

17 March 2017

The PMI

It was good to see New Zealand's Performance of Manufacturing Index (PMI) bounce in February. Had it not, we would have become a little apprehensive about the way it was going. As it turned out, its seasonally adjusted result of 55.2 was comfortably above the 52.2 level it had slowed to in January. The PMI's new orders component, in strengthening to 57.2, aided the positive tone, while its production index, at 56.8 (from 51.7) was also back above its long-term average. To be sure, there was some patchiness in the industry and regional detail, which curbs enthusiasm. Nonetheless, February's PMI was, overall, a good set of numbers to see, after January's dip.

Manufacturing GDP

February's PMI is particularly encouraging in suggesting the weak manufacturing result we saw in yesterday's Q4 GDP report was transitory rather than the start of a genuine struggle. We have built in a decent rebound in Q1's manufacturing GDP and the PMI very much supports this. Having said this, the industry detail of the PMI was extremely varied. On the weak side were Wood and Paper Products, with an unadjusted reading of 40.0, and Textile Clothing Footwear and Leather manufacturing, with 41.6. Middling was Food Beverage and Tobacco, with 55.4, while Non-Metallic Mineral Product manufacture stood out at the positive end of the spectrum.

Forestry

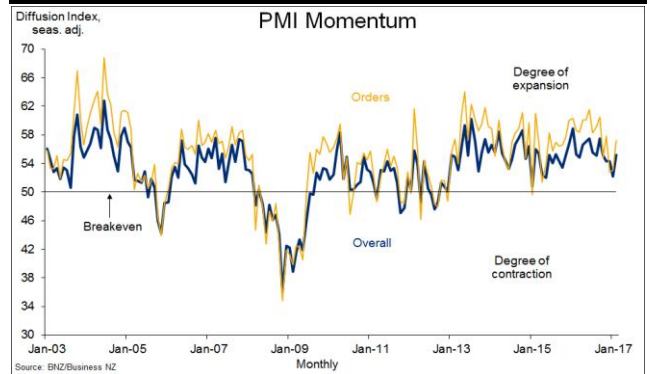
The local forestry industry is doing well. That said, its activity in the final quarter of 2016 eased from the level it spiked to in Q3. This pattern was first evident in the monthly exports data, then the harvesting ("roundwood removal") figures and, ultimately, in yesterday's Q4 GDP figures. The latter included a correction in the logging component of (production) GDP as well as elements of forestry product manufacturing and exports. However, this all looks to be largely an issue of timing (after an outsized push in Q3 2016). There is much to keep supporting New Zealand's forestry production during 2017, in terms of activity and prices, albeit with supply limits coming into play.

Exchange Rate

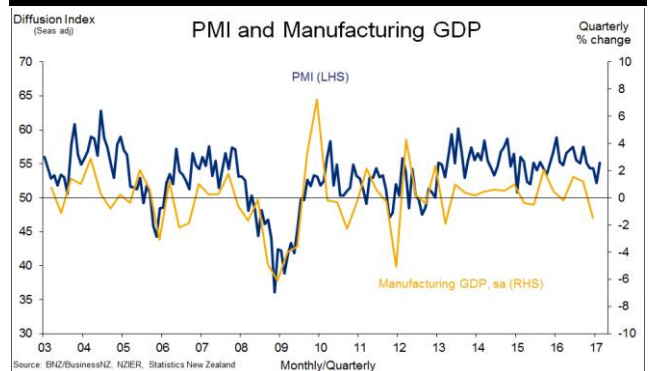
Supporting New Zealand's manufacturing sector, in general, has been the recent moderation in the currency. Aided by a resurgent US dollar, NZD/USD (and NZD/CNY, for that matter) has dropped about 5% since early February. But the NZ dollar has also abated on its own account, most notably in NZD being down to about 92 Aussie cents, from 96 cents in early February. Over this period, NZD has also eased about 4 cents against the euro and even a penny or two against the still beleaguered British pound. With all of this, New Zealand's trade-weighted index, at about 76 is, for a change, lower than the level assumed by the RBNZ (79).

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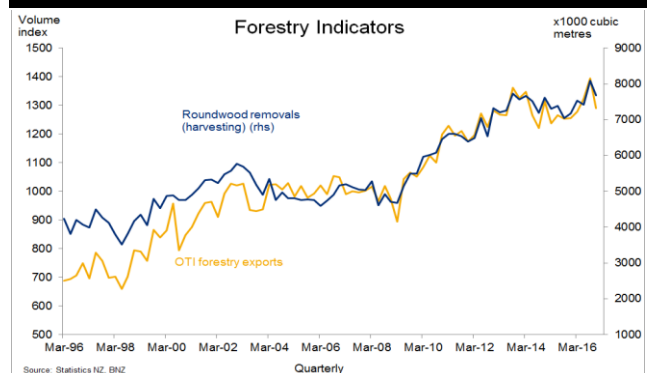
A Meaningful Bounce



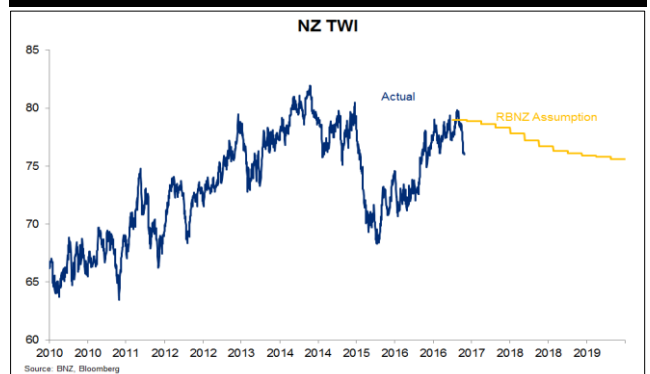
Here's Also to a Rebound



A Pause for Breath



Relief



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