bnz capital

Business NZ

BNZ CAPITAL-BUSINESS NZ PMI

BNZ Capital-Business NZ 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. BNZ Capital is a division of the Bank of New Zealand.

pmi

Manufacturing declined further in February

BNZ Capital - Business NZ PMI for February 2009

- Last month manufacturing declined to its second lowest level on record. The BNZ Capital - Business NZ seasonally adjusted **PMI for February** (**38.6**) decreased 3.2 points from January, just the second time in four months that the PMI recorded a sub-40 result. The 2009 result is also the worst for a February month, being the first time activity had shown a decline. Overall, this represents ten consecutive months in contraction.

- All five seasonally adjusted main diffusion indices were again in contraction, with most displaying near record lows. *Production* (33.5) posted its second lowest result, edging closer to the November 2008 (29.0) value. *New orders* (38.3) slipped back to a sub-40 result, while *employment* (39.5) fell to its lowest ever figure. *Finished stocks* (49.2) remained close to no change, while *deliveries of raw materials* (40.6) exhibited its second worst outcome.

- Unadjusted activity for February showed continued weakening in activity throughout the country. In the North Island, the Northern region (33.2) slipped in activity for the sixth consecutive time, while the Central region (38.7) posted its first sub-40 result. In the South Island, there was a slight improvement for the Canterbury/Westland region (41.5), albeit off a substantial drop in January. The Otago/Southland region (44.5) continued to slip further, recording its lowest result since January 2007.

- Almost all manufacturing industry sub-groups again displayed contraction during February. The *petroleum, coal, chemical & associated product* (30.5), *metal product manufacturing* (33.1) and *machinery & equipment manufacturing* (34.1) experienced the lowest results for the current month. In contrast, the *food, beverage & tobacco* sector (56.5) again continued to show expansion, with a slight improvement from January.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for February (35.8) again improved slightly from January, as rates of decline eased for production and new orders but accelerated for employment. The Australian PMI (31.7) fell to a new historic low, while the USA PMI (35.8) remained very similar to the January result.

- Further deterioration in activity for February led to the proportion of negative comments made by respondents during the current month rising significantly (sitting at 75.1%), compared with 69.5% in January, 69% in December and 68.4% in November.

The BNZ Capital - 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 continued to fall at 38.6.

All five main indices showed ongoing contraction, with employment falling to its lowest ever result.

Regional activity was weak in most areas, with the Central region recording its first sub-40 result.

A number of sub-sectors experienced results below 35, while the food, beverage & tobacco sector continued to show expansion.

The global manufacturing scene improved only slightly, although Australia showed worsening results.

Next BNZ Capital - Business NZ PMI:

16 April 2009

SPONSOR STATEMENT

BNZ Capital 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 Capital. 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. BNZ Capital is a division of Bank of New Zealand Ltd.

BNZ Capital (www.bnzcapital.co.nz)

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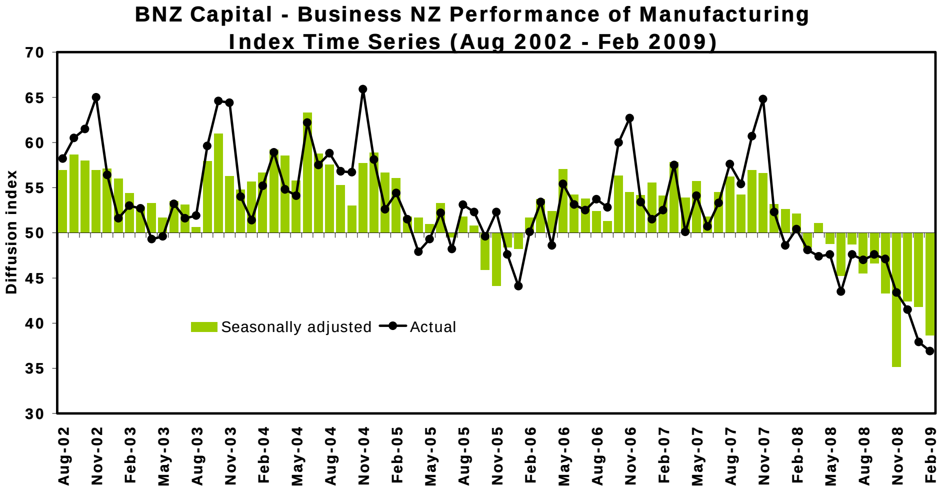
pmi



February time series tables

National Indexes	Feb 2003	Feb 2004	Feb 2005	Feb 2006	Feb 2007	Feb 2008	Feb 2009
BNZ Capital - Business NZ PMI (s.a)	54.4	56.7	56.0	51.7	54.2	52.1	38.6
Production (s.a)	55.5	57.4	57.4	53.0	53.5	51.9	33.5
Employment (s.a)	56.1	49.9	52.8	48.6	53.0	48.3	39.5
New Orders (s.a)	53.3	61.1	58.6	52.9	56.2	54.1	38.3
Finished Stocks (s.a)	55.6	54.6	51.0	50.2	52.1	53.8	49.2
Deliveries (s.a)	52.4	57.8	55.9	52.1	54.1	52.9	40.6

