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Business NZ

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

Manufacturing activity climbing out of the depths

BNZ Capital - Business NZ PMI for June 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for June (46.2) increased 3.1 points from May, and the highest value for a particular month since September 2008. The June 2009 value was also higher than for June 2008 (45.0), but lower than in previous June years.

- Four of the five seasonally adjusted main diffusion indices continued to display contraction, with three of the five showing a worse level of contraction than in May. However, the two key indicators of *production* (47.6) and *new orders* (52.2) rose 5.6 and 10.6 respectively. The significant increase in new orders was in fact the largest month-to-month increase in the history of the survey, surpassing the 9.4 point lift between May and June 2004. *Employment* (40.1) continued to slide backwards, while *deliveries of raw materials* (42.5) experienced only a small drop from May. *Finished stocks* (43.9) decreased another 1.3 points from May to reach a second consecutive new low since the survey began.

- Unadjusted activity for June showed more positive signs for the South Island. The Canterbury/Westland region (48.8) experienced its third consecutive lift in activity, reaching its highest level since December 2008. The Otago/Southland region (48.8) recovered from the sub-40 result in May, and also posted its highest figure since December 2008. For the North Island, the Northern region (41.7) dipped back to the level experienced in March, while the Central region (44.7) improved from the 36.1 result in May.

- Almost all manufacturing industry sub-groups again displayed contraction during June, although some were close to the level of no change. The *food, beverage & tobacco* sector (51.8) was the only one in which to show expansion, with a small improvement from May. Both the *petroleum, coal, chemical & associated products* (47.4) and *machinery & equipment* (48.0) sectors improved from May, in particular the former. In contrast, the *metal product* sector (37.8) continued to slip after three consecutive values above 40.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for June (46.9) reached its highest value since August 2008. The USA PMI (44.8) improved, although the Australian PMI (38.4) continued to struggle below the 40 mark.

- While the rate of contraction improving in June, the proportion of negative comments made by respondents also decreased to 67.0%, compared with 75.6% in May, 78.3% in April and 70.3% in March.

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 increased 3.1 points to 46.2.

Four of the five main indices continued to show ongoing contraction, but new orders showed the first positive result since April 2008.

Activity improved for most regions.

The global manufacturing scene showed ongoing recovery, with upwards movement for most of the world's large manufacturing bases.

Next BNZ Capital - Business NZ PMI: 13 August 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.bnzcapital.co.nz)

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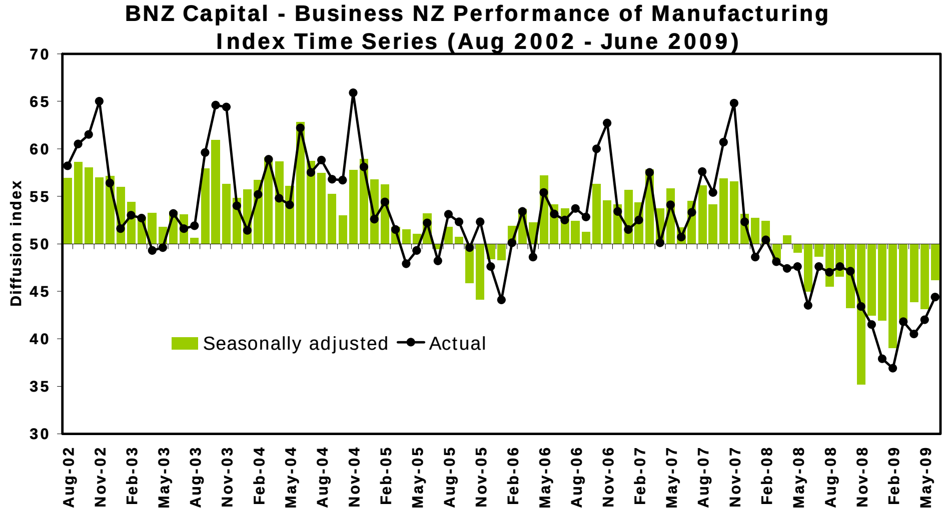
pmi



June time series tables

National Indexes	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009
BNZ Capital - Business NZ PMI (s.a)	53.4	62.8	53.2	54.1	51.7	45.0	46.2
Production (s.a)	51.5	64.1	52.3	54.5	48.3	42.8	47.6
Employment (s.a)	51.1	54.8	51.1	47.9	49.5	46.9	40.1
New Orders (s.a)	54.6	68.8	52.7	56.9	56.2	45.0	52.2
Finished Stocks (s.a)	52.1	53.5	53.8	52.4	52.9	51.5	43.9
Deliveries (s.a)	52.8	59.4	52.6	55.2	52.1	42.7	42.5

National Indexes	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009
BNZ Capital - Business NZ PMI (s.a)	53.4	62.8	53.2	54.1	51.7	45.0	46.2
Northern	50.2	63.6	50.5	53.2	49.3	42.2	41.7
Central	52.3	60.8	53.0	53.6	50.0	45.6	44.7
Canterbury/Westland	56.4	62.4	54.4	46.7	56.2	42.2	48.8
Otago/Southland	61.7	56.1	54.7	60.4	48.3	47.9	48.8

(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.

