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PMI Looks Solid

New Zealand's Performance of Manufacturing Index (PMI) showed a slower rate of expansion in March (54.7) compared to February (55.9), which itself was slower than January (57.9). A slowdown for sure, but it would have to extend quite a bit further before it became a genuine growth worry. After all, January set a fair blistering pace, so we should not necessarily be alarmed by a slowdown from there. The bigger picture reveals that the PMI in March has returned to around the average set in 2015, which is still comfortably above the longer term average for this index.

Devil In The Detail?

Even though the PMI remains robust overall, there are a few potential devils in the detail. Lower employment and a relatively high inventory reading are worth monitoring from here. The PMI employment indicator posted its second consecutive sub-50 reading in March. This parallels the weaker manufacturers' employment intentions that we saw in the latest Quarterly Survey of Business Opinion (QSBO). This situation might reflect lower confidence to employ given, say, renewed concerns about trading partner growth, while satisfying demand from existing plant (capacity use was elevated in Q1 according to the QSBO). If so, employment may well bounce back if demand growth remains strong.

Are New Orders Up, Down or Sideways?

New orders are a good gauge of near term demand. The problem is the PMI survey and last week's QSBO are giving highly conflicting signals on this front. The PMI new orders index was 58.2 in March, which is a long way above average and symptomatic of strong demand growth. The PMI new orders were even stronger in January and February. But according to the QSBO, manufacturers' new orders plunged in the first quarter with the net reading falling well below-average and to its lowest level since 2009. Adding to the confused demand signals, manufacturers' new orders expectations in the QSBO for the next three month sit at average levels.

NZ Still Stands Out

On a three month average basis, NZ's PMI still stands head and shoulders above similar indicators from major economies around the world. NZ's PMI has consistently out-paced Australia's for several years. However, it is interesting that Australia has moved ahead of NZ in the latest month. The 3.4 index point gap in March is the largest in Australia's favour since mid-2010. This is not necessarily a bad thing. Indeed, it might well be a good thing for NZ if it indicates a growth pickup in the Australian economy as a whole.

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