

# PERFORMANCE OF MANUFACTURING INDEX



The Bank of New Zealand - 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 down three points from 48.7 to sit at 45.7 for August.**

**Three of the five main indices continued to show contraction, with the sub-indices of production and employment exhibiting their lowest result to date.**

**Regional activity showed the Northern region in contraction for the eighth consecutive month.**

**Despite worsening activity, the proportion of negative comments improved slightly in August.**

**The global manufacturing scene continued to worsen, although activity in Australia and the USA remained steady.**

**Next PMI: October 16**

## SPONSOR STATEMENT

Bank of New Zealand is delighted to be associated with the Performance of Manufacturing Index (PMI). This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business NZ and its regional organisations and to playing our part in the ongoing development of the New Zealand manufacturing sector.

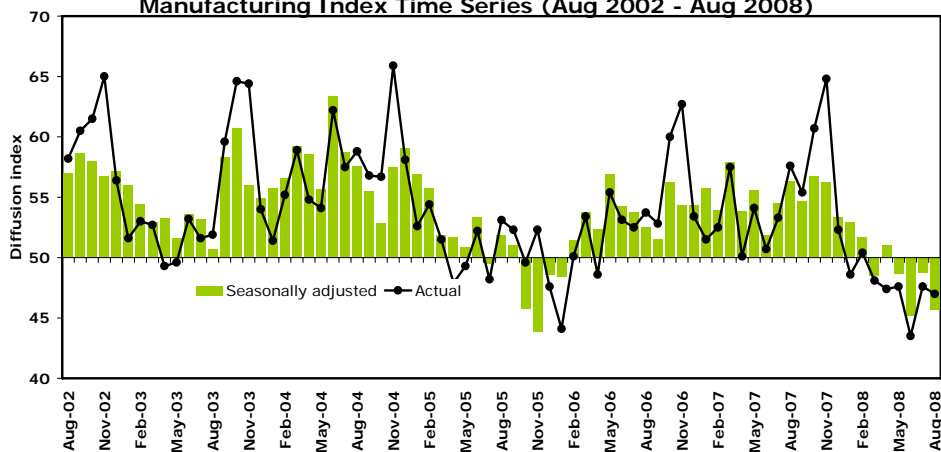
## Manufacturing activity remains in contraction

### Bank of New Zealand - Business NZ PMI for August 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for August (45.7) continued to jostle between values of 45-49, after falling three points from July. The sector has now been in decline for four consecutive months, which was the equal longest period of contraction for the sector, last seen in late 2005/early 2006.
- Three of the five seasonally adjusted main diffusion indices continued to record weakness. *Production* (42.3) experienced its lowest result to date, while *new orders* (44.4) returned to levels experienced in June. *Employment* (45.4) also recorded its lowest result, while *deliveries of raw materials* (50.2) expanded for the first time since April.
- Unadjusted activity for August showed all four regions in decline. For the North Island, the Northern region (48.6) continued to remain in contraction for the eighth consecutive month, The Central region (45.9) continued to remain within a fairly small range of 45-46 over the last three months. In the South Island, the Canterbury/Westland region (43.9) experienced a sharp fall in activity compared with July, while Otago/Southland (48.9) experienced its third consecutive sub-50 result.
- Results for the various manufacturing industries generally showed contraction, with a few sub-sectors remaining in positive territory. The *metal product* sector (52.2) bounced back from five consecutive months of contraction to lead the sub-sectors for August. This was followed by the *machinery & equipment* sector (51.6), which has remained in positive territory for six months. In contrast, the *petroleum, coal, chemical & associated product* sector (40.5) experienced a sharp drop in activity compared with July, while the *textile, clothing, footwear & leather* (42.8) and *wood & paper product* (42.9) sectors continued to show significant decline.
- In comparison with manufacturing activity offshore, the JPMorgan Global PMI continued to fall (48.6), which was the lowest level of activity in more than five years. The Australian PMI (47.0) remained the same as July, while the USA PMI (49.9) was also largely unchanged from the previous month.
- Interestingly, the proportion of negative comments made by respondents continued to fall back, sitting at 68.3% in August, compared with 70.6% in July and 74.7% in June. Those with negative comments continued to outline the slowing economy and general economic downturn, while positive comments were more concentrated on the recent improvement of the New Zealand dollar.

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Bank of New Zealand - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Aug 2008)



## August time series tables

| National Indexes                            | Aug 2003 | Aug 2004 | Aug 2005 | Aug 2006 | Aug 2007 | Aug 2008 |
|---|----------|----------|----------|----------|----------|----------|
| Bank of New Zealand - Business NZ PMI (s.a) | 50.7     | 57.6     | 51.9     | 52.5     | 56.3     | 45.7     |
| Production (s.a)                            | 47.6     | 58.6     | 52.6     | 52.1     | 59.5     | 42.3     |
| Employment (s.a)                            | 51.3     | 50.8     | 51.2     | 49.4     | 50.9     | 45.4     |
| New Orders (s.a)                            | 55.4     | 62.3     | 51.6     | 56.4     | 58.4     | 44.4     |
| Finished Stocks (s.a)                       | 50.4     | 55.2     | 51.2     | 50.8     | 53.7     | 51.7     |
| Deliveries (s.a)                            | 48.1     | 58.5     | 53.4     | 50.1     | 55.4     | 50.2     |

