Pūtake Labs

Invest now, stage it, or wait?

How a New Zealand manufacturer could test a capacity investment while demand, interest rates and energy costs are all moving

Sector
Manufacturing

Data current to
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This is independent analysis built from public data. No business commissioned it, and no organisation named here has reviewed or endorsed it. The manufacturer modelled is an archetype, not a real company: its figures are set to match published New Zealand benchmarks. The scenarios are tested possibilities, not forecasts, and this is not financial or investment advice.

SUMMARY

Keep the option to say no.

WHAT THE ANALYSIS SHOWS

For a typical mid-sized manufacturer near full capacity, building a large expansion now only pays over five years if demand grows faster than about 5.4% a year. A staged build, or a short deferral with a clear trigger, keeps most of the upside and limits the loss if demand stalls.

$9.2m	+$0.24m	−$1.63m	5.4%
Sales turned away over five years by doing nothing, if demand grows as expected	Staged build, five-year value against doing nothing, expected conditions	Investing now if demand stays flat: the largest loss of any option	Annual demand growth needed for investing now to beat doing nothing

THE QUESTION

Manufacturing has been one of the stronger parts of the economy in 2026: the PMI reached 56.5 in September. But inflation is above target, the cash rate has risen twice this year, and energy costs remain a structural risk. A manufacturer near capacity has to decide whether to commit capital now, in stages, later, or not at all.

WHAT WE FOUND

- **Doing nothing is not free.** The business turns away about $9.2m of sales over five years and runs flat out from year 2.
- **Investing now is the riskiest choice.** It has the highest profit in year 5, but the worst five-year result if demand stalls (-$1.63m).
- **Staging or waiting with a trigger is more robust.** Both come out ahead of doing nothing in the expected case (+$0.24m and +$0.37m) and lose less, or nothing, if demand stays flat.
- **Energy shocks hurt every option about equally** and do not change the ranking.

WHAT DECISION-MAKERS SHOULD DO

- Put a number on doing nothing: turned-away work, overtime and wear on plant.
- Work out your own break-even demand growth before you commit.
- Prefer options that keep a decision point, and agree the trigger in advance.
- Treat Investment Boost as a sweetener. It adds about $0.13m of value on a $4m build here.
- Test the energy assumptions in any business case, not just the expected price path.

The archetype and scenarios are explained on pages 4 and 5. Every public source is listed on page 11.

CURRENT POSITION

Strong orders, rising costs, uncertain rates.

The signals facing manufacturers in late 2026 point in different directions. Demand indicators are strong, while the cost of capital, wages and energy are all rising.

INDICATOR	LATEST READING	WHAT IT MEANS FOR AN INVESTMENT DECISION
BNZ–BusinessNZ Performance of Manufacturing Index	56.5 (Sep 2026)	Activity expanding well above the long-term average of 52.5, and up from 53.3 in August. The index reached 59.7 in June but dipped below 50 in May, so momentum has been uneven.
NZIER Quarterly Survey of Business Opinion	Confidence +40 (Sep qtr)	Sharp rise from +14 the previous quarter, but firms' own trading activity over the past three months was flat (-1). Expectations are running ahead of results.
Capacity utilisation (all firms)	About 91% (Jun qtr)	Little spare capacity across the economy, which supports the case for investment if demand holds.
Manufacturing output	+1.9% (Mar qtr GDP)	Manufacturing was the strongest contributor to March quarter growth and makes up about 8% of GDP. Sales volumes rose 3.6% in the quarter.
Consumers price index	3.7% (Sep qtr)	Above the Reserve Bank's 1 to 3% target, driven by petrol. Manufacturers reported the strongest pricing intentions of any sector in mid-2026.
Official cash rate	2.75% (held 28 Oct)	Raised in July and September; held by a 4 to 3 vote in October, with the committee agreeing tighter policy is likely to be needed.
SME new overdraft rate	About 9.7% (mid-2026)	The cost of borrowed money for a smaller firm, and close to the 10% discount rate used in this analysis.
Domestic gas supply	85 PJ (2026)	Producers project output falling to about 36 PJ by 2035, a 58% drop. Industrial gas use fell 32% between 2020 and 2025 as prices rose.
Adult minimum wage	$23.95 (from 1 Apr 2026)	Up 1.9%. The default employer KiwiSaver contribution also rose to 3.5% on 1 April.
Investment Boost	20% upfront deduction	New plant first used from 22 May 2025 qualifies for an extra 20% tax deduction in its first year, on top of depreciation.

