

BNZ CAPITAL-BUSINESS NZ PMI

BNZ Capital-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. BNZ Capital is a division of the Bank of New Zealand.

pmi

Long time between drinks for manufacturing activity

BNZ Capital - Business NZ PMI for September 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for September (51.7) rose 2.9 points from August to record the first overall level of expansion in the sector since April 2008. The September 2009 result was also the highest value since February 2008, and the highest September result since 2007.
- Four of the five seasonally adjusted main diffusion indices displayed expansion. *New orders* (56.3) again led the way with its highest result since November 2007, while *production* (51.6) bounced back from a decline in August to record its highest level since April 2008. *Employment* (51.2) displayed positive growth for the first time since January 2008, and a significant boost on the record lows experienced throughout 2009. *Deliveries of raw materials* (51.1) continued to improve with expansion for the current month, while *finished stocks* (44.4) was the only sub-index continuing to show decline.
- Unadjusted activity for September showed expansion for all regions for the first time since November 2007. Otago/Southland (58.7) led the way with a significantly improved result from the previous 8 months. The Northern region (52.8) recorded its first expansionary result since December 2007, while the Central region (50.7) dropped 1.6 points from August. The Canterbury/Westland (53.3) region also fell back from the previous month, but continued a run of three consecutive expansionary results.
- Manufacturing by industry sub-groups were largely expansionary in September, with some significant differences between sub-groups. The *food, beverage & tobacco* sector (60.1) continued to show significant gains with a 3.8 points rise to again record the highest expansion for the month. The *petroleum, coal, chemical & associated products* sector (55.5) recovered sharply from the August result, with a result only marginally below the July value. *Metal product manufacturing* (48.0) remained largely unchanged from August, while *machinery & equipment manufacturing* (49.1) improved on the July/August results.
- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for September (53.0) was slightly ahead of the New Zealand result. The USA PMI (52.6) remained largely unchanged from August, while the Australian PMI (52.0) continued to track upwards with expansion, and a similar result to New Zealand.
- Although the September result showed expansion after 16 months of contraction, the proportion of negative comments made by respondents remained largely unchanged (60.6%), compared with 60% in August, 59.9% in July and 67.0% in June.

The BNZ Capital - 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 showed expansion for the first time since April 2008.

Four of the five main indices recorded expansion, with employment showing slight expansion after 19 months of contraction.

Activity was expansionary across all regions.

The global manufacturing scene showed ongoing recovery, while Australia's was similar.

Next BNZ Capital - Business NZ PMI: 12 November 2009

SPONSOR STATEMENT

BNZ Capital 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 Capital. 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 Capital is a division of Bank of New Zealand Ltd.

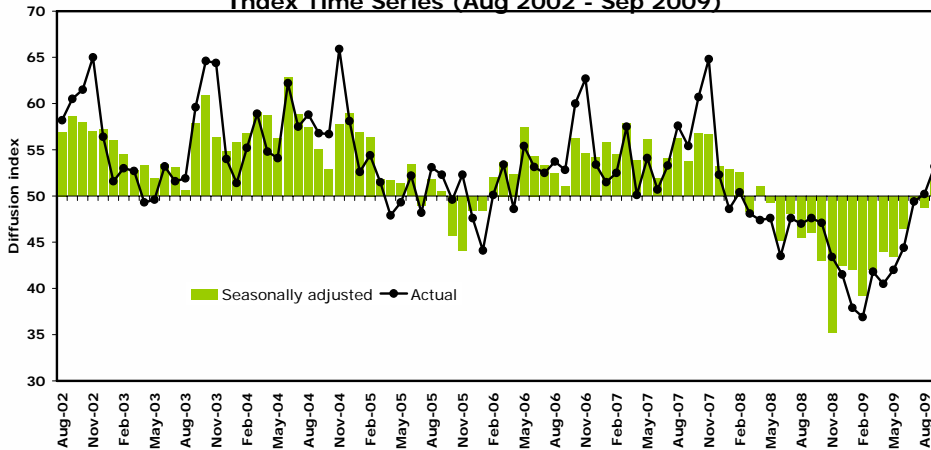
BNZ Capital (www.bnzcapiital.co.nz)

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BNZ Capital - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Sep 2009)



September time series tables

National Indexes	Sep 2004	Sep 2005	Sep 2006	Sep 2007	Sep 2008	Sep 2009
BNZ Capital - Business NZ PMI (s.a)	55.0	50.5	51.0	53.8	46.1	51.7
Production (s.a)	56.0	50.9	50.3	53.6	44.7	51.6
Employment (s.a)	52.8	48.9	48.6	50.4	44.0	51.2
New Orders (s.a)	58.3	54.0	55.4	56.8	48.7	56.3
Finished Stocks (s.a)	52.9	49.3	50.9	55.8	49.6	44.4
Deliveries (s.a)	54.1	50.9	52.4	56.0	47.1	51.1

National Indexes	Sep 2004	Sep 2005	Sep 2006	Sep 2007	Sep 2008	Sep 2009
BNZ Capital - Business NZ PMI (s.a)	55.0	50.5	51.0	53.8	46.1	51.7
Northern	58.5	52.1	52.2	51.8	45.9	52.8
Central	54.3	53.1	50.0	51.7	46.2	50.7
Canterbury/Westland	54.9	46.7	54.2	62.6	51.6	53.3
Otago/Southland	62.3	59.8	60.6	66.9	53.9	58.7

(s.a denotes seasonally adjusted)

The BNZ Capital - 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.

