Manufacturing Snapshot

12 June 2020

The PMI

New Zealand's Performance of Manufacturing Index (PMI) posted a rebound, of sorts, in May. At a seasonally adjusted 39.7 it was still clearly contracting, just not to the extent it was in April, when it was 25.9. That result for April, of course, traversed the most extreme period of lockdown, related to COVID-19. May benefited from a partial relaxation of the restrictions. Still, a negative tone remains evident in the fact that, even with its bounce in May, the NZ PMI merely got back to the sort of levels in sank to during the 2008/09 recession. The level of 39.7 also, incidentally, brought it more into line with the global PMI of May, which edged up to 42.4, from the 39.6 low it posted in April.

Variation in the Details

Despite its headline improvement, there was patent variation in the component detail of May's PMI. By industry, there was a strong theme of primary industry support, with Food, Beverage & Tobacco up at 52.5, Wood and Paper bouncing to 54.5 (from 16.3 in April) and Petroleum, Chemical & Coal up to 52.8 – all unadjusted figures. In contrast, Textile, Clothing & Footwear was still struggling, at a mere 19.0. By firm size, there was a curiosity in the fact that medium-to-large firms – those with between 51 and 100 employees – were lagging the rebound shown in the micro (1-10), small-to-medium (11-50) and large (101+) firms. Regional results remained relatively uniform in May, however.

Looking Ahead

This is not normally the forum to talk about the outlook for manufacturing, as the PMI reports on what is happening rather than what firms expect to happen. However, with New Zealand moving down to restriction level-1 on 8 June, there is clearly potential for a bit more spark to show in the June/July results. Indeed, it's not uncommon for PMI (diffusion) type indices to move above 50 early in the recovery phase, as low points are passed, and the only way is up from there. Having said this, manufacturing firms, more broadly, face a difficult time given 1) the severely dented local economy, especially with respect to confidence about maintaining spending on durables and investment goods and 2) the vicious global recession that's playing out.

Employment

Perhaps this is why we're seeing, from the PMI, signs of net job losses coming through already – despite the government's enormous wage subsidy scheme directed at preserving jobs over the interim? In spite of the improvement in the many parts of the PMI in May, its employment index slipped further to 39.4. This is the sort of level it plumbed during the 2008/09 recession. The PSI jobs indicator was also tending this way in April, with a reading of 42.1 (with May's result due Monday). With these numbers as a starting point we have to wonder where the PMI/PSI employment indices will get to, as the wage subsidy schemes continue to be wound down (as is starting to occur already).

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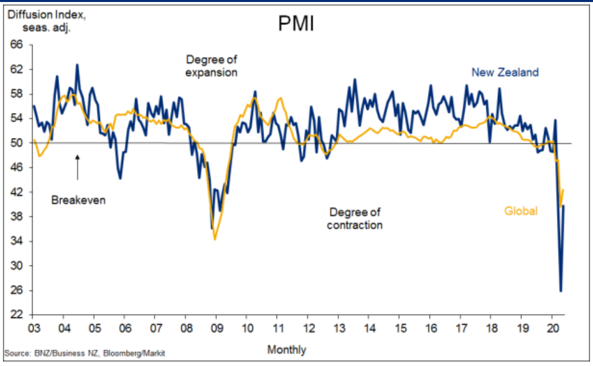
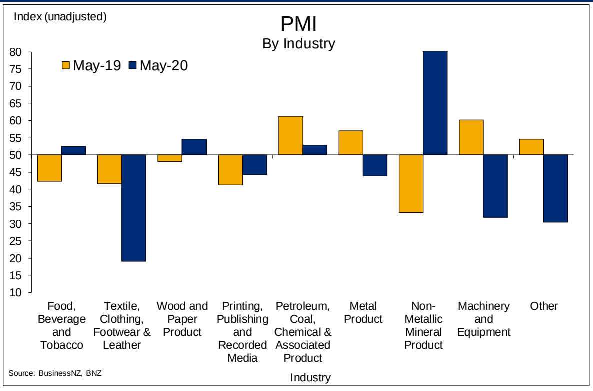
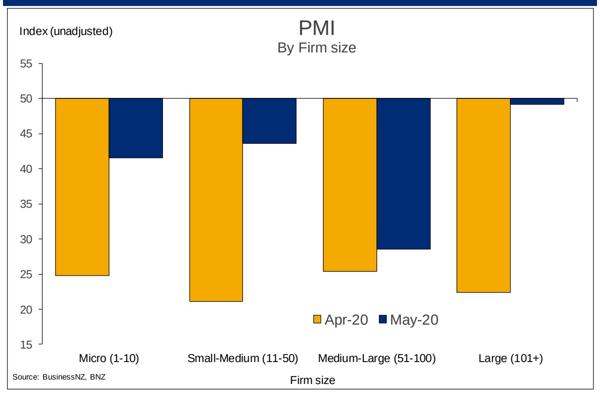
Not So Very Bad



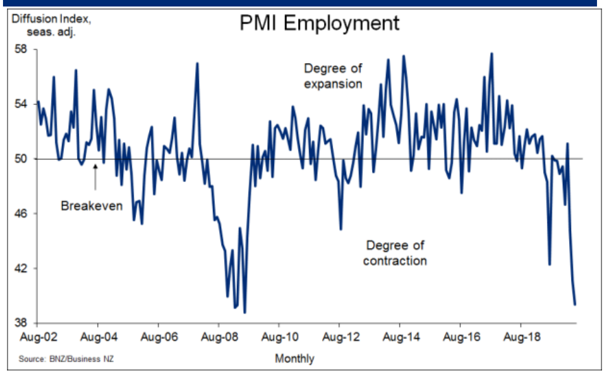
Primary Industry Support



A Curiosity



Job Losses Occurring (Ahead of Wage-Subsidy Expiry)



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