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

New order momentum

BNZ - BusinessNZ PMI for April 2013

- The BNZ-BusinessNZ seasonally adjusted PMI for April stood at 54.5, which was 1.1 points up from March and indicative of the sector being in healthy expansion since the start of the year. Compared with previous April results, the 2013 value was 7.4 points up from 2012, and the highest since 2010.

- Despite the continued healthy national result, only three of the five seasonally adjusted main diffusion indices were in expansion for April. *New orders* (59.4) again led the way with its highest result since February 2012. This was followed by *deliveries* (55.7), which has now experienced seven consecutive months in expansion. *Production* (55.3) increased 2.3 points from March, while both *employment* (48.0) and *finished stocks* (47.8) were in decline.

- Expansion was experienced in most parts of the country in April. Both the *Canterbury* (56.6) and *Central* (56.3) regions experienced similar levels of expansion for the current month. The *Northern* region (52.6) increased 1.9 points from March, while the *Otago/Southland* region (46.9) remained all but unchanged from March, signaling two consecutive months of decline in activity.

- Manufacturing by industry sub-groups were again mostly in expansion for April. *Machinery & equipment manufacturing* (58.5) led the charge for April, followed by *petroleum, coal, chemical & associated product manufacturing* (56.2). *Metal product manufacturing* (55.1) was generally similar to the previous month, while *food, beverages & tobacco* (52.2) decreased due to the changing season.

- The proportion of positive comments for April (53.5%) was slightly lower than March (55.8%), but up significantly from both February (50.7%) and January (50.0%). Globally, the JPMorgan Global Manufacturing PMI for April was 50.5, a decrease of 0.6 from March. Although the rate of expansion decelerated slightly during April, it was still an improvement compared to the contractions signaled throughout much of the second half of 2012.

Inside BNZ Commentary this Month (page 3)

In this edition, BNZ Research reproduces and updates an article it published a fortnight ago contrasting key economic trends in New Zealand and Australia. The latest BNZ-BusinessNZ PMI reinforces this contrast, coming in at 54.5, versus Australia's PMI of 36.7 for April.

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 up for April at 54.5.

Three of the four main indices were again in expansion, with new orders leading the way.

Unadjusted regional activity was positive throughout most of the country.

Next BNZ - BusinessNZ PMI: 14 June 2013

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)

BNZ-BusinessNZ PMI

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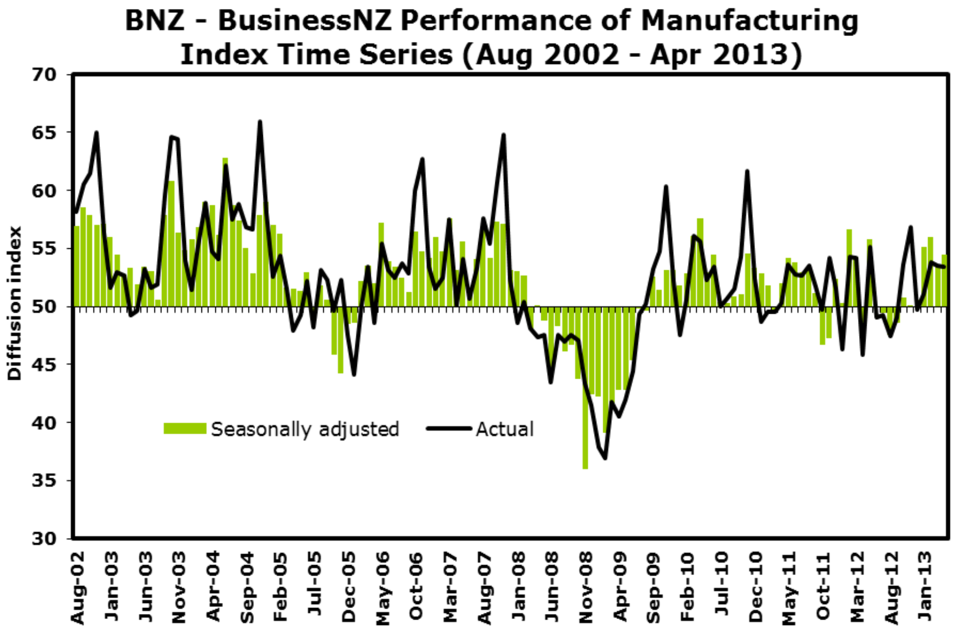
pmi



