

Manufacturing Snapshot

15 November 2024

Reality check

The Performance of Manufacturing Index (PMI) fell from 47.0 to 45.8 in October. The latest outturn is a reality check after three consecutive months of improvement in the PMI. Despite lower interest rates, the manufacturing sector continues to face significant headwinds. Recent business surveys have shown a sharp contrast between improved expectations for activity and weak current conditions. The PMI has now been below breakeven for 20 consecutive months and activity still looks soft underfoot.

Production struggling

All the PMI sub-indices remain in contraction and well below their long-run averages. In October, the PMI production index decreased the most from 47.9 to 44.5. While actual manufacturing activity often improves in the lead-up to summer, some manufacturers noted that they have not yet experienced it this year. Our economic forecasts are for manufacturing GDP to contract again in Q3, and then begin to slowly improve from Q4. If this PMI weakness persists, it poses some downside risk to the improvement anticipated.

New orders offer some hope

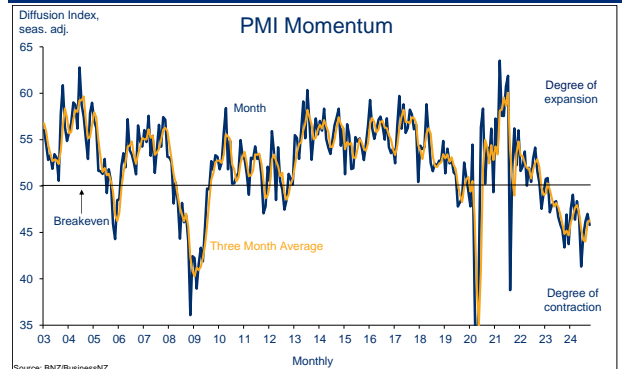
The PMI new orders index nudged up from 47.9 to 49.0. While it still suggests that new orders are falling slightly, it is another step in the right direction and is not far from indicating an upturn in demand. Back in July 2009, the PMI new orders index was the first to move back above 50 after the GFC, ahead of the overall PMI in September that year. The new orders index was also the first to fall below 50 in the current now lengthy period of weakness. While the new orders index latest approach toward 50 is no guarantee that the PMI will subsequently improve, its previous lead indicator qualities offer some hope.

Labour market still deteriorating

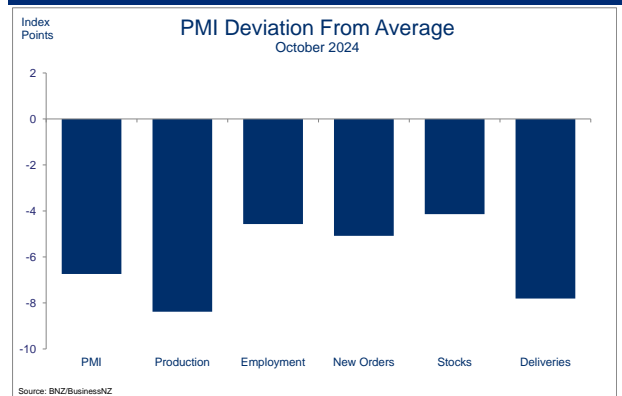
Since its peak last year, the total number of jobs in manufacturing has declined by around 14,300 according to the latest quarterly employment survey (QES) data. The PMI employment index at 45.8 is consistent with net job reduction. While manufacturing employment intentions have improved in some other business surveys, the PMI suggests net labour shedding in manufacturing has continued in October. We continue to expect the labour market to lag the broader economic recovery.

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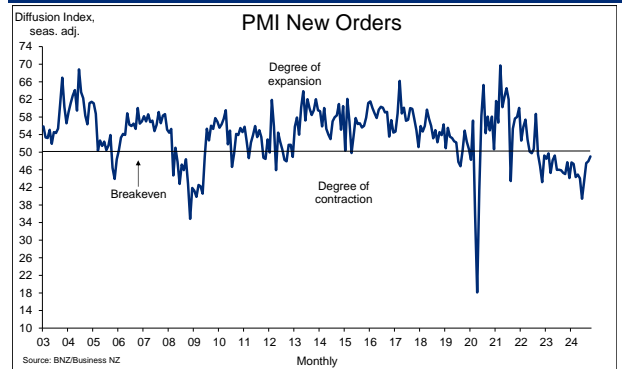
Momentum halted



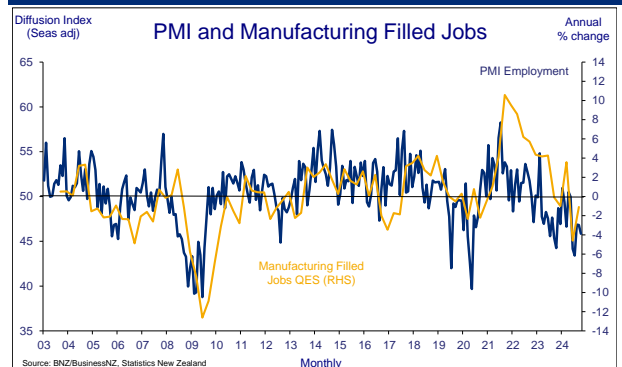
Broad-based weakness



Inching towards 50



Loosening



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