Research

Manufacturing Snapshot

16 August 2024

Still dreadful

Perhaps the best thing to be said about July's Performance of Manufacturing Index is that it was less bad than June's result. But June's 41.2 was dreadful. July's 44.0 is only a little less dreadful. Both speak to a manufacturing sector firmly in reverse and under significant duress. Our economic forecasts already include manufacturing GDP contracting in both Q2 and Q3, which would extend an already lengthy period of contraction. The latest PMI readings, further recent falls in the likes of building consents, and elevated wholesale electricity prices curtailing some activity simply increase the chance of a larger drop in output than we already anticipate.

All below average

The full impact of the wholesale electricity price surge remains to be seen. But it is notable that the sharp margin compression for some of those exposed has appeared to threaten, or result in, output reduction much more so than pass through to selling prices. It looks like a bigger hit to output (and associated exports) rather than general prices at this point. Energy issues (gas scarcity included) come on top of broad-based demand weakness being reported by manufacturers. The PMI new orders index was 42.5 in July. That was a smidge higher than June's 39.0 but, aside from the first Covid lockdown, those two months represent the lowest and second lowest new order readings since the GFC back in 2008/09. While all major PMI components are well below their long-term averages, the new orders index shows the biggest deviation at a massive 11.7 index points.

Production, employment down; inventory too

An ongoing lack of demand has seen the PMI production index post its 18th consecutive month below 50. The PMI employment index slipped again, to 43.1, indicating further reduction in manufacturing employment and/or paid hours into Q3. And a general sense of destocking continued in July, which, if there is any positive within the gloom, suggests scope for production to pick up upon a turn in demand. Manufacturing activity will turn when the broader economy turns. Easing monetary conditions will help in this regard, but it will take time for the likes of a lower OCR to generate a general pick up in sales. But with the Reserve Bank underway in starting to remove monetary restraint, and with expectations of further OCR cuts ahead, it will likely lift manufacturers' optimism that a turn in demand is indeed ahead.

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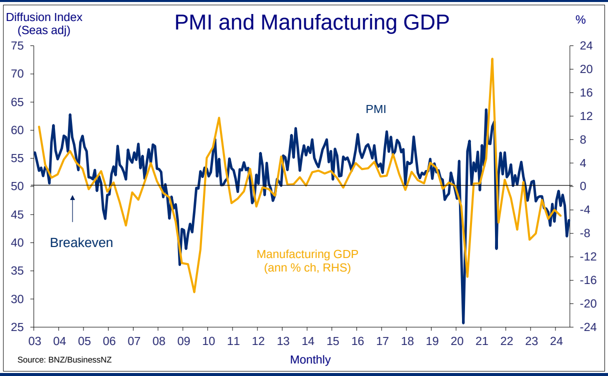
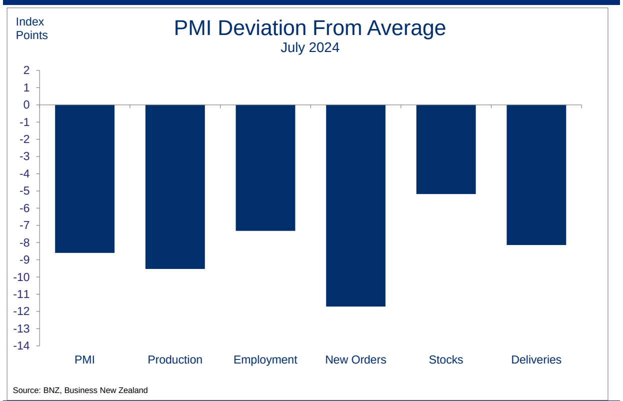
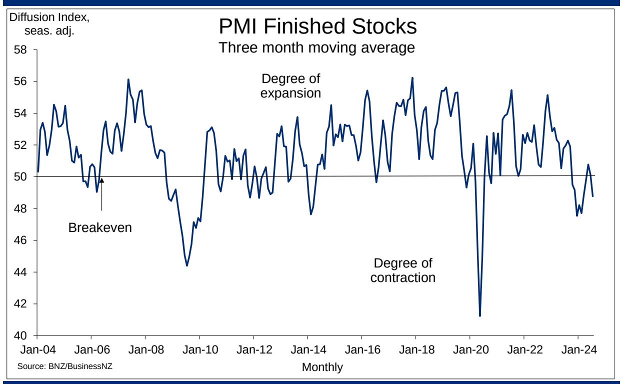
Gloom continues



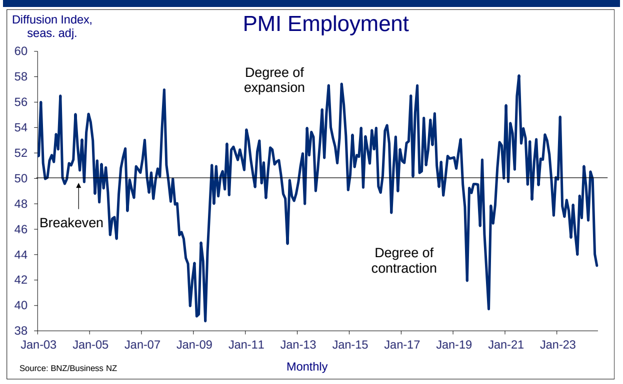
Nothing like normal



More destocking



Sharp reduction



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