

13 November 2020



## Not So Fast

October's Performance of Manufacturing Index (PMI) served as a gentle reminder. That is, of not getting too carried away with the sense of recovery, even if the worst of COVID's impacts can be assumed to be behind us. The PMI slipped back to a seasonally adjusted 51.7, having lifted to 54.0 in September. This was even though October was fully back down to Level 1 restriction, after the tighter levels that were imposed through August and September. And the slowdown in October's PMI was marked in the very areas that gave the most encouragement in September. Namely, production slowed to 51.1, from 56.7, while new orders dipped to 52.4, from 58.1.

## QSBO Also Highlights Caution

Then again, there was a bigger realisation of disappointment in October's NZIER Quarterly Survey of Business Opinion (QSBO), amongst manufacturers. Their reports of output over the last 3 months, for example, remained negative, at a net -15. Similarly, new orders were still languishing at -13. Employment reports, at -10, were also below average. The biggest soft spot, however, was arguably in exports, with a -26 reading with respect to performance over the last 3 months. This was more negative than it was in the prior QSBO report. The good news is that, looking out over the coming 3 months, manufacturers in the latest QSBO anticipated net gains in all these key elements.

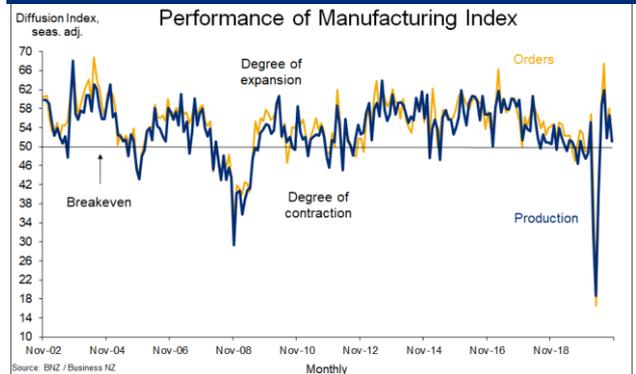
## Costs

Even if activity is assured of expanding well, it is no guarantee of improved profit – especially when cost pressures are emerging, as they very much appear to be. To be clear, the PMI doesn't include numerical indicators on costs (though some information on this can be gleaned from comments provided to the survey, month to month). But the QSBO does. And it showed a re-emerging upward pressure on costs – whether in terms of the last 3 months or the 3 months in prospect. Yet selling-price indicators amongst manufacturers were soggy regarding the last 3 months and barely positive for the coming 3. This, in turn, is keeping profit reports on the back foot, albeit with flickers of improvement in sight.

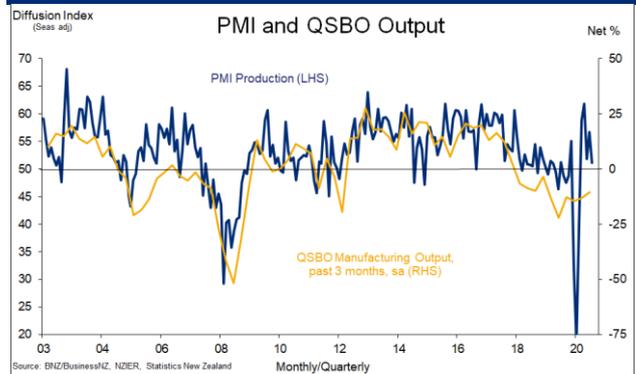
## Capacity

The advent of rising cost pressure might seem odd, when there is supposedly gaping amounts of spare capacity in the economy. The first point we'd make about this, is that there is probably less spare capacity than generally thought. Indeed, if the QSBO's measure of capacity utilisation (CUBO) is anywhere near the truth, it's saying manufacturing supply is struggling to meet demand. This could say as much about the ability to supply as the strength of demand. Related to this, the other point we'd make, is that some extent of the rising costs appears to reflect problems with supply chains, especially global ones. That's certainly the feedback we're getting from firms, whether manufacturers or non. Is it any coincidence that the inventory index in October's PMI, at 49.1, remained on the lean side, as did the deliveries of raw materials (49.5)?

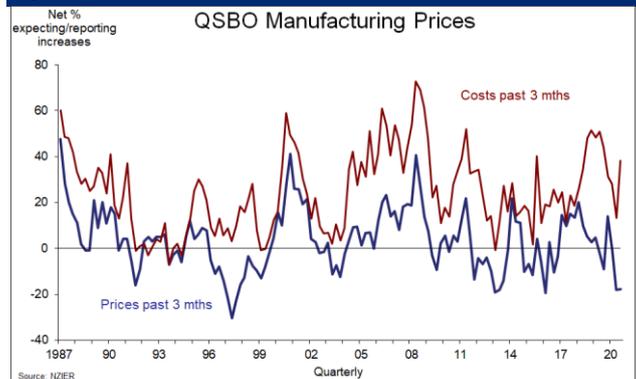
## Often Difficult to Sustain



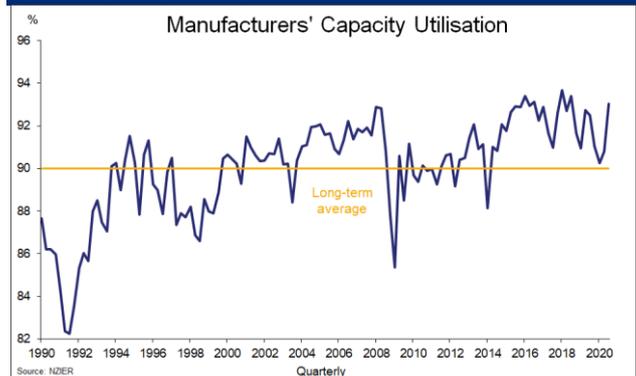
## Reservation of Late



## Squeeze



## Spare Capacity...Really?



craig\_ebert@bnz.co.nz

## 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

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