

13 December 2019



Glass Half Empty?

The focus ahead of the November issue of the Performance of Manufacturing Index (PMI) was to see how it fared after its big jump in October. Did it hold the gains or push even higher? Or did it unwind the previous move and fall back into contractionary territory? As it turns out, the answer is somewhere in the middle. November's PMI came in at 51.4. The glass-half-empty perspective sees the PMI retreating from October's 52.6 and an unwinding of about a third of that month's strong gain. The pessimists would also note the index sits a bit under its long term average of 53.3 and details show declines in production and employment (albeit small ones).

Glass Half Full?

But November's PMI had some features to like as well, at least relative to recent history. The glass-half-full perspective sees the manufacturing sector posting its second consecutive month of expansion (index above 50). That is significantly better than the contraction indicated by the index from July through September. Among the details the optimists would point to solid deliveries and decent new orders. Even though the latter eased a bit to 54.5 from October's 55.6, new orders remain in touch with their long term average of 55.1. New orders are also elevated relative to inventory (which manufacturers have been managing down recently). The difference between new orders and inventory bodes well for production.

Relatively Good

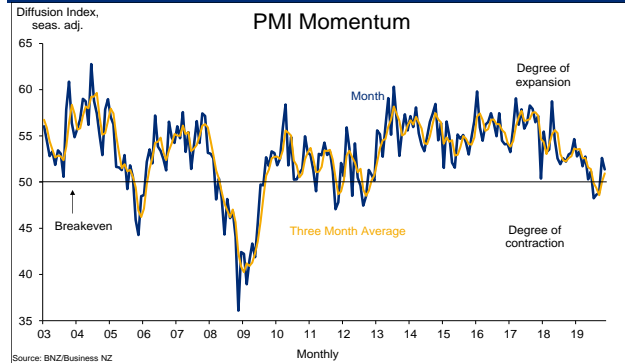
Another positive perspective is that NZ's PMI is clearly above equivalents in other countries. Overall global manufacturing indicators have just crept back into positive territory but are still struggling well below trend as trade and economic uncertainty hinders investment. NZ has faced some backwash from this. But NZ's PMI has lifted back above global norms over recent months after a period below, suggesting a relative improvement in domestic demand. Overall, our take is that NZ manufacturing is still running a bit below average, but caution is mixing with some hints of improvement. If October's big lift in the PMI suggested the worst of NZ's economic slowdown was behind us, November's consolidation suggests any acceleration is not going to be in a straight line.

Production OK in Q3?

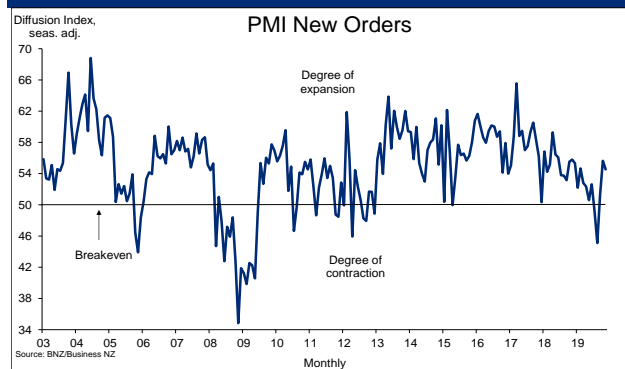
Official manufacturing sales and inventory data for Q3 was released on Monday and inferred a surprisingly solid output gain. While sales volumes fell 0.3%, there was a build-up in inventory indicating production was actually pretty good. Next week's GDP figures will reveal if this was the case. Following Monday's data we lifted our estimate for overall Q3 GDP to 0.5%, from 0.3%. Looking at Q4, the PMI suggests we shouldn't expect much from manufacturing production. But decent new orders offers more hope for sales and output further ahead.

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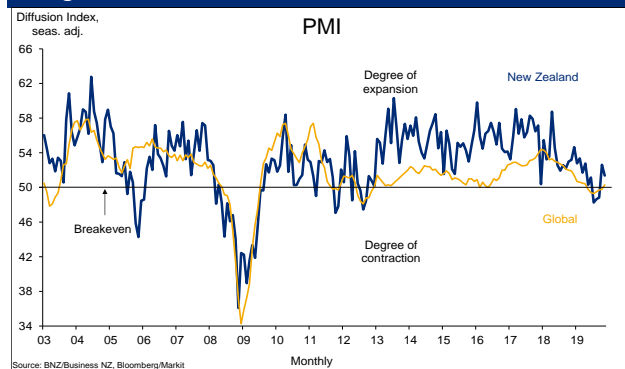
Better or Worse?



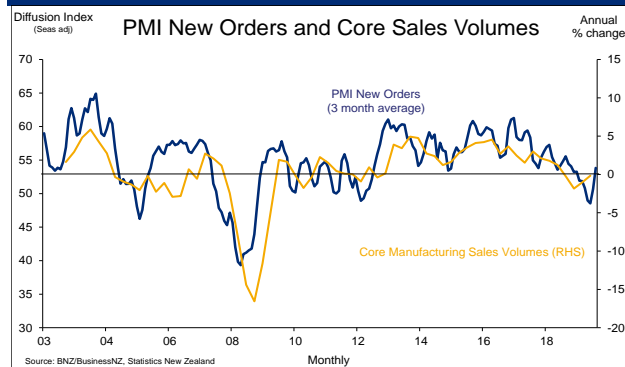
Gain Consolidated



Doing A Bit Better Than Others



Reprieve



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