

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.



World class average

BNZ - BusinessNZ PMI for December 2013

- The BNZ-BusinessNZ seasonally adjusted PMI for December stood at 56.4, which continued a run of healthy results for 2013. The sector has now been in expansion for 15 consecutive months, and averaged 56.0 over 2013.
- Four of the five seasonally adjusted main diffusion indices were in expansion during December. *New orders* (61.4) again led the way, with five of the last six months recording a post-60 point value. *Production* (57.2) eased slightly from November, while *employment* (55.2) produced its highest result since November 2007. *Deliveries of raw materials* (52.0) fell back slightly but remained in expansion, while *finished stocks* (48.6) showed contraction for the first time since April.
- After strong expansion across the country during November, activity by region was more subdued during December due to the shorter activity time. In the North Island, the *Northern* region (60.1) managed to produce its third consecutive post-60 result, which was the first time this has occurred since mid-2004. Both the *Central* (48.8) and *Canterbury/Westland* (49.9) regions fell back from November's strong results, while the *Otago-Southland* region (58.3) continued at pace with a result similar to October.
- Manufacturing by industry sub-groups were almost all in expansion during December. *Food, beverage & tobacco* (58.7) remained in a healthy position during December, while *machinery & equipment manufacturing* (56.3) picked up pace from November's result. *Petroleum, coal, chemical & associated product manufacturing* (54.4) dropped 8.2 points from November, while *metal product manufacturing* (49.0) experienced a slight decline during December.
- December also saw the proportion of positive comments for the month (73.0%) break the 70% barrier, given recent months had recorded 66.2% in November, 63.8% in October and 58.1% in September. Globally, the JPMorgan Global Manufacturing PMI for December was 53.3, which was the highest result in 32 months.

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 ends the year on a healthy note.

Four of the five main indices were in expansion, with employment highest since 2007.

Unadjusted regional activity consistently strong in the Northern region.

***Next BNZ - BusinessNZ PMI:
13 February 2014***

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)

Inside BNZ Commentary this Month (page 3)

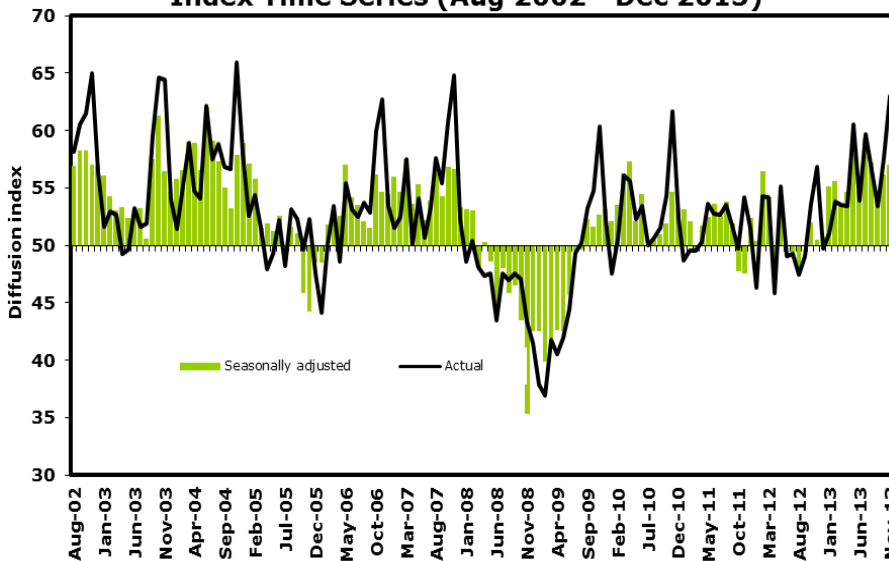
BNZ Economist Doug Steel notes lines up the PMI details of higher employment alongside strong new orders against lower inventories and concludes that the manufacturing sector looks set to build on the growth recorded in the latest set of national accounts.