Sources are listed on page 11. Figures are as published at the time of writing and may since have been revised.

EVIDENCE

What the public record supports, and what it does not.

DEMAND

Survey evidence (the PMI and NZIER's survey) and Stats NZ output data both show manufacturing recovering through 2026 after a weak 2023 to 2025. The recovery has been led by transport equipment and machinery (+4.0% in the March quarter) and food and beverage (+1.7%), both export-facing.

The evidence is weaker on how durable this is. The PMI fell to 49.9 in May before rebounding, and NZIER notes that confidence is running ahead of firms' actual trading. Treasury reported flat consumer spending in the June quarter as fuel prices squeezed household budgets.

COSTS

Inflation, wage rises and energy prices are well documented. The 2024 dry winter is the clearest recent example of energy risk: spot electricity prices peaked around $820/MWh against a historical winter average of about $180/MWh, and some large users cut or stopped production. Modelling for MBIE by Sense Partners found that electricity prices around 30% above baseline from 2026 to 2030 could leave GDP about 0.7% lower by 2030.

CAPITAL

The official cash rate is rising from a low base, and the Reserve Bank expects to tighten further. Smaller firms pay well above the cash rate: the SME new overdraft rate was about 9.7% in mid-2026. Investment Boost lowers the after-tax cost of new plant, but only brings deductions forward in time.

WHAT THE PUBLIC DATA CANNOT TELL US

- Any single firm's margin, order book or capacity. We use an archetype instead.
- How long the 2026 demand recovery will last. This is the largest uncertainty, so we test it directly.
- Future energy prices. We test a price shock rather than predict one.

EVIDENCE STRENGTH

STRONG Current inflation, interest rates, wage rates and tax settings.

MODERATE Direction of demand and energy supply over two to three years.

WEAK Demand growth and energy prices beyond three years, and any one firm's economics.

THE DECISION TESTED

One manufacturer, four options.

We model an archetype: a mid-sized New Zealand manufacturer with about $18m in annual sales, running at about 93% of practical capacity, weighing a $4m expansion that would add 30% to capacity.

OPTION	WHAT IT INVOLVES	CAPITAL
Do nothing	Keep current capacity. Once demand passes capacity, work is turned away. This is the baseline every other option is measured against.	$0
Invest now	Build the full expansion in year 1, with a six-month ramp-up. Newer plant improves margins slightly and uses less energy per unit.	$4.0m
Stage it	Build half the capacity in year 1 for 55% of the cost. Build the second half at the start of year 3 only if year-2 demand reaches 95% of stage-1 capacity.	$2.2m, then up to $2.4m
Defer 18 months	Wait. Build the full expansion at the start of year 3 only if year-2 demand reaches 95% of current capacity. Equipment costs rise about 3.5% a year in the meantime.	$0, then up to $4.3m

KEY ASSUMPTIONS

ASSUMPTION	VALUE	BASIS
Contribution margin before energy	34%	Typical for a medium-sized processor; gives an operating margin before depreciation of about 7%
Energy cost	5% of sales	Mid-range for non-energy-intensive manufacturing; rises 4% a year in real terms
Wage and overhead growth	3.5% a year	Close to current CPI; minimum wage rose 1.9% in 2026
Selling-price growth	3% a year	Below cost growth: strong pricing intentions, but competition limits pass-through
Extra fixed cost to run the new line	$0.3m a year	Additional staff, maintenance and insurance
Efficiency of newer plant	+1.5 pts margin, -12% energy	Applied to all output once fully installed; deliberately modest
Plant value at year 5	55% of cost	65% for plant built later, reflecting a newer asset
Tax and discount rate	28%, 10%	Company tax rate; discount rate close to the SME borrowing rate

