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 not out of the woods yet

BNZ - BusinessNZ PMI for July 2010

- The BNZ - BusinessNZ seasonally adjusted PMI for July (49.9) was flat, down 6 points from June, and the first time in eleven months that the PMI has slipped below the 50 point mark.

- Of the five seasonally adjusted main diffusion indices, *production* was down 3 points but still in expansion (52.1). *Employment* was much the same as June and still in expansion (52.5), while *finished stocks* was also in expansion (52.6), though down 1.8 points on last month. Of more concern *new orders* were in contraction (47.6) down 9.8 points from June, the lowest level in the last 14 months. *Deliveries* were also in slight contraction (49.5) down 6.8 points on June and after 5 months of quite solid expansion.

- Unadjusted results by region showed all have dipped into contraction during July, apart from Central (56.0) which bucked the trend with continued expansion up 2.2 points on last month. The *Otago/Southland* region slipped 10.1 points from June (48.3). The *Northern* region (47.8) slipped back 3.8 points, while the *Canterbury* (49.4) lost 4 points.

- Manufacturing by industry sub-groups were a mixture of expansion and decline during July. The categories experiencing the strongest expansion included *food, beverage & tobacco* (60.6) *petroleum, coal, chemical & associated product (55.9) and metal product manufacturing* (50.6). However *machinery & equipment manufacturing* (41.5) was significantly down on last month.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for July (54.3) showed further easing of activity after its record high-point in April, its lowest reading in eight months, but still in expansionary territory. In a similar trend the Australian PMI also experienced a softening of activity (54.4), since April while the USA PMI (55.5) also eased back from April, though all are still in expansion mode, while New Zealand appears flat.

- The comments about market conditions showed negative comments (61.5%) were higher than last month, versus 38.5% of comments that were positive. Negative comments again focused on issues such as orders slowing as the effects of the recession are still lingering with flat customer demand. Positive comments were again largely relating to obtaining offshore orders, with Australia getting singled out and the usual seasonal increase for the time of the year creating some positivity.

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 flat for July, and the first time in eleven months under the 50 point mark.

Three of the five main indices recorded expansion, though at a slower rate than June, and two indices (new orders and deliveries) moved into contraction.

Unadjusted regional activity was in contraction across all regions, apart from the central region.

The proportion of negative comments picked up from last month, showing recessionary effects still lingering.

Next BNZ - BusinessNZ PMI:
16 September 2010

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)

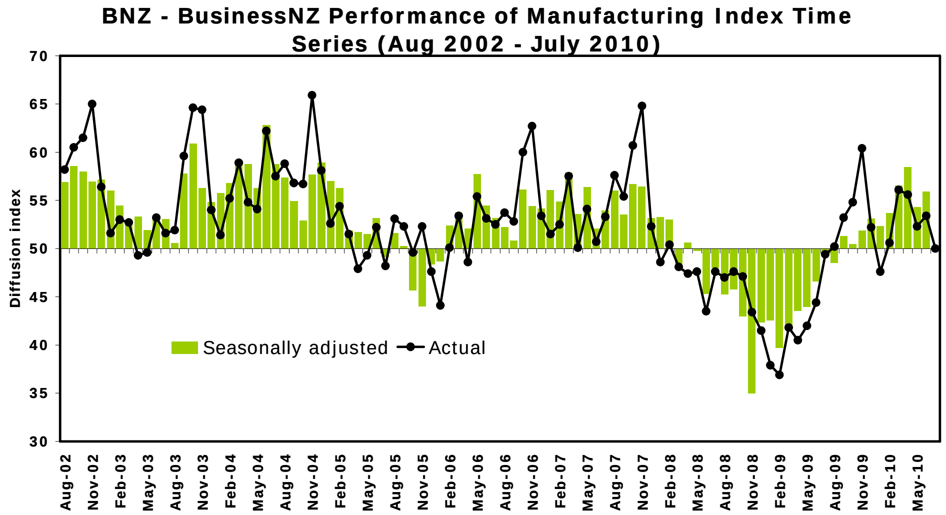
bnz

BusinessNZ

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



July time series tables

National Indexes	July 2005	July 2006	July 2007	July 2008	July 2009	July 2010
BNZ - BusinessNZ PMI (s.a)	49.2	53.1	53.9	48.0	49.5	49.9
Production (s.a)	47.3	53.4	53.7	49.0	50.9	52.1
Employment (s.a)	49.2	50.0	50.2	46.1	44.5	52.5
New Orders (s.a)	50.5	56.1	56.5	47.8	56.1	47.6
Finished Stocks (s.a)	48.6	53.1	54.2	53.3	43.9	52.6
Deliveries (s.a)	51.2	53.5	55.7	48.5	47.7	49.5

