

17 June 2016

The PMI

New Zealand's Performance of Manufacturing Index (PMI) firmed a bit further in May, while its details were even more encouraging. At a seasonally adjusted 57.1, from 56.6 in April, the PMI was well above its long-term norm of 53.1. The positive skew in detail related to production surging to 61.1 and new orders cracking along at 59.9. The employment index, meanwhile, popped back into expansion territory, with 52.8, having been flat (50.0) in April and slightly contractionary in February and March. The only "weak" spot in May's PMI was in its finished-stocks index. This sank to 48.9, from 53.4 in April. But this looks to be a "caught short" kind of thing, given the utter strength in the demand-side indicators in May's PMI.

Manufacturing GDP

The production readings in the PMI have certainly kept our chins up, when recent results on manufacturing GDP have looked a bit wobbly. To be sure, yesterday's GDP accounts showed less of a fall in manufacturing GDP than we feared, partly as food processing ex meat and dairy proved very strong. Still, overall, manufacturing activity declined 0.4% in Q1 GDP, as it did in Q4 of last year as well. These falls reflected timing issues around rural processing, after a bumper 2015 Q3. As for the underlying pulse in manufacturing, we believe this is solid – as the PMI surely attests to. On this basis we forecast a rebound in manufacturing GDP over Q2/Q3.

Forestry

One of the brighter spots in the Q1 GDP accounts was around forestry. Having had a great run, activity-wise, post GFC the industry struggled a bit over 2015. However, there were signs of renewed life in the March quarter of this year. The Forestry and Logging component of GDP, for example, expanded 5.2% in Q1. This returned its annual growth into positive territory, with 2.8%. Manufactured wood and paper products, meanwhile, increased 1.9% in the quarter, to be up 5.3% on a year prior. Structural demand from China (and India?) and a strong local construction outlook promise to underpin New Zealand's forestry activity, and prices.

Australia

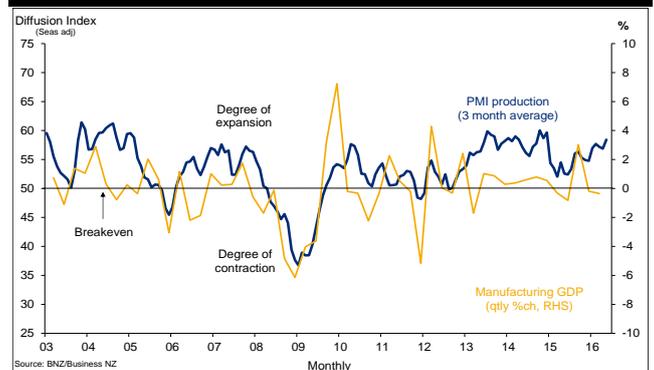
All things considered, Australia is still New Zealand's largest trading partner. And so it's worth noting that Australia's economy has been digesting a pronounced correction in mining investment, to be performing relatively well, overall. Its annual GDP growth in the March quarter, for example, was 3.1%. And the very latest NAB business survey maintained a robust view around economic activity, as a whole; even with a clear drag still coming from Western Australia. This supports the view of our colleagues at NAB that Australia's GDP will expand 3.1% over calendar 2016 and 3.0% over 2017.

craig_ebert@bnz.co.nz

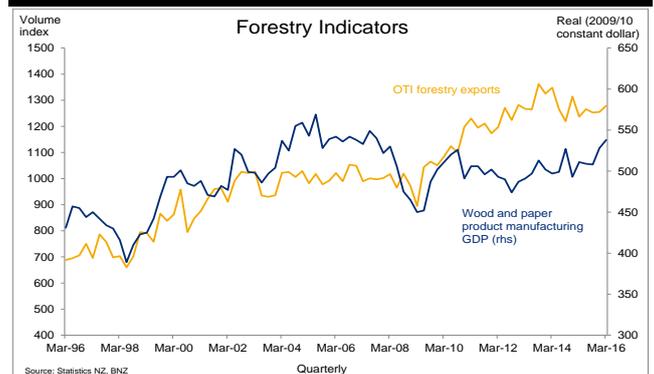
NZ PMI Dynamics Looking Even Stronger



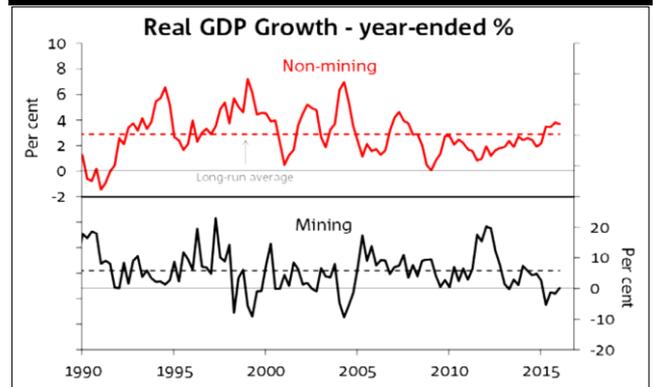
A Dent From Meat And Dairy Processing In Q1 GDP



The Wood From The Trees



Australia Battles Past Mining Investment Correction



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+(64 4) 474 6905

Craig Ebert

Senior Economist
+(64 4) 474 6799

Doug Steel

Senior Economist
+(64 4) 474 6923

Kymerly Martin

Senior Market Strategist
+(64 4) 924 7654

Jason Wong

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) 473 3791
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

Global Head of Research
+(61 2) 9237 1406

Alan Oster

Group Chief Economist
+(61 3) 8634 2927

Ray Attrill

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

Skye Masters

Head of Interest Rate Strategy
+(61 2) 9295 1196

Wellington

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

Sydney

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

London

Foreign Exchange +(44 20) 7796 3091
Fixed Income/Derivatives +(44 20) 7796 4761

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong

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

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