

11 May 2018



Boom!

The Performance of Manufacturing Index (PMI) looked a bit weak early in 2018, especially in comparison to its hearty pulse through 2017. We thought, at the time, the early-2018 slowdown may prove temporary – a view strongly supported by April’s hefty result. April’s PMI punched up to 58.9 from (an upwardly revised) 53.1 in March. It’s a move from so-so to outright strong. Of course, we wouldn’t want to over interpret one month’s result especially as it may have been, in part, artificially boosted by the timing of Easter. But, in the least, April’s result suggests the economy has not fallen off the rails (despite negative business confidence as measured in other surveys). And there’s a positive future signal in the PMI new orders index being back above 60 and well in excess of the inventory index. It all points to decent growth in Q2, after a soft Q1 for the manufacturing sector.

Building Up

April’s PMI strength follows another lurch higher in residential building consents after a period of consolidation at a high level. New dwelling consents surged nearly 15% higher on a seasonally adjusted basis in March, building on a 6% lift in February. It’s a positive development for manufacturers. No surprise then to see building related industries in April’s PMI show firmly positive readings (on an unadjusted basis) including metal products (57.5), wood and paper products (65.0) and non-metallic mineral products (77.5).

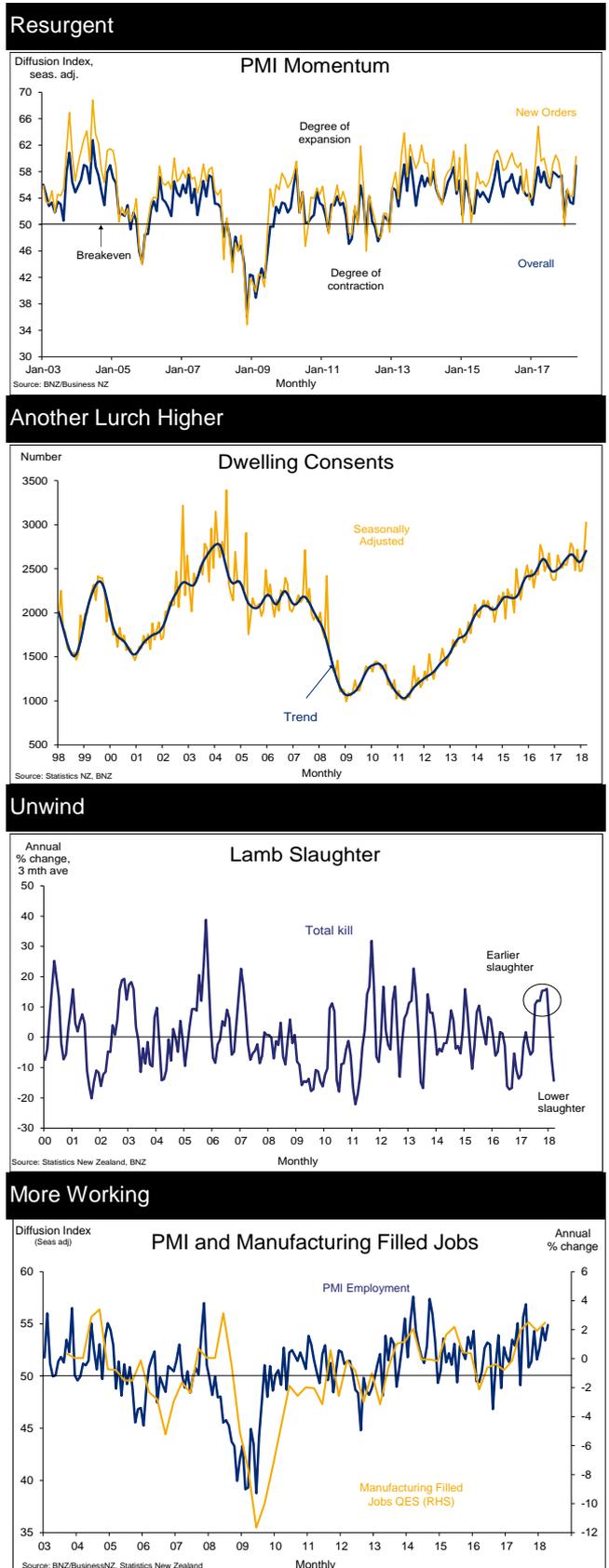
Primary Processing Placid

In April, the food, beverage, and tobacco PMI posted its fourth consecutive (unadjusted) monthly reading with a 53 handle. This is a marked slowdown from last year’s average of 61. Meat processing was unusually, but understandably, weak in Q1, following a weather-induced early livestock kill in Q4. The lack of meat processing will be a material drag on manufacturing GDP in Q1. The PMI suggests at least some stabilisation early in Q2.

Employment

The PMI employment index has remained solid during the recent slower readings in the likes of production and orders. Indeed, the ongoing firmness in employment has been one factor behind us keeping a generally positive outlook despite the cooling in other areas. April’s PMI employment reading of 54.9 reinforces the case. It has nudged up from March’s 53.4, to be at its strongest since August last year. Manufacturing filled-jobs in Q1 were up 2.5% on a year earlier, according to the recent Quarterly Employment Survey. Today’s PMI suggests decent jobs growth has continued into Q2.

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