

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.



Magic May

BNZ - BusinessNZ PMI for May 2013

- The BNZ-BusinessNZ seasonally adjusted PMI for May stood at 59.2, which was 4.0 points up from April and the highest monthly result since June 2004. Compared with previous May results, the 2013 value was the highest since the survey began in 2002.
- Given the strong national result, all five seasonally adjusted main diffusion indices were in expansion for May. *New orders* (63.1) again led the way with its highest result since July 2004. This was followed by *production* (60.5), which was at a similar level to February this year. *Employment* (55.3) rose 7.8 points to record its strongest result since November 2007, while *deliveries* (54.6) and *finished stocks* (51.8) were also in expansion.
- Expansion was experienced in all parts of the country in May. Given the increasing economic activity in the Canterbury region, the *Canterbury* (67.0) result was the highest since November 2007. The *Northern* region (60.5) also showed a strong upswing in activity, rising 7.9 points to its highest level since November 2010. The *Otago/Southland* region (60.7) bounced back from recent declines to record strong expansion, while the Central region (55.4) experienced a slight dip in its level of expansion for May.
- Manufacturing by industry sub-groups was mostly in strong expansion during May. *Machinery & equipment manufacturing* (67.4) again led the charge for May, followed by *petroleum, coal, chemical & associated product manufacturing* (62.1). *Food, beverages & tobacco* (61.4) and *metal product manufacturing* (61.3) were at almost identical levels of expansion.
- The proportion of positive comments for May (58.4%) was well above April (53.5%) and March (55.8%). Globally, the JPMorgan Global Manufacturing PMI for May was 50.6, an increase of 0.2 from April. Although the global manufacturing sector recorded further growth of output in May, the rate of expansion remains sluggish.

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 up for May at 59.2.

All five main indices were in expansion, with new orders and production.

Unadjusted regional activity was positive throughout all of the country.

***Next BNZ - BusinessNZ PMI:
11 July 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)

Inside BNZ Commentary this Month (page 3)

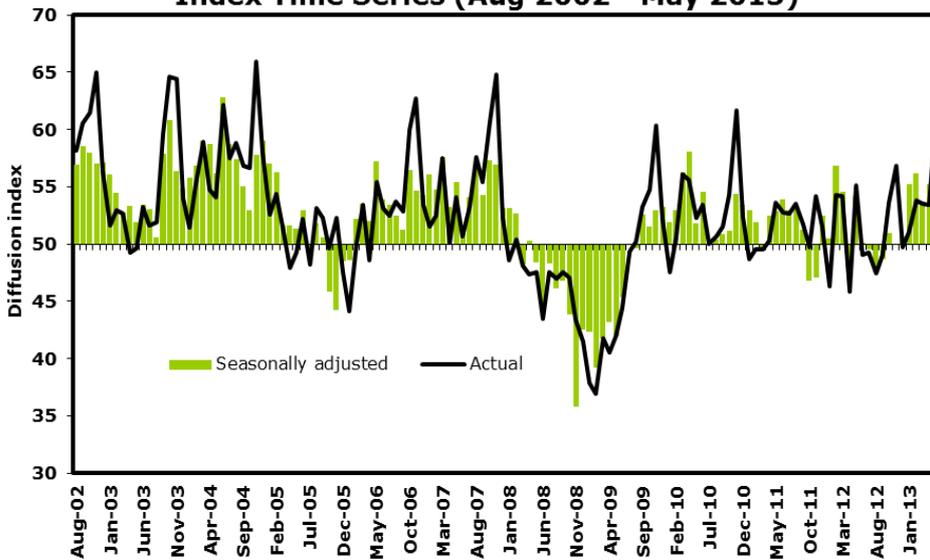
BNZ Economist Doug Steel discusses the positive economic growth implications of May's big PMI result and strong details. He concludes that it offers more confidence that the construction upswing is and will flow through to more manufacturing activity, offering upside risk to current economic growth forecasts, including the Reserve Bank's. The downside is that that may lead to interest rates moving higher sooner than currently projected by the central bank.

