

15 September 2016

The PMI

New Zealand's Performance of Manufacturing Index (PMI) was still looking good in August. Sure, it eased to a seasonally adjusted level of 55.1, compared to 55.5 in July. However, this was a trivial move, statistically, leaving the PMI happily north of its long-term average of 53.1. Having said this, in the details there was some fraying at the edges to note. By region, for example, Otago (with an unadjusted 48.8) suddenly lost pace with the rest of the country. By industry, metal products manufacture also slowed abruptly – to 47.7, from 59.0. Meanwhile, large firms were lagging the impetus that relatively smaller firms managed to maintain, for the most part.

Output

A still-strong new-orders index (59.1) was important in keeping the August PMI looking good. However, its production index lost a bit more momentum, coming in at a seasonally adjusted 55.7, from 57.8 in July and a peak of 60.9 back in May. These earlier readings proved a good lead on the sizable recovery we saw in the June quarter manufacturing sales figures (of 7 September). And this reflected more than just a rebound in the processing of agriculture goods. Nonetheless, Q2 likely overstates the degree of momentum we can expect over the second half of 2016. The recent slowing in the PMI production index certainly cautions against getting too carried away.

Employment

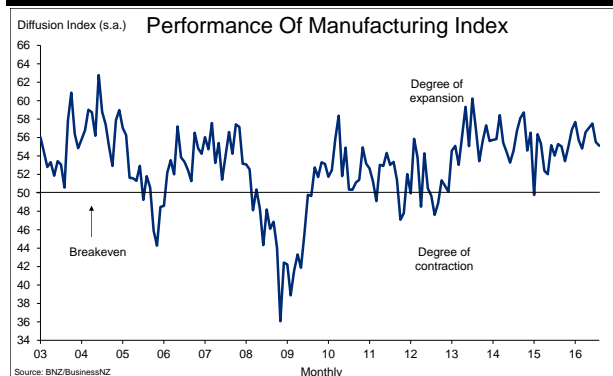
Having been relatively strong over recent months, the PMI employment index sagged quite a bit in August. Indeed, it fell into contraction territory, with a seasonally adjusted reading of 47.7, from 54.4 in July. Yes, this index can be volatile from month to month. However, August's was the weakest in 4 years. Thus, the idea that employment in the manufacturing sector might be weakening needs to be flagged. Still, we'll need to see the PMI results for September, even October, before concluding anything on the trend. We also note that, to date, there hasn't been any indication of sagging manufacturing jobs from other economic surveys.

Resources

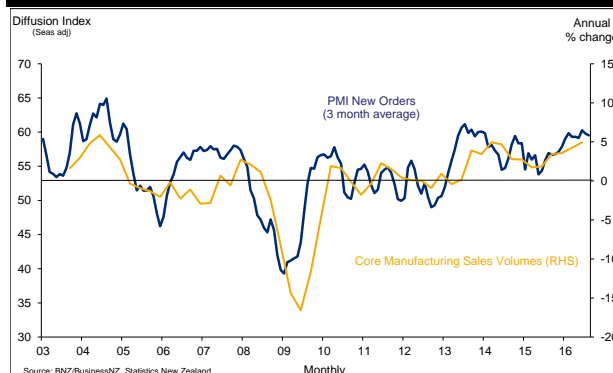
A quiet achiever in the latest PMI survey remains Petroleum, Coal, Chemical and Associated Product. Indeed, it has been robust for a good 12 months now, with an index reading averaging 58.9. This might surprise a few people, given the broad decline we've seen in resource commodity sectors over recent years, very much including oil. China's industrial slowdown has been integral to this and has certainly been a headwind for Australia's export base. By the same token, there has been a partial recovery in many resource commodity prices this year, including in coal and iron ore.

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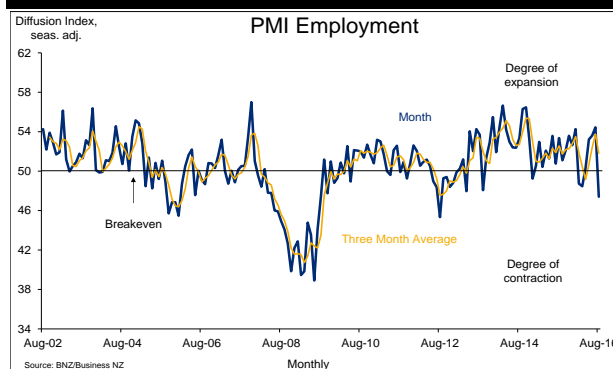
NZ PMI Still Solid Overall



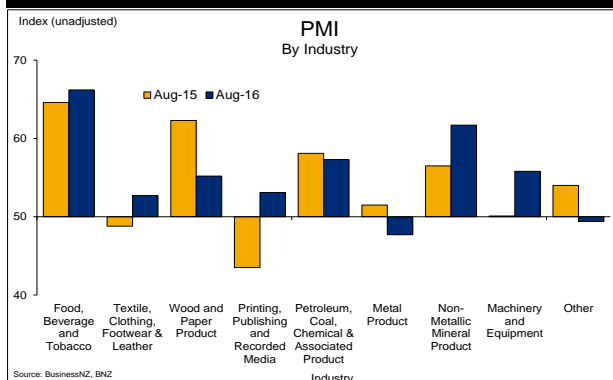
Ordering Up Growth in Manufacturing Production



But A Question Mark Around Staffing



Resource Sectors Still Doing Well



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