

11 November 2016

The PMI

New Zealand's Performance of Manufacturing Index (PMI) couldn't quite hang onto its relatively high level of 57.5 in September. However, at 55.2 in October it was still handsomely positive – certainly well above its long-term average of 53.2. Indeed, every principal component of October's PMI was above average – barring one, new orders. But even these, at 54.8, were near aligned to their historical norm, namely 55.0. Things were more varied when looking across the industry groupings, however, while large firms (63.6, from 45.0) swapped places with micro firms (51.5, from 59.4) in the first-to-last stakes. The regional pecking order had Northern in front with an unadjusted 62.8 and Canterbury lagging with 51.2.

Employment

Relatively speaking, however, it was the employment index in October's PMI that seemed to provide the most encouragement. It made it up to a seasonally adjusted level of 53.8, from 50.8 in September and a below-the-line result of 47.3 back in August. To be sure, its long-term average is only 50.3. But this makes October's result look all the more assured. This represents a bonus for the labour market, in that manufacturing has not been party to the surge in nationwide employment over the last year or so. Indeed, manufacturing employment in the Household Labour Force Survey dipped 4.4% y/y, while in the Quarterly Employment Survey eased 0.4% over the year.

Investment

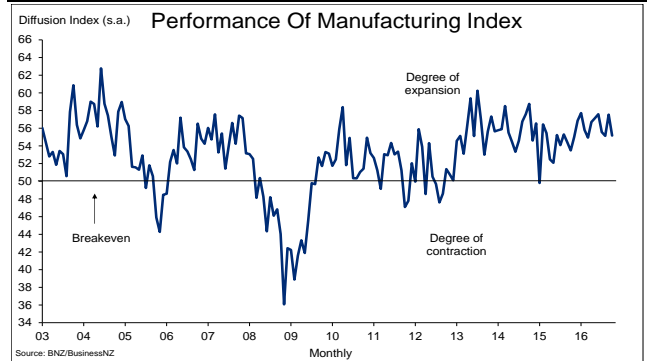
The local manufacturing sector should surely benefit from the impetus in the domestic business investment cycle. This cycle is looking strong, as capacity constraints begin to bite (as we noted last month, with reference to the Quarterly Survey of Business Opinion). For further evidence, we can again look at the QSBO, whose investment intentions variables were riding relatively high. Whether for buildings, or plant and machinery, firms are saying they are going to invest at above average rates over the coming six months. In this context, it might be surprising to see the new-orders index of the PMI slow further than it did in October (with 54.8).

Exchange Rate

Of course, most firms wanting to invest, especially in plant machinery and equipment, will have some option to do so by sourcing from overseas rather than locally. The relative strength in the currency will aid this. It is true that the trade-weighted exchange rate is relatively high, when looked at on a multi-decade chart. But as to whether it is "overvalued", who can really say, when the NZ economy is doing relatively better than global peers? We expect the TWI to drift lower over the coming 12 months or so. This mostly reflects NZD drops against USD, JPY and EUR, but relative steadiness against GBP and eventual parity against AUD.

craig_ebert@bnz.co.nz

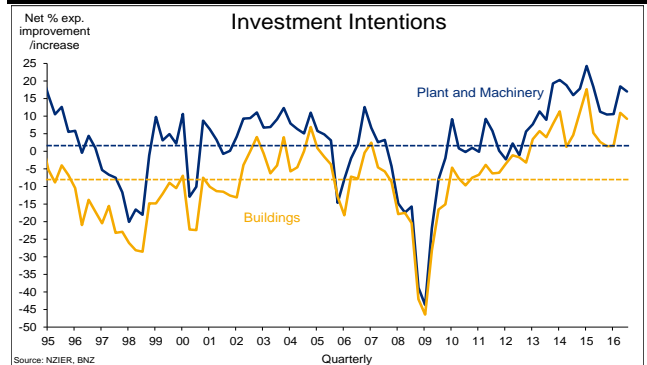
Still Better Than OK



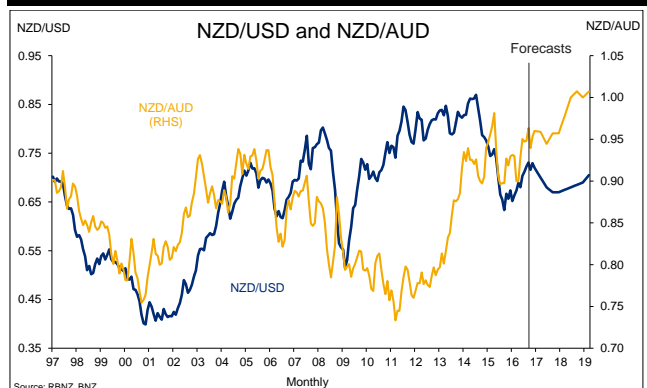
The Only Way is Up?



Investment Cycle Supportive of Manufacturing



But Mind Those Currency Variations



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

Kymerly Martin

Senior Market Strategist
+(64 4) 924 7654

Jason Wong

Currency Strategist
+(64 4) 924 7652

Main Offices

Wellington

60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 473 3791
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch

81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+(61 2) 9237 1406

Alan Oster

Group Chief Economist
+(61 3) 8634 2927

Ray Attrill

Global Co-Head of FX Strategy
+(61 2) 9237 1848

Skye Masters

Head of Interest Rate Strategy
+(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

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.