

16 June 2017

Marvellous May

New Zealand's Performance of Manufacturing Index (PMI) lifted to a very strong 58.5 in May. This is up from April's 56.9, which was not-too-shabby itself despite some possible drag from the timing of holidays in that month. The PMI has now pushed up to its highest level in 16 months. It all makes the mild slowdown we saw at the beginning of the year a distant memory. Positivity is prevalent throughout the May survey, across the major components of production, new orders and employment, as well as across firm sizes, industries, and regions. It sets up the manufacturing sector to make a strong positive contribution to Q2 GDP growth.

Demanding

Manufacturing sales in the first quarter of the year rose strongly, according to official figures released last week. The value of sales was 6.2% higher than the same quarter a year earlier. However, sales volumes were only marginally above year earlier levels, as processed meat and dairy products fell. Core (excluding meat and dairy) sales volumes rose 1.7% in the first quarter, on a seasonally adjusted basis, to be up 4.0% on a year ago. Demand has been solid. Recent strength in the PMI's new orders index bodes well for a further lift in annual growth in core manufacturing sales through the middle of 2017. New orders remain elevated despite a pullback in the number of house sales which remains an area to watch.

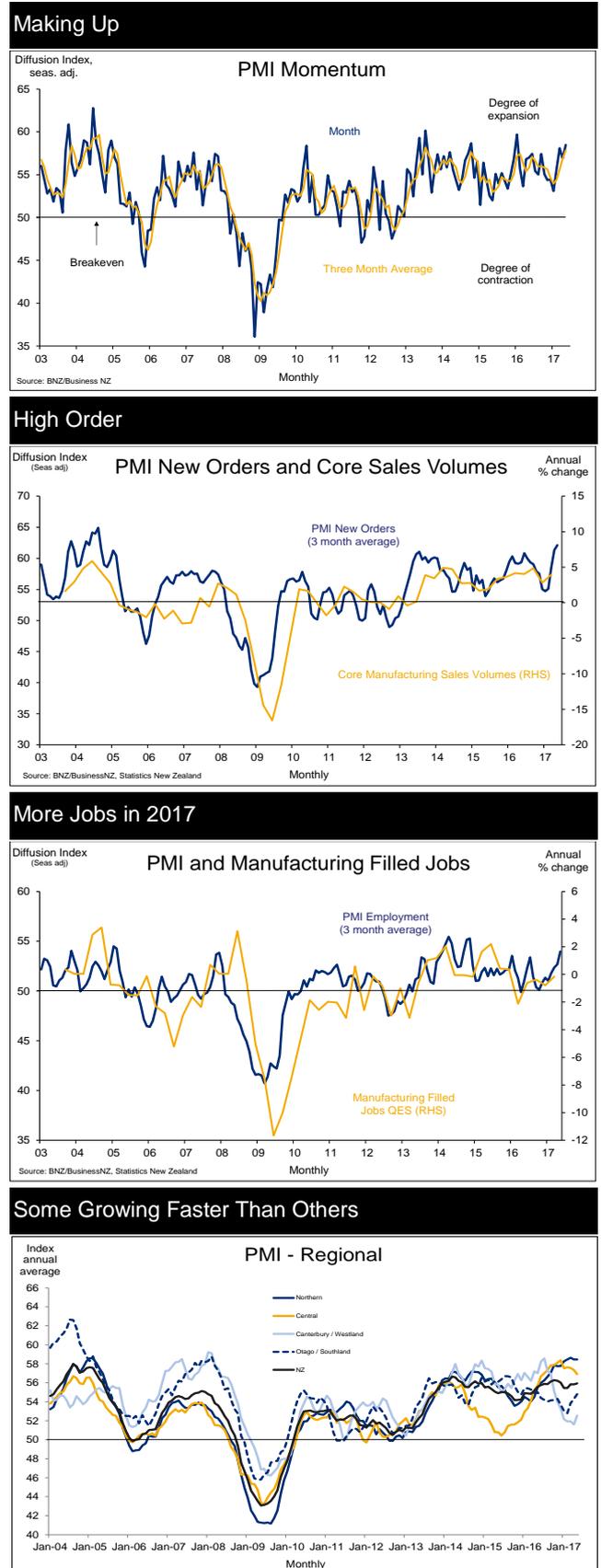
Help Wanted

In keeping with May's strong production indicators and positive forward demand signals, manufacturers are hiring more staff. Indeed, the PMI employment index booted up to its highest level in two and a half years reaching 55.3 in May. It's a good couple of points higher than April's already healthy 53.1. The recent strength of the PMI employment index – with its three month average at 54.0 – indicates a strong pick up in jobs in the manufacturing sector in 2017.

Aerial View By Area

PMI results can be a bit volatile month-to-month and more so when looked at on a regional basis. Smoothing over 12 month periods can offer some insight into trends. The 12 month average for the NZ PMI has been relatively stable over the past year, and sits at 55.9 for the 12 months to May. This is the result of a slowdown in the Canterbury-Westland, and to a lesser extent Otago, regions being offset by acceleration in the Central and Northern regions. These differences largely mirror the trends we have seen in building consents over the past year or two with strength in northern centres and some unwind from previously high levels in Canterbury.

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