| Regional Indexes                            | Aug 2003 | Aug 2004 | Aug 2005 | Aug 2006 | Aug 2007 | Aug 2008 |
|---|----------|----------|----------|----------|----------|----------|
| Bank of New Zealand - Business NZ PMI (s.a) | 50.7     | 57.6     | 51.9     | 52.5     | 56.3     | 45.7     |
| Northern                                    | 52.2     | 61.1     | 54.0     | 52.5     | 56.8     | 48.6     |
| Central                                     | 48.6     | 55.9     | 51.3     | 53.5     | 58.1     | 45.9     |
| Canterbury/Westland                         | 60.2     | 59.6     | 47.6     | 55.7     | 59.3     | 43.9     |
| Otago/Southland                             | 53.4     | 57.5     | 60.9     | 58.2     | 56.9     | 48.9     |

(s.a denotes seasonally adjusted)

The Bank of New Zealand - 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.

## PMI Dents Recovery Hopes

- Signs of recovery have emerged
- Business and consumer confidence have jumped
- Falling currency, fiscal stimulus and declining petrol prices good news
- But manufacturers are less than convinced
- As employment, production and new orders stumble

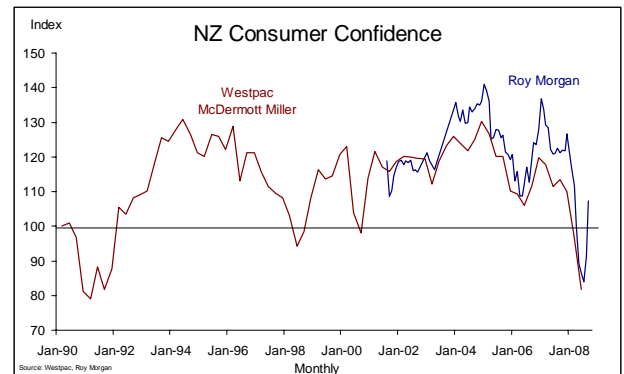
Over the last few weeks a number of economic indicators have started to find their feet again. While the historic data continue to print ugly, many of our traditional leading indicators have appeared to turn the corner. The question that this raises is: is the worm turning or are we about to witness a dead cat bounce?

As each new series hits the headlines, the light at the end of the tunnel appears to shine more brightly. Of substantial importance is: the reported jump in consumer confidence by Roy Morgan; the slow but steady climb in the National Bank's business confidence indicator; the end to the drought and all that entails; the positive impact of the plummeting New Zealand dollar; the first rate cut from the central bank, with hopes of more; and even the first mutterings that the housing market might be troughing.

Amongst all this joy, however, we can't help but ponder the other factors that currently warn of a direr outlook than folk might care to assume. These include: the fact that global growth increasingly looks in trouble; the ongoing (and indeed worsening) credit crunch; the rising unemployment rate, and expectations of more to come; a building sector which is going backwards at a rapid rate of knots; ongoing weakness in the housing market; the potential that rural confidence might be overdone; weakening business sector investment; and, for manufacturers, the end to the fall in the NZD versus the AUD.

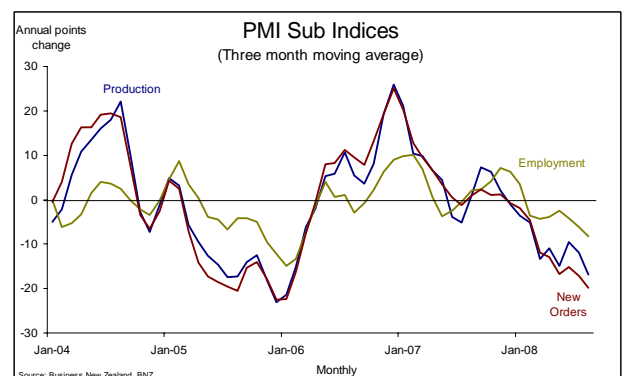
With these countervailing imperatives at work, we were, unsurprisingly, very interested to see whether today's PMI survey would give us any insight as to whether the forces of evil or good were winning the battle.

Alas, it would appear that there's still quite a bit of water to go under the bridge before good inevitably triumphs. In fact this survey was quite disconcerting in its negativity.



At the headline level, the jump in business confidence reported for July was almost completely unwound. Most worrying was the drop in production to the lowest level in the six year history of the series and ongoing weakness in new orders. If one aggregates these indices for the August quarter, and compares them with year earlier levels, then a 16.8 point fall in production is noted alongside a 19.9 point drop in new orders. Accompanying this is an 8.3 point drop in employment which is supporting evidence of our supposition that the unemployment rate will continue to rise to 5.0%, from its current 3.9%, over the next twelve months.

Believe it or not, we are optimistic that the combination of rapidly easing monetary conditions (largely currency led) and, soon, the provision of substantial fiscal stimuli will result in a much stronger economy but today's survey is yet more evidence that there's still some way to go before businesses, particularly in the manufacturing sector, will feel comfortable with their lot.



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