Manufacturing Snapshot

12 May 2016

PMI

New Zealand's Performance of Manufacturing Index (PMI) looked more assured in April, following some signs of slowing over prior months. Not that it was actually slow, at 54.7, in March. Rather it had slowed from a rather fast pace during December/January. The bounce in April, to 56.5, not only arrests that previous mild momentum loss but affirms the underlying above-average growth pulse that the manufacturing sector has displayed for many months now. The PMI has now been above its long term average of 53.1 for 11 consecutive months.
The April details were generally encouraging too, with very strong new orders, buoyant production, and less strength in inventories. Employment remains the laggard, with the index posting its third consecutive month sub-50.

Demand Indicators Strong

Overall final demand appears strong. Current demand is underpinned by: rapid population growth (via net immigration), booming tourist numbers, elevated construction activity, low interest rates, rising asset prices, and a robust labour market. Retail sales should show a strong lift in tomorrow's report for Q1. Moreover, Q2 sales seem to be off to a good start judging by the hefty increase we have already seen in the value of electronic card transactions in April. All this fits with ongoing strength in the PMI new orders index.
This rose to 60.0 in April. It is seldom stronger.

Ag Drag on Q1 GDP?

Notwithstanding the healthy looking PMI overall, we remain wary that manufacturing might still look a bit soft, GDP-wise, near term. This caution primarily stems from other direct indicators of food-processing. In particular, there was a sharp drop in meat processing in Q1. This follows an earlier surge likely associated with meat pricing, an elevated dairy cow cull, and most importantly weather risks at the time. The volume of meat processed in Q1 was 10.9% lower than in the same quarter a year ago. Dairy production has also been subdued. Meat and dairy export volumes fell heavily in March. Picking the precise timing of how such things show up in GDP is not straightforward. But clearly some caution is warranted on near term manufacturing via food processing. The food, beverage and tobacco PMI index slowed to 52.0 in April, its lowest April reading since 2008. The recent weaker employment readings from the PMI also deserve respect, especially as they were backed up by weak manufacturing employment in the official figures for the first quarter released last week (although overall employment growth was strong). So we remain a bit cautious on Q1 GDP. But the general robustness of the PMI raises questions whether it will in fact be as weak as the +0.4% we currently estimate. More broadly and importantly, the positive PMI pulse lends support to the idea that any slower growth will be short-lived and supports our view of solid growth over the remainder of 2016.

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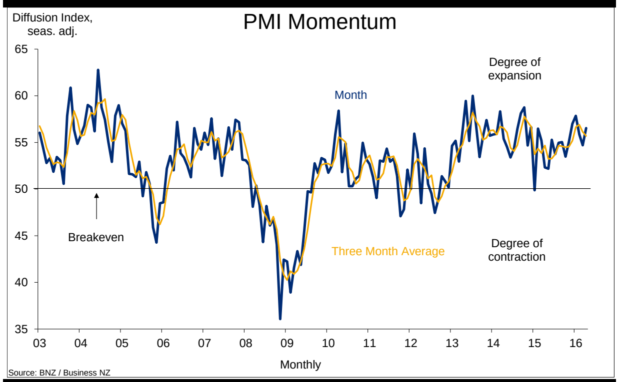
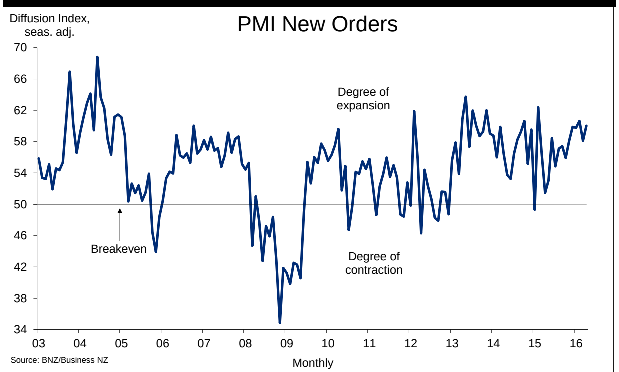
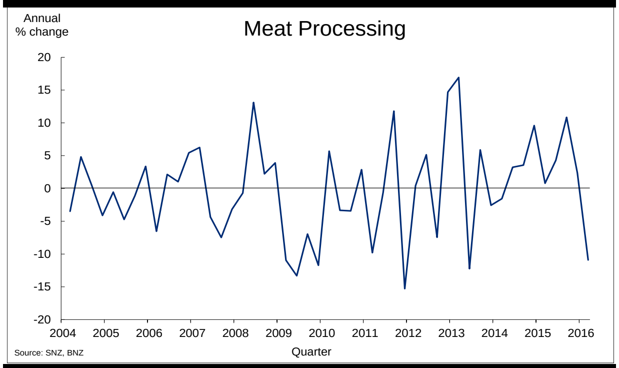
PMI More Assured



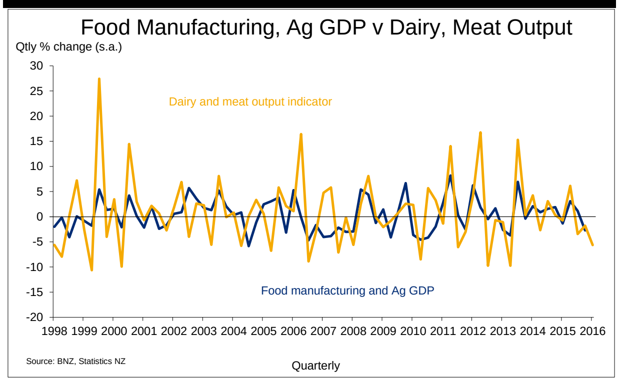
New Orders Seldom Stronger



A Dip In Some Food Processing Indicators



Something To Watch For In Q1 GDP



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