

13 July 2018



The PMI

New Zealand's Performance of Manufacturing Index (PMI) slowed further in June. Its seasonally adjusted reading of 52.8 was lower than May's 54.4 (and with a fair bit of variation in its detail, to boot). This conspired to leave April's rocket, of 59.1, standing out as the outlier we presumed it was. Broadly speaking, the PMI has settled down into a trend-like pace this year, averaging 53.8 (excluding April's spike). This is after outperformance through most of 2017, when it averaged 56.2. The long-term norm (going back to August 2002) being 53.8.

Orders

The deceleration in the PMI over the last couple of months has been well characterised by its production index. This was raging away at 60.5 in April, but cooled to 53.4 in May and to 51.8 in June. The latter was a bit below normal. However, it's not obvious that this production gauge should languish for long, when new orders are still running on the encouraging side. Well, in the PMI anyway, with an above-normal result of 57.1 for June. New orders amongst manufacturers in the latest NZIER Quarterly Survey of Business Opinion (QSBO), in contrast, dipped slightly into negative territory. With these mixed messages we can't take momentum for granted.

Employment

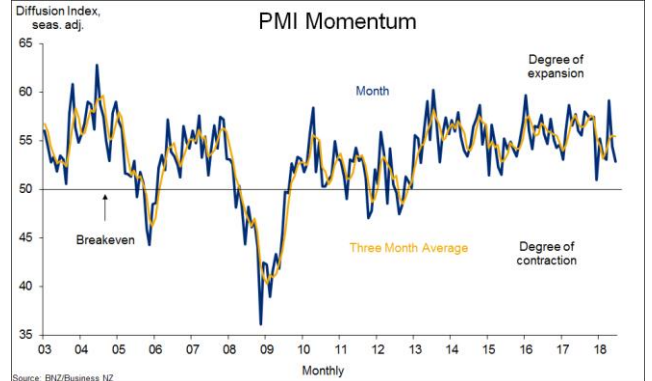
But if there was a red flag in June's PMI it was in its jobs index. A flat to negative result on this component is not necessarily alarming. But two in a row can start to ask some questions. And this is exactly what the PMI employment index has done, in printing at 49.0 in June, after the 49.6 level it slumped to in May. A sense of caution re manufacturing hiring was also sketched in the early-July QSBO. Not so much in outright terms, with reported employment for the last 3 months, and hiring intentions for the coming 3 months, near enough to middling. But both of these measures have clearly lost impetus since the September quarter of 2017.

Capacity

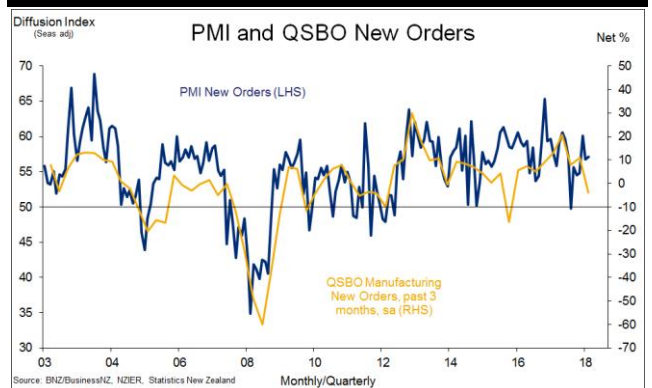
Even with the wobbles in the PMI of late, it's not as if the industry appears any less stretched than it was 6 to 12 months ago. Sure, its capacity utilisation measure (CUBO), as from the QSBO, fell to 92.7% in the June quarter. But this was from a level in Q1 that was a record high, leaving this measure still significantly above its long-term average (89.9%). The QSBO also clearly indicated ongoing stretch with respect to staffing. In this, manufacturers reported near extreme levels of difficulty in finding staff – whether skilled or unskilled. These resourcing issues need to be borne in mind when assessing the weak-looking jobs index in the PMI. A lack of hiring can reflect a paucity of decent candidates, as much as a lack of demand for staff.

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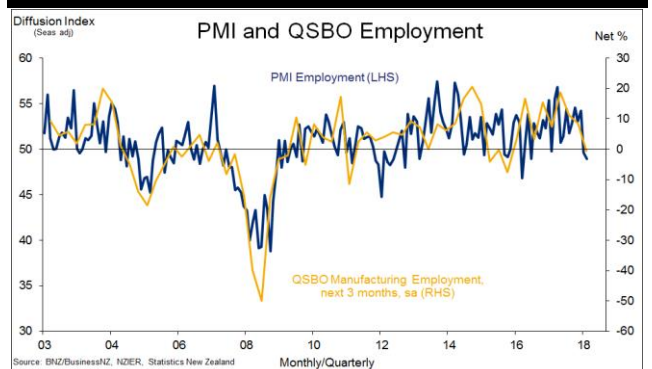
Slower Still



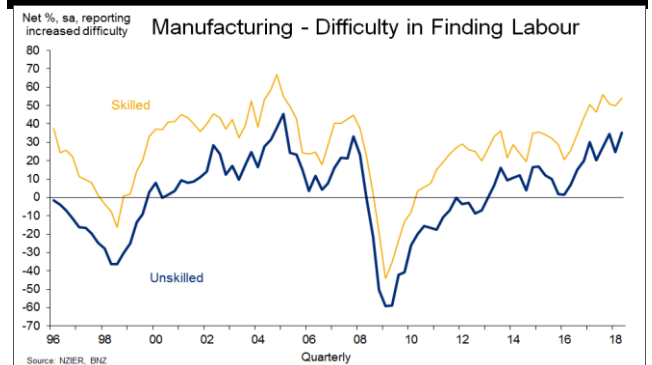
Holding Up



Caution



Resource Constraint Still Obvious



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