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

Neither here nor there

BNZ - BusinessNZ PMI for July 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for July stood at 49.4, which was a further 0.6 points down from June and again representative of the sector in a holding pattern. Compared with previous July results, the 2012 value was the lowest since 2008.

- Four of the five seasonally adjusted main diffusion indices were in contraction in July. The strongest result was for *new orders* (52.9), which actually improved 1.8 points from June. This was followed by *production* (49.6), which dipped into contraction after falling one point from June. *Deliveries* (49.1) were the only other index to record an improvement from the previous month, albeit still in contraction. *Finished stocks* (47.5) dropped 2.1 points from June, while *employment* (47.7) dropped to its lowest result since October 2009.

- Unadjusted results by region largely mirrored what was seen in the national result. The *Central* region (50.7) led the way after three consecutive months of contraction, while the *Northern* region (49.3) dipped below the no change mark. The *Canterbury/Westland* region (49.1) improved on its June result, although has still spent three of the last four months in decline. The *Otago/Southland* region (45.8) fell back after two similar results around the no change mark.

- Manufacturing by industry sub-groups continued to produce a mix of results for July. *Petroleum, coal, chemical & associated products* (54.0) led the way in July after returning to expansion. *Metal product manufacturing* (50.8) also managed to keep its head above water, although down 5.1 points from June. *Machinery & equipment manufacturing* (49.8) remained largely the same from the previous month, while *textile, clothing, footwear & leather manufacturing* (47.8) and *food, beverage & tobacco manufacturing* (45.9) both displayed contraction.

- Despite a further decline in activity during July, the proportion of positive (51.1%) and negative comments (48.9%) remained exactly the same from June. Globally, the JPMorgan Global Manufacturing PMI contracted further in July (48.4), with weaker demand and an ongoing period of inventory adjustment pushing the global manufacturing sector into deeper contraction.

Inside BNZ Commentary this Month (page 3)

In this edition, BNZ Senior Economist, Craig Ebert, argues that New Zealand's manufacturing sector should be supported by the strong pick-up in the construction industry that's looking more and more likely, based on leading indicators.

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 49.4 for July, down 0.6 points from June.

Four of the five main indices were in expansion, although new orders remained in expansion.

Unadjusted regional activity was largely similar across the country.

Next BNZ - BusinessNZ PMI: 13 September 2012

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.

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BNZ-BusinessNZ PMI

pmi

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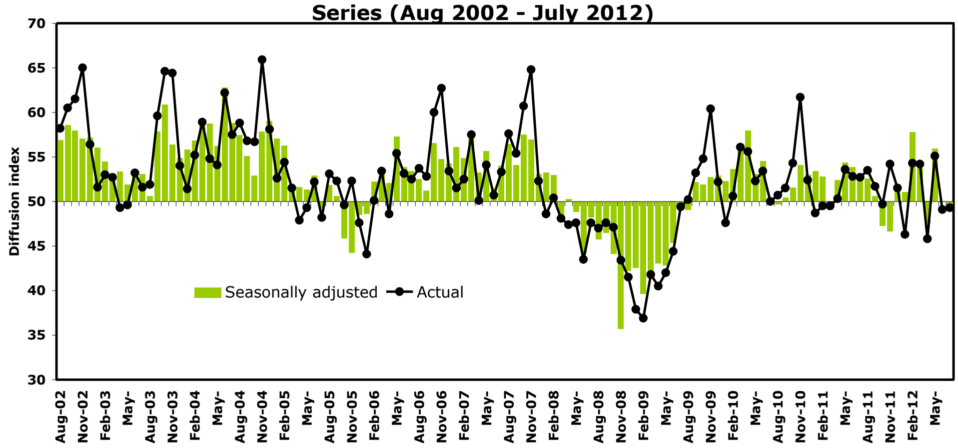
BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - July 2012)



July time series tables

National Indexes	July 2007	July 2008	July 2009	July 2010	July 2011	July 2012
BNZ - BusinessNZ PMI (s.a.)	54.0	48.2	49.8	50.3	52.9	49.4
Production (s.a.)	53.3	48.6	50.5	51.7	52.2	49.6
Employment (s.a.)	50.1	45.9	44.1	52.0	52.4	47.7
New Orders (s.a.)	56.8	48.1	56.6	48.3	55.5	52.9
Finished Stocks (s.a.)	54.0	53.0	43.4	52.4	51.7	47.5
Deliveries (s.a.)	55.8	48.8	48.3	50.2	53.0	49.1

