

Manufacturing Snapshot

13 December 2024

Contraction continues

The Performance of Manufacturing Index (PMI) eased slightly from 45.7 to 45.5 in November. While the PMI slowly moved towards the breakeven 50 mark over the September quarter, it has since retreated in both October and November. Timely monthly data like house sales, job ads, filled jobs and card spending all convey a picture of the New Zealand economy remaining very weak. While the PMI is not as deep in contraction as during the GFC, this contraction has persisted for far longer, currently 21 consecutive months.

Sub-indices still struggling

While movements in the PMI sub-indices were mixed in November, they are all still stuck below average. The PMI deliveries index improved the most from 44.9 to 49.9 and is showing signs of stabilisation. Last month, we noted the PMI new orders index approach toward 50 offered some hope due to its historical lead indicator qualities. Unfortunately, this index fell from 48.5 to 44.8 as the pace of decline in new orders accelerated again in November. Disconcertingly, the PMI production index also sank further below its historical average.

Manufacturing sales volumes weak in Q3

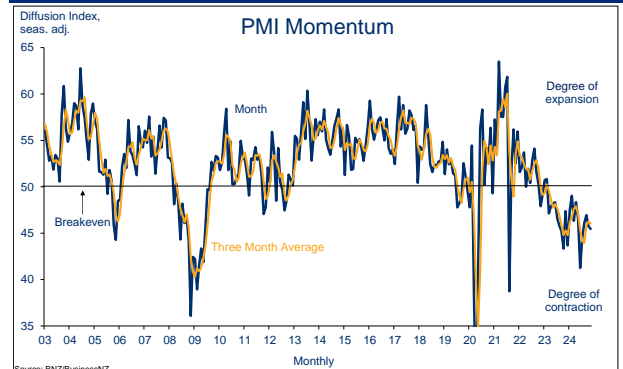
Recent official data confirmed weak manufacturing sales in Q3. Core sales volumes (excluding meat and dairy) decreased 2.3% q/q in Q3. The PMI points to sales volumes falling again in Q4 and by more than many might care to believe. The main message of a manufacturing sector still under significant pressure remains. Recent business surveys report that manufacturers are feeling more confident about the outlook, but there is scant evidence of a general turnaround in activity to date.

Lower interest rates will help

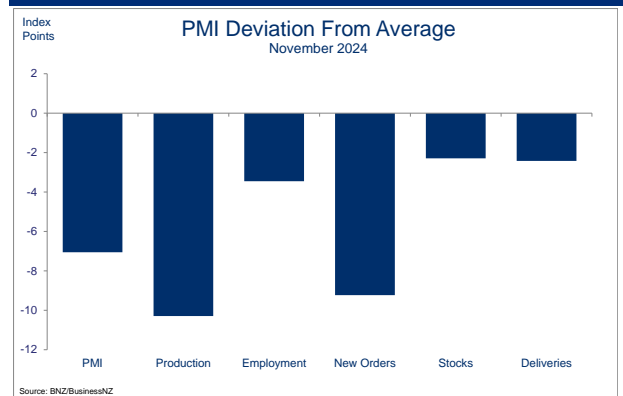
The Reserve Bank of New Zealand (RBNZ) reduced the OCR by 50 basis points to 4.25% in November, in line with economists' estimates. If economic conditions evolve in line with its projections, the RBNZ expects to lower the OCR further early next year. The accompanying statement noted manufacturing as one of the sectors of the economy most dampened by high interest rates. It's these interest rate sensitive sectors that the RBNZ expect to underpin the economic recovery in 2025. We agree lower interest rates will help in time, but the PMI is a reminder of the headwinds through to November.

doug_steel@bnz.co.nz

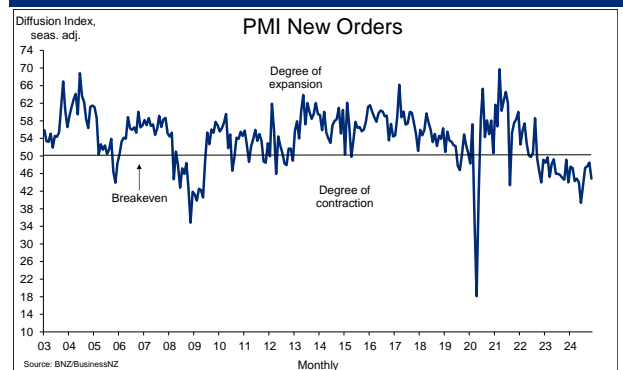
Recovery stalled



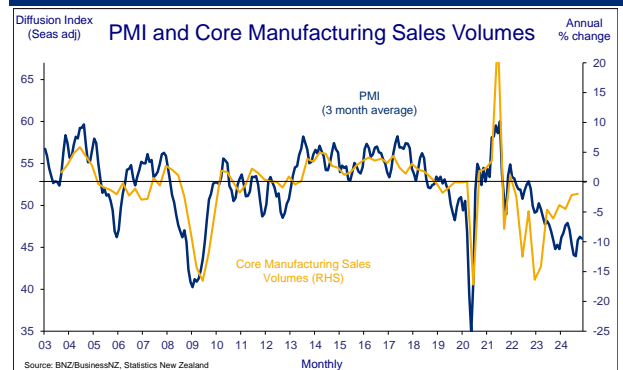
Production and new orders especially weak



A step back



Headwinds persist



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.