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

PMI – still contracting

BNZ Capital - Business NZ PMI for March 2009

- The BNZ Capital - Business NZ seasonally adjusted PMI for March (40.7) increased 1.8 points from February, but was still the third lowest result since the survey began. The 2009 result was also 6.5 points under the previously lowest March figure, while the manufacturing sector has now been in contraction for 11 months.

- All five seasonally adjusted main diffusion indices continued to display contraction, with most results similar to previous months. *Production* (37.1) improved from the February result, while *employment* (38.7) continued to slip further under the 40.0 mark. *New orders* (40.6) improved slightly to reach a similar result to January, while *finished stocks* (47.9) remained fairly consistent. *Deliveries of raw materials* (40.9) also showed little change over the first quarter of 2009.

- Unadjusted activity for March showed some improvement for particular parts of the country. In the North Island, the Northern region (41.3) recorded its highest result since November 2008, although still in contraction for the fifteenth consecutive month. The Central region (45.2) also experienced a lift compared with February. In the South Island, the Canterbury/Westland region (41.0) remained largely unchanged from February, while the Otago/Southland region (37.6) continued to slip further to its lowest result on record.

- Almost all manufacturing industry sub-groups again displayed contraction during March, although most showed some improvement from February. The *machinery & equipment manufacturing* (39.3), *metal product manufacturing* (40.0) and *petroleum, coal, chemical & associated products* (41.3) sectors experienced the lowest results for the current month. In contrast, the *food, beverage & tobacco* sector (50.0) again did not show contraction, but for the first time since August 2008 did not show expansion either.

- Comparing New Zealand's manufacturing activity with the rest of the world, the JPMorgan Global PMI for March (37.2) was the highest result in 5 months, with output and new orders rising. The Australian PMI (33.4) rose slightly, while the USA PMI (36.3) experienced its highest result since November 2008.

- With the rate of decline easing in March, the proportion of negative comments made by respondents during the current month also eased somewhat (sitting at 70.3%), compared with 75.1% in February, 69.5% in January and 69% in December.

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.

<u>HIGHLIGHTS</u>

Seasonally-adjusted PMI rose slightly to 40.7.

All five main indices continued to show ongoing contraction, with results similar to February.

Regional activity was weak in most areas, although the Northern region recorded its highest value since November 2008.

The food, beverage & tobacco sector did not show expansion for the first time since August 2008.

The global manufacturing scene improved slightly, as most countries experienced relatively better results than in previous months.

Next BNZ Capital - Business NZ PMI:

14 May 2009

<u>SPONSOR STATEMENT</u>

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.

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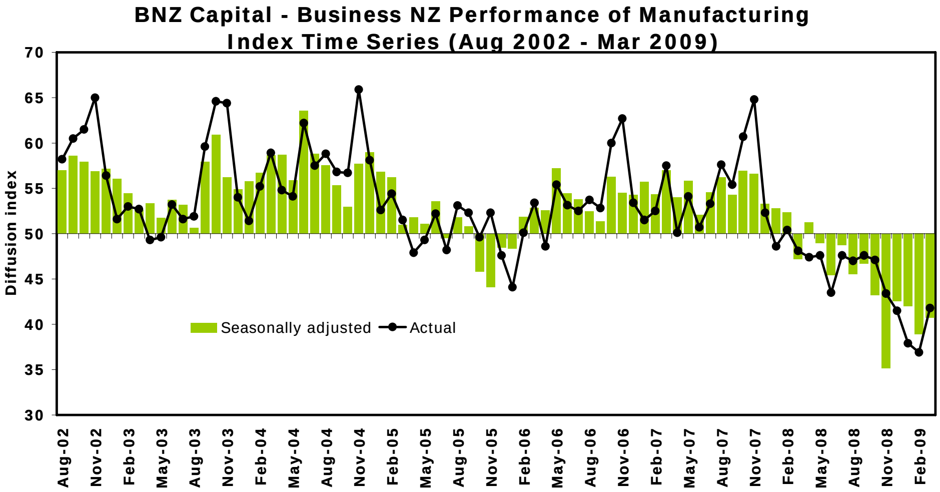
pmi



