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

Trend setter

BNZ - BusinessNZ PMI for July 2013

- The BNZ-BusinessNZ seasonally adjusted PMI for July stood at 59.5, which was 4.3 points higher than June and a return to strong levels of expansion seen in May. Compared with previous July results, the 2013 value was the highest since the survey began in 2002, and the third highest monthly result on record. Overall, the first seven months of 2013 has averaged a healthy 56.3.

- Given the continuing healthy levels of activity in the sector, all five seasonally adjusted main diffusion indices were again in expansion for July. *Deliveries of raw materials* (62.3) led the way for July by the thinnest of margins, as *production* (62.2) and *new orders* (62.1) were almost identical in terms of activity. *Employment* (53.1) picked up 1.2 points after a dip in expansion for June, while *finished stocks* (52.6) remained at a similar level to the previous month.

- Expansion was experienced in all parts of the country in July. The *Canterbury* region (62.7) led the way in July, recovering from a dip in expansion in June. The *Northern* region (60.2) continued to show healthy growth, while the *Central* region (58.3) returned to expansion after a slight fall into contraction during the previous month. The *Otago-Southland* region (54.7) improved 1.5 points from June, and has now been in expansion for three consecutive months.

- Manufacturing by industry sub-groups were again all in expansion during July. *Food, beverages & tobacco* (69.6) led the way, followed by *petroleum, coal, chemical & associated product manufacturing* (65.8). *Machinery & equipment manufacturing* (60.5) also provided a post-60 result, while *metal product manufacturing* (58.0) was largely unchanged from June.

- Given the strong result for July, the proportion of positive comments for the July (67.3%) were well above the last three months of 53.4%, 58.4% and 53.5%. Globally, the JPMorgan Global Manufacturing PMI for July was 50.8, which was up 0.2 points from June. This shows global manufacturing output continuing to expand at a modest pace.

Inside BNZ Commentary this Month (page 3)

BNZ Economist Doug Steel looks at the importance of the Australian economy for NZ manufactured exports in the context of the economic slowdown across the Tasman and the associated rise in the NZD/AUD exchange rate. He suggests there may be further headwinds from the Australian market, but it need not necessarily dent the local manufacturing sector given the likely strength of domestic demand.

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 continues trend of expansion at 59.5 for July.

All five main indices were in expansion, with three indices exhibiting post-60 results.

Unadjusted regional activity was positive throughout all of the country.

Next BNZ - BusinessNZ PMI: 13 September 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)

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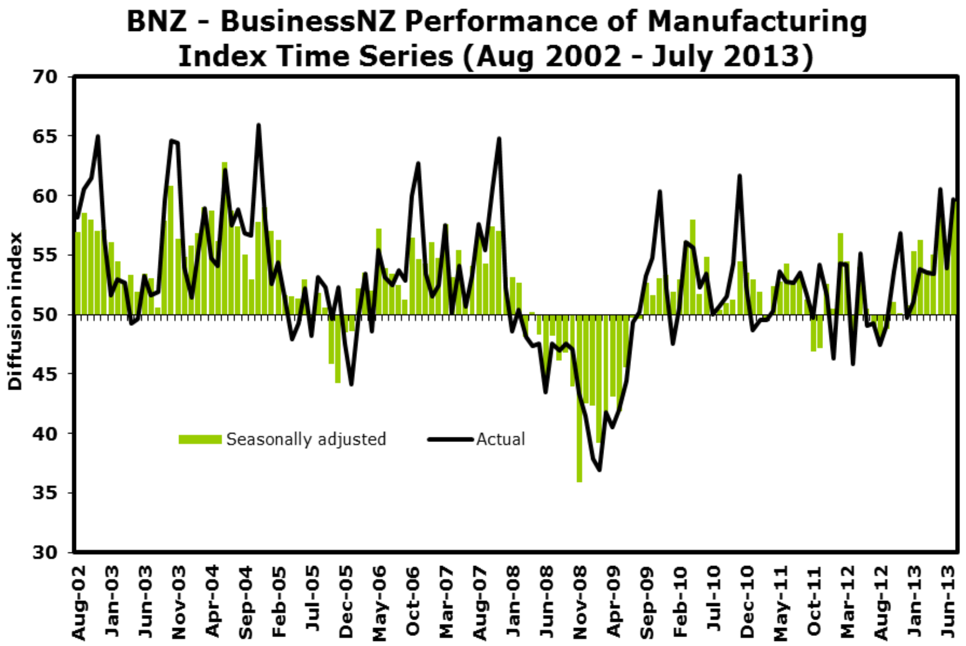
pmi



July time series tables

National Indexes	July 2008	July 2009	July 2010	July 2011	July 2012	July 2013
BNZ - BusinessNZ PMI (s.a.)	48.2	49.7	50.1	52.6	49.1	59.5
Production (s.a.)	48.5	50.2	51.2	51.7	48.9	62.2
Employment (s.a.)	45.9	44.1	52.1	52.4	47.7	53.1
New Orders (s.a.)	47.2	55.3	46.6	53.4	50.7	62.1
Finished Stocks (s.a.)	52.9	43.3	52.2	51.3	47.0	52.6
Deliveries (s.a.)	48.9	48.3	50.1	52.9	48.7	62.3

