Research

Manufacturing Snapshot

15 March 2024

Signs of life

There are a number of economic indicators which are suggesting New Zealand might just be through the worst of this economic downturn. Today's PMI is yet another one of that ilk. The data are hardly cause for dancing in the streets but the direction of travel certainly provides reason for hope.

At the headline level the seasonally adjusted PMI for February was 49.3. The reading is still below the so-called breakeven of 50 and is even further behind the average of 52.7. Moreover, it is the twelfth consecutive sub-par outturn suggesting the sector is well and truly in recession. But 49.3 is up from 47.5 a month ago and well up from the 42.8 trough of October 2023. Moreover, it's the highest reading in a year.

Closing the gaps

The New Zealand economy has been significantly underperforming its trading partners. Not surprisingly, the same can be said for its manufacturing sector. Another piece of good news in the data is that the gap is closing rapidly and for this first time since May 2023 the NZ PMI exceeds its Trans-Tasman counterpart.

Leading indicator positive

Importantly, the sub-components of the PMI provide every reason to believe the current upward momentum can be maintained. The trend decline in stocks of finished products is welcomed. Not that long ago there was a toxic mix of rising inventories and falling new orders. That now appears to be reversing, which is a positive sign for future production.

It's hard to know exactly what is driving the improvement but it may well be increased certainty following the General Election. This is not to pass judgment on the new government relative to its predecessor but simply to acknowledge that uncertainty around elections can often see a pause in activity.

Labour market increasingly helpful

The other factor that continues to help business is the increasing ease of finding labour and the reduction in labour cost inflation associated with that. This can be combined with a trend improvement in the deliveries of raw materials which may well reflect the ongoing improvement in supply chains.

To the extent all this feeds into manufacturing production, clearly it will also feed into GDP. And, based on what we are seeing now, it encourages us in our belief that growth will return to the economy in the latter part of this year. Nonetheless, the data are still sufficiently soft for us to assume further contraction in manufacturing in Q1 of this year.

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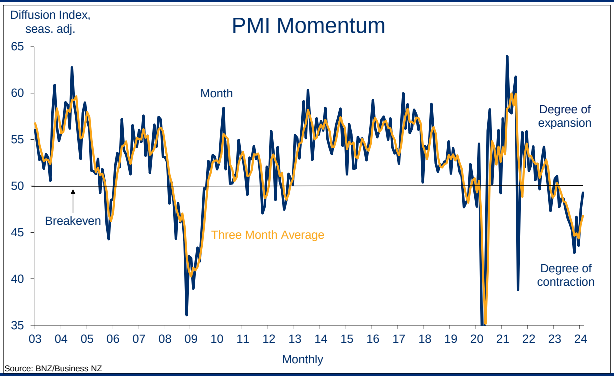
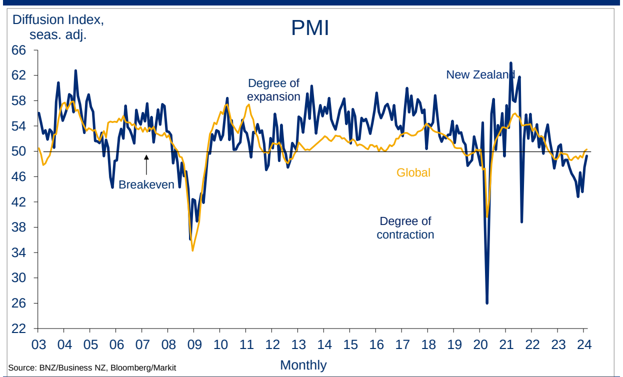
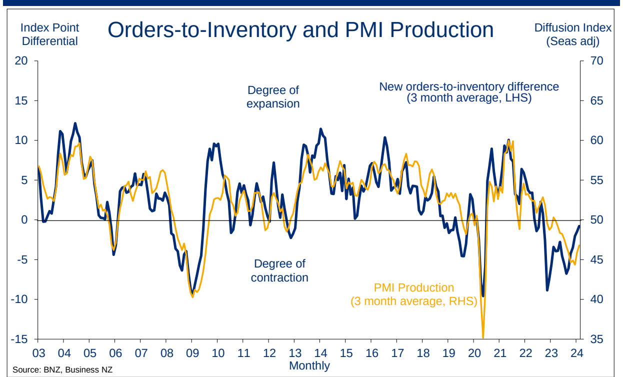
Momentum has shifted



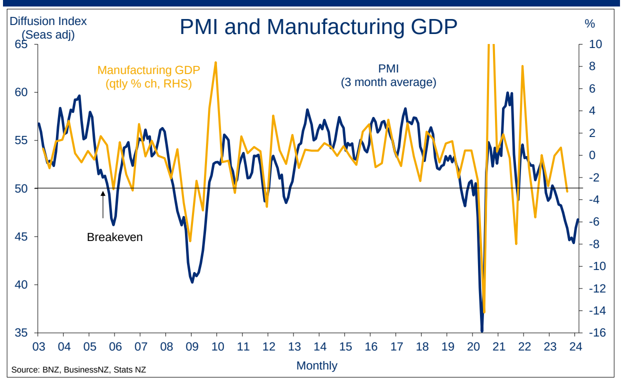
Catching up to the world



Production outlook improves



Still some downside left



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