March time series tables

National Indexes	Mar 2003	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009
BNZ Capital - Business NZ PMI (s.a)	52.6	58.6	51.0	52.9	57.0	47.2	40.7
Production (s.a)	51.5	59.9	51.3	52.7	60.1	43.5	37.1
Employment (s.a)	51.2	51.1	48.4	50.3	49.4	49.2	38.7
New Orders (s.a)	53.1	62.7	50.1	53.6	57.6	43.1	40.6
Finished Stocks (s.a)	53.6	52.7	51.9	49.1	56.6	52.9	47.9
Deliveries (s.a)	51.5	59.5	52.0	53.8	56.2	50.6	40.9

National Indexes	Mar 2003	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009
BNZ Capital - Business NZ PMI (s.a)	52.6	58.6	51.0	52.9	57.0	47.2	40.7
Northern	48.1	58.3	52.6	53.8	55.0	47.8	41.3
Central	55.2	60.0	47.8	50.8	54.6	45.8	45.2
Canterbury/Westland	63.1	64.6	50.6	54.2	64.1	52.4	41.0
Otago/Southland	48.0	49.1	54.3	55.8	61.2	46.3	37.6

(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.

16 April 2009

PMI and QSBO Sing Bad Duet on Manufacturing

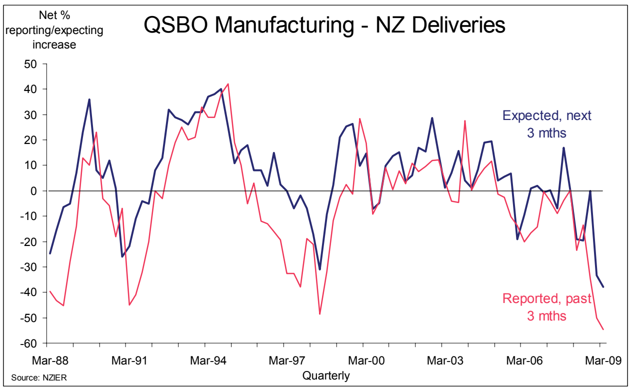
- PMI corroborates manufacturing woe of QSBO
- NZ industrial indicators remain in clear decline
- Over-stocking needs pruning
- Climbing debtors compounding cash-flow concerns
- Bottom line – firms needs to recover profitability

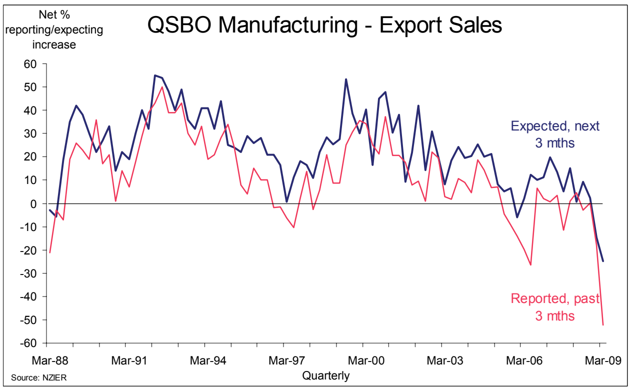
New Zealand's manufacturing industry remains in clear distress. So says today's Performance of Manufacturing Index (PMI). And so said the manufacturing section of last week's Quarterly Survey of Business Opinion (QSBO). It's nice to know our relatively "new kid on the block", the PMI, and the old-timer, the QSBO, are singing from the same song-sheet – even though it's an undeniably sad duet.

From a broad perspective, both surveys clearly suggest manufacturing remains on a downward trajectory. The overall PMI, for example, recorded a seasonally adjusted 40.7 in March – up a bit from February's 38.9, but still well south of the stand-still level of 50.0. The production result from the PMI was also still suffering, at 37.1, from February's extreme low of 34.0.

