

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

## Manufacturing keeps its head above water

### BNZ - BusinessNZ PMI for September 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for September stood at 50.8, which was down 1.9 points from August, and the fourth consecutive drop in expansion levels. However, the September figure represents another positive result that has now continued for six straight months.
- Despite another dip in expansion, four of the five seasonally adjusted main diffusion indices were still in expansion during September. *New Orders* (51.5) led the way, followed by *employment* and *finished stocks* (both at 51.2). *Production* (50.8) fell to its lowest level since March 2011, while *deliveries* (49.7) dipped into contraction for the first time since March 2011 as well.
- Unadjusted results by region showed that the *Northern* region (47.4) fell into contraction for the first time since January 2011, which was also the main reason for the lower overall PMI value for September. In contrast, the *Central* region (53.2) recovered from its flat patch the previous month. In the South Island, the *Canterbury/Westland* region (57.4) built on results from July and August, while the *Otago/Southland* region (60.1) produced another strong result.
- Manufacturing by industry sub-groups were mainly in expansion, with a few exceptions, namely *metal product manufacturing* (45.9) that decreased significantly from 59.6 in August. Conversely, the *petroleum, coal, chemical & associated products* sector (52.1) went back into expansion after standing at 38.2 in August. *Machinery & equipment manufacturing* (54.4) recovered after a dip in expansion in August.
- The move towards 50.0 for the overall result was matched by the proportion of both positive and negative comments which was shared at 50% apiece for September.

*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 50.8 for September, down 1.9 points from August.**

**Four of the five main indices recorded expansion, led by new orders.**

**Unadjusted regional activity showed the northern region in contraction.**

**The proportion of comments by respondents was evenly split between positive and negative.**

**Next BNZ - BusinessNZ PMI:  
10 November 2011**

#### 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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#### *Inside BNZ Commentary this Month (page 3)*

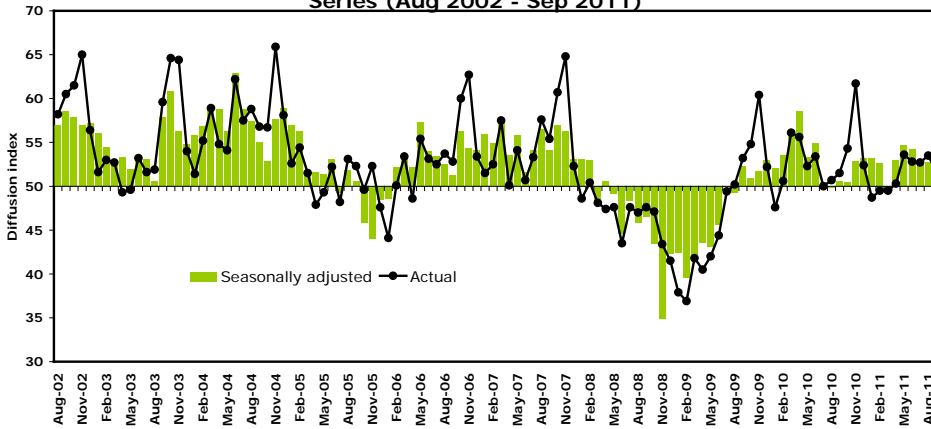
Bank of New Zealand's Economist, Doug Steel, considers some of the stiff headwinds facing the manufacturing sector over recent times. He suggests some of these will prove more temporary, bringing the prospect of renewed momentum through 2012.

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**BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Sep 2011)**



### September time series tables

National Indexes	Sep 2006	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011
BNZ - BusinessNZ PMI (s.a.)	51.2	54.1	46.6	52.3	50.5	50.8
Production (s.a.)	50.7	54.3	45.6	52.7	49.3	50.8
Employment (s.a.)	48.7	50.5	44.1	51.2	51.4	51.2
New Orders (s.a.)	55.2	56.5	48.2	55.5	53.1	51.5
Finished Stocks (s.a.)	51.1	56.5	50.9	46.4	48.6	51.2
Deliveries (s.a.)	52.4	56.2	47.6	51.9	48.9	49.7

