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

Flat end to manufacturing year

BNZ - BusinessNZ PMI for December 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for December stood at 50.1. This was 1.3 points up from November, but represents all but no change for the current month. Compared with previous December results, the 2012 value was lower than both 2010 and 2011. Over the 2012 year, the PMI averaged 50.9.

- Only one of the five seasonally adjusted main diffusion indices were in expansion for December, with *production* (52.5) recovering from a decline in November. However, the other key index of *new orders* (48.9) fell back into contraction. *Finished stocks* (48.8) also fell back into contraction after three months of continued improving results, while *deliveries* (49.9) were at all but no change. *Employment* (49.1) remained in a tight contraction band that has now lasted for four consecutive months.

- While all regions experienced a fall in unadjusted activity over December, the drop was more prominent in the North Island. The *Northern* region (48.4) fell 8.2 points, while the Central region (46.3) fell 5.4 points to be both in contraction for the first time since April 2012. In contrast, both regions in the South Island remained in expansion. The *Otago-Southland* region (60.0) fell 5.0 points from November, while the *Canterbury/Westland* region (53.4) dropped 8.6 points.

- Like November, manufacturing by industry sub-groups varied across the board. *Food, beverage & tobacco* (65.6) experienced a drop back in expansion levels for December, while *machinery & equipment manufacturing* (48.0) dropped back enough to experience contraction. *Metal product manufacturing* (41.9) fell back from the previous month to return to levels of contraction experienced in October.

- Although there was a significant fall in the overall unadjusted PMI value for December, the proportion of positive comments (56.6%) fell only slightly, compared with 57.6% in November. Globally, the JPMorgan Global Manufacturing PMI for December (50.2) was almost identical to New Zealand's result.

Inside BNZ Commentary this Month (page 3)

Doug Steel, BNZ Economist, finds enough in the PMI production index to suggest that manufacturing made a positive contribution to Q4 GDP growth. This fits with results from last week's Quarterly Survey of Business Opinion. While there is growing optimism for 2013 on the back of a better construction outlook, significant headwinds remain such as a strong NZ dollar.

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 flat for December at 50.1.

Only one of the five main indices was in expansion, with production still in positive territory.

Unadjusted regional activity was still expansionary in the South Island, but in contraction for the North island.

Next BNZ - BusinessNZ PMI: 14 February 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)

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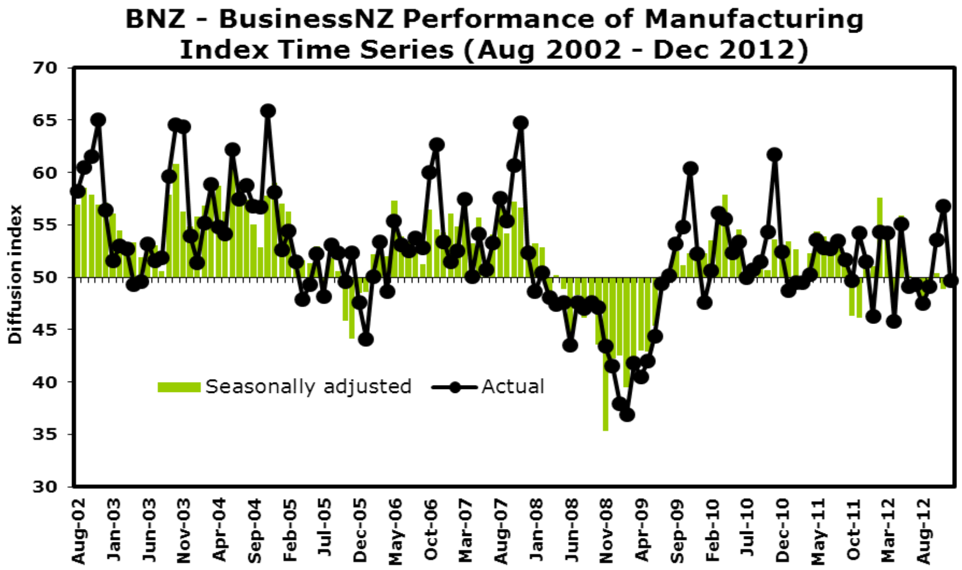
pmi



December time series tables

National Indexes	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012
BNZ - BusinessNZ PMI (s.a.)	53.1	42.3	52.9	53.0	52.0	50.1
Production (s.a.)	53.8	40.2	54.4	52.9	51.0	52.5
Employment (s.a.)	51.0	42.2	48.7	50.8	52.7	49.1
New Orders (s.a.)	55.1	41.8	56.7	54.1	52.5	48.9
Finished Stocks (s.a.)	52.0	50.3	47.3	51.2	51.8	48.8
Deliveries (s.a.)	53.4	43.1	52.4	54.3	50.7	49.9

National Indexes	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012
BNZ - BusinessNZ PMI (s.a.)	53.1	42.3	52.9	53.0	52.0	50.1
Northern	52.0	35.4	52.6	51.9	51.9	48.4
Central	44.9	45.4	51.7	63.1	42.7	46.3
Canterbury/Westland	57.5	49.4	52.2	48.4	54.2	53.4
Otago/Southland	60.9	51.1	52.2	61.3	65.6	60.0

(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.

