RESEARCH
Manufacturing Snapshot

15 February 2019

All fine on the surface

At face value, January's Performance of Manufacturing Index (PMI) looks reasonable enough at 53.1. Sure it is down a nudge from December's 54.8, but it is still in touch with 2018's average of 53.8. Indeed, it is quite close to its long term average of 53.4. Most importantly it is still comfortably above the 50 mark that delineates growth from contraction. It indicates the manufacturing sector continues to add to its now six-year expansion.

But some questions underneath

Looking beyond the steady headline reading, the details of this month's survey do raise some questions about the durability and pace of the current expansion. A pullback in the production index is the most obvious one. To be fair, its December punch up to 54.9 always looked a bit overcooked relative to trend and especially so given the unusual trading day pattern around the Christmas holidays. So the dip to 51.1 in January might just be payback from previous strength rather than a sign of a new, slower, trend growth pulse. Time will tell. A little more disconcerting is the slowdown to 52.2 in the new orders index and more so as it remains below finished stocks (which remain elevated despite a pullback from December's high). Unlike production, new orders are not coming off a particularly strong previous month. It raises the prospect that the slowdown there may be a little more genuine, although we wouldn't want to over interpret one month's reading – especially a holiday-laden month. The evolution of new orders and inventories will be important to watch over coming months.

Employment

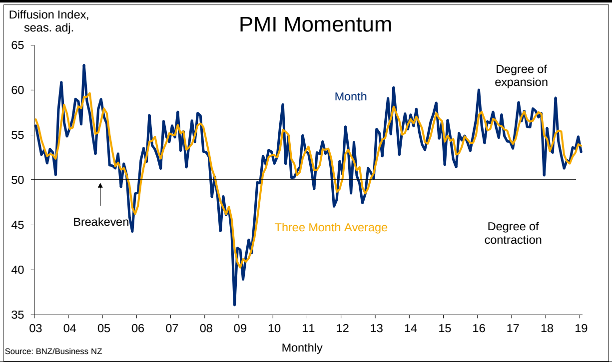
One reason to not get too downbeat on the slower demand components in the PMI is the solidity of its employment index. The latter sat at 52.2 in January. This matched December's result and maintains its position above its long term average in the process. This is positive and suggests that manufacturers are not too concerned about a slowdown in production and new orders. It sets up further growth in manufacturing filled jobs in the first quarter of 2019.

World worries

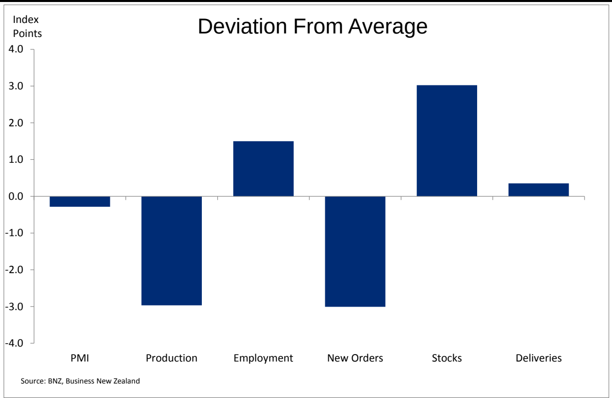
World risks have been on the radar for some time. US-China trade tensions, China's slowdown, Australia's house price downturn, and Europe's stalling growth are among many areas to watch. No surprise to see slower PMIs in these areas. A pullback in Australian housing is a downside risk to NZ manufacturers. In contrast, US strength continues to standout. At present, NZ's PMI sits comfortably between the weakness in Europe and China and the strength in the US.

doug_steel@bnz.co.nz

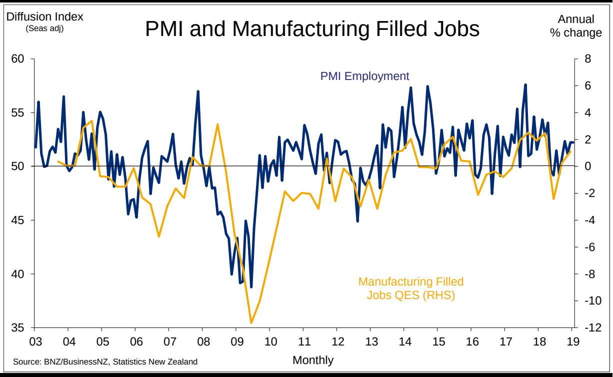
Middling



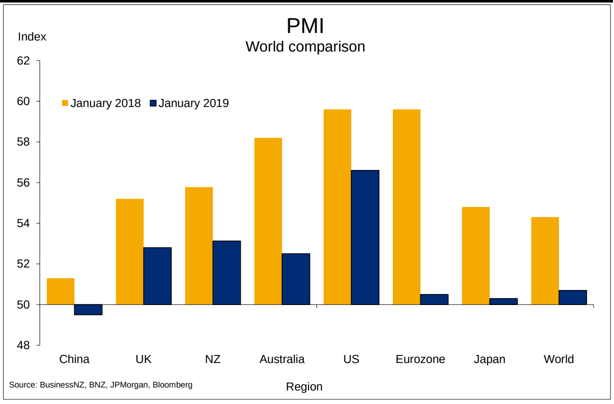
Unders and Overs



More Jobs



World Slower



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

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

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