

15 June 2018



The PMI

Having roared to a high level in April (59.1), New Zealand's Performance of Manufacturing Index (PMI) fell back to just above average in May, with 54.5. This harnessed it more in line with its average over the Jan-Mar quarter. As such, May's PMI cemented the idea of a moderating rate of expansion in the manufacturing sector, compared to calendar 2017. Then again, above average is above average, which is encouraging.

Sales

The notion of robustness was certainly parlayed in March quarter manufacturing sales. These proved strong, increasing a seasonally adjusted 1.4%, in volume terms (and this was even after their December quarter increase was revised up to 1.5%, from 1.0%). Still, this probably over-represents the performance of manufacturing output itself in Q1. For this we judge a moderate increase, for the purposes of the upcoming GDP accounts (due 21 June). Nonetheless, this implies that manufacturing has survived a number of slings and arrows that might have otherwise meant a clear drop in its overall activity in the March quarter. These slings and arrows include a slip in building work, depressed dairy and meat processing, a correction in forestry harvesting, even timing issues for some major manufacturers of industrial products.

Inventory

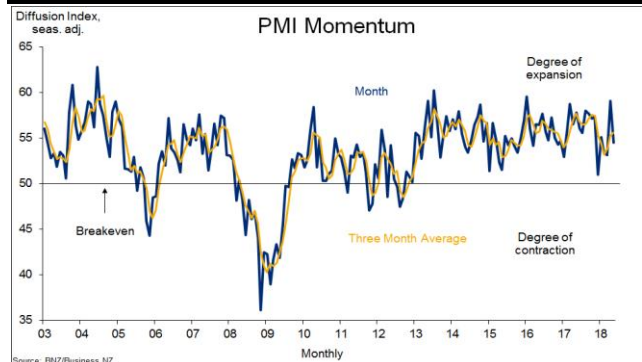
In support of ongoing expansion in manufacturing output, there are clear indications that inventory is under control in the industry. This means demand is more likely to be met with a production response, rather than just taken out of over-stocked shelves in the first instance. Of course, the PMI index on finished stocks remained expansive in May, with a seasonally adjusted 51.8. However, looking (again) at the March quarter manufacturing statistics they showed that when compared to sales, stocks were relatively low (and falling). We also note the latest NZIER Quarterly Survey of Business Opinion, which registered a very low proportion of manufacturers deeming their inventory levels to be excessive (re the March quarter).

Employment

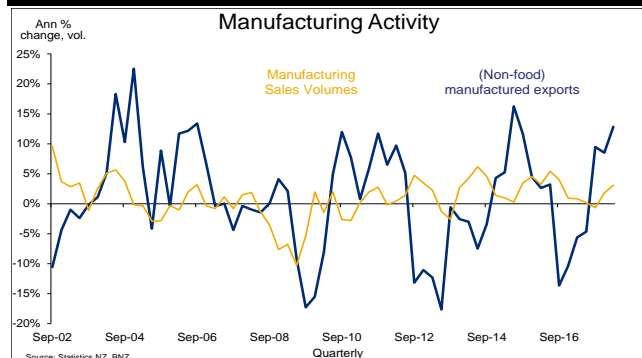
While May's PMI of 54.5 looked fine, it harboured an abrupt stalling in its employment index. This slumped to 49.8, from 54.5 in April. To be sure, this is a jumpy series at the best of times. And it has "faked" many a stalling over recent years, when employment growth in the manufacturing sector was, in fact, fundamentally robust. Nevertheless, we can't as easy look through this latest slump in the PMI's jobs index, given the recent slump in business sentiment. How this ongoing lack of confidence – nine months on from the election – translates, or not, into the labour market (and investment) will be important to monitor.

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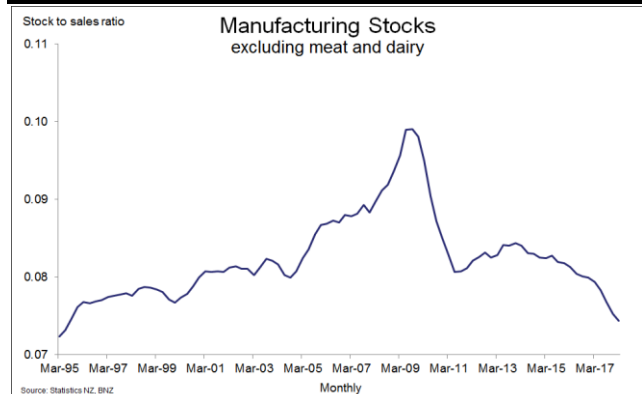
Not As Fast as Before



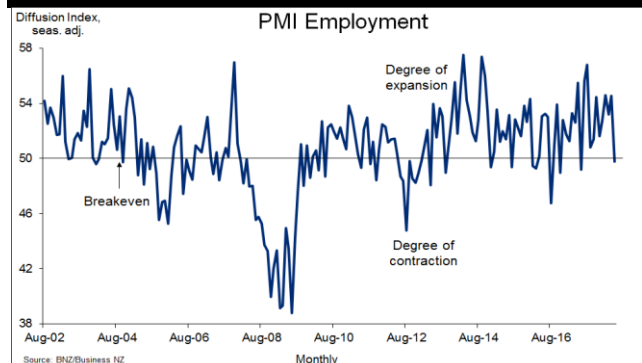
Sales Mixed in Detail But Robust Overall



Well Under Control



Another Shudder on Jobs



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