

17 January 2020



## The PMI

It's disappointing. After a couple of months flirting with positivity, New Zealand's Performance of Manufacturing Index (PMI) dipped back just below the breakeven line again in December. As such, its index reading of 49.3, from 51.2 in November, was even further adrift of its long-term average of 53.3. Production remained the biggest laggard, with its index slipping to 48.2, from 49.4. New orders, meanwhile, moderated to 51.0 – clearly below its statistical norm (55.0). The PMI employment indicator, at 49.9, was only fractionally below trend, while the bounce in inventory (52.8, for 49.2) was nothing outlandish, in broad respect.

## QSBO Reports

A sense of struggle could also be extracted from the manufacturing section of Tuesday's NZIER Quarterly Survey of Business Opinion (QSBO). For example, reports of output regarding the past 3 months were roughly flat, albeit not negative as they were for the prior quarter. Similarly, respondents' reported new orders as being down slightly, although nowhere near as weak as they were 3 months before that. Interestingly, there was also a clear rise in overdue debtors assailing the manufacturing sector, according to the QSBO.

## QSBO Expectations

Having said this, the QSBO also pointed to the manufacturing sector probably being through its worst now. Respondents expected output over the coming 3 months to pick up noticeably, for example. The forward view was likewise stronger than it was last quarter, with respect to orders, investment in plant, machinery and buildings, export sales and, at the margin, employment. There was also a sense of a turning point, in that profit indicators were looking much less dire, as cost indicators, while still strong, were not as intensive as they were over the earlier part of last year. And while there was an increase in inventory reported amongst QSBO manufacturers, they didn't view it as anything "too high".

## Capacity

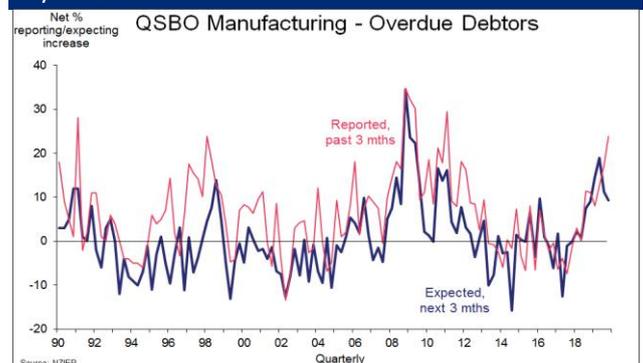
For the meantime, capacity utilisation in New Zealand's manufacturing industry has come off the boil, to an extent. The QSBO variable on this – known as CUBO – eased to 91.0% in the December quarter, from 92.5% in the September quarter, and 92.7% back in June. However, with its long-term average being 90.0%, the latest result is still above normal. It's been a similar story on staffing difficulties for manufacturers, to a point. While the QSBO gauges on these aren't as severe as they were at the start of 2019, they were still relatively significant by the end of it. Like for the economy as a whole, these series suggest a still-tight labour market, inferring a relatively low unemployment rate.

craig\_ebert@bnz.co.nz

### As You Were



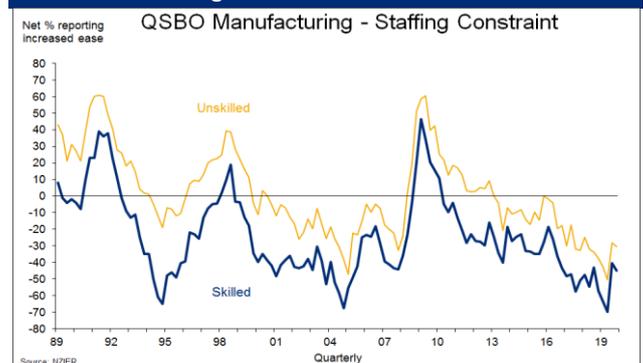
### Pay Attention



### But A Turning Point?



### Just a Little Less Tight



## 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

**Jason Wong**

Senior Markets Strategist

+64 4 924 7652

**Nick Smyth**

Interest Rates Strategist

+64 4 924 7653

### Main Offices

**Wellington**

Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

### National Australia Bank

**Ivan Colhoun**

Global Head of Research

+61 2 9237 1836

**Alan Oster**

Group Chief Economist

+61 3 8634 2927

**Ray Attrill**

Head of FX Strategy

+61 2 9237 1848

**Skye Masters**

Head of Fixed Income Research

+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

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