RESEARCH

Manufacturing Snapshot

18 January 2019

The PMI

New Zealand's Performance of Manufacturing Index (PMI) ended 2018 on a robust note. Its seasonally adjusted reading, of 55.1, was confidently back above its long-term norm (53.4). This extended a broad recovery, from the PMI having looked a bit vulnerable back in July, down at 51.3. The pickup has been underpinned by production. This accelerated to 55.7 in December, from 51.9 in November. Employment was agreeably expansive at 52.2, while new orders stayed encouraging with an index reading of 56.1. This helps allay concerns that the big jump reported in stocks of finished products in December (to 58.6, from 55.3) was a sure sign of weakening demand.

Global

The latest NZ PMI result is all the more encouraging in the context of slowing growth in global manufacturing. The latter is part of what's casting clouds around international GDP growth expectations, going into 2019. Having said this, the global PMI, at 51.5 in December, was still on the expansive side of 50 – rather than well below this breakeven mark, like it obviously was during the last global recession (2008/09). With whispers of a world recession, some less-than-friendly trade negotiations going on, and uncertainty around business investment, the international backdrop will be important for NZ's manufacturing sector to keep abreast of in 2019.

QSBO

Even now, not everything about New Zealand's manufacturing industry is as encouraging as December's PMI indicated. Tuesday's NZIER Quarterly Survey of Business Opinion (QSBO), for example, registered a tone of struggle regarding manufacturing output over the prior 3 months. The QSBO also harboured a relatively damp view on domestic sales for manufacturers over the near term, while expectations for export sales weren't quite as well as they were last quarter. Regarding orders, a net 3% of manufacturing respondents to the QSBO reported a decline over the last few months. So there are still elements of caution there.

Capacity/Pricing

Encouragingly, the latest QSBO registered a much-recovered view on investment spending amongst manufacturers. Then again, this would appear to be a necessity. While capacity utilisation in the sector did ease a bit in Q4 (to 91.7%, from 93.4% in Q3) it was still relatively lofty. More to the point, manufacturers were still reporting intense difficulty in finding staff. These sorts of things will make it difficult to expand, even if the demand is there. At the same time, the QSBO indicated that profitability is being eroded. This is as cost pressures remain strong, while pricing power appears to be struggling for any traction.

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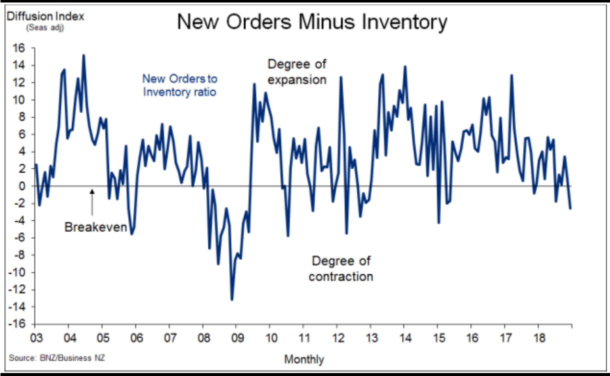
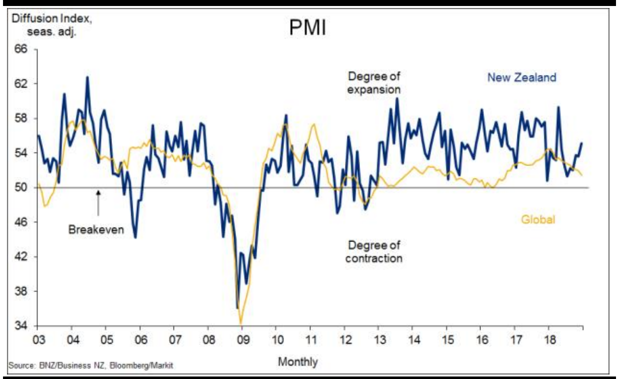
Something To Watch

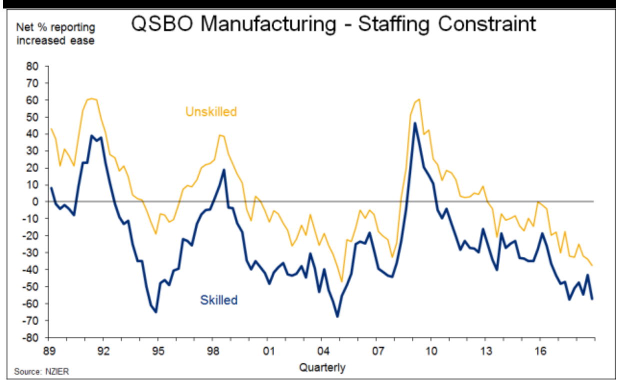


World Beating



Domestic Drag

Is There Anybody Out There?



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