

16 July 2015

Confidence and Activity

With some confidence indicators fading a bit over recent months, we wondered how this might affect the Performance of Manufacturing Index (PMI) which is more a survey of outcomes rather than expectations or sentiment. The PMI had slowed down a bit in April and May to an index level of around 52, but has posted a decent bounce back in June to 55.2. This was driven by strong production and even stronger new orders, with a noticeable improvement in employment to boot. We wouldn't read too much into one month's result, but it's encouraging that such activity indicators continue to show growth even though confidence has been dented a bit.

Capacity

Last week's Quarterly Survey of Business Opinion (QSBO) displayed a similar message for the manufacturing sector – confidence down but relatively speaking activity indicators robust. While economic growth might have slowed a bit from last year's strong pace, these indicators suggest there is still a reasonable rate of expansion occurring. Indeed, more production and new orders seems to be putting pressure on existing capacity, with QSBO's capacity utilisation measure for manufacturers pushing to levels only seen twice before in the past 25 years. No wonder firms still have generally positive expansion plans.

Foreign Exchange

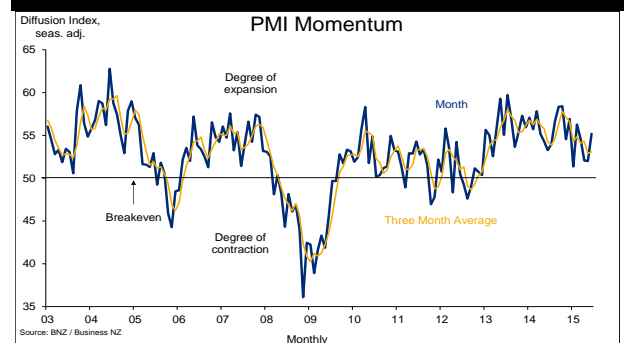
The NZ dollar has continue to decline over the past month reinforcing what we wrote last month, 'the weaker NZ dollar might be something to support the PMI readings over coming months'. Over the past 3 months the NZD has certainly moved a fair way, being down nearly 12% against the USD, 16% against the GBP, 14% against the EUR, and more than 8% against the AUD. The currency certainly appeared to be part of the PMI lift in June with many manufacturers mentioning this positively in their responses, far outweighing a few negative comments regards the currency's drop pushing some input costs higher. Manufacturers' export sales expectations in the QSBO rose strongly, to be back above average in Q2.

Building and Dairy

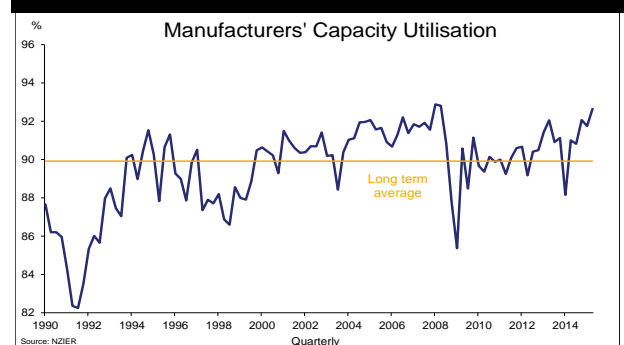
Despite some exuberance coming out of the construction activity indicators over the course of this year growth, the sector still features more in manufacturers' positive comments than the negatives. Meanwhile, however, lower dairy prices remain a clear concern for manufacturers. The slump in international dairy prices over the past year or so and its follow on effect to payments to local dairy farmers is filtering through to less demand for manufactured goods, across a wider range of industries.

doug_steel@bnz.co.nz

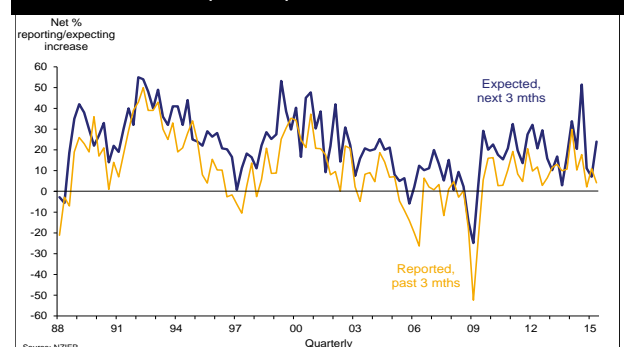
Manufacturing Production Expanding



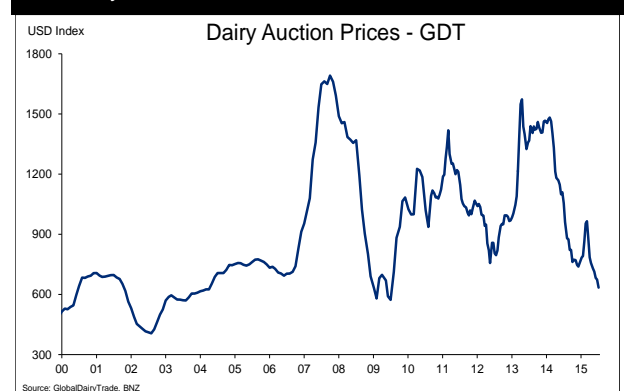
Putting Pressure On Existing Capacity



Manufacturers' Export Expectations Rise



Low Dairy Prices



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

Kymerly Martin

Senior Market Strategist
+(64 4) 924 7654

Raiko Shareef

Currency Strategist
+(64 4) 924 7652

Main Offices

Wellington

60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 473 3791
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch

81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+(61 2) 9237 1406

Alan Oster

Group Chief Economist
+(61 3) 8634 2927

Ray Attrill

Global Co-Head of FX Strategy
+(61 2) 9237 1848

Skye Masters

Head of Interest Rate Strategy
+(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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