

17 May 2019



## Almost Normal

We were wondering if April's Performance of Manufacturing Index (PMI) would take a holiday hit. After all, the proximity of Easter, ANZAC day, and school holidays this year had the makings for a few more people than normal to take an extended period off work. But even if that happened, there was little sign that it took much toll on the PMI – at least at the headline level. In fact, the PMI actually rose in April, to a respectable 53.0 from 52.0 in March. This takes the index back close to its long term average of 53.4. On the face of it, this looks solid enough, although we wouldn't overstate the case given it was driven by an unusual looking jump in the deliveries of raw materials component. After looking at the softer details, this month's survey has a 'yeah-nah' feeling to it – good at first glance, not so much under the hood.

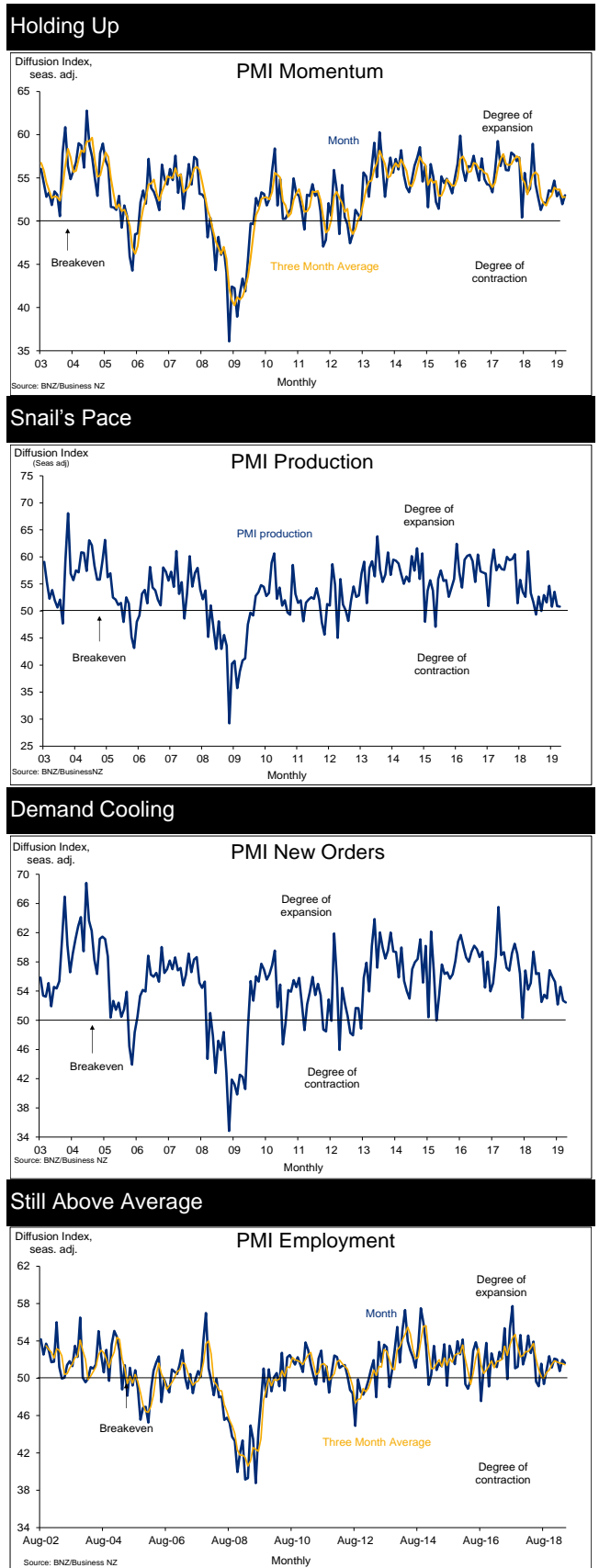
## Demand Slower; Inventories Contained

The PMI production component sat at a subdued 50.8 in April. This may have been affected by the unusual timing of holidays, but it's not clear given that it was virtually unchanged from March. Data over coming months may shed more light on the underlying trends. In the meantime it is difficult to deny that production growth has slowed to not much more than a snail's pace over the past few months. Encouragingly, inventory accumulation has cooled and now looks more in line with historical norms. This would fit with the narrative of inventory satisfying some demand during a slower, perhaps holiday-effected, production period. For all that, neither production nor inventory movements look out of line with normal monthly movements. More importantly, from a bigger picture point of view, demand growth appears to cooled in 2019. Sure, new orders remained positive at 52.4 in April and in touch with March's 52.7, but the 53.0 average so far for 2019 is a clear step down from last year's average of 55.5. Overall, the manufacturing sector looks to be expanding, but not at a particularly rapid pace. It certainly raises questions for those looking for a strong growth pickup later in the year, government officials included.

## Employment

Employment continues to track above average. Yes it slowed slightly to 51.6 from 52.0, but it remains comfortably above its long term average of 50.7. There is no obvious recoil from the hefty lift in the minimum wage on 1 April in these figures, although it is not clear that it would necessarily show up here or even so soon if it were to show up at all. The PMI employment index offers some hope of at least some improvement in Q2 manufacturing employment following the weakness recorded in the official figures for Q1.

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