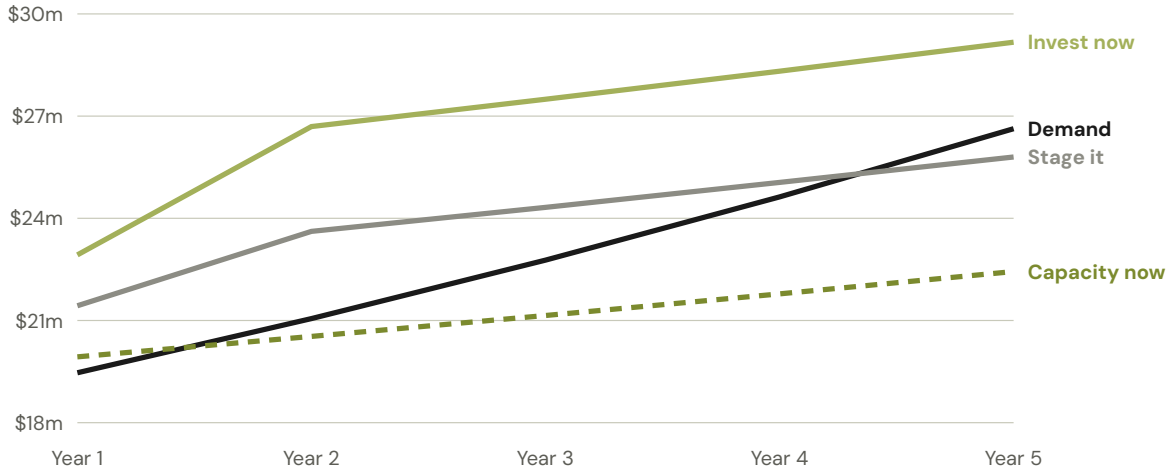
SCENARIOS

Three conditions the decision has to survive.

Each option is tested under three conditions. They are not predictions. They span what the public evidence suggests is plausible over the next five years.

CONDITION	WHAT WE ASSUME	WHY IT IS PLAUSIBLE
Expected	Volume demand grows about 5% a year; energy prices rise about 4% a year.	Consistent with the 2026 recovery in PMI readings and output, without assuming the current pace lasts.
Weak demand	Volume demand flat for five years, as when the PMI sat below 50 through 2023 to 2025.	Confidence is running ahead of actual trading, consumer spending is flat, and rising interest rates could slow construction and investment.
Energy price shock	Expected demand, but energy costs jump 35% in years 2 and 3 (a dry-year or gas-shortage event).	Falling gas supply and a shortage of firm generation make another dry-year price spike plausible; it happened in 2024.

