

16 April 2021



## Ain't Seen Anything Like This Before

March's Performance of Manufacturing Index was unquestionably strong. Indeed, at 63.6, it is the strongest result in the survey's history dating back to 2002. It is so strong that one immediately wonders if it is some sort of data quirk. But that is not obvious. For example, the extreme strength does not follow weakness in prior months. In fact, the PMI three-month average, at 58.4, is at its highest level since 2004. Maybe the early Easter brought forward some activity into March? Possibly, but we have had early Easters before, and we didn't see anything like this sort of PMI lift back then. Maybe it's a pickup from Auckland's lockdowns? This relief no doubt helped, but it doesn't really explain the overt strength across all regions, all components, and all industries.

## Demand

Demand has lifted strongly. Precision on the reasons why changes occur is always difficult but more construction activity, a buoyant primary sector, increased government activity, movement toward domestic sourcing, and improving external demand were all understandably mentioned by respondents. We could add strong domestic spending on durables and improving investment intentions among domestic firms (as per this week's Quarterly Survey of Business Opinion (QSBO)) as other possible drivers. On the negative, respondents again noted the lack of tourism. Overall, demand looked very strong in March with the PMI new orders component lifting to 72.5 – a record high – and adding to what was already above average readings.

## Supply Issues

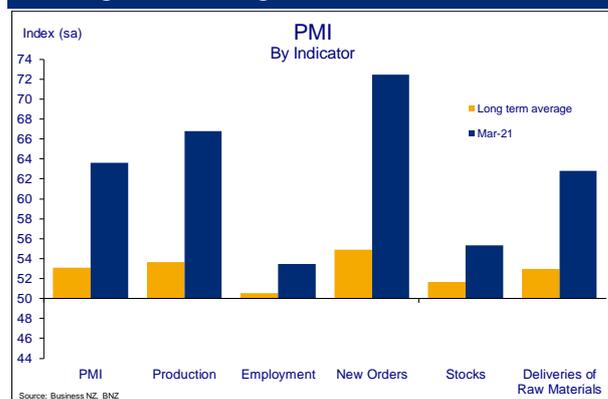
More demand is one thing, but meeting it is another. Firms have faced many supply-side challenges. In this regard, it is interesting to see PMI deliveries of raw materials lifted strongly, to 62.8, this month. That coincides with other data showing imports leapt more than 17% above year earlier levels in March following prior weakness. This looks to have facilitated more output, with the PMI production indicator punching up to a very strong 66.8. That is a positive indicator for manufacturing GDP. But supply issues remain. Many PMI respondents are still reporting challenges regards supply chains, shipping, freight, costs (from labour, to raw materials, to electricity), difficulties finding staff (probably why PMI employment didn't lift by more), and stock shortages. Yes, the PMI stocks indicator suggested some improvement in March, but manufacturers in the QSBO were still reporting stock levels as too low. Cost pressures are widespread, with the most QSBO manufacturers reporting cost increases since 1985. No wonder pricing intentions have lifted strongly.

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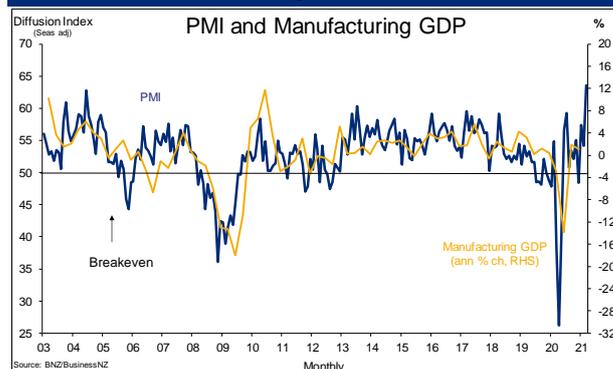
## Record



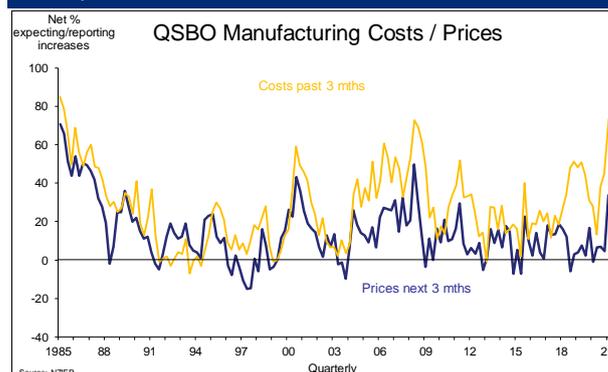
## Towering Above Average



## Positive For Manufacturing GDP



## Widespread Cost Pressures



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