

**Volumes:**

Ex-meat and dairy sales volumes: +0.9% qoq

Total sales volumes: +5.7% qoq

The Economic Survey of Manufacturing points to a further modest increase in ex-primary manufacturing production volumes in Q4 2013. On balance, the result was slightly stronger than we expected, and we have revised up our Q4 GDP forecast to +0.9% for the quarter.

**Comment**

We strip out meat and dairy, along with beverages and tobacco, from total manufacturing to give us an indicator of ex-primary manufacturing production for GDP. Manufacturing *sales* volumes excluding meat and dairy increased 0.9% over the quarter. After taking into account the change in stocks, our indicator points to another modest increase in ex-primary manufacturing *production* volumes for Q4.

Monthly milk production and livestock slaughter figures suggested a small decline in meat and dairy manufacturing production over the quarter. Although today's Economic Survey of Manufacturing shows a large increase in meat and dairy manufacturing sales volumes over Q4, this largely reflects the running down of meat and dairy stocks as production from the previous quarter was sold. Therefore, meat and dairy manufacturing production volumes is unlikely to be as strong as sales volumes over Q4. StatsNZ had highlighted in the Q3 GDP release the large build-up in stocks reflecting the rebound in agriculture and primary manufacturing production which was not sold. We expect this inventory to be run down over Q4 as the previous quarter's meat and dairy production is sold.

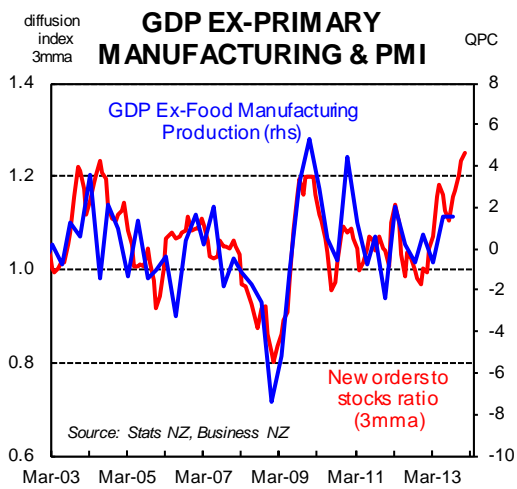
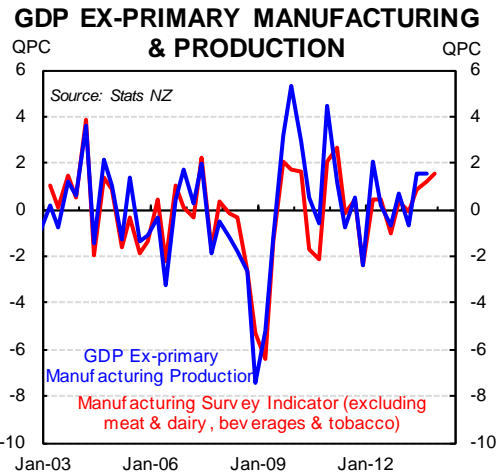
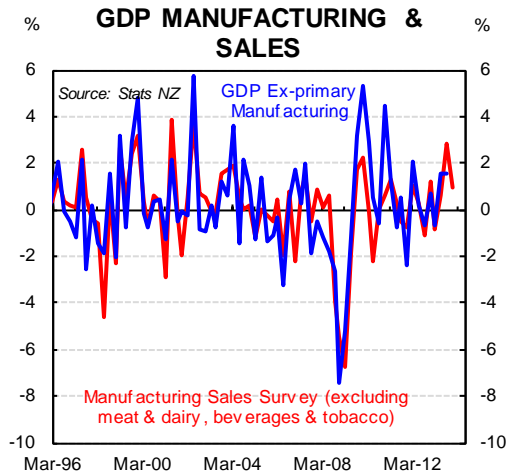
Combining these two results, we expect a small increase in total manufacturing production volumes of 0.5% in Q4.

**Implications**

Today's Economic Survey of Manufacturing was on balance slightly stronger than we expected, and we have revised up our Q4 GDP to a 0.9% increase for the quarter. The survey showed a large increase in manufacturing sales volumes in Q4, driven by the meat and dairy groups. This is in contrast to the monthly milk production and livestock slaughter suggesting a small decline in primary manufacturing production volumes over Q4, and this difference is likely to reflect the running down of stocks as the previous quarter's production is sold. Taking into account the modest increase in ex-primary manufacturing production volumes suggest a small increase in total manufacturing activity.

The continued surge in recent manufacturing confidence surveys suggests an acceleration in core manufacturing activity over 2014, underpinned by construction growth. RBNZ research had indicated construction activity is a key influence on domestic manufacturing production, and we expect as the Canterbury rebuild and house-building activity in Auckland ramps up this will flow through to further growth in manufacturing activity.

The RBNZ has indicated it is confident growth in the NZ economy is becoming self-sustaining. It is widely expected that the RBNZ will raise the OCR by 25bp to 2.75% at the March MPS this Thursday. Focus is now on the pace of tightening over the coming years, and any clues the RBNZ may give on whether it will follow up with another OCR increase in April or June.



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