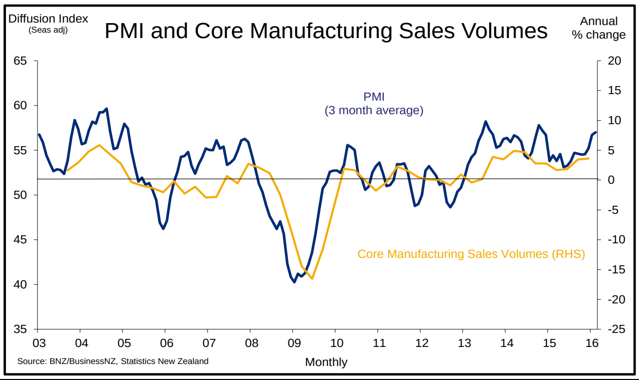
Manufacturing Landscape

11 March 2016

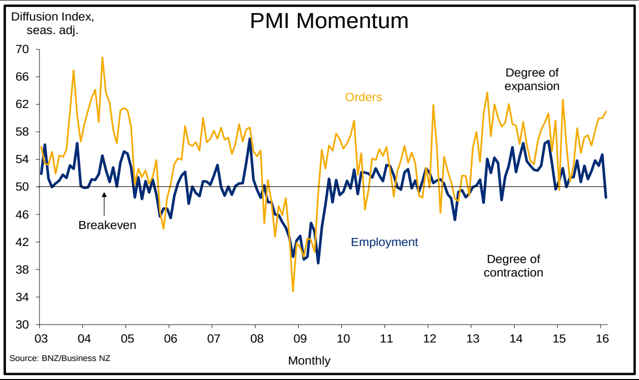
PMI Robust In February



PMI Robust

New Zealand's Performance of Manufacturing Index (PMI) was firm in February. Sure, it slowed a couple of points to 56.0, from January's 58.0, but it remains firmly in the mid-50s zone implying a solid rate of expansion. It is well above average – as it has been for many months now. Indeed, the recent strength in the PMI was reflected in Tuesday's official manufacturing sales data for the final quarter of last year. They showed core sales volumes were 3.6% higher than for the same period a year earlier. These sales should translate into a solid positive contribution to overall economic growth from the manufacturing sector in that quarter. Those figures are due on 17 March.

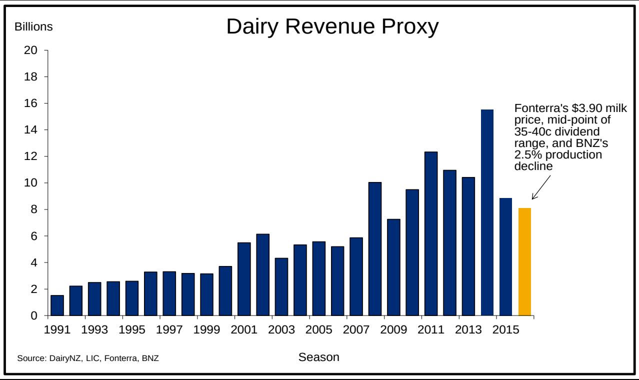
PMI Details Diverge



Detail: Disaster or Delight?

While the overall PMI looks as solid as it has for many months now, it is not without some interesting detail. Take the significant drop in the employment index for instance (nervousness related to the world market wobbles in early 2016?). While it might just be monthly noise we should not dismiss it out of hand. After all, at 48.5, it is not only below 50 but at its lowest level in two and a half years. Not a good look. The same can be said for a jump in the PMI inventory index if it reflects some unanticipated slowing in demand. March's results will help better judge these moves. At this point, we would be a lot more concerned by these indicators were it not for very strong new orders, which even nudged a touch higher in February.

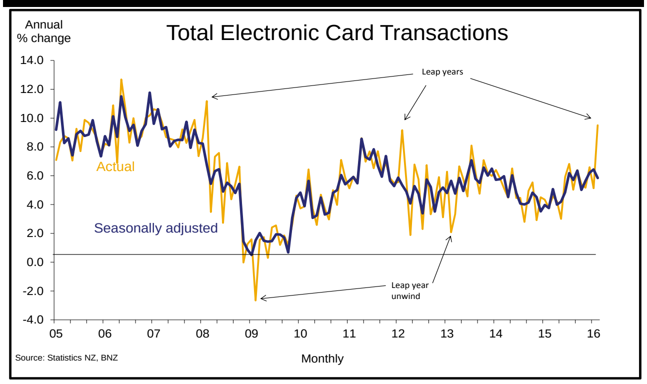
Dairy Revenues Very Weak



Dairy Drag

Extreme weakness in the dairy industry continues to influence parts of manufacturing. This looks set to continue with a further reduction in the current season's payout forecast by Fonterra this week. Annual dairy industry revenue looks like being more than $7 billion lower than its peak two years ago. PMI respondents have noted the dairy downturn's impact on activity. It also highlights the other positive factors underpinning wider manufacturing activity, such that the overall indicators like the PMI remain robust despite the drag from dairy.

Spending Leaping Ahead



Spending Strong

Spending indicators remain buoyant. The value of total electronic transactions (think eft-pos etc) in February was a whopping 9.5% higher than a year earlier. Of course, that overstates the underlying strength because of the leap year but an underlying annual growth pace of between 5% and 6% is a healthy pace. Record tourist numbers, very strong net immigration, low interest rates, spreading housing market strength and a solid labour market are all helping underpin demand. It tallies with the ongoing strength in PMI new orders.

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