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

Good start to 2014 innings

BNZ - BusinessNZ PMI for January 2014

- The BNZ-BusinessNZ seasonally adjusted PMI for January stood at 56.2, which has gotten New Zealand's manufacturing sector off to a good start for 2014. The sector has now been in expansion for 16 consecutive months, with the last six months also averaging 56.2.

- Four of the five seasonally adjusted main diffusion indices were again in expansion during January. *New orders* (60.2) remained on top, with six of the last seven months recording a post-60 point value. *Production* (59.5) increased 1.8 points from December, while *employment* (51.0) dipped back 4 points after its solid result in December. *Deliveries of raw materials* (56.6) recovered to a result almost identical to November, while *finished stocks* (48.4) was essentially unchanged from the previous month.

- Three of the four regions were in expansion during January. In the North Island, the *Northern* region (53.1) experienced a lower level of expansion after three consecutive post-60 results. The *Canterbury/Westland* region (53.0) went back into expansion after a no change level during December. The *Central* region (48.8) remained unchanged in activity levels from the previous month, while the *Otago-Southland* region (56.4) continued to fall back in expansion from the previous month.

- Manufacturing by industry sub-groups were mostly in expansion during January. *Metal product manufacturing* (59.3) rose 10.3 points from December to lead the way for January, while m*achinery & equipment manufacturing* (54.5) dipped slightly in expansion from the previous month. *Petroleum, coal, chemical & associated product manufacturing* (41.3) experienced a sharp decline during January, which was mostly due to seasonal factors at play.

- December also saw the proportion of positive comments for the month (59.2%) drop back due to the seasonal drop off during the holiday season, after breaking the 70% barrier in December. Globally, the JPMorgan Global Manufacturing PMI for January was 52.9, with production and new orders expanding at rates above their respective averages for the current recovery.

Inside BNZ Commentary this Month (page 3)

BNZ Economist Doug Steel notes the strength in the PMI despite a much stronger NZD/AUD exchange rate and slower Australian economy. He suggests that the buoyant manufacturing indicators and employment over the past year reflects accelerating 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 starts the year on a healthy note.

Four of the five main indices were in expansion, with new orders leading the way.

Unadjusted regional activity was expansionary in four of the five regions.

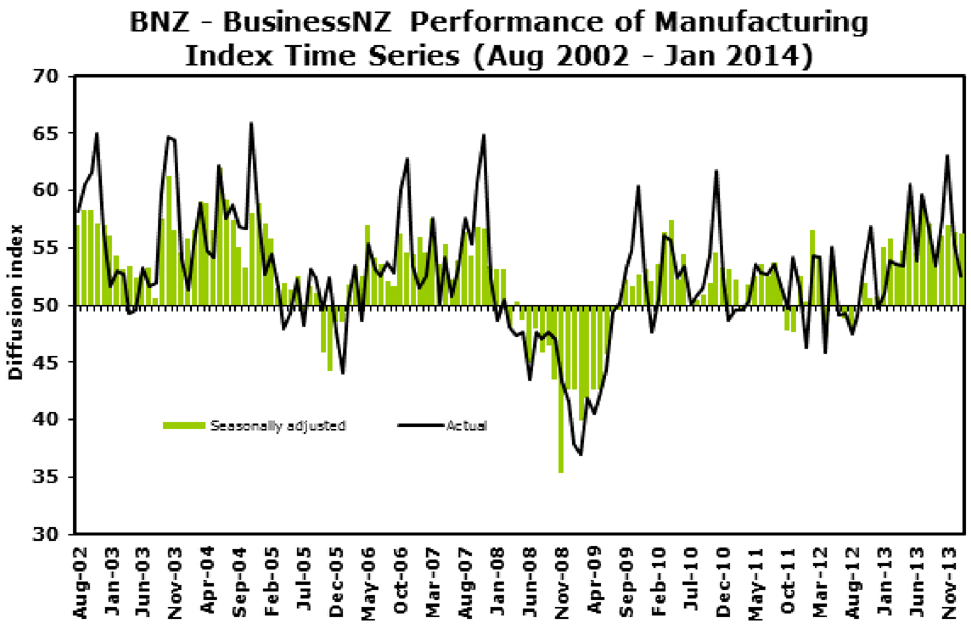
Next BNZ - BusinessNZ PMI: 14 March 2014

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)

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.



January time series tables

National Indexes	Jan 2009	Jan 2010	Jan 2011	Jan 2012	Jan 2013	Jan 2014
BNZ - BusinessNZ PMI (s.a.)	42.6	52.1	53.2	50.4	55.0	56.2
Production (s.a.)	40.8	52.8	51.6	51.1	57.0	59.5
Employment (s.a.)	42.9	49.3	53.1	51.7	49.3	51.0
New Orders (s.a.)	41.3	55.7	56.2	50.6	56.7	60.2
Finished Stocks (s.a.)	49.0	47.8	51.1	49.8	57.1	48.4
Deliveries (s.a.)	43.4	50.6	51.8	48.4	55.8	56.6

National Indexes	Jan 2009	Jan 2010	Jan 2011	Jan 2012	Jan 2013	Jan 2014
BNZ - BusinessNZ PMI (s.a.)	42.6	52.1	53.2	50.4	55.0	56.2
Northern	34.4	45.8	49.2	43.0	50.7	53.1
Central	40.7	48.9	49.0	45.9	49.9	48.8
Canterbury/Westland	36.8	49.7	43.1	51.3	54.6	53.0
Otago/Southland	48.4	48.8	57.0	52.8	48.1	56.4

(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.

