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

Solid first half performance

BNZ - BusinessNZ PMI for June 2013

- The BNZ-BusinessNZ seasonally adjusted PMI for June stood at 54.7, which was 4.3 points lower than May, but still in solid expansionary mode. Compared with previous June results, the 2013 value was the highest since the June 2004 result. Overall, the first half of 2013 has averaged a healthy 55.7, compared with only 49.6 for the previous six months.

- Given the ongoing healthy levels of activity in the sector, all five seasonally adjusted main diffusion indices were again in expansion for June. Production (55.5) led the way, while *new orders* (55.1) were close behind. Both these two indices have been the main drivers of overall expansion in the sector in recent months. *Employment* (51.9) remained in expansion, although down 3.4 points from the previous month. *Deliveries* (55.4) remained at a stable level of activity, while *finished stocks* (52.7) also experienced a higher level of activity from May.

- Expansion was experienced in most parts of the country in June. The *Northern* region (56.0) continued to show solid growth, although down 4.5 points from the previous month. After three very strong months of expansion, the *Canterbury* region (53.3) experienced a lower level of activity for June. The *Otago/Southland* region (53.2) remained in expansion for the second consecutive month, while the *Central* region (49.5) fell back to show slight contraction in June.

- Manufacturing by industry sub-groups were all in expansion during June. *Metal product manufacturing* (58.5) led the way, followed by *machinery & equipment manufacturing* (56.0). *Food, beverages & tobacco* (52.8) and *petroleum, coal, chemical & associated product manufacturing* (52.1) displayed similar levels of expansion, while *textile, clothing, footwear & leather manufacturing* (50.9) was closer to no change in activity.

- Given the lower level of expansion in June, the proportion of positive comments for June (53.4%) also retracted slightly from May (58.4%), and closer to the April result (53.5%). Globally, the JPMorgan Global Manufacturing PMI for June was 50.6, which was unchanged from May. However, this still signaled an expansion of the global manufacturing sector for the sixth month running.

Inside BNZ Commentary this Month (page 3)

This month, BNZ Senior Economist, Craig Ebert, compares the latest PMI with the manufacturing category of the recent QSBO. He finds they are similarly positive – overall, and in their details and stories.

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 remains in expansion at 54.7 for June.

All five main indices were in expansion, led by production.

Unadjusted regional activity was positive throughout most of the country.

Next BNZ - BusinessNZ PMI: 15 August 2013

SPONSOR STATEMENT

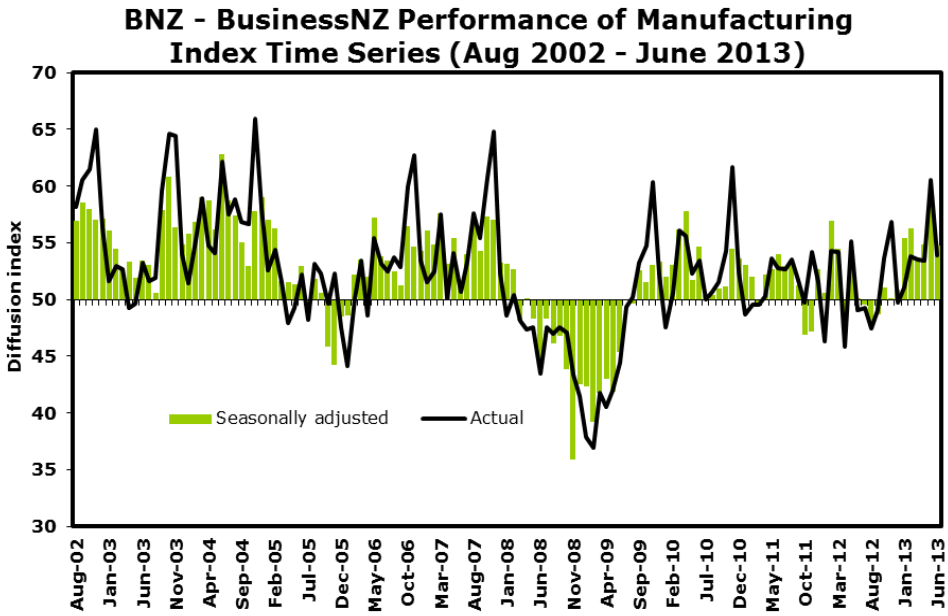
BNZ is delighted to be associated with the Performance of Manufacturing Index (PMI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ 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

