

16 November 2017



The PMI

Was New Zealand's manufacturing sector put off by the recent transition to a new government? Not by the look of October's Performance of Manufacturing Index (PMI). In fact, it held to a solidly expansive level of 57.2, versus 57.6 in September. Sure, the new Labour-led government wasn't even proclaimed until 19 days into October (almost a month after election night). So we might prefer to see how the PMI goes in November and December before awarding any merit certificates. But October's result was certainly encouraging, as was September's – bearing in mind the PMI is about the nuts and bolts of activity rather than sentiment about where things might be heading.

Exchange Rate

By the same token, it might be too soon to assume that local manufacturing activity has been boosted by the recent fall in the exchange rate. Then again, on a trade-weighted basis, the currency has eased about 7% since early August – around the time Jacinda Ardern took over as leader of the Labour party. We believe this has been an over-reaction on the part of the currency to the new government. Even so, manufacturers will probably take the moderation in the exchange rate as a favourable up front consequence of the new government, albeit as they begin to assess how the policy outlook might affect them over the medium term.

Employment

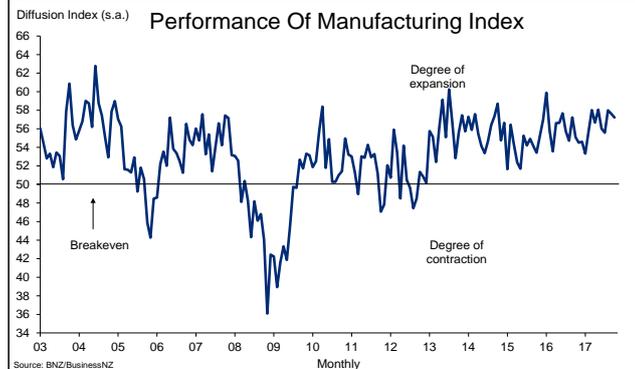
If there were some chinks in October's PMI they were in the area of employment. We noted last month how the PMI jobs index fizzled out to 50.7 for September, having been running nicely about the 56.0 mark in July and August. Well, October saw another slow result, of 51.0 – albeit a fraction above its long-term average (50.6). This could be a sign that the expansion in manufacturing employment will slow in the December quarter. This is after having registered annual growth of 3.8% in the September quarter, according to the Household Labour Force Survey, or 2.5% when looking at the Quarterly Employment Survey series on filled-jobs.

Food

The other thing we are keeping an eye on in respect to the local manufacturing sector is the performance of food processing. We say this with indications that the volume of dairy and meat processing declined in the September quarter, seasonally adjusted. This will weigh on GDP, via its manufacturing componentry. Having said this, we note the Food, Beverage and Tobacco category of the PMI was quite strong during the September quarter, averaging 65.4 (in non-seasonally adjusted form). And it was even stronger still in October, with 69.2. This could point to food and beverage manufacturing other than dairy and meat products, doing relatively well of late.

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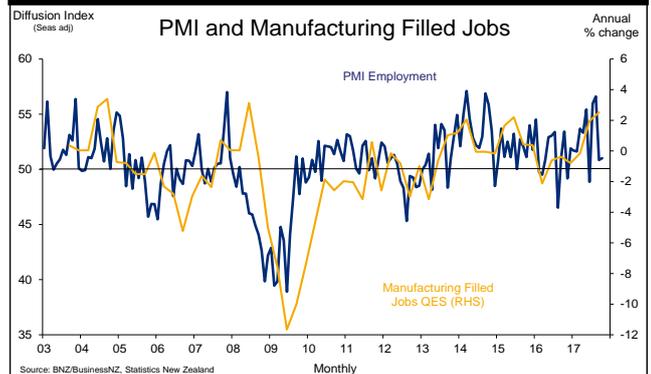
Robust to the Election Cycle



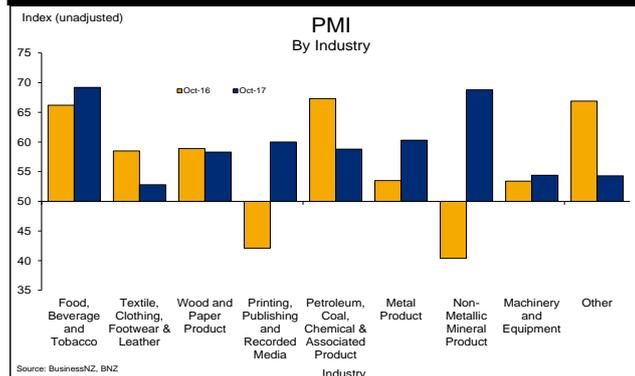
Overly Negative Toward the New Government



Further Hints of Slower Hiring Manufacturing



Food to the Fore



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