National Indexes	Sep 2006	Sep 2007	Sep 2008	Sep 2009	Sep 2010	Sep 2011
BNZ - BusinessNZ PMI (s.a.)	51.2	54.1	46.6	52.3	50.5	50.8
Northern	52.2	51.8	45.9	52.8	53.7	47.4
Central	50.0	51.7	46.2	50.7	47.7	53.2
Canterbury/Westland	54.2	62.6	51.6	53.3	52.8	57.4
Otago/Southland	60.6	66.9	53.9	58.7	47.4	60.1

(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*



13 October 2011

## Manufacturing Momentum Muffled

- PMI indicates ongoing manufacturing sector growth
- But momentum has clearly slowed
- Against some stiff headwinds
- Still, firms optimistic enough to add staff

The moderate-to-strong positive growth signals from the PMI around the middle of the year have faded. From a peak of 54.7 in May, the Performance of Manufacturing Index has edged down in each month since, to be at 50.8 in September.

This represents a gradual loss of momentum rather than a sudden stop. In fact, over this period, the PMI has lost less than two index points in each month. But the four consecutive small declines have accumulated to a noticeable slowdown in the manufacturing sector since the middle of the year.

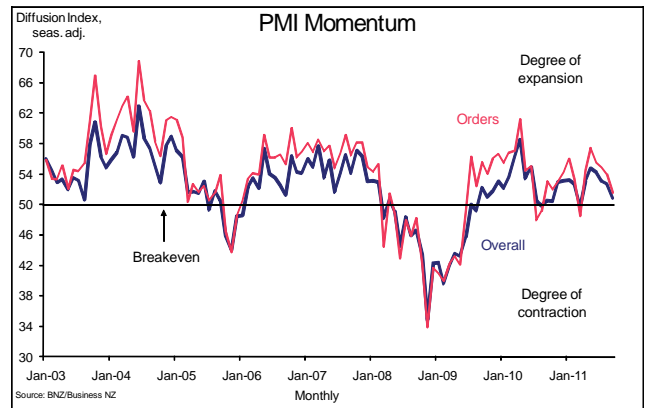
All is not lost, far from it. Importantly, the PMI still sits above the breakeven 50 mark indicative of a sector moving forward. However it is now expecting at a slower rate than before.

Even though the sector is still moving forward, we consider some of the negative factors at play here to try and understand the implicit slower rates of growth.

It is always difficult to decipher exactly what is behind movements in the aggregate PMI with such a wide range of positive and negative factors influencing the nation's diverse manufacturing sector. But judging by respondent comments, four of the more important (net) negative factors seem to be:

- The strength of the NZ dollar
- Weak domestic construction activity
- Rugby World Cup
- Concern around world economic growth

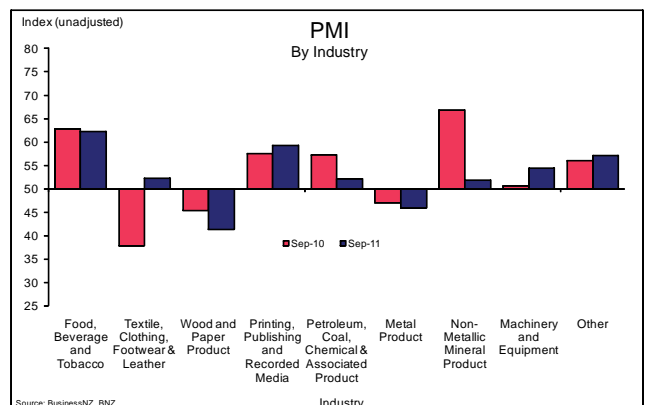
The general strength of the NZ dollar has been a major pest for many in the manufacturing sector for sometime. Movements in the currency can affect sentiment very quickly, but there is often a lag before the consequences are seen in sales and production.

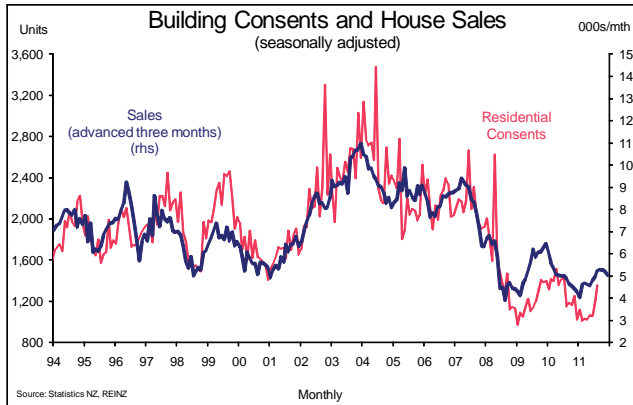


We get the feeling that the slowdown in new orders over recent months at least partly reflects the sustained appreciation of the NZ dollar over the prior year. It peaked in the high 80s against the US dollar just a couple of months ago.

