

The Bank of New Zealand - Business NZ Performance of Manufacturing Index is a monthly survey of the manufacturing sector providing an early indicator of activity levels. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

pmi

Manufacturing activity continues sluggish run

Bank of New Zealand - Business NZ PMI for April 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for April (**51.4**) showed an improvement on the result for March, but still at very sluggish levels of activity. It was also the lowest April value since the survey began in August 2002, with the previous lowest result being April 2005 (51.9).
- The majority of the main diffusion indices recorded some level of expansion, with *production* (53.7) bouncing back from one of its lowest values in March. *New orders* (52.4) also showed considerable correction for the previous month. However, *employment* (48.2) continued to show a decline for the third consecutive month, while both *finished stocks* and *deliveries* both recorded a value of 52.0.
- Unadjusted results for April showed activity was down in all but one region. The *Canterbury/Westland* region (46.4) recorded its first decline in activity since July 2006, while the *Northern* region (46.8) was at its lowest level since February 2006. The *Central* region (47.7) remains in negative territory with its fifth consecutive decline. In comparison, the *Otago/Southland* region (52.6) displayed the only expansion, although well below the strong results recorded towards the end of 2007.
- Unadjusted results for the various manufacturing industries were mostly in decline during April. The *machinery & equipment* sector (52.9) continued to buck the trend with its second straight expansion. The *wood & paper product* sector (39.9) displayed the strongest level of decline, which was very similar to the result for March. The *petroleum, coal, chemical & associated product* sector (49.9) was essentially unchanged in April, while the *food, beverage & tobacco* (48.3) and *textile, clothing, footwear & leather* (48.6) sectors displayed more moderate levels of decline.
- Offshore, manufacturing growth remains subdued given the easing of growth amongst various countries. In Australia, activity remains relatively soft with the Australian PMI for April at 52.7, with production and new orders up, but employment down. The manufacturing sector in the USA remained in decline mode with 48.6 recorded for April, the same as March and its third consecutive fall.
- The proportion of negative comments made by respondents continued to increase, with 70.0% highlighting negative influences for April (up from 67.3% in March and 63.7% in February). The majority of negative comments were again associated with the high New Zealand dollar, although a significant number of comments were also centered on the generally negative sentiments amongst customers and their cautious approach to spending (both domestically and offshore).

HIGHLIGHTS

Seasonally-adjusted PMI up 2.7 points from March to sit at 51.4 for April.

PMI at its lowest level for an April month.

Four of the five main indices indicated some level of expansion, although employment continues to contract.

Regional activity was positive in only the Otago/Southland region, while both the Canterbury/Westland and Northern regions contracted at levels not seen since 2006.

The proportion of negative comments continued to increase in April.

New Zealand's manufacturing activity continues to mirror lacklustre offshore markets.

Next Bank of New Zealand - Business NZ PMI: 12 June 2008

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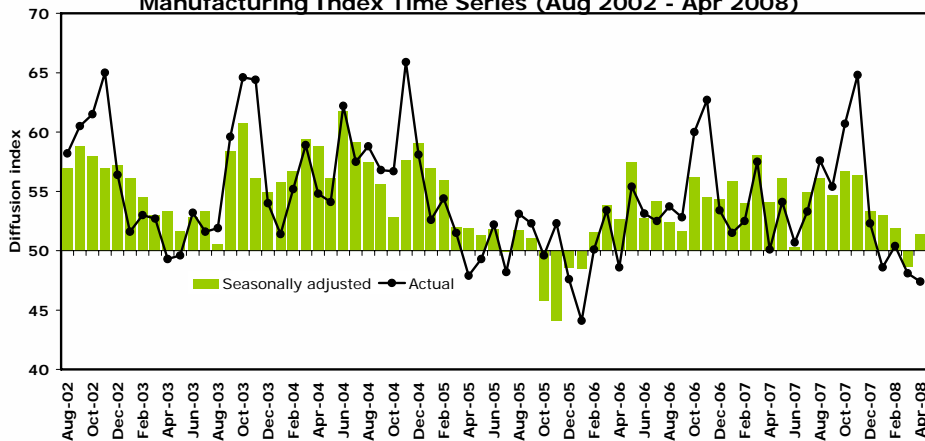
The Bank of New Zealand is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business NZ and associated regional organisations and to playing our part in the ongoing development of the New Zealand manufacturing sector.

