

14 August 2020



Recovering, Pre-Outbreak

July was another month of recovery for the manufacturing sector. Indeed, it was a strong one judging by the Performance of Manufacturing Index (PMI). It lifted to 58.8, building on June's already positive 56.2. These positive readings follow extreme weakness through April (26.0) and May (40.3). In this context, the July results very much look like recovery from a very large hit earlier in the year, rather than outright strength. In any case, July's improvement precedes the latest virus outbreak in Auckland and associated restrictions. We don't usually provide thoughts about what the PMI may do in future but it wouldn't surprise us to see a pullback in due course. The extent and duration of which will be heavily dependent on the virus developments and policy response to it. July's PMI had firmly set up the idea that manufacturing GDP would bounce back strongly in Q3 after what was surely a very large decline in Q2. The latest virus outbreak calls that into question and adds to the reservations that we already had for growth in Q4.

Higher Orders, Flat Inventory

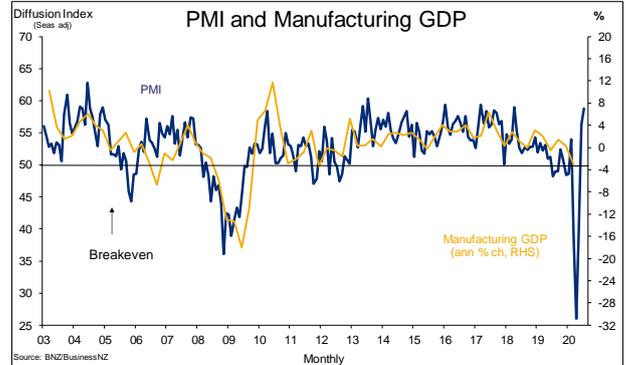
July's PMI new orders reading of 67.4 was the strongest since June 2004 and the second strongest in the survey's history. Yes, there is a fair degree of rebound still coming through in this indicator from previous lockdown-induced weakness so it likely overstates the underlying strength, but there is no denying that new orders picked up strongly in the month. It points to a decent lift in demand. Production followed suit with the PMI index up to 61.4 in July. Ordinarily, strong new orders – especially in the context of subdued inventory – would provide some optimism for production ahead. Indeed, the balance of demand versus inventory may have even had some thinking about lifting prices. But those demand, production, and potential price dynamics are likely to have been altered by the latest virus outbreak. Time will tell by how much on that.

Lower Employment

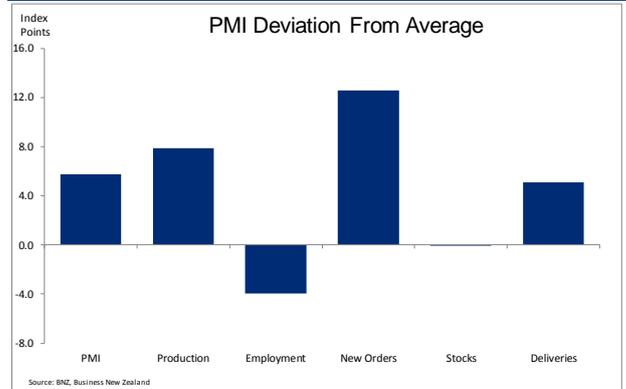
It is notable that even before the latest virus outbreak, the July PMI indicates that manufacturers were reducing staff numbers. This aligns with the thinking that the pickup in new orders and activity to date had not been enough or expected to improve or last long enough to fully occupy the existing force work, let alone take on more staff. Latest virus developments will not help in this regard.

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Big Bounce



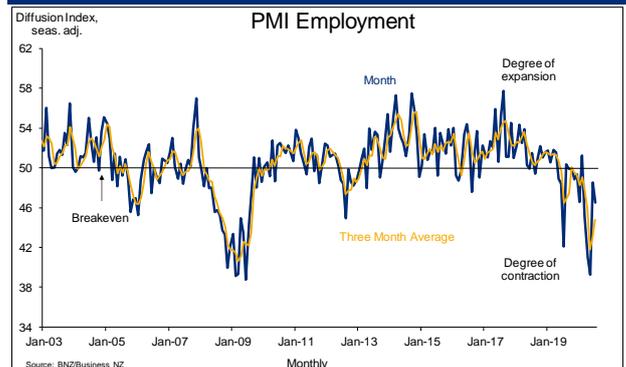
But Far From Uniform



New Orders Well Outpaced Inventory



But Employment Weak



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