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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

Manufacturing remains in tight band of activity

BNZ Capital - Business NZ PMI for May 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for May (42.7) decreased 1.0 point from April, but still the second highest value since October 2008. Apart from the sub 40.0 result in February, the sector has remained in a tight activity band with values only ranging by 1.7 points since December 2008.

- All five seasonally adjusted main diffusion indices continued to display contraction, with all experiencing lower results than the previous month. However, it was also the second consecutive month in which all indices remained over 40.0 for 2009. *Production* (41.4) fell 1.4 points from April, while *employment* (43.0) also slipped back from the previous month. *New orders* (41.3) returned to a similar level seen in March, while *deliveries of raw materials* (43.0) fell 0.6 points from April. *Finished stocks* (45.5) decreased another 0.6 points from April to reach a new low since the survey began.

- Unadjusted activity for May showed a mixed result by region. In the North Island, the Northern region (43.2) displayed its highest value since October 2008. However, the Central region (36.1) produced its worst result since the survey began, mainly due to significant falls in production and new orders. In the South Island, the Canterbury/Westland region (48.4) continued to show significant improvement over the last few months, while the Otago/Southland region (36.4) continued to flip-flop between a sub and post 40 result.

- Almost all manufacturing industry sub-groups again displayed contraction during May, although there was a significant range of results. The *petroleum, coal, chemical & associated products* (33.3), *textile, clothing, footwear & leather manufacturing* (38.4) and *metal products* (40.1) sectors experienced the lowest results for May. In contrast, the *food, beverage & tobacco* sector (51.1) continued to show expansion, albeit lower than in the previous month.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for May (45.3) continued to improve with a nine-month high. The Australian PMI (37.5) improved to a seven month high, while the USA PMI (42.8) experienced its highest result since September 2008.

- While the rate of decline picked up slightly in May, the proportion of negative comments made by respondents decreased to 75.6%, compared with 78.3% in April, 70.3% in March and 75.1% in February.

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 dipped to 42.7.

All five main indices continued to show ongoing contraction, but all were above 40 for the second consecutive month this year.

Activity by region was very patchy, with the Central region hitting new lows.

The global manufacturing scene continued to show signs of recovery, with Australia and the USA showing significant improvement.

Next BNZ Capital - Business NZ PMI: 16 July 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.bnzcapital.co.nz)

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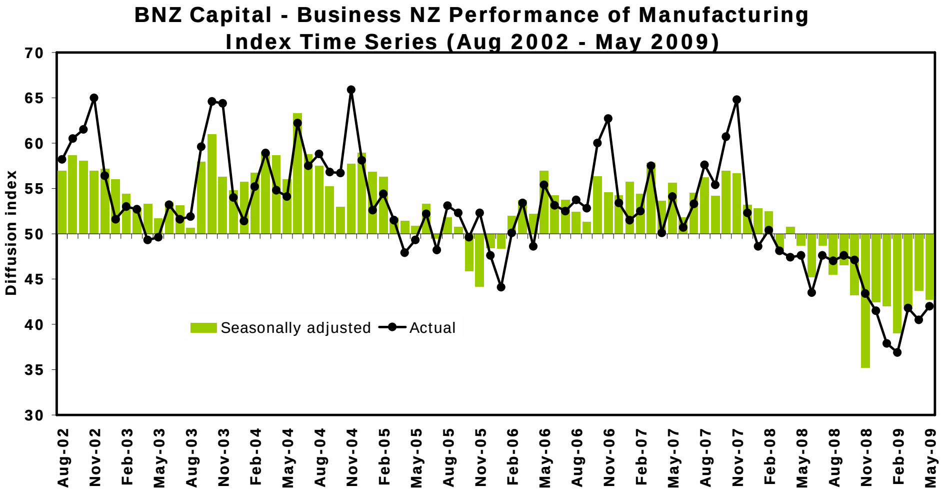
pmi



May time series tables

National Indexes	May 2003	May 2004	May 2005	May 2006	May 2007	May 2008	May 2009
BNZ Capital - Business NZ PMI (s.a)	51.7	56.0	50.9	57.0	55.6	48.7	42.7
Production (s.a)	51.5	57.1	51.0	58.3	55.7	47.0	41.4
Employment (s.a)	50.5	51.8	48.2	52.1	49.8	47.4	43.0
New Orders (s.a)	51.5	59.1	51.1	58.7	57.1	48.1	41.3
Finished Stocks (s.a)	53.2	50.9	50.6	54.3	56.9	49.9	45.5
Deliveries (s.a)	51.7	58.4	51.7	55.8	54.0	50.2	43.0

