

12 July 2019



The PMI

With its nostrils just above the water line, the latest Performance of Manufacturing Index (PMI) might best be described as doing doggy paddle. Sure, it increased to a seasonally adjusted 51.3 in June, from the 50.4 it virtually stalled at in May. That's actually relatively good in the current global context. However, keeping it aloft – and likely not in a good way – was increased buoyancy in inventory (57.6). There were ups and downs in the PMI's production (51.0), new orders (52.8) and employment indices (48.0). However, they were all running about a couple of index points shy of their respective norms. Deliveries were just plain soft, at 48.9.

QSBO

To be more charitable about June's PMI would be to distinguish it from the manufacturing section of the latest NZIER Quarterly Survey of Business Opinion (QSBO). This was, to put it mildly, struggling. Indeed, QSBO reports about manufacturing production over the trailing 3 months, at -23, were the weakest since 2012, and half way down to the sort of levels we saw throughout the 2008/09 recession. And output expectations for the coming 3 months went dead flat. Orders and profitability were showing a similar pattern. There was even a troubling tone in the QSBO, coming through a rising proportion of manufacturers reporting, and expecting, an increase in overdue debtors.

Employment

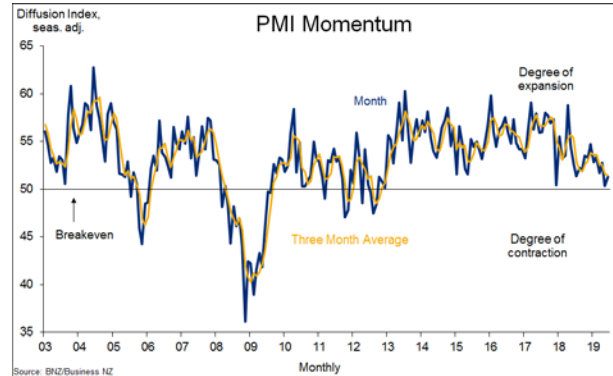
Arguably the most worrying statistic in the QSBO's manufacturing element, however, was to do with recent employment. This index, regarding the last 3 months' hiring, plunged to -36, from about zero the preceding quarter. This was spookily GFC-like. The employment index in June's PMI was also contractionary (48.0), albeit not nearly as dramatically so. All considered, the clear message is to expect New Zealand's Q2 labour market reports to register weakness around manufacturing jobs. Those reports are due 6 August. But it's also important to note that QSBO manufacturing hiring expectations rebounded to an encouragingly positive level. This is very anti-GFC-like. Go figure.

Capacity/Pricing

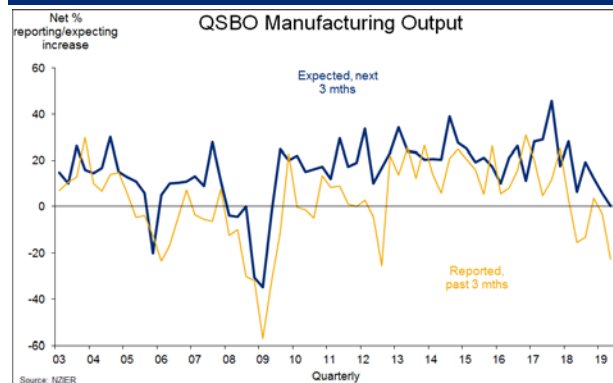
To help understand the stuttering in many of the manufacturing activity indices, it's hard to go past the range of resource-constraint gauges. Take the QSBO's capacity utilisation variable, CUBO. For manufacturing this was, at 94.3%, still running exceptionally high in the June quarter. Meanwhile, an increasing proportion of respondents said it was getting more difficult to find staff – whether skilled or unskilled. This told of a degree of staffing shortages in the manufacturing industry not seen since 2004/05. And that was extreme.

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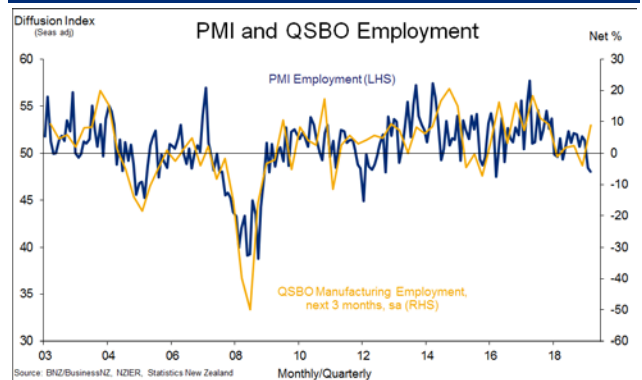
Doggy Paddle



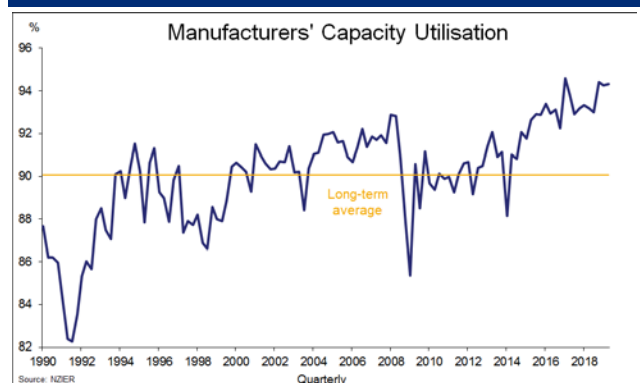
Not a Good Look



Choppy



Difficult to Expand Upon



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