

22 January 2021



End of Year Dip

December's Performance of Manufacturing Index (PMI) slipped to 48.7. This is a bit disappointing, although not completely surprising given it did follow six consecutive months being above the expansionary 50 mark including an above-average reading of 54.7 in November. Perhaps the December dip is just monthly noise. It will pay to monitor upcoming results to confirm that or otherwise. The PMI's three-month moving average sits at an expansionary 51.8, albeit below its long-term average of 53.0. This all suggests some expansion in the final quarter of last year, but the softer December month suggests some caution heading into the New Year.

Patchy

It is difficult to judge the underlying trends with large swings in component details. Volatility has been more pronounced than usual in the PMI stocks of finished product component. Having been sub-50 in September and October, it leapt to 59.2 in November, only to plunge to 45.9 in December. A similar pattern is seen in the PMI's deliveries of raw materials index. This volatility coincides with numerous reports of freight and logistical issues. Along with volatility in new orders, it all has a bit of a stop/start feeling to business conditions.

Home and Away

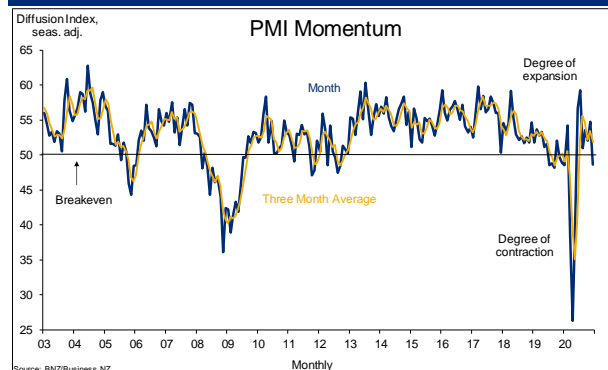
Actual performance no doubt depends on what you are selling and to whom. For example, the latest Quarterly Survey of Business Opinion saw NZ manufacturers' reports of local sales above average for the past three months, while reports of export sales have lifted but remain below average. In the PMI, there were more signs of buoyancy in Non-metallic Mineral manufacturing – think concrete production and a very robust construction industry. Meanwhile, the more export-focused industries generally saw more subdued PMI readings on an unadjusted basis.

Employment

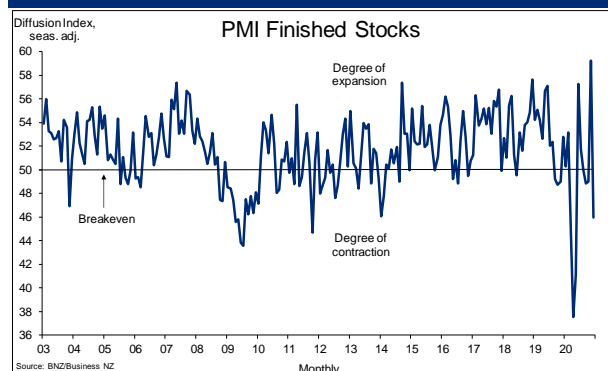
The PMI employment index eased to 49.9 in December, so back below average and edging back into contractionary territory. The QSBO manufacturing employment indicator fell in Q4. While the three months ahead indicator is a touch above average, manufacturers' report difficulty finding staff. Interestingly, the gap in difficulty finding skilled staff vs unskilled staff is at its widest since 2000 – perhaps a sign of an increasing skills mismatch.

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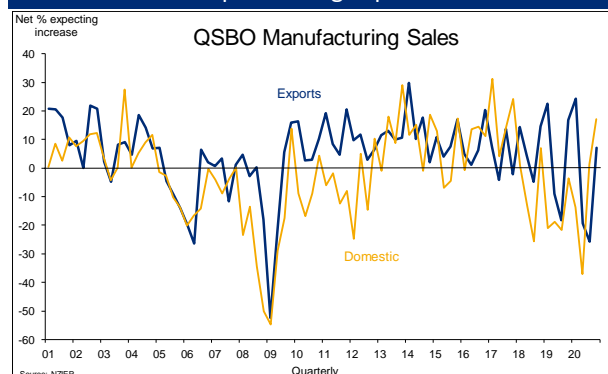
A December Dip



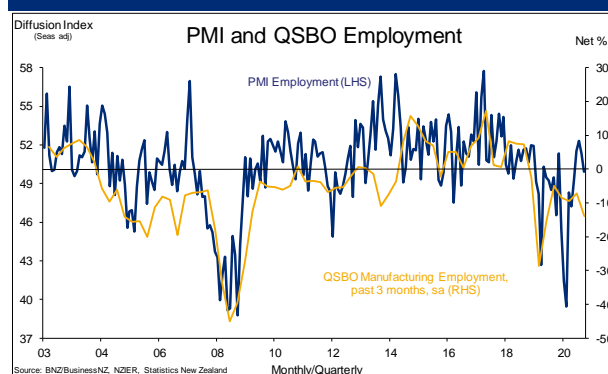
Stock Shocks



Domestic Sales Outperforming Exports



Subdued



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