National Indexes	July 2005	July 2006	July 2007	July 2008	July 2009	July 2010
BNZ - BusinessNZ PMI (s.a)	49.2	53.1	53.9	48.0	49.5	49.9
Northern	44.8	54.7	54.5	46.8	47.4	47.8
Central	50.6	48.4	54.4	44.9	52.7	56.0
Canterbury/Westland	54.6	48.8	50.9	52.5	54.9	49.4
Otago/Southland	50.7	61.6	49.0	47.5	39.8	48.3

(s.a denotes seasonally adjusted)

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

EMA

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

EMPLOYERS' CHAMBER OF COMMERCE CENTRAL

Central (Employers' Chamber of Commerce 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.

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

12 August 2010

Manufacturing Slows All Of a Sudden

- PMI abruptly loses momentum during July
- Aligning with other signs of slowing GDP growth
- Including local construction, world industrial output
- OCR upside is looking cloudier
- But it's surely premature to price a failed recovery

The soft housing market is no great surprise to us. And the headwinds for consumer spending are understandable. But the slump in July's Performance of Manufacturing Index (PMI) is a bolt from the blue, and a material disappointment. We were looking for this sector to keep lending a firm hand to the economic recovery, when many others were looking coy in this regard.

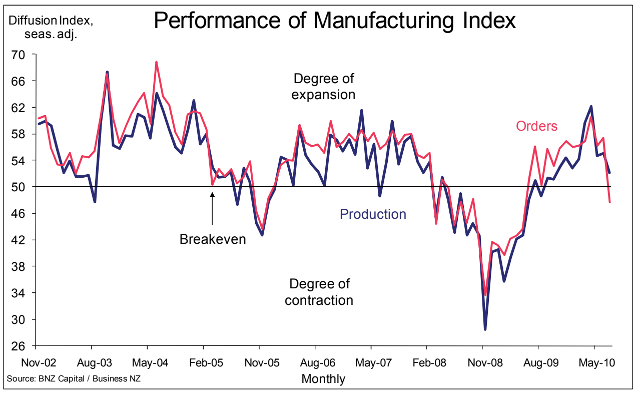
While this latest PMI result certainly questions the recovery, does it go so far as to say it's all over rover? We're not at all convinced (although the markets would seem to be leaning heavily in that direction already). It reminds us of earlier this year when we were not persuaded that an old-fashioned rip-snorting GDP surge from recession was in train, even though the indicators and markets were boisterously portraying as much.

Through these ups and downs we've essentially maintained our base story of an unusually slow economic recovery by historical standards, albeit with risks of bumpiness and, ultimately, the threat of disappointment, along the way.

It's conceivable, therefore, that the latest data are simply acknowledging further bumps. That's the tack we prefer to take on things for the meantime, at least. But that's not to say we're oblivious to the risks that a more fundamental slowdown could eventuate.

Of course, it was only a month ago that respondents to the PMI survey were relatively upbeat, with the overall index, and the great majority of its sub-components, firmly in expansion mode. Now, all of a sudden, we're being told things are back to being very erratic, with some notable potholes in the details stalling the PMI to a seasonally adjusted 49.9, from 55.9. Opinions from the coal face seem as fickle as the recent labour market statistics.

What's clear is that the drop in the PMI couldn't have been driven by a worse component; new orders. These capitulated to a seasonally adjusted 47.6 in July, from a solid 57.4 in June. This was the first sub-50 reading



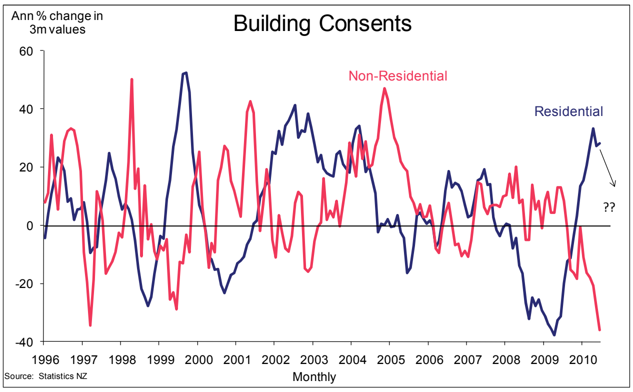
in fourteen months. The next weakest component was deliveries of raw materials, at 49.5. These indices obviously warn that a slowing in the manufacturing sector is in the immediate pipeline.

