

13 October 2017

The PMI

September's Performance of Manufacturing Index (PMI) proved to be about as strong as it was in August. Index wise, it was 57.5 versus 57.9, seasonally adjusted. Aside from remaining comfortably above its long-term average (of 53.4), this was a particularly encouraging result considering the proximity of the 23 September general election. Note: while respondents submitted their views in early October, it was in regards to how things were going through the course of September. Of the (minority) of respondents citing the major factor on their business as being a negative one, around a quarter of these referenced the election. So it wasn't a non-issue, as such.

Activity/Sales

Even so, the manufacturing industry would seem to be forging ahead quite nicely. This was definitely the message in the PMI's production index for September, with its seasonally adjusted result of 59.6. The tone from its new orders index remained relatively upbeat too, with 60.4. These elements corroborated areas of strength in the 3 October NZIER Quarterly Survey of Business Opinion (QSBO). In this, manufacturers indicated solid expansion in production and orders, especially when looking ahead. And with respect to output, expectations of domestic sales had overtaken those for exports. Note: QSBO responses occurred prior to September's election.

Employment

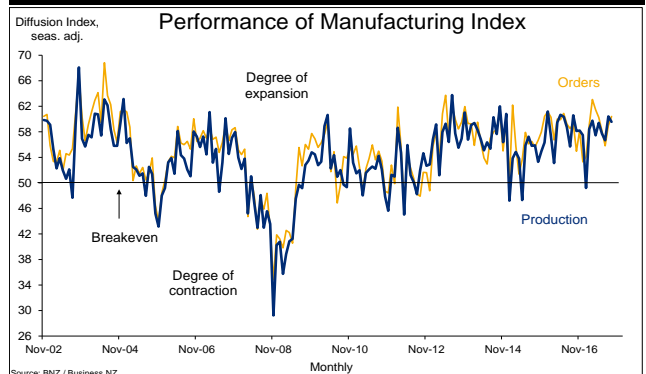
Not every aspect of September's PMI was expansive, however. In fact, its employment index fizzled out to 50.7, having been running nicely about the 56.0 mark in July and August. It's tempting to see this as manufacturers pushing pause on their hiring, as they await news on the form of the next NZ government. However, we note that the PMI jobs index has been bouncing around viciously for the last 6 months or more, but with a reasonably positive average. And as a timely cross-check we note the QSBO view on manufacturing employment remained relatively upbeat. This was as true for reports on hiring for the last 3 months as it was regards the coming 3 months.

Capacity

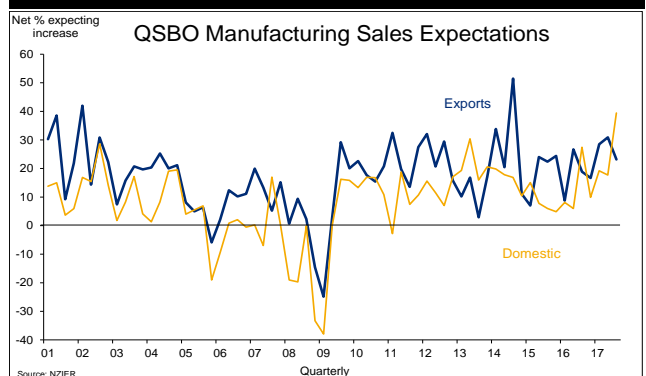
The other reason we can imagine manufacturers are still out there hunting for staff is the fact that they are reporting increased difficulty in finding them. This is particularly the case for skilled staff (as it is for the economy at large). Yet in relation to physical capital, the latest QSBO suggested manufacturers were running less close to the wind. Its capacity utilisation measure, CUBO, for manufacturers eased to 90.1%, from 91.7% in Q2 and 92.9% in Q1. Rather than signifying any pull-back in demand this could well reflect the consequence of the decent pick-up we've witnessed in business investment in plant, machinery and equipment over recent quarters.

craig_ebert@bnz.co.nz

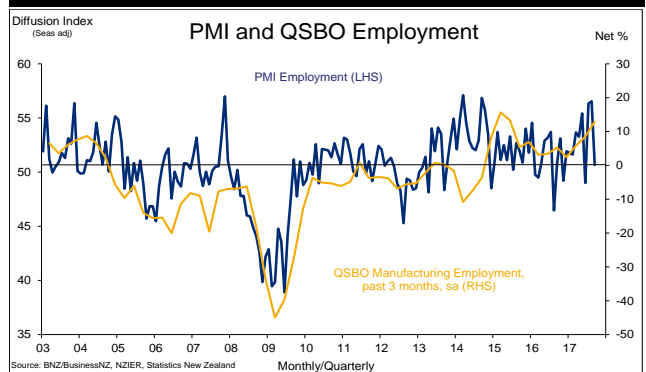
Strong in Spite of Some Election Angst



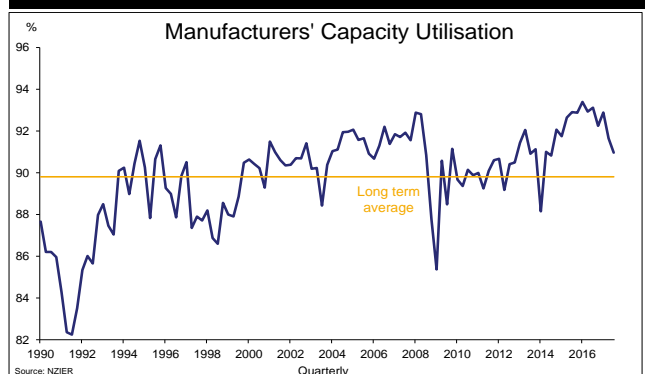
A Local Uprising



No Clear Sign of Election Pause in Hiring



Back From The Brink (With The Aid Of Investment?)



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

Jason Wong

Senior Markets 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

111 Cashel Street
Christchurch 8011
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

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

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