

13 December 2017



## Rock Solid

Various recent surveys have seen business confidence falter during and after the government formation process. In contrast, the Performance of Manufacturing Index (PMI), notably a survey of business outcomes rather than sentiment, has remained rock solid over recent months. On a seasonally adjusted basis, November's 57.7 reading was little changed from October's 57.3. The PMI has been within a 57 to 58 range for four consecutive months. The stability is all the more impressive given its current high level that indicates a rather swift pace of growth in the manufacturing sector heading into year's end.

## GDP Supportive

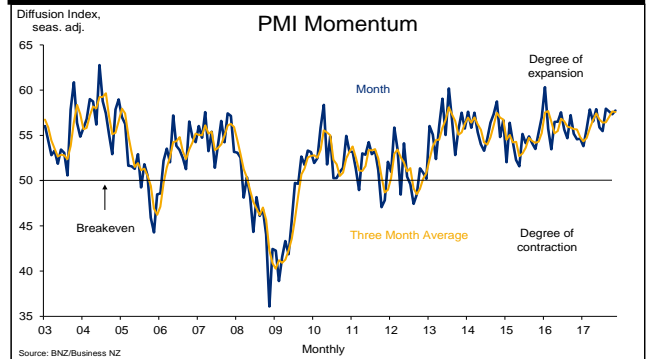
In the November PMI details, production led the charge with the index punching up to a very strong 62.1 – its highest level since mid-2013. This follows an already firm 60.9 reading in October and an average of 59.0 in the three months to September. It all supports the idea that manufacturing GDP has accelerated in the final quarter of the year, after what looked like a solid Q3. We estimate from last week's industry sales and inventory figures that manufacturing GDP rose around 1% in Q3 (the official GDP figures for that quarter are due next week). All up, it's positive momentum in output.

## Things To Watch

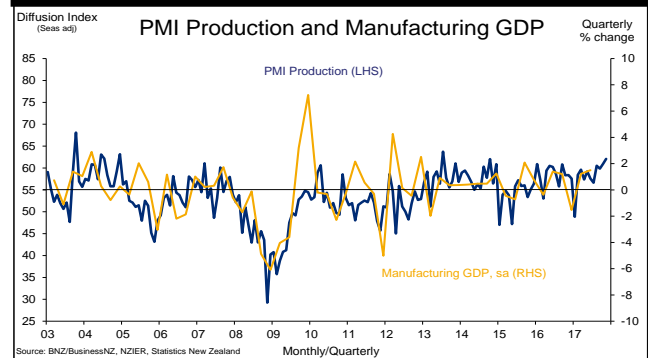
For all the strength within the PMI, there are some details worth monitoring as possible vulnerabilities. One is a further lift in the PMI inventories index in November to its highest level since the survey started back in 2002. In the first instance, we take this as a positive sign on the thinking that firms have positive expectations for demand. We say this noting that new orders remain at a high level and some other demand indicators, like this week's electronic card transactions and house sales for November, are showing signs of strengthening. A noticeable pick up in the PMI employment index is another reason to subscribe to the positive expectations theory of inventory build. Sure, some of November's employment lift may be catch up from previous softness. But firms wouldn't take on more staff if they didn't think the demand outlook was positive. Having said all that, it would be remiss to not consider the inventory build as a potential vulnerability if future demand were to disappoint expectations. Indeed, it's possible that elements of this dynamic are already in play with the new orders index having eased back a bit over the past couple of months. In any case, demand indicators will be important to watch over the coming months. Another area to watch is food processing with its PMI jumping up to a heady unadjusted 74.5, its second highest ever level behind November 2012's 79.0. This has the potential to pull back if spreading dry weather conditions were to dent primary production.

doug\_steel@bnz.co.nz

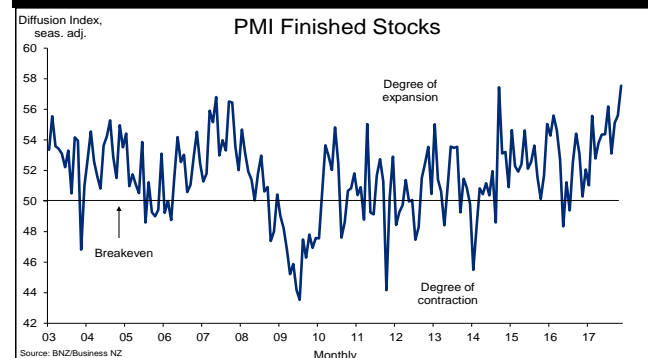
### On The High Road



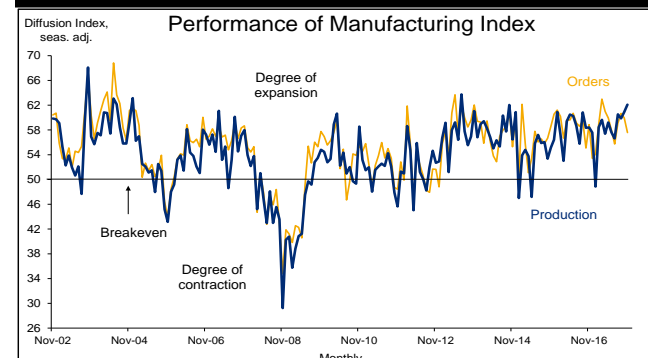
### Accelerating Output



### Stocking Up



### Something to Watch



## 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

**Jason Wong**  
Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**  
Interest Rates Strategist  
+64 4 924 7653

### Main Offices

**Wellington**  
Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**  
80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**  
111 Cashel Street  
Christchurch 8011  
New Zealand  
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**  
Head of FX Strategy  
+61 2 9237 1848

**Skye Masters**  
Head of Fixed Income Research  
+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

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.