

12 August 2016

The PMI

New Zealand's Performance of Manufacturing Index (PMI) maintained decent momentum in July. Its seasonally adjusted result was 55.8, compared to the 57.6 level it edged up to in June. Its average since inception (August 2002) is 53.1. The NZ PMI's margin above its global peers remains that much greater besides. However, we also note the global PMI has battled its way back into a slight expansive mode, having virtually stalled earlier in the year. This is despite the UK PMI having slumped to 48.2 in July – as early indication the British economy is looking vulnerable immediately post the Brexit vote, even though the longer-term consequences remain far from clear.

Inventory

The only weak looking constituent of July's PMI was around the stocks of finished products. Indeed, the index for this slipped into slight contraction territory, with a reading of 49.0. Yet it's hard to see this as a genuine negative. Not with new orders, as a demand indicator, still relatively strong at a seasonally adjusted 58.1. In fact, the 49.0 reading on inventory could be interpreted as local manufacturers struggling to keep up with demand. Our measure of orders to inventory certainly points to more of a pick-up in production over the coming months. This is true of the production index of the PMI as well as output measures as per GDP accounts.

Employment

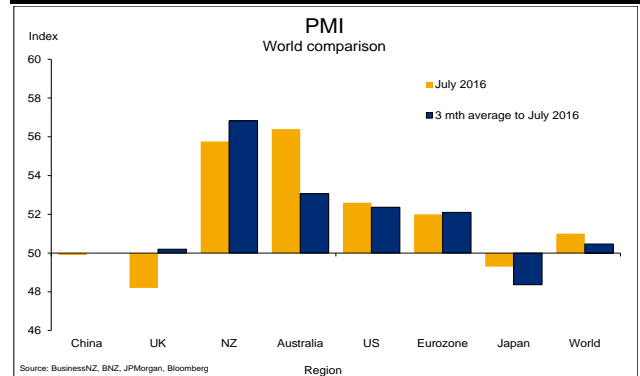
As other components of the NZ PMI might arguably have slowed a bit, its employment index has steadily picked up over the last 5 months. It hit a relatively strong 54.6 in July, from 53.7 in June – from a recent low point of 48.8 back in February. This gives confidence that staffing in the manufacturing sector is improving. We saw evidence of this in the Quarterly Employment Survey, in terms of its series on filled-jobs and paid-hours. This sets a good chance of seeing a rebound in the Household Labour Force Survey measure of manufacturing employment, upon its (delayed) release date of 17 August.

Concrete Production

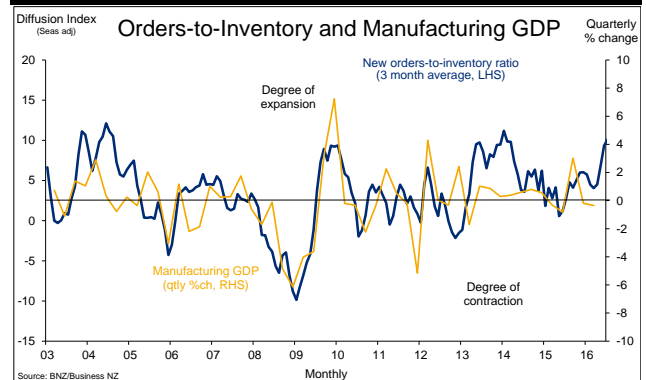
As we've frequently pointed out, the manufacturing sector is being greatly supported by a hefty construction cycle. While this was initially driven by Canterbury's rebuild then a pick-up in Auckland there is increasing evidence that the rest of the country is joining in the building boom. The most recent example has come from the Q2 ready-mixed concrete production statistics. These showed a big bounce-back, after a stumble in Q1, very much driven by the likes of Hamilton, Tauranga and Wellington. In Q2 there was 58% more concrete mixed outside of metropolitan Auckland and Christchurch than within them.

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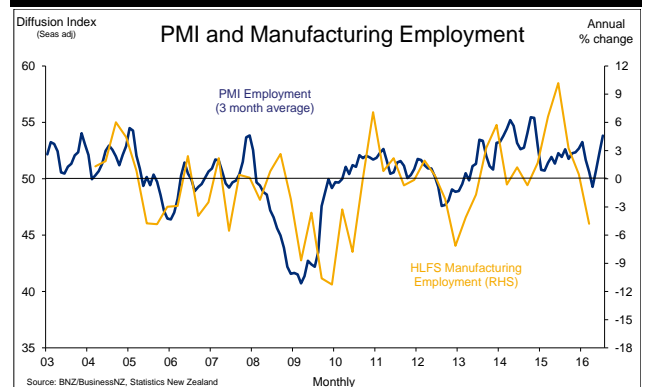
NZ PMI Solid...Especially in Global Context



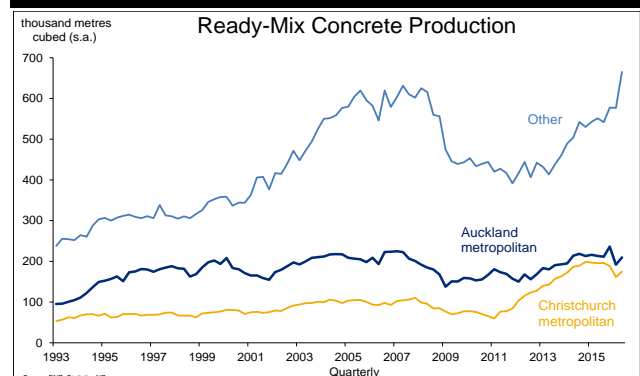
Inventory Dynamics Positive



Employment Rebounding



Concrete Evidence of a Broadening Construction Upswing



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