

17 May 2019



Almost Normal

We were wondering if April's Performance of Manufacturing Index (PMI) would take a holiday hit. After all, the proximity of Easter, ANZAC day, and school holidays this year had the makings for a few more people than normal to take an extended period off work. But even if that happened, there was little sign that it took much toll on the PMI – at least at the headline level. In fact, the PMI actually rose in April, to a respectable 53.0 from 52.0 in March. This takes the index back close to its long term average of 53.4. On the face of it, this looks solid enough, although we wouldn't overstate the case given it was driven by an unusual looking jump in the deliveries of raw materials component. After looking at the softer details, this month's survey has a 'yeah-nah' feeling to it – good at first glance, not so much under the hood.

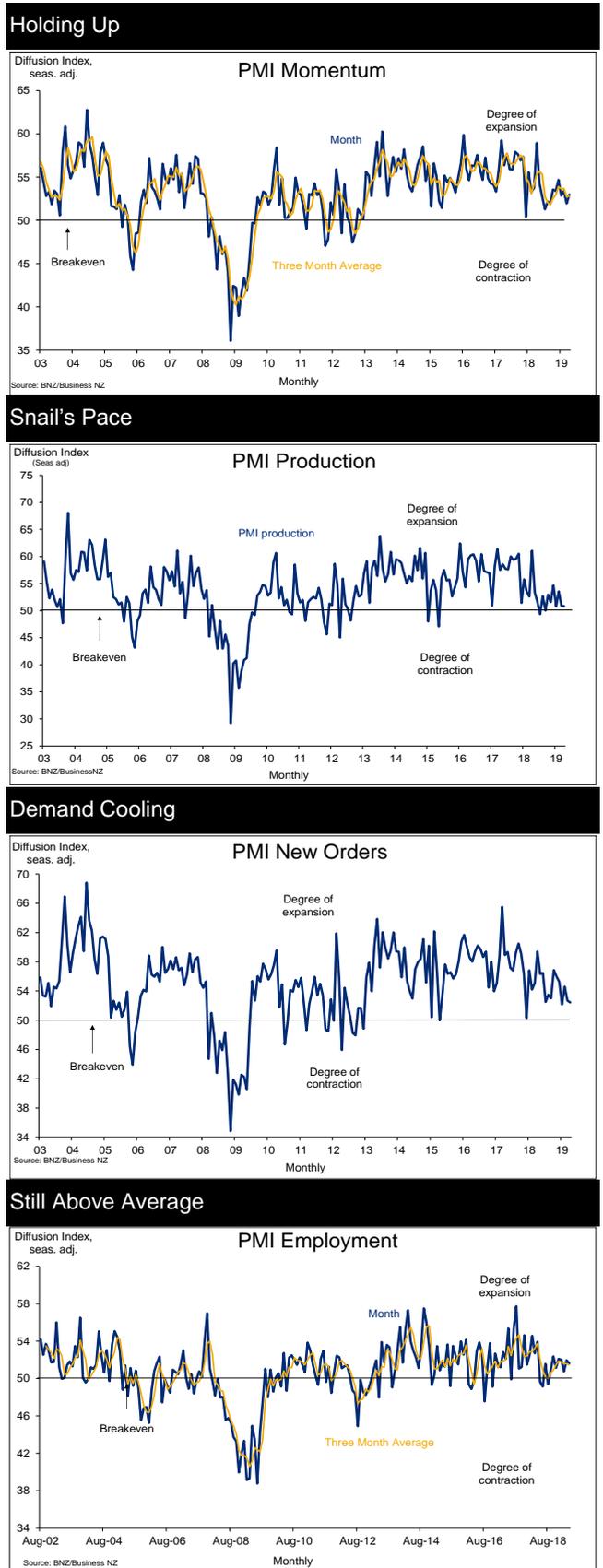
Demand Slower; Inventories Contained

The PMI production component sat at a subdued 50.8 in April. This may have been affected by the unusual timing of holidays, but it's not clear given that it was virtually unchanged from March. Data over coming months may shed more light on the underlying trends. In the meantime it is difficult to deny that production growth has slowed to not much more than a snail's pace over the past few months. Encouragingly, inventory accumulation has cooled and now looks more in line with historical norms. This would fit with the narrative of inventory satisfying some demand during a slower, perhaps holiday-effected, production period. For all that, neither production nor inventory movements look out of line with normal monthly movements. More importantly, from a bigger picture point of view, demand growth appears to cooled in 2019. Sure, new orders remained positive at 52.4 in April and in touch with March's 52.7, but the 53.0 average so far for 2019 is a clear step down from last year's average of 55.5. Overall, the manufacturing sector looks to be expanding, but not at a particularly rapid pace. It certainly raises questions for those looking for a strong growth pickup later in the year, government officials included.

Employment

Employment continues to track above average. Yes it slowed slightly to 51.6 from 52.0, but it remains comfortably above its long term average of 50.7. There is no obvious recoil from the hefty lift in the minimum wage on 1 April in these figures, although it is not clear that it would necessarily show up here or even so soon if it were to show up at all. The PMI employment index offers some hope of at least some improvement in Q2 manufacturing employment following the weakness recorded in the official figures for Q1.

doug_steel@bnz.co.nz



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

New York

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

Sydney

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

Hong Kong

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

London

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

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