

15 October 2015

## Manufacturing Robust

The Performance of Manufacturing Index was a picture of health in September, with particular strength in new orders and production. Coming in at 55.4 overall, it was even a squeak higher than August's 55.1. It could have given up a point or two and we would still have considered it robust. We remain of the view that economic growth will generally slow over the coming 18 months, but H2 2015 will prove a bit stronger than H1. The fact that the PMI has maintained a mid-50s reading in Q3 is supportive of the latter. The PMI suggests activity is expanding at a solid clip, even though manufacturers' general confidence, according to other business surveys, has been dented.

## Sales Positive, Cost Pressure Brews

Solid domestic demand, in one form or another, was a common positive factor noted by many respondents this month. Improving conditions in Australia and a generally lower NZ dollar were also seen as positives. On the negative side, dairy weakness was mentioned by many. On balance, the strength in new orders suggests stronger sales growth over coming months. Separately, it was interesting to see a few manufacturers mention the downside of a lower currency in the form of rising (imported) costs. It is a timely reminder that a lower currency is not universally positive. Other cost pressures were also noted. It is probably too early for this to show up in the likes of the Q3 CPI tomorrow, but some price pressure appears in the pipeline.

## Construction Indicators Push Higher

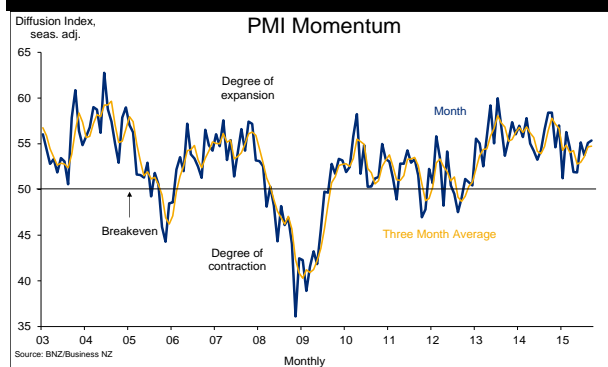
Another push higher in residential building consents is a positive signal for manufacturers. August's consents actually fell 4.7% in the month, but that meant barely unwinding a quarter of their 20.3% jump in July. The trend has pushed firmly higher, following a flat patch over 2014 and into early-2015. Not to be outdone, non-residential consents also did very well in August with their value up 52% on a year ago. Sure, there were some big one-offs in these but work is work and the trends are positive.

## Domestic Spending Accelerates

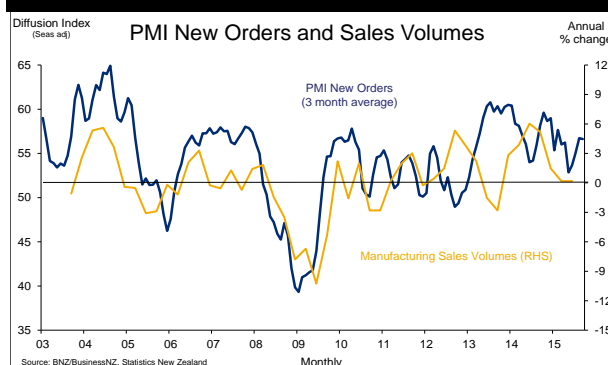
Spending is ticking along rather swiftly, judging by the value of electronic card transactions. These rose a seasonally adjusted 0.7% in September to be up 6.4% on a year earlier. This is consistent with retail sales volumes expanding at a pace of around 6% per annum. The details of the electronic cards data show durables accelerating to 8.1% annual growth – the fastest pace since 2007. It is all part of solid domestic demand, the likes of which many manufacturers have commented on this month.

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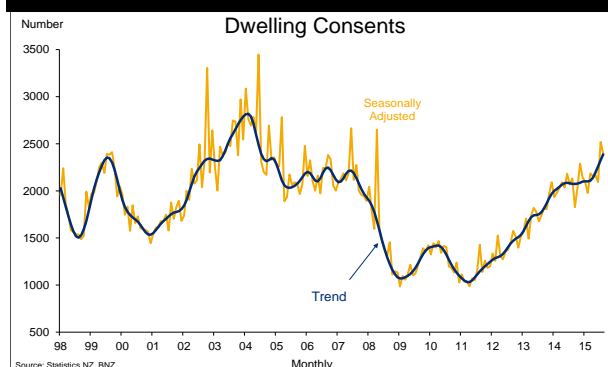
### PMI Remains Robust



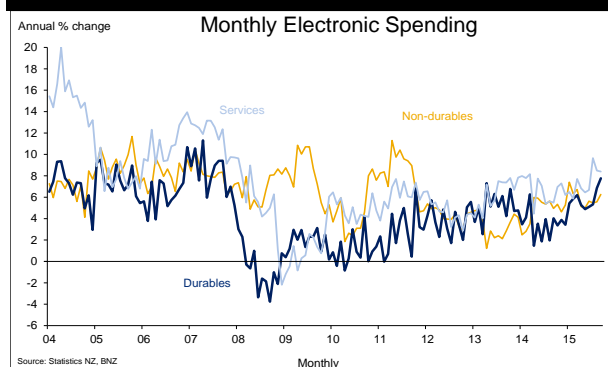
### New Orders Point To Sales Growth Ahead



### Construction Re-accelerates



### Spending On Durables Strengthens



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