

Manufacturing Snapshot

20 January 2023

Gloom remains

Perhaps the best that one can say about December's PMI result is that it didn't get any worse as it matched November's 47.2. But that is of little solace when another sub-50 reading indicates that the manufacturing sector continued to contract into the end of last year. There was little joy across the major components either, with all of them well below their long-term norms. Yes, new orders and employment were not quite as downbeat as in November. But persistent weakness in new orders over recent months, especially in relation to inventories, is not a good sign for sales nor production ahead. It all broadly fits with the clear decline we already expect for manufacturing GDP in Q4 with further slippage expected in Q1.

Employment

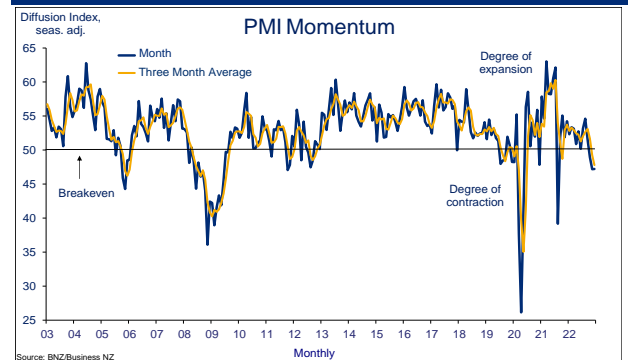
The PMI employment index edged up to 48.8 in December from 46.9 in November. However, this marks the third consecutive sub-50 reading. The lack of positive employment growth signals over recent times has been hindered by widespread difficulty in finding suitable staff. This remains the case for many manufacturers judging by PMI respondent comments this month. Compared to history, PMI employment – an indicator of employment outcomes – has been persistently lower than manufacturer's desire or intention to employ from surveys like the NZIER's Quarterly Survey of Business Opinion (QSBO). The relative tightness in the labour market is reflected in the PMI employment index not as far below its long-term average compared to similar gauges for the likes of production and new orders. However, with the recent broad cautionary tone of the PMI and the QSBO showing firmly net negative profitability expectations among manufacturers some softening in excess labour demand is to be expected.

Variable

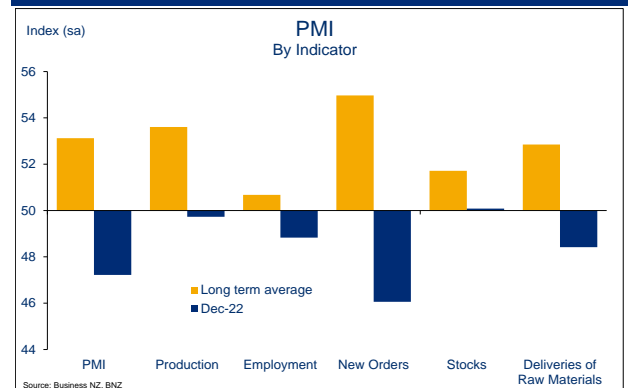
A host of strong cross currents continue to affect the general business environment generating significantly more variation across industries and regions than is usual. For example, the range across industry PMIs in December was more than double its long-term average while the range across region PMIs was not that far from double its norm. Among the regions, Northern remained the weakest of the majors in December as it has for three consecutive months, while Otago/Southland's unadjusted 55.3 PMI in December sees it as the only region above its 10-year average for this time of year, if only just.

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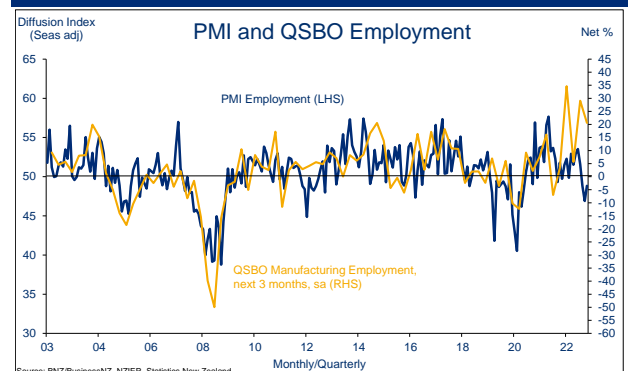
Just As Bad



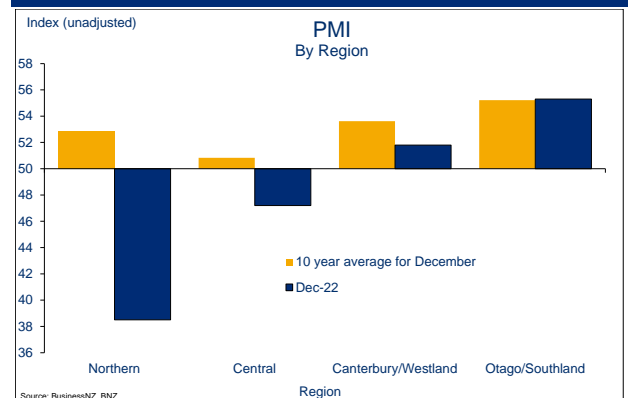
Below Average



Employment Intentions And Outcomes



Diverse



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