

11 August 2017

PMI

New Zealand's Performance of Manufacturing Index (PMI) continues to show solid momentum. At 55.4 in July, it remains firmly above its long term average of 53.3. It bodes well for manufacturing GDP growth to continue outperforming its long term average as it has for much of the past three years. Still, there is a slight whiff of a slowdown in the PMI, as July came in marginally below June's 56.0 to record its lowest reading since January. And previously very strong new orders have pulled back a bit, although still sit just above average levels. The softer tinge may reflect some extreme weather during the month or perhaps it relates to a cooling housing market. Many respondents noted the weather as having a major negative influence on their business during the month.

Housing Cooling

The housing market has cooled. The number of house sales is down about a quarter on a year ago, as LVR restrictions tightened and mortgage rates edged higher independent of the OCR. Meanwhile, residential building consents eased 1% in June to be down around 2% in the second quarter compared to a year ago. This adds to the sense that building activity, while at a high level, is peaking and even coming under some downward pressure as Canterbury construction continues to unwind from post-earthquake highs. A previous tailwind to durable sales and manufactured goods is fading.

More Jobs

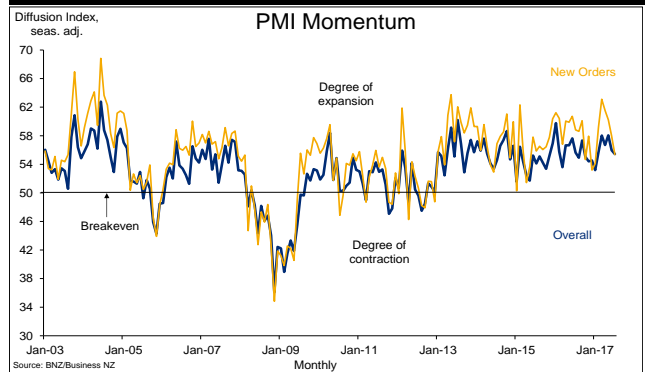
Manufacturing sector employment has been expanding over the past year. Last week's official figures show manufacturing employment up 1.2%, or 3,000 people, on a year earlier. Filled jobs were up 2.0% and paid hours 3.3% higher. Forward indicators remain positive. Indeed, the very large jump in the PMI employment index in July was good to see. It gives a sense that manufacturers see enough demand to lift staff levels. That said, we suspect the employment index's leap to 56.4 in July overstates the trend pace of employment growth given it followed a soft 49.0 in June. The three month average of 53.6 is probably a better guide and indicates ongoing job gains.

Global

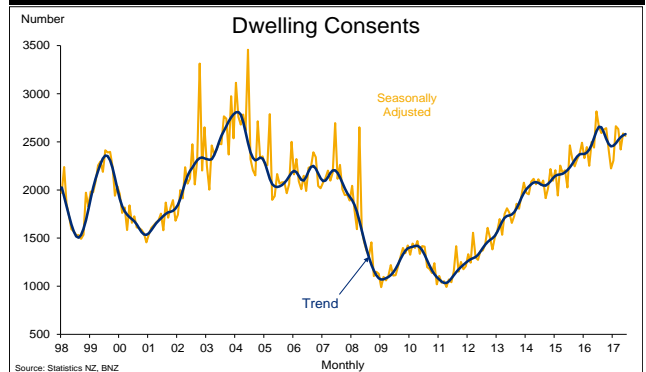
JP Morgan's Global PMI has improved from year earlier levels, averaging near 53 over the past six months from a bit over 50 a year earlier. Strong momentum in NZ's PMI no longer stands out from the likes of Australia, the US or the Eurozone. Better growth performance offshore lifts NZ's export outlook. Recent levels of the NZD do not appear a major impediment, with manufacturer's export expectations lifting to a three year high in the latest Quarterly Survey of Business Opinion.

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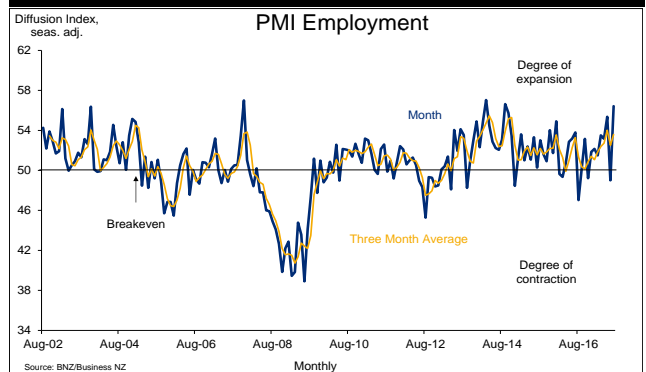
A Tad Slower, But Still Solid



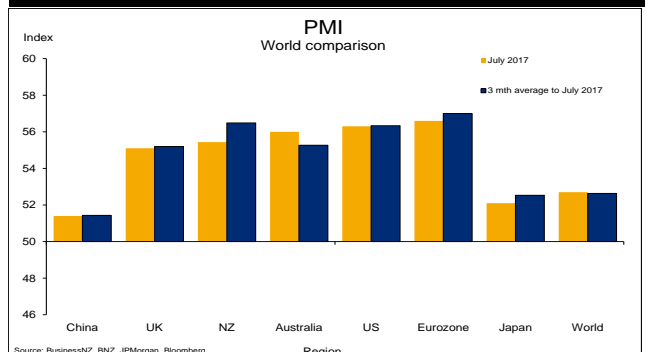
Peaking?



Jobs Trends Positive



Going Forward



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