

## 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

## Time to go steady

### BNZ - BusinessNZ PMI for June 2011

- The BNZ-BusinessNZ seasonally adjusted PMI for June stood at 54.3, which was down 0.4 points from May but represented an ongoing and steady level of expansion for the second month running. Compared with previous June results, the 2011 figure was slightly below the 2010 result (55.0), but up on 2008 and 2009.
- Four of the five seasonally adjusted main diffusion indices were in expansion during June, with *deliveries* (56.1) again leading the way, followed by *new orders* (55.6) and *production* (52.4). *Employment* (51.7) experienced its second consecutive increase in expansion, while *finished stocks* (48.4) continued to slip lower.
- Unadjusted results by region showed three of the four main regions in expansion, with the *Northern* region (55.2) leading the way, followed by the *Central* region (53.9). The *Canterbury/Westland* region (53.9) dropped 5.6 points from May, although encouragingly remained in expansion. In contrast, the *Otago/Southland* region (41.3) sunk deeper into contraction during June, with now five consecutive months in contraction.
- Manufacturing by industry sub-groups remained a mix of expansion and contraction during June, with *machinery & equipment manufacturing* (62.4) leading the way and almost identical to May's result. *Food, beverage & tobacco* (49.3) improved from May, although still in contraction, while *petroleum, coal, chemical & associated products* (44.7) fell into contraction for the first time since January 2011.
- Comments about market conditions saw the proportion of negative comments remained roughly the same as last month (52.2% for June compared with 52.8% for May). Earthquakes and exchange rates were again included in a number of negative comments, while on the positive side there were various references to increased orders from and sales to Australia.

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

Bank of New Zealand's Economist, Doug Steel, finds that despite the many clear threats to exports, they remain a net positive for the manufacturing sector at present. The outlook is also positive, despite the many risks still lurking about. Meanwhile, expectations of domestic sales have lifted and are now on a par with export sales expectations, suggesting a bit more balance to the growth that appears ahead.

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 54.3 for June, slightly down on the May result.**

**Four of the five main indices again recorded expansion.**

**Unadjusted regional activity showed all but the Otago/Southland region again in expansion.**

**Increased number of positive comments from manufacturers regarding stronger orders from Australia.**

**Next BNZ - BusinessNZ PMI:  
11 August 2011**

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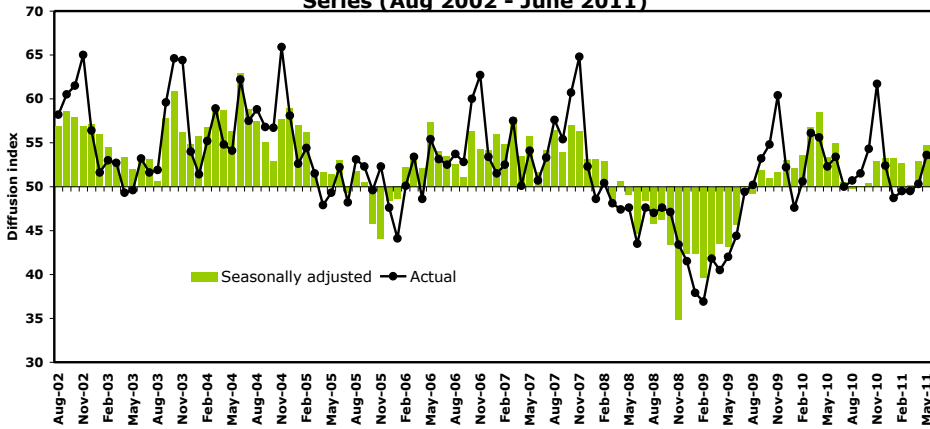
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ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

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# pmi

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



BNZ ([www.research.bnz.co.nz](http://www.research.bnz.co.nz))

