Manufacturing Snapshot

12 October 2018

The PMI

New Zealand's manufacturing sector remains stuck in a low gear. That's the message from the latest Performance of Manufacturing Index (PMI). In September it edged down to a seasonally adjusted level of 51.7, compared to August's 52.0. That's four months in a row now, that the PMI has run a bit below its long-term average (of 53.4). While new orders appeared okay, at 52.4, they were still below norms, while production (49.6) was forming a picture of a stalling in growth.

QSBO

That manufacturers were finding it tough going was also the message from the latest NZIER Quarterly Survey of Business Opinion (QSBO). In this, manufacturers expressed the weakest confidence (in the general economic economic) of all the sectors canvassed. And a net 14% of them reported a fall in their own output over the trailing three months. Granted, output expectations regarding the coming three months became more positive. However, manufacturers' investment intentions fell clearly below average in the Q3 QSBO, having held up close to norms in Q2. This was as true for plant and machinery as it was with regard to buildings.

Employment

The QSBO also gelled with recent detail in the PMI, in suggesting a loss of moment in hiring - albeit not a complete loss. Indeed, in the QSBO, the net 4% of manufacturing respondents who reported increased employment over the last three months was comfortably above normal. Expectations regarding the coming three months improved to +4%, to also be above average. Still, if we compare these series to late last year, their impulses have definitely waned. It's a similar story from the employment index in the PMI. Even though its 50.5 reading for September was around its long-term average, it was way above average going into the end of last year.

Capacity

But how weak is NZ manufacturing, really? We pose this question noting that, for all of its slow indicators, the industry remains extremely stretched for resources. This was abundantly clear from the capacity utilisation measure ("CUBO") in the latest QSBO. This was running at 93.4% through the September quarter (with respect to manufacturers). This was almost back to the record high it hit in the March quarter, of 93.7%. This accorded with reports from manufacturers of stronger cost inflation, both in recent history and expected. With all of this, we should be careful about reading the sector as "weak", and cautious about how much expansion we can reasonably expect of it from this point. In many respects, the heat is still on.

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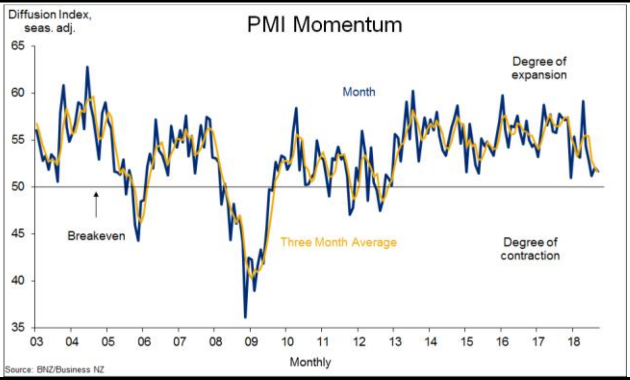
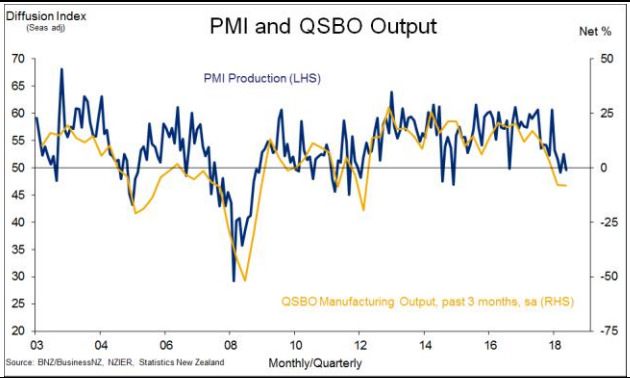
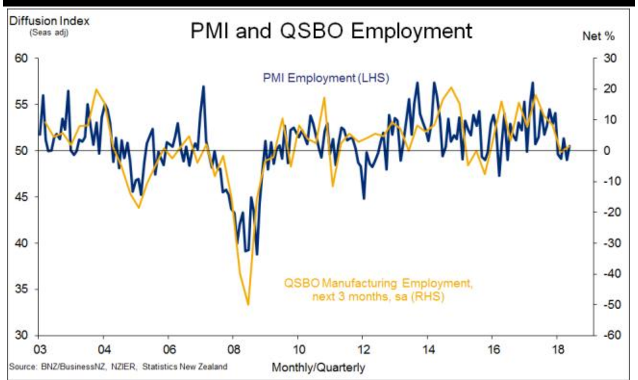
Still in Low Gear



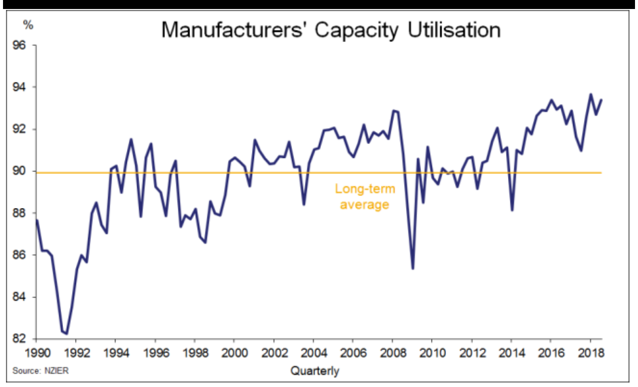
You Too



More-Cautious Hiring, Not Firing



Deep Heat



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