Research

Manufacturing Snapshot

12 July 2024

In recession

The manufacturing PMI has now been below 50 for 16 consecutive quarters. As if this isn't bad enough forward orders have been sub-50 for 22 consecutive quarters suggesting further declines in output lie ahead. Indeed, if anything, the weakness appears to be deepening with June readings for four of the five PMI sub-indices falling precipitously from May's already supressed levels. While the weakness in these series has not been as deep as during the GFC the length of it has been longer, and it's not over yet. Manufacturing activity is highly leveraged to domestic demand, particularly residential construction and household spending. Both of these are faltering.

Construction under pressure

According to New Zealand's national accounts residential construction has contracted in each of the last six quarters. Total activity as at the March quarter 2024 was 10.4% below where it was in September 2022 and 13.8% below its March 2021 COVID peak. Non-residential construction has fared better but is still up only 1.7% on year earlier levels. Further weakness in both residential and non-residential construction is expected. Meanwhile household spending has been hammered. Ex-auto real retail sales have fallen 6.6% over the last nine quarters.

QSBO equally weak

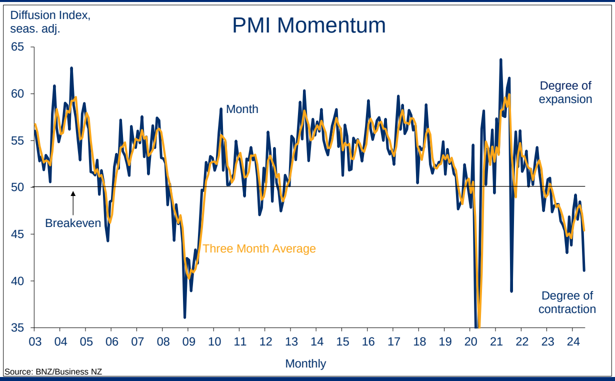
NZIER's June Quarterly Survey of Business Opinion, not surprisingly, paints a very similar very weak picture for the manufacturing sector. Manufacturers reported that both actual and expected sales are in decline. It will come as no surprise to anyone in the sector that the drop in sales accompanied by ongoing cost increases is taking a toll on profits. Staggeringly, a net 73% of manufacturers said that profits were in decline. This is the worst reading in the history of this series which dates back to 1969! Given the parlous state of the sector at the moment it looks like staff are starting to get laid off and the process will accelerate. A net 39% of respondents said they will be laying off staff - the worst reading since the GFC.

Hang in there!

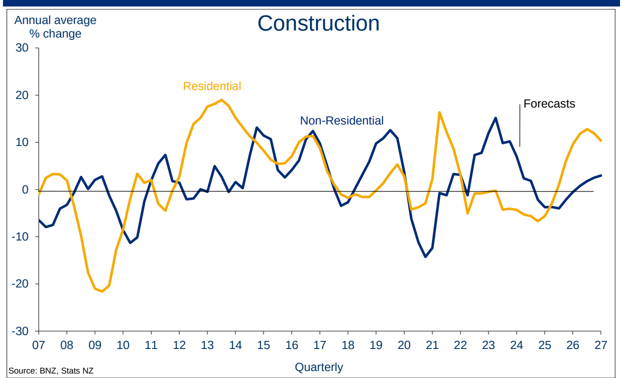
Manufacturing activity will turn when the broader economy turns. Alas we do not think that will happen any time soon. Ultimately the trigger for that will be an easing in monetary policy. The Reserve Bank has so far been reluctant to release the hand brake, but we are increasingly confident we'll see interest rates lowered before the year is out.

stephen_toplis@bnz.co.nz

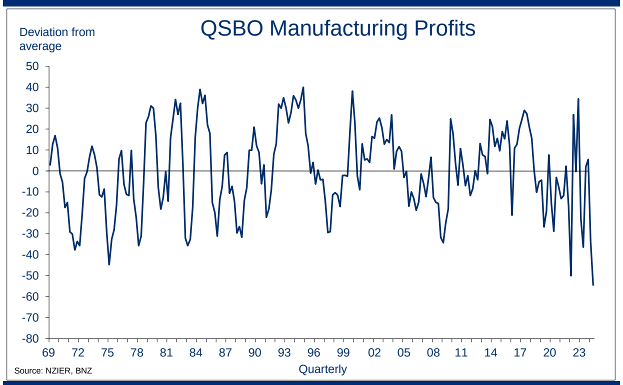
More gloom and doom



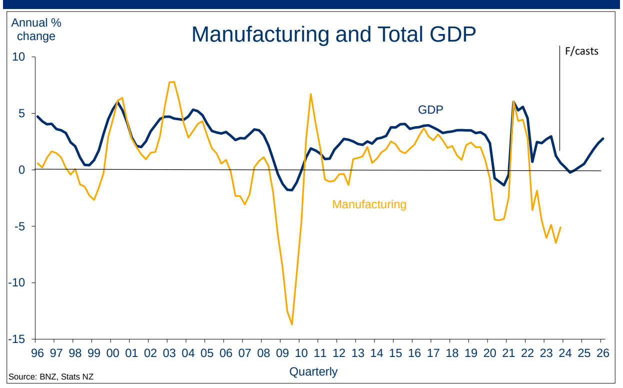
Construction struggling



Profits hammered



The darkest hour?



Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854