RESEARCH

Performance of Manufacturing Index

13 December 2017

Rock Solid

Various recent surveys have seen business confidence falter during and after the government formation process. In contrast, the Performance of Manufacturing Index (PMI), notably a survey of business outcomes rather than sentiment, has remained rock solid over recent months. On a seasonally adjusted basis, November's 57.7 reading was little changed from October's 57.3. The PMI has been within a 57 to 58 range for four consecutive months. The stability is all the more impressive given its current high level that indicates a rather swift pace of growth in the manufacturing sector heading into year's end.

GDP Supportive

In the November PMI details, production led the charge with the index punching up to a very strong 62.1 – its highest level since mid-2013. This follows an already firm 60.9 reading in October and an average of 59.0 in the three months to September. It all supports the idea that manufacturing GDP has accelerated in the final quarter of the year, after what looked like a solid Q3. We estimate from last week's industry sales and inventory figures that manufacturing GDP rose around 1% in Q3 (the official GDP figures for that quarter are due next week). All up, it's positive momentum in output.

Things To Watch

For all the strength within the PMI, there are some details worth monitoring as possible vulnerabilities. One is a further lift in the PMI inventories index in November to its highest level since the survey started back in 2002. In the first instance, we take this as a positive sign on the thinking that firms have positive expectations for demand. We say this noting that new orders remain at a high level and some other demand indicators, like this week's electronic card transactions and house sales for November, are showing signs of strengthening. A noticeable pick up in the PMI employment index is another reason to subscribe to the positive expectations theory of inventory build. Sure, some of November's employment lift may be catch up from previous softness. But firms wouldn't take on more staff if they didn't think the demand outlook was positive. Having said all that, it would be remiss to not consider the inventory build as a potential vulnerability if future demand were to disappoint expectations. Indeed, it's possible that elements of this dynamic are already in play with the new orders index having eased back a bit over the past couple of months. In any case, demand indicators will be important to watch over the coming months. Another area to watch is food processing with its PMI jumping up to a heady unadjusted 74.5, its second highest ever level behind November 2012's 79.0. This has the potential to pull back if spreading dry weather conditions were to dent primary production.

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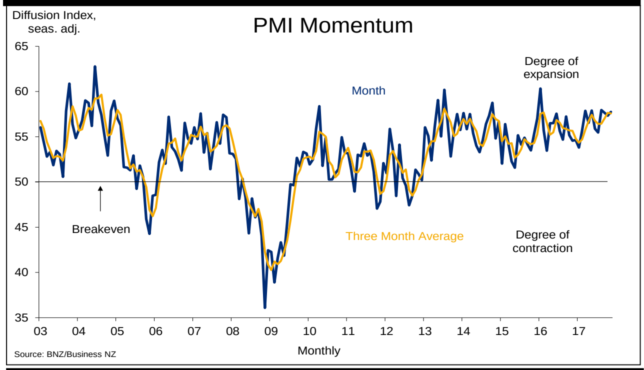
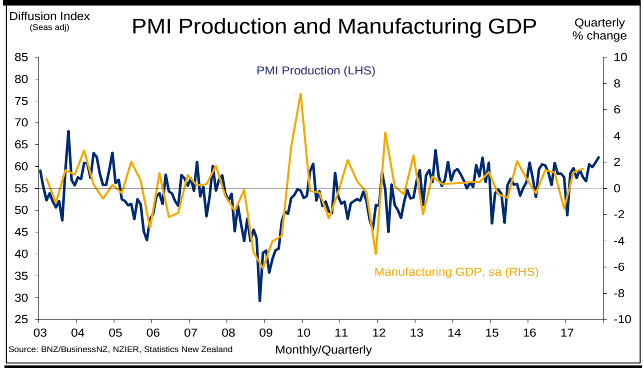
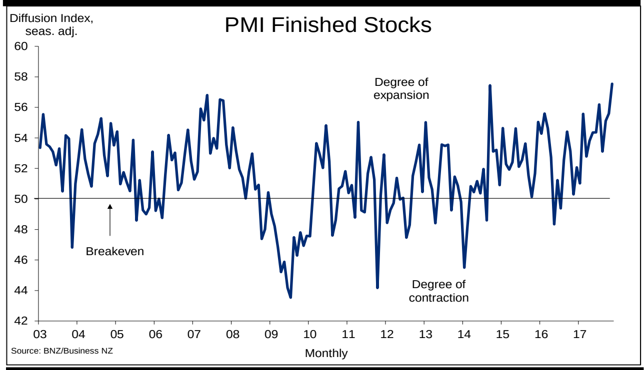
On The High Road



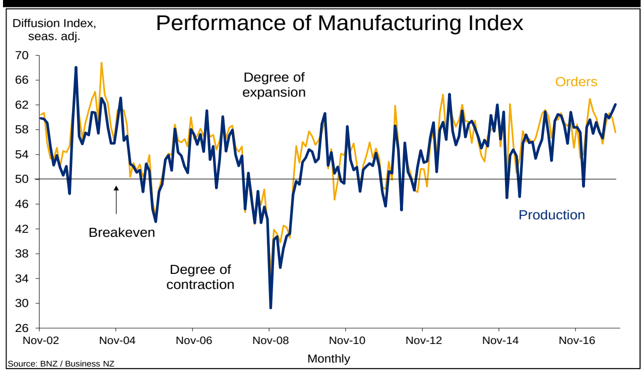
Accelerating Output



Stocking Up



Something to Watch



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