12 June 2015

Slower expansion

New Zealand's Performance of Manufacturing Index failed to spark back up in May. At 51.5 it was still on the right side of the standstill mark of 50. However, it was barely different to April's reading, which slowed to 51.7, from March's 54.6. What's more, the PMI's weakest component in May was in production, which registered an index of 48.4, from 51.8 in April. By region the soft spot was Otago, which is curious. Had it been Canterbury we would have understood, given talk of peaking activity in that part of the economy – after a strong impulse from the reconstruction, post quakes. By industry, the PMI weakness in May was in the forestry, oil and coal categories, which is understandable.

Q1 activity

New Zealand's March quarter manufacturing production looks to have slipped a little. This is the conclusion we came to when assessing Tuesday's news of a 2.8% drop in the value of manufacturing sales in Q1, a 0.3% decrease in their volume, and the sector's inventory data. The weakness in sales value wasn't all that surprising, given poor dairy prices. The 2.1% fall in the volume of dairy and meat sales was a reminder of the drought that was gripping the country over the summer. Excluding the meat and dairy component, manufacturing sales were steady rather than up. The overall slippage we judge for March quarter manufacturing production is part of why we've downgraded our Q1 GDP growth estimate to 0.6%.

Construction

While the longer leading indicators of construction sector activity remain well above average, they have lost some of their exuberance over the last 6 months or so. And the immediate indicators are definitely slower. March quarter Building Work Put in Place, for instance, expanded just 1.5% in volume. This slowed its annual rate of expansion to 2.4%. This reflected a deceleration across North Island, although relatively resilient growth over the South Island, underpinned by Canterbury. Ready-mixed concrete production flattened off over the six months to March 2015. There has also been slower annual growth in building consent issuance – for both residential and non-residential work, compared to robust rates earlier in the year.

Exchange rate

Whatever is slowing New Zealand's manufacturing production the sector has at least had some relief in the form of a weakening currency of late. NZD/USD has now dropped about 20% from a year ago – to be at its lowest level in 5 years. Meanwhile NZD/AUD sits down near 0.9000, having gotten to within a whisker of parity back in April. Other cross rates have come down too…even NZD/EUR, despite ongoing travails and (Greek) dramas in the Eurozone. The weaker NZ dollar might be something to support the PMI readings over the coming months.

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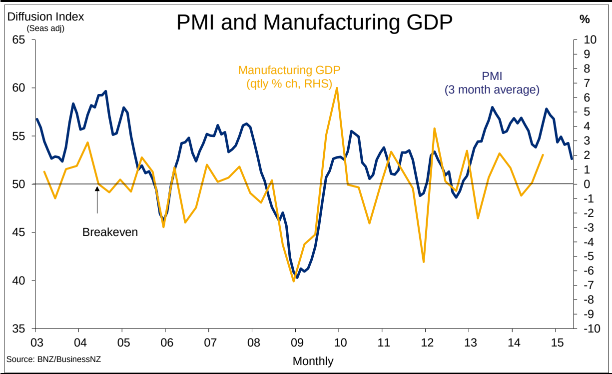
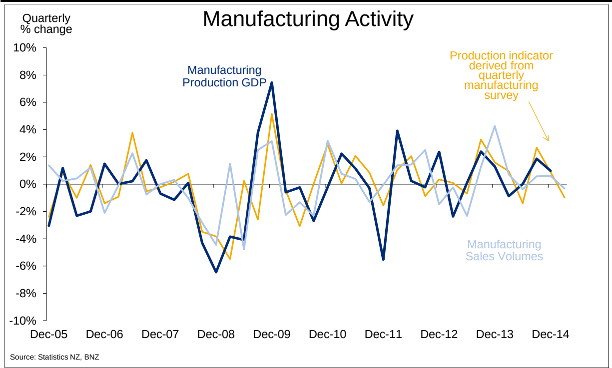
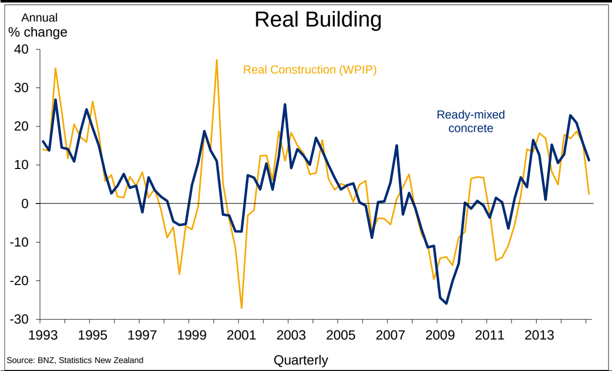
Slower Growth



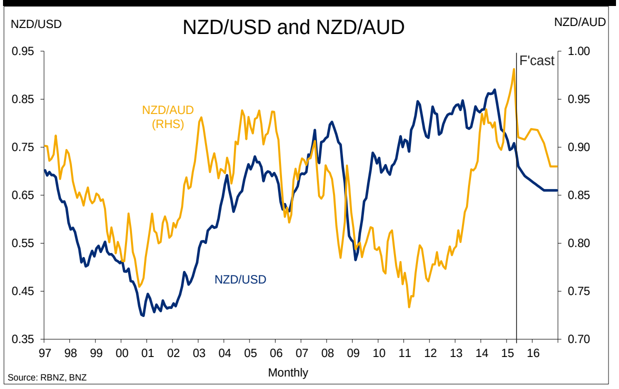
A Drought-Dented Q1



Construction Consolidation



A Weaker Currency



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