

13 October 2016

The PMI

Peak, what peak? New Zealand's Performance of Manufacturing Index (PMI) kicked back up to a seasonally adjusted 57.7 in September, having slowed to 55.2 in August. This was more obviously above average (53.2), verging on the very strong. Having said this, the PMI details again highlighted some fraying at the edges. This was not so noticeable by region anymore, but large firms (45.0) were more clearly lagging the impetus that relatively smaller firms maintained in September. By industry, three of the nine had results below the breakeven 50 mark, compared to two during August (in non-seasonally adjusted terms).

Domestic Demand

The export-flavoured Food and Beverage component of the PMI stayed strong in September, at 66.2. However, the NZ PMI, broadly speaking, doesn't have a breakdown of domestically-focussed versus export activity amongst manufacturers. But the NZIER Quarterly Survey of Business Opinion (QSBO) does. And this, in Q3, showed expectations for domestic sales were now matching the ongoing robust pace in export sales. This would appear to fit with the latest upshift coming through the construction sector. But a pick-up in local manufacturing sales might also relate to the most recent evidence of a strong lift in NZ household expenditure, especially for big-ticket items.

Employment

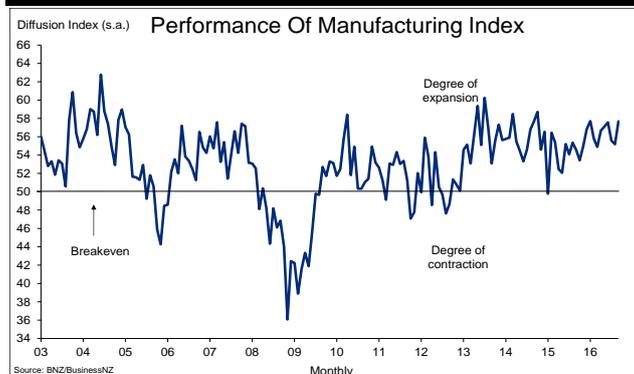
It was also encouraging to see a bounce-back in the jobs index of the PMI. Recall that it slumped to a seasonally adjusted reading of 47.7 in August, from 54.4 in July. While we flagged this we also said we needed to see September (even October) results before drawing any conclusions. In September the PMI jobs index snuck back up to 50.3. This wasn't a surprise to us as, like we noted last month, there hadn't been any indication of sagging manufacturing jobs from other economic surveys. This remains the case. Indeed, manufacturing firms in the QSBO signalled an intent to take on staff over the coming few months about as strong as it's been in decades.

Capacity Utilisation

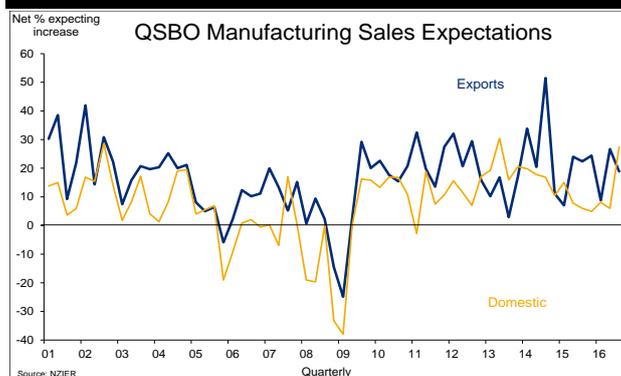
Robust demand for staff in the manufacturing industry gels with the signals from the QSBO that it's getting more difficult to find them – whether skilled or unskilled. This is part of a wider stretch on resources in the sector. Take the capacity utilisation measure for manufacturers in the QSBO. It nudged up to 93.1% in Q3, from 92.9% in Q2 (with its long-term average being 90.4%). As such, it was more stretched than capacity utilisation in the building industry, which is saying something. With this, it is no surprise to see manufacturers in the QSBO strongly intending to lift their investment in capital, not just labour.

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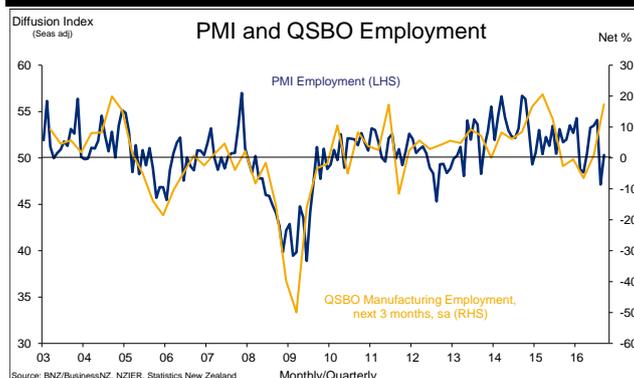
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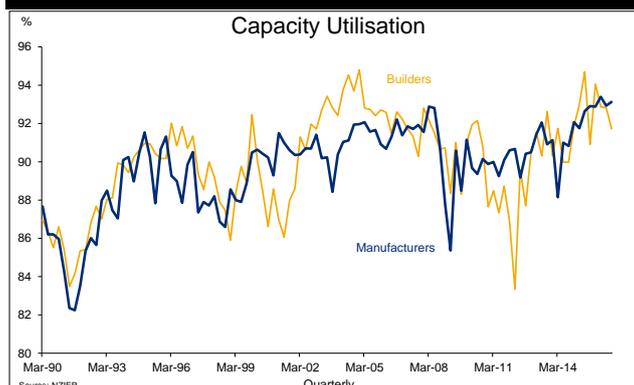
Think Global...And Local



A Good Bounce For Jobs



Extremely Stretched



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