Manufacturing Snapshot

21 January 2016

The PMI

The Performance of Manufacturing Index (PMI) increased to a 14-month high in December. At a seasonally adjusted 56.7, from 54.9 in November, it was well above its long-term norm of 53.0. Pleasingly, new orders (59.7) kept leading the way. This is a good sign for upcoming output, which is already running robustly in the PMI (at 56.1). Employment trends were nicely expansive, with an index reading of 53.0. As well as for its outright strength, New Zealand's PMI remains notable for the way it keeps defying the struggle that global manufacturing continues to undergo. By way of comparison, the global PMI slowed to 50.9 in December 2015 (having been as high as 57.4 back in 2011 and as low as 34.3 during the GFC).

Q3 activity

Having been a drag on GDP over the first half of 2015, NZ manufacturing activity rebounded very well in the September quarter of 2015. A 2.8% bounce, in fact. This was driven by the manufacture of food and beverages, transport and machinery equipment, as well as furniture and other (miscellaneous) goods. What helped us keep the faith that manufacturing output was going to bounce back from its weak first half of 2015 was the general robustness in the month to month PMI. The PMI's production indicator did slow over the first half of 2015, but strengthened to a robust pace over the second half. This culminated in a solid reading for December 2015.

QSBO comparisons

The month to month results of the PMI have also been a good pointer to the manufacturing component of the latest Quarterly Survey of Business Opinion (QSBO). The latter was party to the general rebound we saw in the NZIER survey earlier this week. While manufacturers in the QSBO registered a net negative sentiment back in Q3 (-35) it reclaimed positive territory through Q4 (with +7). Their reports, and expectations, around production held up relatively well throughout 2015, as they also did for employment and profitability. Manufacturer respondents to the QSBO also ended 2015 with a relatively positive view around investment in plant, machinery and buildings.

Exchange rate

It's always difficult to know what's driving New Zealand's manufacturing industry at any point in time. However, it seems fair to say that there is always good leverage off the construction industry. And this looks to forging another leg higher, having flattened off a bit over the period mid-2014 to mid-2015. We get this impression from the recent behaviour in building consents. Whether for residential, or non-residential, building work, they have re-established solid annual growth again. While Canterbury is bucking this trend, most of the rest of the country is exhibiting a pick up, and clearly so in Auckland.

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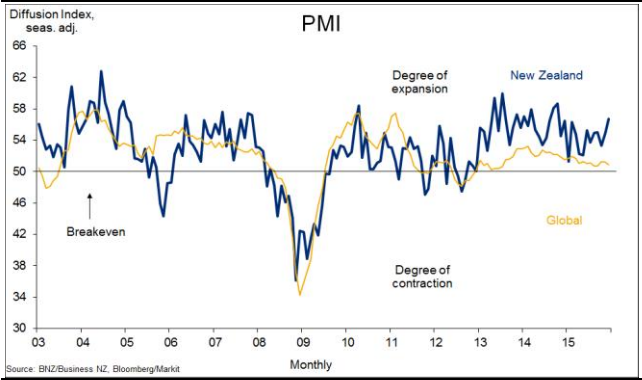
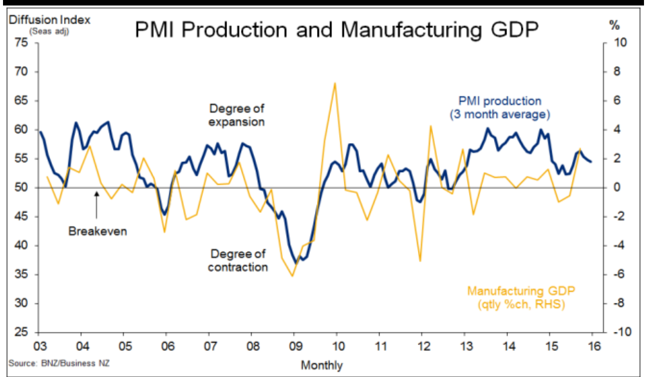
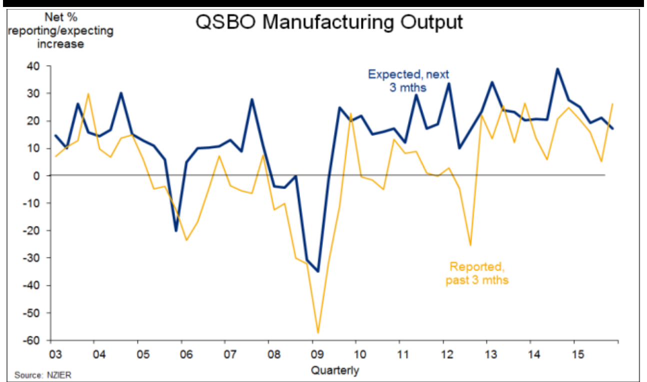
NZ Manufacturing Still Defying Global Torpor



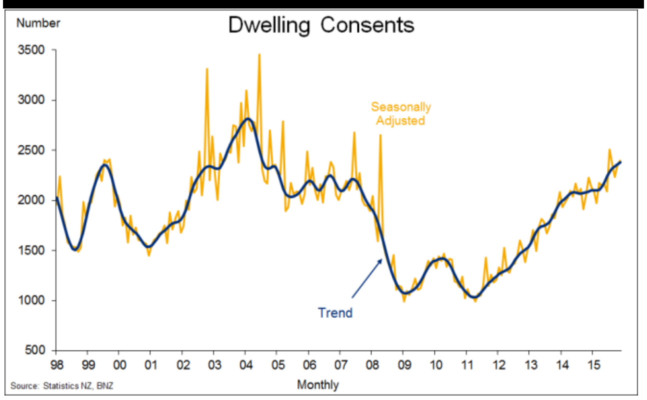
Manufacturing Bounces Back In Q3 GDP



QSBO Manufacturers Echo Positive PMI



A Second (Third?) Wind From Construction



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