National Indexes	Feb 2003	Feb 2004	Feb 2005	Feb 2006	Feb 2007	Feb 2008	Feb 2009
BNZ Capital - Business NZ PMI (s.a)	54.4	56.7	56.0	51.7	54.2	52.1	38.6
Northern	51.2	54.1	53.8	46.8	52.3	48.9	33.2
Central	54.2	58.1	51.0	49.1	53.0	48.9	38.7
Canterbury/Westland	50.5	57.1	63.1	59.4	51.4	57.0	41.5
Otago/Southland	60.4	47.1	51.0	48.9	53.9	52.4	44.5

(s.a denotes seasonally adjusted)

The BNZ Capital - 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.

12 March 2009

Q4 International Trade Soft, But Hardly Horrid

- Q4 export and import volumes weaker than thought
- Keeping negative tone around Q4 GDP
- Lower NZD inflaming import costs
- But also boosting export prices, in general
- Dairy slump yet to hit terms of trade, but it will

While yesterday's December quarter Overseas Trade Indexes were generally soft, they were hardly horrid. As much as they underscored a negative tone around Q4 economic activity, and reminded of strong imported cost pressure, they also highlighted the substantial benefits exporters are getting from the sharply lower NZ dollar.

On the activity side, OTI goods exports slipped a seasonally adjusted 1.8% in Q4. This confounded our expectations of a modest, timing-related, increase, such that we've seen fit to revise down our estimate for GDP export volumes. While the correlation between the two series isn't tight, it's not that loose either.

December quarter import volumes were also weaker than we anticipated. They dropped 4.7%, much of which seemed "core". While this offsets the export weakness from a technical "net export" point of view, it hints at more general downside risks for the various elements of domestic demand.

In theory, this should have us revising down our estimate of expenditure GDP, currently -0.7% (compared to our production GDP pick, of -0.6%). However, we are not confident in doing so on the basis of the OTI figures alone. As weak as these were, there is some chance they reflect shipping problems as much as underlying production and demand distress. If so, then we may well see inventory buffers in the GDP calculations.

In any case, it wasn't as if the Q4 export weakness was pronounced or even widespread. Noticeable weak spots showed in seafood, forestry and wool exports. However, dairy volumes crept up 4.0% (reflecting post-drought production recovery), while non-food manufactured exports expanded 3.0%. The latter was especially encouraging given the beginnings of the global manufacturing slump at the time.

It was harder to deny a negative undercurrent to import volumes, however. OTI-based consumption goods imports fell more appreciably than has been apparent in the monthly trade data, by 3.5% in Q4, following their 3.2% fall in Q3. Compared to a year ago, real consumer goods imports were down 7.1%.

Merch. Overseas Trade Indexes - Q4			
Q/Q % change	**Actual**	Mkt Pick	Previous
Terms of trade	**-0.9**	-2.0	**-0.9**
- annual % change	**1.9**	-1.9	**+5.8**
Export prices	**+2.5**	flat	**+8.6**
Import prices	**+3.4**	+2.9	**+9.6**
Export volume - s.adj	**-1.8**		**-2.3**
Import volume - s.adj	**-4.8**		**-5.3**

There was also a meaningful 8.9% decline in capital goods imports (excluding the lumpy transport category), which followed the 16.9% drop in Q3. This suggests business investment was, indeed, beginning to moderate at the end of last year. It's a trend we see continuing this year.

The other piece of bad news relating to the NZ business sector was that OTI import prices continued to accelerate. While international prices look to be moderating – and for more than just commodity-type imports – the lower NZ dollar is forcing import costs higher – overall, and across the board.

It wasn't so much the Q4 increase OTI import prices, of 3.4%, but the 19.1% lift over the full year. This is quite some pressure for businesses to absorb, at a time when demand is withering. And the pressure will be maintained this year, to the extent importers roll off FX hedging. It's a reminder of the ongoing costs pressures facing businesses, some of which may yet be foist upon unsuspecting consumers.

The news on export prices, however, was mainly good news. To be sure, the Q4 results (+2.5%) were propped up by a 5.6% increase in dairy export prices, which is essentially why the terms of trade slipped by a lesser than expected 0.9%. But this principally reflected lags. International dairy price have, of course, hit the skids. This will hit OTI dairy prices, and, by implication, the terms of trade, starting Q1 this year. It's a measured delay, but a significant one to be aware of.

However, most other export prices, expressed in NZ dollar terms, looked robust, even bountiful in some cases. This reflects reasonable international prices for many of New Zealand's commodity food products, translated via the sharply lower exchange rate. For example, export prices for meat increased 5.0% in Q4, to be 26.0% higher than a year ago. Seafood prices jumped 10.7%, for a 31.8% gain y/y. Forestry export prices climbed 11.2% in Q4 and 20.0% over calendar 2008.

