

18 January 2019



The PMI

New Zealand's Performance of Manufacturing Index (PMI) ended 2018 on a robust note. Its seasonally adjusted reading, of 55.1, was confidently back above its long-term norm (53.4). This extended a broad recovery, from the PMI having looked a bit vulnerable back in July, down at 51.3. The pickup has been underpinned by production. This accelerated to 55.7 in December, from 51.9 in November. Employment was agreeably expansive at 52.2, while new orders stayed encouraging with an index reading of 56.1. This helps allay concerns that the big jump reported in stocks of finished products in December (to 58.6, from 55.3) was a sure sign of weakening demand.

Global

The latest NZ PMI result is all the more encouraging in the context of slowing growth in global manufacturing. The latter is part of what's casting clouds around international GDP growth expectations, going into 2019. Having said this, the global PMI, at 51.5 in December, was still on the expansive side of 50 – rather than well below this breakeven mark, like it obviously was during the last global recession (2008/09). With whispers of a world recession, some less-than-friendly trade negotiations going on, and uncertainty around business investment, the international backdrop will be important for NZ's manufacturing sector to keep abreast of in 2019.

QSBO

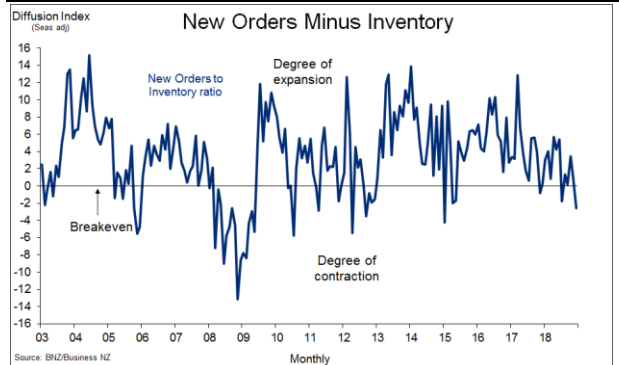
Even now, not everything about New Zealand's manufacturing industry is as encouraging as December's PMI indicated. Tuesday's NZIER Quarterly Survey of Business Opinion (QSBO), for example, registered a tone of struggle regarding manufacturing output over the prior 3 months. The QSBO also harboured a relatively damp view on domestic sales for manufacturers over the near term, while expectations for export sales weren't quite as well as they were last quarter. Regarding orders, a net 3% of manufacturing respondents to the QSBO reported a decline over the last few months. So there are still elements of caution there.

Capacity/Pricing

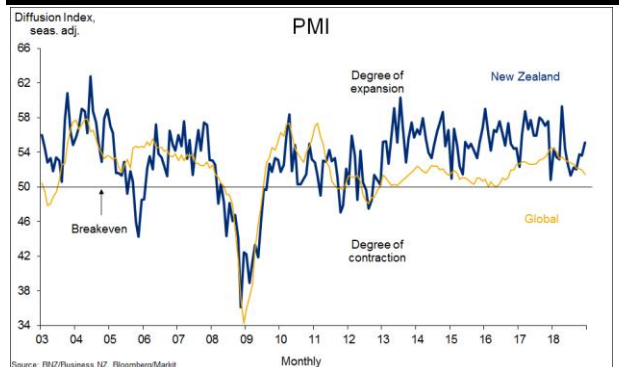
Encouragingly, the latest QSBO registered a much-recovered view on investment spending amongst manufacturers. Then again, this would appear to be a necessity. While capacity utilisation in the sector did ease a bit in Q4 (to 91.7%, from 93.4% in Q3) it was still relatively lofty. More to the point, manufacturers were still reporting intense difficulty in finding staff. These sorts of things will make it difficult to expand, even if the demand is there. At the same time, the QSBO indicated that profitability is being eroded. This is as cost pressures remain strong, while pricing power appears to be struggling for any traction.

craig_ebert@bnz.co.nz

Something To Watch



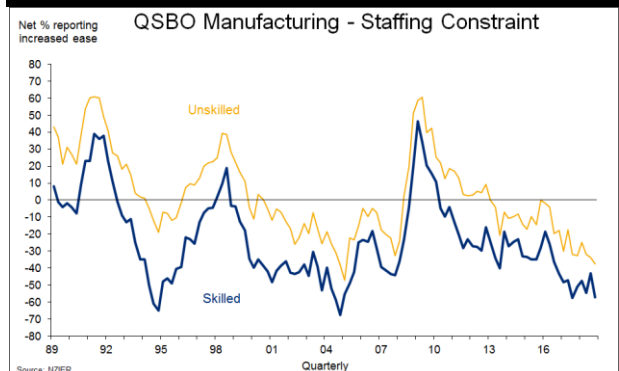
World Beating



Domestic Drag



Is There Anybody Out There?



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

Ivan Colhoun

Global Head of Research
+61 2 9237 1836

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 +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong

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

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