

14 July 2016

The PMI

June's Performance of Manufacturing Index (PMI) took Brexit in its stride, firming half a point, to 57.7. The survey was in the field the first full week of July. And not one response referenced Brexit. Rather, local issues were to the fore; particularly the strength of building activity but also the mild winter weather. All up, production (60.8) remained on a real roll, while new orders (61.6) told of very strong demand down the chain. Meanwhile, the PMI employment index, at 53.5, largely consolidated the jump to 53.1 it posted in May. While all regions were expanding, the North Island was running the fastest. By industry, the only curiosity was a forestry index of 47.0.

QSBO Manufacturers

In keeping with PMI readings over recent months, manufacturers responding to the NZIER's June quarter Quarterly Survey of Business Opinion (QSBO) perked up. A net 21% expected higher production over the coming three months. This compared to the net 10% who thought this way in March. This pick up tallied with a much more positive expectation around new orders, which lifted to +28%, from +8% (another point of correspondence to the PMI). This helped lift the profit indicators among manufacturers in the latest QSBO, from what were lacklustre readings in the prior survey.

Capacity Constraint

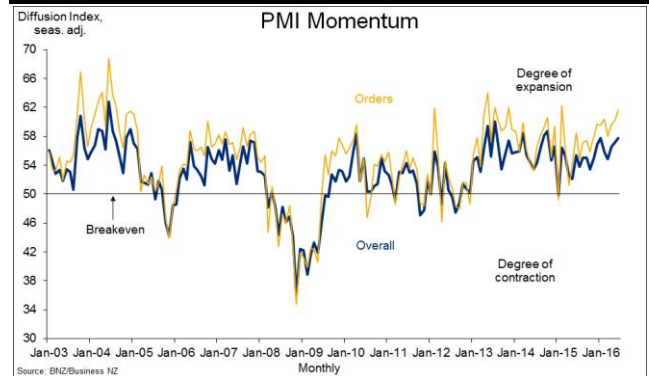
The local construction sector is becoming a driver of local manufacturing activity. The NZIER QSBO made this clear. It also highlighted, however, that capacity constraints were coming into play. This has become pronounced in the building industry, with its capacity utilisation (CUBO) measure, as per the QSBO, riding relatively high, at 92.8%. But what might surprise some people is that capacity utilisation amongst manufacturers was also judged high, at 92.9%. This gelled with manufacturers in the QSBO reporting increased difficulty in finding staff as well as strong intentions to invest – in terms of plant and machinery as well as buildings. It seems a virtuous circle.

Exchange Rates

While we are obviously encouraged by June's (post-Brexit) PMI we are also conscious of the soaring currency. Good economic news comes with a price in FX markets. New Zealand's trade-weighted exchange rate, at 78, is around 4% higher than it was a month ago and 7% stronger than it was two months ago. Sure, some of this reflects a collapsed British pound and weakened euro. However, NZD/AUD has also climbed to around 0.9600 from 0.9300 a month ago and 0.8900 back in mid-April. The stronger NZ currency may come to temper enthusiasm in the local manufacturing sector (something we'll watch for).

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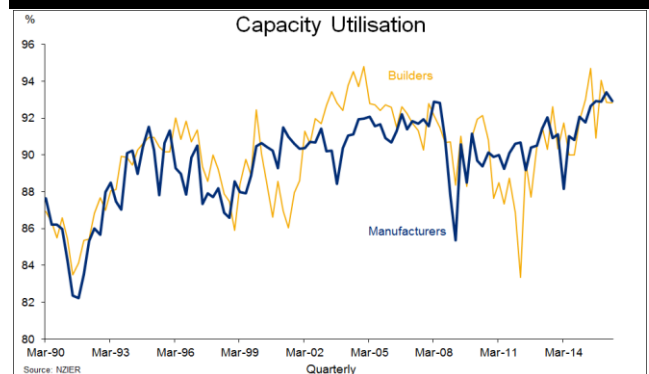
NZ PMI Solid Post Brexit



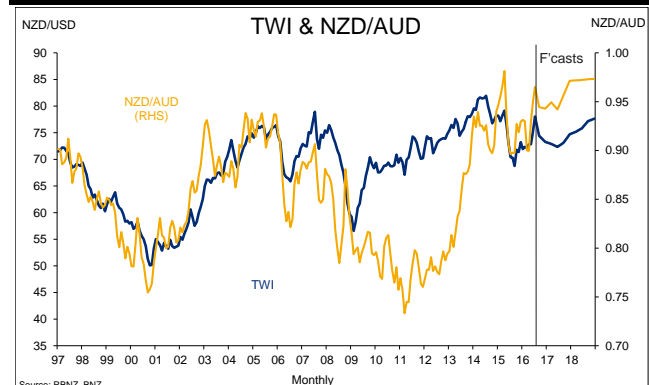
Manufacturing Output Seen Rising with Vim



Hitting Straps Already



Back Up The Truck



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