

11 December 2015

Manufacturing sales surge

Tuesday's official manufacturing data for the third quarter of 2015 looked reasonably positive. There was certainly plenty of encouragement in sales volumes, which surged 3.5% in the quarter to be up 4.0% on a year earlier. But we don't think this fully translated into production growth in Q3 given indications of inventory unwind. Weighing up the range of indicators, it looks like manufacturing GDP might have increased about 1.5%. This is enough to nudge our estimate for overall Q3 GDP growth up to +0.6% (from +0.5% previously). The GDP figures are due for release next Thursday.

Strong new orders suggest more to come

No one should have been too surprised by the positive signals in the official data noted above. After all, the Performance of Manufacturing Index was telling of expansion in the sector at the time. Today's PMI suggests solid growth has continued into the final quarter of the year. The PMI lifted to healthy 54.7 in November, from 53.2 in October. While the PMI production component simply matched its long term average, at 53.5, the details of today's PMI are encouraging. Strong new orders, especially relative to still-falling inventory, are a positive signal for more production ahead. All this certainly affirms our thinking that the economy has grown a bit faster in the second half of 2015 than it did in the first half.

So manufacturers are hiring

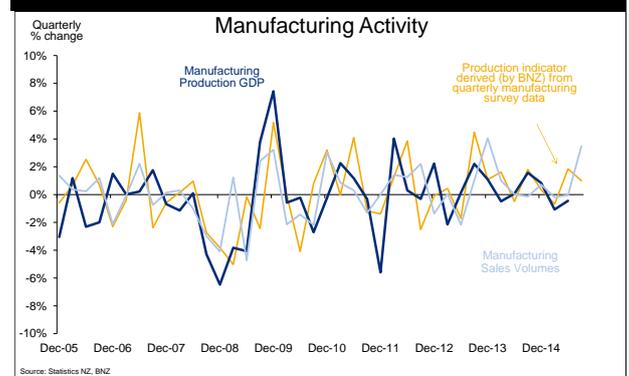
The positive sales and orders environment for New Zealand's manufacturers is spilling over to more employment. The PMI employment index nudged a bit further above its long term average in November, reaching 53.7 compared to 52.8 in October. The three month average has been trending higher in the second half of the year after a relatively slower first half. It bodes well for more manufacturing employment growth ahead.

What's driving it?

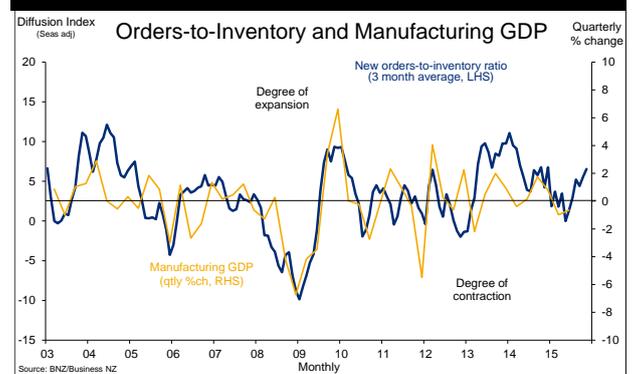
There is never one factor. The manufacturing sector is too diverse for that. We would highlight a few likely contributors including renewed upward momentum across a range of construction indicators, including building consents. Consented floor space to date for both residential and non-residential buildings suggests further expansion lies ahead for the associated manufacturing industries. Some of this is connected to fresh record highs in net migration and ultra-low interest rates which are also contributing to general demand in their own right. And reasonable strength in some primary sectors is at least partly offsetting the drag from a weak dairy sector.

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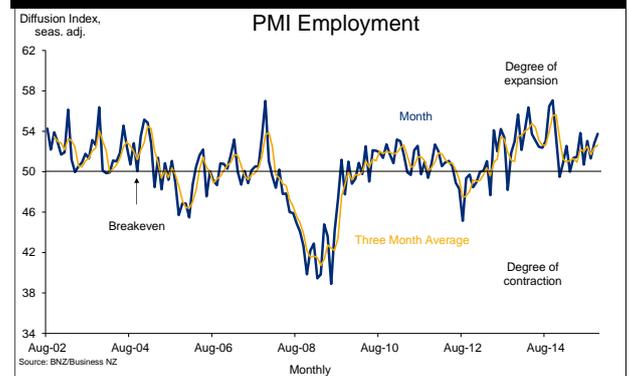
How Much Did Production Follow Sales in Q3?



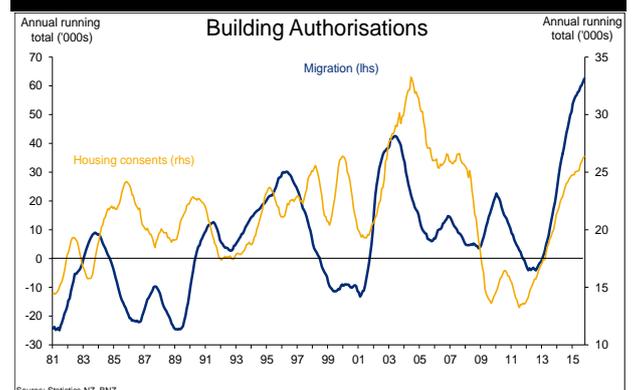
PMI Details GDP Supportive



Employment Signals Strengthening



House Building Among The Drivers



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