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

Turning the corner?

BNZ - BusinessNZ PMI for February 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for February stood at 57.7, which was 6.9 points up from January, and the highest level of activity since April 2010. Compared with previous February results, the 2012 value was the highest recorded, beating the previously highest value of 56.8 set in 2004.
- Four of the five seasonally adjusted main diffusion indices were in expansion during February, led by *new orders* (63.1) and *production* (61.9) with both recording their highest results since 2004. *Employment* (51.3) was largely unchanged from January, as was *finished stocks* (49.0). *Deliveries* (54.0) increased 3.8 points from the previous month to record its highest level of activity since August 2011.
- Unadjusted results by region showed that activity bounced back strongly in the North Island, but slipped in the deep south. The *Northern* region (53.0) rose 10 points from January, while the *Central* region (61.4) increased 15.5 points to its highest level since November 2007. While the *Canterbury/Westland* region (52.0) moved little from January, the *Otago/Southland* region (44.7) slipped to its lowest value since June 2011.
- Manufacturing by industry sub-groups showed mostly expansion during February. *Metal product manufacturing* (59.7) improved significantly to record the highest value for the month, while *machinery & equipment manufacturing* (56.6) also showed a strong increase in activity. *Petroleum, coal, chemical & associated products* (52.4) reversed its decline from last month, while *food, beverage & tobacco* (53.3) showed moderate growth.
- The overall increase in activity mirrored the proportion of negative comments, falling from 54.5% in January to 49.1% in February. Positive comments centered on new domestic and international orders, as well as some seasonal activity. Globally, the JPMorgan Global Manufacturing PMI stood at 51.1 for February, which was almost identical to the 51.3 recorded the previous month.

Inside BNZ Commentary this Month (page 3)

BNZ Economist Doug Steel suggests after that what looked like a decline in the final quarter of last year, manufacturing production appears to have bounced back in the first quarter of 2012.

In the bigger picture, the strong February PMI result comes in the context of the generally low level of manufacturing activity in recent years. In this sense it is growth off a low base. Much like what is occurring in residential construction.

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 57.7 for February, up 6.9 points from January.

Four of the five main indices recorded expansion, with production and new orders improving significantly.

Unadjusted regional activity improved in the North, but experienced a fall in the deep south.

Next BNZ - BusinessNZ PMI: 12 April 2012

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BNZ-BusinessNZ PMI

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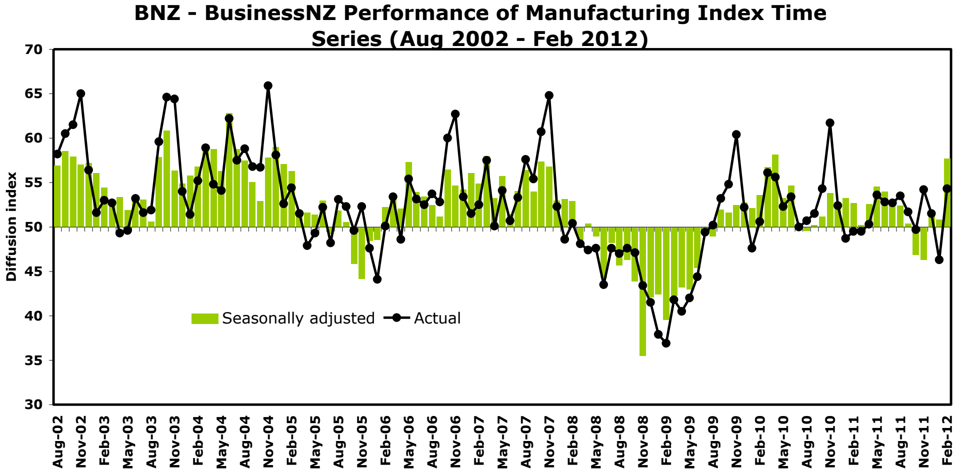


