

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 shows no spring in step for September

BNZ - BusinessNZ PMI for September 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for September (49.2) remained almost unchanged from August. However, it was 1.9 points down from September 2009, and the second consecutive month under the 50.0 mark of no change.
- Of the five seasonally adjusted main diffusion indices, three were in contraction, with *deliveries*, *production* and *finished stocks* ranging in value between 47.1 and 47.9. *Employment* (51.7) recovered somewhat from its drop in expansion during August, as well as bring close to its value for September 2009 (51.4). *New orders* (50.3) recovered from two consecutive months of contraction, although still nowhere near the consistent level of activity experienced from November 2009 to June 2010.
- Unadjusted results by region showed no significant change in activity levels for most regions. The *Northern* (53.7) and *Canterbury/Westland* (52.8) regions remained in expansion, with the later not showing any significant effects from the recent earthquake. The *Central* region (47.7) improved slightly from August, although remained in contraction for the current month. *Otago/Southland* (47.4) also experienced an improvement after a 3.6 point dip in August.
- Manufacturing by industry sub-groups continued to be a mixture of expansion and decline during September. The categories experiencing the strongest expansion included *food, beverage & tobacco* (62.8) that continued similar growth to last month. *Petroleum, coal, chemical & associated products* (57.2) improved significantly from August, while *machinery & equipment manufacturing* (50.6) went back into expansion after another improvement from the previous month. Of those in contraction, *Metal product manufacturing* (47.0) was mostly unchanged from August, while *wood & paper product manufacturing* (45.4) continued to slip.
- The comments about market conditions showed the proportion of negative comments increasing from last month (56.3%), versus 43.7% of comments that were positive. Negative comments again focused on orders slowing with a lack of demand, while comments on the exchange rate have picked up. Positive comments were very diverse, with the only consistent comment being a general pick up in orders.

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 remains almost unchanged from August to September, recording a second consecutive value under 50.0.

Three of the five main indices recorded contraction, although new orders recovered from consecutive declines.

Unadjusted regional activity was largely unchanged from the previous month, with the Northern region again leading the way.

The proportion of negative comments picked up in September, with comments focused on a lack of orders and exchange rate issues.

**Next BNZ - BusinessNZ PMI:
11 November 2010**

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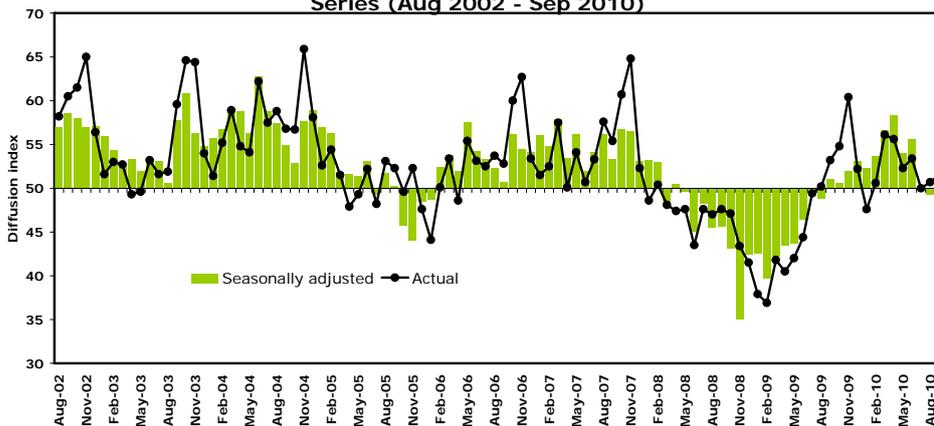
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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



September time series tables

National Indexes	Sep 2005	Sep 2006	Sep 2007	Sep 2008	Sep 2009	Sep 2010
BNZ - BusinessNZ PMI (s.a)	50.3	50.7	53.4	45.6	51.1	49.2
Production (s.a)	50.8	50.3	53.5	44.6	51.5	47.8
Employment (s.a)	48.9	48.7	50.5	44.1	51.4	51.7
New Orders (s.a)	53.3	54.3	55.0	46.3	53.1	50.3
Finished Stocks (s.a)	49.3	51.0	56.4	50.7	45.9	47.9
Deliveries (s.a)	50.9	52.4	55.9	46.7	50.5	47.1

National Indexes	Sep 2005	Sep 2006	Sep 2007	Sep 2008	Sep 2009	Sep 2010
BNZ - BusinessNZ PMI (s.a)	50.3	50.7	53.4	45.6	51.1	49.2
Northern	52.1	52.2	51.8	45.9	52.8	53.7
Central	53.1	50.0	51.7	46.2	50.7	47.7
Canterbury/Westland	46.7	54.2	62.6	51.6	53.3	52.8
Otago/Southland	59.8	60.6	66.9	53.9	58.7	47.4

(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.

