

12 November 2015

## Manufacturing Overview

The Performance of Manufacturing Index remained firmly in expansion territory in October. Sure it eased a little to 53.3 from 55.0 in September, but it remains well above the 50 mark that delineates between expansion and contraction. This indicates that the manufacturing sector grew in October, but at a slightly slower pace than in September. The trend remains robust. Indicative of such, the three month average of the PMI remains a touch over 54. While this is broadly in line with the average through this year, it does represent a slowdown from the pace of growth in 2014.

## Production, Demand and Inventory

Production continues to expand, albeit at a slower pace in October. We are not reading too much into the monthly slowdown at this point. It is only one month and it follows a couple of stronger months. It all looks like normal monthly variation rather than an indicator of trend change. The slowdown in October may prove temporary. We say this noting that there was a drawdown of inventory in the month which, combined with still above-average new orders, is a positive indicator for production ahead. In line with this, manufacturers still appear upbeat on demand with a greater proportion of positive comments this month compared to last.

## Employment

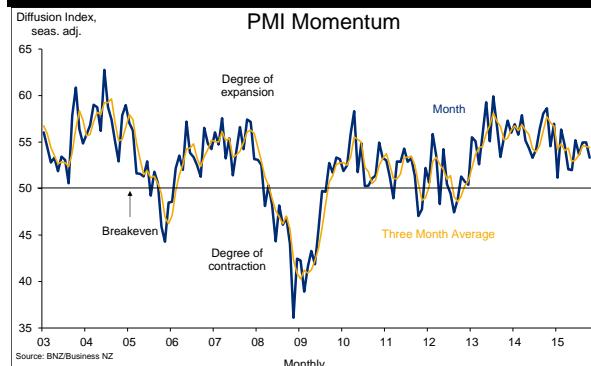
The PMI employment index nudged a bit higher to 52.4 in October from 51.1 in September. This is at a level that suggests the trend in manufacturing employment growth remained positive into the final quarter of 2015. But we wouldn't want to draw any firmer conclusions than that given the volatility we've seen in actual manufacturing employment growth over recent quarters. For example, official figures show annual growth in manufacturing employment surged to more than 10% in the year to June 2015 before pulling back to 3% in the year to September 2015.

## Construction, Dairy

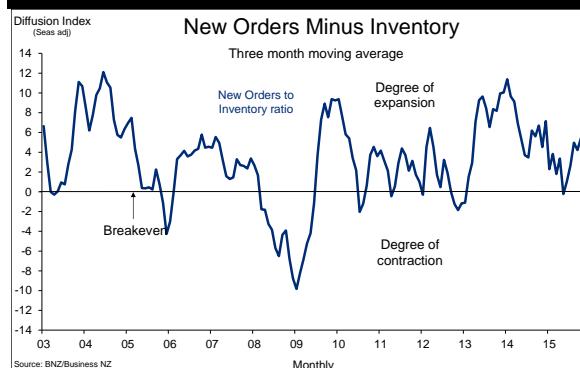
The construction outlook remains buoyant. Don't fret over the 5.7% decline in residential building consent numbers for September, following their 5.3% fall in August. These need to be seen in the context of a 20% jump back in July. The trend is upward. The same is true for non-residential building. It bodes well as a general source of demand for many domestic manufacturers. One area where there are some signs of weakness is farm buildings consents, where consent values have clearly fallen behind year earlier levels. This no doubt partly reflects the slump in dairy prices, a negative factor that many respondents continue to note.

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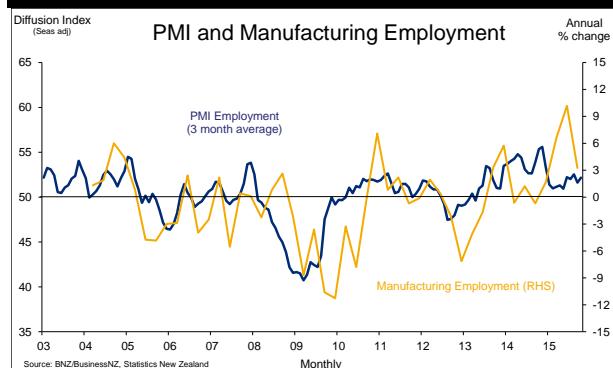
### PMI Remains Robust



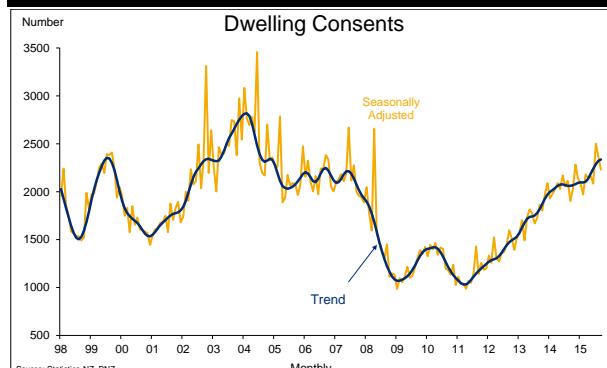
### New-Orders-to-Inventory A Plus For Production Ahead



### Employment Growth Continues



### House Building Pushes Higher



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