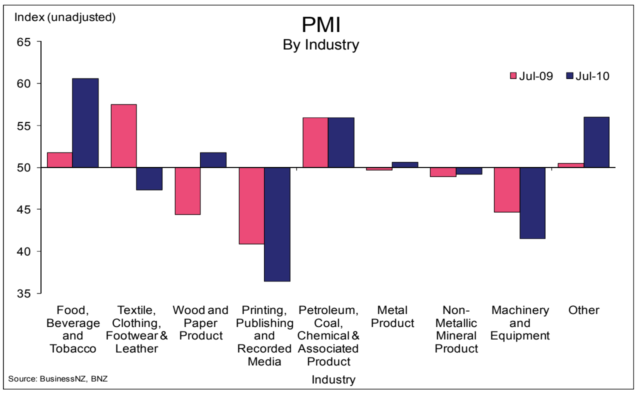
This wouldn't be a such big deal if there were other sectors at hand to take up the slack. But, by and large, there aren't, or at least there aren't that many.

The household sector still looks to harbour reservations under the weight of high debt loads, the associated need to drastically improve savings and a still over-valued housing market. The government sector – central and local – will need to reduce operating deficits. And the building industry is looking sorrier by the day.

Indeed, the latter looks to be one of the patent worries for the manufacturing sector, if qualitative feedback to July's PMI is anything to go by. A word-search for "building industry" as a negative factor would get many hits. Then again, this makes a lot of sense, with a good deal of local manufacturing no doubt dependent on the local construction cycle, not just investment in plant, machinery and equipment, and the more high-profile export markets (including, predominantly, Australia).

What's surprising is that the softening construction outlook should have come as any shock to the manufacturing industry over the space of just one month. We've certainly been highlighting an accelerating slump in prospect for non-residential building activity. And that the forward indicators for residential construction have been looking much less positive (although we're still confident of seeing solid residential investment growth registered for Q2/Q3 of this year).



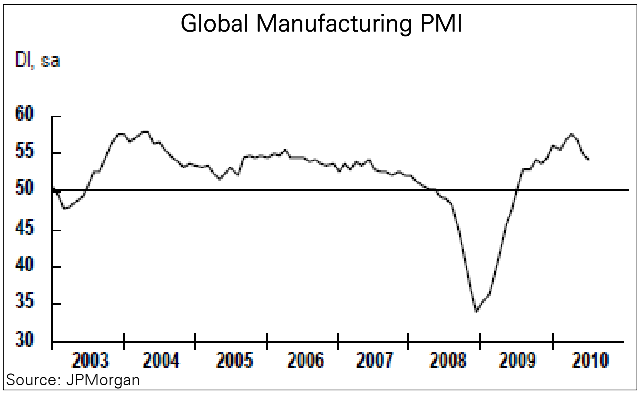


However, the dampeners are not just domestic. Many of the globe's industrial growth gauges are also coming off the boil. US factory orders, for example, have lost their positive way over the last couple of months. The Chinese PMI has sagged to about 50.0, on average (with the mainstream one at 51.2 and the HSBC version at 49.4). Even closer to home, we would draw attention to the big drop in new orders in the Australian economy, as per Tuesday's NAB survey.

With all of this one could be forgiven for being a little down in the mouth, and worried about the way ahead. However, it does not necessarily signal the death knell for the NZ economic recovery or even for the local manufacturing sector.

Even from an international perspective, it's worth noting that July's global PMI, while down to a one-year low, was still a respectable 55.4. New orders were at 54.0, employment 53.5. While far from strong, these are far from slow, and miles away from the sort of capitulation we saw during the downturn of 2008/09.

And, specifically, as bad as July's NZ PMI looked it was very much dented by a few devilish details rather than being an across the board loss of momentum. Indeed, there seemed almost as many go-forward bits as negative ones, albeit with the latter enough to drag the averages down.



For example, the (unadjusted) PMI for the printing, publishing and media industry made like an Acapulco bather and swan dived to 36.4, from 62.9 in June. Machinery and equipment manufacturing sank to 41.5, from 51.7. In sharp contrast, the food and beverage category strengthened even further in July, to a hearty 60.2, while the sundry "other" manufacturing component picked up to a solid 56.0.

