RESEARCH

Manufacturing Snapshot

16 March 2018

Average Performance

There is no doubting the Performance of Manufacturing Index has slowed over recent months. Sure, February's 53.4 result was not too far shy of January's 54.4 reading which, itself, was a decent recovery from December's dip down to 51.2. But the 53.0 average over the past three months is a clear slowing from the 57.6 average of the three months before that. That said, February's PMI is hardly weak in exactly matching its long term average.

Growth Looks Slower

New orders, while still positive, have cooled, raising questions about the sustainability of demand strength seen last year. Firms don't seem too perturbed by slower orders at this point, given their acceleration in hiring (the PMI employment index rose to its highest level in six months in February). But new orders are something to watch over coming months. Meanwhile, production expansion has slowed. Some of this looks to be related to primary processing, which has been affected by recent extreme weather conditions. Whatever the causes, the generally slower PMI suggests we shouldn't expect Q1 manufacturing GDP to be much different from the flat result recorded in yesterday's official figures for Q4.

Demand

Demand strength appeared widespread at the end of last year. We say this judging by recent data on the likes of building activity and the distribution sectors of wholesale and retail trade. In Q4, on a seasonally adjusted basis, building activity rose 1.4%, wholesale sales volumes are estimated to have increased 1.6%, and retail sales volumes rose 1.7%. These are all hefty quarterly increases. Retail and wholesale sale volumes are more than 5% higher than a year ago. And while building activity is only a little higher than a year ago, it is at elevated levels relative to historical norms following strong growth over recent years. It is all indicative of solid underlying demand for manufactured goods – at least at the end of last year.

Weather Wobbles

Early livestock culling on account of adverse weather seemed to boost Q4 manufacturing activity but will have the opposite effect through early 2018 given New Year rains. We are already seeing signs of this with lamb processing recently dipping around 3% below year earlier levels while the cattle cull has fallen 17% behind a year ago. Meanwhile, milk production remains below last year. It all suggests primary processing will be a drag on manufacturing activity early in 2018. From well above average levels (for the time of year) back in November, the PMI for food, beverage and tobacco has fallen below average and to its lowest February reading in six years.

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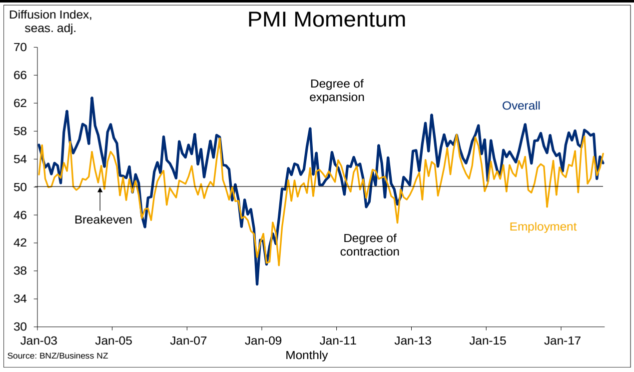
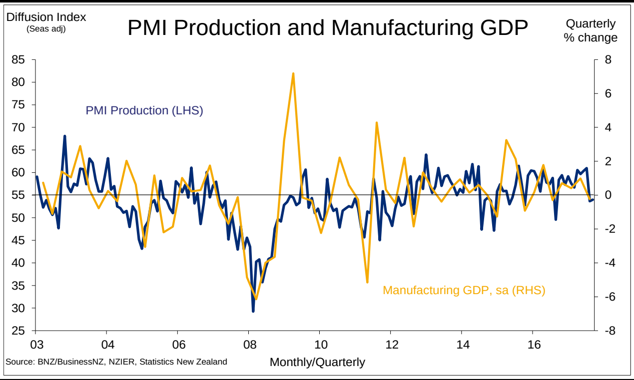
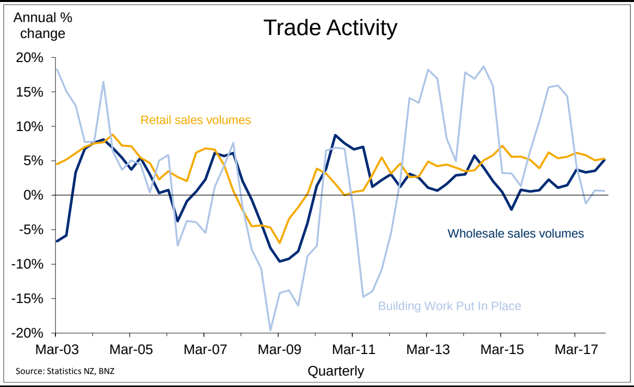
Ups and Downs



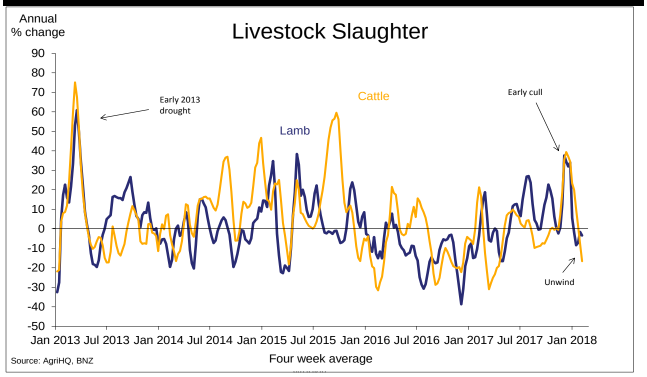
Manufacturing GDP



Demand Momentum



Weather Affected



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