

13 September 2019



## Under Pressure

Back in July, the Performance of Manufacturing Index (PMI) dipped into contractionary territory for the first time in 82 months. There was no reprieve in August. Yes the index edged marginally higher to 48.4, from 48.1, but it is still clearly below the 50 mark that delineates expansion from contraction. As we suspected, this means that the contraction signalled in July was no aberration. The PMI is a survey of outcomes not sentiment. So the weakness is not a reflection of fear or uncertainty about what might lie ahead. It provides a guide to what is happening. There is no doubt the manufacturing sector is under duress (much like it is elsewhere in the world at present).

## Lower Order

The details only add to the sense of retreat. Production contracted in August, as new orders have collapsed over the past couple of months. From a below normal 52.2 in June, new orders slumped to 48.5 in July, before falling further to 45.6 in August. This is the lowest reading in 10 years. New orders are now nearly 10 index points below their long term average of 55.1. For a good while now we have talked about capacity constraints and rising costs putting pressure on business, including manufacturers. Such things remain areas of concern across the economy. But, disconcertingly, the PMI adds to a building case over recent times that there has been a palpable softening in demand – at least for manufactured goods. The finished product stock index was the only subcomponent to show expansion in August. Inventory accumulation, at a time of contracting orders and falling production, only reinforces the notion that manufacturers have been surprised by demand weakness and looks ominous for production ahead. A falling new orders-to-inventory ratio led a cooling in production over the past two years and current indicators point to further falls ahead.

## Pulling Back

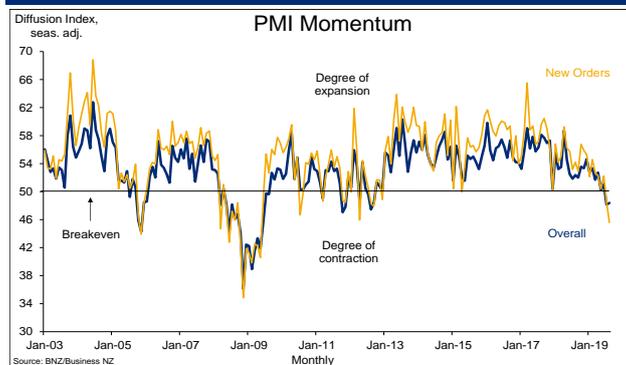
In line with weak activity indicators, PMI employment was in negative territory for the fourth consecutive month in August. Yes the employment index bounced to 49.3 from a truly dismal level of 42.3 it plumed in July, but it remains contractionary. The three month average of 46.5 suggests paid hours and employment in the manufacturing sector remains under material downward pressure.

## GDP Implications

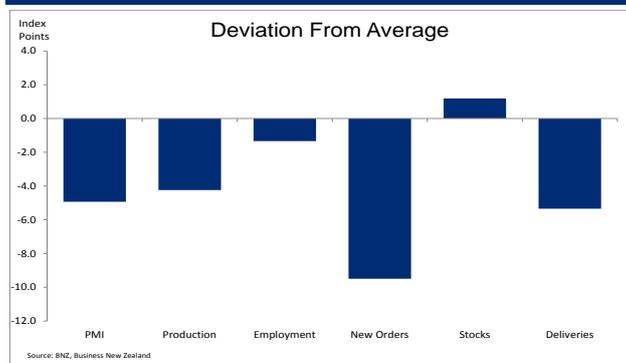
We think manufacturing will be a drag on NZ's Q2 GDP figures when they are released next Thursday. And the PMI through July and August suggests the sector will also struggle to make a positive contribution to growth in Q3. This puts the onus on other sectors to support growth in the meantime. We expect next Thursday's official Q2 GDP figures to show 0.3% overall growth, despite a decline in manufacturing.

[doug\\_steel@bnz.co.nz](mailto:doug_steel@bnz.co.nz)

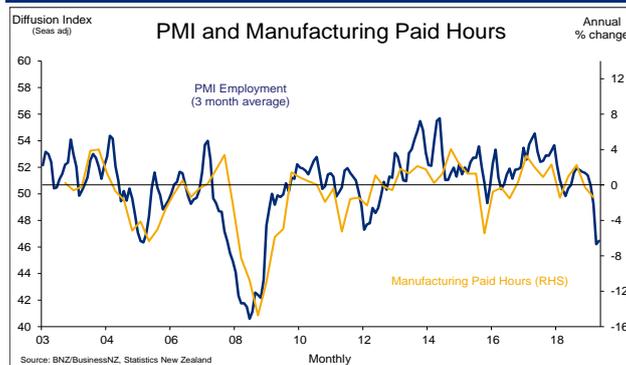
## Reverse



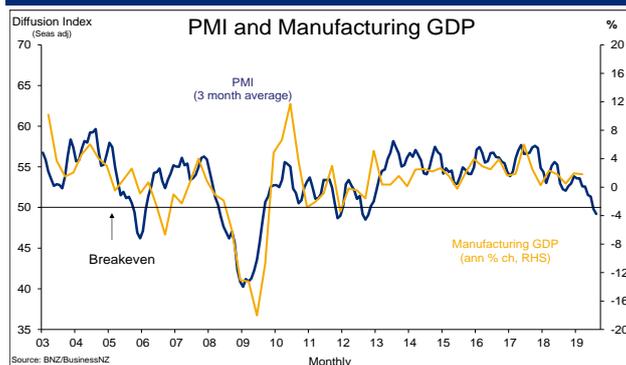
## Ugly Mix



## Not A Good Look



## Distress Signal



## Contact Details

### BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Craig Ebert**

Senior Economist  
+64 4 474 6799

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**

Interest Rates Strategist  
+64 4 924 7653

### Main Offices

**Wellington**

Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

### National Australia Bank

**Ivan Colhoun**

Global Head of Research  
+61 2 9237 1836

**Alan Oster**

Group Chief Economist  
+61 3 8634 2927

**Ray Attrill**

Head of FX Strategy  
+61 2 9237 1848

**Skye Masters**

Head of Fixed Income Research  
+61 2 9295 1196

**Wellington**

Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

**Sydney**

Foreign Exchange +61 2 9295 1100  
Fixed Income/Derivatives +61 2 9295 1166

**London**

Foreign Exchange +44 20 7796 3091  
Fixed Income/Derivatives +44 20 7796 4761

**New York**

Foreign Exchange +1 212 916 9631  
Fixed Income/Derivatives +1 212 916 9677

**Hong Kong**

Foreign Exchange +85 2 2526 5891  
Fixed Income/Derivatives +85 2 2526 5891

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.