RESEARCH
Manufacturing Snapshot

17 September 2021

Shutdown Pain, Some Hope

Everybody knew that economic activity was going to suffer when the country entered another Covid alert level 4 lockdown in mid-August. It is now about assessing the degree of damage as more indicators come in. On cue, the Performance of Manufacturing Index (PMI) slumped to 40.1 in the month from a very strong 62.2 in July. That represents real pain, with the production component unsurprisingly falling the most, to a dreadful 27.7. For many, production stops in lockdown. Granted, at 40.1, the PMI is not as low as the extremes it got to in last year's level 4 lockdown (26.0). However, it is in the vicinity of results around that time. Even more so, regards the production component and considering only about half of August 2021 was lockdown affected.

The PMI is based on a survey of business outcomes – not expectations. This is different to other surveys, especially those forward-looking and confidence-type gauges, that, to date, have held up reasonably well – at least compared to the previous level 4 lockdown. While many anticipate a bounce in activity as the country progresses down alert levels (all going well on the Covid front), today's PMI clearly demonstrates the economic pain being felt. This should not be underestimated, even if there is hope for the future. GDP and manufacturing output are expected to fall heavily in Q3. It is something of a reality check in the afterglow of yesterday's very strong Q2 GDP outcome.

Unsurprisingly, references to Covid and lockdown dominated PMI respondent negative comments. But supply side issues also remain prevalent such as border and shipping issues, along with rising costs, and labour and raw material shortages. These are widespread issues but there was additional comment this month from those outside Auckland noting challenges in getting raw material supplies from within Auckland. The Northern region had the lowest PMI reading (28.1 unadjusted) across areas, but all major regions were well below the breakeven 50 mark.

Employment was a clear bright spot in August's PMI. It's 54.5 reading stands tall amid widespread weakness and is remarkably above long-term norms. Only time will tell if it can stay that way. We suspect the employment resilience reflects firms' optimism that activity will improve as restrictions ease, a reluctance to let people go given how difficult it has been to find staff prior to lockdown, and the Government's wage subsidy providing many with a financial bridge. As it stands, all this suggests the official employment and unemployment readings for Q3 might look better than some might think. But even if so, hours worked will surely still drop significantly.

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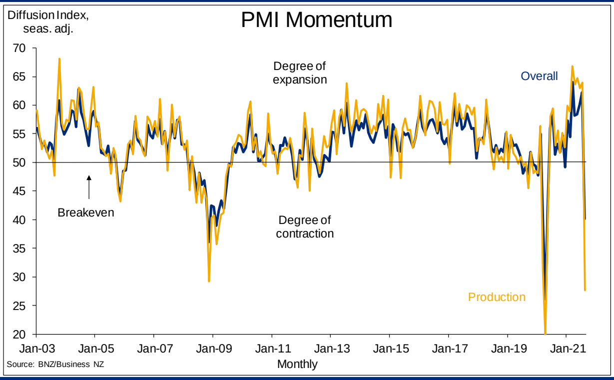
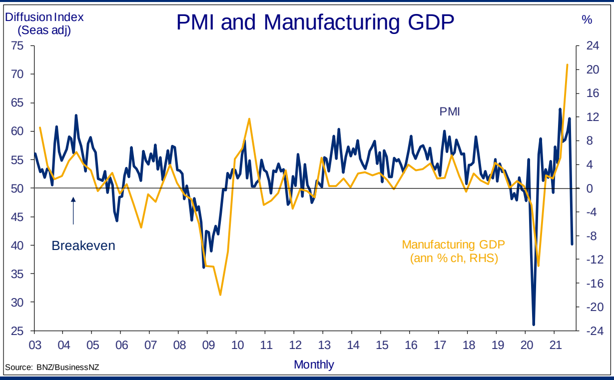
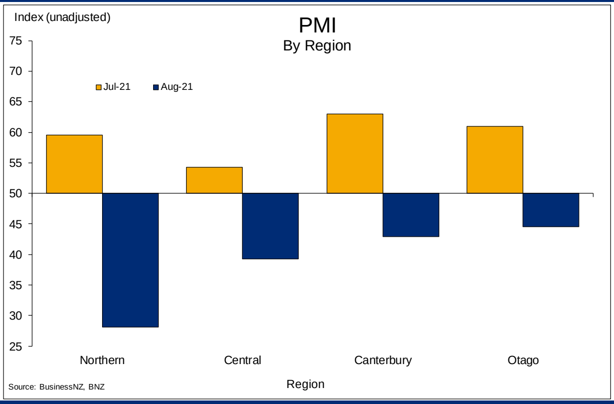
Down Tools



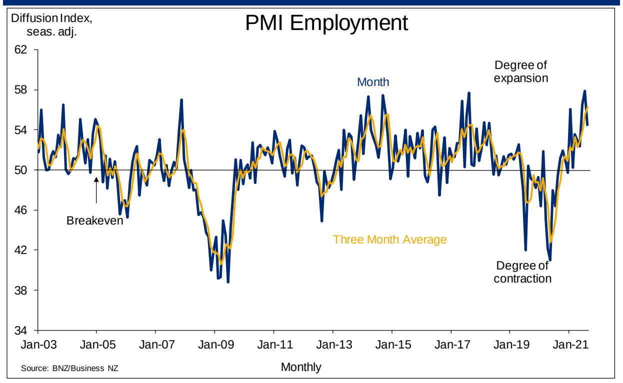
Manufacturing GDP To Fall Heavily In Q3



Pain From North To South



Resilience



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