RESEARCH
Manufacturing Snapshot

12 March 2021

PMI

With its 53.4 for February, the Performance of Manufacturing Index (PMI) slipped back to about average. This was after a strong January (58.0) and an unusually weak December (48.3). Average was also the motto of the PMI's 3-month running mean, with its 53.3 being very close to the long-term average of 53.0. The PMI was above average, however, in key respects. While its production index slipped to 57.3, from 59.3 in January, it was still comfortably north of its norm of 53.6. New orders took a much bigger tumble – to 56.2 from 62.8 in January – but were nonetheless a margin above their historical average of 54.8. The PMI indices on employment, and finished stocks, were fractionally below trend.

Supply issues

This left the deliveries of raw materials index as the laggard in the PMI. At 47.6 in February this was the sixth month of the last seven in being below the 50 breakeven mark (versus a long-term norm of 52.9). It was certainly the message from respondents' comments to February's PMI survey, that supply issues were to the fore. Of those citing negative factors, supply rather than demand problems dominated, with frequent references to supply chains, shipping, freight, costs, and difficulties in finding suitable staff. And those who cited demand factors to the negative, well they mainly mentioned tourism as the issue at play.

Manufacturing sales

Nonetheless, as mentioned earlier, the production signals from the PMI remained upbeat through February. Granted, this did not appear consistent with Tuesday's December quarter manufacturing data. We inferred from this a bit of slippage in production. This is after adjusting the reported 0.5% increase in sales volume for inventory movement as well as direct measures of agriculture production we prefer to employ. The latter includes a fall in on-farm dairy production for Q4, compared to Q3, seasonally adjusted. Still, the PMI production index, in being robust in January (59.3) and February (57.3), helps allay concern that any fall reported in Q4 manufacturing output (as per the GDP accounts, due 18 March) might be the start of a downturn.

Forestry

New Zealand's forestry sector has recovered strongly, post the lockdowns of autumn 2020. To be sure, wood and paper products comprise only 9% of total NZ manufacturing output (as per the GDP accounts), versus 31% for food, beverage and tobacco products. Nonetheless, it also informs on local construction as well as exports. With this in mind, it was interesting to see that forestry harvesting during the December quarter of 2020 was 10% up on the same quarter in 2019. That infers a moderate increase on what was a strong September quarter, after it rebounded about 33% from a locked down June quarter. The Wood and Paper Product index of the PMI was a hefty 62.9 in January although it eased to 48.1 in February.

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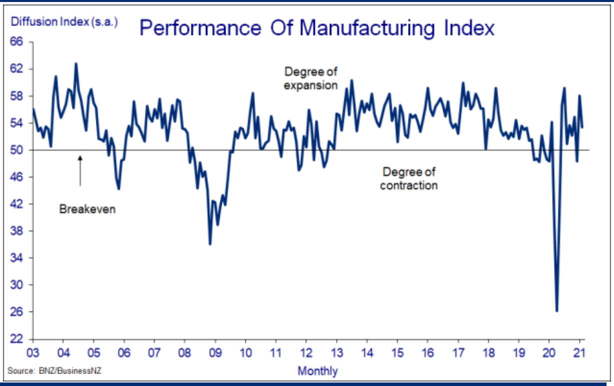
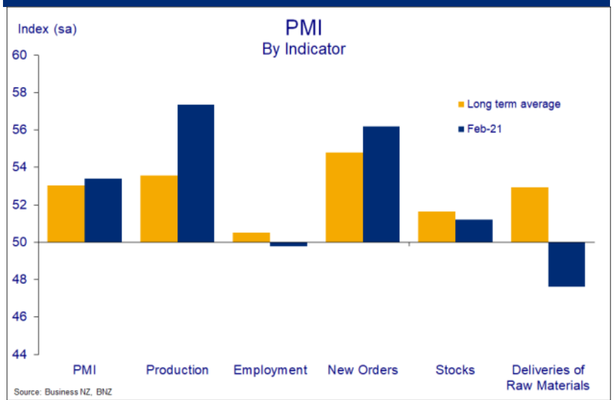
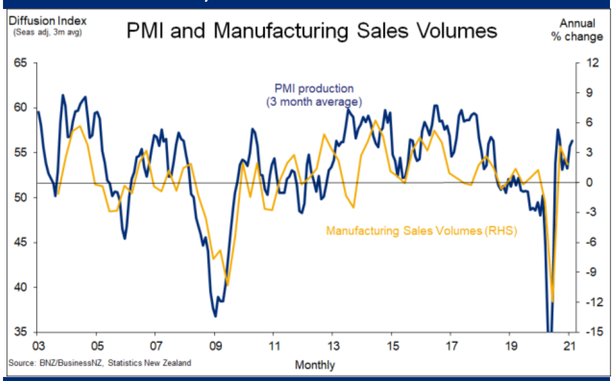
Down to Average



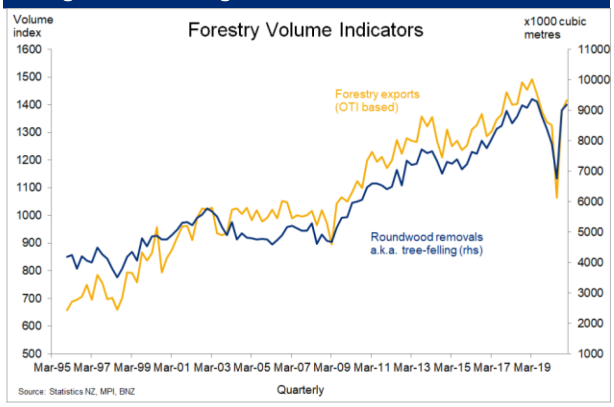
The Dibbly Dobblies (Slow Deliveries)



Cause for Positivity



Enough of the Pining



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