

16 October 2020



**Progress**

September’s Performance of Manufacturing Index (PMI) took a step in the right direction. It lifted to 54.0 from 51.0 in August. Movement down COVID alert levels no doubt helped in the month, after growth nearly stalled amid August’s tighter restrictions. Not only was September the fourth consecutive month above the 50 mark (indicating growth), but the PMI has pushed up above its long-term average of 53.0. However, as encouraging as this is, it should not be confused with above average activity levels. Rather, it indicates growth off the low base set earlier in the year. Growth has not yet been enough to recoup previous losses, but some progress is being made.

**Some Belief**

Employment was a heartening feature of September’s PMI. To be sure, the lift to 51.6 from 49.2 in August was not particularly large but it is the first time the PMI employment index has pushed into positive territory since February. This is not enough to turn the average for Q3 positive (important for estimates of official employment for the quarter), but it does suggest manufacturers’ have some belief that activity will continue to rise. It certainly fits with buoyant new orders in September, with that index rising to a well above average level of 58.1.

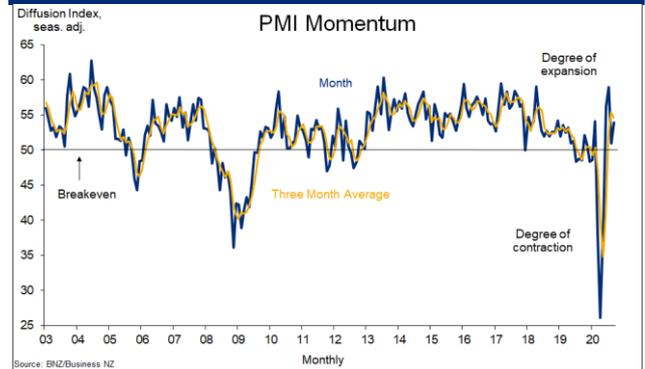
**Supply Side Considerations**

In stark contrast to new orders, production, and employment pushing back above their respective long-term averages, the PMI inventory and deliveries indicators are subpar. It is difficult to know what is driving this, although it is consistent with various anecdotes of supply-chain challenges. In any case, it points to some of the demand improvement to date being satisfied by inventory rundown. Moreover, the balance of stronger new orders and falling inventory is a positive signal for production ahead. Separately, falling stock levels and reduced deliveries raise some questions about what is driving the extent of weakness in NZ’s imports over recent months. A prior collapse in demand is likely not the complete the story. Understanding this balance of demand and supply challenges is important, especially when contemplating the outlook for inflation.

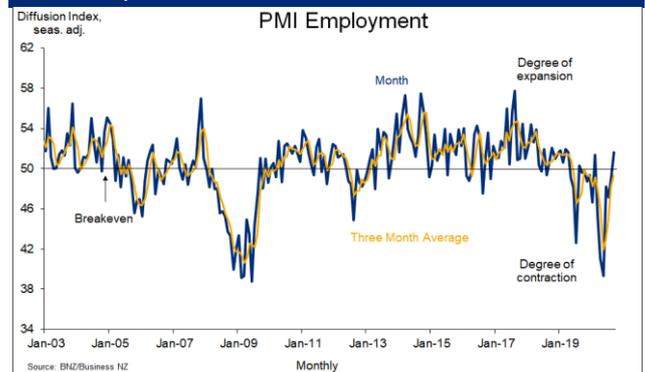
**General Pickup**

Progress was quite widespread within the September survey with the unadjusted PMI above 50 for nearly all major industries (the exception being the catch all ‘other’ category). Likewise, all regions were in expansion mode, albeit with the Northern region understandably lagging other areas given the tighter COVID restrictions in Auckland during the month. Positivity was also the general flavour across different firm sizes, with the notable exception of large firms (those that employ more than 100 people). While the large firm PMI dropping back below 50 in September could just be monthly noise, it may also reflect those firms’ greater exposure to (the still troubled) offshore markets. Speaking of offshore, NZ’s September PMI result sees it in the top echelon among global peers both for the month and for Q3 as a whole.

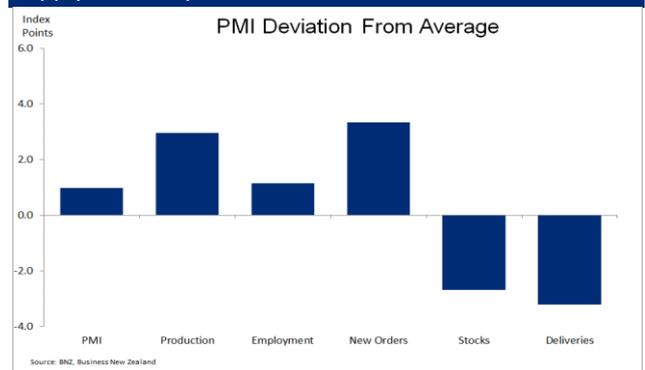
**A Four Month Expansion**



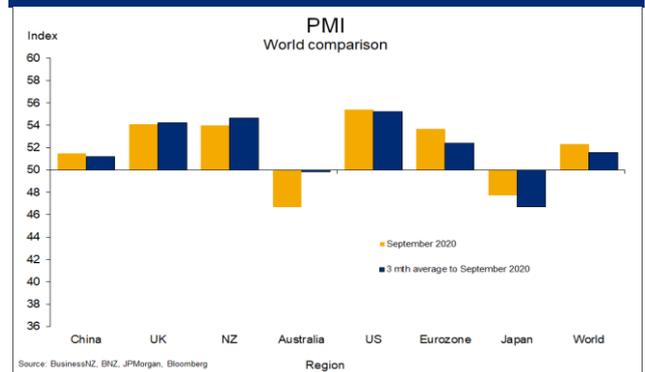
**A First Step**



**Supply Side Subpar**



**Better Than Most**



doug\_steel@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

**Sydney**

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

**London**

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

**New York**

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

**Hong Kong**

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

**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: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

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.