BNZ-BusinessNZ PMI

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pmi

BNZ - BusinessNZ Performance of Manufacturing Index Time Series (Aug 2002 - Dec 2013)



December time series tables

National Indexes	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013
BNZ - BusinessNZ PMI (s.a.)	42.6	53.1	53.3	52.4	50.7	56.4
Production (s.a.)	40.4	54.8	53.4	51.5	53.2	57.2
Employment (s.a.)	42.2	48.8	50.8	52.5	48.7	55.2
New Orders (s.a.)	41.9	57.1	55.0	53.9	50.5	61.4
Finished Stocks (s.a.)	50.4	47.4	51.5	52.4	49.6	48.6
Deliveries (s.a.)	43.1	52.4	54.6	51.3	50.9	52.0

National Indexes	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013
BNZ - BusinessNZ PMI (s.a.)	42.6	53.1	53.3	52.4	50.7	56.4
Northern	35.4	52.6	51.9	51.9	48.4	60.1
Central	45.4	51.7	53.1	42.7	46.3	48.8
Canterbury/Westland	49.4	52.2	48.4	54.2	53.4	49.9
Otago/Southland	51.1	52.2	61.3	65.6	60.0	58.3

(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.

23 January 2014

Manufacturing Momentum Maintained

- PMI continues solid growth pulse
- Details reinforce headline strength
- Expect more production, employment
- Despite higher NZD/AUD and anticipated OCR hikes

Manufacturing GDP posted a hefty 1.5% increase in Q3 last year, according to the national accounts released just before Christmas. This followed a flat first half of last year. The jump in Q3 looks no fluke to us. More growth is expected.

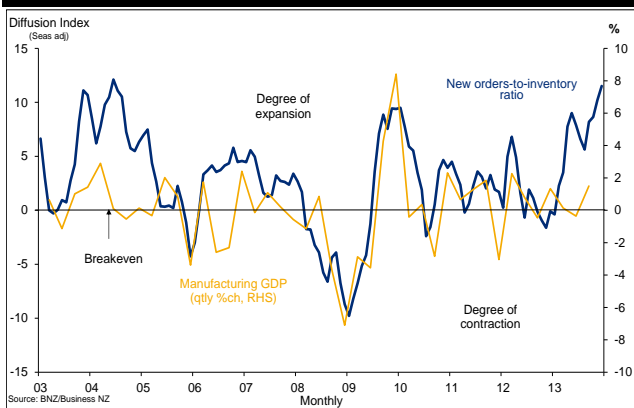
Indeed, timely indicators suggest that strong growth momentum continued through Q4 and into the New Year.

This includes the Performance of Manufacturing Index (PMI). December's 56.4 result is similar to November's 57.0 and puts the quarter average at 56.5. These are well above the 50 level that distinguishes between expansion and contraction. This fits with our estimate that manufacturing GDP posted another quarter of growth in excess of 1% in Q4 last year and looks on track for the same in the first quarter of 2014.

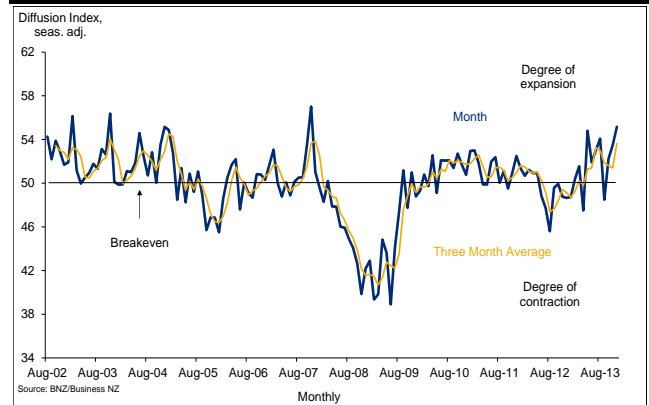
The PMI survey details reinforce the near term momentum implied by the headline result. This includes new orders retaining pole position among the major indicators, at a strong 61.4. Meanwhile, manufacturers seem to have inventory levels well under control. In fact, there is even a hint that the sector as a whole may be running a little light on inventory as demand strengthens. There were similar indications of that in last week's *Quarterly Survey of Business Opinion (QSBO)*.