February time series tables

National Indexes	Feb 2007	Feb 2008	Feb 2009	Feb 2010	Feb 2011	Feb 2012
BNZ - BusinessNZ PMI (s.a.)	54.9	52.9	39.6	53.5	52.7	57.7
Production (s.a.)	54.8	53.4	35.2	53.6	53.8	61.9
Employment (s.a.)	53.2	48.5	39.6	51.1	53.5	51.3
New Orders (s.a.)	56.9	55.3	39.9	56.7	53.1	63.1
Finished Stocks (s.a.)	51.8	53.1	48.2	50.6	50.7	49.0
Deliveries (s.a.)	54.5	53.8	41.7	53.7	50.7	54.0

National Indexes	Feb 2007	Feb 2008	Feb 2009	Feb 2010	Feb 2011	Feb 2012
BNZ - BusinessNZ PMI (s.a.)	54.9	52.9	39.6	53.5	52.7	57.7
Northern	52.3	48.9	33.2	49.1	52.4	53.0
Central	53.0	48.9	38.7	48.3	53.1	61.4
Canterbury/Westland	51.4	57.0	41.5	59.2	42.0	52.0
Otago/Southland	53.9	52.4	44.5	49.5	44.3	44.7

(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

15 March 2012

Manufacturing Surges From Low Base

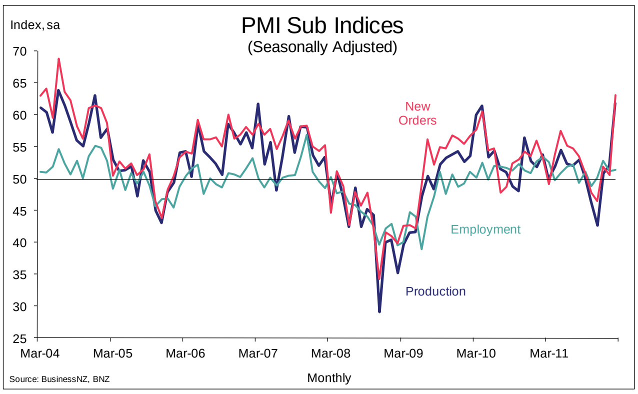
- PMI rips higher in February
- New orders, production lead the way
- Early signs of strong growth off a low base
- But with manufacturing spare capacity limited
- With construction drivers on the up
- RBNZ to take note, not act

During a couple of negative PMI prints late last year and positive, but far from strong, results over the past couple of months we have held steady to our view that the manufacturing sector is on a positive underlying trajectory.

In line with this, we were on the lookout for today's PMI to see if it showed any signs that the optimism brewing in the construction sector or the commodity cash was starting to filter through to domestic manufacturing. Truth be told, we wondered if it still might be a bit too early for any such evidence to be showing up. Really, we would have taken any tick up in just new orders to keep our positive underlying growth outlook on track.

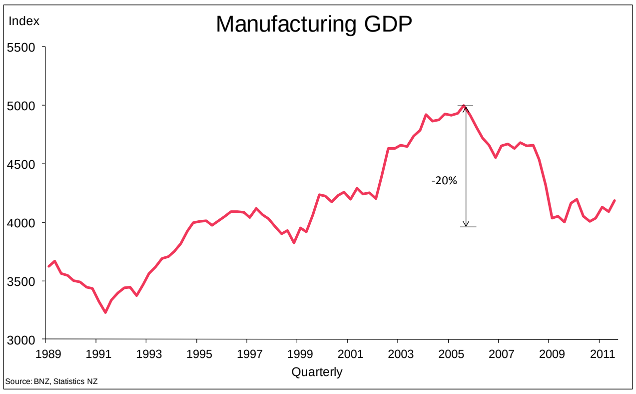
Bam! Our cautious optimism was well and truly exceeded with February's stunning 57.7 PMI result. It is not only a huge and significant step up from January's rather timid looking 50.8, but the strongest PMI result in almost two years. In fact, the PMI has only printed better than today on two occasions in the past seven years. It is one out of the box.