16 July 2009

Two Pointers to Manufacturing Recovery

- Manufacturing orders expanded in June
- As inventories kept falling
- Both good omens for production recovery
- However, employment recovery lagging

As terrible as recent manufacturing statistics have been, there are increasing signs the sector is beginning to see some light at the end of the tunnel. Of course, it's still a long, dark tunnel. But the big jump in the new orders index in June's Performance of Manufacturing Index, for example, and clear signs of an inventory purge afoot, give hope of some locomotion in activity before too much longer.

Indeed, the new orders sub-index of the PMI hit a seasonally adjusted 52.2, from a very poorly 41.6 in May. That, significantly, put it in expansion territory – that is, above the 50 mark – for the first time since April 2008. It was the strongest reading, outright, since the 54.4 recorded back in February 2008. It's an encouraging sign.

That orders, enquiries and quotes were beginning to bubble up from the swamp was also evident in some of the feedback to the PMI survey, albeit that quite a few manufacturing firms were clearly still struggling in this respect (amid two-thirds of all comments being negative in nature).

A pick-up in orders, though, would certainly gel with improving signs globally, in the very areas hit hardest by the manufacturing slump, particularly through the Asia region. In this respect, we also note the improving tones from Tuesday's NAB survey of Australian businesses (albeit not clearly positive, just yet), with manufacturers and the mining sector in the thick of the betterment.

The other generally positive sign for forward production was that a run-down in stocks seems well afoot amongst NZ manufacturers. This was difficult to deny with the finished-stocks index of the PMI dipping even further in June, to 43.9. This was the weakest in the history of the survey, which began in August 2002.

To the extent this tells of a wrangling of unruly shelves and warehouses, it clears the way for production to re-link to underlying demand once again. To the extent the inventory run-down reflects manufacturing firms having been caught short, then a catch-up phase in production might well be in the pipeline.

As for production for the moment, while still declining, it's doing so much less obviously than it was earlier this year. After abominable readings in the 30 to 40 range between November 2008 and March 2009, the production PMI sub-index lifted further in June, to 47.6. Yes, it's still the wrong side of 50. But it's the least-bad in almost twelve months.

Manufacturing employment, however, continues to suffer badly, essentially as firms carry on with reconfiguring to the broadly lower levels of demand, in order to improve profitability. The PMI employment sub-index slipped further back to 40.1 in June, having looked as though it was on the road to recovery in April, with its 44.7.

Nevertheless, the bigger news in June's PMI was that production might well be beginning to stabilise, even recover a bit relatively soon, if increasing orders and culled inventories, are any guide.

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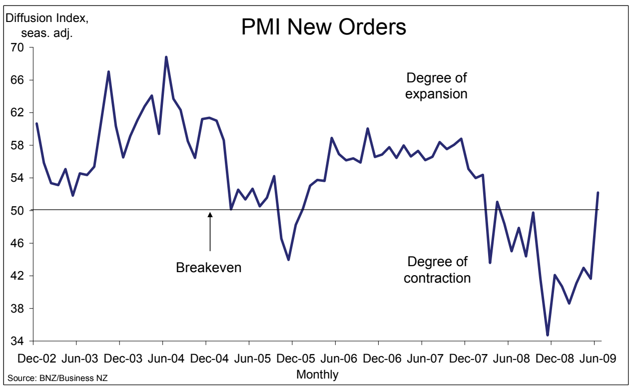

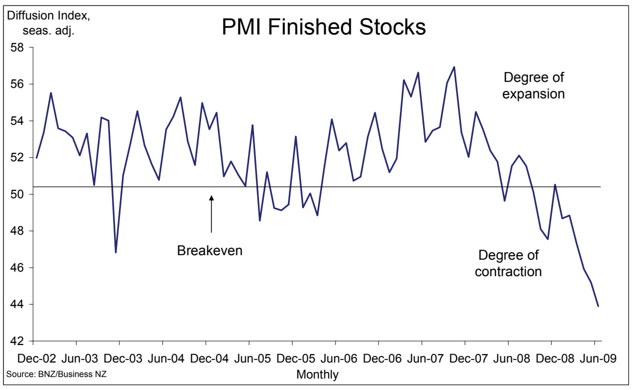

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