bnz capital

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

Weak production and new orders continues contraction in manufacturing activity

BNZ Capital - Business NZ PMI for January 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for January (42.0) decreased 0.5 points from December, and the second lowest recorded value since the survey began in 2002. The result is also the worst start to a year on record, with the previous lowest value for January being 48.3. Overall, this represents nine consecutive months in contraction, with the four most recent results under 44.0.

- All five seasonally adjusted main diffusion indices were in contraction, with most displaying worse results than the previous month. *Production* (39.3) posted its second sub-40 result, while *new orders* (40.8) slipped back from an improved result in December. *Employment* (43.6) continued to show some lift in its value, but still showing significant contraction. *Finished stocks* (48.8) fell back from a small level of expansion, while *deliveries of raw materials* (41.9) exhibited its third worst outcome.

- Unadjusted activity for January showed weakness in activity throughout the country. In the North Island, the Northern region (34.4) slipped in activity for the fifth consecutive time, while the Central region (40.7) also fell back to record its lowest ever result. In the South Island, there was a substantial drop for the Canterbury/Westland region (36.8), while the Otago/Southland region (48.4) went from slight expansion to decline in January, after four months of slight-moderate expansion.

- Almost all manufacturing industry sub-groups displayed contraction during January. The *machinery & equipment* (34.7), *metal product manufacturing* (35.2) and *petroleum, coal, chemical & associated product* (35.7) sectors recorded weak activity for the start of 2009. In contrast, the *food, beverage & tobacco* sector (56.3) continued to show expansion, albeit not at the higher levels experienced in December.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for January (34.9) improved slightly from December, but still close to its historic low. The Australian PMI (36.6) continued to improve somewhat, while the USA PMI (35.6) also showed some relative improvement to record a value similar to that in November.

- Further deterioration in activity for January compared with December also meant the proportion of negative comments made by respondents during January rose (sitting at 69.5%), compared with 69% in December, 68.4% in November and 67.0% in October.

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 at its second lowest ever value of 42.0.

All five main indices showed ongoing contraction, with four of the five showing worsening results compared with December.

Regional activity was particularly weak in most areas, with three of the four regions displaying their worst results.

A number of sub-sectors experienced results between 34-36, while the food, beverage & tobacco sector continued to show expansion.

The global manufacturing scene improved only slightly, with many countries still near historic lows.

Next BNZ Capital - Business NZ PMI: 12 March 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.bnzmarkets.co.nz)

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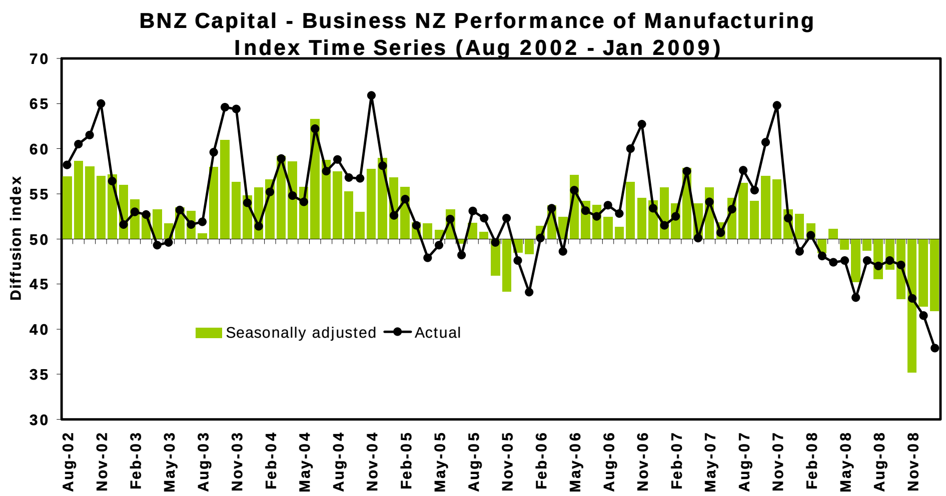
pmi



January time series tables

National Indexes	Jan 2003	Jan 2004	Jan 2005	Jan 2006	Jan 2007	Jan 2008	Jan 2009
BNZ Capital - Business NZ PMI (s.a)	56.0	55.7	56.8	48.3	55.7	52.8	42.0
Production (s.a)	59.1	57.5	56.1	48.8	56.3	51.0	39.3
Employment (s.a)	51.9	49.9	54.8	45.5	51.8	50.1	43.6
New Orders (s.a)	55.8	59.1	61.0	50.2	57.8	54.1	40.8
Finished Stocks (s.a)	53.4	52.7	54.4	49.3	51.3	54.6	48.8
Deliveries (s.a)	59.8	57.2	55.5	47.2	58.0	54.9	41.9

National Indexes	Jan 2003	Jan 2004	Jan 2005	Jan 2006	Jan 2007	Jan 2008	Jan 2009
BNZ Capital - Business NZ PMI (s.a)	56.0	55.7	56.8	48.3	55.7	52.8	42.0
Northern	45.1	50.0	53.8	42.3	51.6	47.2	34.4
Central	58.8	51.0	51.2	44.8	52.6	42.3	40.7
Canterbury/Westland	48.5	54.9	49.4	49.4	53.7	55.2	36.8
Otago/Southland	59.9	48.7	54.9	42.8	43.4	58.8	48.4

