RESEARCH

Manufacturing Snapshot

13 November 2020

Not So Fast

October's Performance of Manufacturing Index (PMI) served as a gentle reminder. That is, of not getting too carried away with the sense of recovery, even if the worst of COVID's impacts can be assumed to be behind us. The PMI slipped back to a seasonally adjusted 51.7, having lifted to 54.0 in September. This was even though October was fully back down to Level 1 restriction, after the tighter levels that were imposed through August and September. And the slowdown in October's PMI was marked in the very areas that gave the most encouragement in September. Namely, production slowed to 51.1, from 56.7, while new orders dipped to 52.4, from 58.1.

QSBO Also Highlights Caution

Then again, there was a bigger realisation of disappointment in October's NZIER Quarterly Survey of Business Opinion (QSBO), amongst manufacturers. Their reports of output over the last 3 months, for example, remained negative, at a net -15. Similarly, new orders were still languishing at -13. Employment reports, at -10, were also below average. The biggest soft spot, however, was arguably in exports, with a -26 reading with respect to performance over the last 3 months. This was more negative than it was in the prior QSBO report. The good news is that, looking out over the coming 3 months, manufacturers in the latest QSBO anticipated net gains in all these key elements.

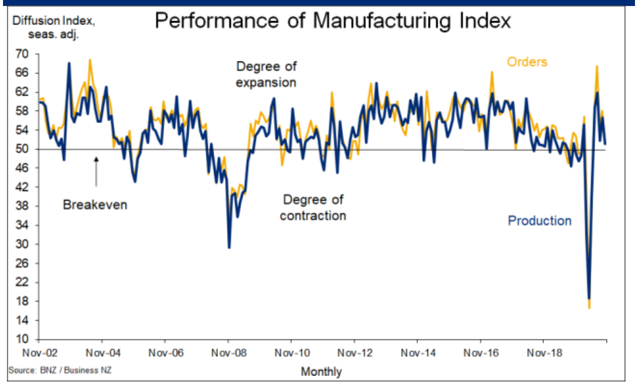
Costs

Even if activity is assured of expanding well, it is no guarantee of improved profit – especially when cost pressures are emerging, as they very much appear to be. To be clear, the PMI doesn't include numerical indicators on costs (though some information on this can be gleaned from comments provided to the survey, month to month). But the QSBO does. And it showed a re-emerging upward pressure on costs – whether in terms of the last 3 months or the 3 months in prospect. Yet selling-price indicators amongst manufacturers were soggy regarding the last 3 months and barely positive for the coming 3. This, in turn, is keeping profit reports on the back foot, albeit with flickers of improvement in sight.

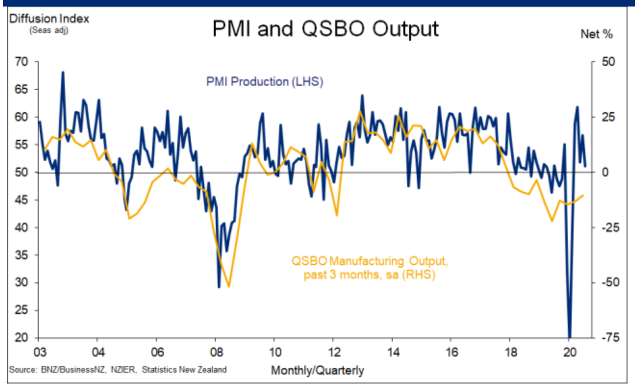
Capacity

The advent of rising cost pressure might seem odd, when there is supposedly gaping amounts of spare capacity in the economy. The first point we'd make about this, is that there is probably less spare capacity than generally thought. Indeed, if the QSBO's measure of capacity utilisation (CUBO) is anywhere near the truth, it's saying manufacturing supply is struggling to meet demand. This could say as much about the ability to supply as the strength of demand. Related to this, the other point we'd make, is that some extent of the rising costs appears to reflect problems with supply chains, especially global ones. That's certainly the feedback we're getting from firms, whether manufacturers or non. Is it any coincidence that the inventory index in October's PMI, at 49.1, remained on the lean side, as did the deliveries of raw materials (49.5)?

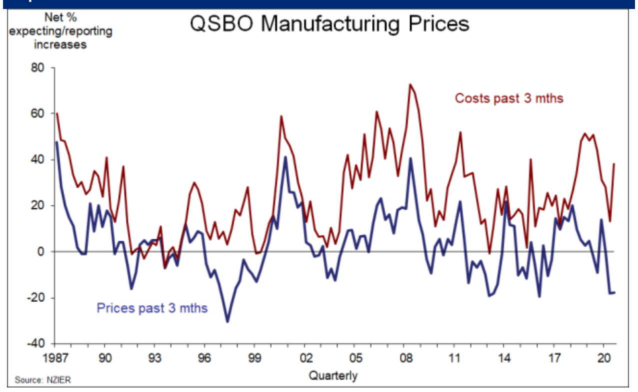
Often Difficult to Sustain



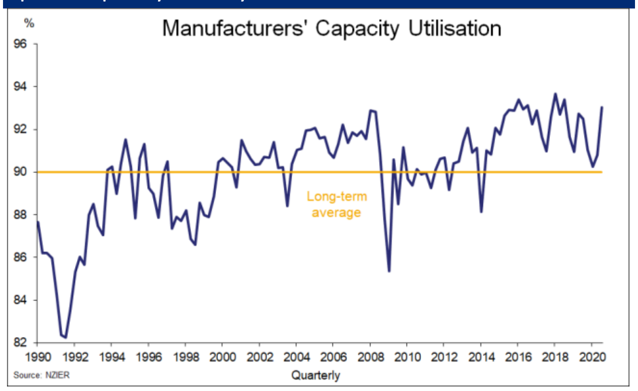
Reservation of Late



Squeeze



Spare Capacity...Really?



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