

16 April 2015

Manufacturers Upbeat

New Zealand's manufacturing sector remains in relatively good heart, judging by the latest Performance of Manufacturing Index. While it slowed a touch from February's 56.1, at 54.5 in March it was still solidly expansive. We come to a similar conclusion when looking at the manufacturing category of the Q1 Quarterly Survey of Business Opinion (QSBO), as was published by the NZIER on Tuesday. Indeed, net confidence in this area of the economy was up at +24, from +19 in Q4. This is well above the long-term average, which is actually -6. As such, the manufacturing sector was matching the good pace being set by the QSBO's economy-wide indicators, and including those to do with real economic activity.

Investment Cycle Strong

But what really jumped out at us in the latest QSBO was the look of New Zealand's business investment cycle. Specifically, building intentions hit their highest level ever in this survey and plant and machinery intentions reached their highest level since September 1994. The nation's manufacturing sector was at the forefront of this. Its building intentions variable jumped to +22 in the March quarter, from -9 in the December quarter, while for plant and machinery investment surged to +32 from +19. Along with this, the sector's employment index covering the last three months bounded to +21 while intentions to hire over the coming three months strengthened to +23. They very rarely get as high as this.

As Capacity Constraints Bite

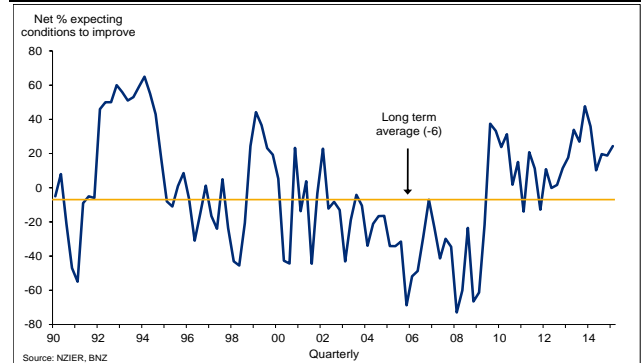
But then with capacity constraints beginning to bite, and demand growth looking so robust, what else is a business to do but lift its investment in capital and labour. That pressure is coming to bear on existing resources was clear from the QSBO's capacity utilisation variable, CUBO. Covering manufacturers, and builders, it rose to 92.3% in Q1 2015 – to be more than one standard deviation above its normal level. No, this wasn't driven by understandably busy builders. The manufacturing component of CUBO was relatively high too, at 91.8%. Similarly, manufacturers were reporting increased difficulty in finding staff, whether skilled or unskilled.

Exchange Rate Headwinds Revolve

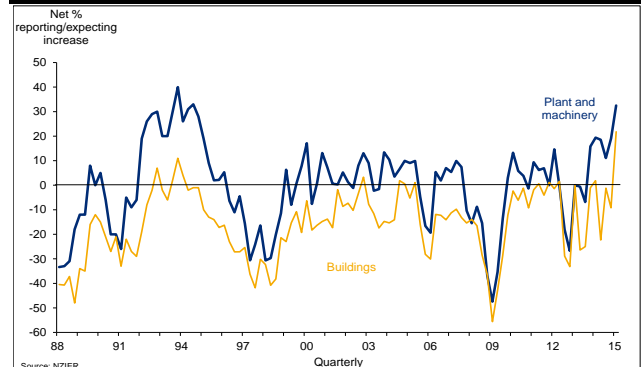
Yet if we were to look at just the exchange rate we would have to assume New Zealand's manufacturing sector should be in a deep recession by now. Still, the currency is a net headwind – especially with NZD/AUD having been on a tear over recent months, to now be knocking on the door of parity. While this reflects the New Zealand economy's outright robustness the heights of NZD/AUD also capture the weakening leg in Australia. But also recall that while Australia remains New Zealand's biggest destination for manufactured exports, the top categories, by far, are oil, gold and wine.

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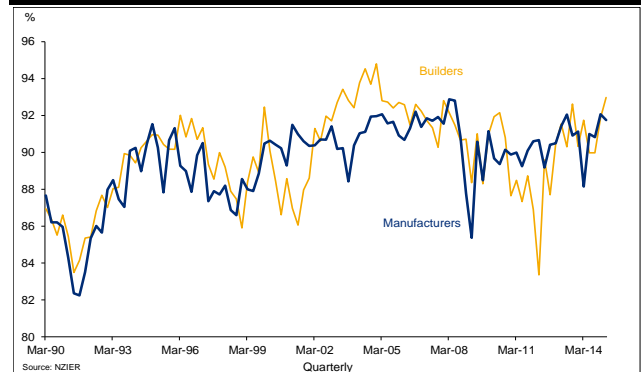
QSBO Manufacturing - Business Confidence



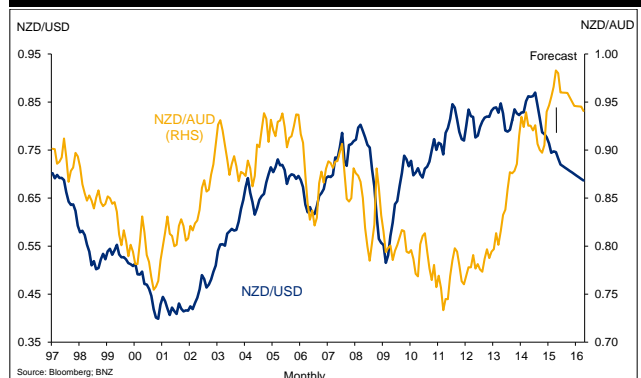
QSBO Manufacturing - Investment



Capacity Utilisation



NZD/USD & NZD/AUD



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