bnz

BusinessNZ

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

Manufacturing activity shaken by quake

BNZ - BusinessNZ PMI for March 2011

- Given the events of 22 February in Christchurch, BNZ and BusinessNZ decided not to run the February PMI. To compensate for the missing data for that month, the values for March have also been applied to February, with standard seasonal adjustment taking place.

- The BNZ-BusinessNZ seasonally adjusted PMI for March stood at 50.1, which was the second consecutive monthly decrease in expansion after a reading of 52.6 for February and 53.2 in January. Overall, the March result represents a level of minimal change in the industry.

- Only two of the five seasonally adjusted main diffusion indices were in expansion during March – the first time this has occurred since September 2010. *Employment* (53.2) led the way, which last occurred in July 2010.

- Unadjusted results by region showed a clear distinction between the two islands given the flow-on effects from the recent earthquake. Both the *Northern* (52.4) *and Central* (53.1) regions showed steady levels of expansion, while the *Canterbury/Westland* (42.0) and *Otago/Southland* (44.3) regions both experienced low levels of activity. The result for the *Canterbury/Westland* region was the lowest since March 2009.

- Manufacturing by industry sub-groups again tended to be a mixture of expansion and contraction during March. The categories experiencing the strongest expansion included *food, beverage & tobacco* (57.1) and *metal product manufacturing* (56.2). In contrast, *textile, clothing, footwear & leather manufacturing* (42.1) continued to slip further into contraction.

- The comments about market conditions showed the proportion of negative comments (57.3%) rose significantly from previous months, compared with positive comments (42.7%). The Christchurch earthquake dominated comments, although there were a number of positive comments relating to increased orders from Australia.

Inside BNZ Commentary this Month (page 3)

Bank of New Zealand's Senior Economist, Craig Ebert, said that the stalling in the March PMI, from its robust reading early this year, was understandable, as it is the first survey post February's devastating earthquake. Still, there remained enough positive aspects, including robust employment intentions, to suggest the manufacturing will continue to recover, overall, having rebounded well in Q4 of last year.

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 expansion falls, but still marginally in positive territory.

Two of the five main indices recorded expansion, with employment leading the way.

Unadjusted regional activity showed a clear distinction in activity between North and South Islands.

The proportion of negative comments rose sharply for March.

Positive comments focused on increased orders from Australia.

Next BNZ - BusinessNZ PMI:
12 May 2011

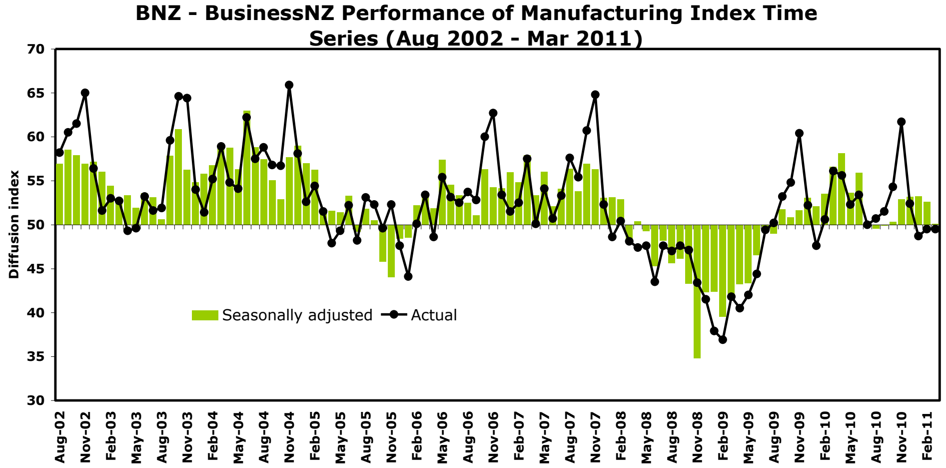
SPONSOR STATEMENT

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.



March time series tables

National Indexes	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011
BNZ - BusinessNZ PMI (s.a)	53.6	57.9	48.5	42.2	56.6	50.1
Production (s.a)	54.3	61.7	46.0	40.1	60.6	50.4
Employment (s.a)	50.5	50.0	50.4	40.4	50.7	53.2
New Orders (s.a)	54.1	58.6	44.6	42.7	57.9	49.3
Finished Stocks (s.a)	48.7	55.8	51.8	46.5	53.1	48.0
Deliveries (s.a)	54.0	56.3	51.0	41.5	57.3	47.8

National Indexes	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011
BNZ - BusinessNZ PMI (s.a)	53.6	57.9	48.5	42.2	56.6	50.1
Northern	53.8	55.0	47.8	41.3	57.8	52.4
Central	50.8	54.6	45.8	45.2	49.0	53.1
Canterbury/Westland	54.2	64.1	52.4	41.0	58.6	42.0
Otago/Southland	55.8	61.2	46.3	37.6	57.5	44.3

