufacturing* made it into expansion territory in November on 52.2 points.
- The comments about market conditions showed the proportion of positive comments (53.1%) outnumbering the number of negative comments (46.9%) for the first time in about three months. Positive comments focused mainly on seasonal (Christmas demand), and a favorable exchange rate and good demand from Australia. Negative comments were about the slow NZ market, a quiet building industry and the NZ dollar being too high.
- The Australian manufacturing sector was more subdued than New Zealand and slightly in contraction on 47.6, but the JPMorgan Global Manufacturing PMI shows the large nations are all in expansion mode, including China, US, Germany, UK, France and India. Countries experiencing manufacturing weakness include Spain, Greece, Ireland and Japan.

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 has finally made it into expansion, moving away from the flatness of the last three months.

All of the five main indices recorded expansion, including new orders.

Unadjusted regional activity shows all regions are in expansion now, and have stronger expansion than last month.

The proportion of positive comments outnumbers the negative comments, which is a turnaround from last month.

Positive comments relate to the favourable exchange rate and demand from Australia, along with a seasonal increase in demand.

**Next BNZ - BusinessNZ PMI:
20 January 2011**

SPONSOR STATEMENT

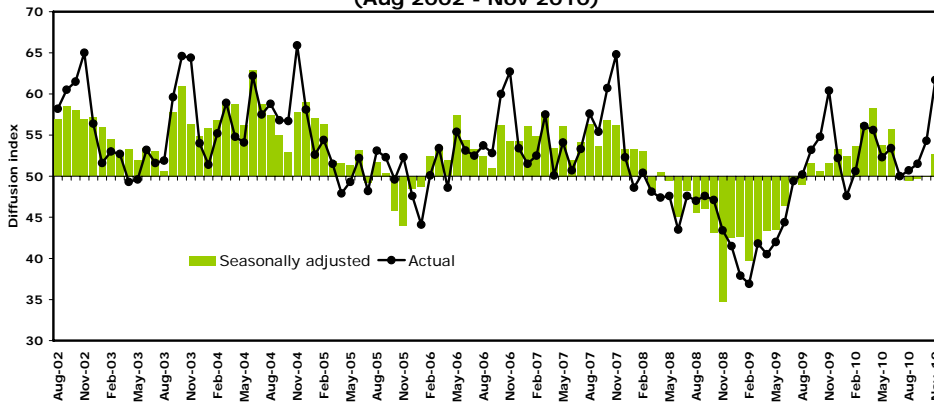
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

BNZ-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

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



November time series tables

National Indexes	Nov 2005	Nov 2006	Nov 2007	Nov 2008	Nov 2009	Nov 2010
BNZ - BusinessNZ PMI (s.a)	44.0	54.2	56.2	34.7	51.5	52.7
Production (s.a)	42.8	56.9	57.5	28.3	52.9	55.4
Employment (s.a)	46.7	50.5	56.6	39.3	50.1	50.7
New Orders (s.a)	43.6	56.1	57.9	33.4	55.4	52.3
Finished Stocks (s.a)	49.5	54.6	53.6	48.0	47.1	51.3
Deliveries (s.a)	43.5	55.9	56.9	37.5	50.6	57.4

National Indexes	Nov 2005	Nov 2006	Nov 2007	Nov 2008	Nov 2009	Nov 2010
BNZ - BusinessNZ PMI (s.a)	44.0	54.2	56.2	34.7	51.5	52.7
Northern	50.7	63.1	59.7	41.6	62.9	61.5
Central	57.7	61.5	63.1	43.8	58.9	60.6
Canterbury/Westland	54.3	64.3	71.8	43.4	54.4	61.0
Otago/Southland	46.5	61.8	70.2	51.6	61.9	66.0

(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 December 2010

PMI Questions Degree of Manufacturing Slump

- Q3 manufacturing statistics surprisingly bad
- Flattening our GDP expectations something awful
- But how badly is the manufacturing sector doing, really?
- When its non-food exports are booming
- And the PMI has held up, and strengthened in November

Just how badly has New Zealand's manufacturing sector been doing of late? Judging by the September quarter manufacturing survey, published a couple of week's ago, very badly indeed. It registered a further drop in real (inflation-adjusted) sales, to an eleven-year low. And the lack of rebound in non-food inventories implied a further decline in output, following the big drop recorded in Q2 manufacturing GDP.

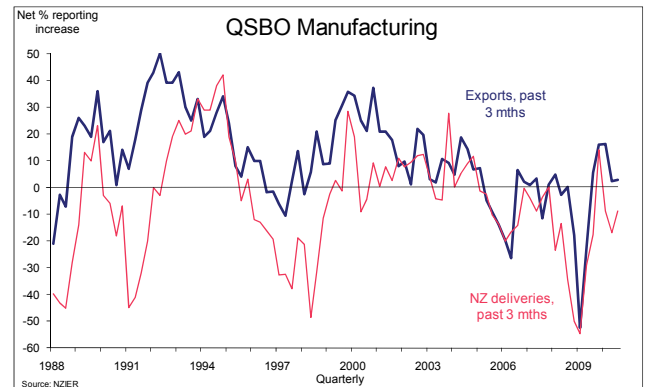
The headline survey results have been by far the biggest reason for us revising our Q3 GDP estimate down to dead flat, from the 0.5% we had on the board initially. We had the impression that Q3 manufacturing would post a bit of a rebound, having fallen so much in the Q2 GDP accounts – something we judged to be accentuated by the 2009/10 late-summer drought and the way this would have hit agricultural processing with a lag.