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

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



May time series tables

National Indexes	May 2008	May 2009	May 2010	May 2011	May 2012	May 2013
BNZ - BusinessNZ PMI (s.a.)	48.4	42.0	51.9	52.9	54.2	59.2
Production (s.a.)	46.4	40.3	51.6	52.3	56.9	60.5
Employment (s.a.)	47.9	43.7	49.3	50.2	51.4	55.3
New Orders (s.a.)	47.9	40.6	51.8	53.8	54.1	63.1
Finished Stocks (s.a.)	50.0	45.8	51.9	49.2	50.4	51.8
Deliveries (s.a.)	49.6	41.5	53.9	54.4	51.1	54.6

National Indexes	May 2008	May 2009	May 2010	May 2011	May 2012	May 2013
BNZ - BusinessNZ PMI (s.a.)	48.4	42.0	51.9	52.9	54.2	59.2
Northern	44.1	43.2	48.3	52.3	58.8	60.5
Central	52.8	36.1	52.3	57.1	44.5	55.4
Canterbury/Westland	48.2	48.4	57.6	57.7	61.3	67.0
Otago/Southland	51.8	36.4	58.5	45.3	50.0	60.7

(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.

14 June 2013

Monster May Manufacturing

- May's PMI shows stunning strength
- And employment finally joining in?
- Construction pick up a big positive
- Offshore demand better too
- Despite concerns about Australia
- Upside risk to 2013 GDP forecasts

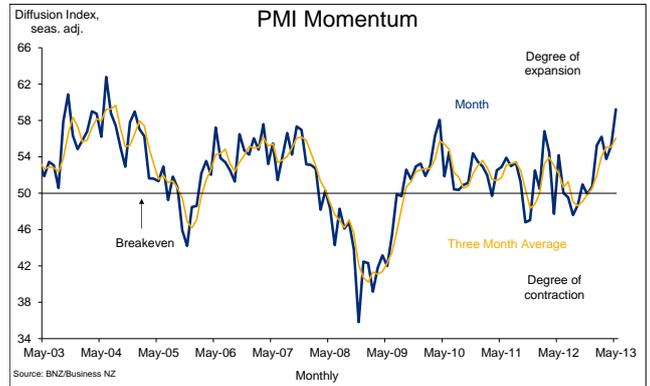
Monday's official manufacturing data for the first quarter of the year looked a bit soft. Sales volumes were down a seasonally adjusted 0.6% in Q1, while sales values only eked out a 0.2% gain.

At face value, these figures question our generally upbeat reading of the manufacturing sector so far in 2013 and our positive outlook. But rather than curb our optimism, the details of the data and more particularly the strength in other indicators actually have us gaining more confidence in our positive leanings towards the manufacturing sector.

We contend that the sector is stronger than the Q1 headline sales figures would have you believe. Don't judge a book by its cover, in other words.

For instance, taking the sales figures in conjunction with inventory changes revealed in Monday's data, suggests there was production expansion. Coupled with directly measured food processing data, we judge manufacturing production rose around 1% in the first quarter of the year. That's healthy growth; if indeed it is what the GDP figures show (due next Thursday 20 June). We'll see.

But it is the leading indicators that are much more encouraging than a potential production increase that went into inventory a quarter ago (even if that inventory build occurred in anticipation of higher sales ahead, as may at least partly be the case).



