

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.

# pmi

## Manufacturing activity continues to fall in June

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

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for June (45.7) experienced a significant drop in activity, to record its second lowest result since the survey began in 2002. It was also the lowest June value recorded, with the previous lowest being June 2007 (52.6).
- Four of the five main diffusion indices recorded ongoing weakening. *Production* (42.3) fell to its lowest result, while *new orders* (44.8) reverted to a value similar to March 2008. *Employment* (45.6) remains in decline with its second lowest value, while *deliveries of raw materials* (41.9) experienced the lowest value of any main index for the history of the survey (the previous lowest value for this sub-index being 43.3 in November 2005). *Finished stocks* (50.6) showed minor expansion.
- Unadjusted results for June showed contraction in activity nation wide. Both the *Northern* and *Canterbury/Westland* regions (42.2) recorded the same and lowest level of activity since the survey began. However, the reasoning behind the results was different, as the Northern region suffered low production and new orders, while *Canterbury/Westland* saw a general fall with all five sub-indexes. Both the *Central* (45.6) and *Otago/Southland* (47.9) regions also showed contraction in June.
- Interestingly, the unadjusted results for the various manufacturing industries showed a mixture of expansion and decline in June. The *machinery & equipment* sector (53.1) improved from May for its fourth consecutive expansion. The *textile, clothing, footwear & leather* sector (52.9) showed expansion after six straight declines, while the *food, beverage & tobacco* sector (51.2) did likewise after four months of contraction. In contrast, the *petroleum, coal, chemical & associated product* sector (33.0) suffered a sharp fall in activity, while the wood & paper product sector (36.6) continued to record sub-40 results.
- Offshore, manufacturing growth continues to worsen with the JPMorgan global PMI at 49.5 - the first time the global manufacturing sector has contracted for five years. The decline was mainly due to factors underlying declines in the European and Japanese manufacturing economies. The Australian PMI for June (47.0) also suffered a significant fall from May, while the USA PMI (50.2) tended to buck the trend with a slightly expansionary value, the first since January 2008.
- The proportion of negative comments made by respondents reached another high of 74.7% in June, compared with 72.5% in May and 70% in April. A significant proportion of negative comments centered on the general downturn in the economy, while the drop in deliveries of raw materials was attributed to the increased costs of them.

#### HIGHLIGHTS

**Seasonally-adjusted PMI down 2.2 points from May to sit at 45.7 for June.**

**PMI reached its second lowest level of activity since the survey began in 2002.**

**Four of the five main indices indicated decline, with raw materials, production and new orders showing sizable contraction.**

**Regional activity was negative in all areas, with the Northern and Canterbury/Westland regions recording their lowest results to date.**

**The proportion of negative comments continued upwards in June, with three quarters of manufacturers mentioning adverse comments.**

**New Zealand's manufacturing activity continues to mirror lacklustre offshore markets, with the global PMI in decline for the first time in five years.**

#### **Next Bank of New Zealand - Business NZ PMI: August 14**

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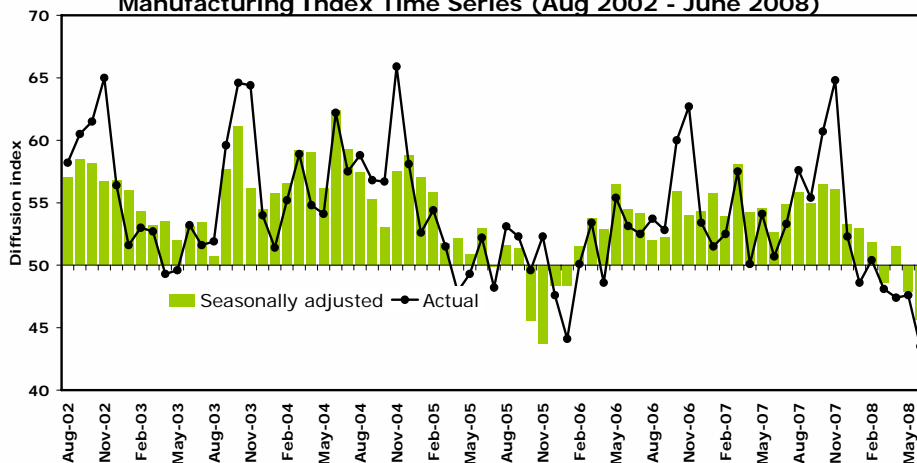
Bank of New Zealand Ltd is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association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

**BANK OF NEW ZEALAND - BUSINESS NZ PERFORMANCE OF MANUFACTURING INDEX**

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pmi

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



### June time series tables

National Indexes	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008
BNZ - Business NZ PMI (s.a)	53.1	62.4	53.0	54.5	52.6	45.7
Production (s.a)	51.4	64.0	51.9	54.2	47.9	42.3
Employment (s.a)	51.5	55.3	51.2	47.4	48.3	45.6
New Orders (s.a)	54.6	68.9	52.7	56.9	56.1	44.8
Finished Stocks (s.a)	51.9	53.3	53.5	52.0	52.2	50.6
Deliveries (s.a)	53.0	59.5	52.5	54.9	51.6	41.9

Regional Indexes	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008
BNZ - Business NZ PMI (s.a)	53.1	62.4	53.0	54.5	52.6	45.7
Northern	50.2	63.6	50.5	53.2	49.3	42.2
Central	52.3	60.8	53.0	53.6	50.0	45.6
Canterbury/Westland	56.4	62.4	54.4	46.7	56.2	42.2
Otago/Southland	61.7	56.1	54.7	60.4	48.3	47.9

(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.

