

11 February 2022



## PMI

The Performance of Manufacturing Index (PMI) has continued its recent sequence of oscillating around its long-term average. January's 52.1 reading was a bit under the long-term norm of 53.1, after December's somewhat perkier 53.8. At face value, the headline result looks reasonable enough. January's result is the 5<sup>th</sup> consecutive month above the breakeven 50 mark and points to some further progress into the New Year.

## Questions

But the details do raise some questions about what is going on beneath the surface. The production index eased to a slow looking 51.2 in January. Maybe this is just some 'payback' from December's very strong 56.2. Or perhaps it reflects restricted activity as either more people took holidays or people took longer than usual holidays after what was a torrid Covid-influenced period – especially for those in the North. If so, it was not obvious with the Northern region's PMI (and production index) above the nation's average.

## Is demand slowing?

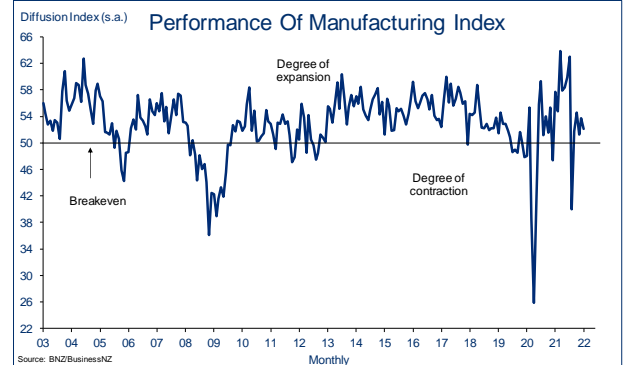
The PMI new orders index fell to 53.3 from December's 57.1. This is not that far below the long-term norm of 55.0, but it is the lowest reading since the lockdown back in August. It makes one wonder if demand has slowed into the New Year. After all, economic confidence has fallen recently, house sales were lower (although not low) in the latter part of last year, and inflation and higher interest rates are chewing into disposable incomes. The possibility of slower demand seems consistent with the PMI stocks of finished products index (52.8 in January) posting its second consecutive month above its long-term average (albeit a touch less so than December's 53.2). Strong conclusions from one month's data are not to be recommended (especially around holiday time). But trends are worth keeping an eye on. Meanwhile, the PMI employment index dropped to a weak-looking 49.2 in January. With other recent surveys showing manufacturers' positive employment intentions and difficulty finding staff, we suspect this is more likely to reflect labour market tightness than necessarily softer labour demand. Either way, it adds to the idea of not expecting much overall employment growth in Q1.

## What next?

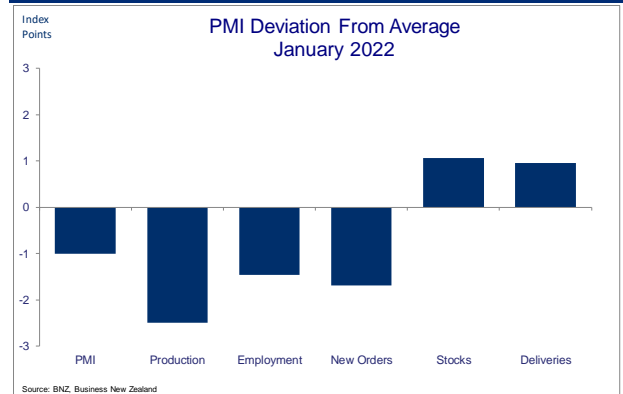
In any case, it has to be said, January's PMI results feel like something of a place holder before Omicron hits proper over coming months along with anticipated higher rates of absenteeism and disruption. Only time will tell the extent of that and its influence on the manufacturing sector and indicators like the PMI.

doug\_steel@bnz.co.nz

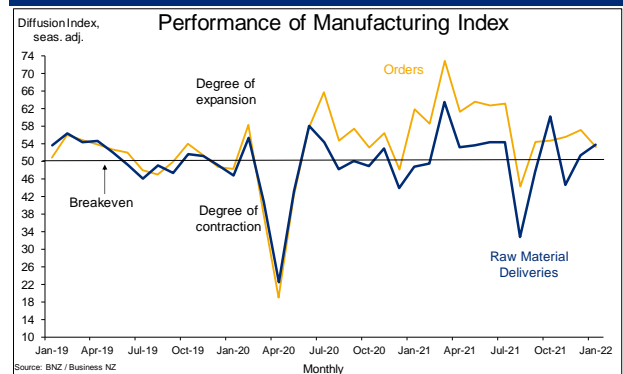
## So So See-Saw



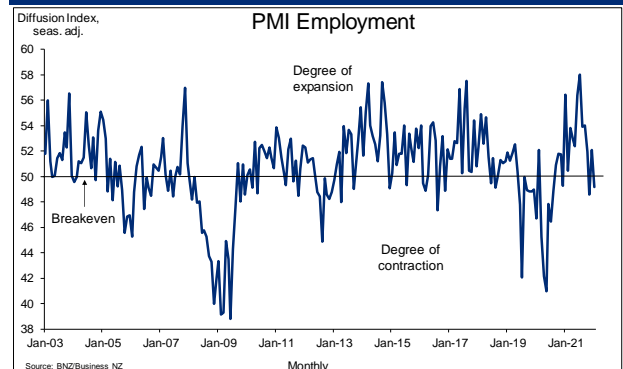
## Production Below Average



## Demand/Supply Balance Changing?



## Struggling



## 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**

Senior 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

**New York**

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

**Sydney**

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

**Hong Kong**

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

**London**

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

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: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

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.