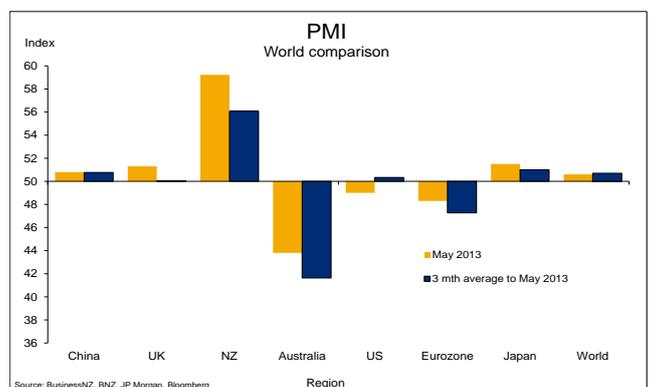
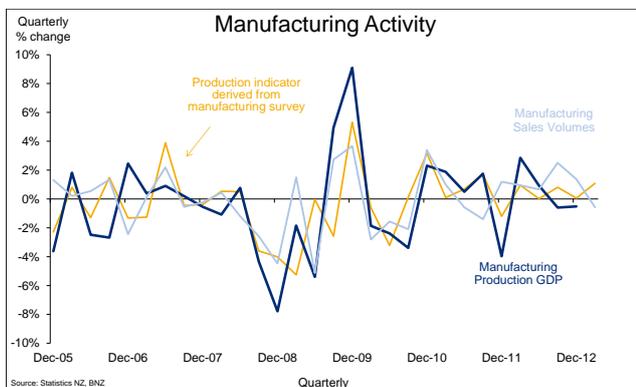
Today's PMI is important in this regard. It is a stunning result. May's PMI reading of 59.2 is the highest since June 2004. It is a significant lift from April's already very solid reading of 55.2 and a world away from last year's average of 50.9.

We do not say stunning lightly. PMI readings do not get much bigger than this, even globally during better times than prevail offshore at present. In the current context, New Zealand's PMI at 59.2 stands head and shoulders above its global peers. Indicative of NZ's current general economic, and specific manufacturing, outperformance on the global stage is the difference between the JP Morgan World PMI at 50.6 and NZ's PMI at 59.2.

NZ's PMI not only adds to the sense of acceleration in the manufacturing sector in 2013 to date, but it indicates expansion is now occurring at a rapid rate.

There was a lot to like in the details of the PMI as well.

Firstly, the fact that new orders and production are leading the way is positive for near term activity and overall



economic growth. At 63.1, the new orders index is at its highest level in nearly 9 years. This bodes well for rising sales ahead that should quickly translate into more production given an inventory index around average.

Secondly, there is evidence that manufacturing growth is broadening across regions. Canterbury remains the fastest growing region, but all regions are expanding and the annual variation across regions is below its long term average.

Thirdly, the employment index jumped to 55.3. This could yet be the most important signal from May's PMI survey. Not only because it is the highest PMI employment reading in more than 5 years. But because it infers that manufacturers have enough confidence that the pickup in new orders and production will be sustained to warrant taking on more staff. The current expansion might have legs.

Despite the odd big spurt higher (and subsequent unwind) in new orders or production in various months since the 2008/09 recession and Canterbury earthquakes, the employment index has not pushed beyond being only mildly positive – until now.

Sure, the May increase follows a dip in April so probably has an element of 'catch up' and it is only one month. We'd need to see further healthy readings to be completely convinced of a genuinely strong upswing. But May's results add to an improving trend that now sees the three month average employment index at its highest level since the beginning of last year. It is moving in the right direction.

There remain areas of concern, amid the overall strongly positive PMI results. Many respondents continue to express concern about the high level of the NZ dollar. While there has been some relief over recent weeks as the domestic currency has fallen against the likes of the USD, GBP and EUR, it is still high by historical standards.

Meanwhile, the appreciation of the local unit against its Australian counterpart seems to have added to manufacturers' angst as much as the associated economic slowdown in Australia, judging by respondent comments.