13 February 2013

Manufacturing Defying Currency Strength

- PMI remains steadfast, at 56.2 in January
- Despite NZ dollar strength, Australian slowdown
- Expanding domestic demand an important pillar
- Helping generate employment growth
- AUD/NZD probably peaked, but don't expect big fall

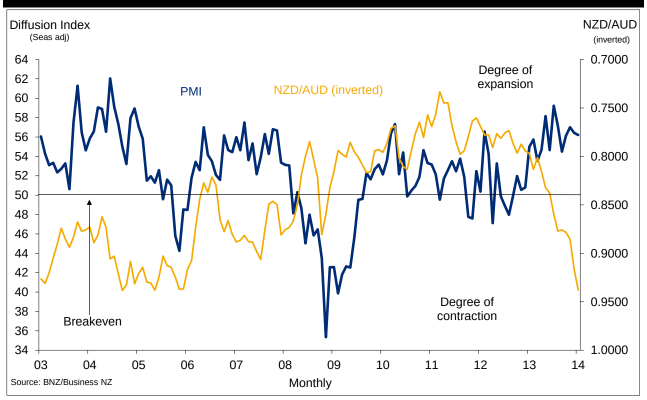
The manufacturing sector has started 2014 expanding firmly, so says the Performance of Manufacturing Index (PMI). January's reading of 56.2 is well above 50, the level that separates expansion from contraction. It is no surprise. The New Year looks much like last year, with January's result sitting between December's 56.4 result and the 2013 average of 56.0. The strong positive momentum from last year has continued.

Manufacturing growth continues despite the general strength of the NZ dollar and the particular recent strength we have seen in the local currency against its Australian counterpart.

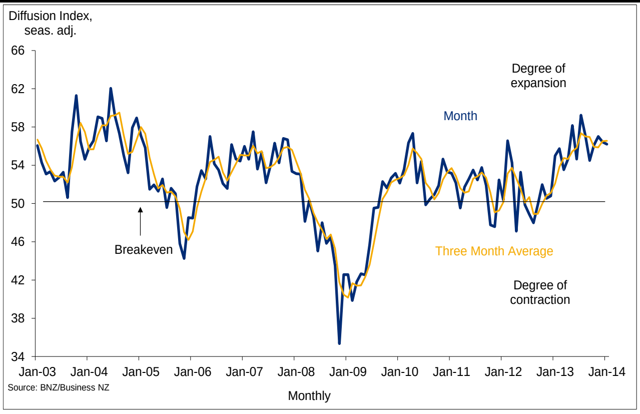
It would be easy to understand if the PMI had lost a bit of heat in January, given the more than 14% rise in the NZD/AUD crossrate over the past 12 months. And especially so given that it even briefly poked its nose up to 0.95 during January (which we think will mark the peak this cycle) to what was an 8-year high and a level that has been seldom seen since the early 1970s. But the PMI has barreled on.

That is not to say a strong NZ dollar is not causing concern. Many survey respondents noted the strength of the NZ dollar including against the Australian dollar as a negative influence on their activity. Others just noted the slowdown in Australia generally as a drag on business. Such results are what you would expect given that Australia accounts for around 50% of NZ's total manufactured exports (including processed primary products).

PMI vs NZD/AUD



PMI Momentum



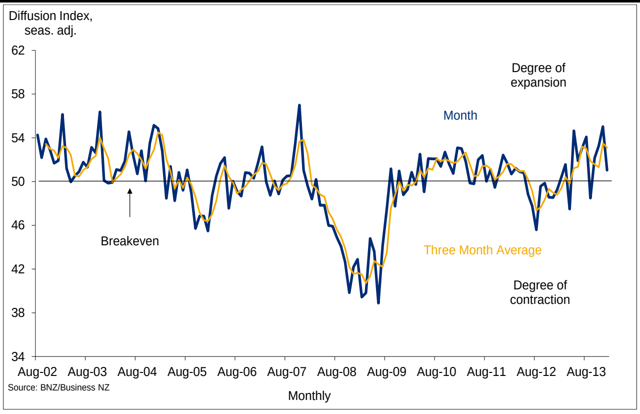
What was perhaps a bit more surprising is that many other respondents commented that Australia was a source of improvement and some even noted outright strength. Perhaps some signs that previous monetary support is gaining some traction across the Tasman. It fits with the recent bounce in Australian business confidence. There were also positive respondent comments regards some other export markets.

The fact that the PMI remained steadfast might reflect the fact that it takes time for currency strength to materially dent performance. Or, more likely in our view, the negative influence from the strong NZ dollar is being more than offset by other factors, on balance.

