Manufacturing Snapshot

13 August 2015

Growth Continues

The Performance of Manufacturing Index (PMI) indicates ongoing growth. It has been doing this for 34 consecutive months. The rate of progress has slowed a bit from last year, with the PMI averaging 53.5 in 2015 to date compared to the 56.0 average through 2014. But growth seems to be solidifying. July's PMI result exactly matches the average in the first half of the year. It is a solid start to the second half of the year. Buoyant production and the balance of new orders to inventory are encouraging signs for further expansion ahead.

Employment

The ongoing growth in the manufacturing sector, as indicated by the PMI over recent years has driven up labour demand. Latest statistics show employment in the sector is more than 10%, or 24,000 people, higher than a year earlier. That is very strong growth. Indeed, manufacturing accounted for more than a third of total employment growth across the country over the past year. This speed of employment expansion is unlikely to continue, but the outlook remains positive in line with the overall tones of the PMI and the trends in the employment index.

Foreign Exchange Effects

Many PMI respondents noted the lower NZD as a positive. This sentiment fits with results of other surveys. The recent Quarterly Survey of Business Opinion saw a jump in manufacturers' export sales expectations. The currency effect here is straight forward. It is less transparent for those competing with imports. That is an indirect effect. Over time, a lower currency makes imports more expensive to domestic buyers and will tilt expenditure towards domestic goods. This probably subtle change in demand for local product would be very difficult for manufacturers to link directly to a lower NZD, given all the other factors that are influencing domestic demand at the same time.

Dairy Impact

The extreme downturn in dairy revenue, actual and forecast, will have many downstream effects on the economy. Fonterra's recent milk price forecast of $3.85 per kilogram of milksolids equates to dairy industry annual revenue in the year ahead being down about $8b from the highs of the year before last. Many manufacturers noted the dairy weakness as a negative. No doubt there will be a drag from dairy. Despite this intense negative for some, it is encouraging to see the manufacturing sector as a whole remaining positive. Economic stabilisers like a lower NZD and lower interest rates are helpful in this regard. This is supportive for economic growth overall, although it will likely be at a slower pace than recently achieved.

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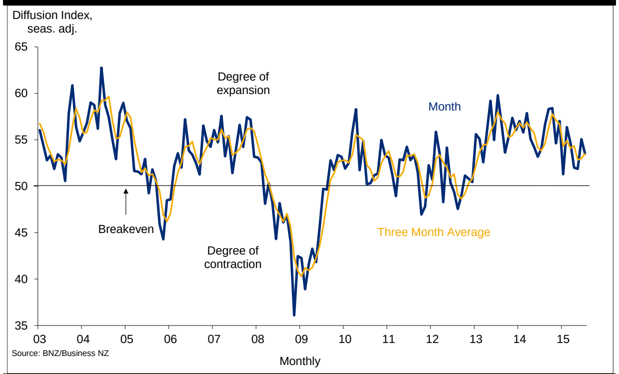
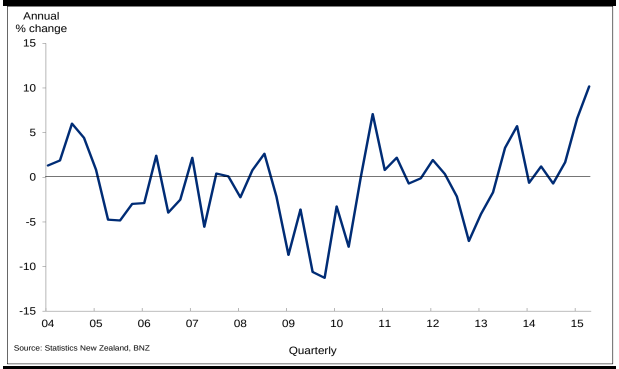
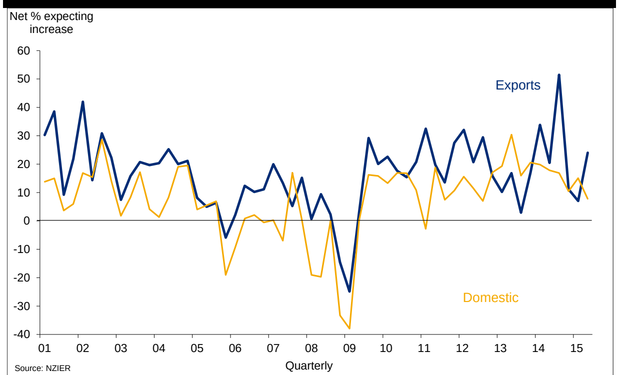
Manufacturing Production Expanding



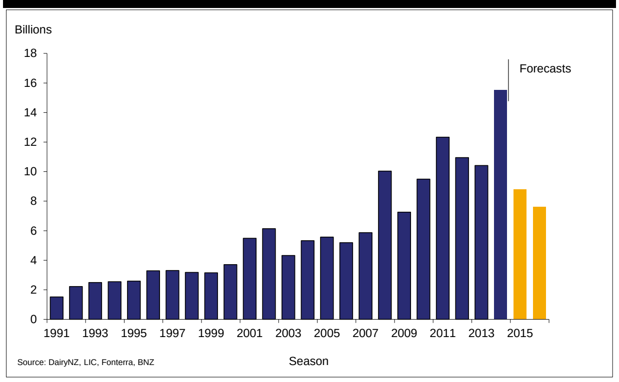
Employment Up Strongly



Manufacturers' Sales Expectations



Very Low Dairy Revenue



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