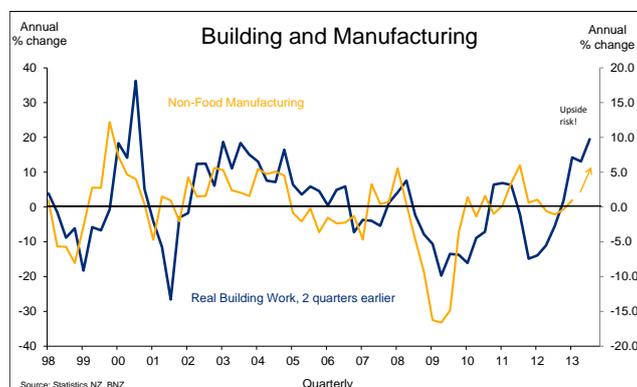
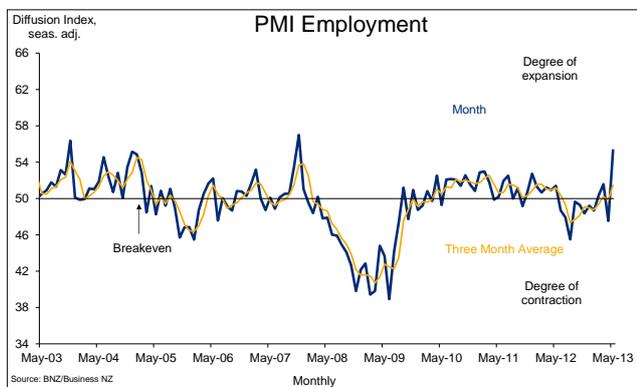
We also wondered if the now reduced livestock slaughter (following the drought-induced early kill) might have weighed on food processing and the PMI overall.

The fact that the PMI is so strong despite the various headwinds is testimony to the opposing strength of other factors at play. Notwithstanding the concerns around Australian demand, many noted improvement in offshore markets more generally. That is a plus. Numerous respondents also noted improving domestic construction activity as an important positive at present. It might still be growth off a low base, but it is growth and it's strengthening.

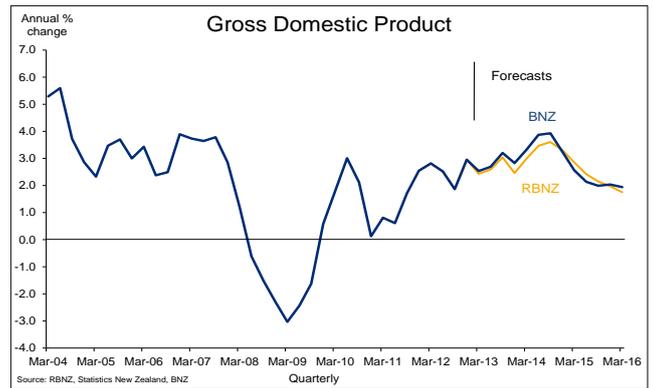
The strong construction activity that we see ahead remains a key factor behind the positive outlook we continue to hold for the manufacturing sector. This applies not only to those industries associated with home and non-residential construction, but also to those that fit out such buildings. For example, spending on durable goods has already increased, by 6.7% over the past year, according to Wednesday's electronic card transactions data for May. There is more to come, in our view.

Today's PMI puts upside risk on our manufacturing and overall GDP forecasts over coming quarters. It essentially gives us more confidence that the recent and forecast upswing in construction activity will flow through to manufacturing activity, with the usual lag. This could well offset the significant drag we expect from food processing in the near term, as a result of the summer drought, among other influences.

We are not changing our overall economic growth forecasts on one PMI result. In any case we'll wait to see next Thursday's Q1 GDP figures before making any



adjustments to our mid-year estimates. But the chances that NZ's economic growth this year is stronger than we currently forecast are increasing. Our current near term growth forecasts are already above those issued by the RBNZ in yesterday's Monetary Policy Statement. The increasing prospect of even stronger growth and associated inflation down the track comes with the potential of interest rates rising sooner than that indicated by the RBNZ yesterday, and especially so if the NZ dollar continues to head south.



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

Mike Jones

Strategist
+(64 4) 924 7652

Kymerly 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
Fl: 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

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.