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



June time series tables

National Indexes	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
BNZ - BusinessNZ PMI (s.a.)	44.3	45.4	54.6	54.0	50.1	54.7
Production (s.a.)	42.9	47.5	54.1	52.1	50.4	55.5
Employment (s.a.)	46.0	38.9	52.1	52.0	48.8	51.9
New Orders (s.a.)	42.6	48.8	54.5	55.0	50.8	55.1
Finished Stocks (s.a.)	51.7	44.1	54.7	48.9	49.6	52.7
Deliveries (s.a.)	42.9	42.6	54.3	55.6	46.4	55.4

National Indexes	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
BNZ - BusinessNZ PMI (s.a.)	44.3	45.4	54.6	54.0	50.1	54.7
Northern	42.2	41.7	51.6	55.2	50.7	56.0
Central	45.6	44.7	53.8	53.9	48.0	49.5
Canterbury/Westland	42.2	48.8	53.4	52.1	46.7	53.3
Otago/Southland	47.9	48.8	58.4	41.3	49.8	53.2

(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.

11 July 2013

Manufacturing Safety in Numbers

- June's PMI settles into solid growth groove
- QSBO manufacturers positive too
- After a patchy 2012
- Lean inventory adds to production prospects
- Investment intentions strongest in decades

It is timely to compare today's Performance of Manufacturing Index (PMI) with the manufacturing category of Tuesday's Quarterly Survey of Business Opinion (QSBO). Both are upbeat. In sum they represent a sizable proportion of the industry. With due regard to the ANZ business survey as well, if there is any other survey of superior representation we would be glad to hear of it, and its sampling considerations. For the meantime, we take this week's PMI and QSBO as further evidence New Zealand's manufacturing industry is in relatively good heart.

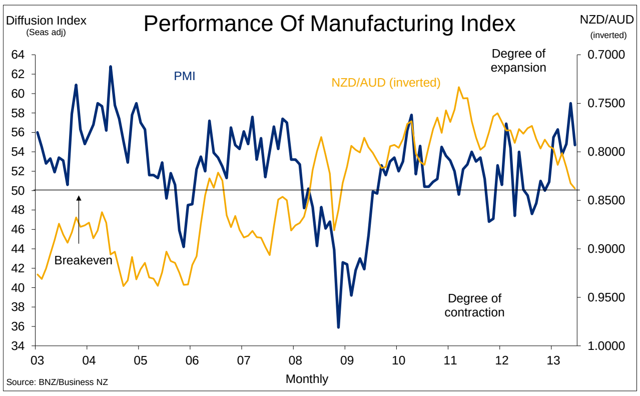
This is despite obvious hindrances, with the most recent of these being the rising NZ dollar against its Aussie counterpart, along with a slowing Australian economy. The NZD/AUD has essentially got back up to around its long-term norm, having been relatively cheap for a number of years post GFC. We forecast it to keep rising, to a 0.8900 peak by year-end, as New Zealand's economic flow to Australia's ebb is drawn in sharper relief. Such is the way exchange rates respond.

In respect to Australia's economic slowdown, this is discussed by our National Australia Bank colleagues in the international article of today's BNZ Strategist. Suffice it to say that yesterday's NAB business survey trailed Tuesday's NZ QSBO by an even wider margin, as Australia's mining industry and, now, retailing sector fell off the mediocre pace of other areas. All the while, China's slowdown is seen as having more impact on, and via, Australia than on New Zealand's economy directly.

So, with a big chunk of New Zealand's manufactured exports still going across the Tasman – and even more so in non-food terms – the path of Australia's economy and NZD/AUD will remain important to monitor.

Still, if we were to line up all available PMI and QSBO-manufacturing data against the wall then their main confession would be of a sector now making clear progress, after a patchy year last year.

Common themes also reside in the details. From a bumpy 2012, manufacturing production has developed a clear expansive tone to it this year. The PMI index on such was



a seasonally adjusted 55.5 for June, well above the 50 line that demarcates contraction from expansion. For the QSBO it was +17 in respect to output over the previous three months and +21 in regard to the coming three months – both easily above the breakeven line of zero.

