Manufacturing Snapshot

bnz

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.

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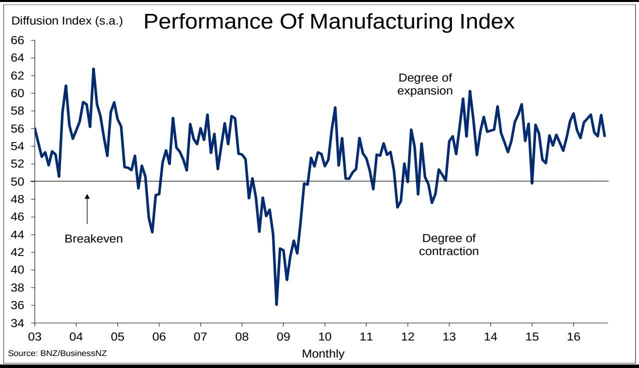
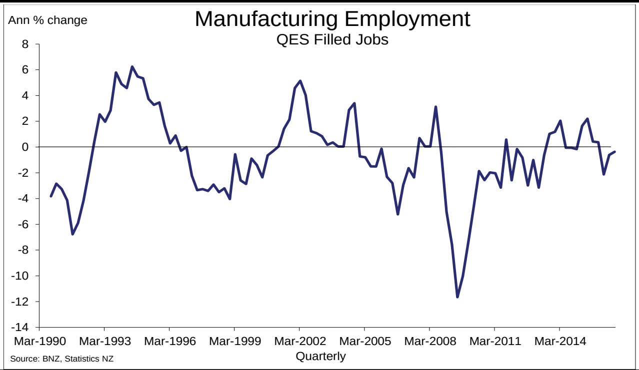
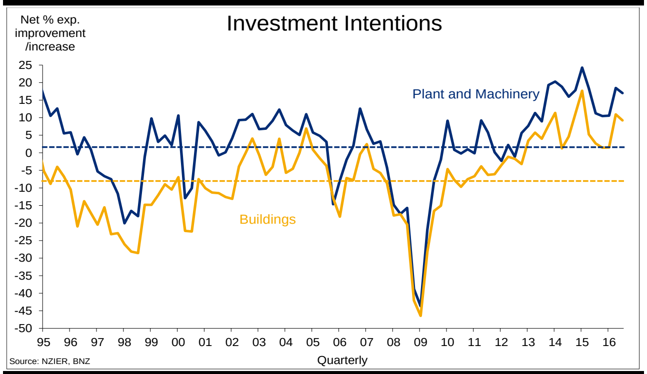
Still Better Than OK



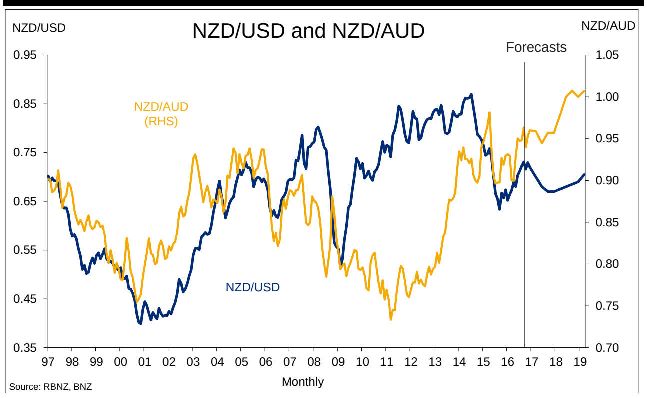
The Only Way is Up?



Investment Cycle Supportive of Manufacturing



But Mind Those Currency Variations



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