

11 September 2015

Manufacturers Report Solid Expansion

We were not surprised to see August's Performance of Manufacturing Index (PMI) come in close to July's reading. But we were surprised to see it nudge a bit higher, to 55.0 from 53.7, rather than nudge a bit lower. It is not a big move, but the improvement is against the flow of generally softer economic indicators and certainly some rather dour economic commentary over recent months. It pays not to read too much into one month's result. But, equally, it would also be unwise to dismiss August's result out of hand given the buoyancy in the production, new orders and employment sub-indices as well as across industries, regions, and firm size.

Activity Up, Despite Confidence Waver

The robust PMI result is not to say that there are no growth concerns circulating at present (think the impact of lower dairy revenue or recent world equity market wobbles to name but two). Nor does the PMI rule out slower growth over the coming year or so, as we currently forecast. But these results do suggest that there might be more spine to current economic activity than some seem to fear. Recent interest rate cuts and a lower NZD are growth supports. The PMI is consistent with at least reasonable economic growth into the second half of 2015.

Manufacturing GDP

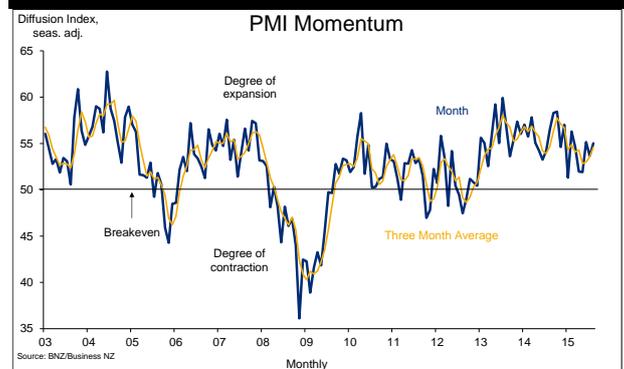
Official GDP figures for the second quarter of 2015 are due next Thursday. We think manufacturing made a firmly positive contribution to the 0.8% growth that we estimate for the economy as a whole in that quarter. Not that that was obvious from last Tuesday's Q2 Economic Survey of Manufacturing which showed that sales volumes dipped a seasonally adjusted 0.2%. But when we account for inventory movements, and look at direct indicators for food processing, it suggests a decent lift in Q2 manufacturing production. Speaking of inventory, today's PMI for August suggests we shouldn't be overly concerned about any inventory build in Q2. Indeed, the PMI's new orders to inventory ratio has increased again, usually a positive signal for production ahead.

Construction and Concrete

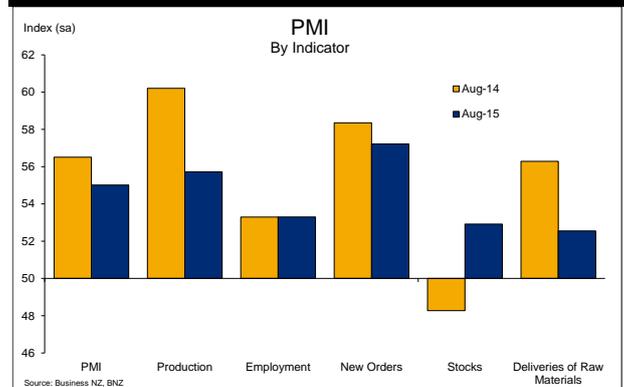
The construction sector outlook is important to many in the manufacturing sector. We think that construction activity levels will remain lofty for some time but that the pace of growth will rapidly diminish. We hold to this view, despite being surprised by a very sharp 21% surge in residential building consents in July. The high-level-slower-growth profile is what we see in concrete production, at least in the year to June. Following a very steep climb from 2012 to 2014, ready-mixed concrete production has levelled off over recent quarters, albeit still with a slight upward slope (and still 6% up on a year ago).

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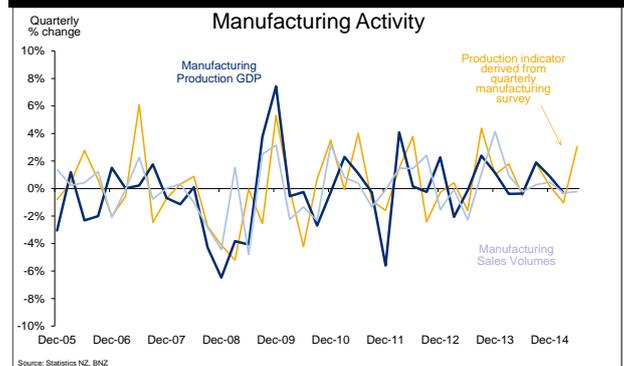
PMI Remains Robust



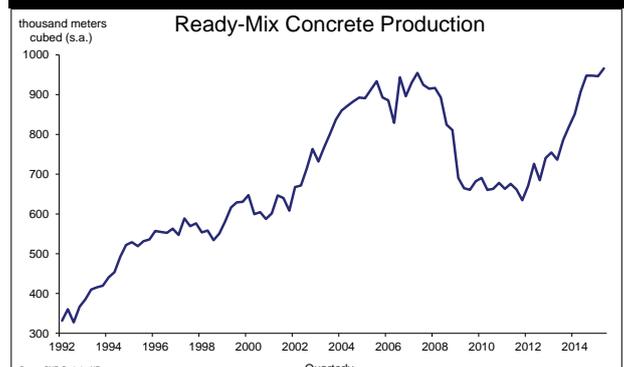
All Main Indicators Expanding



Manufacturing GDP To Rise



Concrete Production Indicative of Construction



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