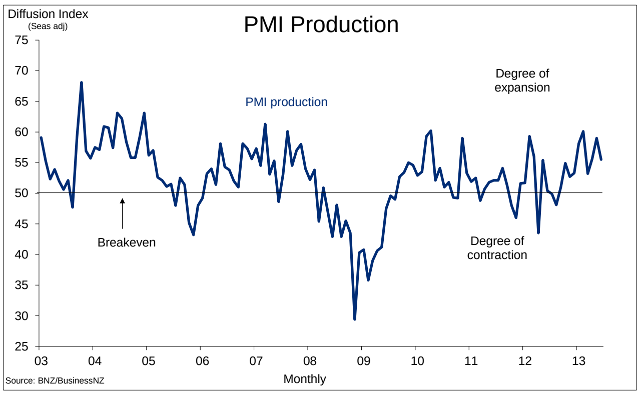
Such things go a long way to countering the transitory hit to manufacturing activity that the early-2013 drought is bound to land, by way of lower food processing – with the worst of this impact timed for the June quarter just transpired.

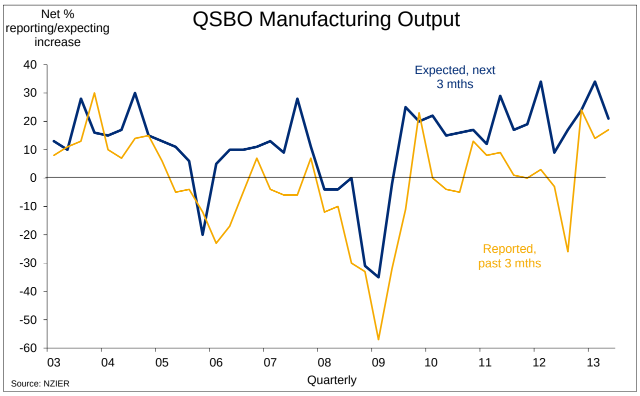
But the sense that the underlying dynamics in manufacturing are actually robust is further borne out by the strength in new orders, amid signs of manufacturing inventory running at very lean levels. The new orders index of June's PMI, for instance, remained relatively positive, at a seasonally adjusted 55.2. This made for a 3-month average of 59.2. Manufacturers in the QSBO, meanwhile, reported +18 for new orders received over the recent few months – a result not bettered, strictly, since 2003. The QSBO index for expected orders was also +18, comfortably above the long-term average of +10.

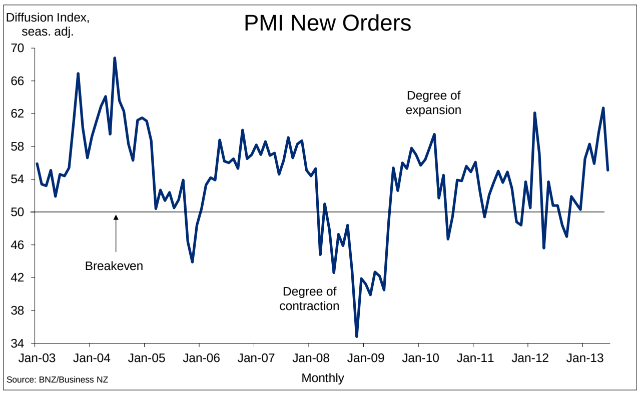
This makes sense given the reports on inventory. June's PMI, for example, suggested things were just starting to rebound on this front, following a flat-to-negative tone about it earlier in the year. This gelled with a near-record low proportion of manufacturers in the QSBO reporting stocks as too high, along with a net balance of +4 with respect to inventory direction over the next few months.

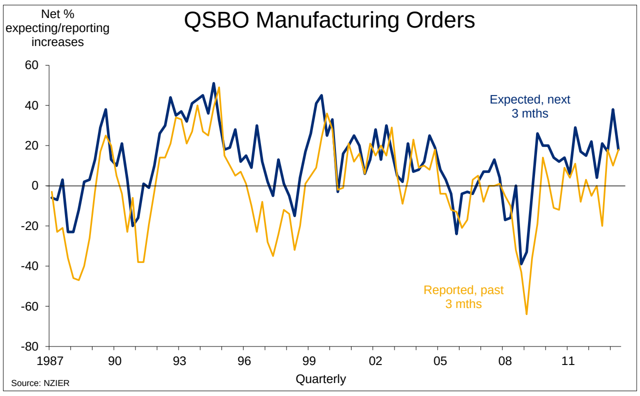
Employment is the other area that is looking positive amongst manufacturers. The PMI index on such, while still bouncing around quite a bit from month to month, is at least doing so now around a 3-month average of 51.6, similar to June's monthly result itself. If there