National Indexes	July 2007	July 2008	July 2009	July 2010	July 2011	July 2012
BNZ - BusinessNZ PMI (s.a.)	54.0	48.2	49.8	50.3	52.9	49.4
Northern	54.5	46.8	47.4	47.8	53.3	49.3
Central	54.4	44.9	52.7	56.0	50.8	50.7
Canterbury/Westland	50.9	52.5	54.9	49.4	56.3	49.1
Otago/Southland	49.0	47.5	39.8	48.3	48.5	45.8

(s.a. denotes seasonally adjusted)

The BNZ - BusinessNZ PMI contains data obtained through BusinessNZ'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

employers OTAGO SOUTHLAND

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

16 August 2012

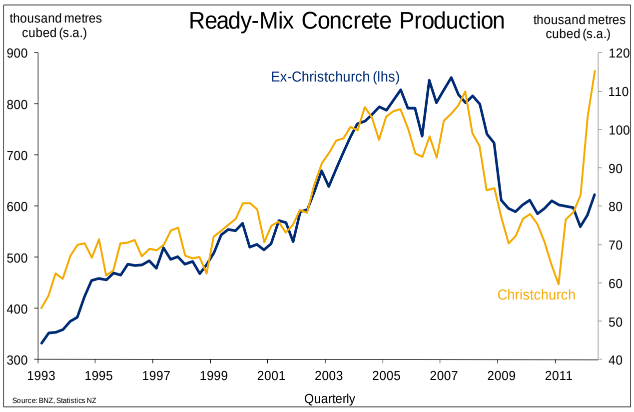
Concrete Signs of Construction Pick Up

- Ready-mix concrete production rebounding
- On surge in Christchurch
- Home sales signal higher residential consents
- Architects also a positive lead on construction
- As industry's employment, inflation, turns up

July's BNZ-Business NZ Performance of Manufacturing Index (PMI) was a bit of a worry, affected, as it was, by international concerns and the high NZ dollar. However, we can't get too negative on the manufacturing sector just yet. Not with the upbeat path we have for New Zealand's construction sector. Higher construction is good for local manufacturers, for obvious reasons. And so we've been pleased to see increasing signs of life in the various leading indicators of the building industry.

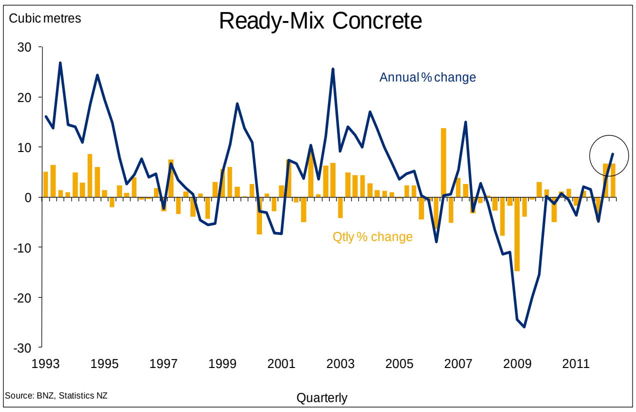
Take the latest ready-mix concrete production statistics, published 2 August, as one example. One doesn't pour concrete unless there's something definite underway. The nationwide amount for Q2 this year was 8.7% higher than last, following 3.4% growth over the year to Q1. This implied a quarterly lift of 6.7%, seasonally adjusted, following a similar-sized gain in Q1. That's getting some momentum about it.

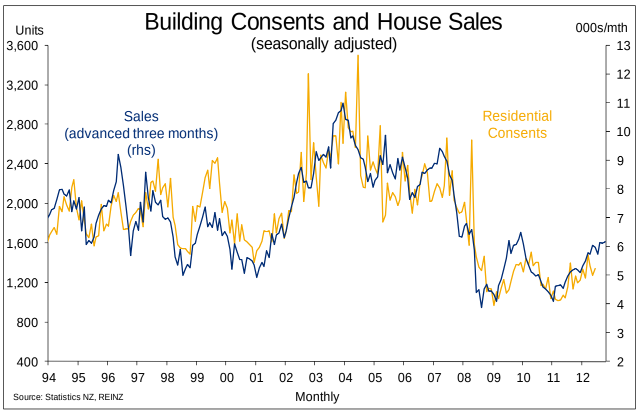
Granted, the bulk of this was still coming from Christchurch, where concrete production continued to surge – to a level that is now higher than the pre-recession peak, of 2007. However, there were also further signs that the rest of the country was gradually turning for the better. The latest ready-mix statistics are thus another set to be at great odds with the weak-Christchurch, strong-ex-Christchurch, theme of the Q2 employment (HLFS) report.



