

11 June 2021



PMI

New Zealand's Performance Index of Manufacturing Index (PMI) maintained a very strong pulse in May. It couldn't get up close to March's record high of 63.6 but, at 58.6, it was about as strong as it was in April (58.3). As such, the PMI still compares very favourably to its long-term norm of 53.1. The production index (65.3) was furthest above its historical average, with new orders (63.7) next best on this metric. The PMI's employment index, of 51.5, was slightly above trend. This, of course, records how staffing levels have changed, not intentions to hire. The latter, we know, from other surveys, are very strong – as were SEEK NZ job ads in May 2021 too – as a signal of demand for labour.

Supply issues (still to the fore)

But it's supply side issues that continue to dictate proceedings. To be sure, the PMI readings on finished stocks (52.4) and deliveries of raw materials (53.5) for May appeared reasonable. However, they were also still clearly lagging as components in the PMI. If there was any doubt about supply-side factors being a major problem, this was put paid to by respondents' comments to May's PMI. A word count on "raw materials" alone would highlight that something troublesome is afoot, and globally wrought. Add to that freight costs, shipping, labour, and project delays, and the message of supply-side headaches was tolling like Big Ben.

Sales and inventory

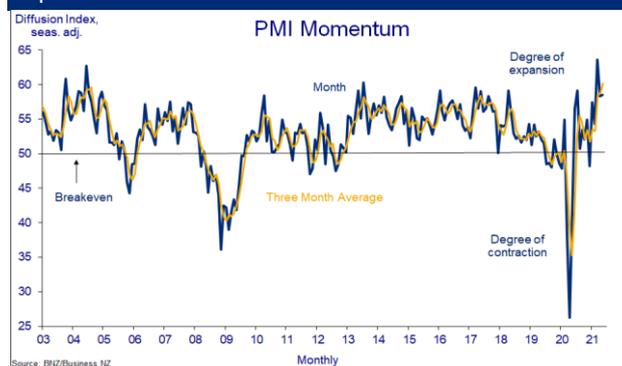
This is not to deny that output is increasing. It clearly is for manufacturers, according to the PMI. It's more the case that production can't increase enough to fully satisfy now-heated levels of demand. As it turned out, positivity in the PMI's production index over the early part of this year broadly reflected in the March quarter manufacturing data published by Stats NZ on Wednesday. The latter showed a 0.4% lift in real sales. This infers a clearer increase in manufacturing output terms in Q1 2021, once we take account of inventory movements. May's PMI points to a stronger rate of expansion in the June quarter, with 3-month average of its production index running at 65.3.

Variably positive

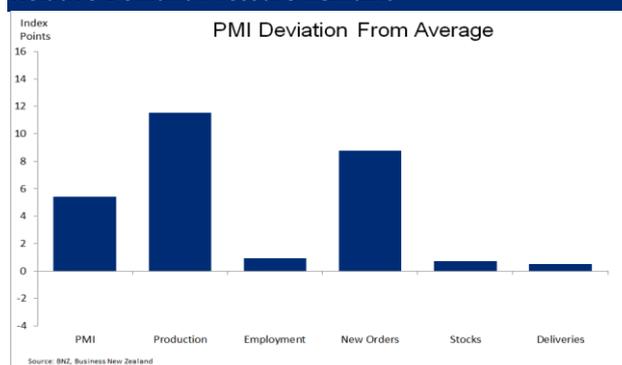
As for other lenses on the PMI, these tended to reinforce the widespread impressions of momentum, although not without some variation. The (unadjusted) industry-based indices all posted results above the 50 ("breakeven") mark in May. However, these ranged from 51.7 for Printing, Publishing and Recorded Media to 79.2 with respect to Non-Metallic Mineral Products. The regional picture had Northern, and Otago/Southland, competing for honours, with each 8 points above average, while Central was trailing close to normal. Re size-of-firm, there was a story of the bigger the better, with a monotonic increase going from 51.8 for micro firms right up to 63.5 for large firms.

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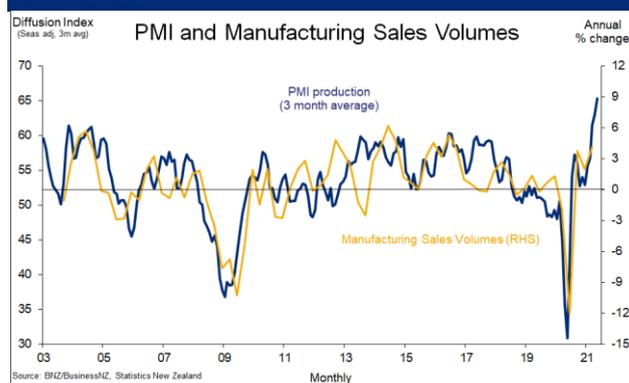
Top Gear



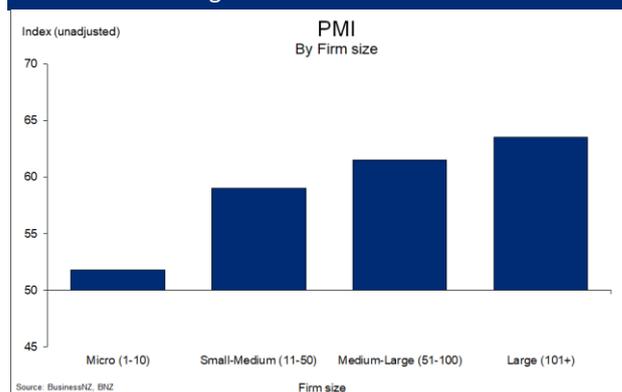
Relative Demand Pressure Remains



Better and Better



Momentum in Magnitude



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