BANK OF NEW ZEALAND - BUSINESS NZ PERFORMANCE OF MANUFACTURING INDEX

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Bank of New Zealand - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Apr 2008)



April time series tables

National indexes	Apr 2003	Apr 2004	Apr 2005	Apr 2006	Apr 2007	Apr 2008
BNZ - Business NZ PMI (s.a)	53.4	58.8	51.9	52.6	54.1	51.4
Production (s.a)	54.2	61.0	52.4	52.0	54.5	53.7
Employment (s.a)	49.9	51.0	51.5	51.8	49.1	48.2
New Orders (s.a)	55.1	64.2	52.8	54.2	57.6	52.4
Finished Stocks (s.a)	53.4	51.6	51.2	51.8	55.6	52.0
Deliveries (s.a)	52.7	59.9	51.3	53.9	54.4	52.0

Regional indexes	Apr 2003	Apr 2004	Apr 2005	Apr 2006	Apr 2007	Apr 2008
BNZ - Business NZ PMI (s.a)	53.4	58.8	51.9	52.6	54.1	51.4
Northern	48.7	53.7	46.6	46.9	48.7	46.8
Central	49.7	54.4	45.4	50.7	47.7	47.7
Canterbury/Westland	53.5	59.8	53.2	44.0	52.5	46.4
Otago/Southland	43.9	49.6	51.3	56.3	57.0	52.6

(s.a denotes seasonally adjusted)

The Bank of New Zealand - Business NZ PMI contains data obtained through Business NZ's regional organisations:



Northern (Employers and Manufacturers Association - Northern): Northland, Auckland, Waikato, Bay of Plenty



Central (Employers and Manufacturers Association - Central): Gisborne, Hawke's Bay, Taranaki, Manawatu, Wanganui, Wellington, Nelson, Tasman



Canterbury/Westland (Canterbury Employers Chamber of Commerce): Canterbury, Marlborough, West Coast



Otago/Southland (Otago Southland Employers Association): Otago, Southland.

Reasons Manufacturing Should Hang In There

- Household-focussed manufacturing will feel the freeze
- But broader economic rebalancing brings opportunities
- NZD/AUD drop hints at bigger FX relief in time
- Australian market an east-side/west-side story
- Rewards for NZ manufacturers who can reconfigure

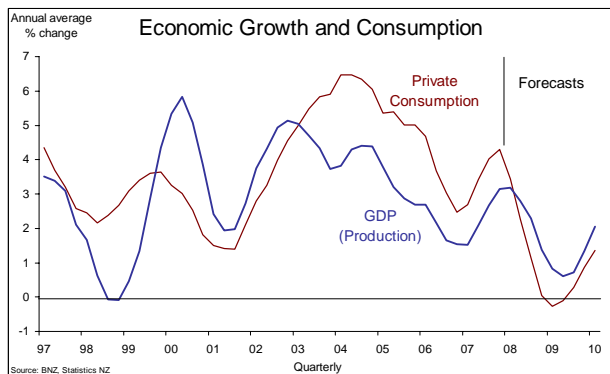
While the recovery in April's seasonally adjusted Performance of Manufacturing Index belied a still-soft undercurrent in the (unadjusted) detail there are broader reasons the sector should, indeed, be hanging in there.

That's not to deny things are getting tough for New Zealand's manufacturing base. It will undoubtedly be a very challenging year. But that's true for the wider economy. One of the important things to bear in mind throughout is the rebalancing also to be running its course. This presents as many opportunities as headwinds for manufacturing. The trick is to recognise these and reconfigure as best one can.

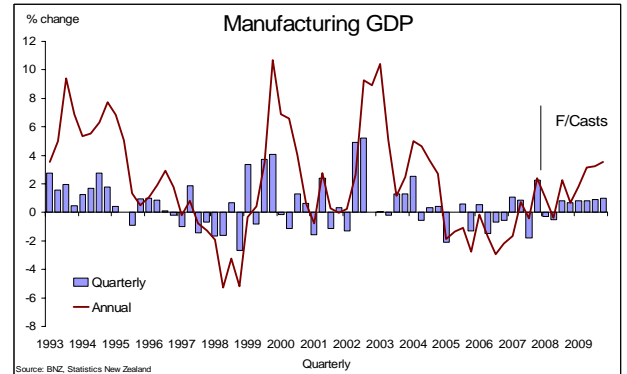
For instance, much of the slowdown we expect will be around the household sector. This is principally where the economy's inflationary excesses have built up over recent years. So it seems natural to expect the consumer sector to drive most of the correction. We're talking here of household spending getting back into line with incomes and the housing market weaning itself off its debt-laden bender – even more so than has already happened, that is.

