Research

Manufacturing Snapshot

12 April 2024

PMI retraces

The recent tendency of the Performance of Manufacturing Index (PMI) to become less downbeat was interrupted in March. It pulled back to 47.1 after February's 49.1 had it closing in on the breakeven 50 mark. It is difficult to know how much influence the likes of February's leap day boosted that month and the timing of Easter this year weighed on activity in March. In any case, the PMI's average for the first quarter of the year is consistent with manufacturing GDP posting another quarter that is below that of a year earlier.

Domestic demand softer

All major PMI components in March were below their respective long-term average norms. However, this was especially the case for new orders. At 44.7, the new orders index was nearly 10 full points below normal. It tells of soft demand with PMI respondents predominately citing various domestic factors such as less construction activity and belt-tightening by consumers. The domestic weakness fits with results from the latest Quarterly Survey of Business Opinion (QSBO) that saw more manufacturers reporting lower domestic sales, but more export sales. Softer demand overall has seen output follow suit, with the PMI production index well below average at 45.7.

Profitability pressures, staff reduction

The latest QSBO saw a net 53% of manufacturers reporting lower profits. That is about as weak as that indicator gets. With cost pressures lingering and demand weak, it looks to be more difficult to pass through price increases judging by the QSBO. Manufacturers seem to be responding by cutting costs, including by reducing staff numbers judging by the PMI. The PMI employment index has fallen to a weak 46.8 in March.

Different now

Previously, employment weakness was more a function of the inability of firms to find staff than it was a lack of demand for labour. That has changed. The QSBO asks manufacturers what their biggest constraint on output is. At times during the extremes of the pandemic, as many as half of respondents cited labour as the biggest constraint on output. That is now 4% in the most recent survey – its lowest level since the aftermath of the GFC back in 2011. In contrast, more than half of manufacturers now cite sales (read: lack of demand) as the biggest constraint. The good news is that a rebalancing of demand and supply, across the economy, will lower inflation and allow the RBNZ to lower interest rates.

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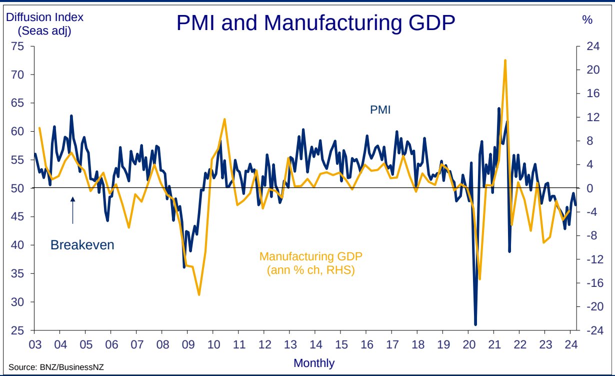
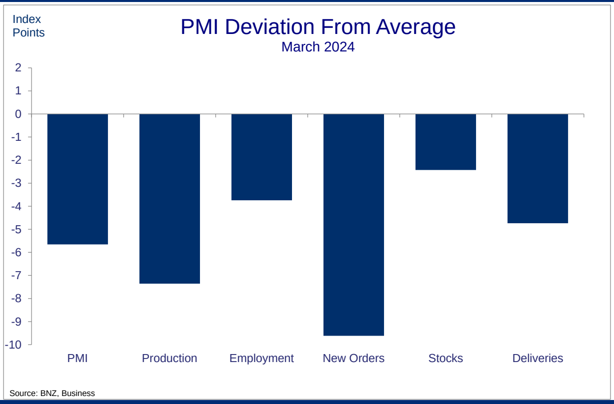
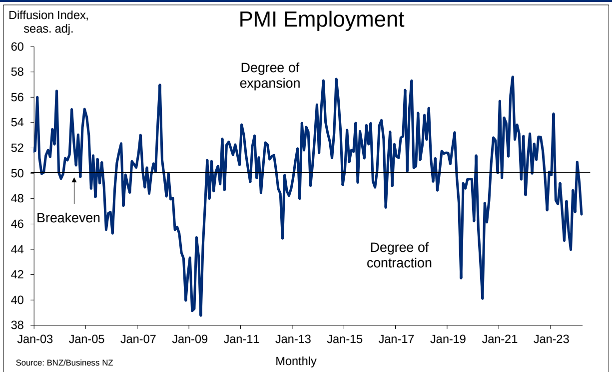
Relative Improvement Interrupted



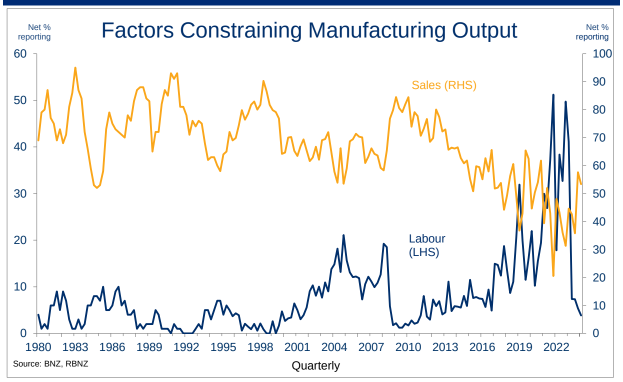
All Below Average



Lower Employment



Lack of Demand The Biggest Constraint



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