RESEARCH
Manufacturing Snapshot

10 August 2018

Below Average

New Zealand's Performance of Manufacturing Index (PMI) has slipped further in July, marking the third consecutive slowing from its big spike in April. More disconcertingly, July's 51.2, following June's 52.7, is the second consecutive reading below the series' long term average of 53.4. At this level, the PMI is hinting at more than just a slowdown in the manufacturing sector but outright slow growth. Most disturbing is the production index dropping to 49.0 in July, which indicates output contracted in the month. Despite this, inventory rose. This combination suggests demand softened – something that needs to be watched closely. Positive new orders provide some chance the production contraction proves short-lived but, at 52.6, they, too, have dropped below their long term average. NZ's PMI has slowed to be near the bottom of comparator indicators offshore, from near the top a year ago.

Growth Forecasts On Notice

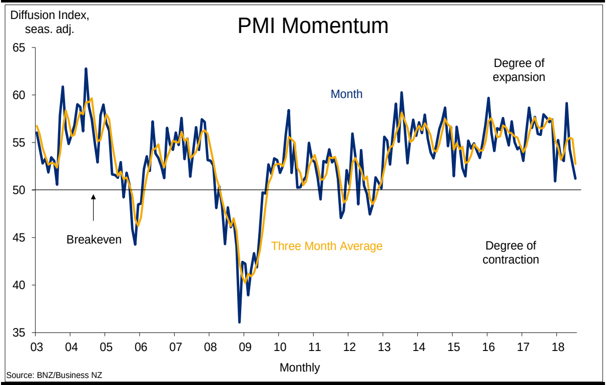
Being a survey of actual activity – not confidence or expectations – the PMI results through June and July are not a good look for overall economic growth. If the PMI production index stays sub-50, it would point to a contraction in manufacturing GDP in Q3. That outcome would make it difficult for overall GDP to pick up in the manner that many, including us, currently forecast on the back of a large fiscal stimulus. Sure, we would not expect the fiscal stimulus – mainly directed at households – to immediately show up in manufacturing indicators like the PMI but the problem is we are struggling to see signs of it anywhere. Perhaps the boost is being offset by other factors like the economic drag coming from higher fuel prices. Or it may just be a lag before it shows up. In any case, we are conscious that the PMI production index did dip below the 50 mark back in January 2017 for it only to bounce back very strongly the very next month so we don't want to over play one month's result. But, right now, it is fair to say growth forecasts for the second half of 2018 are on notice.

Employment better

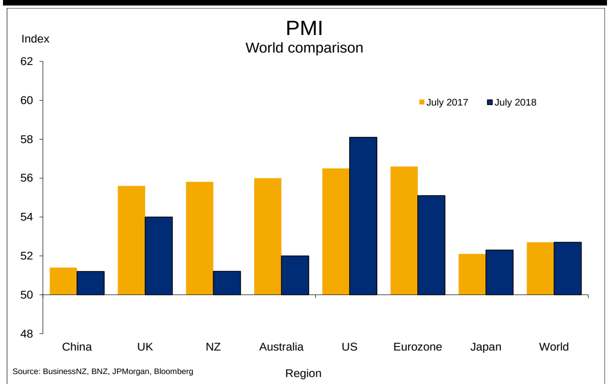
Amid the generally sombre July PMI details, employment was a rare brighter spot. Not that it was particularly strong, but at 51.2 it was back above the 50 mark following two months below it. While July's result may have just been bounce back from prior weakness, it may also be a sign that manufacturers view the dip in production as temporary. PMI employment has pushed back above its long term average. This level is consistent with manufacturing filled jobs returning to positive annual growth following a contraction in the year to June.

doug_steel@bnz.co.nz

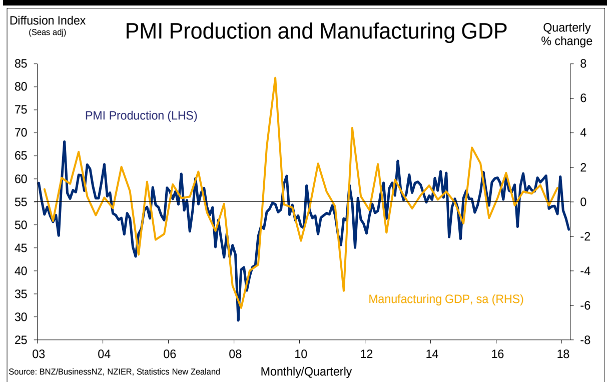
Low



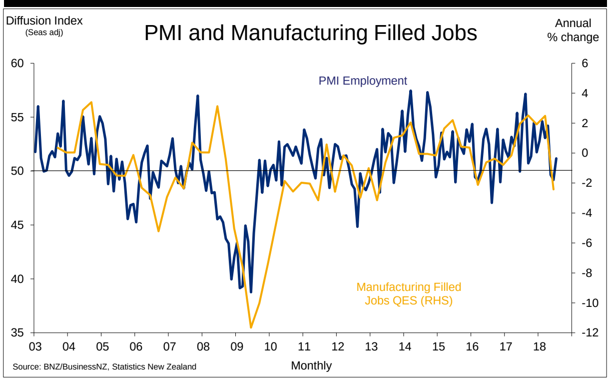
Position Change



Disconcerting



Small Positive



National Australia Bank

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

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.

US 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.