

21 January 2022



PMI

The Performance of Manufacturing Index (PMI) improved in December after underwhelming in November. It lifted to 53.7 from 51.2. This continues the PMI's recent oscillation around its long-term average, of 53.1, following the heavy knock it took in August last year when it fell to 39.9 (as Delta appeared in the community along with associated restrictions). In the final quarter of 2021 the PMI averaged 53.2, indicating a return to positive manufacturing GDP growth after a sharp negative in the prior quarter.

Positive

Production lifted to 56.4 and new orders rose to 57.5, both their strongest readings since July (pre-Delta). Employment rose to 52.0, after a strange-looking drop in November, while stocks bounced from a dip in the previous month. None of this is what we would describe as outright strong, but it is certainly positive that all these indicators have pushed above their long-term averages.

Challenges Remain

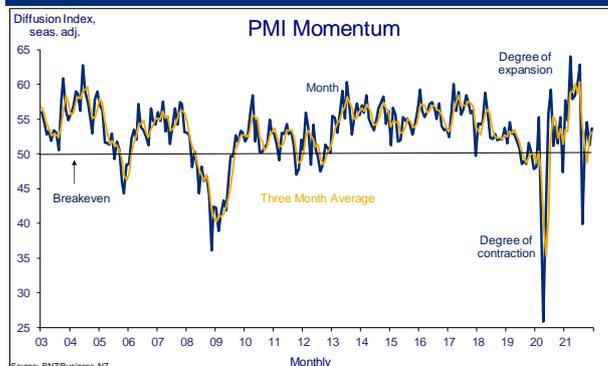
Deliveries of raw materials remains a clear outlier among the sub-components. While this indicator did lift to 50.0 in December from a very weak 43.9 in November, it remains below its long-term average of 52.9. The (relative) improvement from November's weakness might reflect some easing of the prior extreme supply chain bottlenecks following the general relaxation of Covid restrictions over recent months. But with this indicator still below average and well behind buoyant new orders, it highlights that supply challenges have not gone away.

Some Severe

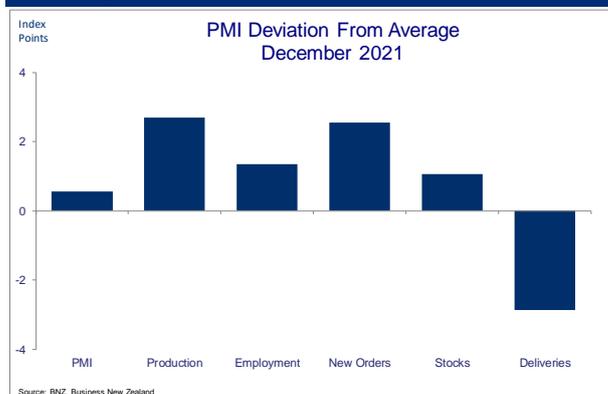
Today's PMI was generally a bit more upbeat than the NZIER's latest Quarterly Survey of Business Opinion (QSBO) was for manufacturers regards the likes of activity, employment, and new orders. Some of this may reflect timing. But there is no argument with the QSBO highlighting a major supply-side headache for business – finding labour. A net 75% of manufacturers in that survey said it was more difficult to find unskilled staff. For skilled staff, it was 85%. These are extreme readings – and then some. These are the highest (by far) readings of manufacturers' difficulty in finding staff since this measure started back in 1968! The seemingly inevitable spread of Omicron isn't going to help with the likelihood of more absenteeism across existing staff. It all counsels caution of activity expectations, even if demand remains robust.

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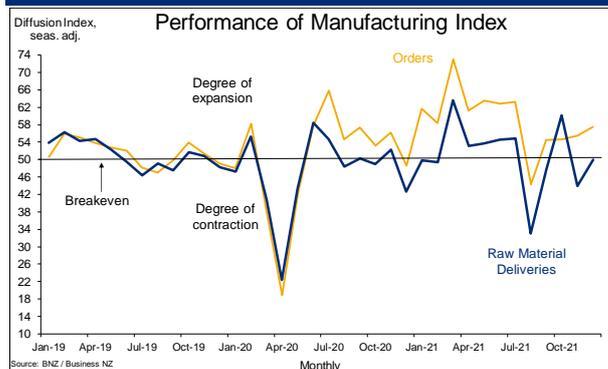
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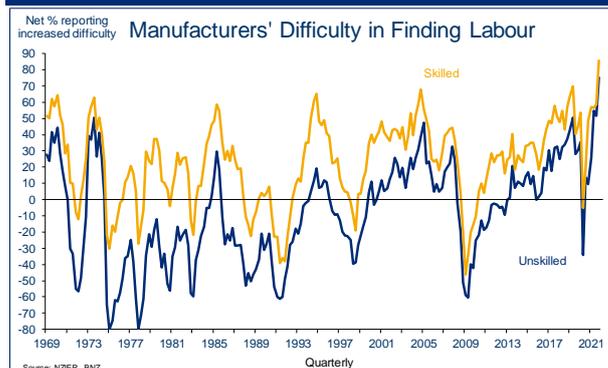
Generally Positive



But Supplies Still Troubling



Extreme Difficulties Here



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