

13 April 2017

## The PMI

What a difference a couple of months make. Having slowed right down to 53.2 in January, New Zealand's Performance of Manufacturing Index (PMI) surged to a very strong 57.8 in March. While the recent rebound has been in all the right places, it's new orders that have stood out head and shoulders. From 58.2 in February (and 53.5 back in January) they soared to 64.3 in March – the strongest reading since 2004. This is a good sign that production, whose index strengthened to 60.4 in March, will sustain its strong momentum. And this is converting into jobs. The PMI employment index improved to 53.4 in March, comfortably above its long-term norm of 50.5.

## QSBO and Capacity Constraint

The narrative of rebound from the March PMI tallied with what we saw in the manufacturing component of last week's NZIER Quarterly Survey of Business Opinion (QSBO). This reported a slower advance in output for the last 3 months, but kept an expectation of decent expansion for the coming 3 months. This is happening amid signs of much-diminished spare capacity, however. This was certainly the message from the QSBO's capacity utilisation measure, CUBO, which, for manufacturing, was 92.9% in Q1 2017. This was well above its long-term norm. With this, it was no surprise to see manufacturing respondents to the QSBO with a strong intent to invest.

## Industry

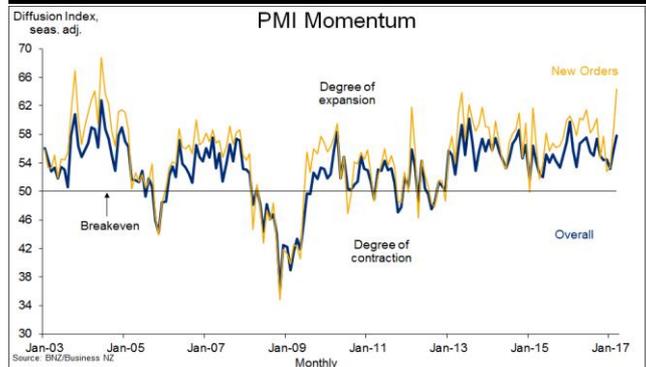
The rebound in the PMI has reflected substantive gains in the very industries that lagged so much back in January. Examples include Textiles, Clothing and Footwear, Wood and Paper products, Metal products and, especially, Printing, Publishing and Recorded Media. Divergences across all the industries have closed significantly. Interesting, this has left Food, Beverage and Tobacco as a relative laggard now, with an unadjusted reading of 50.2 in March. Nonetheless, we believe primary food processing stands a very good chance of expanding very well over the first half of 2017, as per the GDP accounts. This is being reinforced by a normalisation in dairy production, after a wet spring dented production over H2 2016.

## Inventory

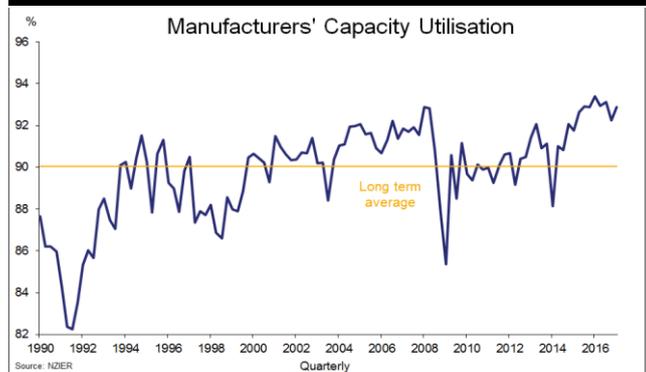
The latest QSBO also gives us an opportunity to look into the inventory cycle. We mention this, with the manufacturing industry's stocks having built up quite a bit in the Q4 GDP accounts. We weren't troubled by this, fundamentally (although it does present a technical obstacle for Q1 GDP growth calculations). The run-up in manufacturing stocks in Q4 2016 followed a period of run-down over prior quarters. The average movement for calendar 2016 as a whole was very close to average. More to the point, manufacturers in the latest QSBO gave no indication, at all, that stock levels were too high in a relative sense.

[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@bnz.co.nz)

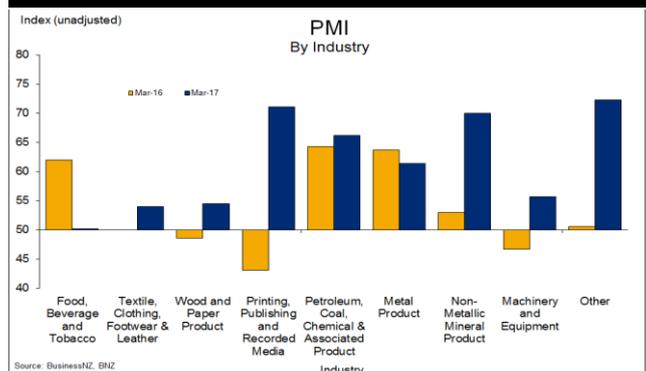
### From Good to Great



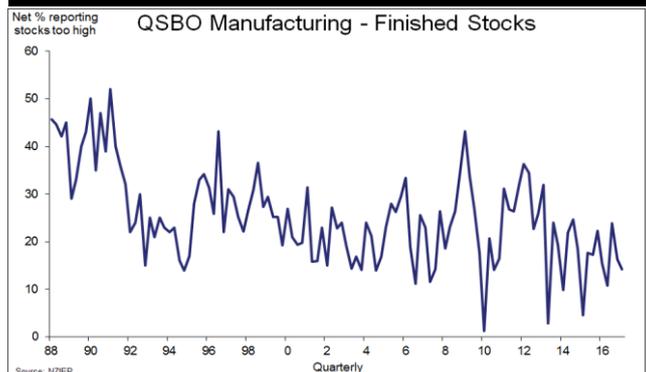
### Stretched to the Max



### All Aboard



### Not a Problem



## 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

**Jason Wong**

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**

111 Cashel Street  
Christchurch 8011  
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

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**US DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**