(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

14 April 2010

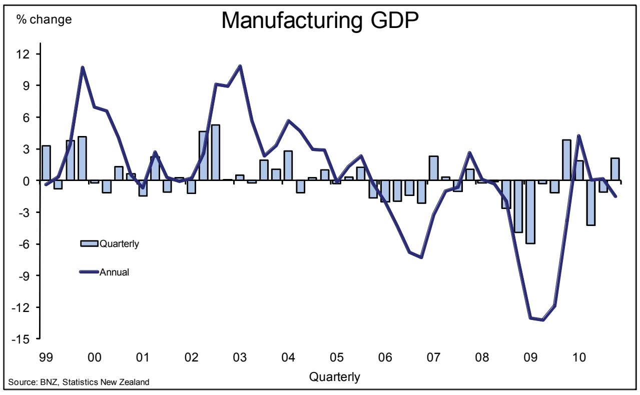
Manufacturing Mixed in More than Just Geography

- PMI essentially stalls, post earthquake
- Understandably, as Canterbury turns negative
- Picture extremely mixed by industry-type as well
- Still, manufacturing GDP rebounded 2.5% in Q4
- And post-drought dairy rebound likely to support Q1
- With much more to drive manufacturing, medium term

It's hard to know what to make of the March Performance of Manufacturing Index. Yes, it pretty much stalled. But this was hardly a surprise, given it's the first read post the February earthquake (because of which, a survey was not conducted for that month). Canterbury was down a lot, understandably. And while new orders, overall, were not encouraging of any immediate rebound in production, employment intentions (as we've seen in other recent surveys and data) remained positive enough to suggest firms still see ongoing recovery over the medium term.

We say "ongoing recovery" in the sense that manufacturing production, as measured in the GDP accounts, rebounded 2.5% in the December quarter of last year. Note that this is a "real" result in the sense that Statistics New Zealand, contrary to some perception, did have the vast majority of the survey responses data it required by the time of GDP publication, in spite of the obvious disruptions from February's quake.

In any case, by the time the actual manufacturing survey results were fully compiled, and published (a bit after the GDP report), it was more than obvious that manufacturing activity did fare fairly well in the December quarter. Sales volumes expanded a seasonally adjusted 3.3%, with stocks looking under even better control (excluding the volatile dairy and meat sectors). We'd thus be surprised to see the Q4 manufacturing recovery get revised away to any material degree.

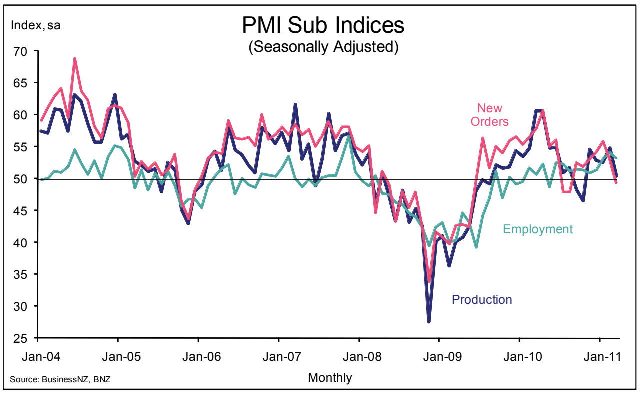


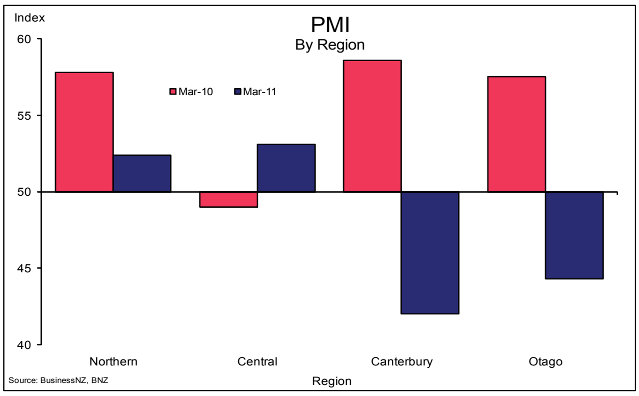
For the record, the lift in Q4 manufacturing GDP meant that for 2010 as a whole it increased 0.6% compared to calendar 2009, which, in turn, had fallen 10.5% from 2008.

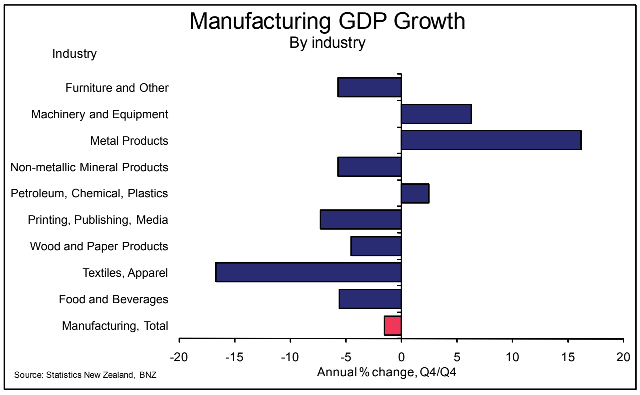
Still, we are left wondering if we'll get a further recovery this year. While this was looking quite likely earlier in the year, judging by January's PMI of 53.7, for instance, the March update, of a bare 50.1, clearly gives pause for thought. This result, in the first instance, represents a flat end to the quarter and, secondly, sets a soft tone going into the start of the June quarter.