April time series tables

National Indexes	Apr 2008	Apr 2009	Apr 2010	Apr 2011	Apr 2012	Apr 2013
BNZ - BusinessNZ PMI (s.a.)	50.1	42.8	57.6	52.0	47.1	54.5
Production (s.a.)	50.6	41.1	60.9	51.3	43.6	55.3
Employment (s.a.)	47.9	44.9	52.7	50.2	51.3	48.0
New Orders (s.a.)	50.9	42.1	59.4	51.8	45.4	59.4
Finished Stocks (s.a.)	51.3	45.1	52.8	54.8	51.0	47.8
Deliveries (s.a.)	50.8	42.6	57.5	52.3	46.9	55.7

National Indexes	Apr 2008	Apr 2009	Apr 2010	Apr 2011	Apr 2012	Apr 2013
BNZ - BusinessNZ PMI (s.a.)	50.1	42.8	57.6	52.0	47.1	54.5
Northern	46.8	38.9	54.3	56.7	46.2	52.6
Central	47.7	40.4	56.6	40.9	49.2	56.3
Canterbury/Westland	46.4	44.7	58.0	47.8	42.2	56.6
Otago/Southland	52.6	40.4	53.4	47.2	38.3	46.9

(s.a. denotes seasonally adjusted)

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

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

Central (Business 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 May 2013

Update: Still New Zealand 3 Australia 0

- Recent data highlight NZ outperformance
- NZ manufacturers supported by construction sector boom (April's PMI at a solid 55.4)
- NZ house prices worryingly strong
- Dairy price surge dominates commodity story
- NZD/AUD heads higher alongside further rate spread contraction

Over the last week or two we have received a number of commentaries from our colleague David de Garis, in Australia, highlighting many of the afflictions that our Trans-Tasman neighbours face. What is particularly fascinating to us is just how different the environment in Australia is to New Zealand, at the moment.

So, as a point of contrast, we have reproduced below what our Australian friends have been writing and have inserted alongside these commentaries, the equivalent for New Zealand. It is rare indeed for the environments to be so different. It is even rarer for that difference to be in New Zealand's favour.

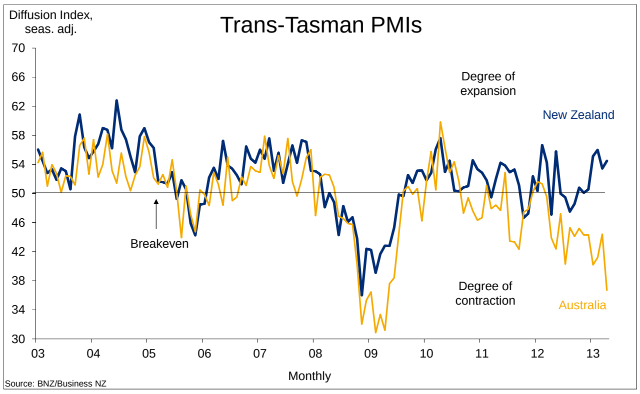
Manufacturing

Australia

The AiG Manufacturing PMI plummets to 36.7 in April from 44.4 in March. It is the lowest reading since 2009. It was another ugly downshift in this already weakened sector.

We have been witnessing an already heavily bruised manufacturing sector as clearly the most vulnerable sector in the economy. It's now taken another body blow in April. If 44.4 in March wasn't low enough, a reading of 36.7 in April puts activity back to 2009 levels.

All of the components of the PMI index took a bath in April with readings in the 30s (50 is breakeven) or below. Production was down 8.6 points to 33.1, new orders down 7 to 32.4 and employment down 9.4 to 39.3. The exports component was down 2.5 points to an ultra-low 24.5, which is the lowest in the decade long history of this series. The export reading is even much worse than in the GFC when export markets were collapsing world-wide, but at least then the currency crashed to the low 60s against the USD providing a nice competitive buffer and a mile away from the current 1.03 level.



