

Manufacturing Snapshot

14 March 2025

Lifting further above 50

In February, the Performance of Manufacturing Index (PMI) lifted to 53.9 to strengthen its footing above the breakeven 50 mark. This is a further gain on the sharp jump up from 46.4 to 51.7 in January. After 22 prior months in contraction, the sustained improvement is a welcome change. It is one of several indicators that suggests the broader economy is turning for the better. Indeed, it indicates the pickup may be a bit faster than we are currently forecasting.

Activity improving from a weak base

It is important to remember that any improvement in activity is coming from a weak base. Recent official data confirmed weak manufacturing sales in Q4 last year. Core sales volumes (excluding meat and dairy) were flat in the quarter and still 2.4% below year earlier levels. Looking at the PMI sub-indices, the new orders index nudged up to 51.5, but still well below its historical average of 54. A new orders index above 50 is positive, but being below average and trailing the inventory index questions to what extent the pace of lift in production can be maintained without further improvement in demand.

Labour market showing signs of stabilising

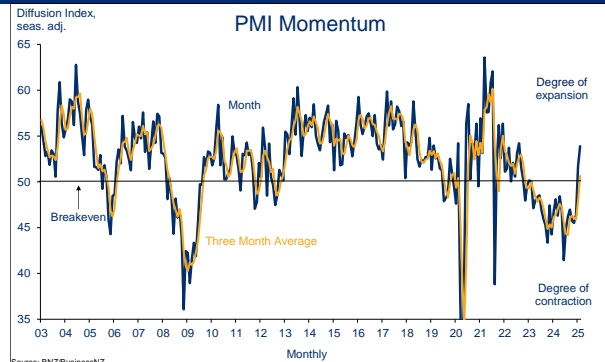
New Zealand labour market conditions remain weak, with the unemployment rate relatively elevated. However, some employment indicators have recently started to stabilise and increase the chance that the unemployment rate might not reach the peak of 5.5% we have pencilled in. The PMI employment index has lifted further to 54.0 in February. That is its strongest reading since July 2021. It suggests some reversal of recent falls in manufacturing employment is underway.

Profitability likely to lag

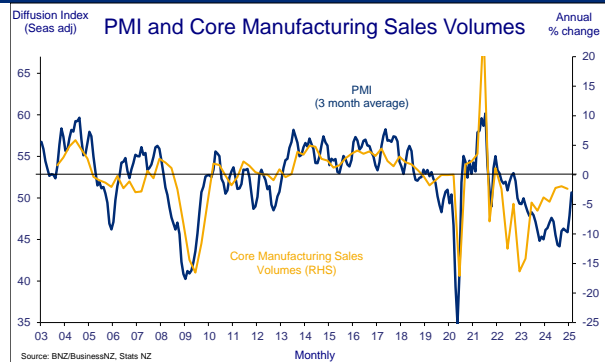
In the latest Quarterly Survey of Business Opinion (QSBO), only a net 1% of manufacturing firms expected profitability to improve in the first quarter of 2025. This is not unexpected, as any return to profitability usually lags the pickup in activity. Costs remain elevated, particularly for any inputs exposed to the weaker New Zealand dollar. The recent lift in wholesale electricity prices is another headwind for manufacturers exposed to that market to navigate. This is an area to watch, as hydro-lake levels currently sit around 74% of their usual level for this time of year.

doug_steel@bnz.co.nz

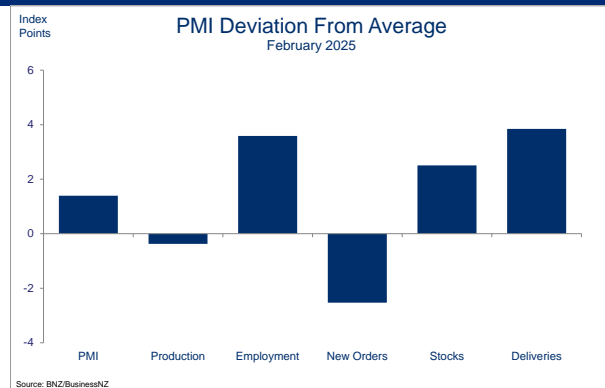
Expanding



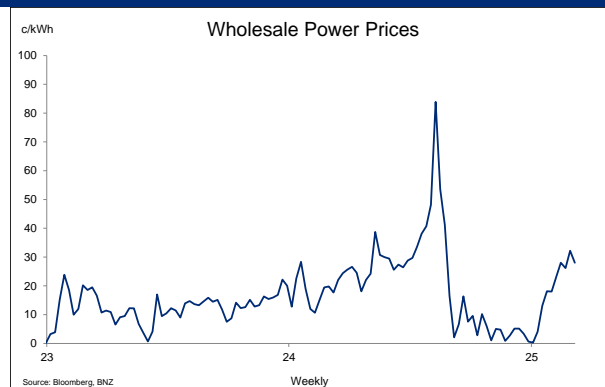
Weak starting point



New orders trailing



Taking off



Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.