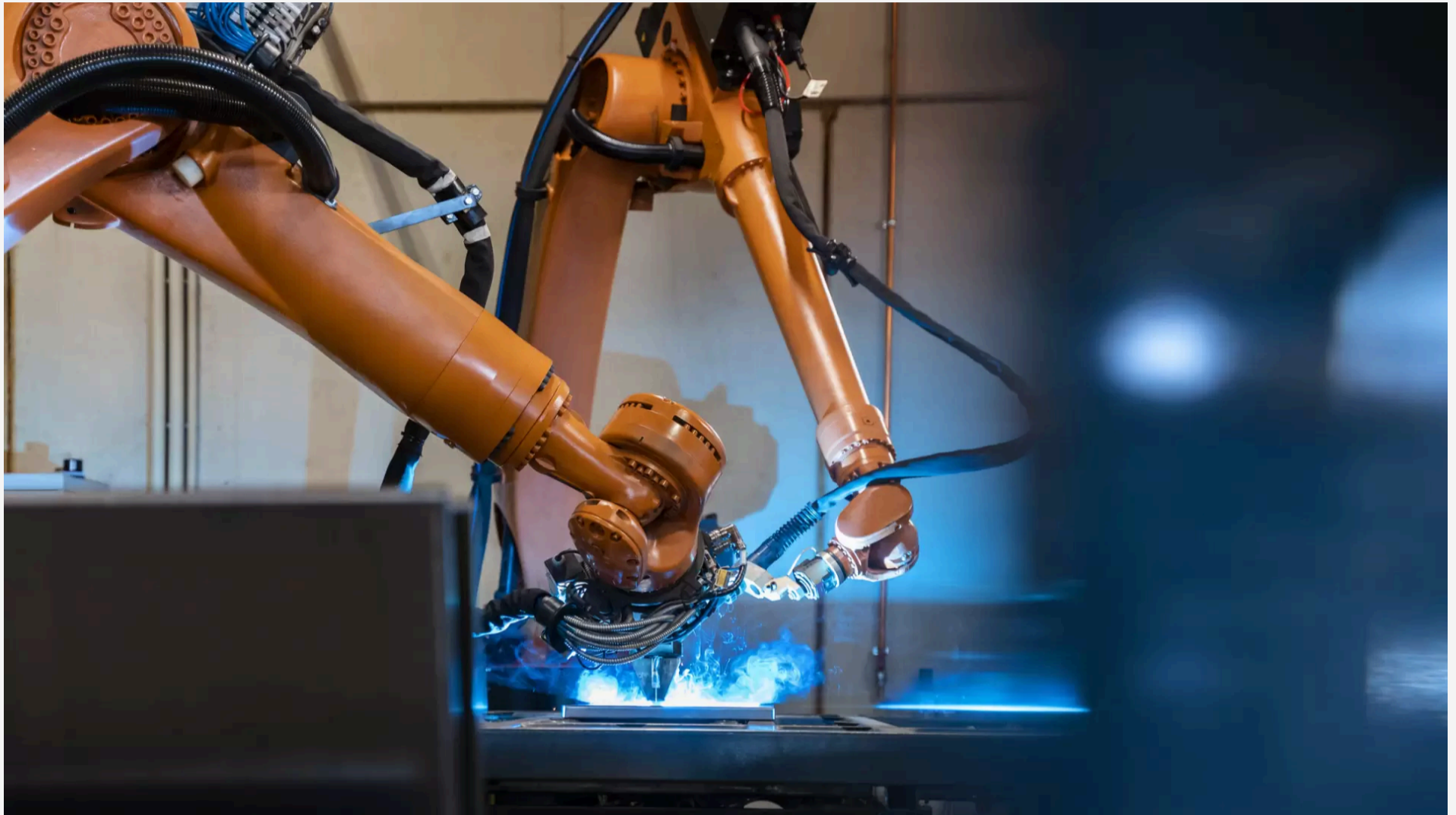


BUSINESS | 8 mins to read

Little in Budget for manufacturing, but sector's hope persists

NZ manufacturing needs urgent help to get digitalised – and is hoping this and other consideration will emerge in Govt's economic growth plan, out soon.



NZ manufacturing has one of the lowest robot-to-worker ratios in the developed world.



