

15 October 2015

Manufacturing Robust

The Performance of Manufacturing Index was a picture of health in September, with particular strength in new orders and production. Coming in at 55.4 overall, it was even a squeak higher than August's 55.1. It could have given up a point or two and we would still have considered it robust. We remain of the view that economic growth will generally slow over the coming 18 months, but H2 2015 will prove a bit stronger than H1. The fact that the PMI has maintained a mid-50s reading in Q3 is supportive of the latter. The PMI suggests activity is expanding at a solid clip, even though manufacturers' general confidence, according to other business surveys, has been dented.

Sales Positive, Cost Pressure Brews

Solid domestic demand, in one form or another, was a common positive factor noted by many respondents this month. Improving conditions in Australia and a generally lower NZ dollar were also seen as positives. On the negative side, dairy weakness was mentioned by many. On balance, the strength in new orders suggests stronger sales growth over coming months. Separately, it was interesting to see a few manufacturers mention the downside of a lower currency in the form of rising (imported) costs. It is a timely reminder that a lower currency is not universally positive. Other cost pressures were also noted. It is probably too early for this to show up in the likes of the Q3 CPI tomorrow, but some price pressure appears in the pipeline.

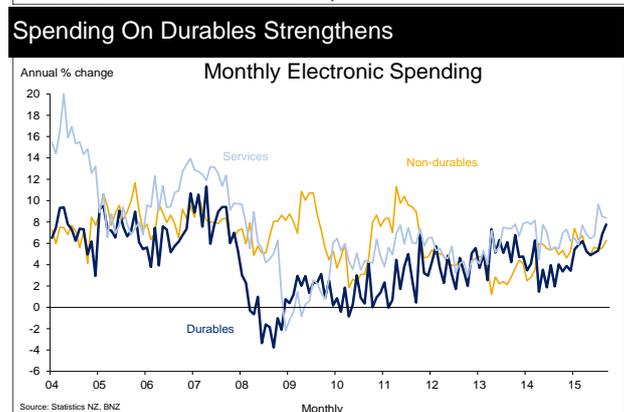
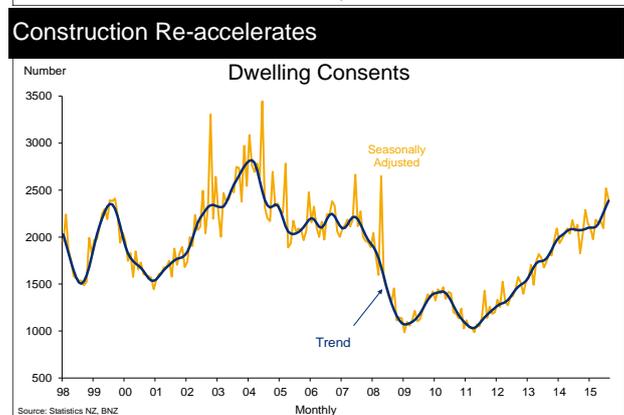
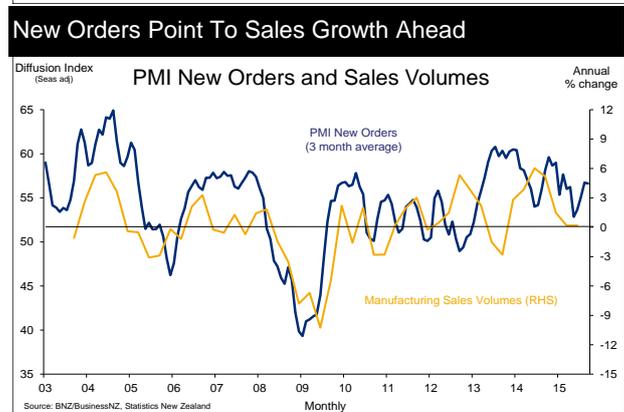
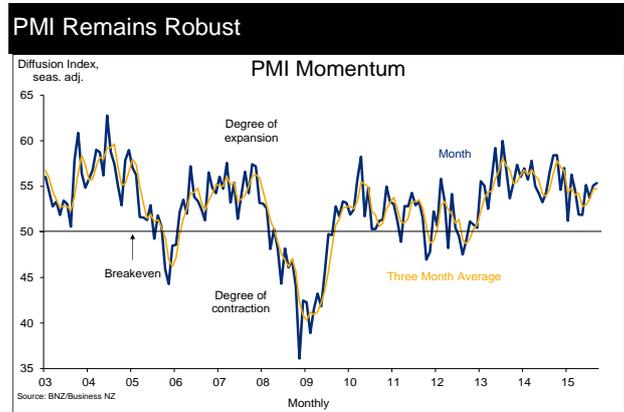
Construction Indicators Push Higher

Another push higher in residential building consents is a positive signal for manufacturers. August's consents actually fell 4.7% in the month, but that meant barely unwinding a quarter of their 20.3% jump in July. The trend has pushed firmly higher, following a flat patch over 2014 and into early-2015. Not to be outdone, non-residential consents also did very well in August with their value up 52% on a year ago. Sure, there were some big one-offs in these but work is work and the trends are positive.

Domestic Spending Accelerates

Spending is ticking along rather swiftly, judging by the value of electronic card transactions. These rose a seasonally adjusted 0.7% in September to be up 6.4% on a year earlier. This is consistent with retail sales volumes expanding at a pace of around 6% per annum. The details of the electronic cards data show durables accelerating to 8.1% annual growth – the fastest pace since 2007. It is all part of solid domestic demand, the likes of which many manufacturers have commented on this month.

doug_steel@bnz.co.nz



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

Raiko Shareef

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.