

# RESEARCH Manufacturing Snapshot

15 February 2019



## All fine on the surface

At face value, January's Performance of Manufacturing Index (PMI) looks reasonable enough at 53.1. Sure it is down a nudge from December's 54.8, but it is still in touch with 2018's average of 53.8. Indeed, it is quite close to its long term average of 53.4. Most importantly it is still comfortably above the 50 mark that delineates growth from contraction. It indicates the manufacturing sector continues to add to its now six-year expansion.

## But some questions underneath

Looking beyond the steady headline reading, the details of this month's survey do raise some questions about the durability and pace of the current expansion. A pullback in the production index is the most obvious one. To be fair, its December punch up to 54.9 always looked a bit overcooked relative to trend and especially so given the unusual trading day pattern around the Christmas holidays. So the dip to 51.1 in January might just be payback from previous strength rather than a sign of a new, slower, trend growth pulse. Time will tell. A little more disconcerting is the slowdown to 52.2 in the new orders index and more so as it remains below finished stocks (which remain elevated despite a pullback from December's high). Unlike production, new orders are not coming off a particularly strong previous month. It raises the prospect that the slowdown there may be a little more genuine, although we wouldn't want to over interpret one month's reading – especially a holiday-laden month. The evolution of new orders and inventories will be important to watch over coming months.

## Employment

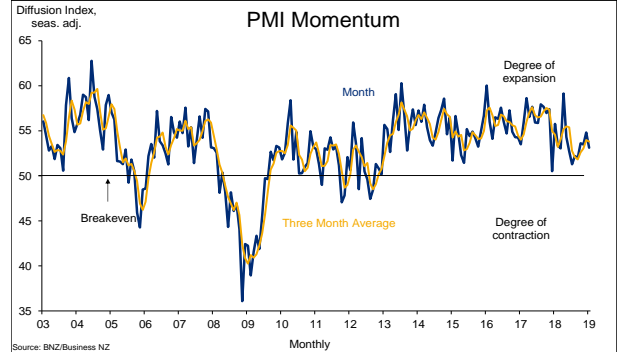
One reason to not get too downbeat on the slower demand components in the PMI is the solidity of its employment index. The latter sat at 52.2 in January. This matched December's result and maintains its position above its long term average in the process. This is positive and suggests that manufacturers are not too concerned about a slowdown in production and new orders. It sets up further growth in manufacturing filled jobs in the first quarter of 2019.

## World worries

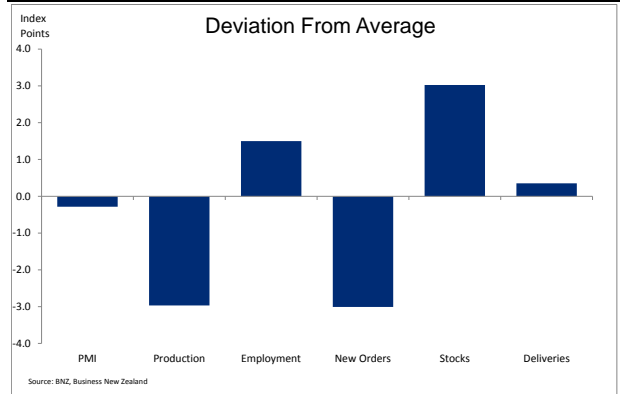
World risks have been on the radar for some time. US-China trade tensions, China's slowdown, Australia's house price downturn, and Europe's stalling growth are among many areas to watch. No surprise to see slower PMIs in these areas. A pullback in Australian housing is a downside risk to NZ manufacturers. In contrast, US strength continues to standout. At present, NZ's PMI sits comfortably between the weakness in Europe and China and the strength in the US.

[doug\\_steel@bnz.co.nz](mailto:doug_steel@bnz.co.nz)

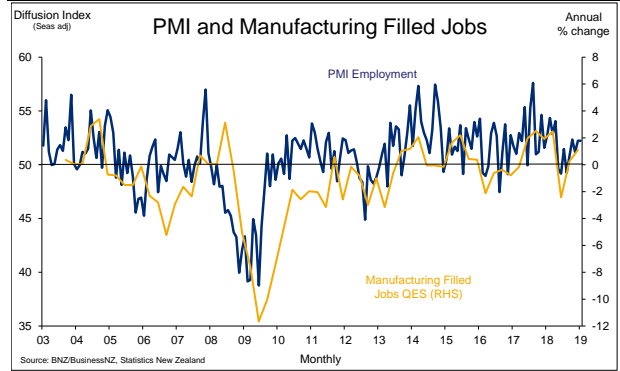
## Middling



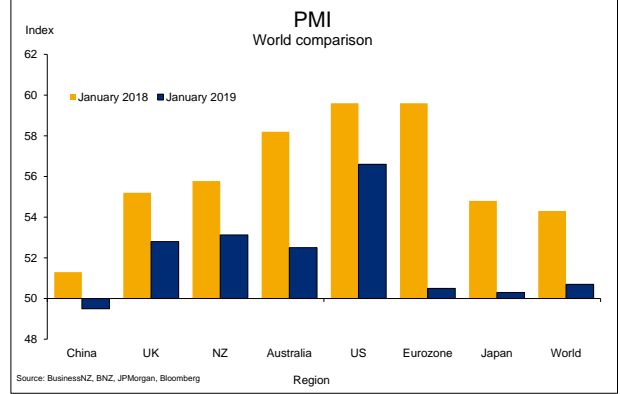
## Unders and Overs



## More Jobs



## World Slower



## 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

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: 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. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. 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. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: 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.