

15 May 2020



Shutdown

April's Performance of Manufacturing Index (PMI) was never going to be anything but awful. And so it is. With various lockdown rules in place through the month, the seasonally adjusted index fell to its lowest ever level at 26.1. This is less than half its 53.0 norm and materially below the previous low of 36.1 recorded in November 2008 during the Global Financial Crisis. It is also a long, long way down from February's 53.7 (we abstained from conducting a March survey to limit burden on businesses during the early stages of lockdown).

Unsurprisingly, extreme weakness was seen across the board in April whether looking by region, by sector, or by firm size.

Employment Supported

New orders recorded the weakest result of all sub components, with a previously-unthinkable reading of 17.8. Production was similarly feeble at 19.8. These are simply dreadful readings representing a sudden stop across much of the manufacturing sector. Needless to say, they are miles below normal. There was substantial weakness in employment too. But with a reading of 41.2, the employment component was not nearly as weak as the activity indicators noted above. This, at least relatively, better outcome, in part, likely reflects the Government's massive wage subsidy scheme. This fits with our thinking that while we expect NZ's unemployment rate to reach double digits over the coming 12 months, increases may be somewhat tempered in the near term.

Disorder

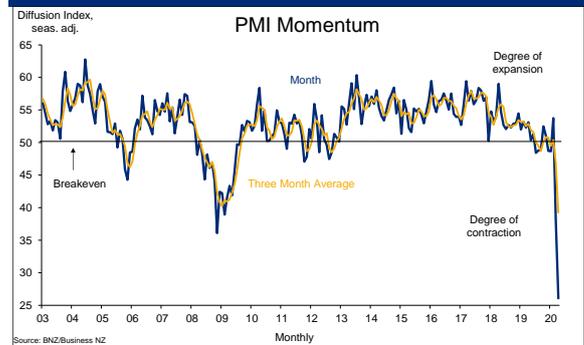
Looking at prior relationships, a slump in new orders of the degree seen in April would be consistent with core manufacturing sales dropping by about a third. But we'd caution against drawing any precise conclusions when such extreme movements take place. It is quite possible that previous associations break down, at least to some extent, especially under lockdown conditions. This also applies for any thinking about the implications for GDP in the second quarter. For the latter, what happens through May and June will, of course, also be important. We would expect some improvement as we move down COVID alert levels. At this point, suffice to say that the significant slump in April's PMI is not inconsistent with a very large economic contraction in the second quarter.

Global Pain

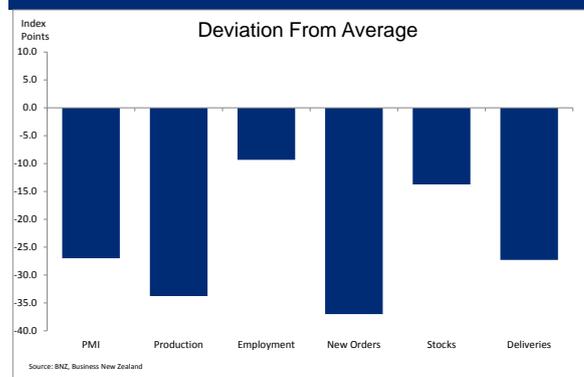
Recent negative PMI readings from around the world illustrate the widespread economic pain being felt. NZ's April reading is lower than other countries we often compare ourselves to, which tallies with suggestions that NZ restrictions have been tighter than many. China recorded its worst reading back in February, at 35.7, but has since edged back above 50 as the long road to recovery is started. This provides some hope as lockdown restrictions are relaxed here and elsewhere.

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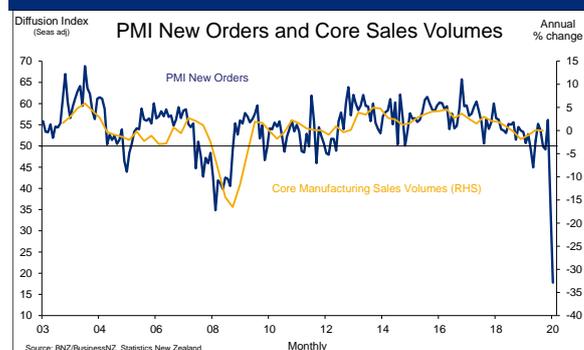
The Likes Of Which We Have Never Seen Before



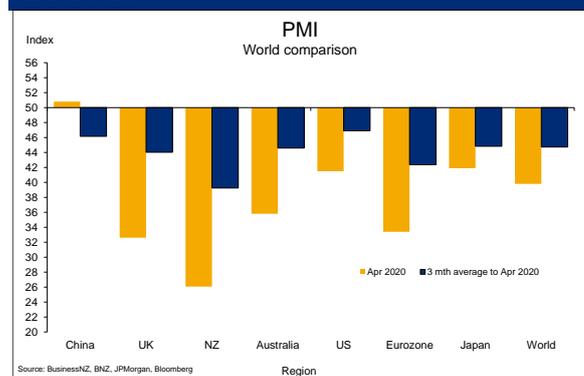
Far From Normal



New Orders Scarce



Global Pain



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