

14 May 2015

## Manufacturing Slows In April

The manufacturing sector has slowed down a touch in April, judging by the latest Performance of Manufacturing Index. The PMI eased to 51.8 in the month, from 54.6 in March. Whether this is the start of a markedly slower growth trend remains to be seen. Recall that we saw a similar slowdown in January (perhaps on changing holiday influences) only for the index to bounce back strongly in February. Maybe April was affected by a similar holiday influence given the timing of Easter and ANZAC day holidays this year? May's result will help assess this possibility.

## Aussie, Aussie, Aussie

The above is not to deny that there are some headwinds for the manufacturing sector, with respondents referencing economic conditions in Australia and the NZD/AUD exchange rate as an example. The latter was certainly elevated through April, averaging around 0.98 and even eyeing parity a couple of times in the month. The downward drag that this created has reversed over recent weeks, with the NZD/AUD retreating rather rapidly to currently sit in the low 0.90s. The AUD itself has strengthened in May despite the Reserve Bank of Australia reducing interest rates. If the lower level of the NZD/AUD persists it would lend some support to the likes of the PMI in the months ahead.

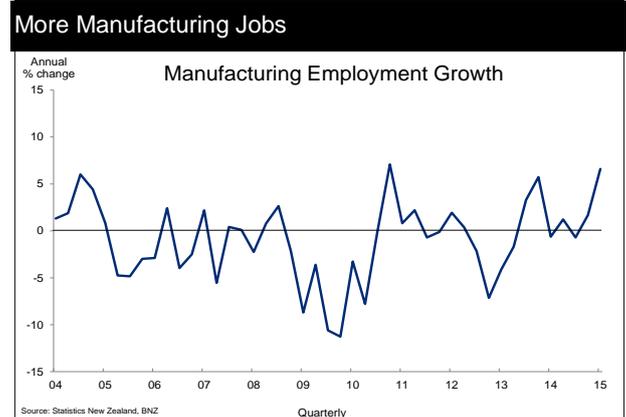
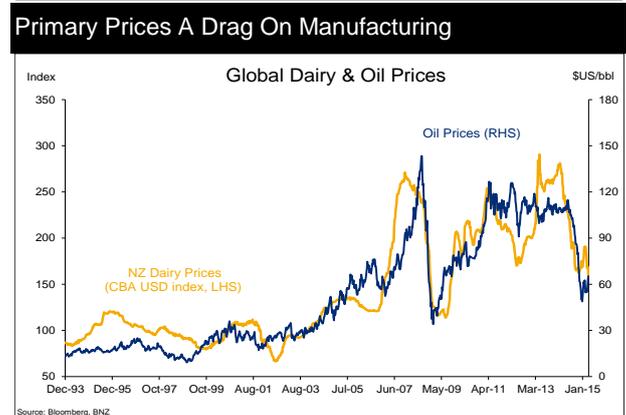
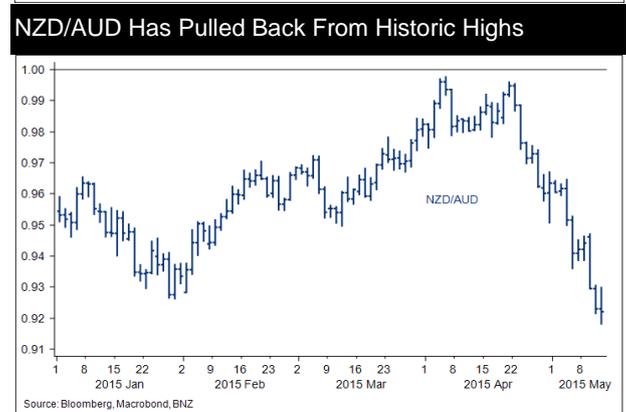
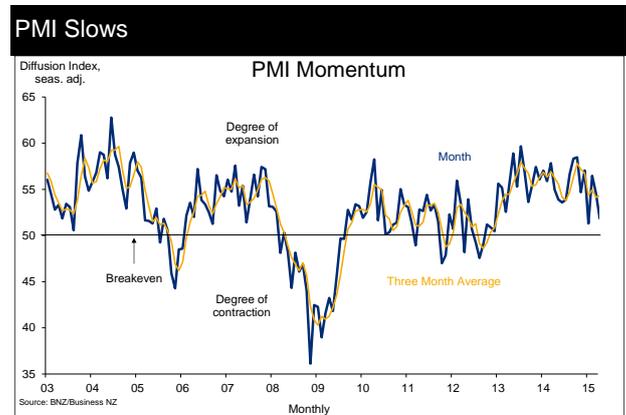
## Primary Influence On Secondary Production

Tightening conditions in some primary sectors are also filtering through to the manufacturing sector. For example, the near \$7 billion reduction in annual revenue that the dairy sector is currently dealing with was always going to bring some knock on effects, including for the manufacturing sector. So it was no surprise to see some PMI respondents note less demand from the agriculture sector. Likewise, lower oil prices (while welcomed by consumers) were seen negatively by some manufacturers as they detected less demand from the energy sector for their products.

## Jobs

Despite the challenges noted above there is also decent economic growth occurring which the manufacturing sector is part of and is tapping into. After all, April's PMI result represents the 31<sup>st</sup> consecutive month of manufacturing sector expansion. It fits with decent manufacturing employment growth over the past year. Latest official figures show a net gain of nearly 16,000 manufacturing sector jobs over the year to March. This represents 6.6% annual growth which is double the rate of employment growth for the economy as a whole. Employment in manufacturing has increased to its highest level since 2008.

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