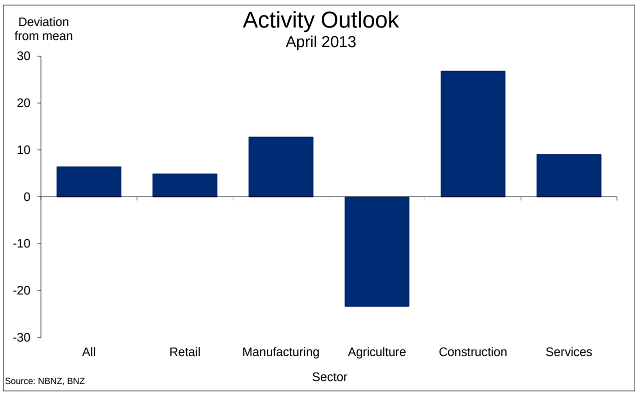
New Zealand

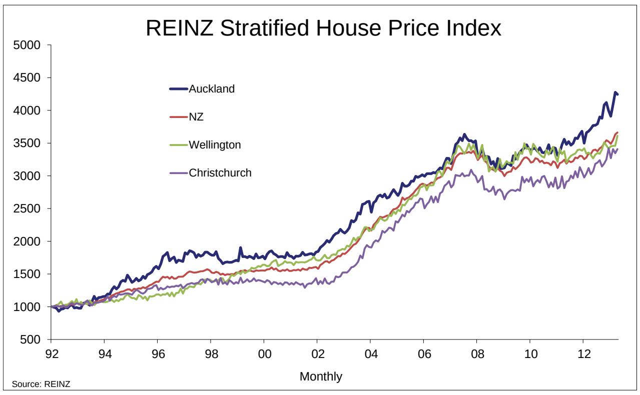
The BNZ Performance of Manufacturing Index (PMI) strengthened further in April, rising to a seasonally adjusted level of 54.5. It was the seventh consecutive month above breakeven (50). While its employment component gave up a little ground (48.0, from 51.5 in March) production lifted to a solid 55.3. Even bigger impetus came from the fact new orders, way up at 59.4, met with dipping stocks (47.8), which strongly suggests production will not only keep ramping up, but needs to in order to avoid emptying shelves.

There is no specific export question in the NZ PMI but we do know that many manufacturing exporters are struggling under the weight of poor global demand and a strong New Zealand dollar. The recently published ANZ business opinion survey shows that a net 27.1% of manufacturers expect exports to rise. This is below the average of 35.1% for this series but miles above the -18.9% reported during the post GFC depths.

The ANZ survey certainly indicated that manufacturing confidence held up in April. According to the ANZ's own-activity indicator for manufacturing, confidence fell to +36.7 from +40.6 in March but was still well above the average reading for this series of +27.9. It is also worth noting that manufacturing in April's ANZ business survey was the second most optimistic sector in the economy behind construction.

The New Zealand manufacturing sector is, of course, leveraged to construction. With expectations for very strong growth in construction this will provide a safety net for manufacturing over the next few years.





Housing market

Australia

After recovering through the March quarter, capital city house prices took a breather in April. Prices fell 0.5% in the month but were still up 2.7% y/y. Inflation faltered in most of the capital cities: Hobart had the largest decline (-3.1%m/m, -1.6% y/y); Perth prices cooled off by 2.5% in April (+3.5% y/y); there were modest falls in Sydney (-0.4%/+3.7%), Melbourne (-0.5%/1.6%) and Brisbane (-0.7%/2.0%); prices rose in Adelaide (+2.8%/+1.9%) and Darwin (+0.2%/5.9%), Darwin having the most resilient prices thanks to the Ichthys LNG development now underway.

Signs that higher house prices have flattened, for now, will be of some relief to the RBA that lower than normal mortgage rates are not unleashing an unwieldy spurt in prices and borrowing by households.

Also released this week, the HIA new home sales series recovered 4.2% in March after February's 5.3% decline. Sales were seemingly spurred by the beefed up First Home Buyer Schemes in several of the states. The exception this month was in WA where detached home sales fell 5.6% after several months of rises.

Overall, HIA new home sales (detached homes and units) are up 7.0% in the March quarter and consistent with some modest recovery in dwelling investment through the first part of this year.

New home sales in Victoria will be boosted from July 1 by the increase in its First Home Owner Grant from $7,000 to $10,000 for newly constructed homes. This may well see some hiatus in sales in May and June awaiting the increase in the grant. The Government has removed the grant for pre-existing dwellings.

While there is some evidence of support for future building activity it is worth noting that the total number of dwelling units approved in March was just 3.9% higher than year earlier levels.

New Zealand

According to the latest Real Estate Institute's Stratified House Price Index, New Zealand house prices rose 9.8% in the year ended April 2013. Moreover, prices are now 8.3% above where they stood at the previous peak in November 2007 (widely acknowledged as a bubble).