Signals of slippage were even more patent in the QSBO, wherein a net 57% of manufacturing respondents reported lower output over the past three months, and a net 35% were looking for further falls over the coming three months.

The QSBO results, by the way, were as much a consequence of deliveries within New Zealand falling as they were to do with dropping export sales. In other words, it's not just the global collapse that's impinging local production, but so too a slowdown domestically, presumably related to the pull-back in capital expenditure we believe is occurring.





And there looks to be little to stem the losses for the near term. New orders in the March PMI, of 40.6, remained noticeably in contraction territory, albeit up a bit from February's 38.5. There was certainly a lot of feedback to the latest PMI about a lack of forward orders. This was also integral to the QSBO, with a net 64% of manufacturers reporting a decline in orders over the previous few months and 33% anticipating lower orders over the coming three months.

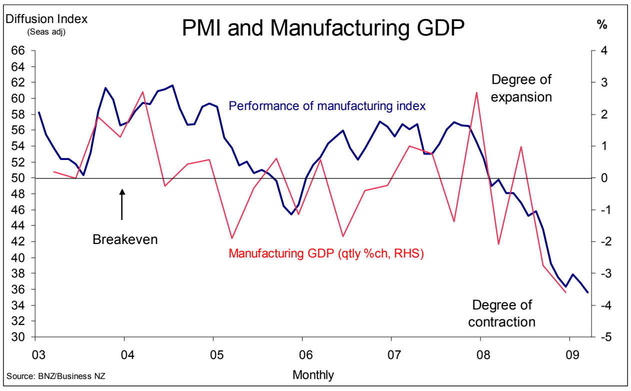
It's a chorus of concern. It's not even telling us that manufacturing activity is about to stabilise, let alone start expanding again, as many are still hoping for before too much longer.

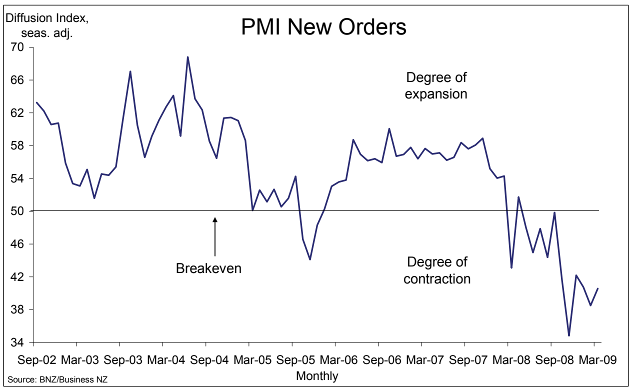
Falling activity and sales, along with collapsing profitability, is no doubt why employment in the manufacturing sector is being pruned at a faster rate. The PMI jobs indicator hit an all-time low, of 38.7. Sure, this series is not even seven years old. But the much longer-term staffing indicators from the QSBO were, on average, also the weakest on record – and these series go all the way back to 1961. You'd have to be a pensioner to have had grown-up experienced of that previous point of depression.

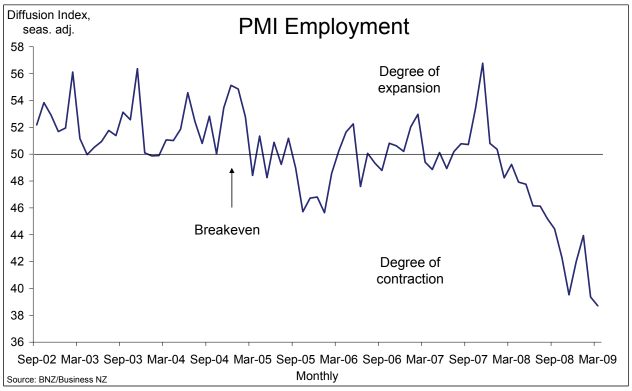
On top of this, manufacturers in the QSBO said they were cutting back overtime aggressively, seeing much reduced turnover, all amid substantially decreased difficulty in finding staff, whether skilled or unskilled. Indeed, only 2% of respondents suggested labour was now a constraint. The increasing bulk of concern was about a lack of sales.

