Manufacturing Snapshot

12 February 2015

PMI bucks trend

New Zealand's recent economic indicators have been generally full of life. Spanning the likes of business surveys, consumer confidence and the labour market they have been consistent it pointing to economic growth at or above trend. The manufacturing sector has been very much a part of it. Against this backdrop, January's PMI result jars. Of course economic indicators spanning the holiday period always need to be treated with some caution. So we wouldn't leap to big conclusions on one January result. But, by the same token, the extent and detail of the latest PMI move suggests we should not fully discount it either. It might just be telling us something. It certainly questions the strength of growth early in 2015.

Production, new orders and inventory

After adjusting for the usual seasonal effects the PMI suggests manufacturing production fell in January. The weakness seems a bit more than just payback from a very strong December. It is the first production decline in two and a half years. Disconcertingly, new orders were flat and inventory jumped. This is not a good mix. It all smells of an involuntary inventory build caused by insufficient demand. If so it does not bode well for production ahead, short of a bounce back in demand. We'll see. One reason to not get too downbeat on the PMI headline numbers is that manufacturers themselves, on balance, remain distinctly optimistic. Firms' positive comments far outnumbered negative comments in January's survey.

Oil slumps

World oil prices have halved over the past six months, as supply has increased. This is positive for NZ, as a net oil importer, but it is not uniformly so. While lower fuel prices is lowering costs for many in NZ and will generally lift domestic demand over time, there were some negative respondent comments regarding the oil slump in this month's PMI survey. This coincides with its weakest reading for the petroleum, coal, chemical and associated products industry since 2009. Energy prices are but one of many external influences on manufacturing moving around at present. Another is foreign exchange rates drawing mixed comments from manufacturers this month. In general, manufacturers view the NZD's strength against the AUD, EUR and JPY negatively from an exporting and import-competing point of view, but also see the recent decline in the NZD/USD as positive.

Construction

Construction indicators remain positive, including building consents. The value of residential and non-residential building consents in 2014 was a cool $2.5 billion (or 21%) higher than a year earlier. The level is well through the previous pre-GFC peak. Lead indicators remain positive suggesting construction will be a solid brace under domestic demand ahead. As positive as the construction outlook remains, we are conscious that the speed of expansion is likely to slow.

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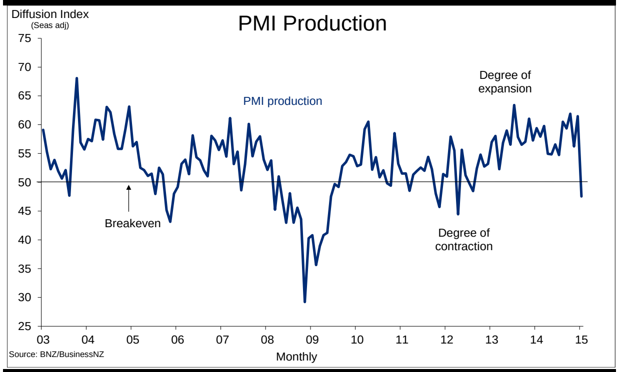
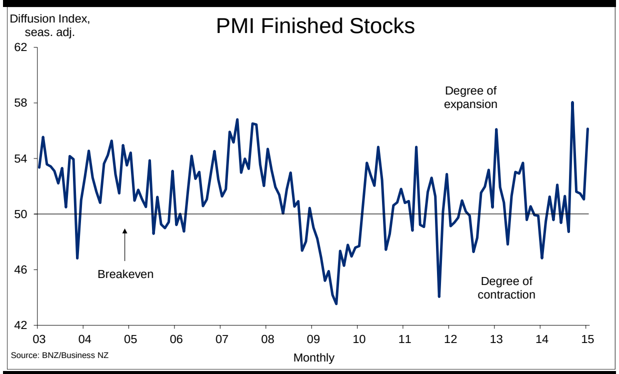
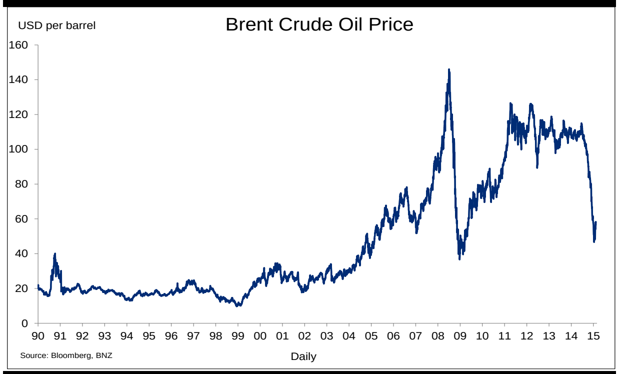
Production Falls



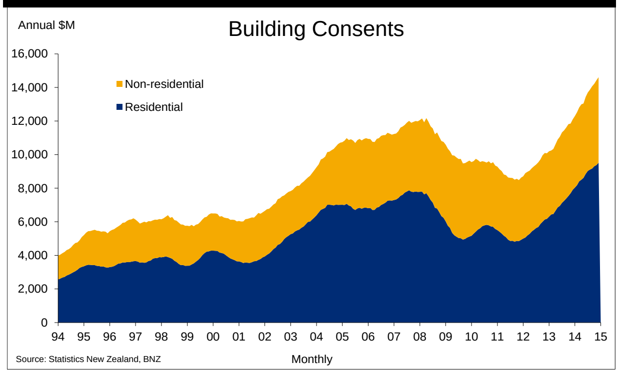
Inventories Spike



Oil Price Halves



Building Consent Ascent Continues



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