

12 November 2015

Manufacturing Overview

The Performance of Manufacturing Index remained firmly in expansion territory in October. Sure it eased a little to 53.3 from 55.0 in September, but it remains well above the 50 mark that delineates between expansion and contraction. This indicates that the manufacturing sector grew in October, but at a slightly slower pace than in September. The trend remains robust. Indicative of such, the three month average of the PMI remains a touch over 54. While this is broadly in line with the average through this year, it does represent a slowdown from the pace of growth in 2014.

Production, Demand and Inventory

Production continues to expand, albeit at a slower pace in October. We are not reading too much into the monthly slowdown at this point. It is only one month and it follows a couple of stronger months. It all looks like normal monthly variation rather than an indicator of trend change. The slowdown in October may prove temporary. We say this noting that there was a drawdown of inventory in the month which, combined with still above-average new orders, is a positive indicator for production ahead. In line with this, manufacturers still appear upbeat on demand with a greater proportion of positive comments this month compared to last.

Employment

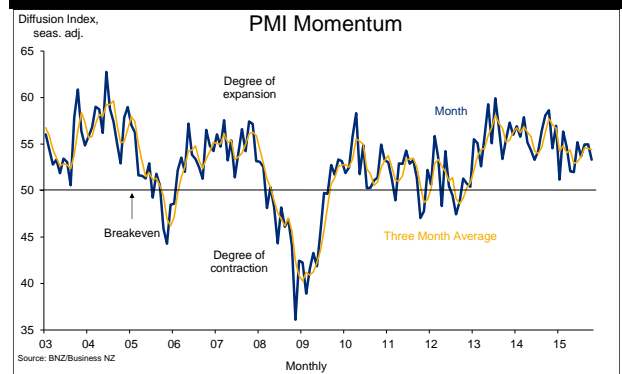
The PMI employment index nudged a bit higher to 52.4 in October from 51.1 in September. This is at a level that suggests the trend in manufacturing employment growth remained positive into the final quarter of 2015. But we wouldn't want to draw any firmer conclusions than that given the volatility we've seen in actual manufacturing employment growth over recent quarters. For example, official figures show annual growth in manufacturing employment surged to more than 10% in the year to June 2015 before pulling back to 3% in the year to September 2015.

Construction, Dairy

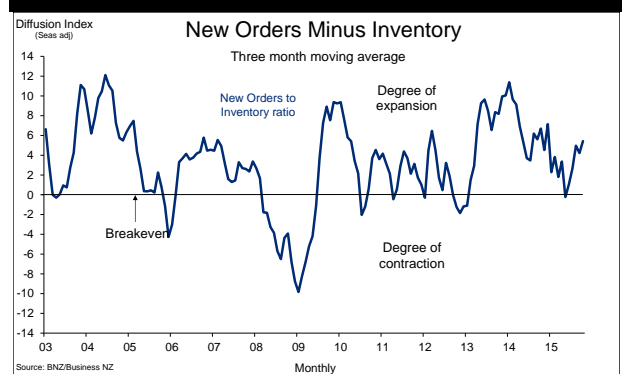
The construction outlook remains buoyant. Don't fret over the 5.7% decline in residential building consent numbers for September, following their 5.3% fall in August. These need to be seen in the context of a 20% jump back in July. The trend is upward. The same is true for non-residential building. It bodes well as a general source of demand for many domestic manufacturers. One area where there are some signs of weakness is farm buildings consents, where consent values have clearly fallen behind year earlier levels. This no doubt partly reflects the slump in dairy prices, a negative factor that many respondents continue to note.

doug_steel@bnz.co.nz

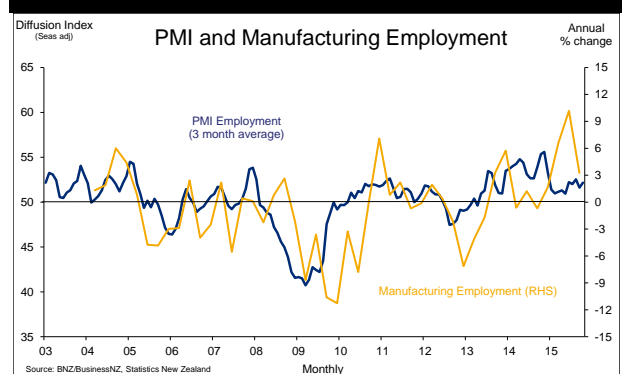
PMI Remains Robust



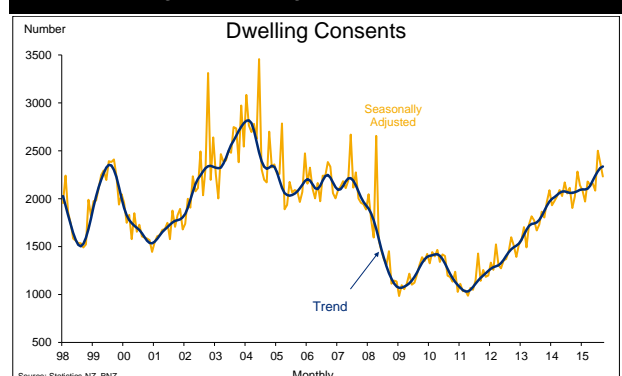
New-Orders-to-Inventory A Plus For Production Ahead



Employment Growth Continues



House Building Pushes Higher



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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