



11 September 2020

Restart Restricted

After the euphoria and freedoms of alert level 1 in July came the resurgence of COVID and tighter restrictions during August, particularly in Auckland. The impact is clear in the Performance of Manufacturing Index. From July's very strong 59.0, the index fell to 50.7 in August. Apart from the massive collapse during the period when COVID first arrived in the country earlier in the year, this is the biggest one month decline since the survey started back in 2002. That said, an outcome above the 50 breakeven mark – indicating a modicum of growth in the month – is arguably a commendable result given more than a third of the country moved into alert level 3 for more than half of the month. Time will tell if the relaxation of some restrictions at the end of August will bring a lift in September's PMI.

Unsettled Trading Conditions

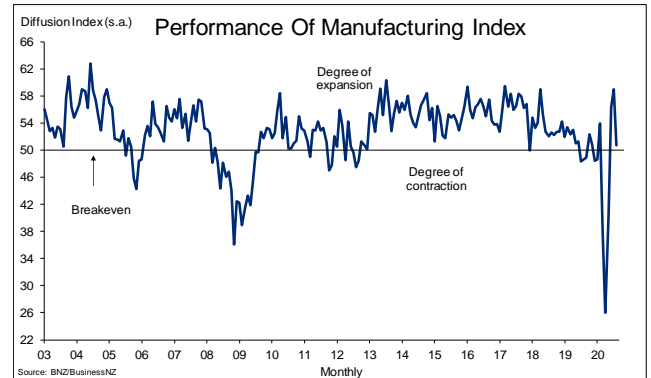
Underneath the 'ok given the circumstances' headline figure, there was a wide range of outcomes. One sign of disparity came from respondents being nearly evenly split between noting positive or negative factors on their activity. Then there was the very diverse range of additional comments, at least outside negative comments being dominated by COVID where more than one in two respondents explicitly named the virus. On the positive side, responses ranged from 'bounce back' and 'catching up' following prior weakness, to 'best month ever'. Any comments on the influence from the likes of export markets, construction, housing, and the primary sector were also divided with both positive and negative respondent feedback on such things. Elsewhere, some noted issues with offshore logistics, while others saw some positives in previously imported goods now being manufactured in NZ. There was also no particular pattern – but much variation – in the PMI by firm size or by industry. Looking across regions, there was material weakness recorded in the Northern (understandable given alert level 3 in Auckland) and Otago/Southland areas but improvement in both Central and Canterbury regions. The recent topsy-turvy nature of activity was neatly summed up by one respondent when they noted 'June was miserable, yet July was an absolute record with some one-off jobs turning up to put the icing to the cake. August started like June but finished really well making for a good average (pre-COVID style) month'. Such an unsettled business environment is negative for employment. Yes, the PMI employment index did lift to 49.0 in August from 46.9 in July. But it is still sub-50 – where it has been for 11 out of the past 12 months – indicating ongoing job losses.

Demand Variable But Improving

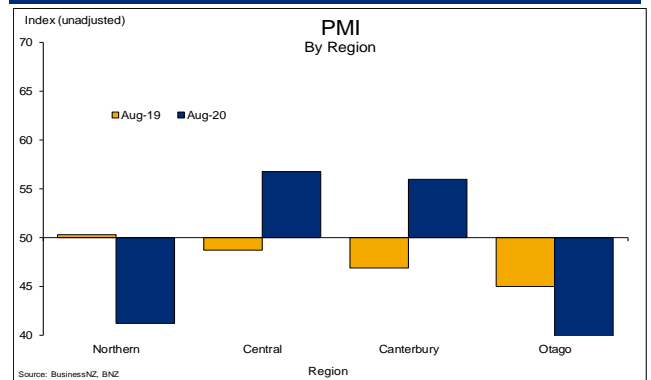
New orders remain the strongest sub component of the PMI. Yes, it fell from an exceptionally strong 67.5 in July to 54.0 in August. But this is the third consecutive month above 50 suggesting underlying demand is improving, if variable. This bodes well for something of a bounce back in Q3 sales after this week's official figures revealed a massive 17% drop in core manufacturing sales in Q2.

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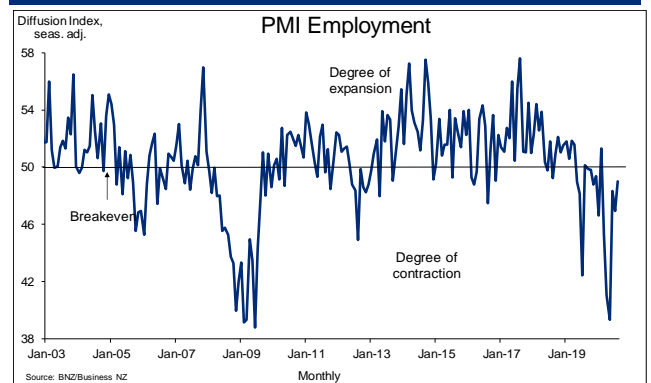
Volatile



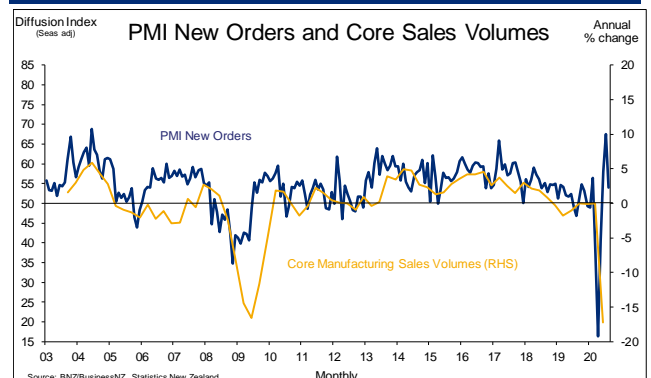
Performance Highly Variable



Job Shedding Continues



Sales Likely Higher in Q3



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