Research

Manufacturing Snapshot

19 January 2024

The PMI

November's bounce in the PMI looks increasingly like it was of the dead cat variety. December's outturn was simply miserable and saw the vast majority of the previous month's gains reverse. With a headline reading of 43.1, December's PMI represented the 10th consecutive month of contraction for the sector. The production indicator, at 40.5 was particularly grim. With the exception of the 2020 COVID lockdown, the last time production fell to these levels was the tail end of the Global Financial Crisis.

Labour Market

In line with the cuts in production it looks like the manufacturing sector continues to lay off staff. Employment levels, at least by this measure, have been in retreat for most of 2023. With the combination of reduced labour demand and soaring net immigration it should come as no surprise that in this week's NZIER Quarterly Survey of Business Opinion, manufacturers noted that it had become outright easy to find staff both skilled and unskilled. If there is some good news to be gleaned from this it is that labour is no longer a major constraint to production and the significant upward pressure that has been on wages for the last few years should now be diminishing.

Implications for New Zealand GDP

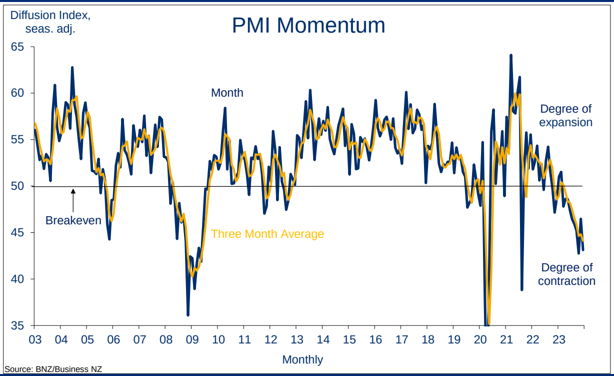
By the end of September 2023 eight out of the nine manufacturing subsectors in New Zealand's GDP accounts were going backwards on an annual basis. The only sector in expansion mode was furniture and other manufacturing whose value add rose 2.5% for the year. The manufacturing sector, as a whole, expanded in only one quarter of the last seven. Alas, December's PMI suggests another negative reading is on the cards.

The outlook

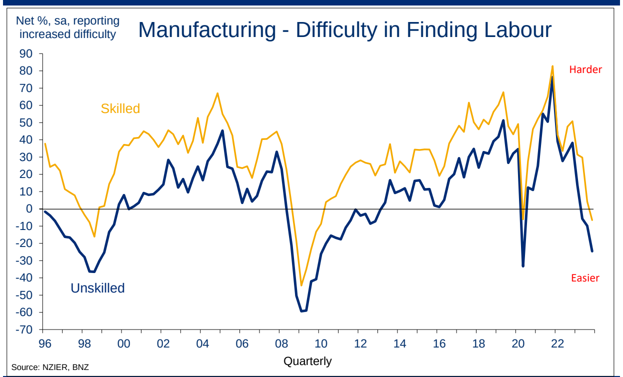
The domestic manufacturing sector is largely dependent on four factors: domestic demand (especially retail sales); food production; construction; and exports. It will thus be supported by the country's strong migration-driven population growth and the spending of a growing number of tourists. In short, more people spend more. But, alas, the headwinds remain strong. Consumers are still being stymied by rising prices, eroding disposable incomes, and the impact of an ongoing adjustment to interest rates. And the construction sector is showing little sign of life impacted by weakening consumer spending power and the fact that the costs of construction have made the purchase of new buildings prohibitive for many. We are cautiously optimistic activity will pick up towards the end of this year but think it will be a continued hard grind for at least the first half of 2024.

stephen_toplis@bnz.co.nz

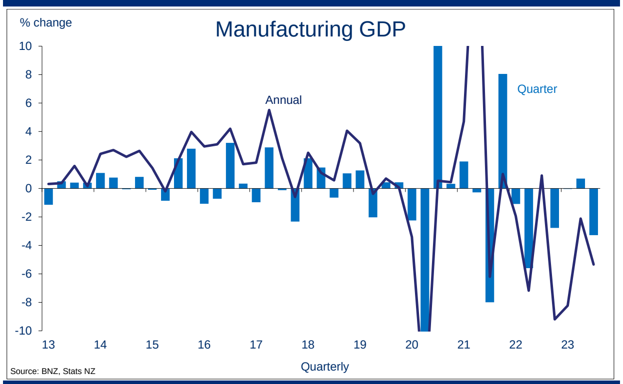
PMI trend still down



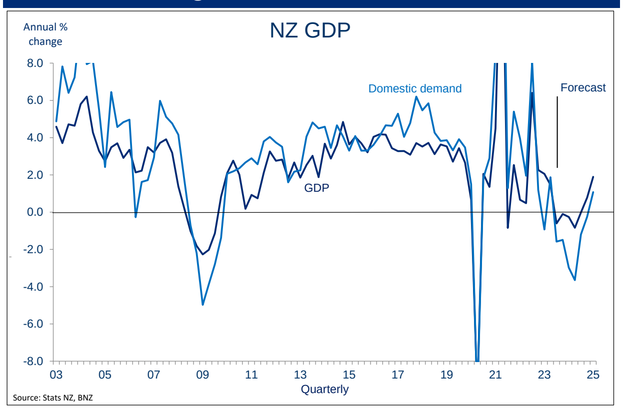
Getting easier to find staff



Manufacturing a drag on GDP



Year's end looking better



Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Stuart Ritson
Senior Interest Rate Strategist
+64 9 9248601

Mike Jones
BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854