

Manufacturing Snapshot

12 August 2022



PMI

The Performance of Manufacturing Index (PMI) rose to 52.7 in July from June's smack-on-breakeven reading of 50.0. At first glance this is a decent lift and a step in the right direction. But it would be a stretch to call it good. Despite the increase in July, the PMI remains shy of its long-term average of 53.1 as it has done so for four consecutive months now. Over that period, the PMI has also shown something of a saw-tooth pattern providing no clear sign of acceleration or deceleration.

Big Bad Noise

The details don't offer much clarity either. In a word: noisy. That is perhaps understandable judging by respondent comments, where there still seems to be a stop-start tone to business amid reports of disruption from labour shortages, illness and absenteeism, freight and logistics issues including for raw material supplies, along with intermittent new orders. It all breeds a lot of variation and change. Indeed, testament to the ongoing disrupted business environment, the average variation across PMI industries over the past 12 months has hit an all-time high.

More Questions Than Answers

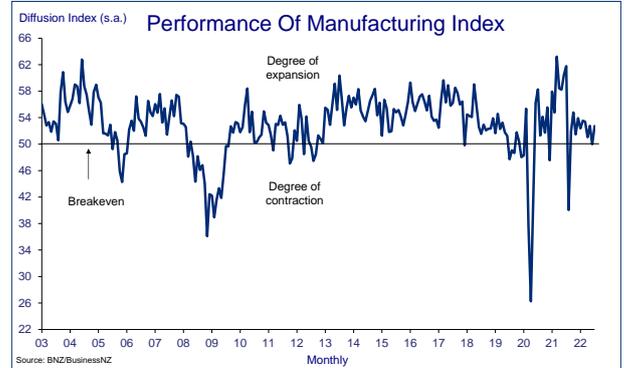
The major component numbers seem to raise more questions than answers. For example, the PMI production index remains contractionary even though it edged up to 49.0 in July from 48.0. It is well below average and sub-50 readings are clearly not good for growth. But is lower output being driven more by supply or demand issues? The answer matters for policy but is not clear cut. Both seem to be in play. Supply issues are evident with the deliveries of raw materials index slipping into contraction and further below average. But employment rose to a strong 52.6. Is that firms just cover existing labour shortages and more absenteeism? It's possible given that output continued to decline. And where did the labour come from – has it added to wider labour market tightness? Then there is demand. New orders did just creep back over the 50 mark, but at 50.5 in July the index remains well below average and didn't make up for the very soft 47.9 recorded in June.

Size: A Clearer Signal

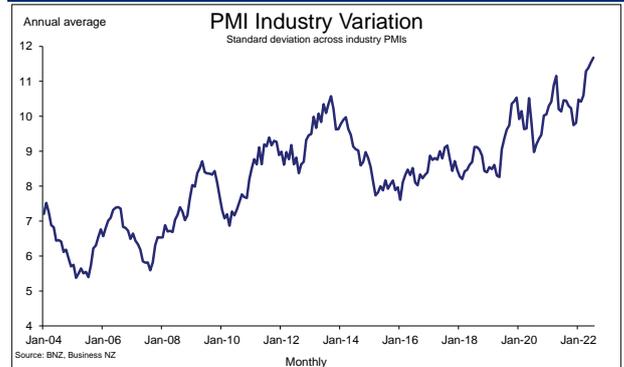
One theme that has been quite regular in the PMI through the pandemic is that smaller firms have tended to underperform relative to larger firms. This was again the case in July, with an unadjusted PMI for micro firms (1-10 employees) at a lowly 45.8 compared to higher readings for medium-large firms (53.9) and large firms (53.4).

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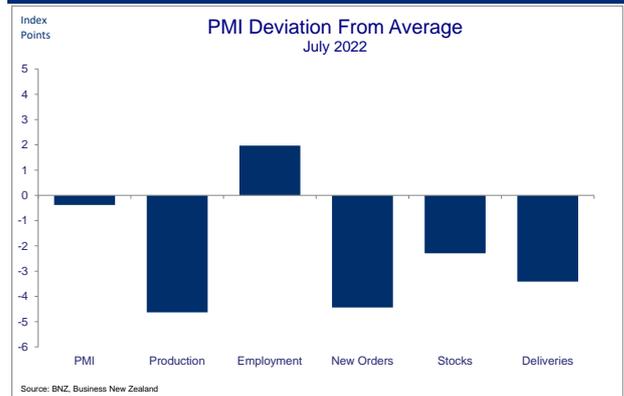
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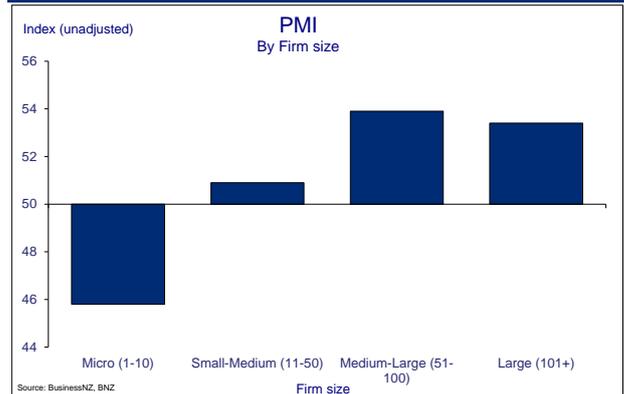
But Industry Variation High And Volatile



And Most Components Below Average



A Common Theme Here



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