14 October 2010

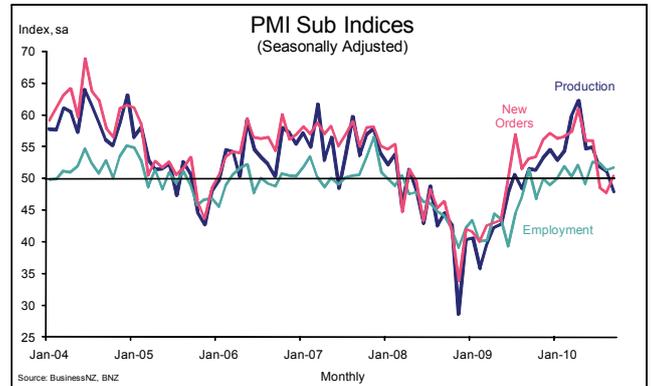
Manufacturing Hanging in There

- September's PMI flat but details encouraging
- New orders stabilise, staffing stays positive
- In line with upbeat recruitment-agency reports
- Suggesting faith in recovery
- With even wage inflation warnings for the RBNZ?

While September's Performance of Manufacturing Index (PMI) looked like another disappointment the details of the survey suggested a sense of stability, even mild expansion, was in the offing. Granted, conditions underfoot appeared damp, again. However, the survey's forward-looking indicators were looking better. In this sense, the latest PMI echoes the story of the wider economy, in our view.

This damp-near-term/better-times-ahead theme certainly seemed relevant to the impacts of Canterbury's 4 September earthquake. This latest PMI is, of course, the first to reflect such appraisals, in reporting on what went on through the month of September. While there were, understandably, a number of downbeat comments regarding the earthquake's immediate consequences there were positive as well as negative remarks about the effect on business activity down the track.

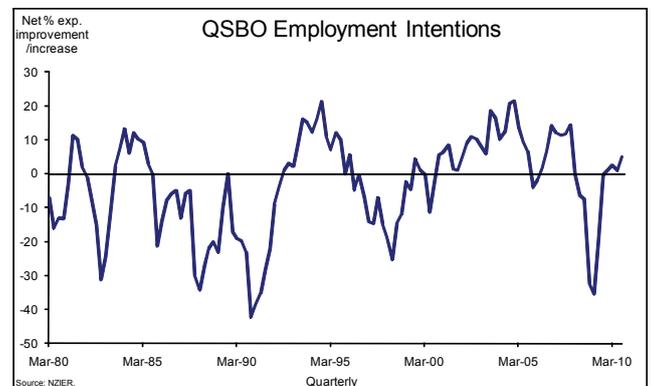
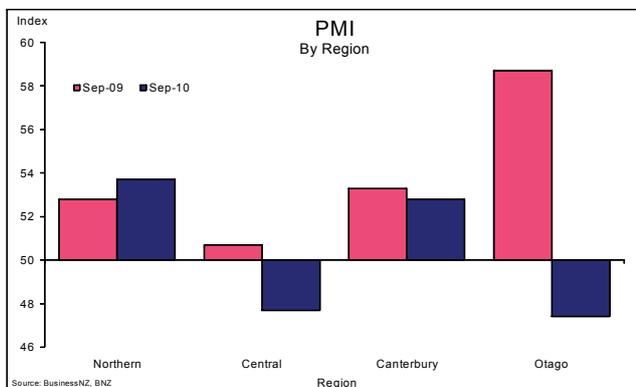
Today's PMI was also a reminder that, as much as the earthquake will have important impacts on the economy, concentrated in Canterbury, there is still the bulk of the rest of the economy to keep in mind. In this regard, the PMI gave an initial sense that there were enough buffers about, with even Canterbury respondents, as a grouping, not noticeably deviated from other regions in September's PMI (as far as one can ever tell, given the usual monthly ups and downs in the unadjusted component data).



There was certainly a relief-ridden clawback in the new-orders component of September's PMI, overall. It increased to a seasonally adjusted 50.3, from the 47.7 it had subsided to in August. The trend was not looking good there for a while. For now it's looking not quite so threatening.

The more obviously encouraging look-ahead type indicator was around staffing. The PMI gauge on this edged a fraction further into expansion territory during September, with 51.7, from 51.3. Sure, it's not gangbusters, by any stretch. But none of it would be likely if manufacturing firms saw the immediate weakness in reported output (47.8) as the shape of things to come.

Maybe we're drawing too long a bow on this? Then again the PMI positiveness on jobs fits with a wide range of other labour market indicators that are upbeat, on balance. Even last week's Quarterly Survey of Business Opinion – as disappointing as it was, overall – harboured a reading on employment intentions clearly above average and, strictly, the strongest since 2007.



In keeping with this, we also note the generally positive reports from the various recruitment agencies of late. The early-September Manpower survey, for instance, retained a net-positive 15% reading regarding hiring intentions over the coming few months. And while the October-December Hudson report was “down” from a quarter ago, it was only so by a margin-of-error half a per cent, to remain on the right side of the ledger with 19.8%. Then yesterday the Hays group reported a ramp up in hiring activity by businesses. Even to the extent of suggesting skill shortages were starting to show up again in some areas.

All of this accords with our view that the labour market statistics may well be a positive surprise over the coming months, and with staffing constraints emerging sooner than many expect – even devoid of strong GDP growth and any material soaking up of spare capacity in respect of plant and premises.

This, in turn, has the potential to re-stoke inflation in wages and salaries, even ahead of the pick-up we foresee in underlying price inflation, with the policy-impacted inflammation of the headline CPI simply adding to the upside potential for already-lofty inflation expectations in general.

For these reasons we believe the Reserve Bank needs to be a little careful about running policy on the slack side for too long. These and the likelihood the real-economy performs much better than the immediately damp indicators would suggest, as even today’s PMI gave rise to believe.

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