## When Cash Is King, It Pays To Run Rulers

- Manufacturers suffering intense profit squeeze
- Just like the wider economy
- As pricing power diminishes with demand
- And costs soar amid commodity price boom
- Cash-flow has become king, so run the rulers

June's Performance of Manufacturing Index (PMI) slumped to a seasonally adjusted 45.7, from May's already-poor 47.9. As significant as this was, what was notable in the latest PMI were the reports of soaring input costs. While not something immediately apparent in the quantitative results, it was certainly clear in the qualitative feedback to the survey.

Indeed, it would seem that raw material costs are now trumping the ongoing rises in staffing and other costs as the topical concern for many manufacturers at the moment.

Then again, if ever there was a time that material costs should be a big story, and concern, it would surely be now. We are, let's face it, amid one of the biggest commodity booms the world has seen in decades. And it's not just in oil. Other energy prices are soaring, as are prices for minerals, metals and many basic food products.

As much as this has attracted the world's attention, there is, to be perfectly honest, no consensus as to the dominant driver of the commodity boom. Thus a common view about where it's all going to end up – or down, as the case may be – is also lacking.

Fundamentals such as demand from emerging and industrialising markets (principally China and India),

lagged supply responses, and low stocks, are certainly part of the equation. However, speculative elements would seem to be entering the commodity markets more recently, aggravating the momentum.

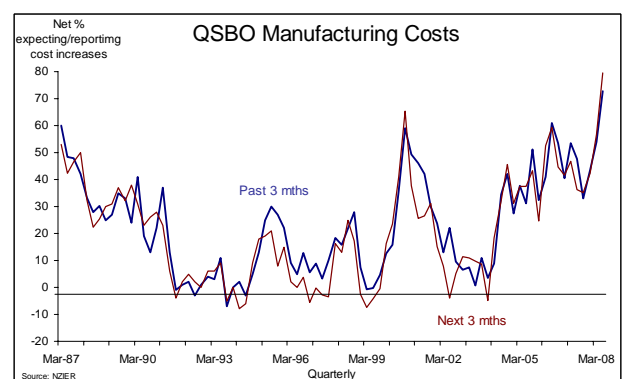
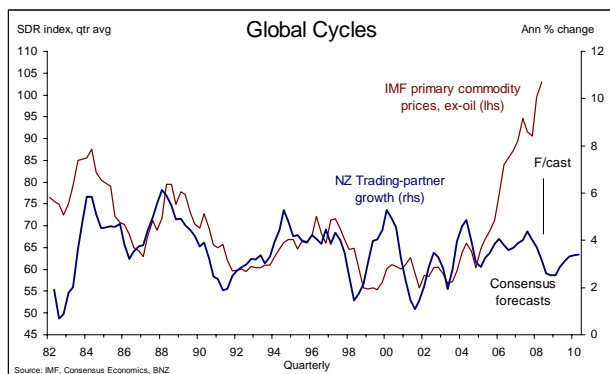
While it would be a bold person to take big bets, either way, on commodities right now, our gut feel is the global economy will find the huge run-ups in prices much too much to stomach. While folk have little choice but to pay up in the near term, it doesn't mean it's sustainable.

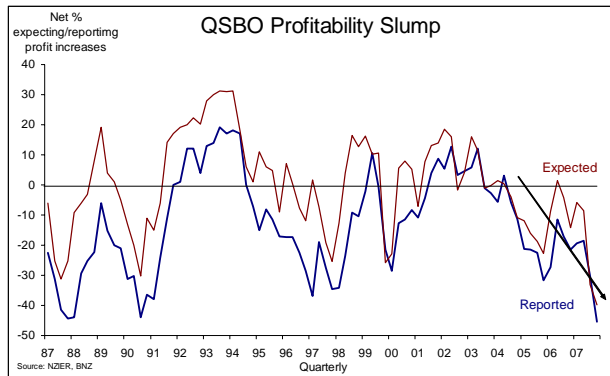
In time, demand will "adjust". And, eventually, extra supply will come on stream. The combination of the two is a recipe for a correction in commodity prices, in due course – and a potentially large and immediate one, to the extent there are a lot of speculators to exit the markets.

In the meantime, however, the reality is that raw material prices have climbed by problematic proportions and could well press higher yet. Whether it's steel, chemicals, fuel, plastics, or cereals it's hitting firms very hard on the input side.

The added cost pressure is, of course, one of the reasons profitability in the NZ manufacturing sector is being hammered. But profits are also being squeezed by waning revenue – as demand growth diminishes and pricing power fades along with it. It's a nasty combination for firms to have to manage, as there are no easy ways out.

That profits are under extreme duress was crystal clear in the Quarterly Survey of Business Opinion (QSBO) published earlier this week. Indeed, the QSBO





economy-wide profit reports were the most negative they've been since the early 1980s. And the manufacturing sector was no real exception to this in the QSBO. This gels with the downbeat messages and trends seen in the PMI over recent months.

To be sure, the economy will, in due course start to pick up again, following its inflation purge. The further softening in the exchange rate that we expect will reinforce this process, which will be of particular benefit to manufacturers.

However, in the meantime, cash will be king in the economy (just like it is, and will be, in the financial markets). And so running the ruler over your business structure and accounts is to be highly recommended. Those who do so – especially in respect of costs and with a push for efficiency gains – will be best placed to weather the storm and reap the rewards out the other side.

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