DEMAND AGAINST CAPACITY, EXPECTED CONDITIONS

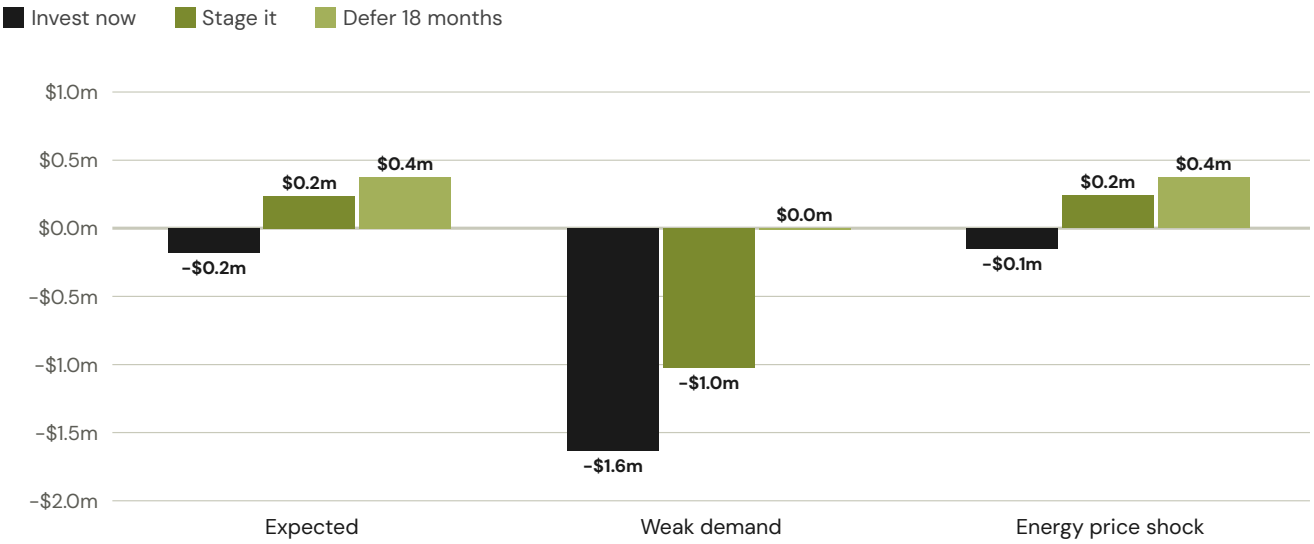


Sales value in nominal dollars. Demand overtakes current capacity during year 2. The staged build keeps up with expected demand until late in year 5; in the expected case the second stage is not triggered within the five years.

COMPARATIVE FINDINGS

Staging and waiting hold up best across the conditions.

Five-year value of each option against doing nothing, after tax and discounted at 10%, including the value of the plant at the end of year 5.



OPTION	EXPECTED	WEAK DEMAND	ENERGY SHOCK	WORST CASE	YEAR-5 PROFIT*
Invest now	-$0.18m	-$1.63m	-$0.15m	-$1.63m	$3.12m
Stage it	+$0.24m	-$1.02m	+$0.24m	-$1.02m	$2.73m
Defer 18 months	**+$0.37m**	**$0.00m**	**+$0.37m**	$0.00m	$3.12m
Do nothing	$0.00m	$0.00m	$0.00m	$0.00m	$1.70m

* Operating profit before depreciation in year 5, expected conditions. Shaded cells show the best option under each condition.

READING THE RESULT

Investing now produces the most profit by year 5, but it pays for capacity before the demand is proven. Over five years that only beats doing nothing if demand grows faster than about 5.4% a year. The staged build needs about 4.3% and the deferral about 4.1%.

WHY WAITING LOOKS GOOD HERE

The deferral's value comes almost entirely from the trigger: if demand stalls, the business simply does not build. It works only if equipment can be bought and installed later, and if customers turned away in years 2 and 3 come back. If 30% of them never return, its value falls to +$0.29m.

THE OPTIONS IN DETAIL

What each option does to profit and capacity.

OPERATING PROFIT BEFORE DEPRECIATION, EXPECTED	YR 1	YR 2	YR 3	YR 4	YR 5
Do nothing	$1.50m	$1.65m	$1.67m	$1.68m	$1.70m
Invest now	$1.47m	$1.92m	$2.28m	$2.68m	$3.12m
Stage it	$1.41m	$1.83m	$2.18m	$2.56m	$2.73m
Defer 18 months	$1.50m	$1.65m	$2.13m	$2.68m	$3.12m

DO NOTHING

Profit holds at about $1.5m to $1.7m a year, but the plant runs at 100% from year 2 and turns away about $9.2m of sales over five years. The model does not price overtime, missed maintenance or late deliveries, so the real cost of running flat out is likely to be higher.

