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

More of the same

BNZ - BusinessNZ PMI for November 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for November stood at 48.8. This was 1.5 points down from October and a return to similar levels of activity seen in September. Compared with previous November results, the 2012 value was higher than 2011, but lower than 2010.

- Two of the five seasonally adjusted main diffusion indices were in expansion in November. However, the key indices of *production* (49.3) and *new orders* (50.0) showed minor contraction and no change respectively. *Finished stocks* (53.4) continued its upwards momentum with its fourth consecutive monthly rise, as well as its highest result since August 2011. *Deliveries* (51.8) also showed some expansion, while *employment* (48.2) fell back 0.9 points from October and now in contraction for six months.

- Given the main seasonally adjusted result taking into account Xmas activity, it was no surprise that the unadjusted results by region displayed expansion across the country. The *Otago-Southland* region (65.0) led the way with a strong result, although down on the same period last year. The *Canterbury/Westland* region (62.0) also showed strong activity, with a level similar to May this year. While the *Northern* region (56.6) experienced its third consecutive monthly improvement, the *Central* region (51.7) slipped back from its October result.

- Despite the contraction mode the sector was in for November, manufacturing by industry sub-groups varied across the board. *Food, beverage & tobacco* (79.0) continued its march upwards, while *machinery & equipment manufacturing* (51.8) stayed similar to October's value. *Metal product manufacturing* (48.5) improved from October, although remained in contraction for November.

- Given there was a strong lift in the overall unadjusted PMI value for November, the proportion of positive comments (57.6%) correspondingly rose, compared with 53.1% in October. Globally, the JPMorgan Global Manufacturing PMI for November (49.7) remained in contraction.

> *Inside BNZ Commentary this Month (page 3)*
> BNZ Economist Doug Steel assesses the considerable variation underneath the relatively stable headline results and considers what 2013 might hold for the sector. He finds some optimism from the already accumulating evidence of improvement in construction activity.

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 back in negative territory with a value of 48.8 in November.

Two of the five main indices were in expansion, although both production and employment in decline.

Unadjusted regional activity was expansionary across the country, led by the Otago/Southland region.

Next BNZ - BusinessNZ PMI:
24 January 2013

SPONSOR STATEMENT

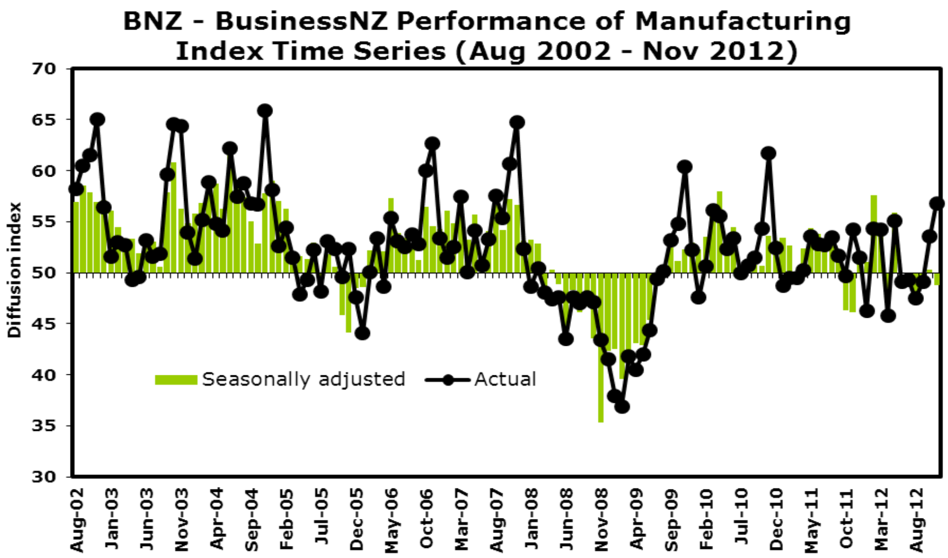
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

BNZ (www.research.bnz.co.nz)

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



November time series tables

National Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012
BNZ - BusinessNZ PMI (s.a.)	56.6	35.3	52.3	53.6	46.1	48.8
Production (s.a.)	58.0	29.0	53.9	56.6	42.8	49.3
Employment (s.a.)	57.0	39.8	50.9	51.5	50.5	48.2
New Orders (s.a.)	58.6	34.7	57.4	55.0	47.4	50.0
Finished Stocks (s.a.)	53.6	48.0	47.0	50.9	50.3	53.4
Deliveries (s.a.)	57.1	38.0	51.4	58.6	48.8	51.8

National Indexes	Nov 2007	Nov 2008	Nov 2009	Nov 2010	Nov 2011	Nov 2012
BNZ - BusinessNZ PMI (s.a.)	56.6	35.3	52.3	53.6	46.1	48.8
Northern	59.7	41.6	62.9	61.5	54.9	56.6
Central	63.1	43.8	58.9	60.6	43.2	51.7
Canterbury/Westland	71.8	43.4	54.4	61.0	56.9	62.0
Otago/Southland	70.2	51.6	61.9	66.0	71.0	65.0

(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 (Business 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.

