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

Holding its own

BNZ - BusinessNZ PMI for March 2012

- The BNZ-BusinessNZ seasonally adjusted PMI for March stood at 54.5, which was 3.2 points down from February but the second highest result since May 2011 and third highest since June 2010. Compared with previous March results, the 2012 value was up on 2011, but lower than 2010.

- Four of the five seasonally adjusted main diffusion indices were again in expansion during March, led by *production* (56.4) and *new orders* (56.2) with very similar levels of activity. *Employment* (52.3) inched upwards in March, while *deliveries* (52.0) fell 1.8 points from February. *Finished stocks* (49.1) experienced its third consecutive contraction.

- Unadjusted results by region showed activity in various parts of the country broadly similar to the previous month. The *Northern* region (51.6) dropped 1.4 points but remained in expansion, as did the *Canterbury/Westland* region (50.4). The *Central* region (62.1) built on its strong showing in February, while the *Otago/Southland* region (48.8) improved from February but still in contraction.

- Manufacturing by industry sub-groups again showed mostly expansion during March. *Food, beverage & tobacco* (63.1) improved significantly to record the highest value for the month, while both *petroleum, coal, chemical & associated products* (53.2) and *metal product manufacturing* (53.1) displayed similar levels of expansion. *Machinery & equipment manufacturing* (54.7) experienced a dip in activity for March, but remained in expansion.

- Although activity remained positive, the proportion of negative comments for March increased from 49.1% in February to 52.0% in March. Both negative and positive comments mentioned offshore orders, with the former finding difficulty in the European market, and the later enjoying continued success with the Australian market. Globally, the JPMorgan Global Manufacturing PMI stood at 51.1 for March, little-changed from 51.2 in February.

Inside BNZ Commentary this Month (page 3)

BNZ Economist Doug Steel looks at the PMI and NZIER QSBO manufacturing indicators to get a steer on recent performance and outlook for the sector. He concludes that manufacturing GDP probably posted a decent lift in Q1, albeit from a low base. Moreover the outlook looks positive, judging by firms' strong sales expectations.

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 54.5 for March, down 3.2 points from February.

Four of the five main indices again recorded expansion, with production and new orders leading the way.

Unadjusted regional activity remained largely similar to the previous month.

Next BNZ - BusinessNZ PMI: 10 May 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.

BNZ (www.research.bnz.co.nz)

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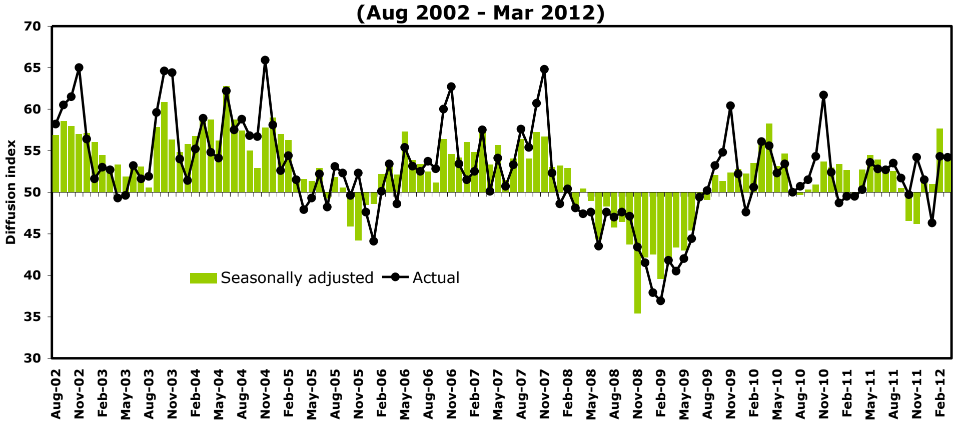
BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Mar 2012)



March time series tables

National Indexes	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012
BNZ - BusinessNZ PMI (s.a.)	57.7	48.3	41.9	56.3	49.7	54.5
Production (s.a.)	61.5	45.5	39.3	59.6	49.4	56.4
Employment (s.a.)	50.0	50.3	40.0	50.2	52.6	52.3
New Orders (s.a.)	58.6	44.6	42.6	57.5	48.8	56.2
Finished Stocks (s.a.)	55.9	51.9	46.8	53.5	48.5	49.1
Deliveries (s.a.)	56.3	50.8	41.2	56.8	47.1	52.0

