

11 February 2022



PMI

The Performance of Manufacturing Index (PMI) has continued its recent sequence of oscillating around its long-term average. January's 52.1 reading was a bit under the long-term norm of 53.1, after December's somewhat perkier 53.8. At face value, the headline result looks reasonable enough. January's result is the 5th consecutive month above the breakeven 50 mark and points to some further progress into the New Year.

Questions

But the details do raise some questions about what is going on beneath the surface. The production index eased to a slow looking 51.2 in January. Maybe this is just some 'payback' from December's very strong 56.2. Or perhaps it reflects restricted activity as either more people took holidays or people took longer than usual holidays after what was a torrid Covid-influenced period – especially for those in the North. If so, it was not obvious with the Northern region's PMI (and production index) above the nation's average.

Is demand slowing?

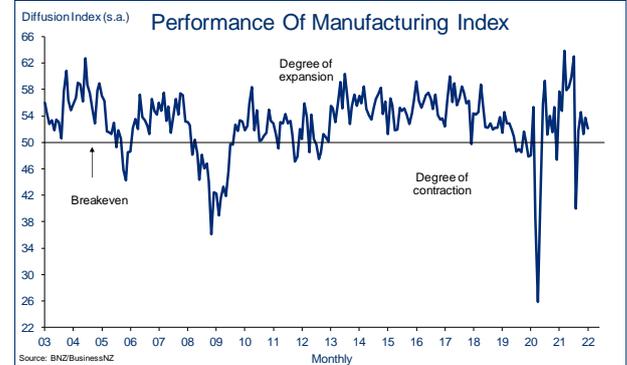
The PMI new orders index fell to 53.3 from December's 57.1. This is not that far below the long-term norm of 55.0, but it is the lowest reading since the lockdown back in August. It makes one wonder if demand has slowed into the New Year. After all, economic confidence has fallen recently, house sales were lower (although not low) in the latter part of last year, and inflation and higher interest rates are chewing into disposable incomes. The possibility of slower demand seems consistent with the PMI stocks of finished products index (52.8 in January) posting its second consecutive month above its long-term average (albeit a touch less so than December's 53.2). Strong conclusions from one month's data are not to be recommended (especially around holiday time). But trends are worth keeping an eye on. Meanwhile, the PMI employment index dropped to a weak-looking 49.2 in January. With other recent surveys showing manufacturers' positive employment intentions and difficulty finding staff, we suspect this is more likely to reflect labour market tightness than necessarily softer labour demand. Either way, it adds to the idea of not expecting much overall employment growth in Q1.

What next?

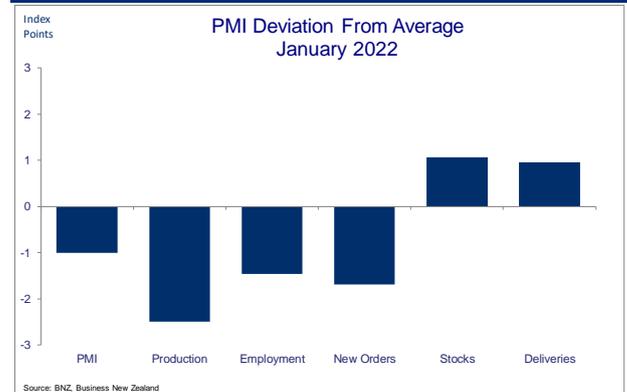
In any case, it has to be said, January's PMI results feel like something of a place holder before Omicron hits proper over coming months along with anticipated higher rates of absenteeism and disruption. Only time will tell the extent of that and its influence on the manufacturing sector and indicators like the PMI.

doug_steel@bnz.co.nz

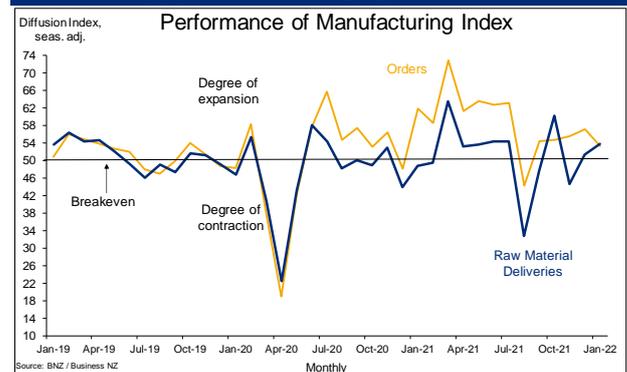
So So See-Saw



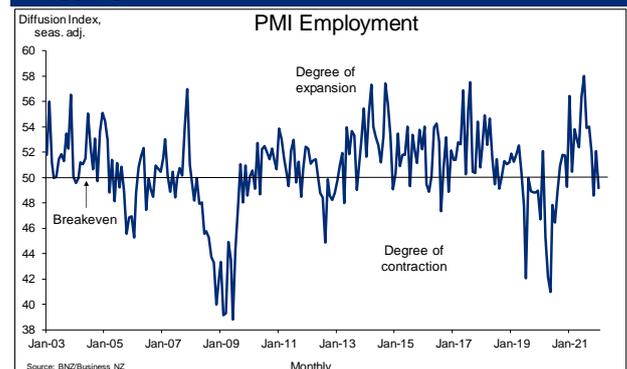
Production Below Average



Demand/Supply Balance Changing?



Struggling



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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