# Manufacturing Snapshot

13 April 2018

## The PMI

New Zealand's Performance of Manufacturing Index (PMI) has only looked weak this year in comparison to its racy performance across 2017. In March it slowed to a seasonally adjusted 52.2, compared to February's average-like 53.3. The new-orders index was also a tad below normal although, at 53.8, was still clearly expansive. The PMI employment index, however, at 53.5, was ahead of its long-term average. Based on historical patterns, this tends to dial down the idea that the PMI is in the throes of stalling overall. There was also substance in the fact that all regions had PMI readings comfortably above the 50 mark that demarcates expansion from contraction.

## QSBO Manufacturing

The weak spot in March's PMI was its production index. With a seasonally adjusted outcome of 50.8 this was close to stalling. Compare this to February's 53.7 and the exceptionally high reading of 61.0 back in November and a sense of sharp deceleration arises. As it turned out, a flat patch in output was also the message from manufacturers in the latest NZIER Quarterly Survey of Business Opinion (QSBO). With respect to output over the last 3 months, a mere net 6% reported an increase. However, when looking ahead to the coming 3 months a net 28% expected an increase. As it happens, we expect manufacturing to be flat in Q1 GDP and pick up in Q2.

## Capacity Constraint

Even if manufacturing production does struggle for the meantime, it could well reflect a lack of capacity rather than any poverty of demand. The difference carries diametrically opposed conclusions for inflation. We mention this with the capacity utilisation measure in the QSBO's manufacturing component running at 93.7% in Q1. This is a record high for the series (since 1990). And it was now higher than the building sector's capacity utilisation rate (93.3%), which is saying something. The idea that the manufacturing sector is running headlong into supply constraints was also evident in QSBO reports on increasing difficulty in finding staff.

## Investment

The NZIER's QSBO also added to the context of manufacturers by showing that the sector's investment intentions were generally robust. This was certainly the case with respect to plant and machinery, where a net balance of 23% intended expansion. This was heavily above average. And it gels with the aforementioned supply limits coming into play. Manufacturers' intentions to invest in buildings did take a knock this quarter, to -12. However, this is about the long-term average for this series (going back to the 1960s) so it doesn't point to a pull-back, as such. Overall, investment intentions of manufacturers are encouraging, despite weak confidence.

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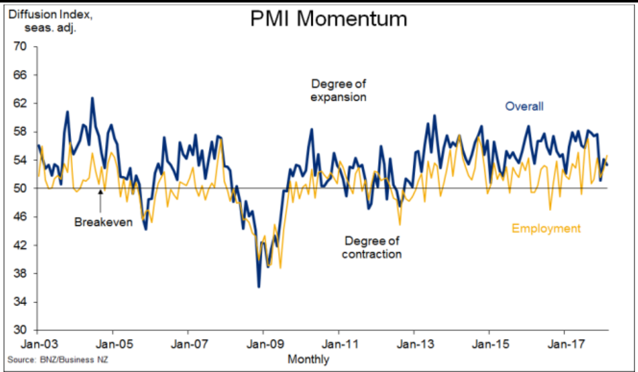
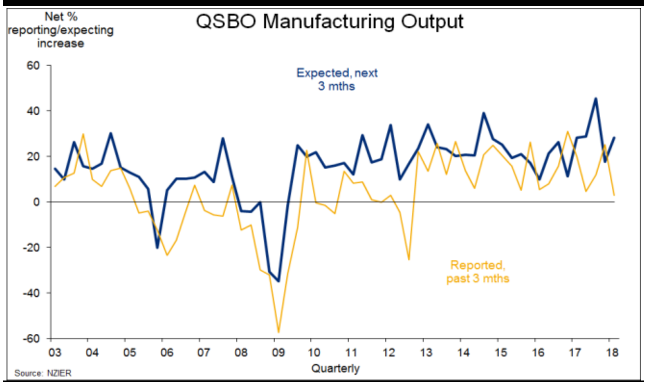
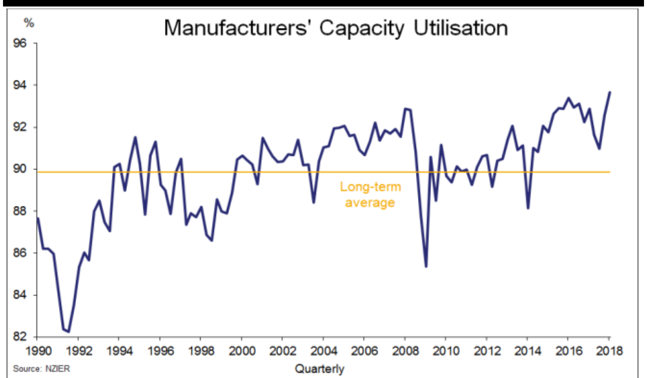
### Slower But Supported



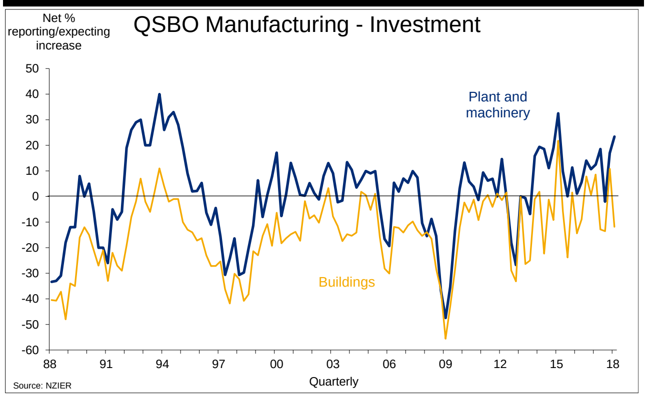

### A Slow Patch in Production, Probably Transitory




### Stretched to the Max




### Pressure To Invest



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