

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.



## Stuck in a rut

### BNZ - BusinessNZ PMI for September 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for September stood at 48.2. While this was 0.8 points up from August, it represented the fourth consecutive month of no expansion in the sector. Compared with previous September results, the 2012 value was the lowest since 2008.
- Four of the five seasonally adjusted main diffusion indices were in contraction in September. While *finished stocks* (50.6) bucked the trend with its first level of expansion since May 2012, *new orders* (45.9) fell a further 2.0 points from August and experienced its lowest value since May 2009. The remaining indices improved somewhat on August. *Employment* (49.2) increased 3.7 points, while both *production* (49.9) and *deliveries* (48.8) also edged upwards to the no change mark of 50.0.
- Given the continuation of lacklustre results, unadjusted results by region were fairly similar to the previous month. The *Central* region (53.1) led the way for a third consecutive month, increasing 0.4 points from August. Both the *Northern* (47.1) and *Canterbury/Westland* (49.2) regions improved from August, although the *Otago-Southland* region (49.8) slipped back under 50.0.
- Despite the sub 50.0 result for September, manufacturing by industry sub-groups was a combination of expansion and contraction. *Machinery & equipment manufacturing* (51.5) improved 7.5 points from August after three consecutive months in contraction, while *food, beverage & tobacco* (57.8) experienced a similar outcome after four months in contraction. At the other end of the scale, both *petroleum, coal, chemical & associated product manufacturing* (46.0) and *metal product manufacturing* (43.8) remained in contraction with results similar to August.
- Given the slight improvement in the September result, the proportion of positive comments (40.5%) rose by a small margin, although the general lack of orders/demand remained the prevalent issues for manufacturers. Globally, the JPMorgan Global Manufacturing PMI for September (48.9), mirrored the New Zealand result, with a slight improvement on August.

*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 improved slightly to 48.2 for September.***

***Four of the five main indices were in decline, with new orders continuing to fall.***

***Unadjusted regional activity was largely similar to the previous month, with the Central region leading the way.***

***Next BNZ - BusinessNZ PMI:  
15 November 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)***

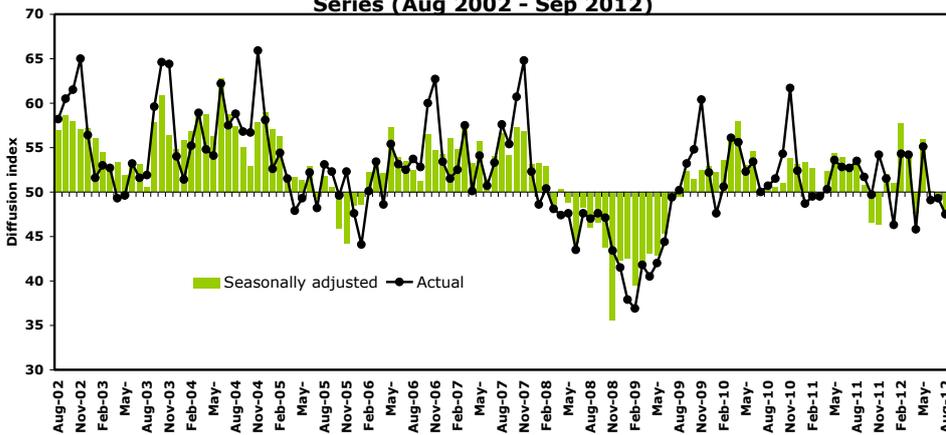
BNZ Senior Economist Craig Ebert discusses September's worryingly weak-looking data. He suggests not ringing the alarm bell just yet, as they are more likely to be indicative of transitory turbulence than the start of a genuine downturn.

## BNZ-BusinessNZ PMI

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# pmi

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



### September time series tables

National Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012
BNZ - BusinessNZ PMI (s.a.)	54.1	46.6	52.3	50.6	50.8	48.2
Production (s.a.)	54.3	45.5	52.6	49.1	50.6	49.9
Employment (s.a.)	50.5	44.0	51.0	51.1	50.7	49.2
New Orders (s.a.)	56.6	48.3	55.7	53.2	51.9	45.9
Finished Stocks (s.a.)	56.4	50.7	45.8	47.8	50.3	50.6
Deliveries (s.a.)	56.2	47.6	52.2	49.4	50.5	48.8

National Indexes	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011	Sep 2012
BNZ - BusinessNZ PMI (s.a.)	54.1	46.6	52.3	50.6	50.8	48.2
Northern	51.8	45.9	52.8	53.7	47.4	47.1
Central	51.7	46.2	50.7	47.7	53.2	53.1
Canterbury/Westland	62.6	51.6	53.3	52.8	57.4	49.2
Otago/Southland	66.9	53.9	58.7	47.4	60.1	49.8

(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



Representing BusinessNZ in Otago Southland

11 October 2012

## Giving Manufacturing the Benefit of the Doubt

- PMI and QSBO weak regards manufacturing of late
- New orders especially worrisome
- But we're punting on it being temporary
- As manufacturers themselves are suggesting

