

# Manufacturing Snapshot

16 May 2025

## PMI trending higher

The Performance of Manufacturing Index (PMI) continues to trend upwards, lifting from 53.2 to 53.9 in April. This is the fourth consecutive month above 50 and is further evidence the sector has turned the corner. Activity is not surging, but a manufacturing recovery seems to be underway with the PMI having improved substantially from its low of 41.4 last June. That said, there remain questions around how sustainable it is given uncertainty stemming from offshore.

## Recovery expected

In April, the PMI new orders index lifted to 51.4, back above the breakeven 50 mark. While new orders are no longer going backwards, they also haven't picked up in a meaningful way. Relatively weak production and new orders suggest the sector has been buoyed by an expectation of more activity ahead, rather than demand and output to date. Admittedly, the bar for an improvement is low but there is a risk these expectations are not met. New orders will need to continue to pick up to be consistent with elevated activity.

## Reduced labour costs

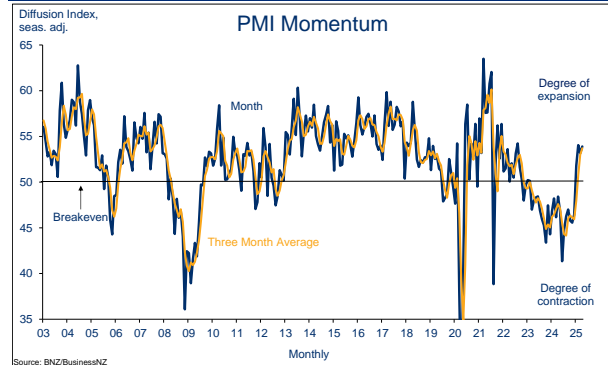
The PMI employment index nudged up to 55.0 in April, consistent with a rapidly expanding workforce. This strength is yet to materialise in official labour market statistics, where the number of jobs in manufacturing is still 2.5% below year earlier levels. For many firms, a reduction in labour costs to date has been an effort to return the business back to profitability. By the same token, relatively low labour costs may now be encouraging some to lift employment levels.

## Falling interest rates

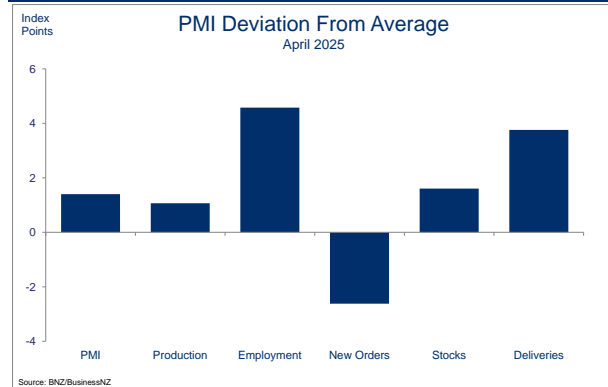
Since August, the Reserve Bank has cut the Official Cash Rate (OCR) by 200 basis points from 5.50% to 3.50%. Both the reductions to date, and the expectation for further cuts, will be providing support to the sector. However, future OCR reductions are already baked into current fixed lending rates so their impact will now be limited. That said, interest rates are simply no longer acting as the handbrake they once were. For the record, we expect the Reserve Bank to lower the OCR by another 25 basis points at its May decision with two more 25-point rate cuts, taking the cash rate to 2.75%, thereafter.

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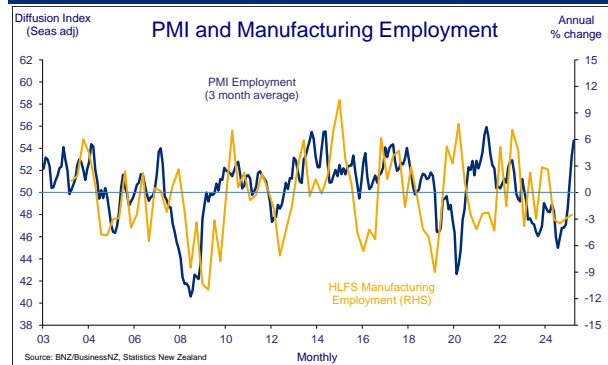
### Moving up



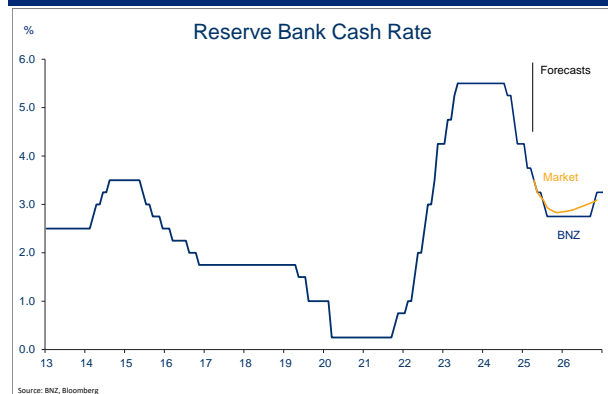
### New orders lagging



### Variable employment picture



### Further cuts expected



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