RESEARCH

Manufacturing Snapshot

15 July 2022

PMI

The Performance of Manufacturing Index lost momentum in June, slipping to 49.7. This follows nine consecutive readings above the breakeven 50 mark, including May's 52.6. June's weakness appears to be the result of a combination and accumulation of factors with all major components lower than recorded a month earlier. Production and new orders fell the most and sit together as the weakest of the major components, at 47.8 apiece, and the most below their respective long-term averages.

Demand softening

There are changes afoot regards demand. After reaching a recent peak of 58.6 in March, the new orders index has progressively taken material steps downward to now be outright contractionary at 47.8 in June. One can never be sure of the precise drivers but there are a few likely candidates. Monetary policy tightening, falling house sales, and a spending rotation towards more travel (with COVID restrictions eased and the border reopening) are all headwinds to consumer expenditure on durable goods. Business demand may be fading too as investment intentions retreat with firms increasingly anticipating downwards pressure on profitability as costs rise. In the mix too was some PMI respondents reporting softer demand from offshore although that wasn't unanimous.

Challenges – old and new

Supply side challenges persist and continue to dominate PMI respondent comments to the negative. Labour shortages remain a frustration for many. Adding to the long running difficulties, a lot of manufacturers reported increased absenteeism this month (associated with COVID and/or winter ills) which dented productivity. No wonder production fell. Troublesome logistics and the unreliability of supply chains were much more commonly reported than the odd account of improvement. The PMI deliveries index slipped back to 51.7 in June. Meanwhile many PMI respondents report cost pressures and intend to lift prices.

Growth and policy

We continue to expect a decent bounce in Q2 GDP, following restriction-induced weakness in Q1. But June's weak PMI adds a note of caution and certainly supports our broader concern about economic growth ahead. While there are signs of some easing in excess demand here, the RBNZ will need time to be convinced that this will continue, and broaden, such that it will eventually cool the current intense inflationary heat.

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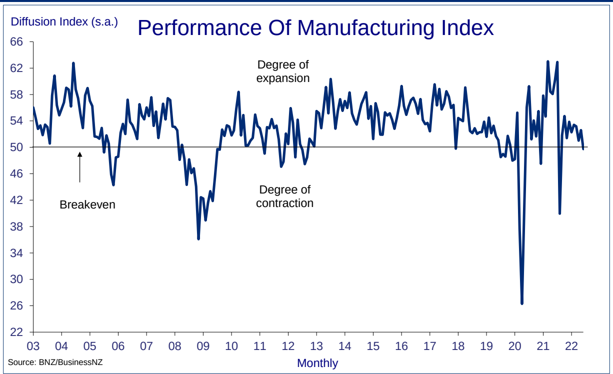
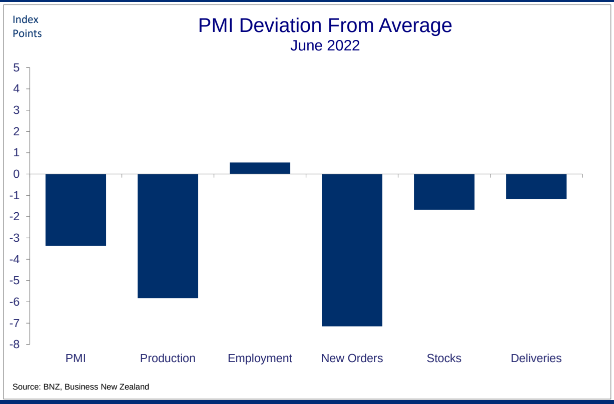
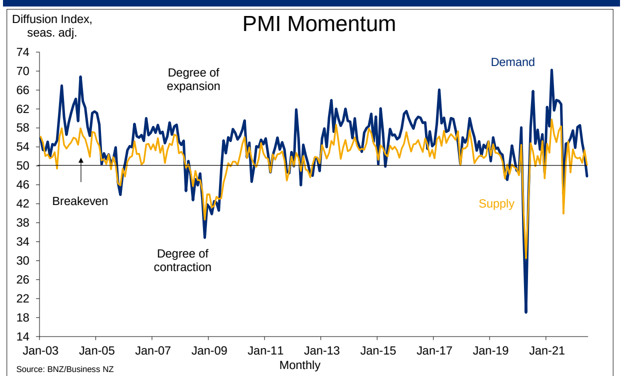
Losing Momentum



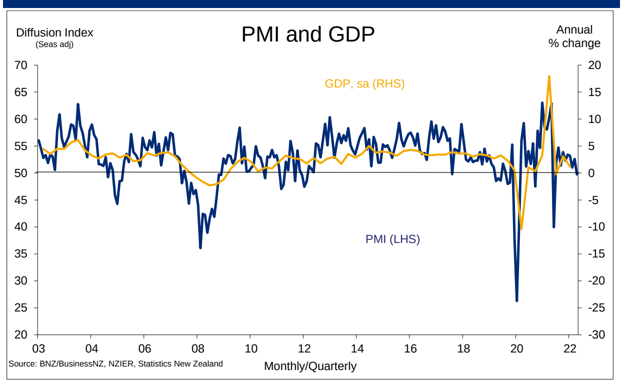
Lower Order



Some Easing In Excess Demand



Caution



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