

10 December 2021



PMI

The Performance of Manufacturing Index (PMI) underwhelmed in November. It fell to 50.6, after a spurt higher to 54.2 in October. So back below average. One might have hoped for better readings given Covid-restrictions had generally been easing through October and November in and around Auckland. Perhaps November's weaker looking numbers just reflect some payback from October's above average result. But even smoothing through the two months shows underperformance. While the jury remains out on how much GDP fell in Q3, with official figures due next week, the PMI over recent months adds to our thinking that the bounce in Q4 might not be as much as some are expecting.

Delivery down

Disconcertingly, all sub-components were below their respective long-term norms in November. Deliveries of raw materials saw the biggest drop (by far) in the month and was the weakest at 42.9. It makes October's strong 59.9 look like a flash in the pan. It shows major supply issues remain. A below average inventory reading reinforces that narrative.

Employment falls

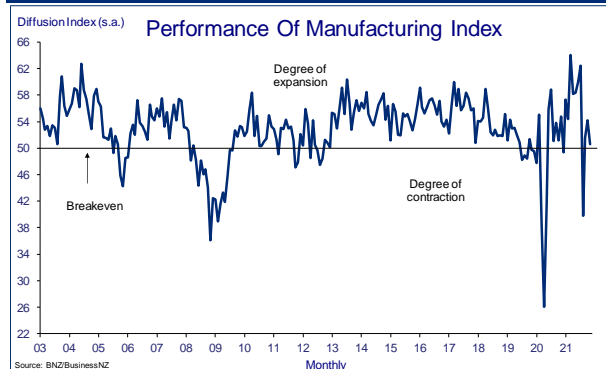
Perhaps the most disappointing number in today's PMI was employment. It had been slowing over recent months but slipped further to 48.2 in November from 51.7 in October. This is the weakest reading since July last year. It is not clear what caused the decline. It certainly raises questions. Has manufacturers' labour demand slowed? If so, is it related to supply chain issues and material shortages? Has a general shortage of labour and more staff turnover left firms unable to replace vacated roles?

What does it mean?

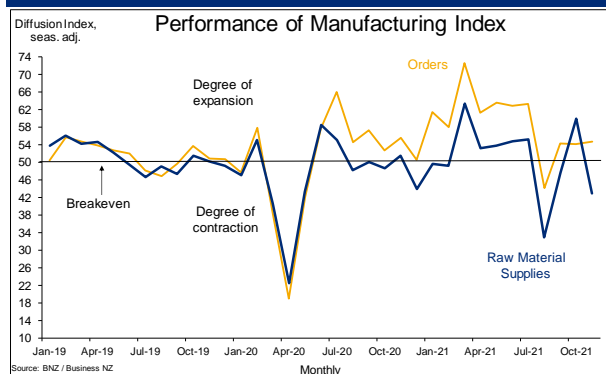
All we can reasonably say from the PMI's October and November employment readings is that they suggest minimal manufacturing employment growth so far in Q4. It may well be due to labour supply issues in which case it would not be inconsistent with the unemployment rate remaining very low. Near average new orders offers some support to the view that less employment may be more related to supply than demand. But such things need to be monitored carefully. The PMI implications for economic (and employment) growth seem clear – soft. But with obvious difficulties remaining on the supply side, we'd suggest that inflation is still rising.

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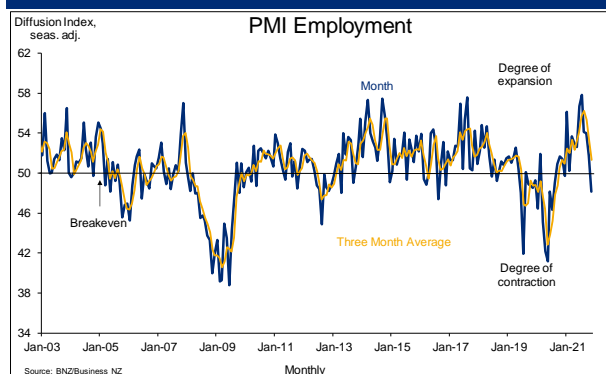
Underwhelming



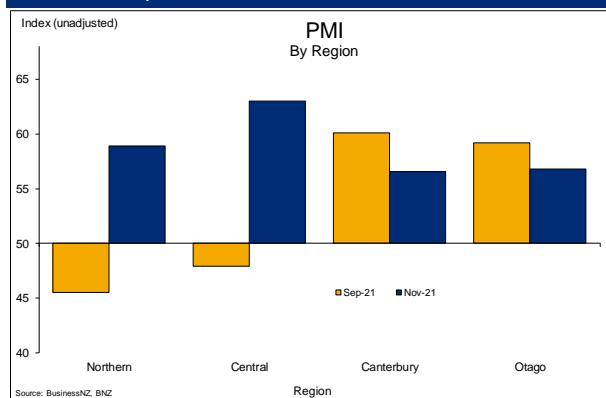
Supplies Turn Down Again



Fewer Workers



Northern Improvement



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