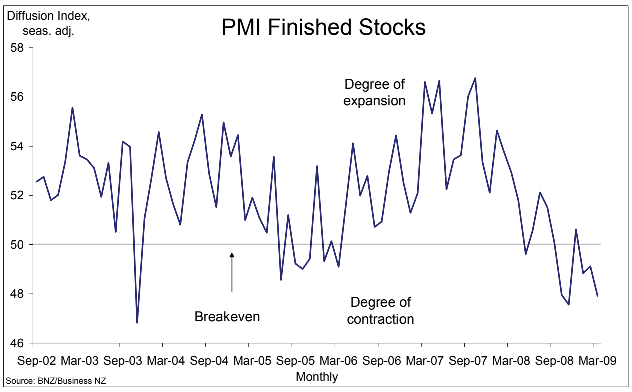
NZ manufacturers were also no laggard – compared to the wider economy – in pulling back on capital expenditure on their own accounts. A net 56% in the

An Off-key PMI…

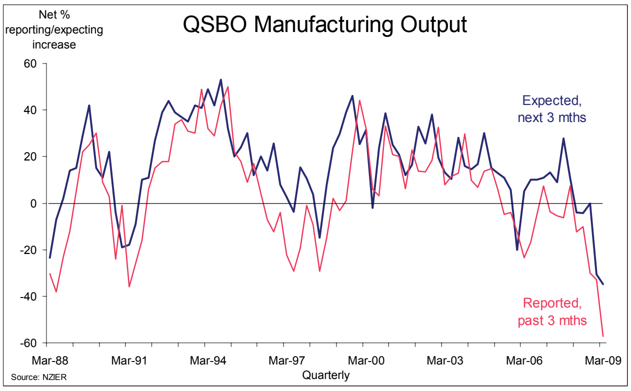


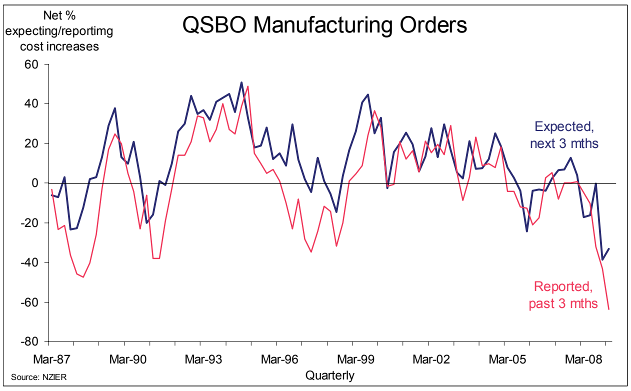


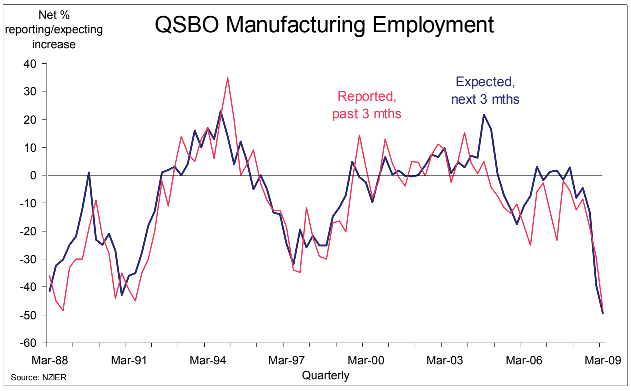


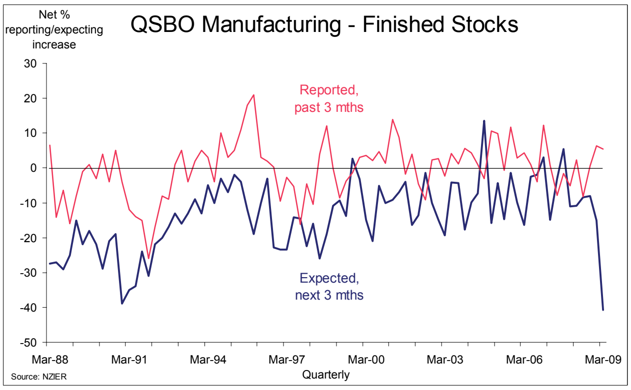


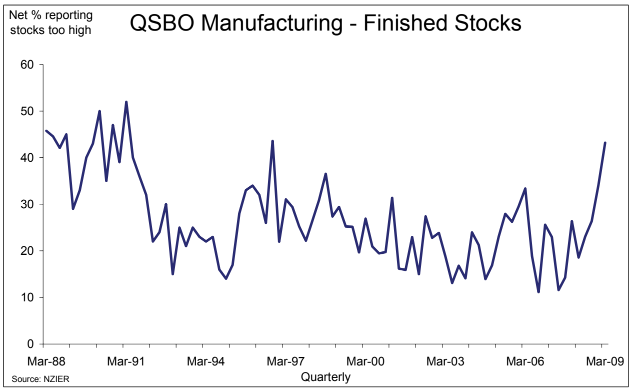
…Resonates With Downbeat QSBO











QSBO signalled an intention to lower investment in buildings, while a net 47% anticipated a fall in their spending on plant and machinery.

The other PMI and QSBO pointers of tough times for the meantime were that inventories of finished manufactured goods were seen as too high. Certainly, manufacturers intend to run them down. The PMI finished-stocks indicator dipped further into negative (sub-50) territory, at 47.9 in March. A net 43% of respondents to the QSBO said inventories were too high, while a balance of 41% stated an intention to run them down – the most negative since 1961.

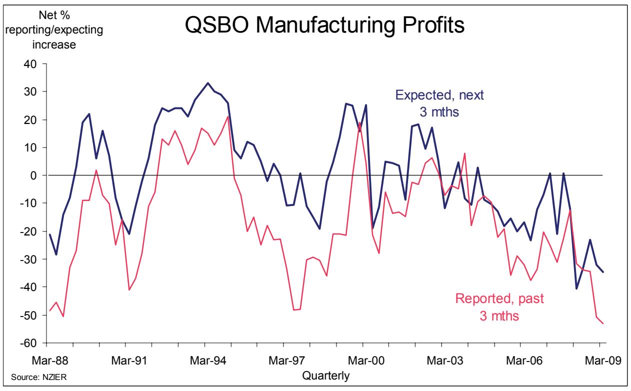
While a reduction in stocks will obviously help clear the seemingly overstocked shelves, it's not a good augury for manufacturing production in the interim.

And that's to say nothing of the more fundamental misalignment of manufacturing profits to any sense of sustainability. They're falling too fast, for too many, for all to keep going in their current state. Manufacturers will need to tackle this issue, head on, if they mean to survive. A quick return to sales of a year or two ago is not the assumption most should be making in their business plans.

And compounding their profitability problems for the meantime is what's happening to overdue debtors. These are, according to the QSBO, going through the roof. This can only be making cash-flow that much worse. Indeed, quite a few NZ manufacturers, in extending credit to customers, must be starting to feel like a bit like a bank – but in an undesirable, last-resort, kind of way.

Broadly speaking, then, we see New Zealand's manufacturing sector continuing to struggle for the near term. It's what fits the macro variables we're monitoring. And it's the common message of both the latest PMI and the QSBO, in specifics.

But what's equally important to know is how well manufacturers can get profitability back on a sustainable footing. While such a process obviously doesn't augur well for staff, suppliers and investment, the sooner and more efficiently this can occur the more we can have confidence in forecasting to the next (inevitable) period of sustained growth.



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