One of those is a strong and pervasive upswing in domestic investment activity including rapid construction growth. Another is a big increase in agriculture income courtesy of a 40-year high in the terms of trade and the increased purchasing power for investment and consumption that the country enjoys as a result. A strong positive upswing in net immigration is also supporting domestic growth (as net outflows to Australia reduce). We anticipate such factors to maintain manufacturing growth ahead.

Expanding domestic demand matters given that domestic sales account for more than half of overall manufacturers' sales, according to RBNZ estimates. Judging by the buoyancy in the PMI, the outright strength of domestic

PMI Employment



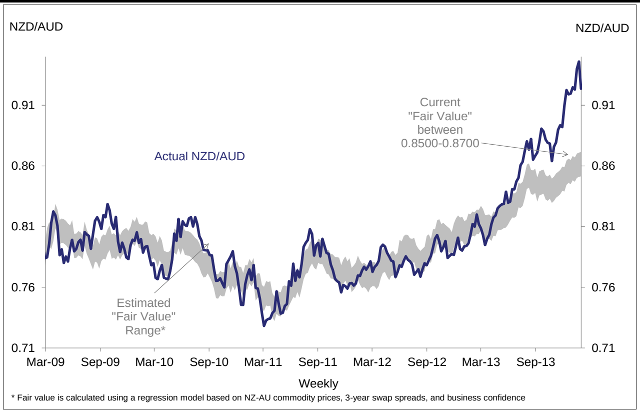
demand also seems to have been enough to outweigh the drag from the strong NZ dollar regards import competition.

It's not just the PMI where the positive balance of factors for manufacturing is showing up. The latest official employment figures show strong (+6%) jobs growth in manufacturing over 2013, as activity picks up from previous weakness. We are not reading too much into the PMI employment index slowing to 51.0 in January, given that it followed a 6-year high reading of 55.0 in December. The trend in employment remains upward.

Manufacturing punched above its weight regards job growth in 2013, accounting for 13.5% of the net 106,000 additional jobs added in the NZ economy overall last year. Which, incidentally, were more jobs than Australia added over the same period (46,300). Quite staggering given that the Australian economy is about eight times the size of the NZ economy. Sure, the Australian unemployment rate is currently (Australia's employment figures for January are due later today) still marginally lower than NZ's (5.8% vs 6.0%). But the trends are in opposite directions and even more so for the trend in labour force participation – both in NZ's favour. Overall, the economy and labour market are currently stronger in NZ than in Australia.

Does this mean the NZD/AUD will head higher? We don't think so. In our 2014 FX Outlook published back in mid-December, we forecast NZD/AUD to average 0.9250 in the first half of 2014 and 0.9175 in the second half. We maintain these forecasts.

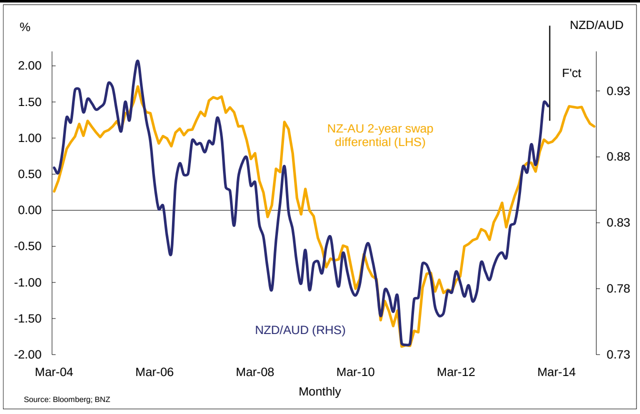
NZD/AUD Relative to Short-term "Fair Value"



Still, on our fundamental valuation metrics, the NZD/AUD has become significantly overvalued. The superior NZ fundamental story relative to Australia remains compelling but looks to be fully or overly discounted. Our short-term fundamental model (that takes into account relative commodity prices, business confidence and interest rate differentials) suggest a 'fair value' range of 0.85 to 0.87.

We believe recent chatter of the NZD/AUD trading at parity is misplaced. It's worth noting that around 200 bps of interest rate hikes from the RBNZ over the coming two years is already anticipated by the market so the delivery of such shouldn't, in and of itself, generate any more upward pressure for the NZD/AUD. But equally it is difficult to see a meaningful downward pressure on this exchange rate this year either.

NZ-AU Interest Rate Differentials & NZD/AUD



doug_steel@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Economist
+(64 4) 474 6923

Kymberly Martin
Strategist
+(64 4) 924 7654

Raiko Shareef
Currency Strategist
+(64 4) 924 7652

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

Ray Attrill
Global Co-Head of FX Strategy
+(61 2) 9237 1848

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+800 9295 1100
Fixed Income/Derivatives	+(61 2) 9295 1166

London

Foreign Exchange	+800 333 00 333
Fixed Income/Derivatives	+(44 20) 7796 4761

New York

Foreign Exchange	+1 800 125 602
Fixed Income/Derivatives	+1877 377 5480

Hong Kong

Foreign Exchange	+(85 2) 2526 5891
Fixed Income/Derivatives	+(85 2) 2526 5891