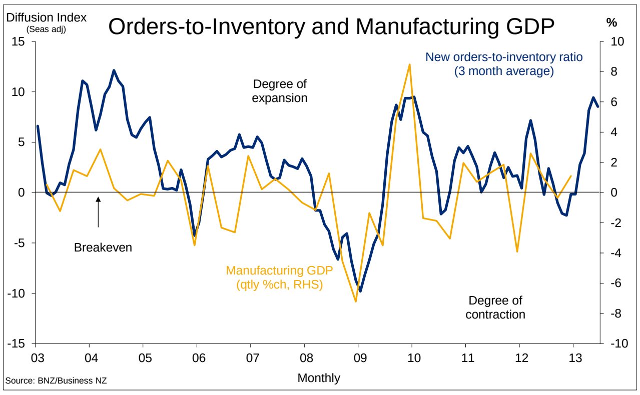
Manufacturing Messages of Support

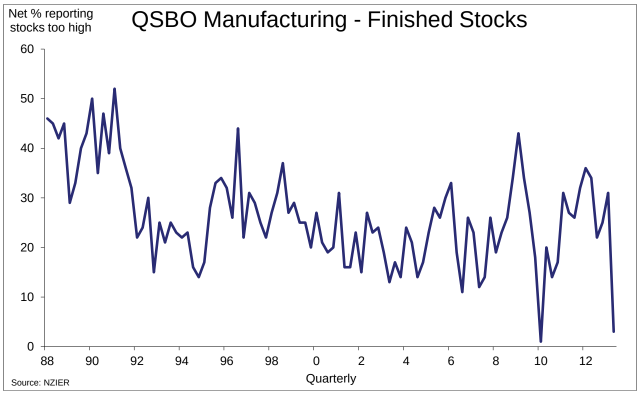


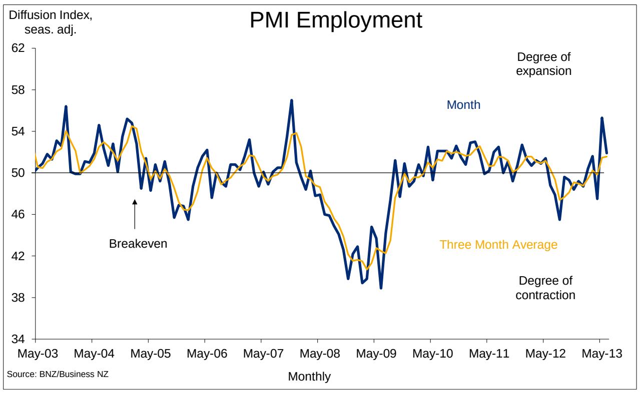


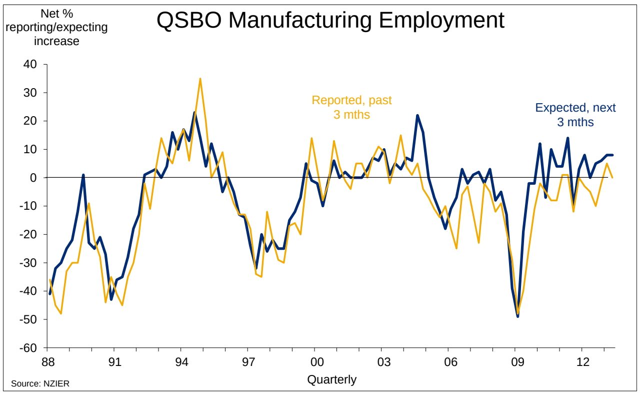


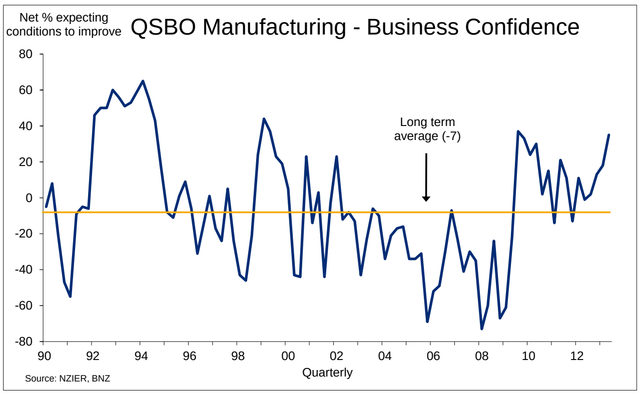


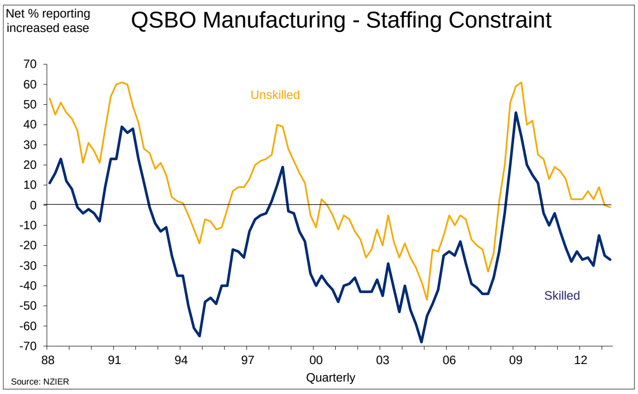








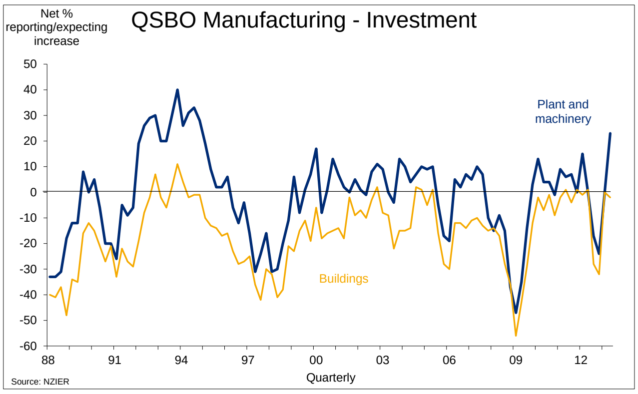




was any doubt, note that the flat reports from QSBO manufacturers regards staffing was actually above the long-term average of -6, while employment intentions for the coming three months remained solid, at +8.

Then we can look at the things the QSBO measures that the PMI does not. Take net confidence in the overall economic outlook, for example, which manufacturing business respondents to the QSBO scored at +35. This compares to its long-term average (since 1961, no less) of -7. Nor was manufacturing's confidence in any way dragging the chain in the ANZ business survey, by the way.

The QSBO went on to show manufacturers are now relatively upbeat about investment. In terms of buildings the index was clearly above average. In respect to investment in plant and machinery things were positively buzzing among manufacturers with the net balance



measure of +23 the highest in almost 20 years. This would not be the case incidentally, if there was the spare capacity in the economy many folk appear to be presuming. Indeed, it tells of capacity constraints soon arising, if they haven't arrived already.

Speaking of which, the other colour the QSBO is able to add to the general themes of the PMI is around labour constraints. Without wanting to get too tangled up in their change variables they basically show that staff – whether skilled or unskilled – are becoming a little difficult to find, having been relatively easy pickings during and immediately after the 2008/09 local recession and Global Financial Crisis. So as the expansion continues, as looks likely, wage inflation will likely come into the equation.

Of course, the latest range of indices from New Zealand's manufacturing sector are otherwise similar to where they were a few years ago, when they gave way to bumpiness. However, it bears remembering that the positive net balances of a few years ago were underpinned by things bouncing off extreme lows, immediately post the GFC. When it can't get any worse, the only way is up. The most recent manufacturing indicators, in contrast, are being seen from the vantage of a more solid base to begin with.

It's not really us making these judgements. It's the scores, if not hundreds, of manufacturing businesses that take the time to fill out the PMI and QSBO surveys. There is safety in those numbers. Indeed, there's a strong sense of confidence in them.

craig_ebert@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

Mike Jones
Strategist
+(64 4) 924 7652

Kymberly Martin
Strategist
+(64 4) 924 7654

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

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