13 December 2012

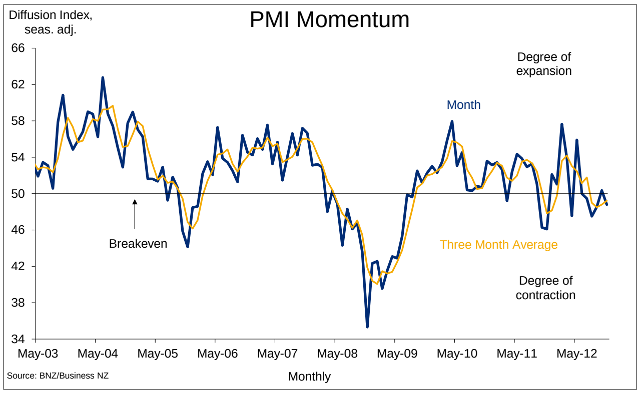
Manufacturing Mixed

- PMI settles close to 50
- Masking considerable variation in the details
- Flat production near term
- Construction important for pick up next year

The Performance of Manufacturing index continues to hover around the breakeven 50 mark. In November it has edged a touch below that mark, at 48.8, having been just above, at 50.3, in October.

These results are not significantly different. In fact, the headline result has been through one of its most stable six-month periods in the over 10-year history of the survey.

Not that it has settled around a strong level. But neither is it a weak one. As it has stabilised around the 50 mark, it is indicative of a manufacturing sector muddling along, at least on average.



But despite the relatively stable headline result, this month has shown the widest ever variation across the sub-industries. This, no doubt, reflects the multitude of strong influences on the sector such as weak domestic demand including a still low level of construction activity (but with firm signs of improvement), generally strong primary production, a challenging international environment including an economic slowdown in Australia, and fierce international competition (in both export and domestic markets) partly as a result of a strong NZ dollar. Indeed, some firms probably face all these pressures as well as others to varying degrees.

Monday's official manufacturing survey, for Q3, displayed similar wiggles in the detail while netting to a small positive in respect to production, we think.

However, we do not think they were as robust as their 2.6% quarterly lift in sales volumes portrayed. Overall, we judge, from the sales and inventory statistics, that NZ manufacturing production increased 0.5% in Q3. Not fast growth, but better than we had feared a few months ago. This was strong enough to have us bump up our Q3 GDP estimate overall to 0.5%, from the 0.3% we were considering before Monday's release. The actual results, by the way, for both Q3 manufacturing production and overall GDP are due 20 December.

The wiggles we saw were the likes of the 2.6% increase in sales volumes having a lot to do with processed agricultural products, in turn drawn down from stocks (which chimes with the big increase we saw in Q3 export volumes).

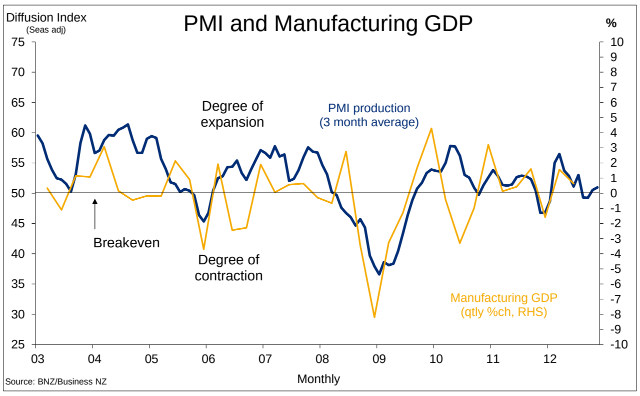
And while we inferred a moderate gain in ex-meat-and-dairy manufacturing production in Q3 it reflected 1) the once-off effects of Methanex restarting its second methanol plant at Motonui and 2) something of a build-up in inventory more generally.

Monday's data also revealed Q3 sales volumes fell to varying degrees in the areas of metal products, wood and paper products, furniture, and transport and machinery equipment.

Back to today's PMI, among the softer parts were the employment index slipping a touch to 48.2 from 49.1 and a further push higher in the inventory index (and reinforcing the general lift seen in the official Q3 data).

