RESEARCH
Manufacturing Snapshot

17 July 2020

A Spark

We openly discussed in last month's commentary that the Performance of Manufacturing Index (PMI) had the potential to show 'a bit more spark' in June. And it has. The PMI lifted to an expansionary 56.3 in June from a sombre 39.8 in May and a dreadful 26.0 back in April. June's result is the strongest reading since April 2018, driven by stronger new orders and production. Does this mean all is well in the manufacturing sector? In short, no. Not even close. But it is a step in the right direction. It is worth recalling that the PMI is a growth indicator not an indicator of the level of activity. June's above-50 result essentially means that the sector has arrested previous huge declines and started a process of recovery.

Reopening In A Very Tough Quarter

The reopening of the economy post-lockdown, including the move to COVID alert level 1 on the night of 8 June, has seen more activity take place compared to prior months. But June's positive result is not enough to rescue the second quarter of the year overall, through which the PMI averaged a very weak 40.7. Expect this weakness to be reflected in a sharp fall in Q2 manufacturing GDP when the official results are released on 17 September. But June's PMI result does set the scene for a decent bounce back in manufacturing GDP in Q3.

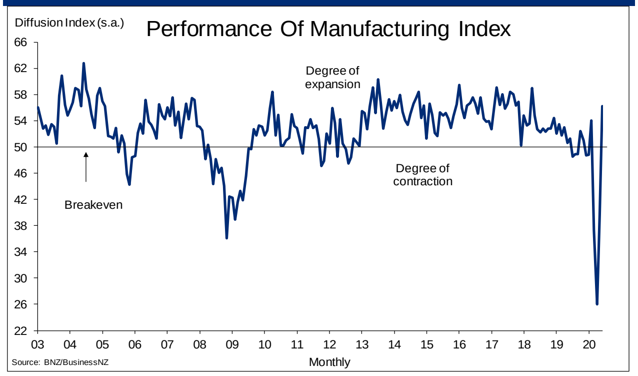
Employment Still Falling

All major PMI components printed above their respective long-term averages in June, except for employment. At 48.5, not only was the employment index below its long-term average of 50.5 but it was also sub-50 indicating the manufacturing sector continues to shed staff. This is a clear indicator that despite some improvement in new orders and production from the horror lows of recent months, the recovery in activity to date has not been strong enough to stop the sector reducing staff levels overall. However, the indicated pace of staff reduction has slowed significantly from May (when the PMI employment index stood at 39.2). The concern is that staff reduction is still happening even with considerable policy support in place, including the government's wage subsidy scheme.

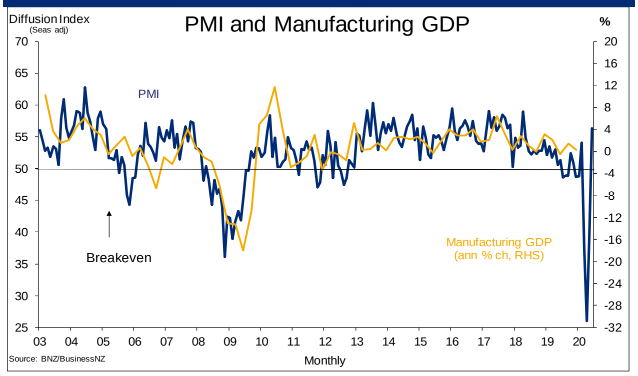
Turning Tables

NZ's PMI is now higher than other countries we often compared ourselves to. This follows a period of NZ underperformance. The turnaround tallies with suggestions that NZ is enjoying more freedoms than many elsewhere after undergoing COVID restrictions that were tighter than most. It doesn't mean the freedoms came without significant cost. For instance, NZ's PMI average through April and May was at the bottom when looking across usual comparator countries. But with the country at alert level 1, activity has picked up. Long may it continue.

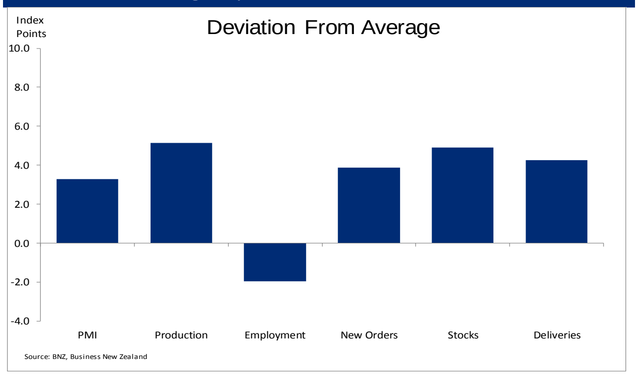
A Positive After Extreme Weakness



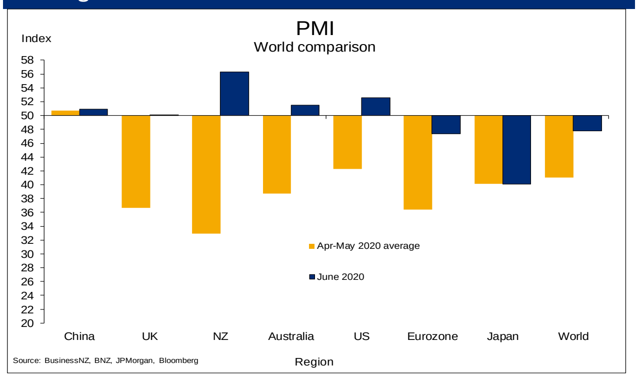
Manufacturing GDP To Be Sharply Lower In Q2



Not All Is Showing Improvement



Turning Around



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