National Indexes	May 2003	May 2004	May 2005	May 2006	May 2007	May 2008	May 2009
BNZ Capital - Business NZ PMI (s.a)	51.7	56.0	50.9	57.0	55.6	48.7	42.7
Northern	47.9	55.7	49.4	55.1	49.8	44.1	43.2
Central	50.1	52.0	50.1	52.5	54.8	52.8	36.1
Canterbury/Westland	53.4	57.3	48.9	59.1	58.0	48.2	48.4
Otago/Southland	51.8	51.3	46.8	58.5	61.9	51.8	36.4

(s.a denotes seasonally adjusted)

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

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

Central (Employers and Manufacturers Association - 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 June 2009

Beware Data Ledges

- NZ manufacturing still downcast in May
- Rising currency the latest frustration
- Global activity starting to stabilise
- But some data "ledges" already crumbling
- And who's making a buck soon anyhow?

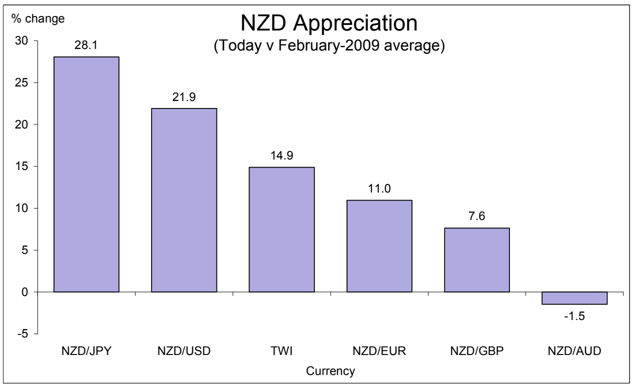
The stumble in May's Performance of Manufacturing Index was disappointing to see, although hardly a huge surprise. It suggests New Zealand's industrial sector is still struggling, most likely contracting, if the headline PMI of 42.7 can be accepted at face value.

Of course, it's still a very mixed bag in the detail. It ultimately depends on what type of goods one's producing, and the relative domestic/export/import exposure one has. Not everyone is finding the going tough. But most are.

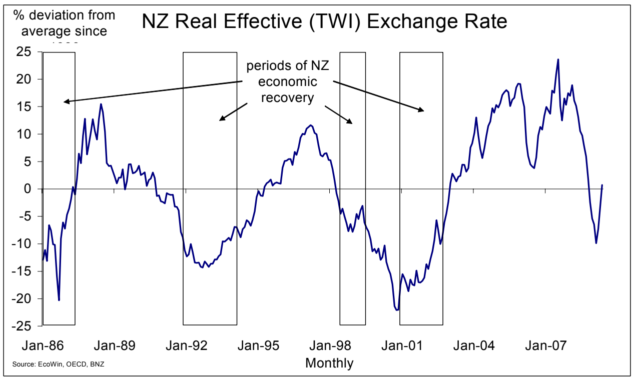
And it remains a moving feast – or, should we say, famine – more generally. Just when the global activity indicators, particularly around manufacturing, look to be stabilising, the rising currency is causing another layer of concern for the local industry. This was evident in the comments respondents to the latest PMI made.

While NZD/AUD is mercifully on the soft side, at around 0.7800, NZD/USD has strengthened to about 0.6300. While some of the latter's move is simply the mirror image of US dollar weakness, there is (much) more to it than that.

US dollar weakness doesn't explain, for example, the as-big jump in NZD/JPY over the same period or the upward creep in NZD/EUR. To be sure, NZD/GBP has been relatively steady, but only to keep pace with the strengthening British Pound. The NZ dollar's upward leg should thus be viewed as the consequence of folk becoming much less fearful of a global Depression (not just the weaker USD).