There is, however, substantial regional variation in prices. The key regional movements (on an annual basis) are as follows: Christchurch 12.7%, Other South Island 5.0%, Wellington 8.8%, Auckland 14.1%, Other North Island 3.0%.

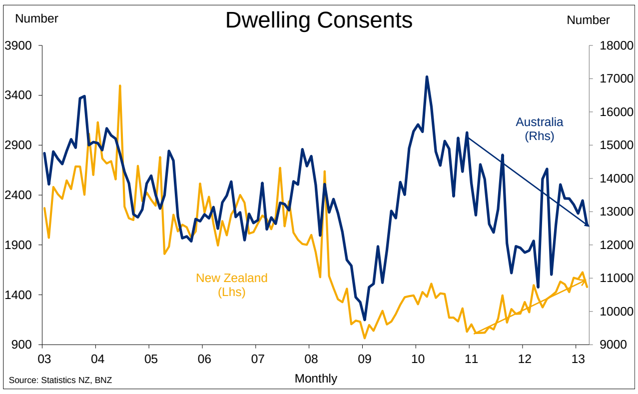
The regional variation is unsurprising given that the strong price appreciation areas are those where there is clear evidence of population-driven excess demand. With interest rates at record lows and supply still relatively constrained further house price appreciation looks likely.

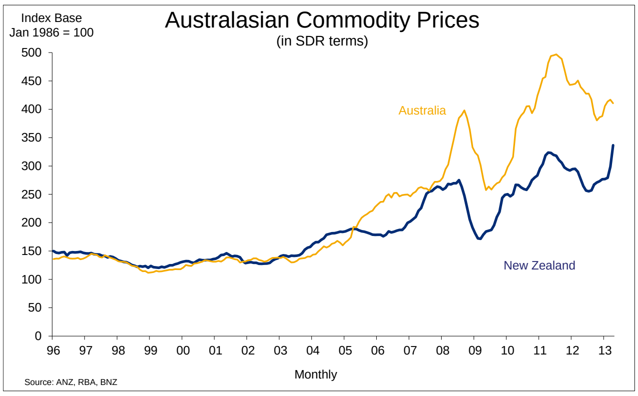
The RBNZ is worried about the current level of house prices (for prudential reasons) and the pace of increase (also for prudential reasons and quite possibly for monetary policy reasons soon). These concerns are not going to dissipate any time soon.

The rate of increase in housing turnover is moderating but this is being affected by base effects and shortages of properties for sale. Despite these moderating factors house sales were 14% higher in the three months to April 2013 than they were in the same period in 2012.

Technical base-level impacts are also adversely affecting the annual growth rate in new residential dwelling authorisations. Even so, they too are still up 12.1% when comparing the three months to April on a year prior. Expect greater expansion ahead.

Kiwibank notwithstanding, it is notable that there is minimal government intervention, either central or local, to prop up the housing market in New Zealand in the manner that is occurring in Australia. There is some anecdotal evidence of some Kiwisaver funds withdrawal but we have no reason to believe that this is a significant driver of current housing market conditions.





Commodity Prices

Australia

After having made some recovery in the December quarter and into the March quarter, Australian export commodity prices have since given up some ground.

In neutral currency SDR terms, the RBA Commodity price index declined by 1.5% in April after a 0.8% rise in March. Prices in April were 6.5% lower than year earlier levels and 17.4% below the peak in July 2011.

While the flow through of higher iron ore spot prices though late 2012 and early 2013 supported prices received in April, steaming coal prices fell, as did gold and crude oil prices. Base metals and many rural commodities also fell. And, while iron ore contributed to the rise in April, more recently spot prices have been declining, which will unseat the RBA index in the months ahead.

Based on the predominance of commodities in Australia's exports (over 70%) and the rise in commodity prices through Q1, the terms of trade is now on track to have recovered in the March quarter by several per cent after its continuous fall since it peaked in the September quarter of 2011. The RBA export commodity price index rose by 7.9% in the March quarter in AUD terms.

But that's about the end of the temporary blip in the terms of trade; April export commodity prices are 1.6% below their Q1 average and further easing in spot prices looks likely.

NAB's economic forecast calls for a further decline in Australia's terms of trade, with average year declines of around 5% for 2013 and 2½% in 2014.

