

16 November 2018



Improvement

There was a glimpse of better trading conditions in October for New Zealand's manufacturing sector. This follows a few months of slower, constrained expansion. That is the main takeaway from the Performance of Manufacturing Index (PMI) that lifted to 53.5 in October from 51.9 in September and from a recent low of 51.2 back in July. These figures are seasonally adjusted, so the improvement is more than just a pick up out of winter – there has been some underlying improvement. The increase now sees the PMI sitting close to its long term average of 53.4, with generally solid readings across industries, firm sizes, and regions.

The Bigger Picture

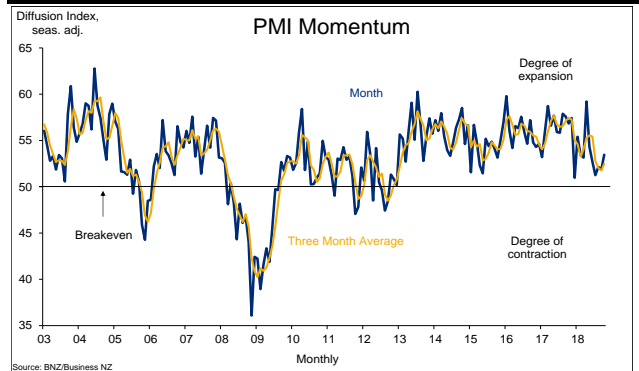
The improvement in the PMI is not large, but we see it as important to the broader economic narrative. With many measures of business confidence wallowing in deeply negative territory for some time now, markets have been wary that the economy may veer in that direction. But the hard data to date have largely defied weak confidence as we thought it might. The 1.0% quarterly GDP growth recorded in Q2 is a good example. Strong employment growth and associated drop in the unemployment rate to a decade low of 3.9% in Q3 is another. And, now, the latest lift in the PMI, as a measure of business outcomes rather than sentiment, adds to the case that the economy continues to hold together heading into year's end (even if the pace of growth may not quite match that achieved in Q2).

Employment, New Orders Lift

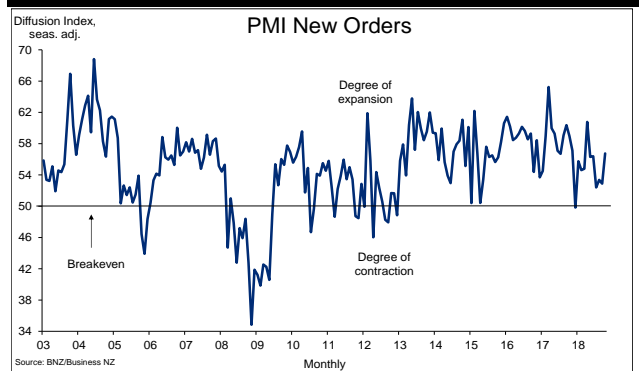
Despite strong economy wide employment growth in Q3, as noted above, manufacturing was one of the more subdued sectors. This follows generally flat readings in the PMI employment component over that period. Encouragingly, the PMI employment index has picked up to 52.4 in October, from 50.9 in September and 49.3 in August. It's the strongest reading since April. While this is clearly positive, looking ahead we do wonder how fast jobs can be filled given the clear tightness in the wider labour market. Not only is the unemployment rate trending down, but participation in the labour market is at an all-time high. Labour is scarce. We suspect businesses know this all too well, judging by widespread reports of firms having difficulty finding staff. Meanwhile, there are signs demand for manufactured goods is accelerating with the PMI new orders lifting back above average, to 56.7 in October. Growth like that will keep the pressure on manufacturers' capacity to supply.

doug_steel@bnz.co.nz

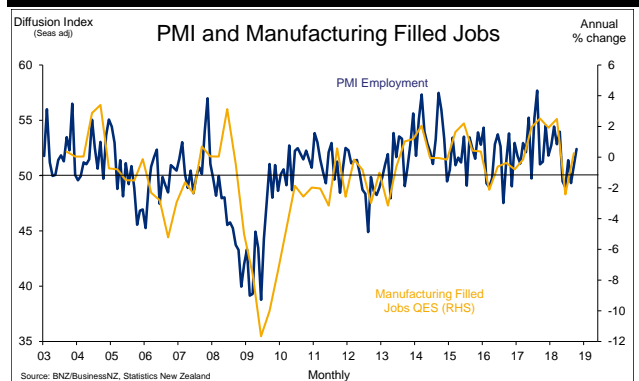
Slightly Better



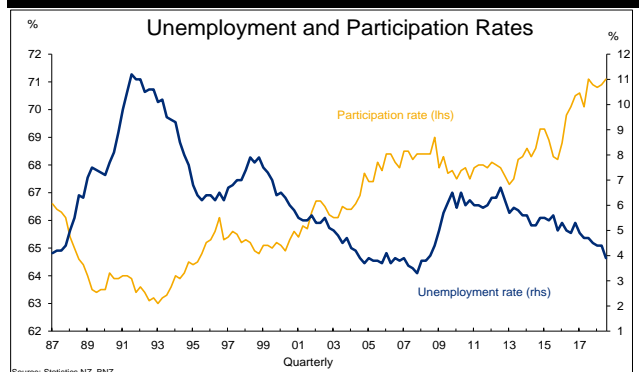
Demand Accelerates



More Jobs Filled



Recruiting Difficult With Tight Labour Market



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

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
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

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Fixed Income Research
+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 Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: 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. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. 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. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: 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.