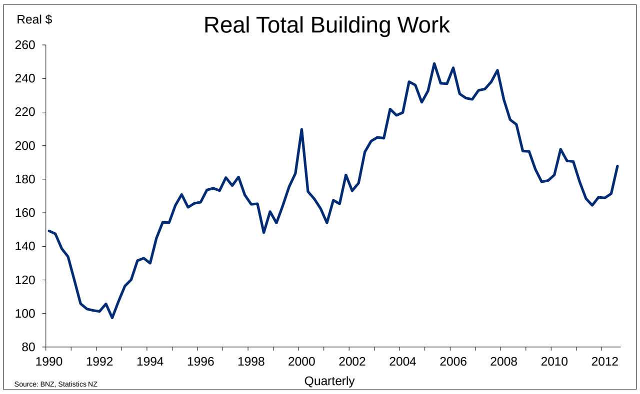
Of course, the latter is not necessarily a sign of sogginess. It might well represent manufacturers' expectations of a pickup in demand. The soggy feel comes from the inventory lift coinciding with the new orders index easing (albeit it mildly). The implied falling new-orders-to-inventory ratio can sometimes be an indicator to softer production ahead.

While this is a risk worth monitoring, we do not see it as a reason to get overly downbeat. Not with the PMI production index itself, at 49.3, still being close to 50. On this measure, it looks like manufacturing GDP has essentially gone sideways in the second half of 2012. No tragedy, but plenty of turbulence in the detail.



Looking into 2013, despite the obvious strong headwinds of an unhelpful NZ dollar, and patchy international demand, the sector has much to support it, including still buoyant primary production and especially with the accumulating rebound in construction activity.

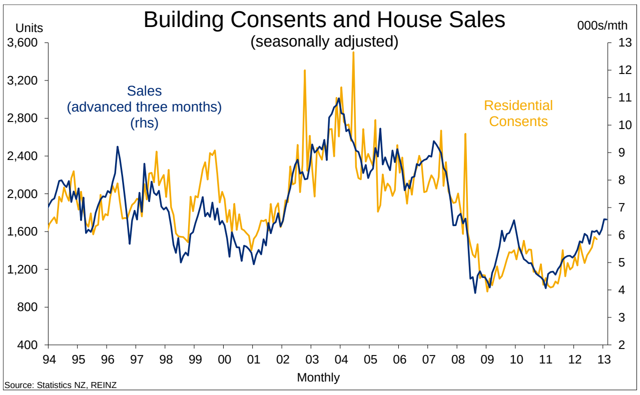
The strong 9.6% lift in Q3 building work is a decent step in the right direction, but the growth is coming from a very subdued based. We expect further growth through 2013.



It is not only because of the Canterbury rebuild. Evidence is elsewhere too, especially in Auckland. Often rising existing house sales and associated house price inflation occurs before a lift in building consents and eventual construction.

Real Estate Institute November figures show that house sales are 24% higher than a year ago. Annual house price inflation is running at a bit over 7% on average across the country and by over 13% in Auckland. Such moves should see a further lift in residential building consents if historical patterns are any guide. Any future consent increases will come over and above the 32% rise we have already seen in the past 12 months.

It is no wonder construction sector firms have high expectations for more activity over the coming 12 months. There are also, finally, some signs of lift in non-residential building consents. This all gives us some optimism that the manufacturing sector will, in time, get some uplift from an improvement in domestic construction activity.



There are already some signs of this emerging in today's PMI. For example, the non-metallic mineral product manufacturing PMI posted its second consecutive month over 77, a level it had only previous surpassed once before. It implies very rapid growth, but again off a low base. Last year's October and November results for this industry averaged a mere 37.5.

Other indirect effects from more construction such as more spending on durables will support other areas of manufacturing. We may also have seen the first hints of this in November's electronic card transactions data, where the value of durable spending was more than 5% above year ago levels and the strongest annual growth in over a year.

This is not to suggest that the many challenges the manufacturing sector currently faces will be fixed by a pickup in construction activity. But we think it will help.

A stronger construction sector and the flow on benefits to the manufacturing sector have long been an integral part of our overall growth forecasts. The recovery was never going to be a straight line improvement, or a uniform one, not with so much else going on in the world.

So while we remain optimistic of a manufacturing improvement through 2013, we remain cautious about reading too much into the latest PMI results, even though they have essentially stabilised at the headline level. They still harbour very mixed details through and through. Things are still bouncing around all over the show, whether by way of region, sub-industry, or size of firm. Until we see a more concerted and consistent pulse in the PMI we'll stay reticent about the manufacturing sector's immediate growth prospects.

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