Research

Manufacturing Snapshot

13 September 2024

Small tick up

The Performance of Manufacturing Index (PMI) lifted slightly from 44.4 to 45.8 in August but remains firmly in contractionary territory. The PMI has now been stuck below 50 for 18 consecutive months and the August result remains consistent with a struggling manufacturing sector. While business confidence and building consent indicators have ticked up from their very low levels offering potential for improvement over the coming 12 months, which is consistent with our economic forecasts, the PMI is an indicator of outcomes and continues to show that current conditions remain challenging. Our economic forecasts remain for the manufacturing sector to turn when the broader economy turns.

Weak but improving

While all sub-indices remain well below their historical average, four of the five sub-indices improved in August. The PMI new orders index recovered the most from 43.3 to 46.8. While not indicating expansion, it is considerably less pessimistic than June's 39.5. It is a step in the right direction and if this trend continues it is not far from indicating an upturn in demand. The PMI new orders indicator remains softer than the recent lift in QSBO new orders. In any case, it is worth remembering that the current starting point for the manufacturing sector remains very weak. The PMI employment index also increased, from 43.5 to 46.6, but still implies a further reduction in manufacturing employment.

Destocking trend continues

The PMI finished stocks index was the only sub-index to fall in August. It eased slightly to 46.2 as the destocking trend continued. On a three-month moving average basis, the index is now at its lowest level since 2020. The PMI finished stocks index is now slightly below the PMI new orders index – for the first time in two years. This suggests more scope for manufacturing production to pick up upon an eventual turn in demand.

Glimmers of hope

While the August result is far from good, there have been some positive developments. Business confidence has improved further following the Reserve Bank of New Zealand's OCR cut in August. While falling interest rates will support demand, it will take time for the lower OCR to generate a pick-up in sales. We anticipate next week's Q2 GDP figures to include an expansion in the manufacturing component for the quarter, driven by gains in some individual industries like Transport and Machinery Equipment, but more general weakness to be evident with annual growth still clearly negative.

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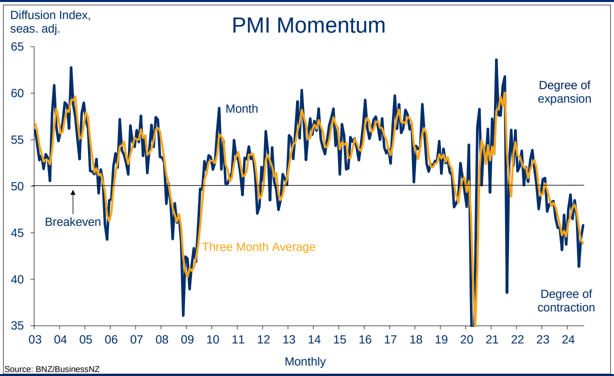
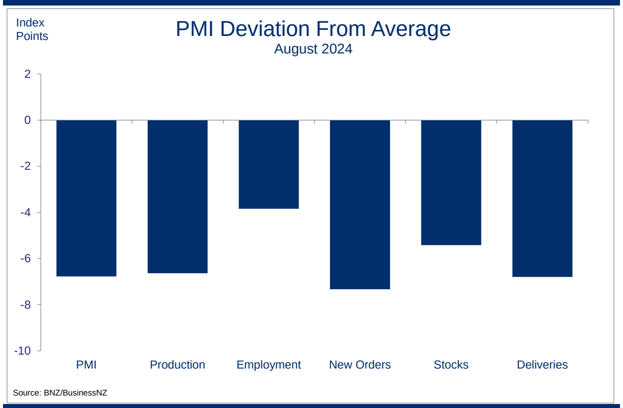
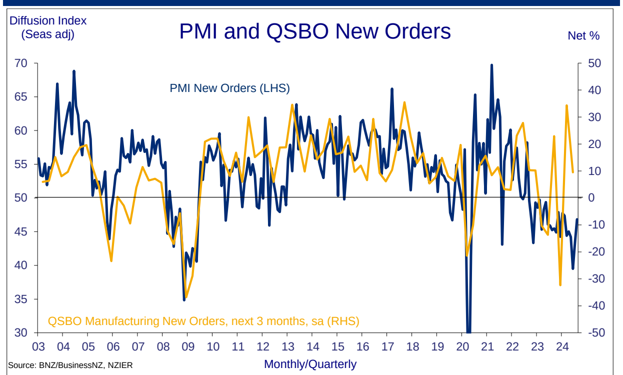
Weakness persists



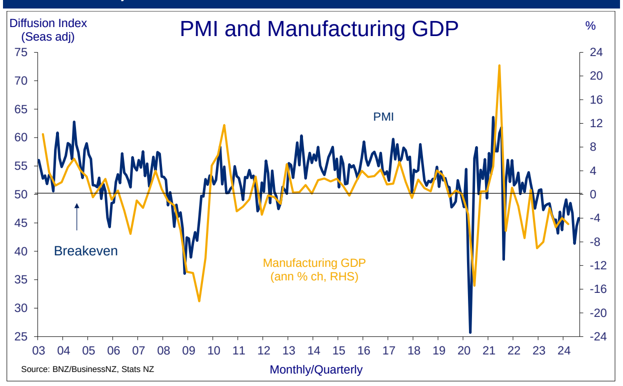
Fragile across the board



Moving in the right direction



Not there yet



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