15 October 2009

Currency Movements May Help Manufacturers

- Be careful making currency generalisations
- Australia key market for exporting manufacturers
- NZD/AUD well below long-term norms
- Higher NZD/USD encouraging cheaper imports
- Manufacturers rightly more optimistic

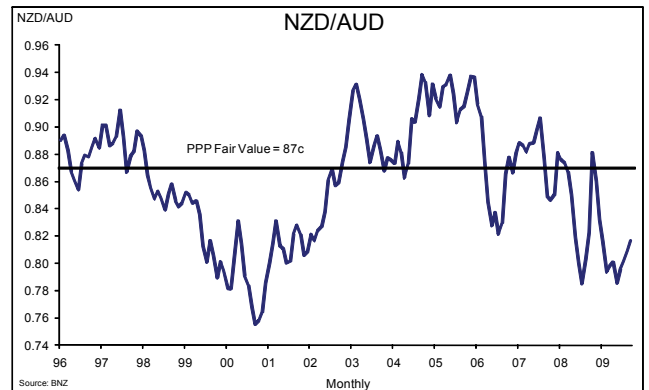
Given the almost relentless lift in the NZD during most of this year, and no sign of relief on the horizon, one might be tempted to conclude that New Zealand's export sector is facing some serious trouble. But while the higher exchange rate causing extreme anguish for some, a significant portion of our exporting base will be faring a good deal better than the rise in the USD (or TWI) might suggest.

Not all of our exporters are paid in US dollars, after all. And the TWI, by virtue of being an averaged exchange rate, masks the fact that exchange rates have actually moved in some exporters' favour, especially when one considers import prices are falling.

The clearest example is of those who send goods across the Tasman. Australia is New Zealand's single biggest export market, accounting for around 22% by value of total merchandise exports. For non-food manufactured goods, this proportion is higher still. What's more, the importance of Australia as an export market is growing, despite the significant inroads we have made into the emerging markets of Asia. Twenty years ago, Australia took only 17% of our exports.



As such, it is the NZD/AUD that remains of prime importance to many of our exporters, particularly manufacturers. And while the NZD/AUD cross has edged up over the course of this year, it has tended to trade broadly within a 78 - 82 cent range, well below the 85c average of the past decade, and the 87c we figure to be fair value, on a PPP basis.



In general, in fact, recent currency moves have been great news for manufacturers. Intermediate inputs are generally imported in US dollars and final sales are dominated by AUD receipts. With the NZD appreciating strongly, and NZD/AUD remaining fairly stable, manufacturers are becoming increasingly optimistic about their prospects.

There's a reminder in all of this, too, that the Australian economy is leading the pack of developed countries out of the global recession. In stark contrast to the likes of the US, the UK and Japan, all of whom have seen their economies shrink over the past year, year-on-year GDP growth in Australia has remained firmly in positive territory throughout the recession. From the 0.6% y/y expansion expected for the September quarter, growth is expected to lift to 3.0% by the end of 2010. That growth, and the import demand it will fuel, will prove a huge boon to New Zealand's exporters with a trans-Tasman focus. To quote Dr Bollard, we are the lucky neighbour.

Even for those exporters that do export in USD or GBP, for whom things aren't looking so rosy, we warn against making generalizations. Wine, fishing, leather and pelt producers seem to be amongst the worst hit of our exporters. Not only is the currency proving problematic but there are industry specific issues too. Wine is suffering from overproduction, fishing from catch constraints (notwithstanding the recent quota increase), and leather and pelt producers are facing fall out from diminished sales of top end cars and fashion products.

Dairy farmers and processors, however, are benefiting from rising commodity prices which have more than offset the currency impact and translated into a higher forecast dairy payout. With herds being reduced in the United States price gains look sustainable. Similarly, firm offshore sheep meat prices have helped counter the gains of the NZ dollar against the pound.

The overall message, then, is to be careful when making generalizations about NZ currency movements and inferring what that might mean for our exporters. In particular, we're of the view that the situation faced by our manufacturers, many of whom sell into a robust Australia economy in an environment of favourable exchange rate movements, is a good deal better than many folk appreciate.

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