We suspect the concrete production occurring in Christchurch is more going into infrastructure – such as for roads and piping – rather than (literally) laying the foundations for a big uplift in residential and commercial work for the moment. However, it's a clear sign that something is picking up. And it's only a matter of time before the building of homes, offices and other business premises in the region take up the baton, afforded in large part by all the insurance money.

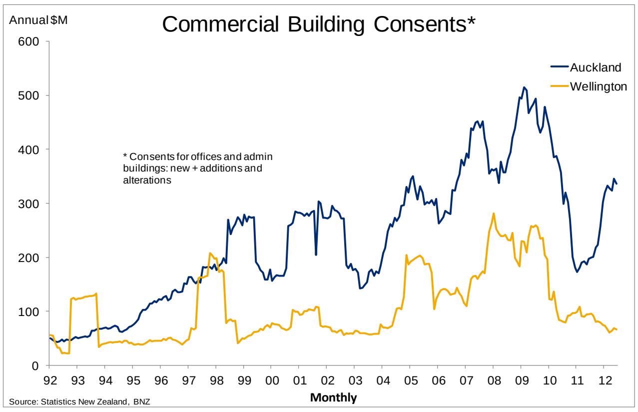
In addition to concrete production, residential building consents are also providing a positive lead on construction activity. Sure, these have been very volatile this year. However, much of this has appeared related to a rush to beat the tighter building codes that came into effect in March. Look at the trends and a strong upward tendency is undeniable. We expect July's consents, due for publication 30 August, to sustain this trajectory.





Indeed, we can probably expect further upswing in residential building consents over the next many months, not just the next one or two – if their usual lagged relationship to home sales is any guide. Home sales certainly maintained a northward incline in July. The only thing that seems likely to stop this, with interest rates so low, is the still relatively low level of home supply on the market.

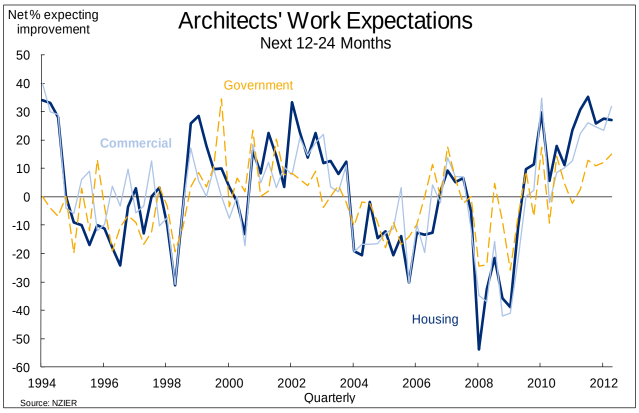
Consents issued for non-residential construction are not so encouraging. But they have at least stabilised on an annual basis, which is significant for a sector that has long lags to the broader GDP cycle. And there is definitely good news afoot for Auckland. It has experienced a clear lift in consents for offices, administrative buildings, shops and hospitality establishments over the last 12 months or so. Unfortunately, Wellington is experiencing quite the opposite.



These numbers, by the way, include alterations and additions, which is an area to watch given the need to up-spec buildings to earthquake code, the length and breadth of the country. We continue to believe this area of construction is being under-appreciated by many.

Looking further ahead, in a broad-minded fashion, we found it particularly encouraging that architects responding to the latest Quarterly Survey of Business Opinion remained upbeat regards their work over the next 12-24 months. Indeed, they were about as positive as they get in this survey. And as much about commercial and government work as residential. With this, it would be highly unusual not to see a clear pick up in construction activity in due course.