Moreover, there is a lot to like in the details too. The production index jumped a very large 9.8 points to 61.9. Even more impressive was the massive 12.5 point surge in new orders from 50.6 to 63.1 – the biggest monthly gain in the new orders index in the history of the index, which dates back to 2002. These big February gains put the production and new orders components at their highest level since 2004.



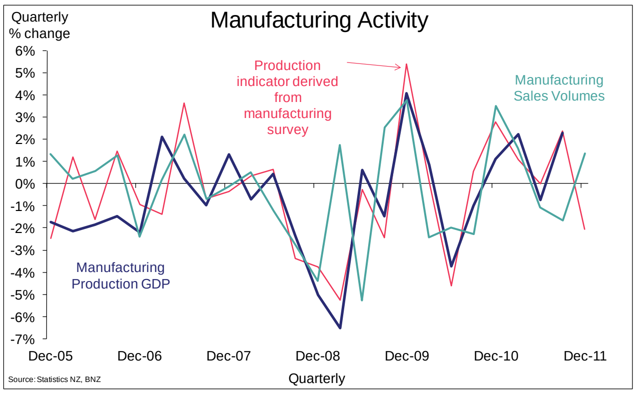
But as good as the headlines look, they need to be interpreted carefully.

We need to bear in mind that the PMI is an indicator of growth; it says nothing about the outright level of manufacturing activity. The manufacturing sector was hit harder than most during the 2008/09 recession. In fact, manufacturing real GDP fell 20% from a peak in mid 2005 to a trough in mid-2009. It is from this low base that the developing positive growth signals are coming off.



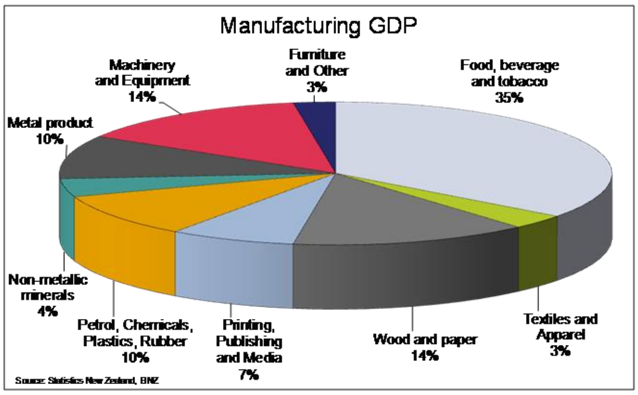
We are more convinced the manufacturing trend is now positive, even though the quarter to quarter movements are as bumpy as ever.

The GDP statistics currently only extend to Q3 2011, with Q4 figures due next Thursday. We think manufacturing production fell in Q4, by around 2%. This is despite last week's quarterly manufacturing survey results showing a moderate 1.3% rise in sales volumes. We suspect that this came out of inventory and production actually fell.



Despite expecting a dip in Q4 manufacturing production – along the lines of what the PMI was indicating at the time – we expect the dip will prove temporary. Q4 production was inhibited by such things as a burst gas pipe line that disrupted activity in the top half of the North Island for a few days and a very sharp drop in meat processing in the quarter as a result of farmers keeping stock on farm because of exceptional grass growth.

For our international readers, the impact of very good grass growing conditions on the nation's manufacturing performance should not be under estimated. After all, food processing accounts for more than a third of the sector.



We think a production bounce back has occurred in the first quarter of 2012. This in part reflects a bit of catch up from the interruptions late last year and through the holiday period. But we also think that there is some acceleration in underlying activity. Today's PMI results very much fit with this view.