The regional picture was also not all bad news. Granted, the Northern, Canterbury and Otago regions all slipped just below the 50 mark in July. However, Central looked relatively buoyant, given its improvement to 56.0, from 53.8.

Even in the first cut of rough, while there is now an obvious lack in new orders and deliveries (as mentioned earlier), production was still positive in July, at 52.1, while the PMI employment index held up at a respectable 52.5 and inventories did something similar, with 52.6.

With such variegated results in July's PMI details, and the suddenness with which survey respondents changed their tune, we are disinclined to swallow its weak tones hook line and sinker. Of course, should the negative pulse become more pervasive then we would be pressured to make our recovery expectations even more conservative. However, we believe it's far too early to jump to such conclusions.

Indeed, we can't discount the possibility that the PMI drop is more noise than signal, just like the recent quarterly labour market results have been, for sure. Just as folk seemed to over react to the "strength" in the Q1 Household Labour Force Survey they would appear to have over reacted to its Q2 "weakness". Might folk fall into the same trap for the PMI?

Similarly, while Tuesday's electronic card transactions were obviously still sombre, the mistake would probably be to read too much negativity into the headline results when there's a good chance spending volumes are still trending higher, and will probably pick up more noticeably over the coming months. There still seems enough to maintain economic momentum, in other words, including the 1 October tax cuts, lest we forget.

The real question that needs answering, therefore, is not are the recent data wobbly? – because clearly they are – but whether an underlying recovery is still in train, such that the economy will be looking stronger next year compared to now. We still believe it will.

In keeping with this, we remain of the view current pricing for the OCR path is looking too thin, most notably for the medium term. Of course, there might not be much evidence to convince the markets otherwise over the coming weeks, even months. And the global economy is maintaining its rolling maul of malevolence (with US growth the latest sore point). However, presuming the NZ recovery does, indeed, battle on, we find it hard to imagine the OCR will still have a three in front of it late next year (around the time of the Rugby World Cup hoopla), which is what the markets are now pricing.

Anyone else also thinking this looks a bit light for an economic cycle should probably judge mid to long-term borrowing rates as rather attractive right now. Yes, very short-term interest rates have increased a tad over the last couple of months, in line with recent OCR tweaks to the upside. However, NZ interest rate curves have generally eased with some fixed rates now having dropped by more than the OCR has risen.

So, who wants to buy into the belief the OCR's far-off peak will be below 4%? It would be to buy into the idea the economy won't recover to any material extent over the next couple of years. We would argue otherwise, even with the near-term turbulence that seems to be forming in the data, with today's PMI a good example. Yes, we are being sorely tested. But we prefer to hang in there with our views.

craig_ebert@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis	**Craig Ebert**	**Doug Steel**	**Mike Jones**
Head of Research	Senior Economist	Economist	Strategist
+(64 4) 474 6905	+(64 4) 474 6799	+(64 4) 474 6923	+(64 4) 472 4767

Main Offices

Wellington	**Auckland**	**Christchurch**
60 Waterloo Quay	80 Queen Street	129 Hereford Street
Private Bag 39806	Private Bag 92208	PO Box 1461
Wellington Mail Centre	Auckland 1142	Christchurch 8140
Lower Hutt 5045	New Zealand	New Zealand
New Zealand	Phone: +(64 9) 976 5762	Phone: +(64 3) 353 2219
Phone: +(64 4) 474 6145	Toll Free: 0800 081 167	Toll Free: 0800 854 854
FI: 0800 283 269		
Fax: +(64 4) 474 6266		

National Australia Bank

Peter Jolly	**Alan Oster**	**Rob Henderson**	**John Kyriakopoulos**
Head of Research	Group Chief Economist	Chief Economist, Markets	Currency Strategist
+(61 2) 9237 1406	+(61 3) 8634 2927	+(61 2) 9237 1836	+(61 2) 9237 1903

Wellington		**New York**	
Foreign Exchange	+800 642 222	Foreign Exchange	+1 800 125 602
Fixed Income/Derivatives	+800 283 269	Fixed Income/Derivatives	+1877 377 5480
Sydney		**Hong Kong**	
Foreign Exchange	+800 9295 1100	Foreign Exchange	+(85 2) 2526 5891
Fixed Income/Derivatives	+(61 2) 9295 1166	Fixed Income/Derivatives	+(85 2) 2526 5891
London			
Foreign Exchange	+800 333 00 333		
Fixed Income/Derivatives	+(44 20) 7796 4761		

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