### June time series tables

National Indexes	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011
BNZ - BusinessNZ PMI (s.a.)	54.0	51.7	44.6	45.7	55.0	54.3
Production (s.a.)	54.5	48.8	43.4	48.0	54.7	52.4
Employment (s.a.)	47.6	48.9	46.0	38.8	51.9	51.7
New Orders (s.a.)	56.2	54.8	42.9	49.4	55.1	55.6
Finished Stocks (s.a.)	52.6	53.0	51.5	43.7	54.2	48.4
Deliveries (s.a.)	55.5	52.6	43.3	43.0	54.7	56.1

National Indexes	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011
BNZ - BusinessNZ PMI (s.a.)	54.0	51.7	44.6	45.7	55.0	54.3
Northern	53.2	49.3	42.2	41.7	51.6	55.2
Central	53.6	50.0	45.6	44.7	53.8	53.9
Canterbury/Westland	46.7	56.2	42.2	48.8	53.4	52.1
Otago/Southland	60.4	48.3	47.9	48.8	58.4	41.3

(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

14 July 2011

## Standing Stout

- Manufacturing expanding, despite headwinds
- Exports leading the way
- Domestic sales to follow suit
- As wider economic recovery occurs

There seemed to be plenty of reasons for the rate of manufacturing expansion to cool a bit in June, many of them international in nature.

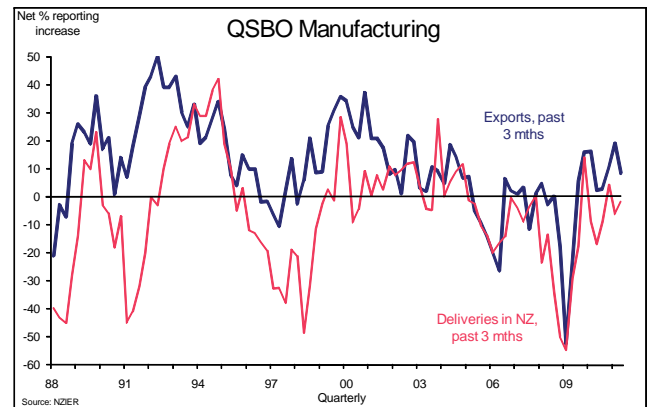
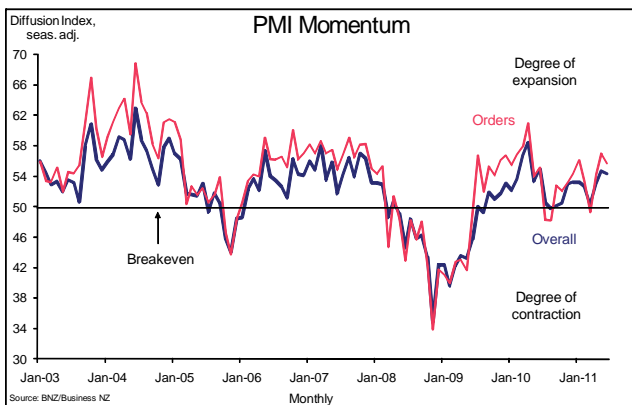
Contender number one would have to be the soaring NZ dollar, and then there has been the latest wave of fear around the European debt crisis, and further signs of a domestic slowdown in Australia and the US.

But, the Performance of Manufacturing Index stood stout in June, maintaining its moderately expansionary levels achieved in May.

This is encouraging. It is more evidence to support our view that there is a decent core element to the expansion that has now been underway for 10 consecutive months.

Despite the issues and threats above, exports still seem to be a net positive for the manufacturing sector at present. This was certainly the message from last week's Quarterly Survey of Business Opinion (QSBO) where a net 8% of manufacturers reported higher export sales over the past 3 months.

It is also borne out in the official export statistics that show strong growth in manufactured exports in the year to May.



A buoyant Australian economy has been a key part of this strength. While there are clear indications of a slowdown in Australian domestic demand indicators like retail sales, consumer confidence and construction, respondents to the NZ PMI remain upbeat. In fact, of those respondents that mentioned Australia as a major influence on their business, there were eight positive comments with not one to the contrary. This is despite the NZ dollar gaining a bit of ground against its Australian counterpart over recent months.