Dita De Boni
Fri, 07 Jun 2024



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↓ KEY POINTS

- **What's at stake:** There was little in Budget 2024 for the manufacturing sector, which needs substantial support to automate and improve its productivity to compete with more advanced countries.
- **Background:** New Zealand's manufacturing sector includes some very advanced manufacturers, but its majority of small and medium-sized businesses are about 10 years behind European and Asian manufacturers.
- **Main players:** Small Business and Manufacturing Minister Andrew Bayly, Advanced Manufacturing Aotearoa CEO Catherine Lye, EMA head Brett O'Riley, Westpac industry economist Paul Clark, Mulcahy Engineering MD Kayne Mulcahy, Graeme Evans, Epicor ANZ VP.

There was nothing much in the recent Budget for the manufacturing sector – a sector dogged by the inability to afford next-gen automation and become more productive – but commentators and advocates remain hopeful that something more substantial will be coming from the Government in the next six months.

The sector did receive \$1.05 million for 'Driving Industry 4.0 Uptake and Skills development' (Industry 4 is automated manufacturing), and some funding to keep Advanced Manufacturing Aotearoa (AMA) going. AMA, established in March 2023, is an industry-driven group aimed at upskilling and advancing the country's uptake of digitalisation.

Manufacturing also now has its first-ever minister – Andrew Bayly, the Minister for Small Business and Manufacturing. AMA CEO Catherine Lye said Bayly was “acutely aware of the challenges facing the sector and is committed to overcoming the challenges”.



Minister for Small Business and Manufacturing, Andrew Bayly.

A Manufacturing Productivity Advisory Group has convened twice already, to provide a recommendation to Bayly on ‘quick win’ priorities for the coming financial year, including more government investment, more collaboration, more and better trained graduates for the sector, and accelerated depreciation, which manufacturers have long been calling for.

Lye said the Budget 2024 allocation was “many multiples less” than what manufacturing needs. “But it is what the Minister decides to do with it that will make a difference, and we look forward to industry, through the voice we’ve established with AMA, continuing to play a key role in that.

“Importantly, now that there is an appropriation for manufacturing for the first time (\$2.08m), we would expect that this gives us the opportunity to grow this significantly over coming years, driving greater productivity through capital intensification initiatives such as accelerated depreciation.”

Nothing per se

There was nothing “per se” in the Budget for manufacturing, said the outgoing head of the Employers and Manufacturers (EMA) Association Brett O’Riley. He had hoped there might be something signalled around accelerated depreciation, which manufacturers want as it allows them to deduct the money spent on new investments from their taxable income more quickly.

He said discussions with the Government on the issue had revealed they were not opposed to the idea – “but, in the current fiscal environment, it would not be something they’d want to do”.



Outgoing head of the EMA, Brett O'Riley.

There would be things happening, including Bayly-led manufacturing delegations overseas, but the Budget had clearly been a 'belt tightener'.

"Our understanding is that [the Government is] going to focus, in the next six months, on their economic growth plan," O'Riley told *NBR*. "It has an aspiration around doubling the value of exports in the next 10 years and so, reasonably, you would say manufacturing is going to be a big part of that."

Paul Clark, industry economist at Westpac and the man who authored a February 2024 report on the state of the manufacturing sector, agreed Budget 2024 didn't contain much for manufacturing – but that the Government had not intended it to.

"Our view is that this is very much a 'repair budget', focused heavily on front line services and infrastructure within very tight fiscal constraints. Of course, there may be some indirect benefits coming from increased infrastructure spend, but that will be at the margin," he said.

"That is obviously not good news for manufacturers that are looking to digitally transform themselves. Small, operationally focused and cash-constrained, they need all the help they can get. Without it, they're just going to lag further behind their peers in other countries."

