

11 October 2019



The PMI

New Zealand's Performance of Manufacturing Index (PMI) remained weak in September. Indeed, its seasonally adjusted result, of 48.4, indicated contraction in the industry, for the third month in a row. Even worse was its production index. This fell to 46.2 – clearly below the breakeven level of 50 and further below its long-term average, namely 53.9. With this, we should probably expect manufacturing activity to contract again in the Q3 GDP accounts (having done just that in Q2). Having said this, if it's a manufacturing recession then it's an extremely mild one compared to what the industry went through in 2008/09.

QSBO

Still, struggle was also the message from manufacturing firms in last week's NZIER Quarterly Survey of Business Opinion (QSBO). Their reports of output over the trailing 3 months became even more contractionary. This was mirrored in reports of deliveries, employment, export sales, and new orders. But it wasn't just the activity indicators under pressure. The QSBO also showed manufacturers still besieged by strongly rising costs. These, alongside weakening selling-price indicators, were slamming profits. It is also worth noting that the QSBO variable on overdue debtors continued to march higher for manufacturers in Q3.

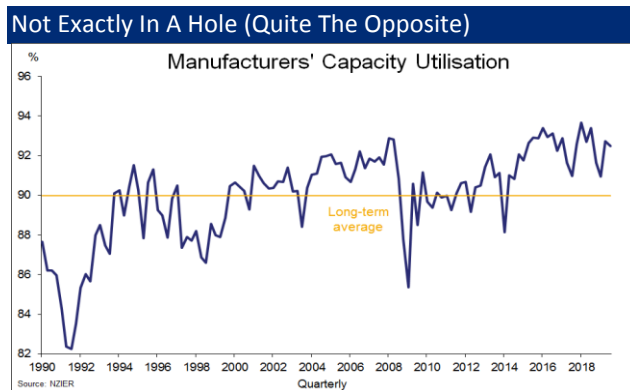
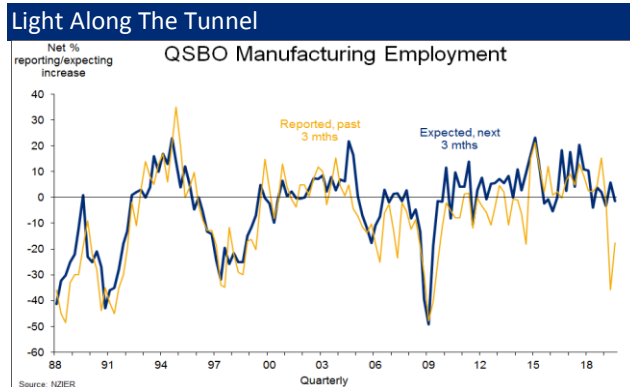
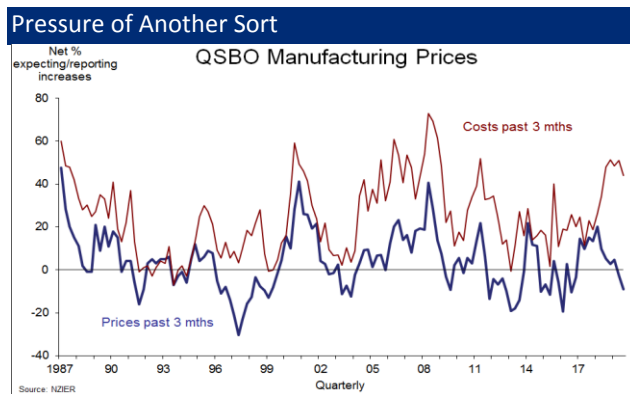
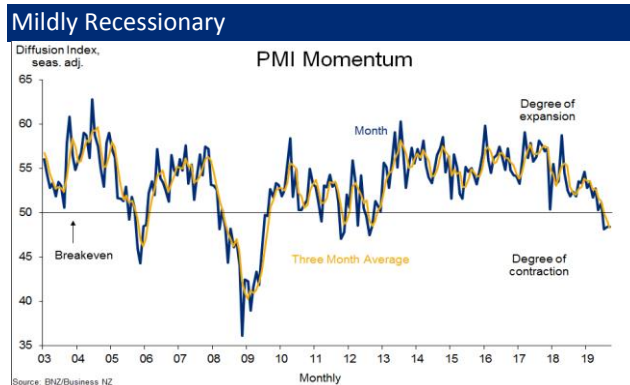
Looking Forward

While the PMI and QSBO paint a broadly dour picture around manufacturing, each of them also held some hope that the worst might just be passing. In the case of the PMI, its new orders index, at 50.1, recovered a semblance of stability, having languished at 45.9 in August. The PMI's employment component, meanwhile, consolidated around the breakeven level of 50, having been down in the dumps at 42.3 back in July. In the case of the QSBO, while many of its activity indicators relating to the last 3 months were poor, expectations for the coming 3 months were, by comparison, relatively sound. Export sales expectations recovered a robust tone (notable in the global context).

Capacity

The QSBO also showed a firming in manufacturers' intentions to invest in plant and machinery, after some wobbles in the first half of this year. While the number on this was virtually flat, it was actually good enough to be around its long-term average. Then again, this makes some sense. There is certainly the need for manufacturers to invest, judging by the extent to which they are maxing out present capacity. The QSBO variable on this – known as CUBO – held at 92.5% in the September quarter. This stayed very much on the high side of normal – where it's been for quite a few years now. Judging by this particular measure, New Zealand's manufacturing is not in a recessionary funk at all, at present; far from it.

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