

Manufacturing Snapshot

10 November 2023

From bad to worse

Economic conditions in the manufacturing sector have gone from bad to worse. The Performance of Manufacturing Index has been struggling all year. But it took another leg lower in October to 42.5 from September's 45.1. Besides Covid disrupted months, that is the lowest reading since 2009 when the Global Financial Crisis was in full swing. A few respondents noted General Election uncertainty as a negative influence, which may have accelerated the PMI's downtrend in the month and may well reverse, but the general sense of weakness appears to have broader drivers at present.

Demand softening

Many survey respondents reported concern with softer demand, which has become increasingly prevalent relative to those that noted supply side issues including sourcing labour. Respondents cite weakness in retail sales, residential construction, primary industries, and external demand weighing on new orders. The PMI new orders index was 44.1 in October, which was not that different to September's 44.8, but very weak and more than 10 index points below normal. Months of weakness in new orders has seen larger falls in production and employment this month. Notably, the stocks of finished products dropped in October following six consecutive months of inventory build. All major PMI components are significantly below normal.

Production and employment under pressure

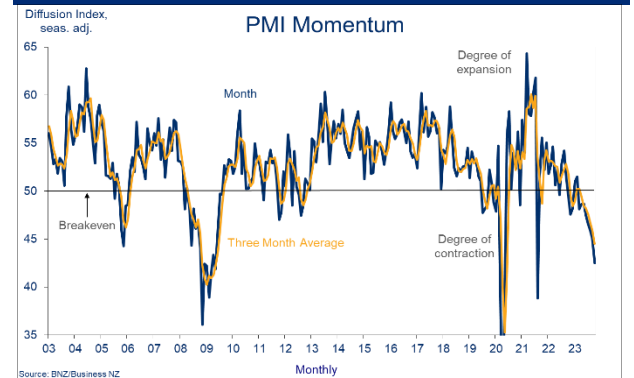
Today's PMI is not a good look for GDP and employment growth. Our GDP forecasts already include a decline in the manufacturing sector in the second half of 2023. There's a chance that decline is bigger than we think, if the PMI does not bounce in the final months of the year. Meanwhile, October's PMI employment index suggests ongoing contraction in manufacturing employment, after last week's HLFS revealed a 3.6% annual drop in Q3.

Global

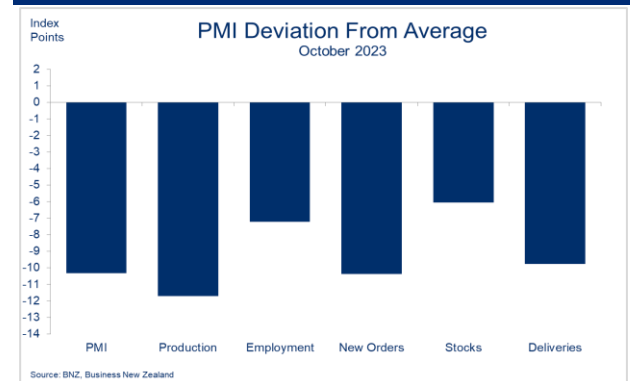
It is no secret that global manufacturing has been struggling in 2023. All the major countries and regions we track show PMIs sub-50 in October. NZ is no different in that regard. However, NZ has departed from the global average over recent months with its sharp downward acceleration to now be clearly lower than the already low readings prevailing across the globe. Only time will tell if that gap closes as the NZ election process runs its course.

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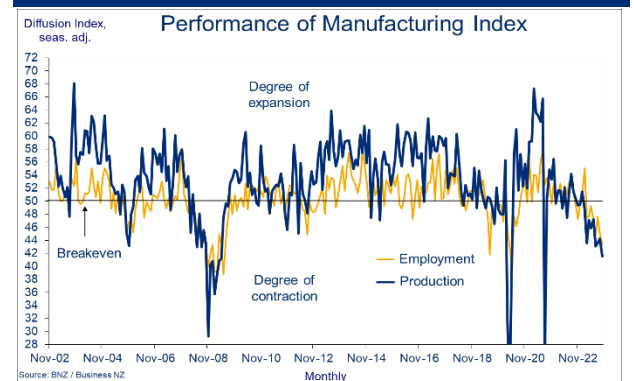
Lower Again



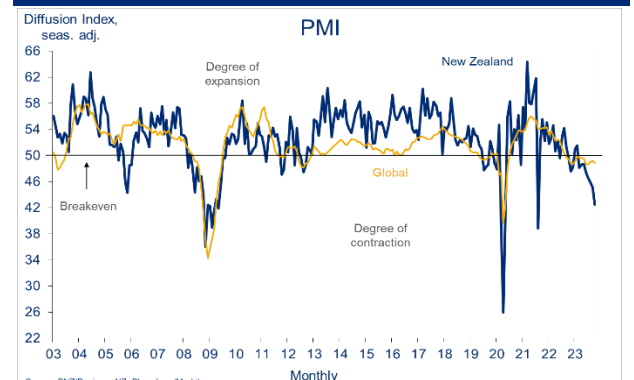
Majorly Below Average



Production and Employment Falling



Down Under



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