National Indexes	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012
BNZ - BusinessNZ PMI (s.a.)	57.7	48.3	41.9	56.3	49.7	54.5
Northern	55.0	47.8	41.3	57.8	52.4	51.6
Central	54.6	45.8	45.2	49.0	53.1	62.1
Canterbury/Westland	64.1	52.4	41.0	58.6	42.0	50.4
Otago/Southland	61.2	46.3	37.6	57.5	44.3	48.8

(s.a. denotes seasonally adjusted)

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

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

Central (Employers' Chamber of Commerce Central): Gisborne, Hawke's Bay, Taranaki, Manawatu, Wanganui, Wellington, Nelson, Tasman

Canterbury/Westland (Canterbury Employers Chamber of Commerce): Canterbury, Marlborough, West Coast

12 April 2012

Positive Manufacturing Momentum Maintained

- PMI holds half of February's big gains
- Indicative of decent Q1 manufacturing GDP growth
- QSBO more tepid, but outlook strong
- Capacity indicators close to average

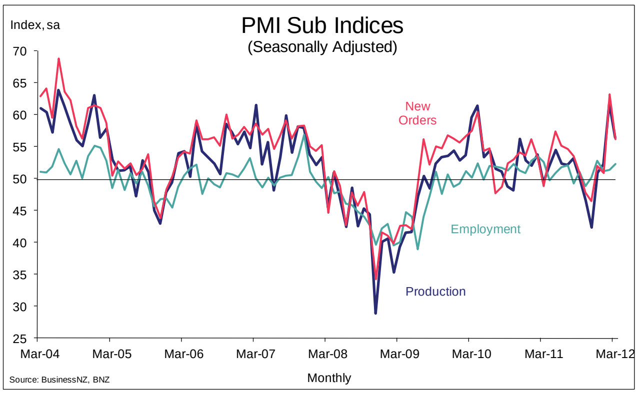
The PMI was bound to ease a bit in March, following February's extremely strong 57.7 result. It was really a question of how much? And then, what does any pullback mean?

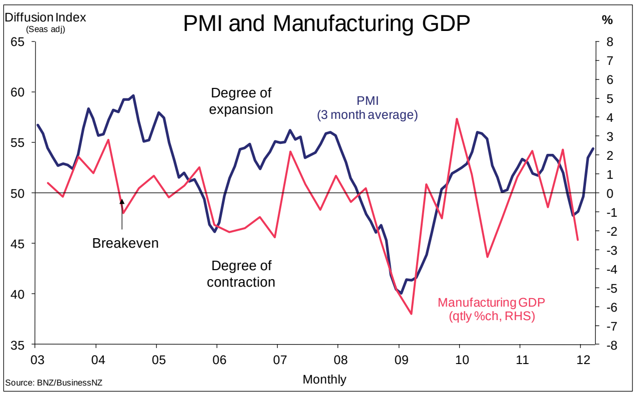
A return to January's level of around 51 or worse would have made February look like a flash in the pan and question the positive momentum that we thought was starting to get some traction in the manufacturing sector. Alternatively, anything close to February's result, or higher, would have had us seriously thinking about a very rapid lift from the manufacturing sector's current low level of activity.

As it turned out, the 54.5 March PMI was almost smack in the middle of these possibilities. We take this as a solid result.

Bear in mind that the PMI is an indicator of change, such that a result above 50 indicates expansion. The long term average is 52.5. So even though the March reading is back a bit from February's humdinger, it represents positive momentum.

Production and new orders were again the strongest sub-indices. But just like the headline result, they did not quite live up to the stellar February readings. The employment index bucked the trend, edging up a point in March.





