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

Autumn blues

BNZ - BusinessNZ PMI for April 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for April stood at 48.0, which was 5.8 points down from March and the lowest level of activity since November 2011. Compared with previous April results, the 2012 value was the second lowest result.

- Despite the fall in overall activity, two of the five seasonally adjusted main diffusion indices were in expansion in April. However, both *production* (44.6) and *new orders* (48.5) fell into decline, which makes up the greatest weight of the overall result. Conversely, *employment* (51.2) remained relatively stable, with results that have only moved by one point over the last four months. *Deliveries* (46.3) fell into decline after four months in expansion, while *finished stocks* (50.3) showed slight expansion after three months in contraction.

- Unadjusted results by region showed activity in various parts of the country in contraction during April. Both the *Northern* (46.2) and *Central* (49.2) regions dropped to their lowest result since January this year, while the *Canterbury/Westland* region (42.2) fell to its lowest result since March 2011. The *Otago/Southland* region (38.3) experienced a significant hit, falling to its lowest level of activity since May 2009.

- Manufacturing by industry sub-groups were mainly in decline during April. *Food, beverage & tobacco* (54.0) was one of the few stand outs, despite falling from 63.1 in March. *Petroleum, coal, chemical & associated products* (40.6) and *Machinery & equipment manufacturing* (41.7) experienced a sharp fall for the current month, while *metal product manufacturing* (47.7) decreased at a smaller rate.

- The drop in activity also led the proportion of negative comments increasing from 52.0% in March to 57.9% in April. Negative comments centered on the high New Zealand dollar, as well as low and slow demand. For those experiencing positive activity, Australia continues to provide a solid export market, while the broader outlook for many involves a steady supply of new orders. Globally, the JPMorgan Global Manufacturing PMI stood at 51.4 for March, signaling a modest expansion of the world manufacturing sector for the fifth month in a row.

Inside BNZ Commentary this Month (page 3)

BNZ Economist Doug Steel looks at the rollercoaster ride in the PMI over recent months. He concludes that there is enough in the underlying figures to not get negative on it just yet. Increasing manufacturing employment is one of the positives. In just one of many factors at play, a reasonable dip in the NZD, post the April results, may bring some improvement in new orders and production in the months ahead.

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 stood at 48.0 for April, down 5.8 points from March.

Three of the five main indices were in decline, with production and new orders experiencing a sizeable drop.

Unadjusted regional activity was in decline throughout the country.

Next BNZ - BusinessNZ PMI: 15 June 2012

BNZ-BusinessNZ PMI

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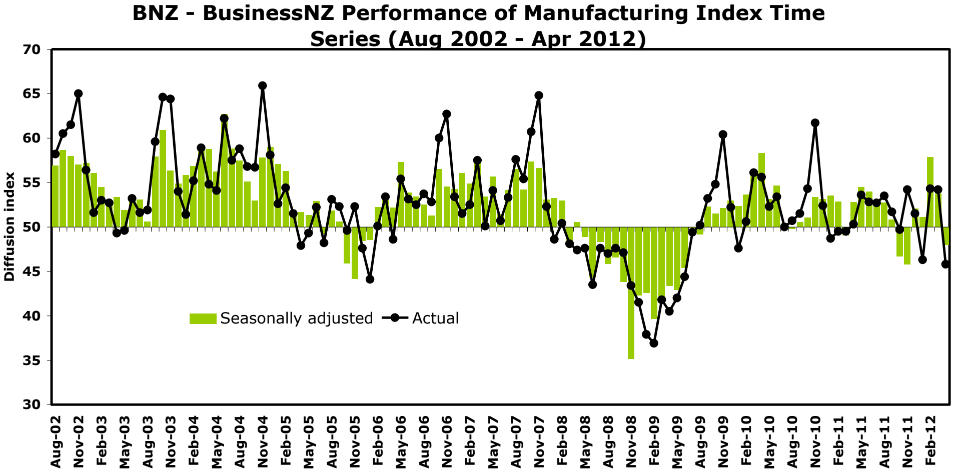
pmi



April time series tables

National Indexes	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Apr 2011	Apr 2012
BNZ - BusinessNZ PMI (s.a.)	53.4	51.5	43.4	58.3	52.8	48.0
Production (s.a.)	52.5	51.1	41.7	61.7	52.1	44.6
Employment (s.a.)	48.8	47.9	44.9	52.8	50.2	51.2
New Orders (s.a.)	56.6	51.3	43.4	61.4	54.5	48.5
Finished Stocks (s.a.)	55.1	51.3	45.1	52.6	54.4	50.3
Deliveries (s.a.)	53.8	50.8	42.5	57.2	51.8	46.3

National Indexes	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Apr 2011	Apr 2012
BNZ - BusinessNZ PMI (s.a.)	53.4	51.5	43.4	58.3	52.8	48.0
Northern	48.7	46.8	38.9	54.3	56.7	46.2
Central	47.7	47.7	40.4	56.6	40.9	49.2
Canterbury/Westland	52.5	46.4	44.7	58.0	47.8	42.2
Otago/Southland	57.0	52.6	40.4	53.4	47.2	38.3

(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.

