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Six Months Above Average

The manufacturing sector continues to stride forward. Firmly in expansion mode all year, the Performance of Manufacturing Index (PMI) accelerated in June to 60.7 from May's already strong 58.6. That completes six months of the index being well in excess of its long-term average of 53.2. This bodes well for positive manufacturing sales and GDP in Q2 when these official statistics are released over coming months – especially with production and new orders being the strongest of the PMI components recently. The overt strength in the PMI comes amid ongoing supply side challenges that the sector faces and clear weakness in the Central region during the month (the latter possibly related to disruptions associated with the COVID scare in the Wellington region during the month).

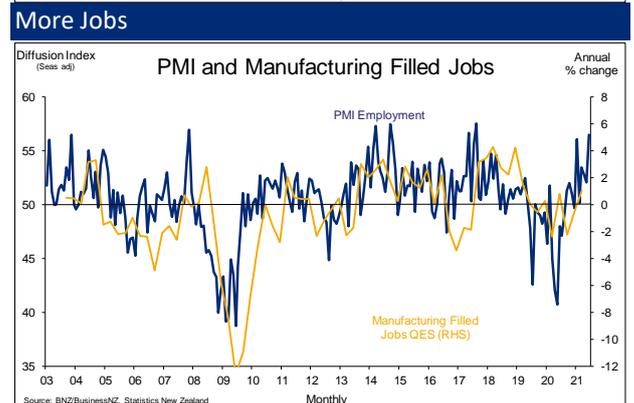
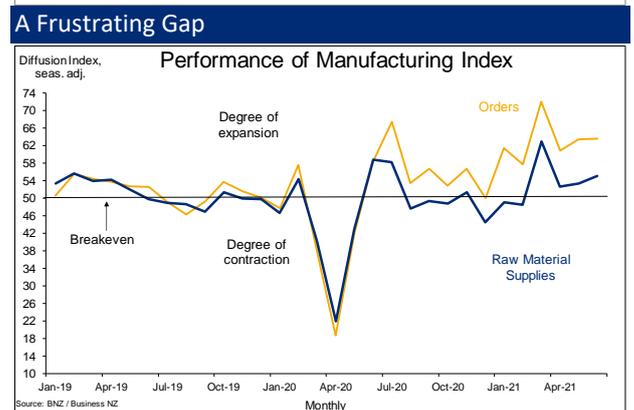
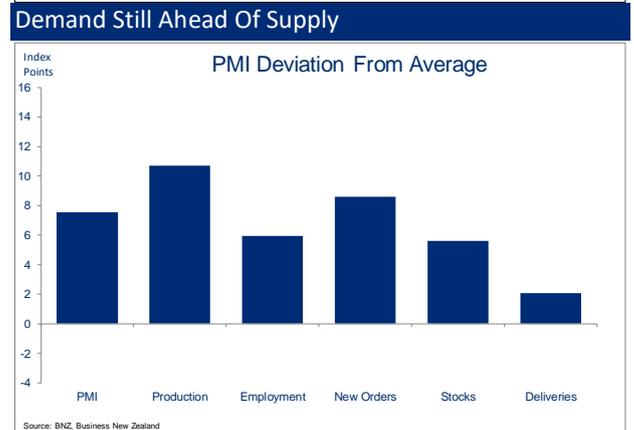
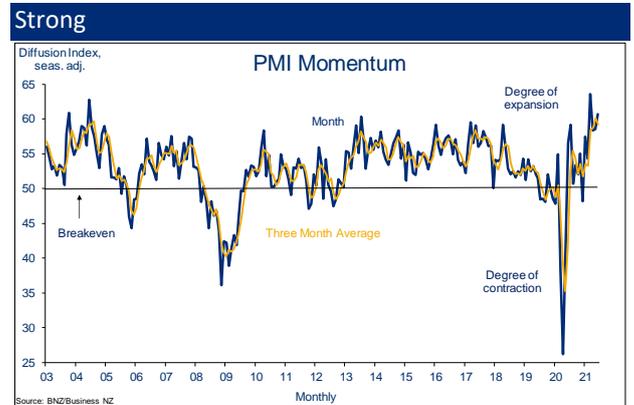
Supply Issues Still Widespread

Finished stocks and deliveries of raw materials increased in June, to 57.3 and 55.0 respectively. Both components pushed up above their respective historical averages. At face value, this hints at some progress in these long-standing supply side areas of concern for business. But we are not sure this is entirely the case. Inventory accumulation is not necessarily good, especially with some respondents noting a build up because of port bottlenecks restricting exports. On the deliveries side, June's lift surely helps. But there is no doubt that massive challenges remain. For a start, the PMI deliveries component continues to lag well behind indicators of demand such as new orders. More pointedly, the vast bulk of negative comments from survey respondents noted some form of supply side issue from import delays, to difficulty sourcing raw materials, to rising costs, to critical labour shortages. Very few mentioned a lack of demand. All up, the recent themes of strong demand and considerable supply side challenges remain intact.

Employment Lifts

Manufacturers have reported some success in recruiting more staff. PMI employment lifted to a very strong 56.5 in June, up from 52.0 in May, to push further above its long-term norm of 50.6. Filling some vacancies is obviously positive. But other surveys, like NZIER's latest Quarterly Survey of Business Opinion, show manufacturers are having increasing difficulty in finding requisite staff. PMI respondent comments would seem to concur. All this supports our view that the general labour market is tightening, which we expect to show up in the official statistics in due course.

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

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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