The Q3 survey statistics severely questioned our belief of such a bounce-back. Indeed, as mentioned, they pointed to a further decline.

But is there still a chance that the actual manufacturing results are not all that dreadful in the GDP, thus keeping the overall Q3 result positive? We say this having not had any of the usual warning signals, about a further big drop in manufacturing output through the September quarter (the way we did do early in the recession) and having seen a number of other manufacturing-related statistics that have actually proved to be robust in Q3.

In respect to the warning signals, we note that none of the main business surveys suggested there had been a further slump in manufacturing activity during the September quarter. The National Bank of New Zealand monthly survey component, for instance, maintained a trend-like performance through the period.

Sure, October's Quarterly Survey of Business Opinion (QSBO) looked a little soft, with its reported domestic deliveries for the past three months at -9 for manufacturers. However, this is around about the average of the last couple of decades, so nothing out of the ordinary, and compares to the -50 type readings

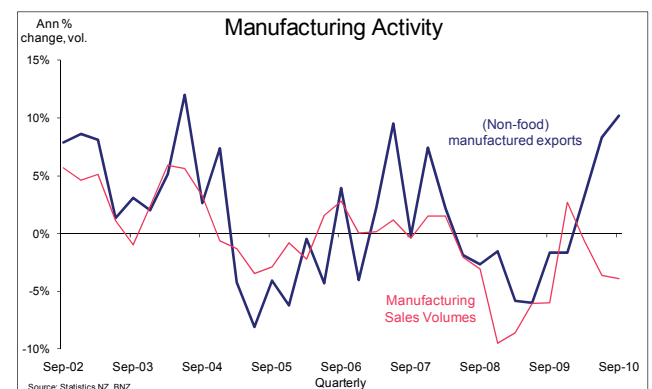


in 2008/09, when manufacturing output was in its slump proper.

The QSBO reading on manufactured export sales was a bit below normal, as it related to 2010 Q3, but not by much.

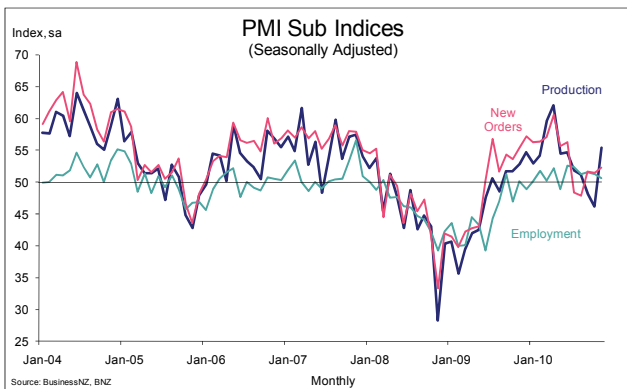
In any case, we have since seen evidence of quite buoyant manufactured exports for the September quarter. This was most evident in the Overseas Trade Indexes, which chronicled a 4.1% increase in non-food manufactured export volumes for 2010 Q3. Following a 3.5% expansion in Q2, this boosted annual growth to 10.2%. This does fit with the range of upbeat manufactured export indicators from the various business surveys, but not the 3.9% fall in real sales, as per the quarterly manufacturing survey.

The Performance of Manufacturing Index (PMI) is another to suggest the manufacturing sector has been hanging in there better than the quarterly manufacturing survey seems to indicate. Yes, only just, with the seasonally adjusted PMI having pretty much flat-lined over the



July-October period, having reached a strong peak, of 58.2, back in April. However, its readings of late have been nowhere near the super-contraction levels experience over late-2008 and the first half of 2009.

Granted, the production component of PMI did slip into the red through the course of the September quarter, but only moderately so. In any case, it has bounced noticeably in November, to 55.4. This, along with a jump in deliveries, to 57.4, has been instrumental in pushing the overall PMI up to 52.7, from October's survey result of 50.0.



New orders, meanwhile, kept edging further to the right side of 50, with 52.3, having plumbed a low point of 47.9 in August. The laggard was employment, although this did manage to keep the right side of 50.0 too, with its 50.7 in November.

The latest PMI, readings from other business surveys, and export statistics, thus call into question the degree of slump in manufacturing output that has been suggested by the Q3 manufacturing sales and inventory statistics. Statistics NZ will, of course, be publishing its verdict on manufacturing production in next Thursday's Q3 GDP. It promises to be the swinger on the overall result, with the rest of the GDP components, as a whole, offering no clear directional signal.

craig_ebert@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

Mike Jones
Strategist
+(64 4) 924 7652

Main Offices

Wellington
60 Waterloo Quay
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.