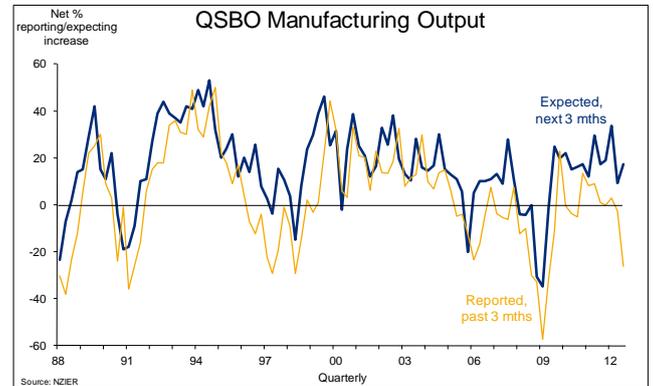
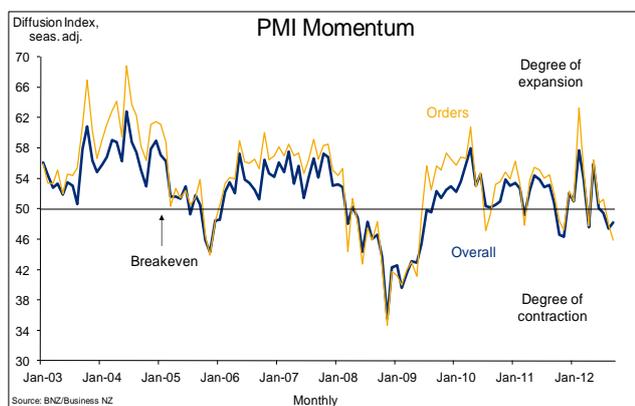
Every now and again one is confronted by some worryingly weak-looking data. It could mark the start of some genuine rot. Or it could be just a temporary thing. Ring the bell that things are hitting the skids and one could soon look a skittish fool on any subsequent bounce-back. Conclude that it's merely a flutter and one would have egg on one's face in a different way, should the rot be truly setting in.

We feel the latest indicators from New Zealand's manufacturing industry are putting us through this very test. Our call is that as much as the sector is finding it tough going at present, this is more in the nature of transitory turbulence than the start of another genuine downturn.

First, though, the bad news. New Zealand's Performance of Manufacturing Index (PMI) didn't recover that much in September. We had hoped it might. But it didn't. While its seasonally adjusted level edged up to 48.2, from 47.4 in August, it was the third month in a row that it was in contraction mode.

And while its employment index almost stabilised (49.2, from 45.5) its new orders component fell further, to 45.9, from 47.9 in August. This is normally a good leading indicator to a big loss of momentum. Yikes.

It's also worth noting that the manufacturing component of Tuesday's Quarterly Survey of Business Opinion



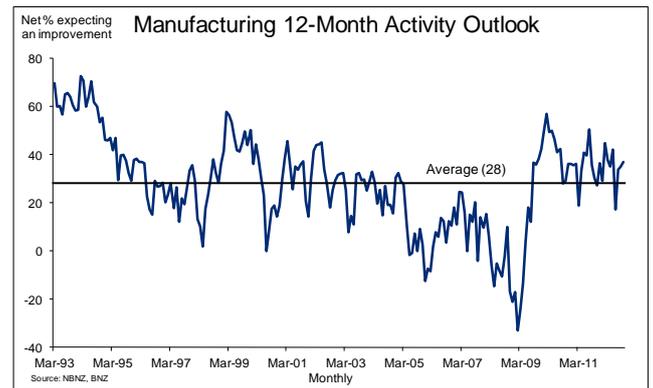
(QSBO) was lacklustre, in the same respects. Its output reports for the three months just elapsed, for instance, plunged to -26, from -3. This was about the average degree of negativeness we saw during the recession of 2008/09. Manufacturers in the QSBO likewise reported a big drop in new orders, to a worrisome -20.

So how on earth can we not ring the alarm bell? Well, because, crucially, the sector itself is not. Granted, this wasn't obvious in the latest PMI. But then this survey, by construction, is essentially about current conditions, not so much the way ahead.

For the outlook we can, in a very timely way, turn to the latest QSBO. Doing this reveals a reasonably positive sector. Its expectations may reflect a bit of wishful thinking, following the rough patch they would seem to be experiencing at present. However, these remained encouraging. For example, as much as their trading reports plunged, manufacturers' expectations for output over the coming three months lifted to +17, from +9. That's about the norm.

Expectations for new orders surged to +21, from +4. That's almost twice the historical average.

The other thing that calmed our nerves about the manufacturing sector was that its present points of weakness appeared to be more about domestic conditions than external demand. Regarding the three months just past, reports on domestic deliveries subsided to -16, while for exports held above the line, at +4. What's more, expectations of exports sales over the coming three months surged to +30, while for domestic deliveries improved to +8. This suggests manufacturers, as a whole, are not dying a death under the weight of any export collapse, triggered by the exchange rate, as some



would seem to claim. And although the domestic sales are lagging we can easily imagine they will be increasingly supported by the upswing in construction that is looking more and more assured.

Looking further out, we also note that manufacturers in the most recent NBNZ business survey held a fairly solid view of their business for the coming twelve months. Indeed, its own-activity expectations, at +37, were comfortably above their +28 norm. This included an exports outlook of +32. Employment expectations were +6, slightly above average.

So, all things considered, we can see enough positivism emanating from New Zealand’s manufacturing sector to take the signs of recent weakness as more turbulence than tragedy. Talk that the industry is in crisis is overblown. And yes, it would probably appreciate a lower exchange rate. But as for trying to achieve this by printing NZ dollars, as some have suggested, this would only succeed to the extent foreign investors take fright at what it might mean for future NZ government economic policy.

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