INVEST NOW

Captures all demand and lifts year-5 profit to about $3.1m. The cost is a large outlay before demand is proven. If demand stays flat, utilisation falls to about 72% and the five-year result is -$1.63m.

STAGE IT

Half the capacity for 55% of the cost covers expected demand for most of the five years. The second stage is a separate decision with its own trigger. If demand stays flat, the loss is about $1.02m, roughly 60% of the loss from investing now.

DEFER 18 MONTHS

Gives up some sales in years 2 and 3 and pays about 7% more for the plant, but keeps the option to walk away. In the expected case the trigger is met and the full build goes ahead; in the weak case it is not, and the business is no worse off than doing nothing.

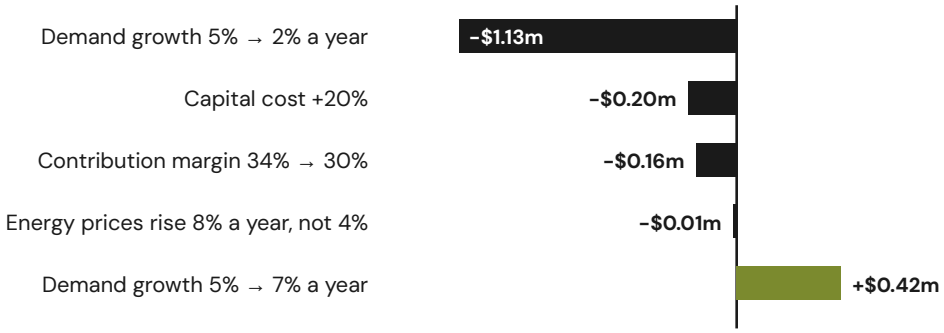
A NOTE ON INVESTMENT BOOST

The 20% upfront deduction is worth about $0.13m in present value on a $4m build in this model, because it brings tax deductions forward rather than adding new ones. It slightly favours building sooner, but it does not change the ranking of the options.

SENSITIVITIES

Demand growth matters far more than anything else.

How the staged option's value changes when one assumption moves at a time (expected conditions, base value +$0.24m).



CHANGE IN ASSUMPTION	INVEST NOW	STAGE IT	DEFER
Demand growth 5% → 2% a year	-$1.29m	-$1.13m	-$1.17m
Demand growth 5% → 7% a year	+$1.02m	+$0.42m	+$0.86m
Capital cost +20%	-$0.36m	-$0.20m	-$0.20m
Contribution margin 34% → 30%	-$0.18m	-$0.16m	-$0.17m
Energy prices rise 8% a year, not 4%	+$0.01m	-$0.01m	-$0.01m
Turned-away customers: 30% never return	$0.00m	$0.00m	-$0.08m

WHAT THIS TELLS US

A 3-point swing in annual demand growth moves the value of every option by around $1m or more. Capital cost, margin and energy prices matter much less. For a decision like this, the most useful work before committing is testing the demand assumption: order books, customer commitments and the sector's export markets.

ENERGY

Energy prices barely change the ranking because every option, including doing nothing, uses energy. The shock scenario cuts five-year operating profit by about $0.7m whichever option is chosen. Energy risk is a reason to look at contracts, efficiency and fuel switching, not a reason to pick one capacity option over another.

WHO DECIDES AND WHO IS AFFECTED

A capacity decision reaches well beyond the boardroom.

WHO DECIDES

- **Owners and directors** carry the decision and its risk. Directors' duties include acting in the company's best interests and not taking on obligations the company cannot meet, which matters when a build is debt-funded in a rising-rate environment.
- **Lenders** shape the options in practice through covenants, security and pricing. Smaller firms pay a material margin over the cash rate.
- **Energy suppliers and network companies** can constrain timing: a larger or electrified line may need a connection upgrade and a supply contract.
- **Councils** decide resource and building consents, which affect how quickly a staged or deferred build can proceed.