Declining commodity prices would normally be associated with some decline in the Australian dollar. That is still broadly expected to be the case, but for now at least with much of the direction of the AUD determined by quantitative easing from the likes of the Fed and the BoJ, the AUD is continuing to garner support.

New Zealand

In SDR terms the price of New Zealand commodities was 21.5% higher in April 2013 than it was a year earlier. Prices are now 4.1% above their April 2011 peak.

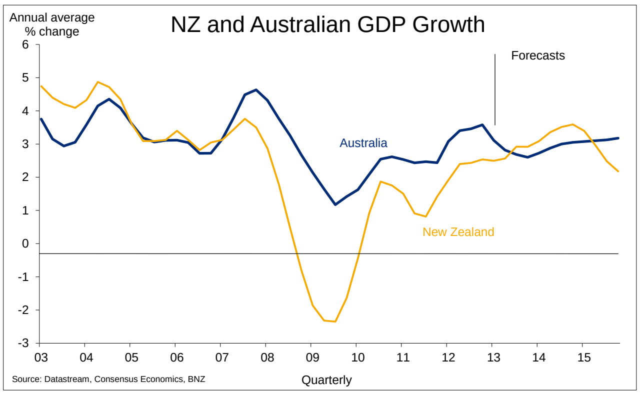
It's been a mixed bag for New Zealand exporters. Expressed in USD terms there has been an annual increase in dairy prices of 52.0%, largely thanks to drought conditions in New Zealand (albeit this story is already unwinding). But dairy wasn't the only sector to report price gains. Horticulture prices are up 8.6% and forestry product prices are up 6.0%.

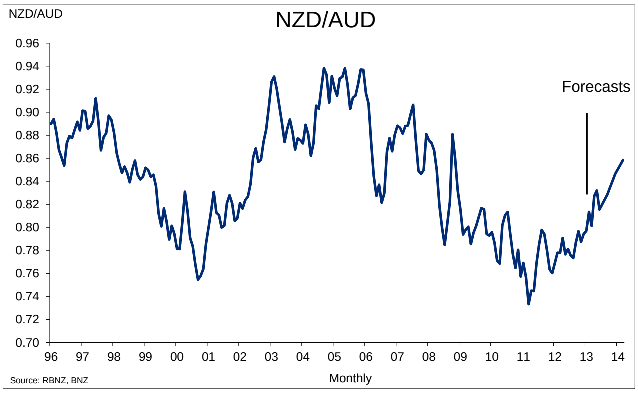
On the downside: the worst performing sector is aluminium (-9.1%) – mimicking the problems Australia has with its metals sector; meat, skins and wool -2.3%; and seafood -2.3%.

The spike in dairy prices is yet to feed through into the OTI terms of trade measure. When it does it should arrest the six quarter decline that had been witnessed in the period to December 2012. On an annual average basis the combination of rising dairy export prices and falling imported oil prices should see New Zealand's terms of trade rise 5.5% across 2013. A 4.0% correction is then expected for 2014.

In the short term, at least, commodity prices and the terms of trade will offer support for the New Zealand dollar which will be further enforced when these price movements stall, for a period, the recent deterioration in the current account balance.

There are numerous other indicators that we could have used as a point of comparison. Some of these would show New Zealand in a better light than its neighbours and others would show quite the opposite. We only picked the above as they happen to be Australia's most recent releases and, to us, they epitomized the current differences in the respective economies. They also go a long way to explaining why we are forecasting New Zealand to expand 2.9% this year and 3.6% next year





whereas NAB are looking at just 2.4% and 3.0%, respectively, for Australia. It would probably be fair to say that the risks to the New Zealand outlook are weighted to the upside and Australia's to the down.

Our purpose here is not to gloat. To start with the period of outperformance is short-lived and an exception to the rule. Moreover, from New Zealand's perspective a stronger Australia is always more desirable. Our manufactured exporters and tourism operators are particularly leveraged to its well-being. With this in mind, it is worth reiterating our view that domestic commentators should spend a lot less time watching the progress of the United States, Europe and the UK as markers of New Zealand's external prospects and a lot more time monitoring our nearest neighbours.

What we can say from all this is that the data, and expected outcomes, for the respective economies continue to fit well with our financial market view that the yield gaps between Australia and New Zealand will close further (the RBA cuts soon and the RBNZ hikes first) and the NZD is likely to find further support against the AUD.

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