RESEARCH
Manufacturing Snapshot

16 August 2019

The PMI

For the first time in 82 months, New Zealand's Performance of Manufacturing Index (PMI) has dipped into contractionary territory. Then again, its seasonally adjusted reading of 48.2 for July was no great surprise, given the sector's adverse inventory dynamics we noted over recent months. Of course, July's result is no dead-set that the economy at large is contracting, even growing poorly. The PMI was down in this area in 2011 and 2012, only for annual GDP growth to trundle along near 2%. And GDP growth was closer to 3% when the PMI slumped to 44.3, way back in 2005. Nevertheless, the shrinkage in July's PMI is certainly something to take note of.

Orders

The worry around the latest NZ PMI is compounded by its detail. Notably, new orders weakened a lot. This sub-index dropped to a seasonally adjusted 48.9 in July, from 52.4 in June (the long-term average being 55.1). A lack of orders also clearly cropped up in respondents' anecdotal feedback in the PMI survey (along with ongoing concern about the impact of government policy). However, it was not clear how much of this weakening in new orders was globally driven or domestic. By industry, only two (Petro-Chemical, and Machinery and Equipment) of the nine managed to show expansion. By size, the largest firms appeared to be suffering by far the most. And by region, all four main zones were below the breakeven mark of 50.

Employment

It wasn't as if manufacturing output itself was falling. Indeed, the PMI index on production kept its head above water in July, with a steady, albeit slow, 51.1. However, there was definitely something coming unstuck with respect to hiring. The PMI index on employment, having already gone contractionary in May (48.3) and June (47.2), really hit the skids in July with a reading of 42.6. This level was drawing parallels with the times of the 2008/09 recession. What this means for the next employment data, however, is a moot point. The Q2 Household Labour Force Survey – as robust as it was overall – already had a sizable drop in manufacturing jobs embedded within it.

Wages

Interestingly, these signals of weakness in manufacturing jobs have not coincided with dissipating wage inflation in the industry. In fact, the opposite is occurring. The Q2 Quarterly Employment Survey, for example, registered a pick-up in annual wage inflation, with average hourly earnings in the sector running at 4.5%. The Labour Cost Index showed annual inflation of 2.2%, from 2.1%. Manufacturing is, arguably, more prone than most to the impact of the strongly rising minimum wage. However, whether this helps to explain the recent trends in the industry's wages versus employment is difficult to know.

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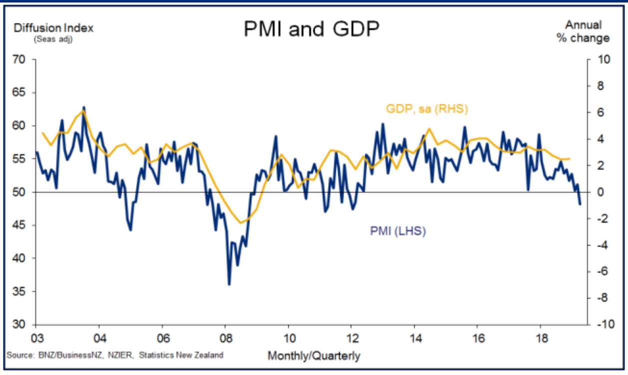
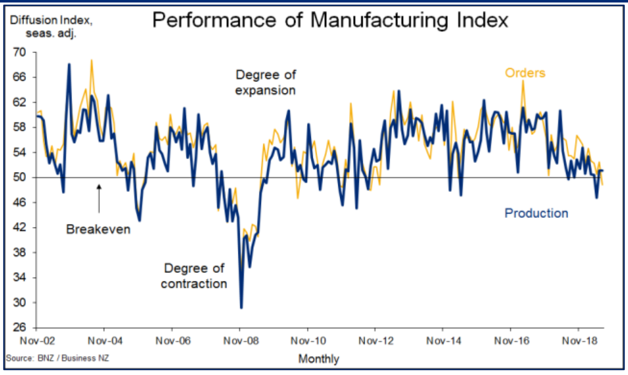
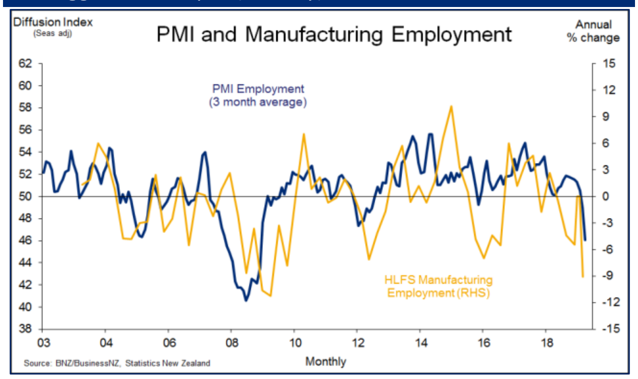
Below The Line



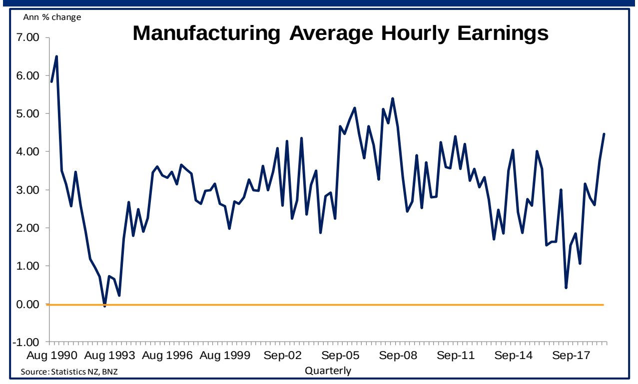
In Short Order



The Biggest Weak Spot (Already)



Upward Wage Pressure



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