

11 December 2020



Positive results

November saw the manufacturing sector take a stride forward. The Performance of Manufacturing Index (PMI) lifted to 55.3 from 52.4 in October. It's the sixth consecutive monthly reading above the breakeven 50 mark. Moreover, the index is now back above its long-term average of 53.0. As a measure of change, the PMI suggests that the manufacturing sector continues to move in the right direction after getting hit hard earlier in the year by COVID related restrictions. There was a lot to like in the detail too, with strength prevalent across the major sub-components including production and new orders. Employment remained positive and above its long-term average.

But

As positive as the headline PMI results look, there are some areas to monitor. One is deliveries of raw materials. While this measure did rise, to 52.2 from 49.6, it was the only sub-component sitting below its long-term average. This suggests manufacturers continue to face some challenges sourcing inputs to the production process. Another area of interest is inventories. The PMI stocks of finished products index lifted to an all-time high, indicating a rapid increase in inventory levels. This is a little puzzling as it's counter to recent trends and anecdotes. It may just be monthly noise, perhaps reflecting timing issues. Or catch up after an inventory unwind. After all, the lift follows a couple of months of inventory rundown. Of more concern would be if the large inventory lift in November (over and above usual seasonal movements) reflects a sudden stop in demand. On that front, while we do wonder about the sustainability of the recent growth in demand, at this point it looks robust judging by buoyant new orders. In any case, the inventory lift makes it an area to watch ahead.

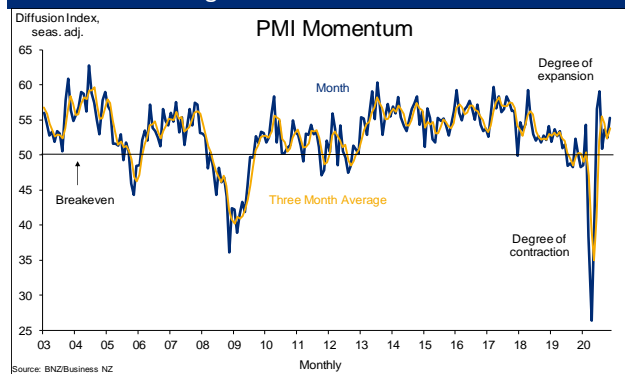
Regional differences

While it is difficult to know the drivers, there were some clear differences across the major regions. While all regions' PMIs were on the right side of 50 in November, the Central and Canterbury regions' results stood out in both being well above their normal readings for November. Conversely, the Northern and Otago/Southland regions were both materially below their normal readings for this time of year.

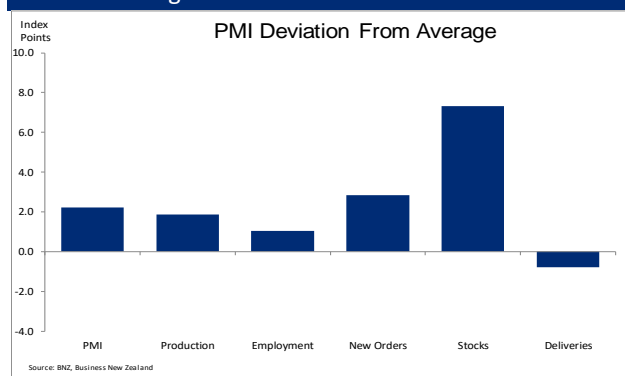
GDP thoughts

After working through the detail of this week's official manufacturing sales and inventory data for Q3, we estimate the sector staged something like a 20% rebound in production after Q2's huge disruption. We think this will be part of a huge bounce in overall Q3 GDP when the figures are released next week. The recent PMI results increase the chances that the manufacturing sector will make another positive growth contribution in Q4. But there are clear reasons to be cautious on overall GDP growth after next week's Q3 results – like the tourism-sized hole that will become more apparent as we progress through summer.

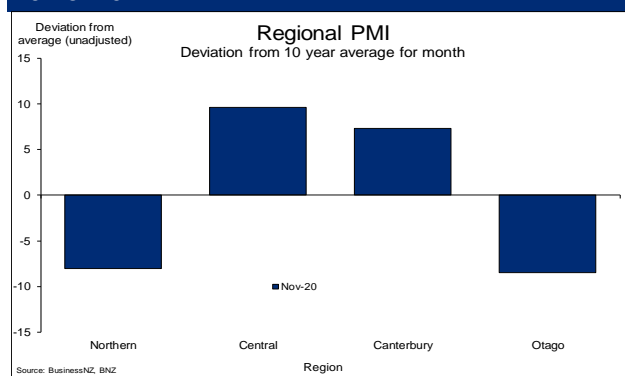
Back Above Average



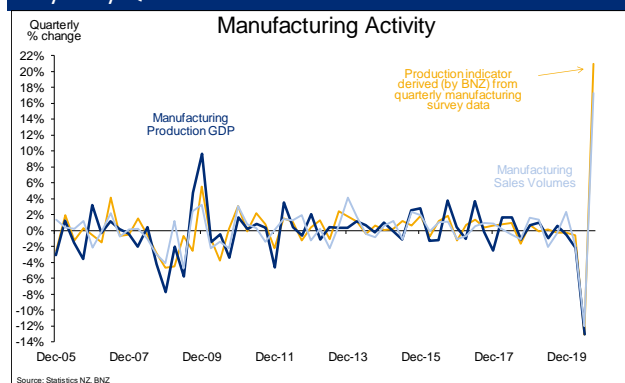
But Some Things To Watch



Non-Uniform



Very Busy Q3



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