24 January 2013

Manufacturing Ebb and Flow

- Manufacturing production up in December, Q4
- But new orders, employment soggy
- Optimism lifts for 2013
- On domestic construction outlook
- Strong NZD, Australian slowdown among concerns

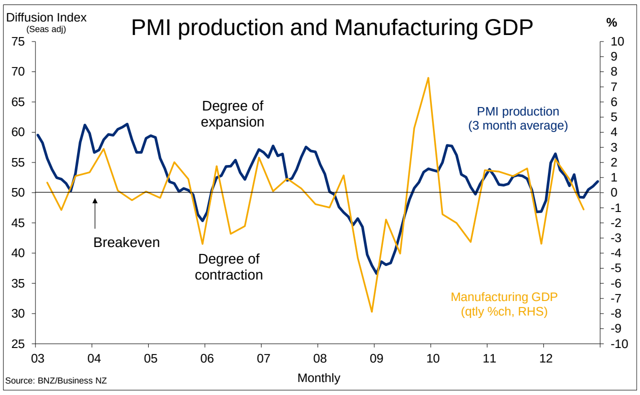
Domestic manufacturing continued its ebb and flow in December, judging by the Performance of Manufacturing Index. Across the various subcomponents, for every one that is doing a bit better, there seems to be another one slipping the other way.

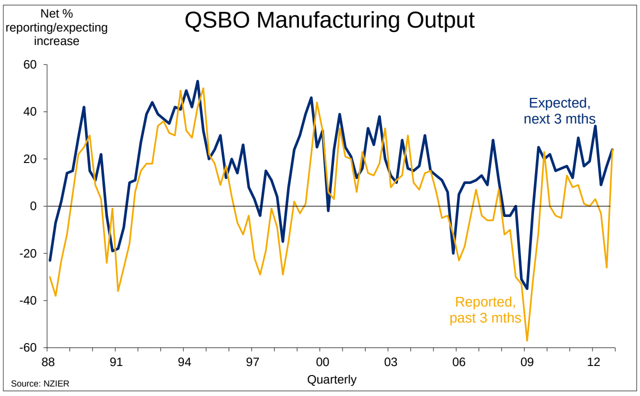
For example, there is certainly a bit to like in the production index rising to 52.5 from 49.6 in November. This is a reasonable clip above 50 and indicates activity is on the up. It is enough to take the production average for Q4 as a whole to 51.9, from 49.2 in Q3. That fits with our thinking that the manufacturing sector will make a positive contribution to GDP growth in Q4, following its 1.1% contraction in Q3.

That is a similar message we got from the Q4 Quarterly Survey of Business Opinion published last week. In fact, in that survey, manufacturers indicated a strong lift in output in the final quarter of last year, albeit following what was an ugly third quarter.

We also take some heart from a decline in the PMI inventory index in December. Especially in combination with the rise in production, it implies a solid lift in demand in the month.

But despite the inferred bounce in Q4 production, it is difficult to get overly positive just yet. Although the PMI employment index did improve to 49.1 from 48.2, it is indicative of employment falling at a slower rate rather than a sign of outright pickup. It is the seventh consecutive month that the employment index has been below the breakeven 50 mark.





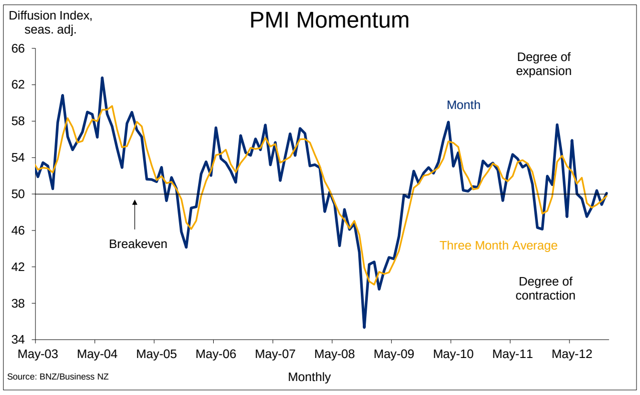
The positive glow from the production and implied demand increase is also dimmed a bit with the PMI new orders component slipping to 48.9, from 50.0 in the previous month. It is enough just to question the durability of demand and hence production in the near term.