10 May 2012

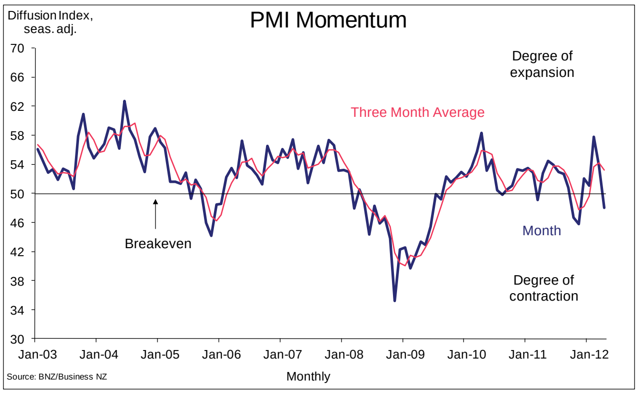
PMI Swings Low

- PMI slumps in April
- On lower production, new orders
- Follows very strong February, robust March
- So we're not getting negative on it just yet
- Bounce back ahead on a retreating NZD?

The PMI has been on a rollercoaster over the past few months. From a low of 45.8 in November last year, it then roared higher to a peak of 57.8 in February, only to sharply unwind to 48.0 by April.

What to make of that?! If nothing else, this suggests it has been a challenging environment for the manufacturing sector. Even if the trend has been mildly positive over recent months, as it has been, it highlights the more-than-usual month-to-month volatility in performance. Planning can only be more difficult with such choppiness.

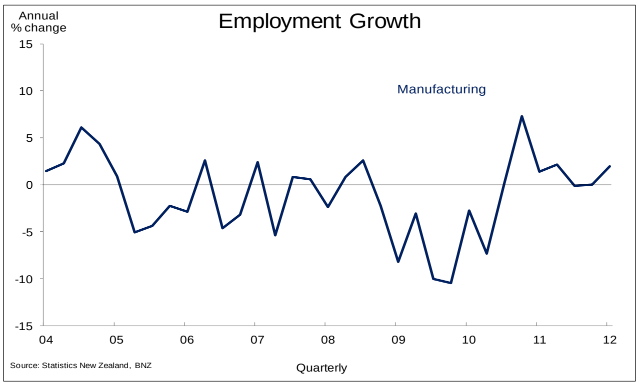
This goes for monitoring and forecasting as much as planning. In such circumstance, it is worth keeping an eye on the trends as best as one can. In this regard, one trend indicator, the three month average, sits at 53.2. This indicates some underlying positive momentum, even if it has faded a point from last month.



This is not to deny the weakness in the April PMI result itself. The rollercoaster clearly dipped in the month. Not only was the drop to 48.0 from March's 53.8 significant in the historical context of the near 10-year history of the survey, but the dip was driven by the important subcomponents of production and new orders. Moreover, the downshift was relatively pervasive across industries, regions and firm size (although the recent trend of large firms outperforming smaller firms has continued). On this basis it would be unwise to dismiss the result as simply noise.

Equally though, just like we were reluctant to buy into the extreme strength in February as an indicator of rapid trend expansion we are wary of taking a small dip below the 50 mark as the harbinger of a new downtrend. The truth probably lies somewhere in the middle. In fact, because of the extreme strength in February, the dip in April does not come as an entire surprise. For now, we stick with the view that the manufacturing sector is on a mildly positive trend.

The PMI employment index supports this view, holding up relatively well at 51.2 in April. Sure, it was down a point from March but it remains a point above the breakeven 50 mark. Manufacturers seemed confident enough to make net additions to the payroll in April, despite a dip in production and new orders. This follows last week's Household Labour Force Survey that showed manufacturing employment grew 2%, or 5,000 people, in the year to March 2012. Not strong growth for sure, and it is still coming off a low base, but supporting evidence of some underlying improvement along the likes of what the PMI has been foretelling for some time.



So what caused the dip in the April PMI production and new orders? It is impossible to know for sure. There are plenty of potential candidates: the strong currency; the ongoing uncertainty and confusion around the European debt situation and outlook for world growth and thus export demand; a slowdown in parts of Australia; higher wholesale spot electricity prices; reduced livestock processing as feed (grass) conditions allow farmers to hold onto stock for longer than usual; just to name a few. Such things certainly got mentioned in respondent comments to varying degrees.

To the extent that at least part of the April PMI dip can be sheeted back to the NZ dollar, either through its general persistent strength or the important NZD/AUD crossrate for manufacturers hitting a seven month high in April, there is some prospect of a PMI reversal in coming months. Following the April survey period, and at the time of writing, the NZD has pulled back more than 3% on a TWI basis. No doubt exporters and those competing with imports would like to see more than the few cents the NZD has shed to date, but at least it is providing some relaxation in financial conditions.

The currency's pullback is important at a macro economic level as it is to the manufacturing sector specifically. After all, in April the RBNZ singled-out future sustained currency strength as a potential catalyst for reassessing the monetary policy outlook. The pullback in the currency over the past week or so has delivered significant relief relative to where the RBNZ had it pegged for the second quarter of the year. This should not be lost on an interest rate market that is on the hunt for an OCR cut.

What the RBNZ eventually decides to do with the OCR will depend on all factors. As a part of this, we will be on the lookout to see if the dip in April's PMI is precursor to a softening in other business surveys, across a wider range of sectors. It need not necessarily be so. It will be interesting to see where the likes of the upcoming PSI and NBBO get to. For us, some of these surveys could drop a fair way before really threatening the ongoing economic recovery story, in our view. As we learn from rollercoaster rides, the best thing is to hang on in there.

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