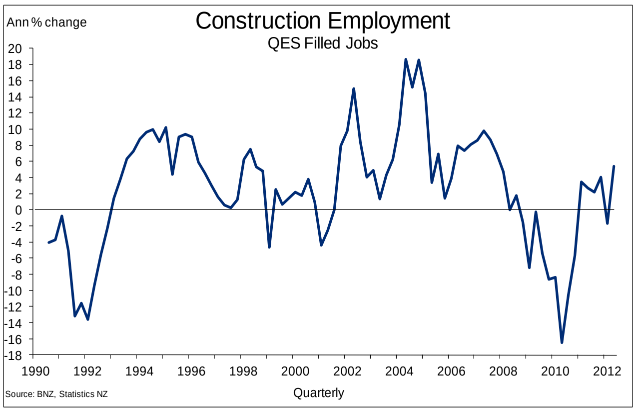
So, there are numerous signs that the wheels are beginning to turn for the construction sector (having been very depressed for the last few years). The leading indicators continue to forge ahead. And things such as concrete production provide hard evidence that things are set for a pick-up.



It's now up to some of the more official, higher-profile, data to play ball, GDP wise, with their usual lag.

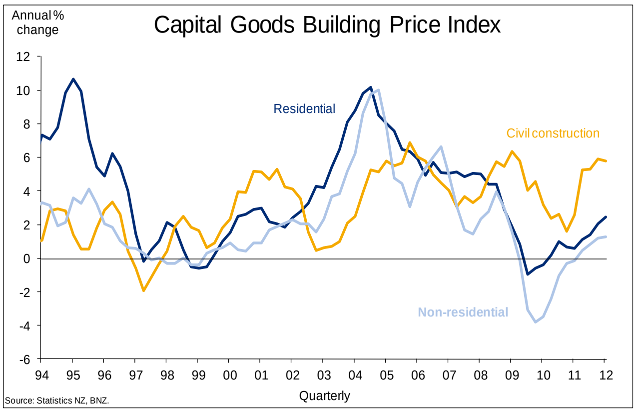
The next test of this will come in the Q2 Building Work Put in Place report. This is due 5 September. We're looking for this to register a 5% increase in volumes (as part of what we think will lift Q2 GDP by around 0.4%, overall). We don't believe this is too much to ask. Indeed, we might be under-estimating the Q2 construction gain in the GDP accounts.

That there is a turning point underway in the construction industry is also suggested by employment figures for the industry. Granted, these can be bumpy from quarter to quarter. However, smoothing over the six months to June, there was 1.7% annual gain in construction sector employment in the filled-jobs series from the Quarterly Employment Survey. The Household Labour Force Survey registered a 3.0% annual increase on a similar basis.

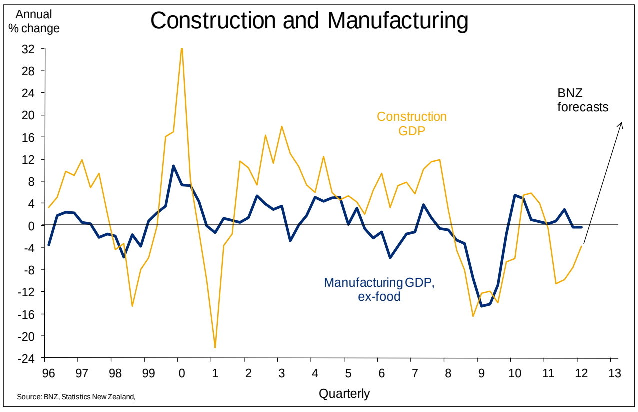


The other sign that the building industry is picking up comes from pricing trends. Having, for the most part, stalled a couple of years ago construction sector inflation has since moved into firmly positive territory. We saw this with the home-ownership component of the Q2 CPI, which essentially measures the cost of a new dwelling. Its annual pace held at 2.8%, on the back of a 0.9% lift in Q2.

With this in mind, it will be interesting to see what tomorrow's Producer, and Capital Goods, Price Indices exhibit in regard to building-sector inflation. For Q1 it was an annual 3.3% in respect to producer output prices. The capital goods price report showed annual inflation was running at a mild 1.2% for non-residential work, but a firm 2.4% for residential and a strong 5.8% for civil construction.



Collectively, these price indices suggest the construction sector is beginning to feel a bit of pressure. This can only increase if the leading indicators for the industry's activity are any guide. This, in turn, should prop up the local manufacturing sector, from a point of needing a bit of support, if today's flat-looking PMI is close to the truth.



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