That is not to say that the strength of the NZ dollar more generally is not a major concern to manufacturers. Make no mistake – it is causing great angst for many. The kiwi has pushed on to fresh post-float highs against the US dollar and the British pound. Of the respondents to the PMI survey that mentioned the dollar as the major influence on their business activity over the past three months, negative comments outweighed positive comments by a ratio of 13 to 2.

Also regarding external markets, it is worth pointing out what PMI respondents did not mention as a major influence. That is the European debt crisis. Despite all the fret and anxiety in financial markets about the European debt crisis, not one respondent to the PMI mentioned it as the major issue affecting their business.

So, while plenty of risks remain in the international market place there remains a sense of sure and steady improvement, at least on average, regarding recovery in the PMI survey.

But, it yet might be just a matter of time before the strength of the NZ dollar, the Australian domestic slowdown and European debt issues catch up with us. Perhaps.



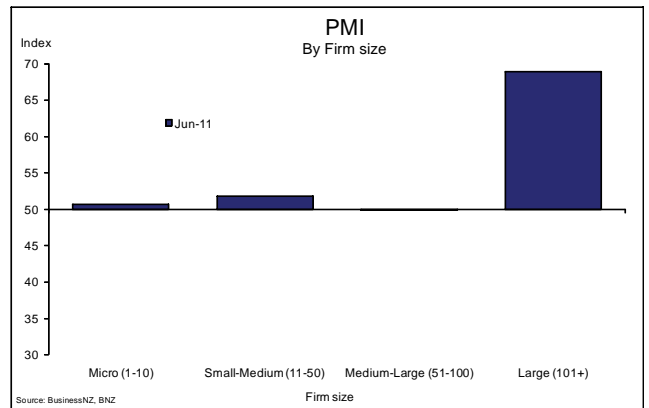
Here we can take some, at least short term, comfort from manufacturers' sales expectations from the QSBO. A net 20% of manufacturers expect higher export sales over the coming three months. While down a bit from the previous quarter, this indicator remains above its 10-year average.

Also encouraging was a strong lift in manufacturers' domestic sales expectations in the QSBO. These are now on a par with export sales expectations. We anticipate manufacturers' domestic sales to strongly benefit from the wider economic expansion we see over the coming 12 to 24 months.

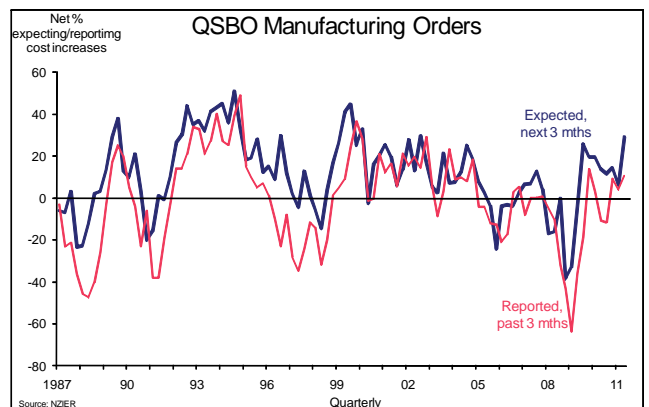
While not necessarily representing a passing of the growth baton from exports to domestic demand, it does give a sense of more balanced growth in manufacturing growth ahead.

This might follow through to more balanced growth across firm types, including by industry and by size.

To date, large firms have been doing better, perhaps a function of their greater exposure to external markets. For example, the PMI for firms that employ more than 100 staff sat at 68.9 in June, compared to results of between 50 and 52 for smaller firms.



Irrespective of the detail, new order indicators from both today's PMI and last week's QSBO give promising signals for demand and production growth ahead. New orders in the PMI remain at very healthy levels, while firms' expectations in the QSBO for new orders are at their highest level since 2002. This suggests growth ahead for the manufacturing sector, as long as it can continue to evade the worst of the dangers lurking about.



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