Competition

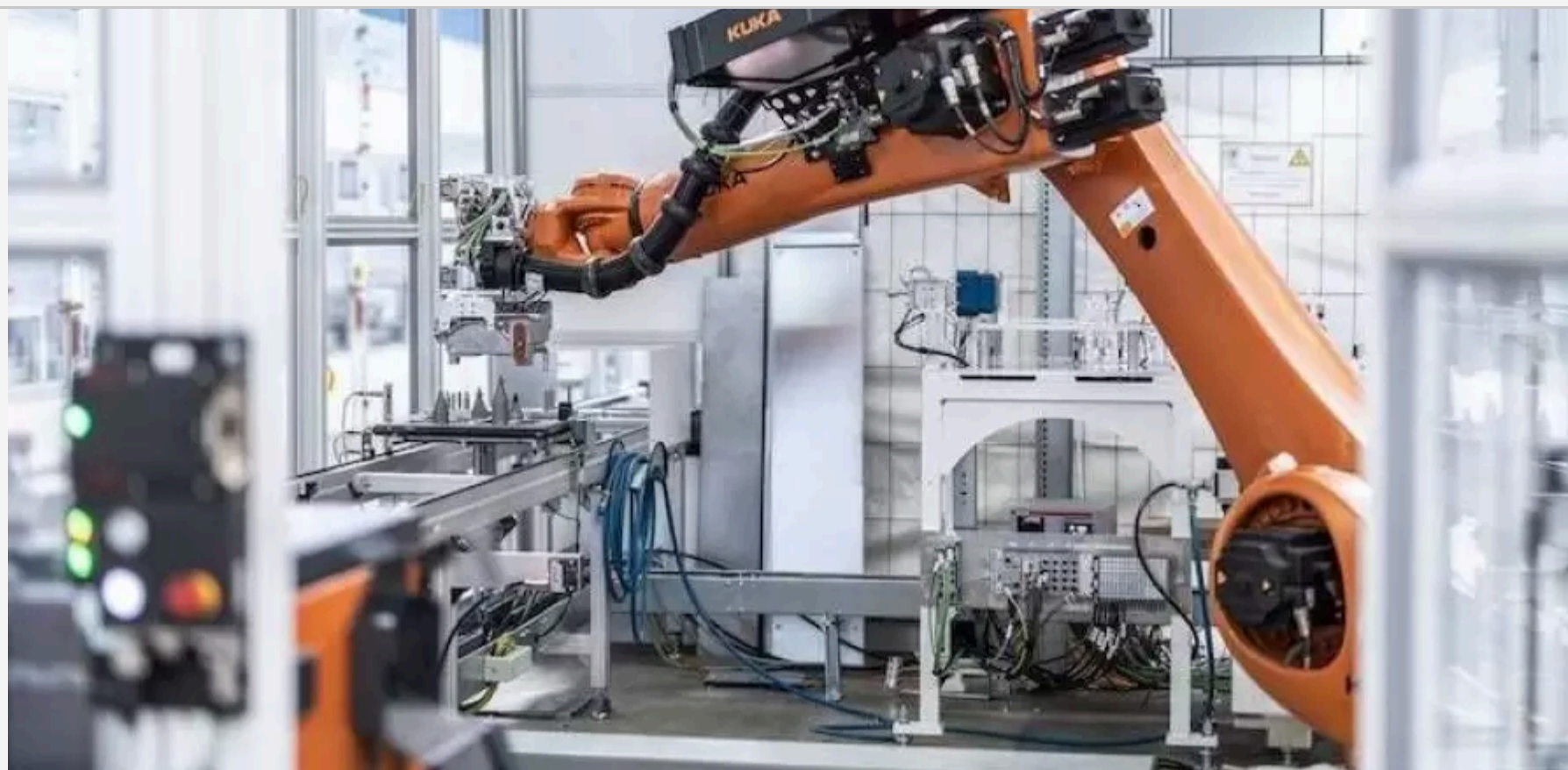
Those in the sector believe New Zealand manufacturers need urgent support to bring the vast bulk of small and medium-sized manufacturers onboard with automation.

Governments in countries similar in size to New Zealand are doling out cash to do exactly that. Singapore, for example, has allocated about \$3 billion dollars on R&D over five years to support business innovation and resilience, including transforming manufacturing as part of a Manufacturing 2030 plan.

In Denmark and Estonia, the governments have helped thousands of manufacturers accelerate their technology uptake with grants for private consulting, courses, and skills training. Ireland has a strategy called Future Jobs Ireland, in which an Industry 4.0 strategy is central. R&D, industry clusters guidance, and other help worth billions of euros are and will be forthcoming (Irish firms can also access EU funding). Perhaps most importantly, it will provide funding to "raise awareness and understanding among manufacturing firms and their supply chains of the concept of Industry 4.0 and the potential business benefits and opportunities to be derived from engaging in ... Industry 4.0 activities".