National Indexes	July 2008	July 2009	July 2010	July 2011	July 2012	July 2013
BNZ - BusinessNZ PMI (s.a.)	48.2	49.7	50.1	52.6	49.1	59.5
Northern	46.8	47.4	47.8	53.3	49.3	60.2
Central	44.9	52.7	56.0	50.8	50.7	58.3
Canterbury/Westland	52.5	54.9	49.4	56.3	49.1	62.7
Otago/Southland	47.5	39.8	48.3	48.5	45.8	54.7

(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.

15 August 2013

Manufacturers Riding High on Domestic Positives

- PMI hits 9-year high
- As domestic demand strengthens
- Enough to offset Australian weakness
- And associated higher NZD/AUD
- More of the same ahead?

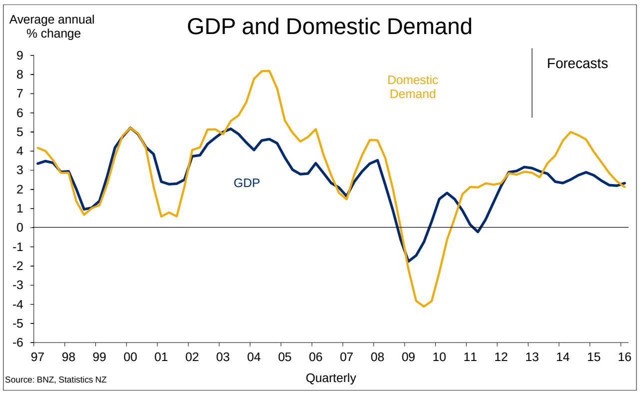
Regular readers will know that we have maintained a positive outlook for the domestic manufacturing sector for a while now. This remains the case. Our positive view continues to be fundamentally linked to the upswing in the construction sector that is already underway and expected to accelerate ahead. This forms part of a broader domestic demand improvement that we see ahead. It should bring manufacturers a better domestic sales environment.

We forecast domestic demand to grow 3.8% this year, accelerating to 4.6% next. This is an important part of our GDP growth forecasts of 2.6% and 3.1% for the same periods respectively.

But while the domestic outlook looks good for manufacturers, we have also been keeping a close eye on developments offshore and in particular the rapidly cooling Australian economy as a threat to the local recovery. The value of NZ exports to Australia fell 9% last year, including a 9% fall in the value of manufactured goods.

Our NAB colleagues over the ditch see Australian economic growth coming in at 2.2% this year, markedly slower than the 3.6% recorded last year. Slower Australian growth is likely to remain a drag on the NZ economy and NZ manufacturers in particular.

After all, Australia is NZ's biggest export market taking about 21% of all merchandise goods (although China is rapidly closing in on the number one spot).

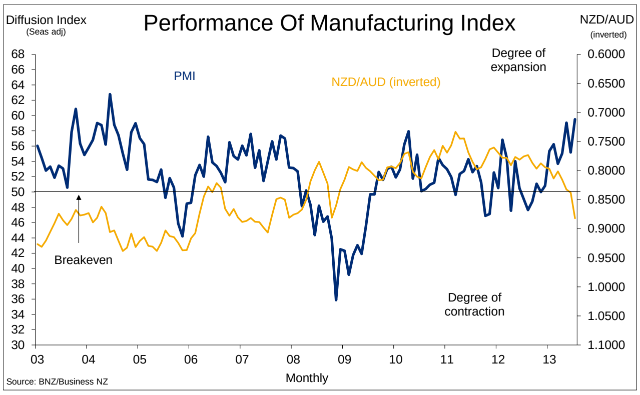


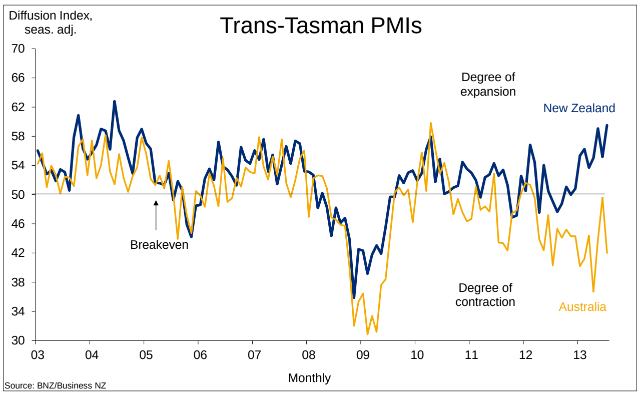
Australia is even more important for NZ manufacturers, taking about 36% of our manufactured exports last year (excluding processed food). The share jumps to 46% when looking at the high value-added 'elaborately transformed manufactures' category. Australia is more than 2.5 times the next biggest single NZ manufactures export market, which is the US with a 14% market share.

