Research
Manufacturing Snapshot

14 June 2024

Still no joy

Not since February last year has the Performance of Manufacturing Index (PMI) been above the breakeven 50 mark. There was still no joy in May this year, with the PMI easing to 47.2 from April's 48.8. It marks 15 months of contraction. Demand softening has looked increasingly aggressive over recent months. New orders are weak and getting weaker, with the index easing further to 44.4 in May. Not only is this all but 10 index points lower than its long-term average of 54.3, but on a three 3-month average basis the new orders index has slumped to its lowest level since mid-2009 (abstracting from the first covid lockdown).

Unhelpful mix of ups and downs

The only PMI sub index to lift in May was inventory. The combination of weak new orders and rising inventory is not a good look for production ahead. No surprise then to see the PMI production index showing contraction, sitting at a soft 44.5. This follows the briefest look above 50 in April, which we thought at the time likely reflected the timing of Easter this year rather than any underlying improvement. May's PMI results back that theory.

Lower sales and output

Weak PMI new orders and production point to further declines in official measures of manufacturing sales and GDP. Last week Stats NZ's data saw a 4.5% drop in core manufacturing sales volumes in the first quarter compared to a year ago. Today's PMI results suggest annual sales volume growth is tracking at least as weak as that into the second quarter. In a similar fashion, PMI readings to date this year are consistent with falling manufacturing GDP. We anticipate next week's Q1 GDP figures to include a contraction in the manufacturing component. The latest PMI indicators suggests Q2 will also be weak and potentially weaker than we already anticipate.

Holding on

The PMI employment index at 50.6 is consistent with broadly flat employment in the sector. Since the PMI survey started in 2002, the difference between new orders and employment has never been more negative than now (besides during the first covid lockdown). It looks like labour hoarding, as firms try and ride out the current weakness in sales. We interpret the latest change in balance as intensifying cyclical weakness rather than a drop in trend productivity. The difference is important for thinking about any potential monetary policy response.

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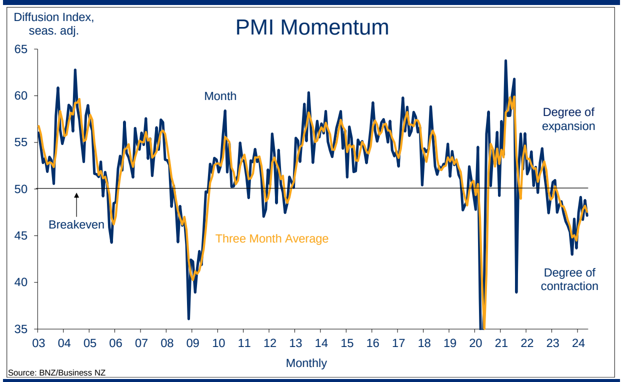
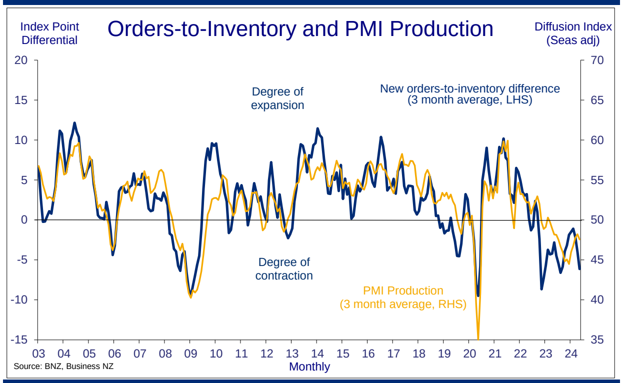
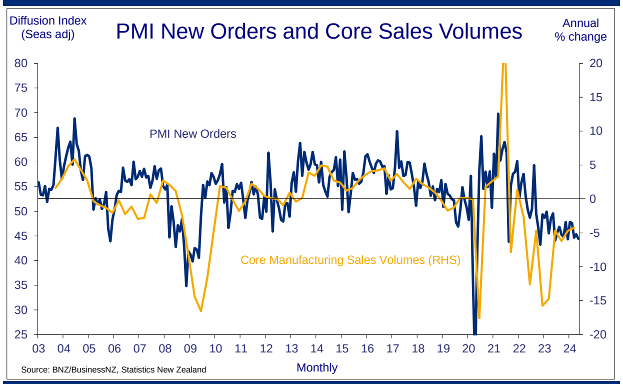
Weakness persists



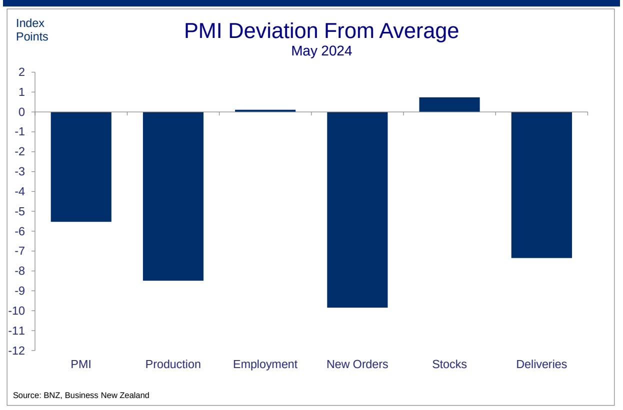
Not a good look



Sales retreating



Employment holding up



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