Manufacturing Snapshot

14 September 2018

The PMI

It looked sweet through much of 2017, but New Zealand's manufacturing industry has definitely run into some treacle this year. This is the message from the Performance of Manufacturing Index (PMI) anyway. Sure, it improved in August, to a seasonally adjusted level of 52.0. But this was hardly different to the average of the previous two months, leaving the PMI running below normal in its growth signal. To be fair, things were a little more encouraging in new orders (53.2) and even production (52.6); but with emphasis on the word little. Each of these sub-indices remained below their respective long-term averages.

Employment

Neither can we draw a lot of confidence from the latest PMI in that its employment index is exhibiting signs of stalling. Of course, July's bounce in this regard, to 51.2, offered some hope that things were improving. But its move back down below the 50 breakeven mark in August – to 48.1 – marked the third month in four that job contraction was indicated (albeit only marginally so). This is not a good look for the labour market. And it is a conduit, into the household sector, that bears watching, given weak business confidence. Having said this, not everything is saying the NZ jobs market is wobbling. Job ads, indeed, have picked up over recent months.

Sales

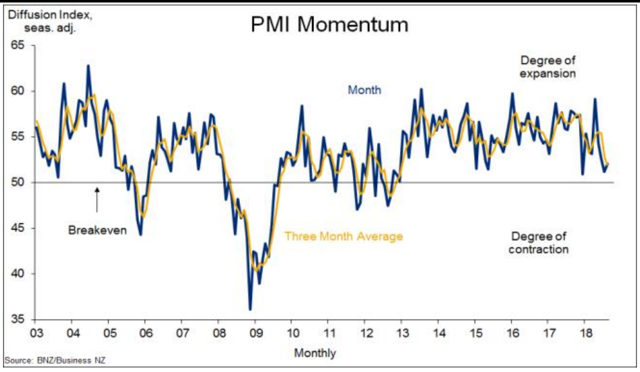
We should also point out, for perspective, industrial activity is not as bad as Monday's June quarter figures inferred. These registered a 1.2% slump in the volume of manufacturing sales. This was a big enough miss to dent our Q2 GDP growth expectation to 0.6% (2.4% y/y). However, this was, notably, the result of maintenance work at the Marsden Point oil refinery, along with significant, but also transitory, disruption to Methanex's (methanol) production. Both of these forms of energy output will surely bounce-back significantly in the September quarter, aiding GDP growth in the process.

Food

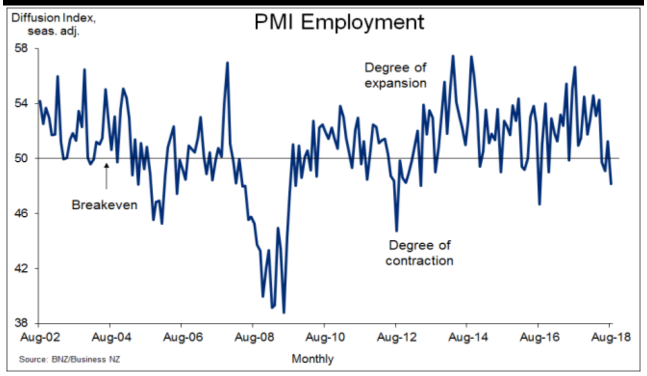
Issues of timing have also affected New Zealand's food processing of late. Granted, this wasn't obvious in the Q2 manufacturing statistics, which showed just a 1.6% increase in meat and dairy product manufacturing volumes, compared to Q1 (s.a.). However, separate figures on milk production and meat slaughter confirm a big rebound in Q2, after a weak Q1 (largely weather related). This is also something to bear in mind for the Q2 GDP accounts, due 20 September. But it wasn't just food processing that was looking positive in June quarter manufacturing. So too were a lot of the other categories (with the notable exception of Petro-Chemicals).

craig_ebert@bnz.co.nz

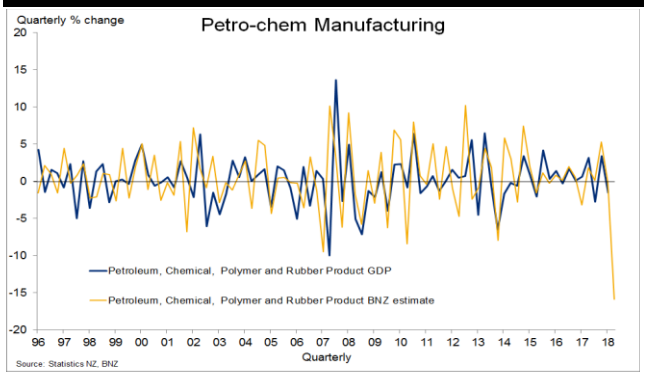
Slow



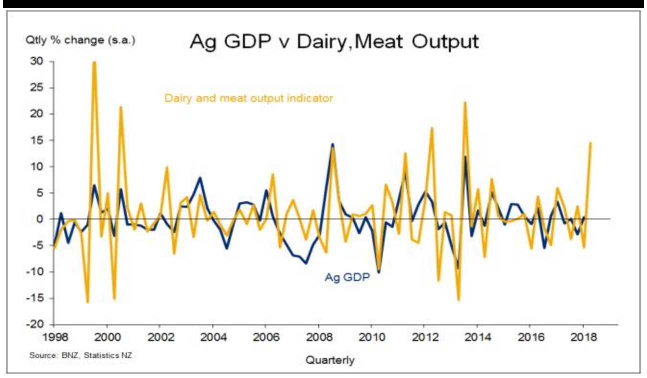
Chilling



(Face) Plant Maintenance



Food For Thought



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

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
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
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+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