It is not only the direct impact of slower Australian growth on demand for NZ goods that we have been mindful of. Currency movements matter too. The most obvious influence is on those that export, with currency movements directly affecting income received. But currency changes also matter for domestically-oriented manufacturers as they are in competition with imported goods. The latter influence is indirect. A higher NZD makes imports cheaper and as a consequence lowers demand for locally produced goods of similar ilk. Indeed, sometimes it may not even be clear to local firms what is driving a particular shift in demand for its products. There are simply too many possible factors, all moving at the same time and often in different directions. The currency's value is only one, albeit potentially important, factor.

And currency markets have been moving. In fact, the NZD/AUD has been on a bender, lifting more than 10c over the past year including an 8c surge in the past five months. It is this latter surge that had us wondering if we might see some cooling in the local manufacturing sector lead indicators.

The answer is an emphatic no, judging by today's Performance of Manufacturing Index (PMI). Contrary to any cooling, the July PMI lifted to a remarkably strong 59.5. Not only did the PMI push higher, but it now sits at its highest level in 9 years. This is no one month wonder. It continues the strengthening trend we have seen through 2013. For example, the PMI 3-month average





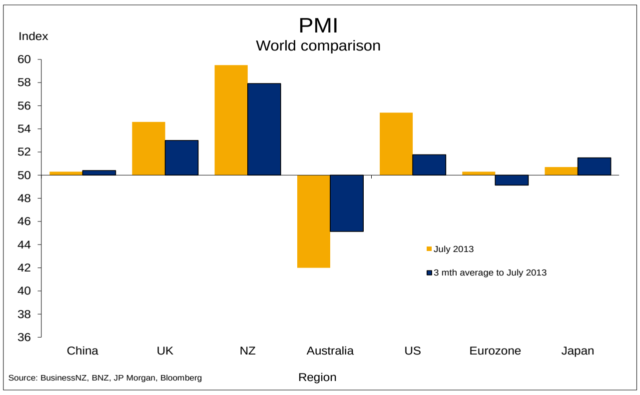
has increased to 57.9. Production and new orders continue to lead the charge, with signs that employment is starting to join in. Importantly the strength is broad-based with expansion indicated by all major sub-indices across industries, regions and firm size.

The very robust level of the PMI overall goes to show the strength of the positives (domestic and possibly elsewhere offshore) outweighing the slowdown in Australia and associated NZD/AUD strength. This is not a complete surprise. After all, domestic manufacturing sales are about a quarter bigger than manufacturing export sales.

This is not to say some are hurting from the stronger NZD/AUD, but rather on balance economic positives are outweighing the negatives and increasingly so. Indeed, it is the economic positives in NZ's favour that are behind the currency's strength in the first place.

PMI's illustrate the relative story. In comparison to NZ's stunning 59.5 July PMI reading, the equivalent Australian series sits at a miserable 42.0. In fact, NZ continues to sit atop the PMI leaderboard of usual comparator countries.

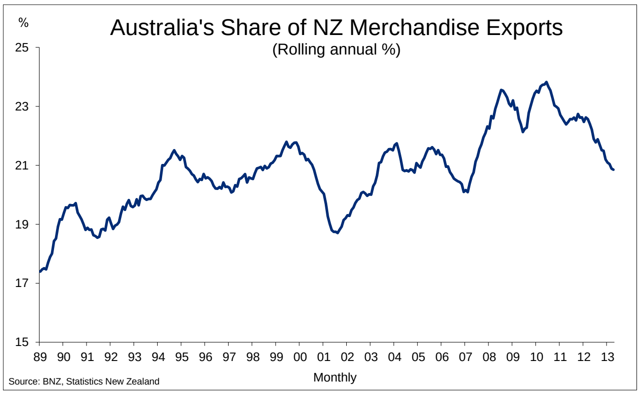
Given the comparative outlooks for the NZ and Australian economies it has been no surprise to see the NZD/AUD



rise. Indeed, we have been forecasting it for some time. A couple of our more recent commentaries can be seen here, here and here. We expect further appreciation in the NZD/AUD.

The long and short of our view is that while recent gains have run ahead of 'fundamentals', we don't think a correction is in the offing. The NZD/AUD has been as high as 0.9500 a couple of times in the past (1995 and 2005). And the way we see the fundamentals playing out – further NZ economic outperformance, relative strength in NZ commodity prices against sharp losses in the Australian terms of trade, and further widening in NZ-AU interest rate differentials – a further push into the nervous nineties looks likely in coming months. We have recently revised our 0.8850 year-end forecast up to just over 0.9000.

Today's PMI results suggest that such a NZD/AUD rise need not necessarily mean that the domestic manufacturing sector as a whole will wilt as a result. Indeed, if the NZD/AUD is rising because of the stronger local economy in the first place, it is an environment that local manufacturers may well thrive in.



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