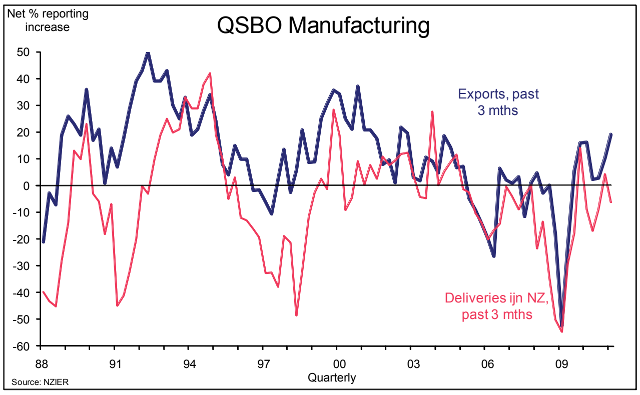
The situation in Canterbury – more accurately, Christchurch City – obviously sets a cautionary tone around performance and expectations. The region's PMI slumped to an actual 42.0, when it would normally have been expected to increase based on seasonal patterns. Compared to a year ago it was down 8.8 points. Otago, while also weak, experience less of a fall, while the Central zone barrelled on reasonably well, as did the (dominant) Northern catchment.

However, it wasn't just geography that revealed a very mixed picture on manufacturing fortunes. So did an



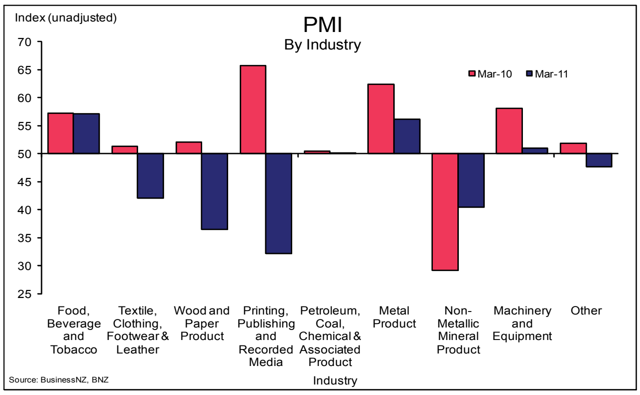






inspection of the industry breakdown. Even going back to the Q4 manufacturing GDP results, while up overall this involved a 12% drop in textiles and apparel, a 6% fall in furniture and "other" goods, against a 14% surge in metal products manufacturing and a 5.3% gain in machinery and equipment. This mix ties in with survey reports that manufacturing export sales were doing far better than domestic sales, for example in the latest Quarterly Survey of Business Opinion.

We've witnessed a similar variance, by industry, in the latest PMI. Relatively speaking (given the crunch from Canterbury) the weakest PMI categories were Printing, Publishing and Recorded Media along with Textiles, Clothing and Footwear. The strong elements were found in Metal Products, Machinery and Equipment.



Notwithstanding the diverging trends by industry, and geography, making interpretation very difficult we still believe there's a good chance of a further advance in manufacturing GDP in the March quarter of 2011. This essentially relates to the dairy industry. Not so much the buoyant prices now being received (although that can't hurt). It's more that its output has been able to rebound this calendar year, following the impingements of the late-2010 drought. With greater on-farm production of milk come more manufactured dairy products. To back this up we note the Food and Beverage sector of the March PMI was a hefty 57.1 9 (unadjusted).

For further down the track we have our fingers crossed that New Zealand's manufacturing sector will be very much part of the pick-up we still expect for the economy as a whole. Indeed, it might well be leveraged to it, given manufacturing's traditionally strong links to the likes of the construction cycle (to pick up, on more than just the post-quake rebuild, off a low base), the investment cycle (as natural lags would have it), and Australia's economy (with a relatively soft NZD/AUD thrown in for good measure).

If we're right on all of this, we should expect to see New Zealand's Performance of Manufacturing Index grapple its way into properly positive territory over the coming months, with a more obvious and widespread pulse emerging from its present collective of mixed messages.

craig_ebert@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Economist
+(64 4) 474 6923

Mike Jones
Strategist
+(64 4) 924 7652

Kymberly Martin
Strategist
+(64 4) 924 7654

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+800 9295 1100
Fixed Income/Derivatives	+(61 2) 9295 1166

London

Foreign Exchange	+800 333 00 333
Fixed Income/Derivatives	+(44 20) 7796 4761

New York

Foreign Exchange	+1 800 125 602
Fixed Income/Derivatives	+1877 377 5480

Hong Kong

Foreign Exchange	+(85 2) 2526 5891
Fixed Income/Derivatives	+(85 2) 2526 5891

24 HOUR FOREIGN EXCHANGE SERVICE

Phone Toll Free	6am to 10pm NZT – Wellington Office
0800 739 707	10pm to 6am NZT – London Office – Sam Hehir