This makes the coming downturn a different-looking beast to prior/usual recessions – such as during the early 1990s, 1998 and even the dip around 2005/06.

A household-led downturn



Offering relief in other areas



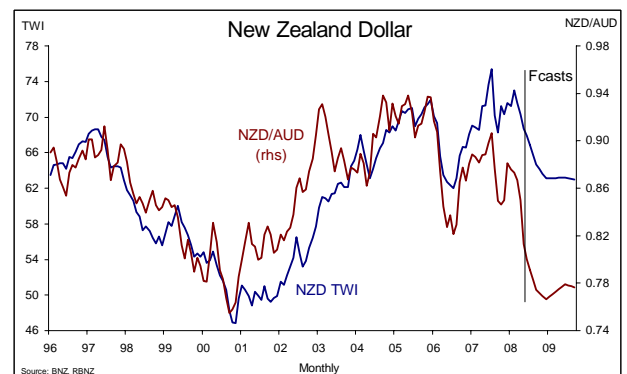
These were essentially led by business sector travails, where global conditions and the terms of trade were influential. However, this current slowdown will predominantly be an internally driven correction.

While a household consolidation will, of course, be a drag on many in the manufacturing sector there will still be many areas and industries with some go-forward to hitch onto.

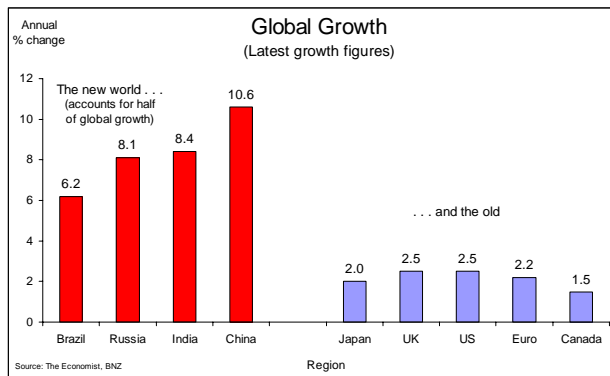
For example, even though the home-building market is well on course to contract this year, perhaps sizably so, non-residential work, and especially state-sponsored infrastructure activity, will likely remain relatively robust.

The manufacturing sector might also be lent a hand by the general freeing up of resources we anticipate across the economy, especially in the labour market. It might, for example, be less difficult to retain, or pick

Currency already slipping



Global growth divergences



up, staff – especially as those who were sucked into the household-related, housing, public and wider services areas of the economy drift (back) into other areas. Look out for trades people, office staff, contractor types, policy analysts, semi or unskilled workers, even the odd ex real estate agent, looking for new jobs.

Then there is the currency. Let us register that it has drifted lower over the last month or two, largely in response, we would say, to the slowdown becoming more and more apparent in the economy. New Zealand's trade-weighted exchange rate has moderated about 7% since late February. And, most importantly for NZ manufacturers, the NZD/AUD rate has dropped to close to 0.8100, from its 0.8800 near the end of March. We believe the exchange rate will retain a downside bias through the household-led economic slowdown we see for this year.

This channel promises to not only buffer manufacturing exporters but also those local manufacturers who compete head to head with imports. It's all about the economic rebalancing we expect, in favour of New Zealand's tradables sector as households go into hibernation for a while.

And speaking of second-guessing the shifting sands, the composition of global growth is well worth thinking through. Yes, we believe the international economy, overall, will slow down noticeably this year, and remain on the tepid side next year. However, this will still be an average of some very strongly expanding economies (and not just China and India, but many emerging market and commodity-driven types) offset by struggling US, UK and European markets.

Even Australia has some important composition worth thinking through. It is becoming a more vivid juxtaposition of a gangbuster (north and) western economy, riding a phenomenal export price boom with plenty of capital investment, counterbalanced by shrivelling growth along the eastern border, where much of the population still resides and households and housing are under pressure.

Of course, none of these swings and roundabouts is any guarantee to avoiding a sharp slowdown in the NZ economy. But they do provide reasons as to why New Zealand's manufacturing sector might hang in there better than many sectors, especially households, if only it can reconfigure itself in the appropriate directions.

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