Manufacturing Snapshot

15 March 2019

The PMI

The Performance of Manufacturing Index (PMI) maintained trend-like expansion into early 2019. Its seasonally adjusted reading of 53.7 for February was even a nudge better than January's 53.0. This further consolidated the broad recovery the NZ PMI has traced, post a slow patch last winter. This process has been aided by production – whose index was 53.9 in February – while a solid read on new orders, namely 54.7, promises to keep that ball rolling. In contrast, the employment index in the PMI sagged to 50.8 in February, from 52.0 the month before.

Q4

The positive messages around production in the PMI gave confidence that the industry retains impetus – even though this might not look obvious in the Q4 GDP accounts. Indeed, we estimate that manufacturing output will decline a bit, in GDP. We came to this conclusion after seeing the Quarterly Survey of Manufacturing results of last Friday. Sure, they showed a hefty 2.0% jump in Q4 sales volumes. However, this was based on meat and dairy sales that over-represented the growth in on-farm production indicators that we prefer to reference. This suggested a leaning on inventory to meet demand, rather than just production in the quarter. Indeed, this looked to be a feature of manufacturing more generally in Q4, which is why we are wary about production per se.

Inventory

Inventory dynamics will thus bear monitoring, lest they continue to warn about slower production down the track. Unfortunately, that's exactly the message we're getting from the PMI into the New Year. While its new orders index was solid in February (at 54.7), its inventory accumulation measure was running on the strong side, at 55.4. Of course, this is better than having both below the breakeven mark of 50. However, the net effect still indicates a cloud around the strength of demand, relative to recent production trends. As a cross-check on this, we note that manufacturers in the Q4 NZIER Quarterly Survey of Business Opinion reported only middling concern about stocks being "too high". However, it's also the case that this gauge has increased over recent quarters.

Pricing

Production vulnerabilities noted, there is still a lot going for New Zealand's manufacturers in terms of prices. The Q4 producer prices, for example, registered annual inflation of 2.9% in this respect. This is being aided by near record highs in the terms of trade. The trouble is that costs in the manufacturing sector – primary goods processing included - are proving just as robust, if not more so. This looks to be putting the squeeze on profitability, which, like inventory gyration, might also affect production in due course.

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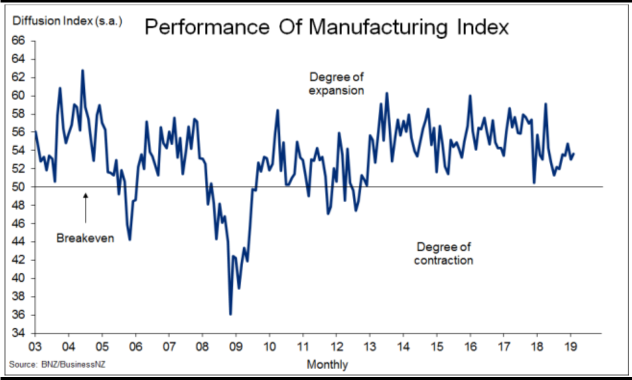
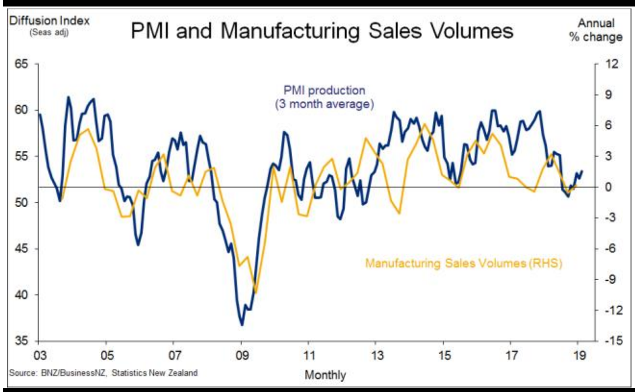
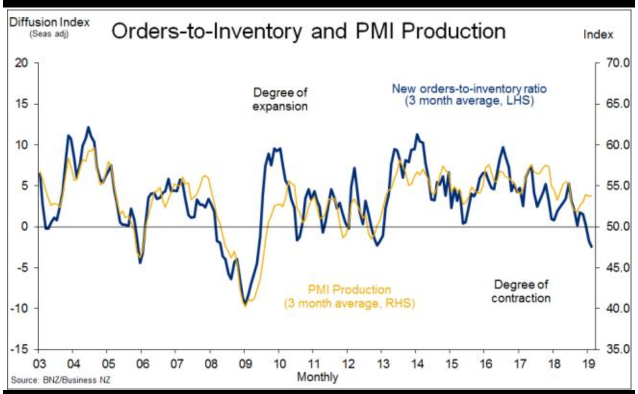
Broadly Encouraging



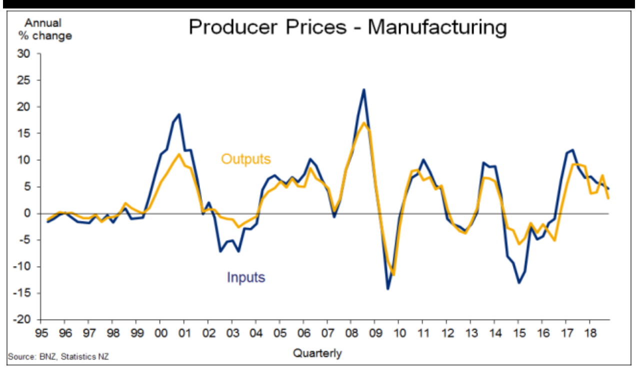
A Manufacturing Wobble for Q4 GDP?



Inventory Signals Turning a Touch Negative



Inflationary (Squeeze)



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