Manufacturing Snapshot

17 February 2017

The PMI

New Zealand's Performance of Manufacturing Index (PMI) lost more momentum in January. It decelerated to a seasonally adjusted 51.6, from 54.2 in February. This was the slowest since January 2015, and December 2012 before that. It was mainly because of a marked slowdown in its production index, which sagged to 51.1, from 56.9. New orders remained a little under par, at 52.5 (having been bounding away at 57.7 in November), which dampens expectations of a big bounce in the PMI over the short term. By region, Otago stood out as being on the weak side, but the Northern region still looked to be progressing quite nicely.

Industry Breakdown

One of the first things we thought, when we saw the much-slower PMI of January, was that it might reflect weakness in food processing. We certainly expect rural production to dent GDP over the early part of 2017, principally through lower meat and dairy volumes. However, as it turned out, the PMI industry grouping of Food, Beverage and Tobacco held up relatively well. In unadjusted terms it was 55.2, compared to 58.6 in January 2016. The weakness, instead, was accentuated in areas such as Textile, Clothing, Footwear, and Leather (34.7), Wood and Paper Product (39.0), as well as Printing, Publishing and Recorded Media (26.7).

Construction

The other point of caution regarding manufacturing is its dependence on the local construction cycle. We say this with some of the building indicators having lost oomph over recent months. New dwelling consents in December, for instance, dropped noticeably for the second month in a row, yanking the trend down. Canterbury's maturing reconstruction phase is part of the reason. However, the peaking building indicators of late might also reflect capacity limits being reached in the industry, overall. If construction's strong run is tiring then it will remove a tailwind the local manufacturing industry has enjoyed for a good few years now.

Global

And what a purple patch it has been. The NZ PMI has averaged 55.3 over the last 3 years (with not one month of outright contraction – meaning a reading of below 50.0 – throughout) .Compare this to the global PMI, which has averaged 51.4 over the same period. Yet, over the last six months or so there has been something of a reversal of fortunes. While the NZ PMI has slowed a lot, to a modest pace, the global PMI has been picking up, to a decent speed. January's global PMI, of 52.7, with December's, was the strongest since February 2014. Might the global demand cycle be offering hope to local manufactures, just as some of the local influences peak in force?

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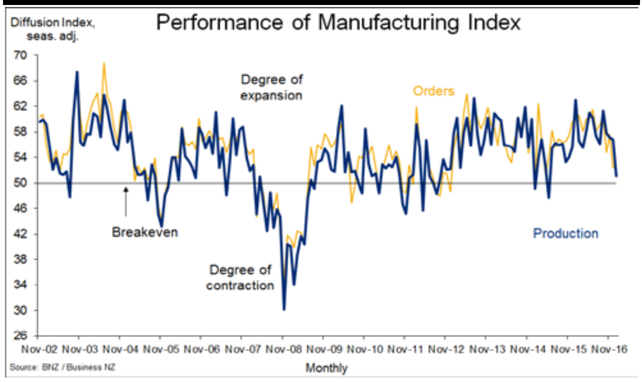
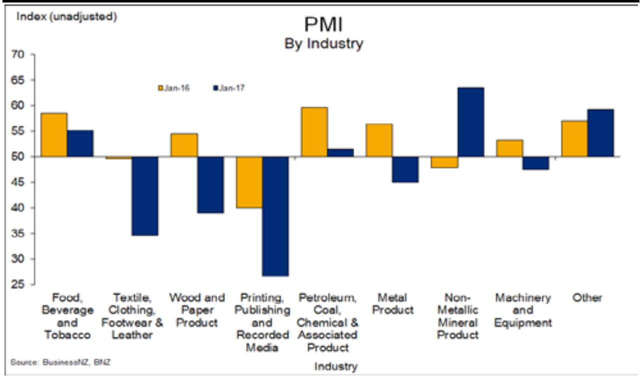
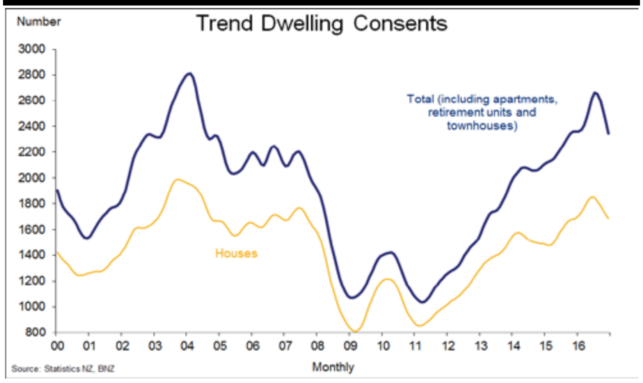
A Sharp Slowing



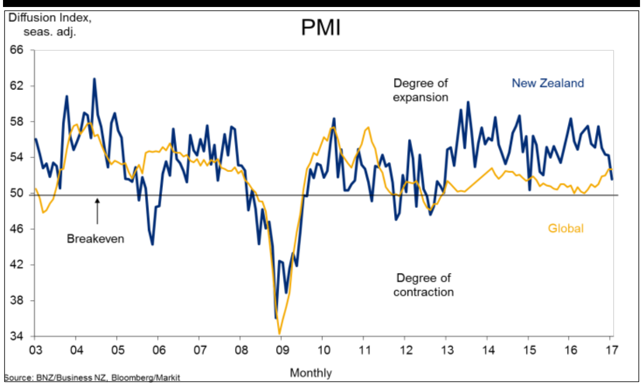
Food for Thought



Topping Off



NZ Knocked off its Global Pedestal



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