

Manufacturing Snapshot

12 May 2023

Underwhelming

The Performance of Manufacturing Index (PMI) remained underwhelming in April. While it did manage to nudge up a point to 49.1 from March's 48.1, it remains below 50 indicating another month of contraction. This not-quite-as-negative-but-still negative theme ran through a few of the main PMI components such as production, new orders, and employment. In contrast, stocks of finished products rose after a dip in March while deliveries of raw materials increased but at a slower pace than a month earlier.

Many below average

General underperformance is more obvious when looking at current readings against longer term norms. April's production index at 47.0 is more than 6 full points below its average of 53.5, while new orders at 49.8 is 5 points below norm. Weak new orders indicate softening demand, reinforced by the combination of falling production yet rising inventory. Stocks is the only main index above its long-term average. Across industries, while there remains considerable volatility and variation in these indicators two thirds saw an unadjusted PMI sub-50 in April. By region, all major areas recorded an unadjusted PMI sub-50 and below their respective averages with Northern lowest at 37.3.

Manufacturing GDP pointers weak

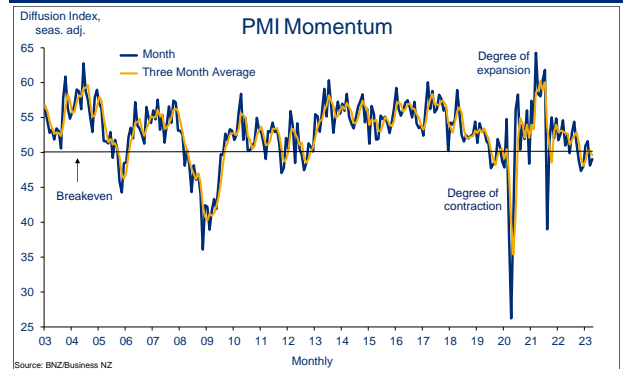
Recent PMI outcomes point to weakness in core manufacturing sales across Q1 and Q2. For example, the recent PMI and new order results are consistent with core sales volumes being around 5% lower than a year ago. Official sales statistics for Q1 will be released in early June. Meanwhile, PMI new orders trailing inventory indicates further weakness in production ahead. Our economic forecasts include a circa 2% drop in manufacturing GDP in Q1 with a further, albeit smaller, decline in Q2. PMI new orders are largely consistent with this even suggesting Q2 might fall as much as Q1.

World rotating

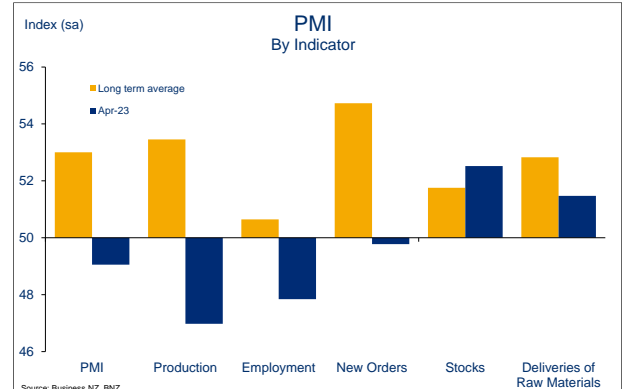
NZ's PMI may be soft, but it is broadly in line with the 49.6 reading for the global equivalent in April. The latter reflects sub-50 readings to various degrees in each of the US, EU, UK, Australia, Japan, and China. However, post-pandemic there has been a general rotation away from spending on goods back toward spending on services. PMI weakness, both in NZ and elsewhere, needs to be assessed in conjunction with service sector equivalents (which have been generally firm) before drawing conclusions about the economy at large.

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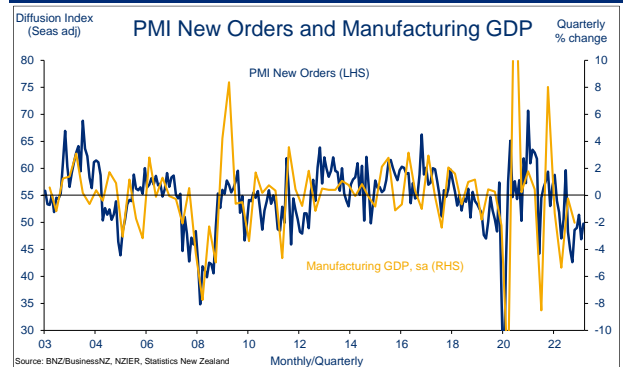
Below The Line



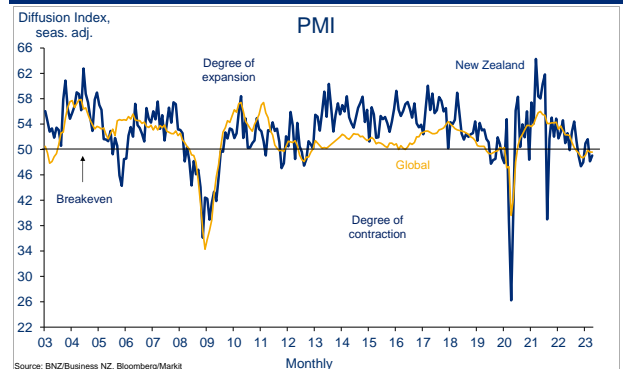
Activity Indicators Below Normal



More Manufacturing GDP Negatives Ahead?



World Similarities



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