

Manufacturing Snapshot

13 June 2025

Back in the red

The Performance of Manufacturing Index (PMI) dropped sharply from 53.3 to 47.5 in May. After four consecutive months in expansion, the PMI has steeply fallen back below the breakeven 50 mark. It's important to remember that the PMI is a measure of current conditions, rather than any expectation of future direction. According to the latest data, conditions in the manufacturing sector retreated in May after lifting earlier in the year.

All below average

Weakness in May was broad-based, with all the PMI sub-indexes declining and below their historical averages. Of some concern, the PMI new orders index is particularly weak at 45.3. At this sort of level, the new orders book is rapidly shrinking. Elsewhere, the PMI employment index declined abruptly from 54.6 to 45.7. This was the largest single month decline in its 20+ year history. The employment picture remains extremely variable. The PMI employment index has gone from a brief period of positivity, to again indicating labour shedding. Meanwhile, some indicators such as hiring intentions are elevated, while others such as filled jobs continue to ease.

Headwinds into Q2

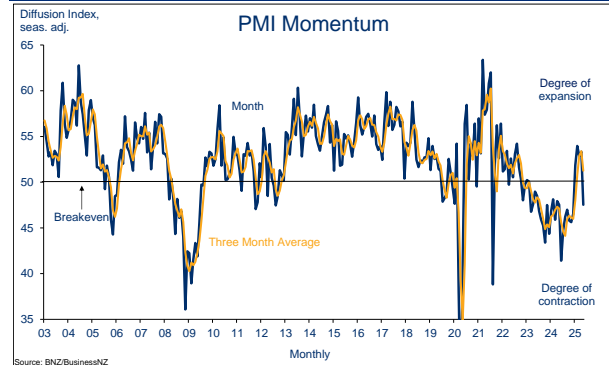
Core manufacturing sales volumes (excluding meat and dairy) increased 1.4% q/q in Q1 2025. This was consistent with earlier PMI readings, which averaged 52.9 in Q1. However, the decline to 47.5 in May raises the risk that the manufacturing sector's Q1 strength is short-lived. Weakness in other timely indicators such as building consents and consumer confidence suggest these headwinds are being felt across the broader economy.

Tariff uncertainty ongoing

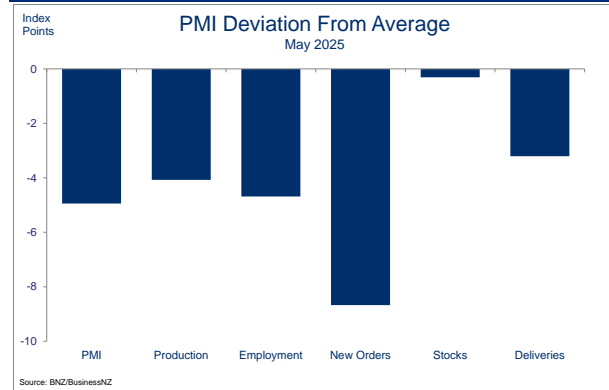
The front-loading of purchases ahead of tariffs has supported global manufacturing activity. However, offshore survey indicators suggest that manufacturing activity weakened in May. Similar to NZ, the PMI also declined in Australia, China and the US. Tariff policies are changing regularly. Beyond the policies themselves, the uncertainty associated with them is also dampening activity. We still think the New Zealand economy can claw its way forward over the course of 2025, but the PMI is yet another indicator that suggests an increased risk that the bounce in GDP reported for Q4, 2024 and Q1, 2025 could come to a grinding halt.

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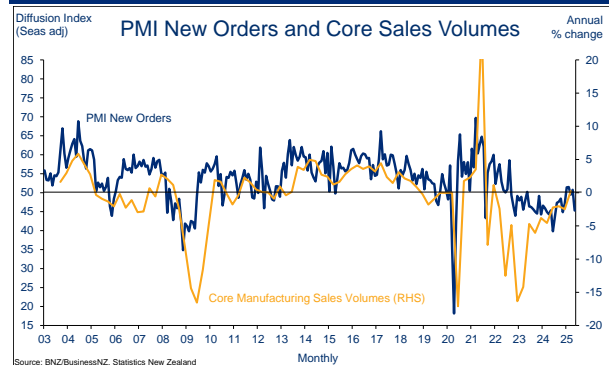
Ouch



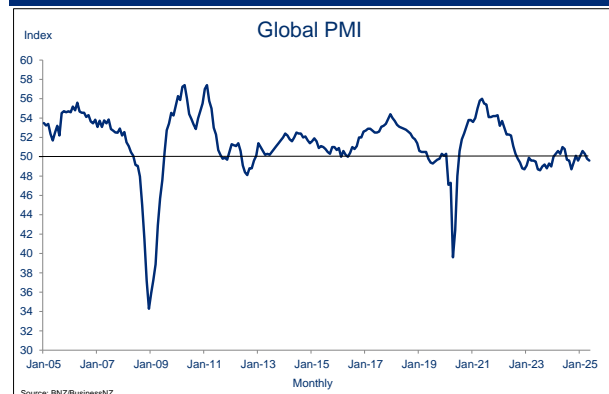
New orders struggling



Back below



Under 50



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