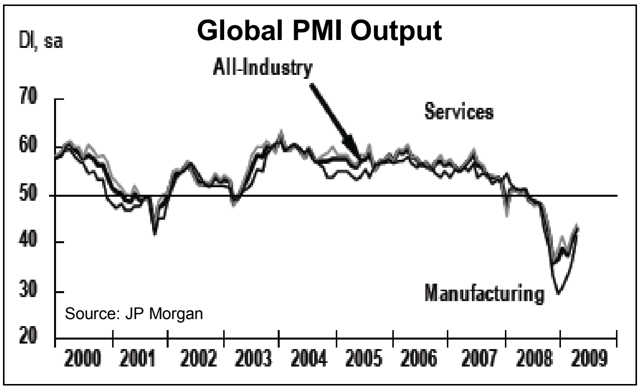


Still, there are bigger concerns with the NZ dollar to consider. The first is that, overall, on a trade-weighted basis, it is pretty close to its long-term average. That's highly unusual for this stage in the economic cycle. Normally when the NZ economy is in a nasty recession, the currency traces a sympathetically low path to help nurse the economy back to better health.



Perhaps the recently robust NZ TWI will prove too much, too soon, and thus correct in accordance with the underlying economic distress it sustains. Yet the incremental news signals a good chance of the NZ dollar trending higher over the next year or two. This is usually the way when global conditions improve, and commodity prices with them – as seems to be starting to happen right now.

Then again, these are early days on the global recovery story. While it's difficult to deny most of the international indicators have stopped regressing (with some even



implying expansion), it's quite another thing to presume it is all blue skies ahead. In fact, risks of a patchy, even disappointing, recovery abound. So be careful out there.

Take the batch of German economic data published just a day or two ago. April exports dropped a seasonally adjusted 5%, while imports were also much weaker than expected, falling 6%. Germany's industrial production also disappointed for April, down 1.9%. All results followed a "ledge" that had been formed in March, with essentially sideways moves in exports, imports and industrial production, following precipitous drops since August 2008.

German Exports Resume Slump

Beware ledges, we suppose is the lesson. They can be as dangerous and false-security giving, as they can be helpful. The real task is to understand the broader environment within which the ledges are forming.

And even where genuine claw-backs in activity have been posted they have so far looked pathetic at the base of the cliff they've tumbled down. For example, the 5.6% increase in Japan's April industrial production was described by Bloomberg as the biggest surge in 56 years. That's strictly true. But production fell by a third between February and the preceding September. It has about 40% to increase to recover last September's level.

Japan's Record Surge in Industrial Production

Yet the risks appear tilted toward disenchantment. Japan's machinery orders, published yesterday, contracted 5.4% in April. The markets were anticipating (hoping for?) just a 0.6% slip. It looks like another ledge beginning to crack. April's stagger in machinery orders worsened the annual drop to 32.8%, from March's 22.2%.

This, in turn, is a big wake-up call to the absolute levels of production now pervading the world, the degrees of spare capacity that have opened up and the accordant hits to profitability that has occurred. Following the example of Japan, we note its capacity utilisation rate for April was 61.0%. While up half a percent from March, it was light years south of the 99.2% reading from September. It's a massive, massive hole.

Japan's Capacity Utilisation Falls Into Abyss

With this sort of thing, it's no wonder that Japan's corporate profits-to-sales ratio fell to a paltry 1.4% in Q1, from 4.3% back in 2008 Q2. According to these Ministry of Finance figures, Japan's manufacturers were making outright losses to the tune of 2.7% to sales.

It's a reminder of the hit profitability has undoubtedly sustained across the world more generally, even if we can trust the sense of recovery in activity over the last couple of months. The fact is, it will take a combination of strong revenue growth (which puts the onus on the growth indicators becoming substantively positive, not just stabilising, which would include the PMI's moving well above their break-even 50-levels), as well as aggressive cost control, to get profits back into the realm of respectability.

We could say the same thing for New Zealand's manufacturing sector. For the moment there is no clear signal, if any at all, that revenue is about to recover with gusto. May's PMI was certainly not encouraging on demand, with its new orders sub-index slipping to 41.3. But at least the PMI was encouraging on the cost containment side, with its indications of further trimming of staff numbers, and working down of inventories.

We'll get there, and in relatively good shape to ride the inevitable global recovery. We're just not so sure when. Nor can we be sure of how much of the pie we'll get, with the strengthening currency threatening to tax any gains.

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