

RESEARCH

MANUFACTURING SNAPSHOT

14 June 2019



Warning Signs Escalate

The Performance of Manufacturing Index (PMI) barely kept its head above water in May, dipping to 50.2 from 52.7 in April. It's the lowest reading since 2012. As a growth risk indicator it may not be flashing bright red just yet, but it is moving in that direction in taking on a darker shade of amber. Our reservations about the performance of the manufacturing sector have been growing over recent months as the PMI results came in. However it has been difficult to be sure of the recent underlying trends given possible data distortions from the likes of unusual timing of holidays. But with May's PMI results now in, our previous reservations appear substantiated. Growth into the heart of the second quarter of the year has all but stalled in the manufacturing sector. Looking through the details only adds to our concerns.

Disturbing Details

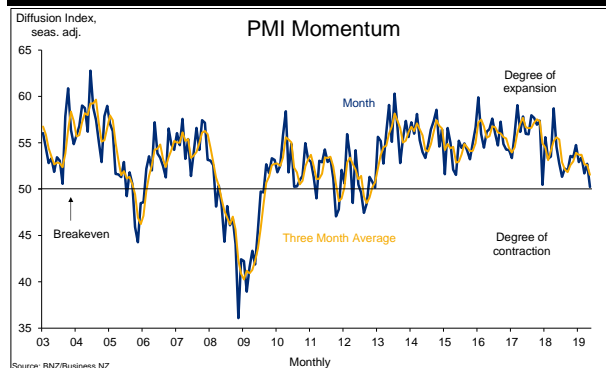
Perhaps most disturbing is a clear contraction in production in May, with the PMI production index falling to 46.4 from an already subdued 50.1 in April. Production looks genuinely weak and is now well below average. It is always difficult to know the precise reasons for any weakness but softer than anticipated demand looks to have played a part judging by the contemporaneous, and rather sharp, build up in inventory. Higher stock levels coupled with nearly flat new orders does not bode well for a quick pick up in production ahead. In fact, the ratio of new orders to inventory is at its weakness level since 2009 suggesting production may fall further. Given these developments it is no surprise to see manufacturers trimming employment in May.

GDP Implications

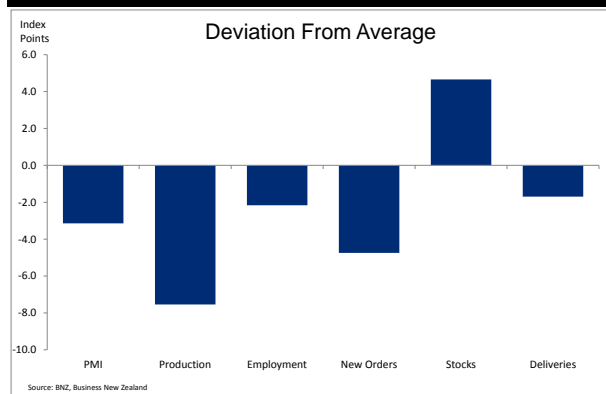
For next week's official Q1 GDP growth figures, we're expecting minimal contribution from manufacturing. This is based on our reading of this week's official manufacturing sales and inventory data. While sales volumes rose a good-looking 2.0% in the quarter, adjusting for inventory change suggested manufacturing production advanced only modestly overall. The PMI suggested the same for that period. For Q1 GDP as a whole, we think strong building and reasonable retail activity will underpin 0.6% quarterly growth which would see annual growth come in at 2.4%. That would be reasonable. But leading indicators are getting more worrisome by the day. Our pick for annual growth in Q2 currently sits at 2.1%, but a softening PMI adds to the accumulating downside risks.

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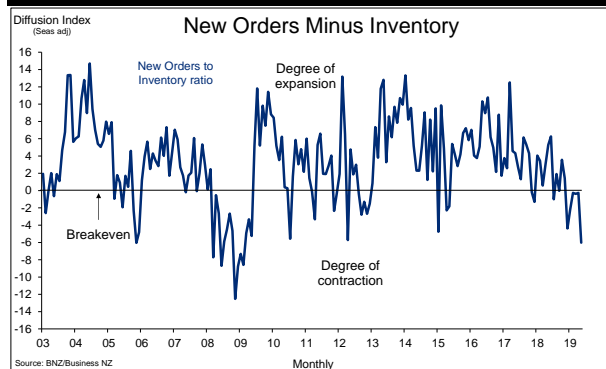
Pull Up! Pull Up!



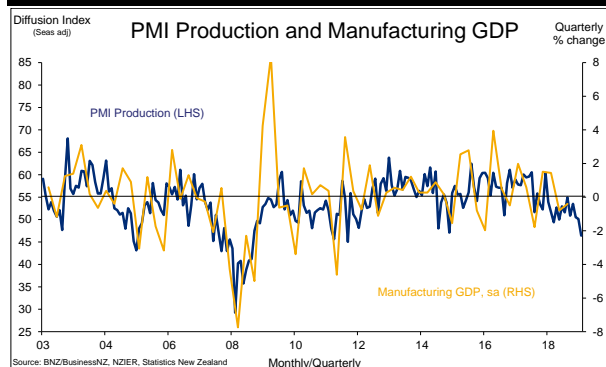
Not A Good Mix



Poor Signal For Near Term Production



Downside Growth Risks Here



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