

11 February 2016

The PMI

New Zealand's Performance of Manufacturing Index (PMI) became even faster in January. At a seasonally adjusted 57.9 it edged past December's 14-month high of 57.0. The strongest pulse was now coming through production (60.3), albeit with the new-orders index still very strong (59.7). That's not to say everyone, everywhere, in the manufacturing sector is running at the same speed. Printing, Publishing and Recorded Media, for example, was lagging while Food and Beverage manufacturing was robust. By district, Waikato/Bay of Plenty wasn't keeping pace with the rest of the country. High-payroll firms, meanwhile, were lagging those of lesser staff size. Still, the broad results in January's PMI are very encouraging.

Employment

The other very agreeable feature of the latest PMI is the stoutness in its employment index. Indeed, it picked up to a seasonally adjusted 54.9 in January, from 53.5 in December. This index has averaged 50.5 (since August 2002). This gives us some confidence that staffing levels in the sector will continue to expand. This is after the Household Labour Force Survey (HLFS) showed annual growth in manufacturing employment slowed to a bare 0.5% in Q4 2015 (having spiked to 10.2% y/y in Q2). Of course, the HLFS, more broadly, showed a solid tone, with quarterly jobs growth of 0.9% (1.4% y/y). The jobless rate fell to 5.3% – a 6-year low.

Housing

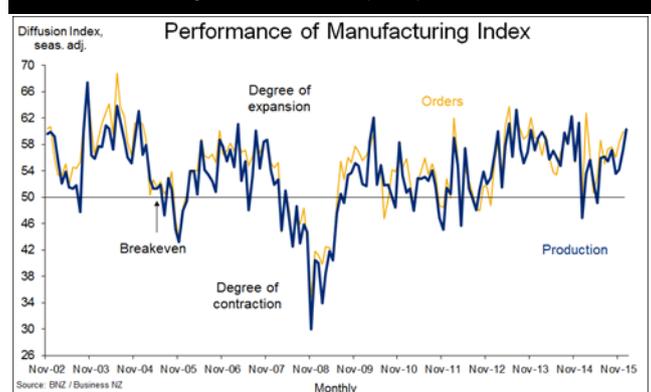
As the Reserve Bank stated back at its late-January OCR Review, "House price inflation in Auckland remains a financial stability risk. There are signs that the rate of increase may be moderating, but it is too early to tell. House price pressures have been building in some other regions." The subsequent housing data have done nothing to change this view. Sure, the Quotable Value NZ annual house price inflation measure eased to 12.6% in January, from 14.2%. But the title of its press release told the real story; "Auckland home values edge down while regions rise". These diverging regional trends could be something to think about for the way they might impact residential construction and, by implication, manufacturing activity.

Exchange rate

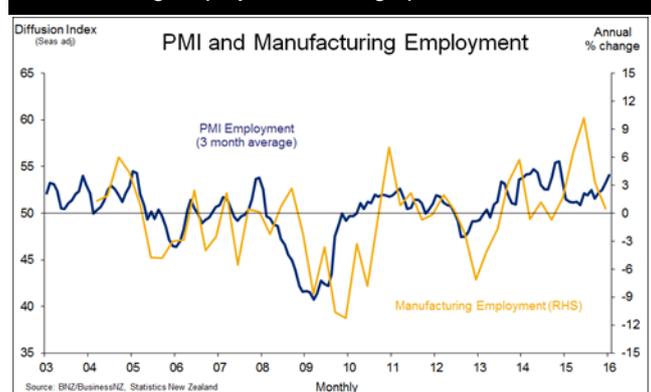
NZD has retreated a long way from its level of around 88 US cents in mid-2014. But we believe it has further to go down this year, targeting 60 cents by mid-2016. We still envisage a downward drift in NZD/AUD over the coming year or two, but set against a long-term (PPP) "fair" valuation that we've nudged up to 0.9000. NZD/EUR and NZD/JPY are more problematic calls as these crosses will be heavily influenced by the extent and timing of quantitative easing in Europe and Japan respectively. NZD/CNY might struggle to go much lower, as China's policy officials keep managing the renminbi lower.

craig_ebert@bnz.co.nz

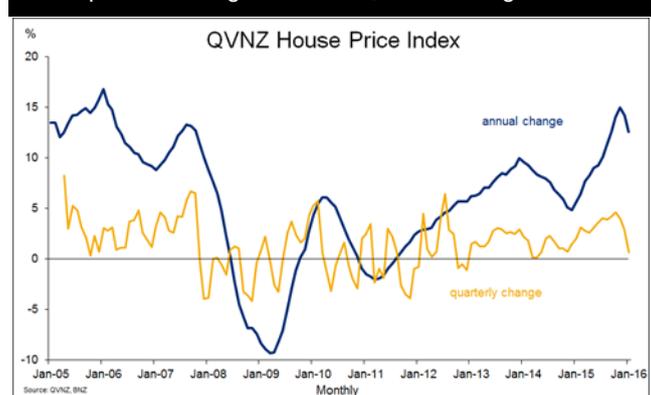
NZ manufacturing still on its merry way



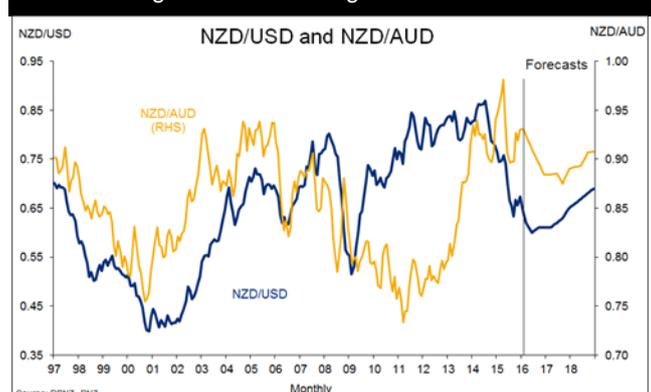
Manufacturing employment looking up



House prices slowing in Auckland, accelerating elsewhere



More exchange rate relief during 2016?



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

KyMBERly 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) 474 6145

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 +800 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London

Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +(44 20) 7796 4761

New York

Foreign Exchange +1 800 125 602
Fixed Income/Derivatives +1877 377 5480

Hong Kong

Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

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