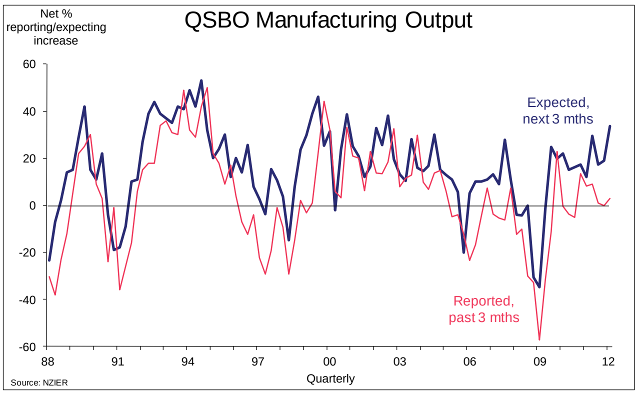
All this fits with our view that the manufacturing sector will make a decent positive contribution to overall Q1 GDP growth. Indicative of the developing positive trend is the PMI three month moving average ticking up to 54.4 – its highest reading since June 2010. While far from a precise indicator of quarterly movements, it does give a hint of upside risk to the 1.2% rise we have pencilled in for Q1 manufacturing GDP.

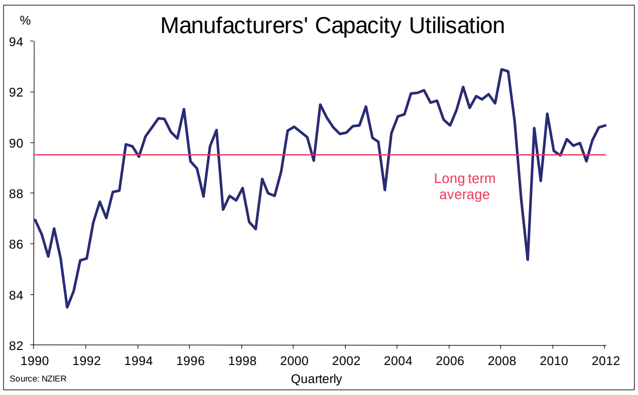
Manufacturing GDP could turn out stronger than we think not only on account of the recent buoyant PMI readings but also because Q4 last year looked a bit soft on technicalities as much as substance.

At the same time, we are wary of an only average looking Q1 manufacturing sector from yesterday's NZIER QSBO. Sure there were elements that looked a bit strong, like the manufacturing export sales indicator still sitting above average. But there were weaker elements too like domestic sales and the probably-related stock build. The QSBO manufacturing output indicator for Q1 summed up the balance nicely, sitting close to average.

Taking on board all the indicators we'll stick with a reasonable lift in Q1 manufacturing GDP, while maintaining a generally positive outlook as our base case for the sector.

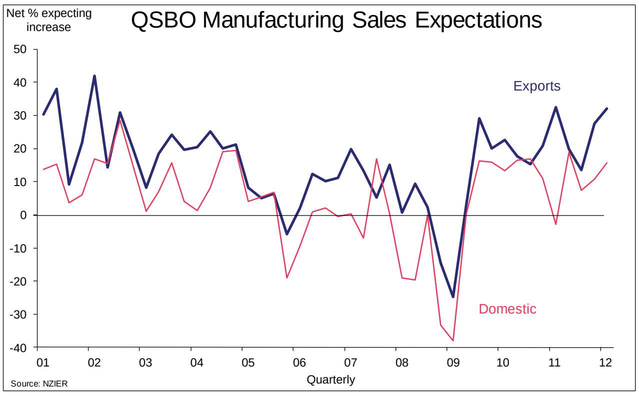
Manufacturing sector firms' own expectations are certainly positive, according to the QSBO. In fact, firms' output expectations are at their strongest in almost 10 years. Firms' output expectations are in tune with above-average views on future export and domestic sales. Both are close to decade highs.





The QSBO expectations may prove to be either too optimistic or too pessimistic. Regardless, we acknowledge the generally positive messages that firms are relaying from what they are seeing on the ground.

However strong future activity growth actually turns out to be, one thing that still looks quite clear from the current indicators is that there is relatively little spare capacity in the manufacturing sector. Indeed, manufacturers' capacity utilisation is sitting right on its 10-year average and even above its longer term average.



Like many other indicators in the diverse manufacturing sector, capacity utilisation is far from uniform. For example, while there were more manufacturers reporting no spare capacity in the QSBO compared to the previous quarter, there were also more manufacturers reporting lots of spare capacity.

From a monetary policy perspective, the average-looking level of capacity utilisation suggests the RBNZ needs to be a bit wary. It certainly looks to us that if manufacturers' strong growth expectations are even close to being met, there will be upward pressure on unit costs and inflation before too long.

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