The combination of strong new orders and falling inventory in the PMI is a positive indicator for more

Orders-to-Inventory and Manufacturing GDP



PMI Employment



production ahead. Indeed, manufacturing growth might well surprise on the high side given that the difference between the PMI new orders and inventory indicators is at its widest since 2004.

No surprise then to see manufacturers gearing up to produce more, including increasing employment. The PMI employment indicator lifted from 53.5 in November to 55.2 in December. This is the strongest recorded employment pulse in the PMI since late 2007. It bodes well for further gains in official employment and a lower unemployment rate in due course. We anticipate the unemployment rate to dip below 6% at the next reading in early February, en route to 5% over the next couple of years.

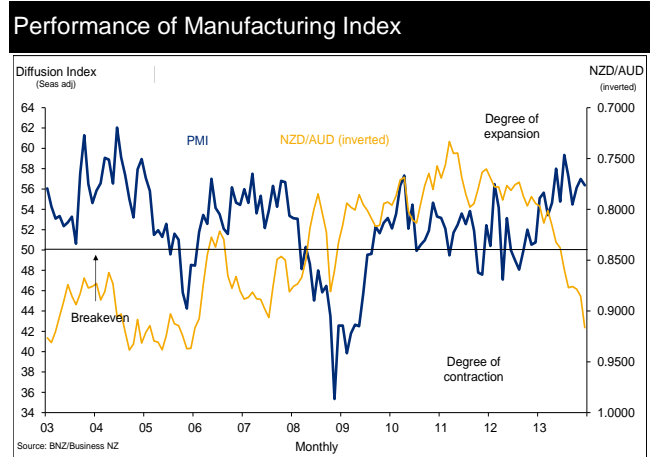
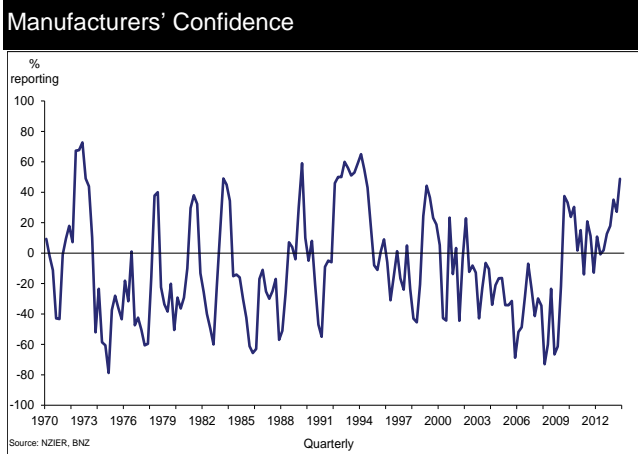
In addition to positive employment indicators, last week's QSBO also contained a strong lift in manufacturers' plant and machinery investment intentions.

It is all part of the improving macroeconomic picture as such things as construction sector activity picks up, higher agricultural revenue enters the country, and net migration swings firmly positive adding more juice to domestic demand.

The PMI results suggest that the manufacturing sector is well and truly participating in the broad economic expansion taking place. Indeed, according to the QSBO, the number of manufacturers expecting profitability improvement ahead was at its highest in 10 years, no doubt a significant reason behind the highest level of confidence in the sector over the same period.

This is not to say all is positive. Negative respondent comments continue to traverse a softer Australian economy, a high exchange rate generally and including a sharp rise in the NZD/AUD cross rate more recently. The prospect of higher domestic interest rates over the coming years will likely become more real as the RBNZ starts to lift the OCR through 2014 as it intends to do.

Yet, despite these negatives present and on the horizon, the positive influences across the broad and diverse manufacturing sector are dominating. Indeed, the balance is as positive as it has been for quite a few years. We await the official data to confirm as much over coming quarters.



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