Westpac industry economist Paul Clark.



A robot at the Advanced Manufacturing Training Centre of Excellence in Dundalk, Ireland.

The New Zealand Government has said it would prioritise manufacturing more, but notwithstanding Minister Bayly's evident interest in the sector, the currently Government also dispensed with the Advanced Manufacturing Industry Transformation Plan (ITP) started under the previous Government, aimed at transforming the sector with the help of advanced tech into a "higher-skilled, higher-paid, globally competitive, low-emissions sector". The ITP had \$30m in funding attached to it over several years, some for specific initiatives that are now unlikely to go ahead given the initiative and the budget for it has disappeared.

O'Riley put that scrapping down to the fact the Advanced Manufacturing ITP, which he had worked on with others, had not got to making a long-term plan, but also, the usual penchant of governments for abolishing the work of previous governments. The coalition Government "didn't like the construct so they got rid of all ITPs, but they did that on the basis that they would replace it with something – so I guess that is what we are going to see the shape of in the next six months".

But Prime Minister Christopher Luxon has made it clear that business needs to help itself before putting its hand out for government funding, and this might also be driving what the sector is seeing at the moment.

Westpac's Clark said some argue manufacturing is a sunset industry, "and that market forces alone should determine whether manufacturers are able to make the shift to Industry 4.0."

"While that might be traumatic, what is likely to emerge is a slimmed-down sector, producing a smaller range of products, but home to larger, better-resourced firms."



A Kaumātua blesses Sleepyhead's new state of the art foam facility in Ohinewai.

Manufacturing at present

Currently, New Zealand has some extremely advanced manufacturers using 4.0 technology – the likes of Rakon, Rocket Lab, The Comfort Group (Sleepyhead), and leather processors Tasman Tanning to name a few, all of which have active export markets and are booming.

But, taken overall, manufacturing in New Zealand is contracting. The latest Performance of Manufacturing Index for May was a reading of 48.9 – showing contraction was slowing, but still happening. Employment was slightly up in the sector but, more worryingly, production and new orders were down.

The stubborn problem of the sector's productivity remains. Manufacturing productivity has remained at 0.92% in the past 10 years, below the (already low) New Zealand average of 1%.

AMA's Lye said the sector could realise at least an extra \$7b a year if process innovation and improvement was undertaken by companies integrating Industry 4.0. technology. But there were other things the sector also urgently needed.

These included getting more capital into New Zealand manufacturing firms, perhaps from the \$200b in 'lazy capital' in KiwiSaver and NZ Super, that was mainly going to offshore investments.

Better workforce development was another, as well as favourable immigration settings: "This focus on human capital is crucial, as a well-trained workforce is essential for the successful implementation of new technologies and for maintaining a competitive edge in an increasingly automated and digitised global market."



AMA CEO Catherine Lye.

industries such as food, dairy, and horticulture, employing about 140 people.

In 2020, it spent \$1m on replacing its legacy systems in payroll, finance, and computer-aided design as well as adding in more visibility over its production line with an ERP (Enterprise Resource Planning) software solution from US-based Epicor, which designs specific software for manufacturing. Epicor has about 15 reps in New Zealand with a solid book of work, but also competes against the likes of SAP and Infor introducing manufacturing-specific advanced tech.

Mulcahy said the company had reached a level where its equipment was modern but its data collecting and processes that required that data were less so.

“Historically, we would get to the end of the month and report on how we did in terms of sales volumes and so forth, but the data was lagging behind.



Mulcahy Engineering's automated system.

of action” – otherwise known as ‘cognitive ERP’.

He said economic challenges may have prevented companies from stepping into Industry 4.0 but, in the end, it came down to “risk appetite for investment – while understanding the long-term benefit. But people using this technology always make their money back”.



Dita De Boni
Fri, 07 Jun 2024

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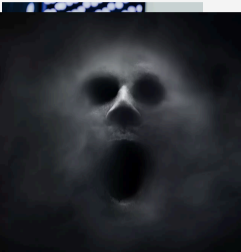
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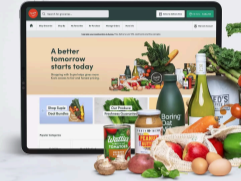
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