

14 July 2017

The PMI

New Zealand's Performance of Manufacturing Index (PMI) has largely maintained its solid momentum of recent months. While it was always going to struggle to match its 58.2 level of May, at 56.2 in June the PMI was still nicely above average. By region, Canterbury was the principal drag in the month, albeit having been better than most in May. By industry, there was a greater range of difference in fortunes – based on non-seasonally adjusted indices, at least. On this basis, Food Beverage and Tobacco (62.3) was notable as a positive, while Wood and Paper Products (46.0), along with Textile, Clothing, Footwear and Leather (47.9), captured a negative hue.

Activity

Broadly speaking, the latest PMI was expansive. Certainly, its output index was robust, at a seasonally adjusted 58.0, from 59.5 in May. This was also the general message from manufacturing firms in the early-July NZIER Quarterly Survey of Business Opinion (QSBO). Granted, there was a moderation in the net number reporting increased output – down to +5, from +20. However, with respect to the coming 3 months, output expectations edged up to +29, from +28. The long-term average for this QSBO series is +17. With all of this we can believe that manufacturing output will register further expansion, after having increased 1.0% (2.1% y/y) in the Q1 GDP accounts.

Employment

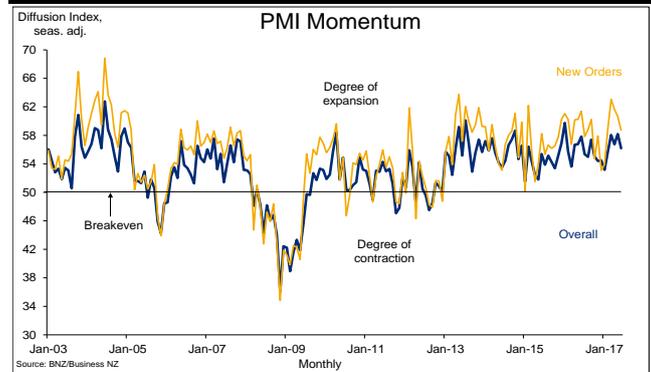
If there was a weak spot in June's PMI it was arguably in its employment index. Indeed, it slumped to 49.5, so below the breakeven mark of 50. However, it seems too early to judge this as a genuinely negative read. For starters, we note the PMI employment index came off a 31-month high in May (55.0) and we know how it can bounce around quite a bit from month to month. Averaging over the last 3 months, the PMI jobs index is 52.5. We did also see manufacturers in the latest QSBO tone down their reports of staffing over the last 3 months, and expectations for the coming 3 months. Nevertheless, they were each still positive and above normal.

Capacity

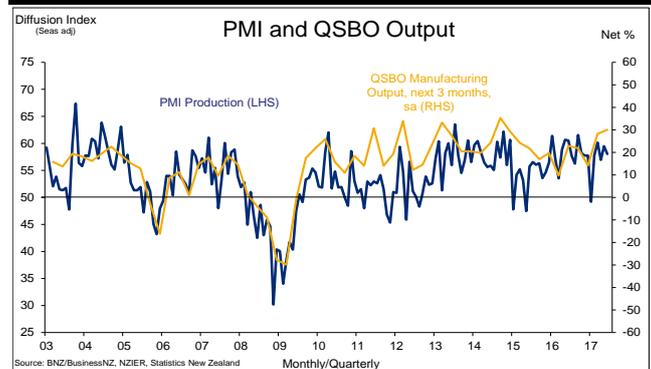
In any case, NZ manufacturers would appear to be having problems finding staff in the first place. We got this impression from the QSBO variables on difficulty in finding labour. These, much like for the economy in general, have become relatively high – whether in terms of skilled or unskilled staff. The other QSBO indicator saying that manufacturers are feeling constrained from the resources side of their business was the capacity utilisation measure, CUBO. This, for manufacturers, was 91.7% with respect to the June quarter. While this is off its peak of 93.4% of early 2016 it's still well above its long-term norm of 89.8%.

craig_ebert@bnz.co.nz

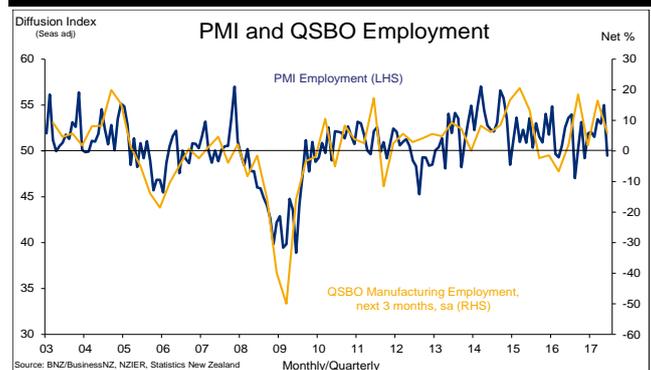
Honking Along



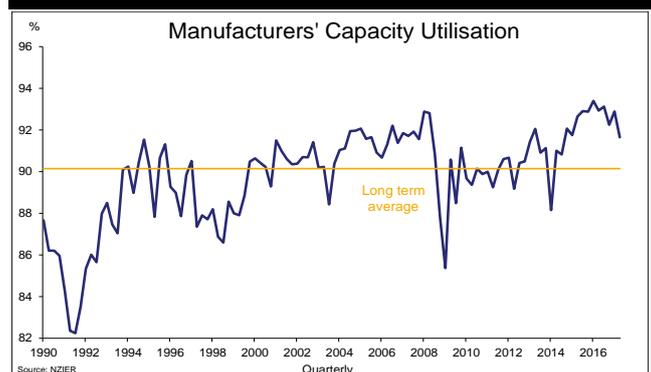
Still Looking Good



Choppier



Still Relatively Stretched



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.