

# Manufacturing Snapshot

17 January 2025

## Stuck in contraction

The Performance of Manufacturing Index (PMI) nudged up from 45.2 to 45.9 in December but remains well below breakeven at 50. The PMI stayed in a tight band between 45 and 46 in Q4 2024, as the manufacturing sector continued to slide backwards. It has now been in contraction for 22 consecutive months, including all of 2024 and the majority of 2023.

## Weak across the board

While movements in the PMI sub-indices were mixed in December, they all remain below their historical averages. The PMI finished stocks index decreased the most from 49.2 to 45.9. The PMI production index eased from 42.3 to 41.9 and remains the furthest from 50. Alas, it is yet another New Zealand economic indicator that suggests parts of the economy are suffering the most they have since the GFC (excluding the COVID-turmoil). Providing some hope, the PMI new orders index lifted from 44.5 to 46.5. While the new orders index is still sub-50, smoothing through month-to-month volatility the series has been gradually moving towards breakeven.

## QSBO optimism

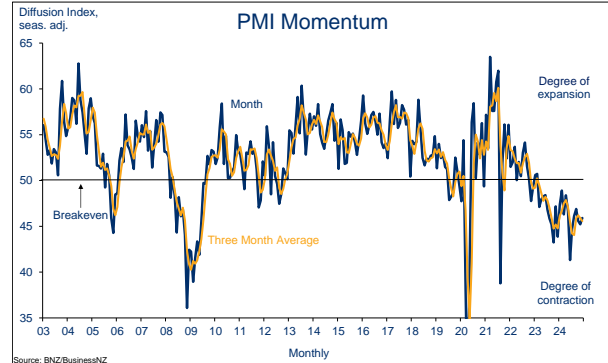
The PMI reflects a very miserable here and now. In contrast the forward-looking, recently released, NZIER Quarterly Survey of Business Opinion (QSBO) showed signs of optimism for manufacturing. The net percentage of firms expecting conditions to improve in the next six months lifted to 3%, its first time above zero since Q3 2017. Of note, firms expect demand to increase in the next three months, particularly for exports. This is likely to be supported by a lower New Zealand dollar. However, sales gains may not feed straight through to the bottom line as many firms are also reporting increasing costs which will probably be exacerbated by the recent surge in oil prices.

## Better 2025 expected

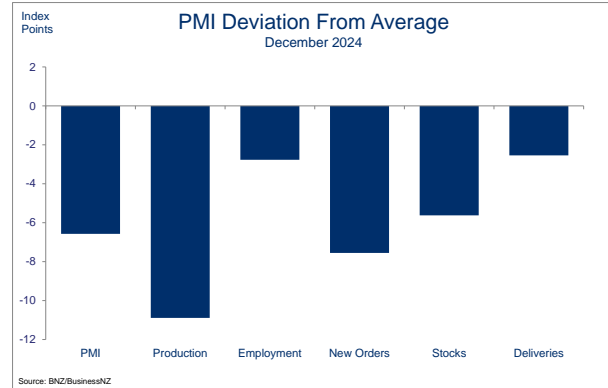
We forecast the manufacturing sector to grow by a touch over 1% in 2025. It may not be much, but it would be better than the 2.7% contraction we estimate occurred in 2024. Historical GDP revisions show production was slightly better over 2023 and 2024 than previously assumed. However, manufacturing conditions over this period were still extremely challenging. While an economic recovery is expected in 2025, it will be coming off a very low base and will take some time to truly gain in momentum.

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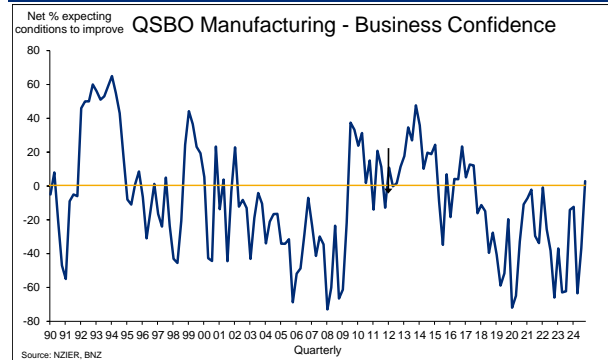
### No Christmas cheer



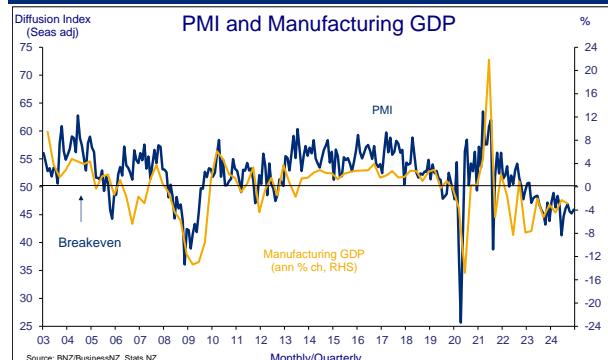
### Production sinking



### Improved sentiment



### Current conditions still challenging



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