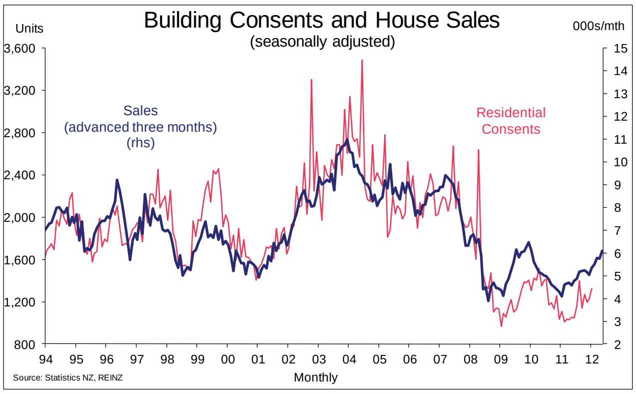
As always, the averages mask a range of performances across the various industries within the manufacturing sector. And while activity levels vary greatly across industries, it is interesting to note that in February all nine industry PMI's were above 50 (not outright, but on our seasonally adjusted estimates). This is only the second month since 2007 that all nine major industries posted above 50 results on this basis. Of course, one month's expansion does not mean all is good especially with some industries coming from such low bases, but it is encouraging.

This growth from a low base is exactly what we are seeing in the likes of residential construction and anticipate more over the coming few years, with flow on benefits to the manufacturing sector.

We are already seeing signs of a construction pick up in the leading indicators. To date, the usual lags seem to be playing out. That is existing house sales tend to move first, followed by building consents and eventually more construction activity and more demand for manufacturing goods.

Existing house sales are now well and truly off the bottom of a few years ago. Indeed, REINZ figures for February released on Tuesday show the number of house sales are a full 37% above last year.

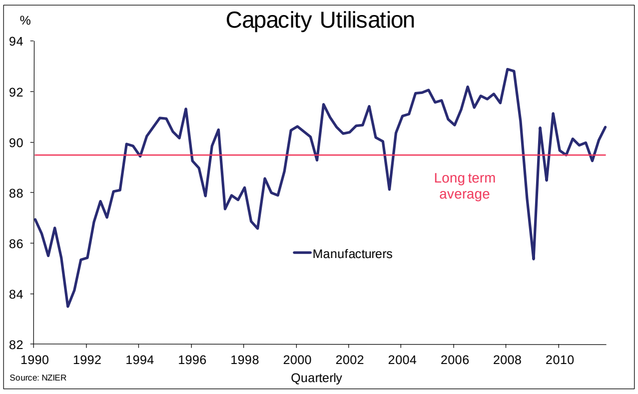
Given the usual lag, we anticipate residential building consents to add to the 27% lift we have already seen in the year to January.



There are now early signs this is starting to lift the construction sensitive parts of the manufacturing sector, such as metal, non-metallic mineral and wood processing. The PMI for these industries have improved markedly from late last year (on our seasonally adjusted estimates).

The pick up might be off a low base, but we take this as tangible evidence of improvement given that the PMI is a survey of business outcomes, not of confidence or expectations.

The implied speed of the pick up in the manufacturing sector, even if it is only for one month, may well raise an eyebrow down at the Reserve Bank. Despite the growth coming from a low level, we are not so sure that there is much spare capacity to handle strong growth. At least, that's what the obvious conclusion is from the latest QSBO where manufacturer's capacity utilisation was sitting right on its 10-year average and even above its longer term average.



Again, there is a variety of circumstances across industries and firms. For instance, from the QSBO, 10% of manufacturers reported no capacity to lift production without raising unit costs, while 22% of firms reported they could lift production by more than 20% without lifting unit costs. Both of these results are within a whisker of long term averages.

Even if there is a bit of room to grow on average without driving up unit costs and pricing pressure, it would be quickly used up if the PMI stays at its current level for too long without capacity expansion.

We think there is some capacity expansion going on, which itself is good for the manufacturing sector. Indeed, the machinery and equipment industry posted its highest February PMI result since 2004. And the overall PMI employment index continues to indicate some growth. From a pricing pressure point of view, the question is whether it can keep pace with demand, however strong that turns out to be.

It is still early days in the recovery. We do not formally forecast the PMI, but our positive view on manufacturing ahead would be consistent with the PMI remaining above 50 on average through 2012, even if it does not quite maintain February's heady level. We await the March PMI and also the Q1 QSBO results with interest.

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