WHO IS AFFECTED

- **Staff:** a new line usually means new shifts, new skills and sometimes new roles; running flat out without it means overtime and fatigue.
- **Customers:** turned-away orders and longer lead times can push them to competitors or imports.
- **Suppliers and the region:** in smaller centres a manufacturer's expansion, or failure, affects local jobs and supply chains.

KAUPAPA MĀORI CONSIDERATIONS, WHERE RELEVANT

For Māori-owned manufacturers, or where a site affects whenua, waterways or air quality, the decision has further dimensions:

- **Time horizon.** A five-year view understates decisions made for future generations. Intergenerational ownership can support a longer payback, and a more patient staged approach.
- **Whanaungatanga and employment.** Regional employment of whānau may be an objective in its own right, not only a cost.
- **Kaitiakitanga.** Energy choices, discharges and resource consents may engage mana whenua interests; early engagement with iwi and hapū reduces delay and risk.
- **Governance.** Where assets sit within a post-settlement entity or trust, decision rights, risk appetite and reporting obligations differ from a private company.

QUESTIONS TO ASK BEFORE DECIDING

- Who carries the downside if demand stalls, and have they agreed to it?
- Which staff will the new line or the extra overtime affect, and how?
- Whose consent or supply could delay a staged or deferred build?

RISKS, LIMITATIONS AND IMPLICATIONS

What this analysis can and cannot tell you.

LIMITATIONS

- **An archetype, not a firm.** Real margins, capacity and costs vary widely across manufacturing. The direction of the findings is more reliable than the dollar values.
- **Five years is a short horizon for plant.** We include the plant's remaining value at year 5, but longer-lived benefits are only partly captured. This works against investing now.
- **Simple financing.** We discount at 10% rather than model a specific loan. A firm with cheaper capital, or cash on hand, would see better results for building sooner.
- **Lost customers.** We test what happens if a share of turned-away customers never return, but the true effect depends on the market.
- **Tax simplified.** Investment Boost and depreciation are modelled at headline rates. Confirm the rules with Inland Revenue or a tax adviser.
- **Data current to early November 2026.** Several indicators are revised after release.

MAIN RISKS TO THE FINDINGS

- A stronger and longer recovery would favour investing now.
- Equipment lead times or consent delays could make a deferred build impractical.
- A sustained energy shock could threaten the viability of the business itself, which no capacity option resolves.

IMPLICATIONS FOR DECISION-MAKERS

1. **Cost the do-nothing option.** Turned-away work, overtime and wear on plant are real costs, even though they do not appear in a capital request.

2. **Know your break-even growth rate.** For this archetype it is about 5.4% a year for investing now. If you cannot say with confidence that demand will beat yours, build in a decision point.

3. **Agree triggers in advance.** For example: commit the second stage when utilisation has been above 95% for two quarters and the order book covers six months.

4. **Separate energy risk from capacity risk.** Address energy through contracts, efficiency and fuel switching.

5. **Involve the people affected early.** Staff, lenders, consenting authorities and, where relevant, mana whenua can all change the timing.

METHODOLOGY AND SOURCES

How this investigation was put together.

METHOD

Public data was gathered and summarised with AI-assisted research, then checked against the original releases. The archetype and assumptions were set by a Pūtake Labs principal to sit within published ranges. A five-year cash-flow model compares each option with doing nothing under three conditions, after 28% company tax, including Investment Boost and the plant's value at year 5, discounted at 10%. Sensitivities move one assumption at a time.

Every scenario set includes doing nothing as the baseline. Figures are rounded and shown in nominal New Zealand dollars.

REVIEW

Reviewed by a Pūtake Labs principal before publication. Every figure is traced to a public source or to a stated assumption.

Pūtake Labs provides independent decision analysis. This investigation is not financial, investment, tax or legal advice. Scenarios are tested possibilities, not forecasts. No organisation named here commissioned or endorsed it.

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SOURCES

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