

14 December 2018



The PMI

Through November, the Performance of Manufacturing Index (PMI) consolidated its recently-improved pace. That's not to say it's strong. Indeed, at a seasonally adjusted 53.5, from 53.7 in October, the PMI is simply running more surely about average. Nonetheless, it's a little better than it was back in July, when it plummeted 51.3. The improvement in the PMI since then has been underpinned by a pick-up in new orders, which achieved 56.3 in November. This level is usually a good portent that production will expand relatively well in the near term.

Production/Sales

For the meantime, however, the production component of the PMI has been expanding on the slow side of average. In fact, it dipped to a seasonally adjusted 51.5 in November, from 52.9 in October. Still, these are better than the average that was traced through the September quarter - namely 50.6 - which was barely above the breakeven mark of 50.0.

As it turned out, this aligned with the messages of flat production that we drew from Monday's Q3 Survey of Manufacturing (as produced by Statistics NZ). Sure, this survey reported a 1.6% fall in manufacturing sales volumes. However, this included a sizable drop in meat and dairy product sales, which we think overstates the softness in production for these sectors. Excluding the meat and dairy sectors, manufacturing sales volumes increased a seasonally adjusted 0.2%. We believe this is a better reflection of manufacturing production performance in the September quarter.

GDP/Exports

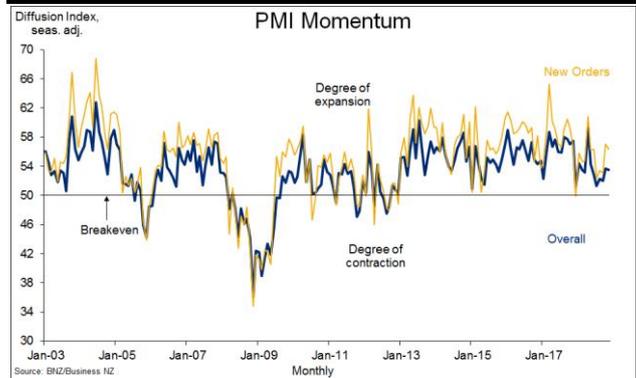
As for what Statistics NZ comes up with, with respect to NZ manufacturing output, all will be revealed in next week's Q3 GDP accounts. For these we are assuming a relatively flat outcome for manufacturing, but a 0.6% expansion in GDP overall. The other manufacturing pointers relevant to this include the fact that non-food manufactured export volumes expanded 0.7% in Q3 while the value of mechanical/electrical machinery and equipment eased 0.9%. It all paints a picture of a mixed performance for manufacturing activity in the September quarter.

Pricing

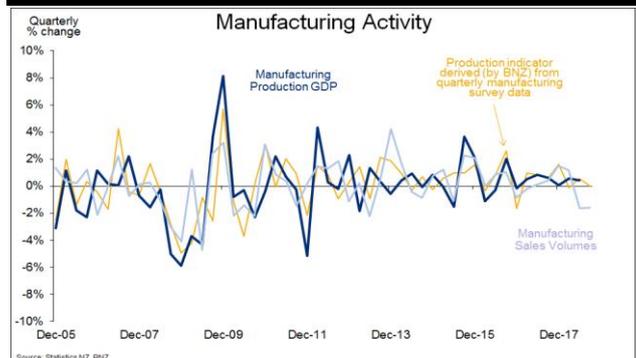
However, trends in manufacturing pricing were relatively strong in Q3. With respect to output (selling) prices, the latest producer price indexes registered a 2.9% quarterly increase for the industry. This took its annual inflation to 7.2%, from 4.0% - aided, in general, by commodity food products. This is another manifestation of New Zealand's near record-high terms of trade. PPI manufacturing input prices inflated at an annual rate of 5.4% in Q3 2018.

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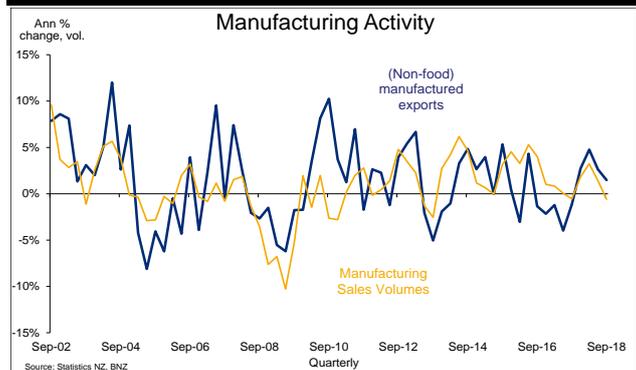
Looking A Bit Better



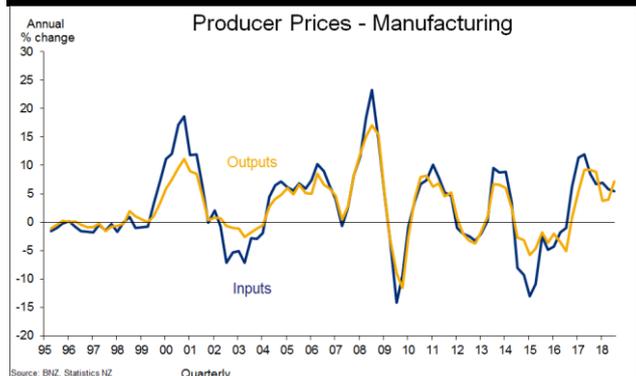
Slow Sales



Mixed Messages on Exports



Income Support



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