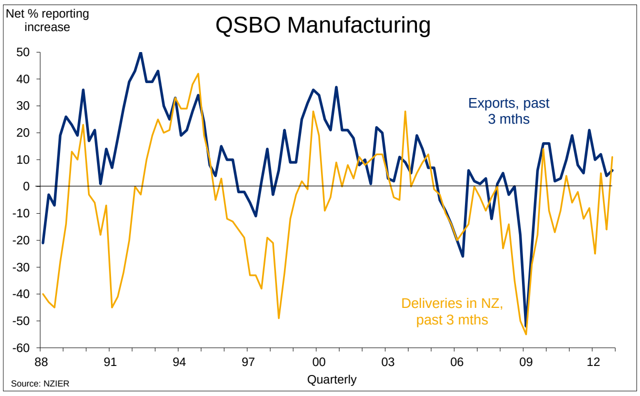
Still, at least the PMI new orders-to-inventory ratio shows an improvement. This indicates that any future increases in demand will quickly translate into more production. It gels with the QSBO stocks indicator that sits smack on average regarding whether manufacturers regard current stocks as too high or too low.

So a dip in new orders is not a reason to get overly downbeat either, given it is only a small monthly decline. It is also in contrast to the strong lift in new orders recorded in the QSBO survey. Yes, the new order indicators are mixed.

Such pluses and minuses are littered throughout the December PMI survey across industries, regions and firm size. Indeed, this was the story of 2012 as a whole, as no one influence dominated the manufacturing sector. Rather there were many strong cross currents, intersecting with each other.

In December, through the ongoing chop, the overall index managed to nudge up to 50.1, from 48.8 in November, indicating the slimmest of expansions in the month. So the positives outweighed the negatives…just.

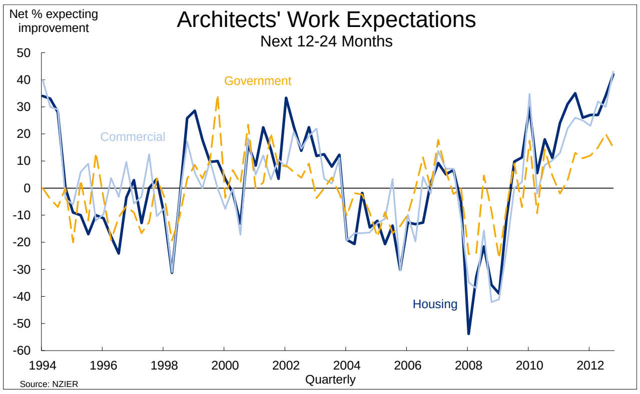




Looking into 2013, there is a lot of promise at least for parts of the manufacturing sector. Optimism has already perked up. Indeed, manufacturers' confidence in the QSBO regarding the general business situation over the coming six months rose to a net +13% expecting an improvement. This is the highest reading in almost two years.

A lot of the optimism seems to stem from much better prospects for the construction sector compared to what we have witnessed over the past few years. And what a construction boom it is shaping up to be. New orders in the QSBO building component surged to their highest level in around 8 years. As did employment intentions in the sector. Look at architects and the pipeline impulse is that much stronger. And it's as much for commercial construction as it is for housing. Hang onto your hats.

The improving construction sector has been enough to lift the QSBO manufacturing domestic sales indicator above exports – an uncommon situation.



Of course, this also reflects the restraints on exports such as the general strength on the NZ dollar. The currency remains a significant headwind, with several PMI respondents commenting that it is a drag on their business. This included exporters and import-competing manufacturing firms. On our forecasts of the NZ dollar remaining strong through 2013, the currency will remain a challenge.

Meanwhile, while some of the intense fears in Europe and the US have eased over recent months, the economic slowdown in Australia is a developing concern for NZ manufacturers. It is by no means universal. But for every PMI respondent who noted an improvement in business across the Tasman, there was one who reported deterioration. Yet more ebb and flow. Australia has been a bastion of strength for New Zealand through the global downturn, partly reflected in the strength of the Australian dollar relative to the NZ dollar. It is worth keeping an eye on what is going on 'over-the-ditch', it will matter for NZ.

Despite the still generally challenging international environment, there was also a fair smattering of exporters in the December PMI detecting a pickup in activity including to the more troubled economic regions of Europe and the US.

If the international economy can continue putting one foot in front of the other and domestic construction and associated spending picks up as we think it will, then there is scope from improvement in the local manufacturing sector. That seems to be the view from within the sector too, judging by confidence levels. Here's hoping it turns out that way.

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