Research

Manufacturing Snapshot

15 December 2023

PMI

The Performance of Manufacturing Index (PMI) improved quite a bit in November, jumping 3.8 index points. Even so, it remained very weak as a level, at 47.6. That's the ninth month in a row the PMI has been below the breakeven mark of 50. New orders were hardly much more encouraging, as they came in at 47.7, from 44.5 in October. Employment also expressed something of a struggle, at 47.7, although at least this was not miles away from its average, of 50.5. The norm for new orders is 54.5. The balance of the feedback to this latest PMI survey, meanwhile, was also negatively inclined, covering a wide range of demand, supply, and policy issues now.

Seasonal considerations

With all of this, how was it that only one of the industry groups registered a sub-50 result for November? Namely, Wood and Paper products, with 39.2. The other 8 industry-based categories ranged from 50.2 for Metal Products, all the way up to 59.7 for Printing, Publishing & Recorded Media. The thing is, the industry indices are not adjusted for seasonality, and there is typically a strong seasonal boost in November, the month ahead of Xmas. This also needs to be borne in mind when assessing the size-of-firm results, which spanned 49.9 for the medium-large up to 54.5 for micro firms. And the regional results, which traversed 46.6 for Central, over to 60.4 for Canterbury.

Production pull-back (dampens inventory)

At the heart of the recent poor run in the PMI has been its production index. While this improved a bit in November, it was, at 43.6, almost 10 index points south of its long-term average. That's a big undershoot, in historical context. The consolation is that this seems to be helping bring inventory of finished stock under control, with that index stabilising at 50.7 in November, after sagging to 45.8 in October. This follows a period earlier in the year when a build-up in inventory was indicated. This process was broadly corroborated in yesterday's Q3 GDP report.

Reflections on GDP

The Q3 GDP report also affirmed a big pull-back in manufacturing production, with a quarterly drop of 3.4%. This followed a 0.8% increase in Q2 that rubbed against the negative tone the PMI's production index carried through that quarter. The drop in Q3 manufacturing production in the GDP accounts brought it back better into line with the messages of the PMI. That is, of relative, ongoing, weakness, with November's PMI suggesting manufacturing production will keep struggling in Q4 GDP.

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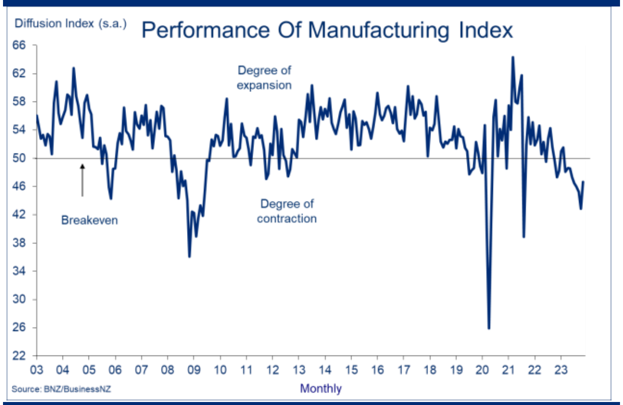
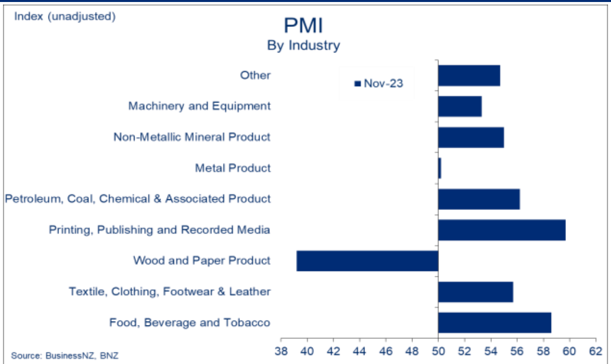
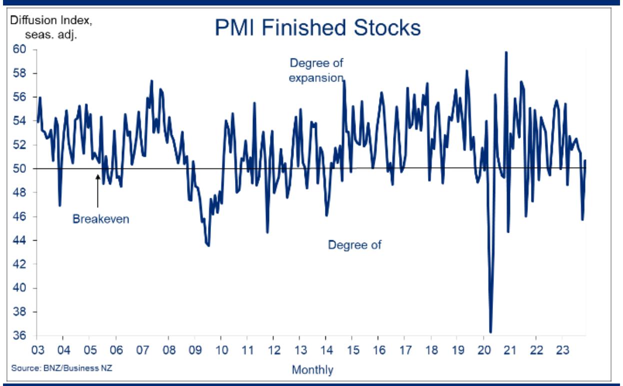
Less Bad



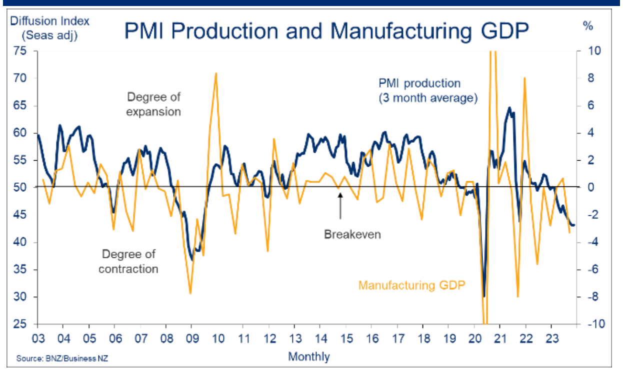
Uppity But Unadjusted



Inventory Control



Negativity Prevails



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