If so, some relief seems in train with the NZ dollar subsequently stepping back into the 70s against the US dollar. Perhaps it is this, and the fact that the NZ dollar remains relatively low against the Australian dollar, that saw a decent smattering of positive currency comments from respondents also. Time will tell if this sniff of positive sentiment will translate into renewed momentum in new orders down the track. It is a possibility.

Weakness in the domestic construction sector was a prevalent source of negative comments among respondents. This is not surprising given the current





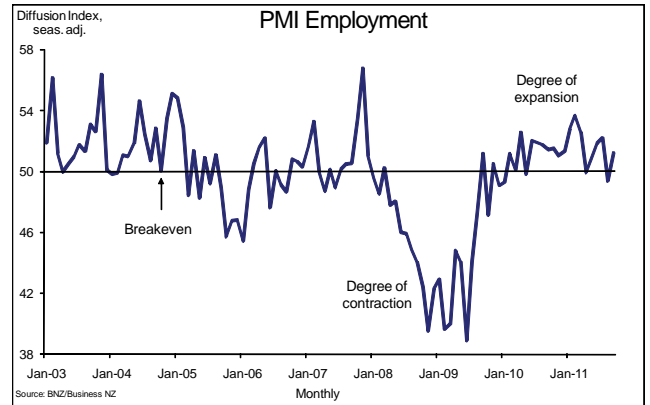
very low level of construction activity. Wood processing and metal manufacturing with PMI readings sub-50 seem to be suffering most from this, although both of these industries are also being challenged by other factors such as the general strength of the currency and high input costs.

Again, there is some prospect of improvement on the horizon. For a start, not all respondent comments were negative regarding the construction sector. A number of positive comments were received from firms already seeing a pickup in activity.

We remain optimistic on the construction outlook, gaining encouragement from a sharp pick up in residential building consents through July and August, which cumulatively amounted to a 29% rise over the two months. Sure, this is off a very low base, but it is still a very hefty move in the right direction.

Existing house sales in September, released yesterday, even though they eased a bit in the month on a seasonally adjusted basis. However, they were solid enough, at over 5,000, to suggest the trend in building consents over coming months is likely to be positive. Of course, an extra boost to construction will come when the much-anticipated rebuilding in Canterbury gets underway proper. This is likely to be later in 2012, not least because the ground has not yet stopped shaking.

By coincidence or otherwise, a few respondents noted changes in activity since the Rugby World Cup kicked off in early September. Regarding comments that specifically mention the Cup, negatives outweighed positives by a ratio of 2 to 1.



This is not to conclude that the Cup has necessarily had a negative impact on manufacturing activity overall, with much of the associated construction and manufacturing activity having been completed well before the tournament. Rather, some respondents suggested customers seem distracted by the games themselves (this fits with findings from recent confidence surveys and spending indicators). If so, it gives the prospect of a bounce back after the Rugby World Cup final on 23 October.

One underlying negative element that does not look like improving anytime soon is the weak outlook for growth in the developed world. Still, a reduction in the uncertainty around the way forward for the European debt crisis in particular could aid confidence, even if the growth outlook remained bleak. To us, the global uncertainty remains the biggest threat to ongoing domestic economic recovery.

For now, we take some solace from the fact that the PMI remains above the 50 mark, even with the significant headwinds outlined. And we remain optimistic for manufacturing, as some of these headwinds are expected to at least abate; or even become tailwinds next year.

Manufacturing firms, at least on net, seem to share this optimism given that they are taking on staff as indicated by the PMI employment index sitting above the 50 mark, at 51.2. Clearly not rip-roaring strong, but it is also clearly a far cry from its depths at the initial stages of the Global Financial Crisis when it sank below 39.

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