

16 April 2021



Ain't Seen Anything Like This Before

March's Performance of Manufacturing Index was unquestionably strong. Indeed, at 63.6, it is the strongest result in the survey's history dating back to 2002. It is so strong that one immediately wonders if it is some sort of data quirk. But that is not obvious. For example, the extreme strength does not follow weakness in prior months. In fact, the PMI three-month average, at 58.4, is at its highest level since 2004. Maybe the early Easter brought forward some activity into March? Possibly, but we have had early Easters before, and we didn't see anything like this sort of PMI lift back then. Maybe it's a pickup from Auckland's lockdowns? This relief no doubt helped, but it doesn't really explain the overt strength across all regions, all components, and all industries.

Demand

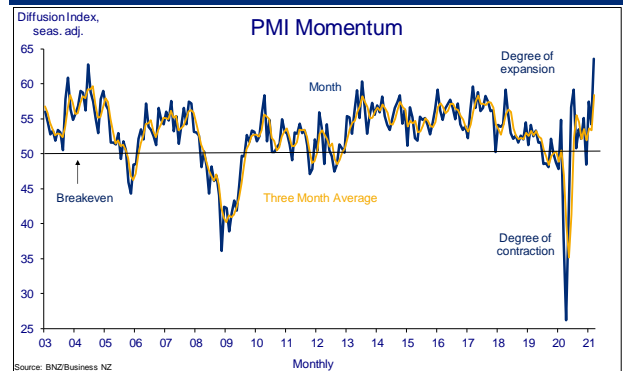
Demand has lifted strongly. Precision on the reasons why changes occur is always difficult but more construction activity, a buoyant primary sector, increased government activity, movement toward domestic sourcing, and improving external demand were all understandably mentioned by respondents. We could add strong domestic spending on durables and improving investment intentions among domestic firms (as per this week's Quarterly Survey of Business Opinion (QSBO)) as other possible drivers. On the negative, respondents again noted the lack of tourism. Overall, demand looked very strong in March with the PMI new orders component lifting to 72.5 – a record high – and adding to what was already above average readings.

Supply Issues

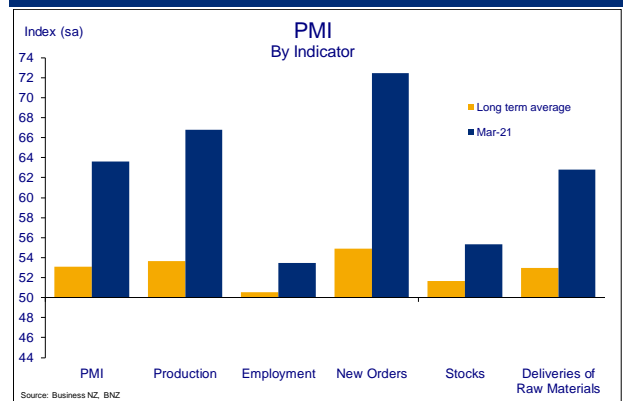
More demand is one thing, but meeting it is another. Firms have faced many supply-side challenges. In this regard, it is interesting to see PMI deliveries of raw materials lifted strongly, to 62.8, this month. That coincides with other data showing imports leapt more than 17% above year earlier levels in March following prior weakness. This looks to have facilitated more output, with the PMI production indicator punching up to a very strong 66.8. That is a positive indicator for manufacturing GDP. But supply issues remain. Many PMI respondents are still reporting challenges regards supply chains, shipping, freight, costs (from labour, to raw materials, to electricity), difficulties finding staff (probably why PMI employment didn't lift by more), and stock shortages. Yes, the PMI stocks indicator suggested some improvement in March, but manufacturers in the QSBO were still reporting stock levels as too low. Cost pressures are widespread, with the most QSBO manufacturers reporting cost increases since 1985. No wonder pricing intentions have lifted strongly.

doug_steel@bnz.co.nz

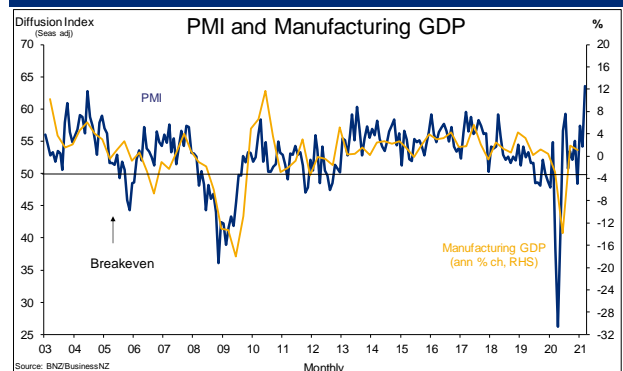
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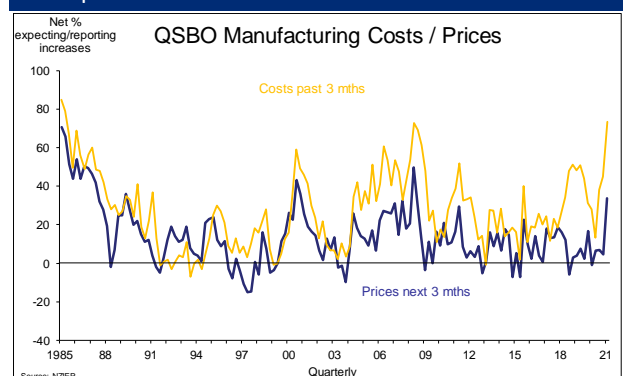
Towering Above Average



Positive For Manufacturing GDP



Widespread Cost Pressures



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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