Research

Manufacturing Snapshot

11 April 2025

Holding above 50

The Performance of Manufacturing Index (PMI), at 53.2 in March, has now been above the breakeven 50 mark for three consecutive months. Although the PMI eased slightly from 54.1 in February, its three-month moving average (53.0) has reached its highest level since January 2022. Frail demand and cost pressures remain challenging, but any improvement is welcome on dire conditions over the last two years. The PMI supports the notion that manufacturing GDP has increased in early 2025. The open question is what lies ahead given recent extreme volatility on global markets following rapidly evolving US-driven trade policy changes. Risks to the global and NZ growth outlook are downward.

New orders the laggard

Historically, manufacturing sector output has been closely tied to the state of the broader economy. Across the economy, higher business confidence has been largely due to expectations of stronger future demand, rather than current conditions. Of some concern for manufacturing specifically, the PMI new orders index fell from 51.5 to 49.6 in March. This remains well below its long-run average of 54.0. New orders will need to improve substantially to meet expectations of firmer demand and be consistent with our economic forecasts.

Inventories building

At times last year, our commentary on the PMI noted a destocking trend. This suggested more scope for manufacturing production to pick up upon an eventual turn in demand. Since then, manufacturing stocks and production have both lifted significantly. The PMI finished stocks index (56.3), and PMI production index (54.2) are each at their highest levels since December 2021. There is a risk demand takes longer than expected to improve, such that rising inventory could dampen further expansion in production.

QSBO reality check

The PMI employment index edged up to 54.7, its highest level since July 2021. This level, well above 50, is consistent with a rapidly expanding workforce. The PMI employment index contrasts with the latest NZIER Quarterly Survey of Business Opinion (QSBO), where a net 6% of manufacturers reported fewer numbers employed in the past three months. If nothing else, this points to a highly variable employment picture across the manufacturing sector at present. We continue to expect the labour market to lag the broader economic recovery. Uncertainty remains elevated and it would not surprise if firms held back on hiring plans until some of the dust from recent global events settles.

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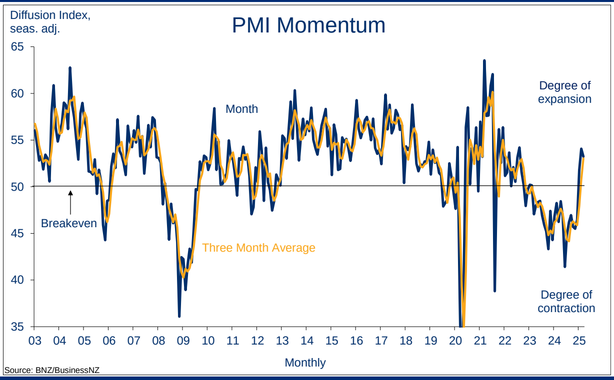
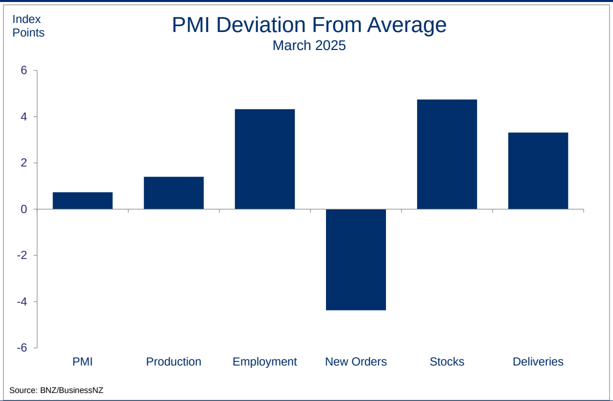
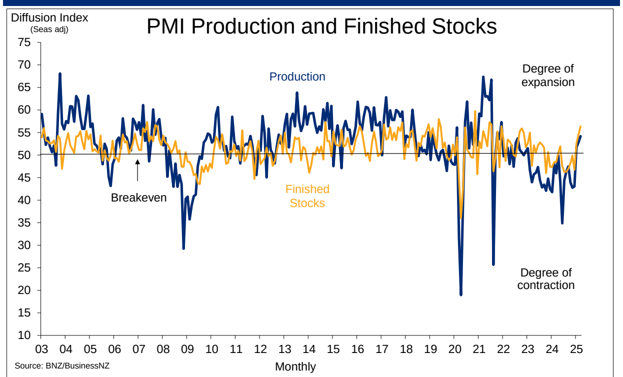
Expanding



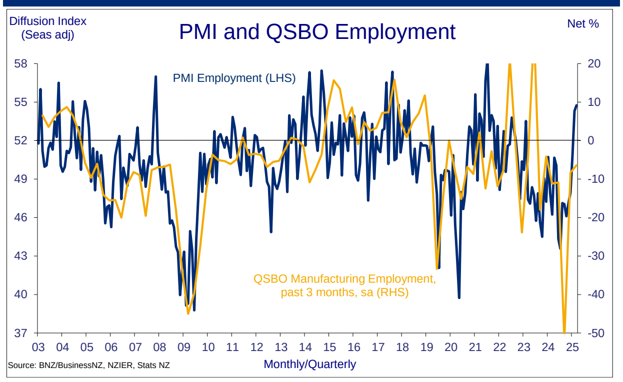
All above average, except new orders



Moving up



Big Gap



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