Research

Manufacturing Snapshot

11 October 2024

Contracting at a slower pace

The Performance of Manufacturing Index (PMI) improved slightly from 46.1 to 46.9 in September. While the PMI remains firmly in contraction, this is its third consecutive month of recovery since its trough of 41.4 in June. The lift in business confidence and the activity outlook for manufacturing in recent business surveys is a contrast against the PMI still well below 50. Despite moving in the right direction, ongoing weakness is consistent with the Reserve Bank of New Zealand cutting interest rates.

Still weakening but to a lesser degree

While all sub-indices remain well below their historical average, four of the five series have moved closer to breakeven in the last three months since June. The PMI production index has recovered the most from 35.0 to 46.8. Similarly, the PMI new orders index has lifted from 39.5 to 47.8. While not indicating expansion, they continued to improve in September and if this trend persists it is not far from indicating an upturn in demand. PMI finished stocks is the only sub-index to decrease since June (from 47.5 to 46.6), providing more scope for manufacturing production to pick up upon the eventual turn in demand.

Labour market likely to lag

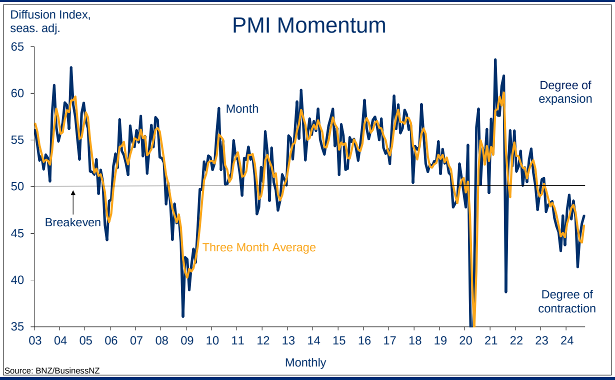
Like the PMI, NZIER's September Quarterly Survey of Business Opinion (QSBO) still paints a picture of a struggling manufacturing sector. A staggering net 55% of manufacturers responding to the QSBO reported that they had laid off staff in the last quarter. This is the worst reading in the history of this series which dates back to 1961. A net 52% of manufacturers said that profits were in decline, although this has eased slightly from 73%. For many firms it will be the reduction in labour costs that eventually returns the business back to profitability, but for those who lose their jobs this will be little consolation.

Gap to Australia converging

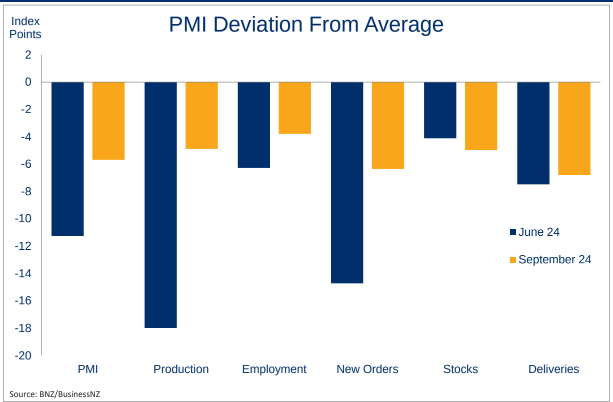
New Zealand's PMI (46.9) inched above Australia's (46.7) for the first time since February. The PMI is an indicator of outcomes and shows that current conditions remain challenging in both economies. To date, annual growth in manufacturing GDP has been relatively more resilient in Australia at 0.2%, compared to -3.1% in New Zealand. Falling interest rates in New Zealand will be supportive, but it will take some time for the lower OCR to generate a pick-up in sales and for firms to return to profitability.

doug_steel@bnz.co.nz

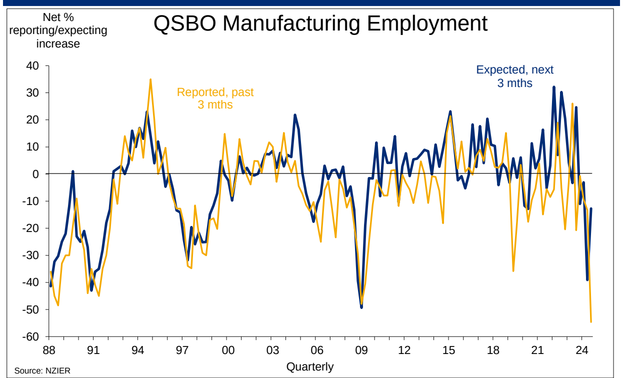
Recent recovery continues



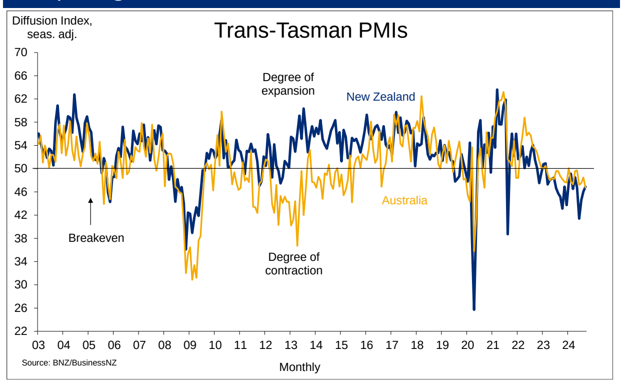
Better but still in contraction



QSBO labour market deteriorating



Comparing across the ditch



Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
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