The real issue of late, of course, is export demand. This will continue to take the shine off available price gains. Still, it's worth noting that most of New Zealand's commodity exports are supply-driven (by the weather) rather than especially sensitive to demand. It's unusual not to be able to sell. So ,in many ways, returns do boil down to price.

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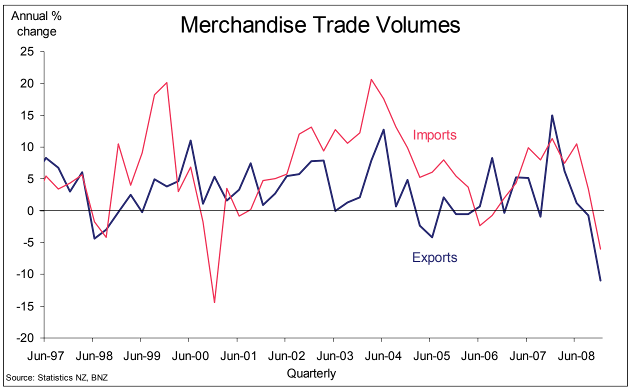

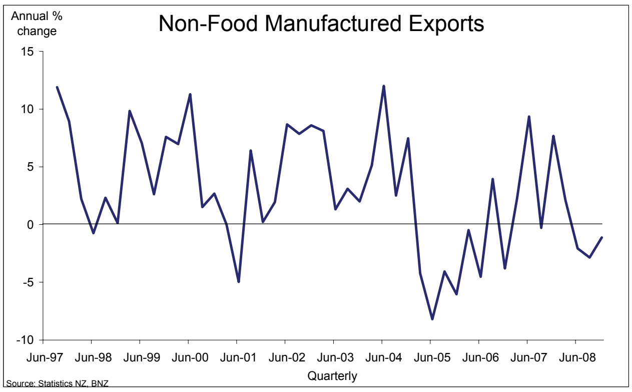

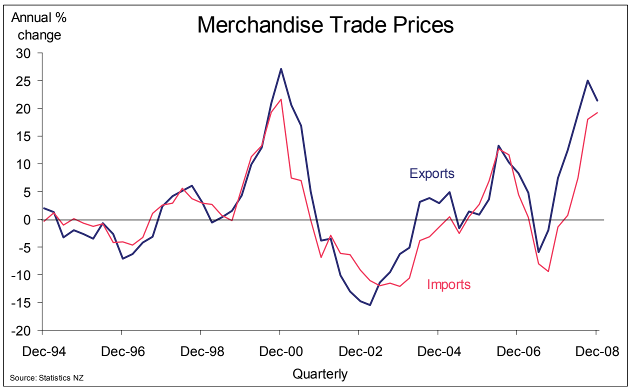

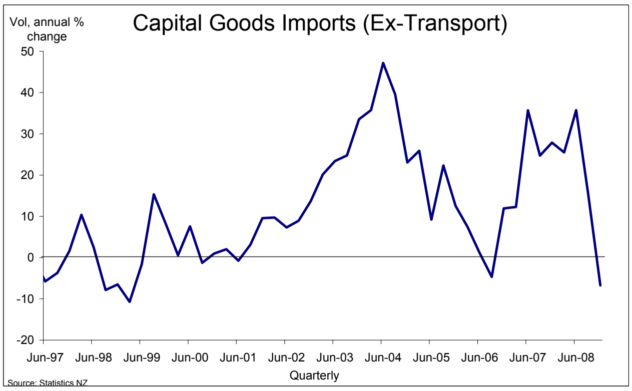

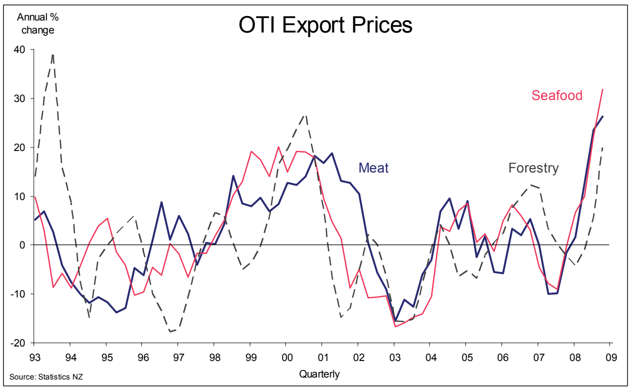

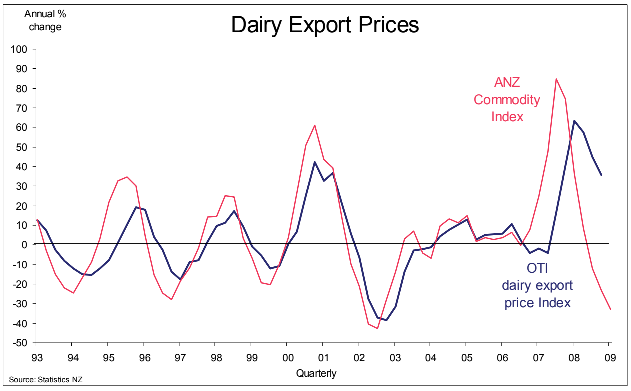

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