Manufacturing Snapshot

13 October 2016

The PMI

Peak, what peak? New Zealand's Performance of Manufacturing Index (PMI) kicked back up to a seasonally adjusted 57.7 in September, having slowed to 55.2 in August. This was more obviously above average (53.2), verging on the very strong. Having said this, the PMI details again highlighted some fraying at the edges. This was not so noticeable by region anymore, but large firms (45.0) were more clearly lagging the impetus that relatively smaller firms maintained in September. By industry, three of the nine had results below the breakeven 50 mark, compared to two during August (in non-seasonally adjusted terms).

Domestic Demand

The export-flavoured Food and Beverage component of the PMI stayed strong in September, at 66.2. However, the NZ PMI, broadly speaking, doesn't have a breakdown of domestically-focussed versus export activity amongst manufacturers. But the NZIER Quarterly Survey of Business Opinion (QSBO) does. And this, in Q3, showed expectations for domestic sales were now matching the ongoing robust pace in export sales. This would appear to fit with the latest upshift coming through the construction sector. But a pick-up in local manufacturing sales might also relate to the most recent evidence of a strong lift in NZ household expenditure, especially for big-ticket items.

Employment

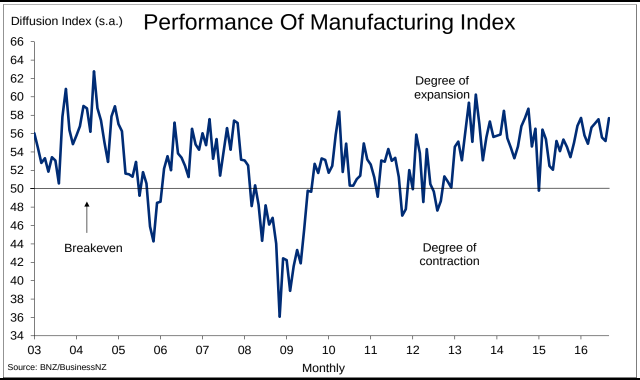
It was also encouraging to see a bounce-back in the jobs index of the PMI. Recall that it slumped to a seasonally adjusted reading of 47.7 in August, from 54.4 in July. While we flagged this we also said we needed to see September (even October) results before drawing any conclusions. In September the PMI jobs index snuck back up to 50.3. This wasn't a surprise to us as, like we noted last month, there hadn't been any indication of sagging manufacturing jobs from other economic surveys. This remains the case. Indeed, manufacturing firms in the QSBO signalled an intent to take on staff over the coming few months about as strong as it's been in decades.

Capacity Utilisation

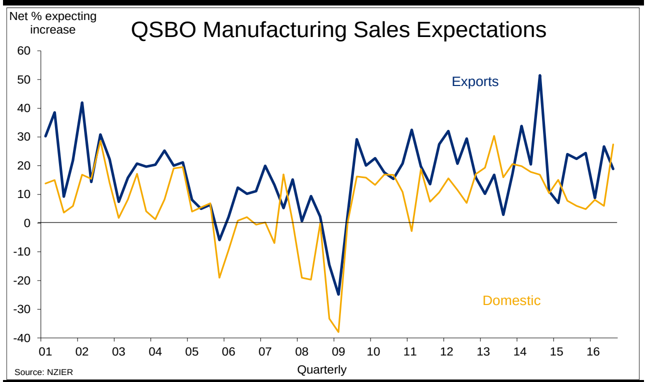
Robust demand for staff in the manufacturing industry gels with the signals from the QSBO that it's getting more difficult to find them – whether skilled or unskilled. This is part of a wider stretch on resources in the sector. Take the capacity utilisation measure for manufacturers in the QSBO. It nudged up to 93.1% in Q3, from 92.9% in Q2 (with its long-term average being 90.4%). As such, it was more stretched than capacity utilisation in the building industry, which is saying something. With this, it is no surprise to see manufacturers in the QSBO strongly intending to lift their investment in capital, not just labour.

craig_ebert@bnz.co.nz

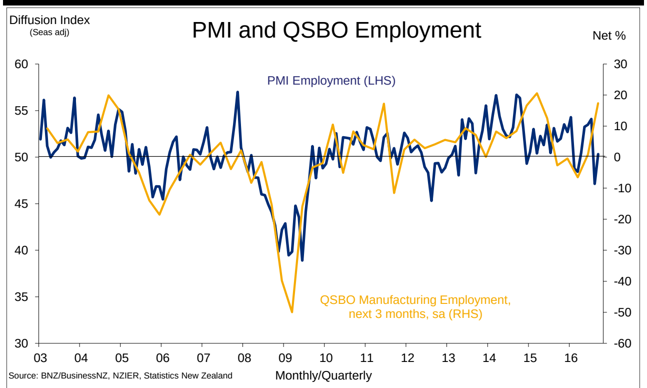
Even Bitte Danke



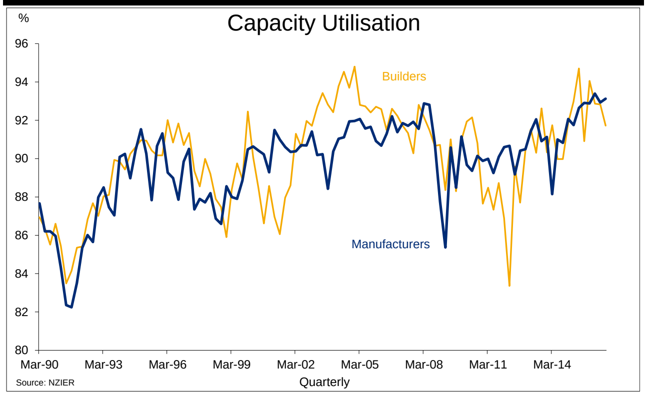
Think Global…And Local



A Good Bounce For Jobs



Extremely Stretched



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

Kymberly Martin
Senior Market Strategist
+(64 4) 924 7654

Jason Wong
Currency Strategist
+(64 4) 924 7652

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 473 3791
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Global Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Ray Attrill
Global Co-Head of FX Strategy
+(61 2) 9237 1848

Skye Masters
Head of Interest Rate Strategy
+(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