Manufacturing Snapshot

11 November 2022

PMI turns contractionary

The Performance of Manufacturing Index (PMI) took a turn for the worse in October. In dropping to 49.3 (from 51.7 in September), the PMI recorded its first contractionary reading for the year. The new orders index fell the most and was the outright weakest across the major components, amid many manufacturers noting a softening in demand this month. The PMI production index eased (to 49.9), while employment dipped (to 48.9) despite many respondents still reporting labour shortages.

New orders plunge

The new orders index fell to a very weak looking 44.7. Indeed, outside of Covid lockdown months, this is its weakest reading since the GFC back in 2009. It is more than 10 index points below its historical average. There is always the possibility of such extreme readings being affected by monthly noise, but it is the second sub-50 result in a row suggesting some contractionary signal (admittedly after a strong August). New orders are falling while the PMI stocks index remains expansionary and firmly above its long-term norms. A low orders-to-inventory ratio typically bodes ill for production ahead.

Production

The PMI production index did ease in October, but, at 49.9, it is contractionary only by the slimmest of margins. For much of this year, the production index hasn't kept up with generally solid new orders. In October, production hasn't fallen as far as new orders. This suggests current production is chewing into previous excess demand, or, as one respondent put it, 'a reduction in backlog'. We suspect some rebalancing of demand and supply would be welcomed by many. But not so much a sudden stop in demand for manufactured goods, as seems to be the risk here. This needs to be monitored closely. Regards GDP, recent PMI readings suggest decent manufacturing growth was recorded in Q3 but with suggestions of softening ahead. All is not lost, with the likes of electronic card transactions data showing some lift in spending on durable goods during October after a few months of decline.

World alignment and domestic details

Following recent months of outperformance, NZ's softer PMI puts it back in line with the (still falling) global equivalent. Despite this alignment, there was plenty of variation in the NZ PMI itself, such as across industries (a 5 to 4 split of those contracting vs expanding), regions (southern areas like Canterbury and Otago/Southland doing better than Northern and Central regions) and firm sizes (where a familiar pattern has returned with larger firms tending to outperform smaller firms).

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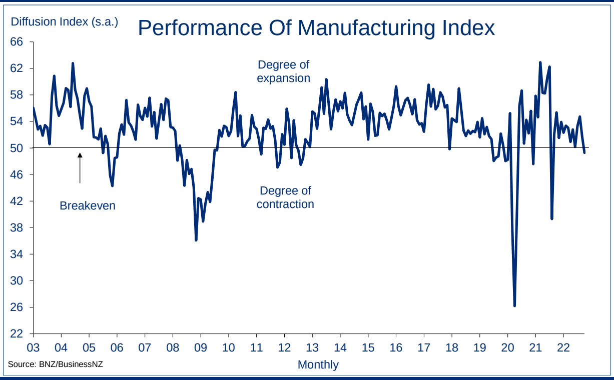
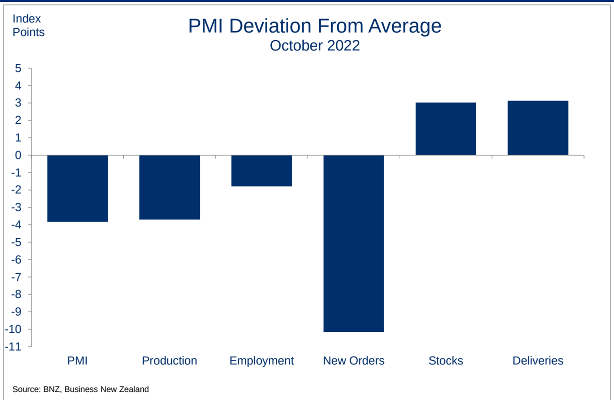
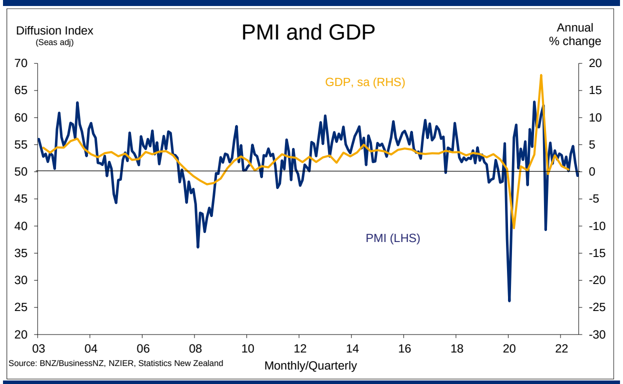
Below The Line



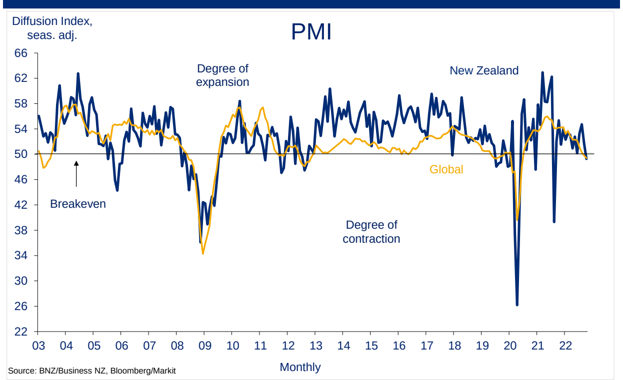
Down The Order



Softer Growth Post Q3?



Back In Line



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