

# Manufacturing Snapshot

14 February 2025

## January jump

The Performance of Manufacturing Index (PMI) lifted sharply from 46.2 to 51.4 in January. After 22 long months in contraction, it has moved back above the breakeven 50 mark at last. It's a positive start to 2025, with the manufacturing sector shifting out of reverse and into first gear. While the PMI still sits below its long run average of 52.5, the improvement is welcome news for manufacturers after a very challenging two years. We forecast the sector to grow by a touch over 1% in 2025 but briefly outline three factors which will impact the pace of the recovery below.

## Lower interest rates supportive

In November, the Reserve Bank of New Zealand (RBNZ) 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 forecast the RBNZ to cut the official cash rate by another 50 basis points to 3.75% next Wednesday (19 February). After this, our view is that the cash rate should be cut 25 basis points per meeting toward an eventual low around 2.75%. If the RBNZ takes a more cautious approach in cutting rates, the recovery could be more gradual than we are currently forecasting.

## Export intentions elevated

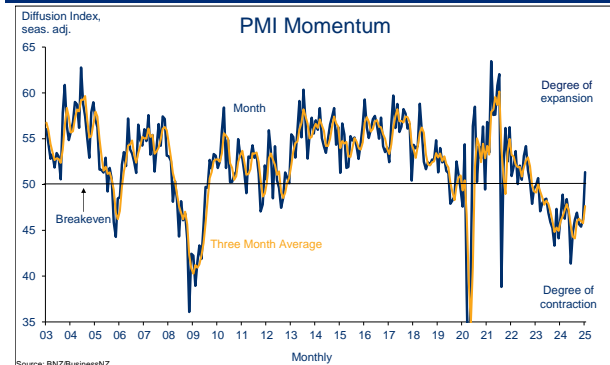
Around 40% of manufacturing output is exported directly, with more exported indirectly as an input into production in other sectors. In the latest ANZ Business Outlook survey, a net 25% of manufacturers expected exports to improve in the next 12 months. While there is a risk exports disappoint relative to expectations, near-term demand is likely to be supported by the lower New Zealand dollar. The weaker currency also allows New Zealand manufacturers who sell domestically to be more competitive against imported goods.

## But there is heightened trade policy uncertainty

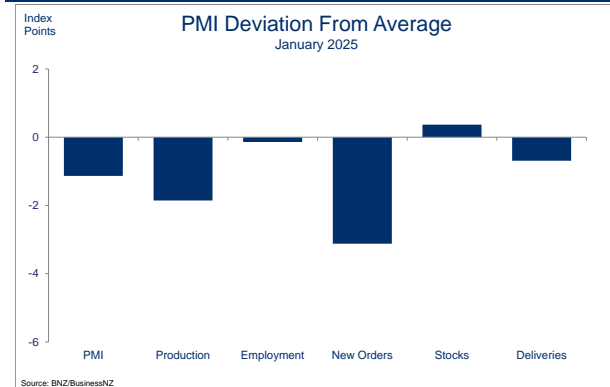
Globally, the key focus is the US, as uncertainty about the prospective Trump policy mix reigns. While the net effect of the tariffs is unclear, uncertainty breeds caution. Note that the key here is not so much the direct impact of tariffs on New Zealand but rather the indirect effect on China and global growth. However, some specific industries in New Zealand are still vulnerable to sudden tariff policy changes.

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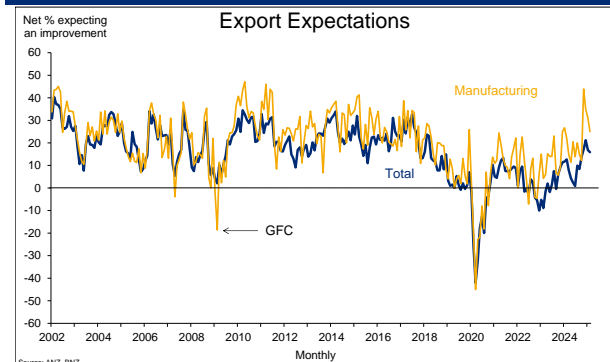
### Back above 50



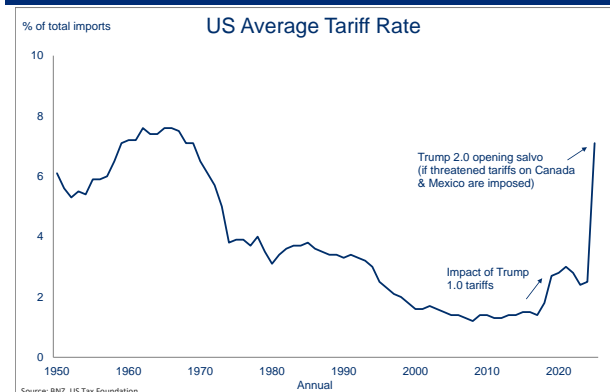
### Not getting carried away



### Improvement expected



### Trump's opening tariff salvo



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