(s.a denotes seasonally adjusted)

The BNZ Capital - Business NZ PMI contains data obtained through Business NZ's regional organisations:

EMA

Northern (Employers and Manufacturers Association - Northern): Northland, Auckland, Waikato, Bay of Plenty

EMA CENTRAL

Central (Employers and Manufacturers Association - Central): Gisborne, Hawke's Bay, Taranaki, Manawatu, Wanganui, Wellington, Nelson, Tasman

CANTERBURY EMPLOYERS' CHAMBER OF COMMERCE

Canterbury/Westland (Canterbury Employers Chamber of Commerce): Canterbury, Marlborough, West Coast

OTAGO SOUTHLAND Employers ASSOCIATION INC. INDUSTRIAL RELATIONS & HUMAN RESOURCE SPECIALISTS

Otago/Southland (Otago Southland Employers Association): Otago, Southland.

12 February 2009

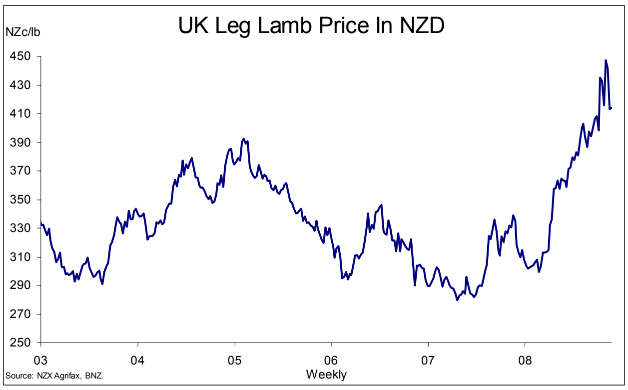
Meat Processing Boom on its Last Legs

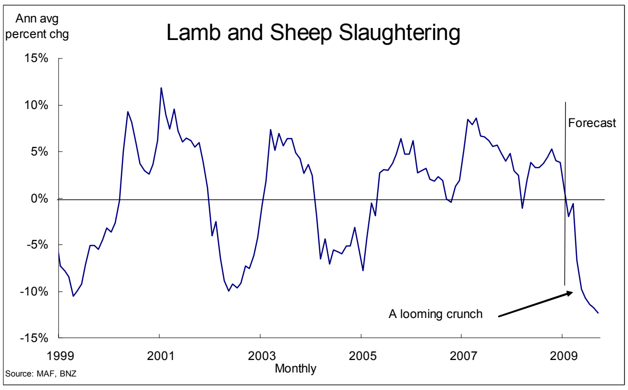
- Agricultural processing flattering NZ manufacturing
- But meat's boom days are numbered
- And dairy largely a post-drought rebound
- Underlying manufacturing conditions that much weaker

For all that New Zealand's PMI remains firmly mired in contractionary territory, digging into the detail of January's data has as wondering how much worse the results might be, were it not for the strength of agricultural processing. After all, the heavyweights of food manufacturing, dairy and meat processing, are enjoying some unusually heady times at present. But with the strength of both more due to temporary drivers, rather than any genuine underlying robustness, the boost given to the headline PMI by agricultural processing could soon fizzle out.

Take lamb slaughtering. Despite the massive cull in breeding stock that occurred in the wake of last season's drought - which dragged on long enough to also affect lambing rates - the number of lambs sent to slaughter is, thus far, still up on the same time last season. That's good news, obviously. Prices, too, have held up reasonably well in the key export markets of the UK and Europe, despite the recessionary backdrop (though with supply shortages playing an important role). Farmers and processors have been quick to take advantage of such. Respondent comments to January's survey certainly reflected a relatively upbeat mood around the local meat industry (perhaps a reason why businesses from Otago and Southland were amongst the most positive?).

But it's just a matter of time before last season's cull catches up with this season's slaughter rates. Meat and Wool New Zealand is forecasting lamb production for





2008/09 to be down 23% on last season, implying a massive drop-off in slaughtering is looming. Even allowing for higher slaughter weights, we figure that meat processing will slow sharply for much of the rest of the season.

We suspect dairy processing, too, is subject to its own post-drought surge, with current growing conditions a vast improvement over those that afflicted dairy farmers during the peak months of last season and which forced many farmers to dry-off their herds months ahead of schedule; nearly 100 million kg of milksolid was lost last season as a result. Fonterra has publicly stated that it expects to recoup all of that lost production, forecasting an eventual lift in total production this season of around 8%. That lift is already likely to have the milk processing plants churning out product at far greater rates than a year ago – something the dairy co-ops may, in fact, be rueing given the parlous state of global dairy markets at present.

It's true that, unlike for meat, dairy production is likely to remain at elevated levels for the remainder of the season (provided growing conditions remain favourable and milk production remains economically viable for farmers). However, it's also true that some of the positive (or, at least, less negative) sentiment showing through in January's PMI reflects a post-drought catch-up, rather than any real underlying optimism. Strip that out – as will happen when the crunch in lamb numbers hits in coming months – and true weakness of the local manufacturing industry will be better revealed.

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