

PERFORMANCE OF MANUFACTURING INDEX



BusinessNZ 

Manufacturing activity ends year on weak note

Bank of New Zealand - Business NZ PMI for December 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for December (42.5) increased 7.3 points from November, but was still the second lowest recorded value since the survey began in 2002. It was also the lowest December result recorded, with a value below the 2005 result. The final result for 2008 shows that nine of the 12 months were in contraction for manufacturing, with eight consecutive values below 50.
- Four of the five seasonally adjusted main diffusion indices were in contraction, although all improving from November lows. *Production* (39.9) improved from the sub-30 result in November, while *employment* (41.9) for the first time since March 2008 improved on the previous month's performance. *New orders* (42.2) recovered somewhat in December, with *deliveries of raw materials* (43.7) producing a similar upturn. *Finished stocks* (50.5) were the only index to show expansion in December, albeit at a very modest level.
- Unadjusted activity for December showed weakness through much of the country. For the North Island, the Northern region (35.4) continued to produce its lowest ever result, while the Central region (45.4) improved slightly from November's value. In the South Island overall results were generally better with the Canterbury/Westland region (49.4) recovering to a level close to 'no change' for December. The Otago/Southland region (51.1) continued to buck the trend with another month of expansion, although this was the second consecutive fall from the previous month.
- There was contraction across most sub-groups. The *petroleum, coal, chemical & associated product* sector (31.1) recorded the lowest value for the month, followed by the *metal product manufacturing* sector (35.3). The *machinery & equipment* sector (41.4) continued to fall from November, while on a positive note the *food, beverage & tobacco* sector (61.8) continued to show expansion with strong results for production and new orders.
- In spite of the relative improvement from the worst result in November, negative comments made by respondents during December rose (sitting at 69%), compared with 68.4% in November and 67.0% in October.
- Despite manufacturing activity in New Zealand continuing to remain near historic lows, the December result fared better than in most other countries. The JPMorgan Global PMI for the last month of 2008 (33.2) showed worldwide manufacturing still suffering its sharpest contraction since the composite survey began in 1998. The Australian PMI (33.7) improved somewhat from November but the USA PMI (32.4) continued to worsen, recording falling activity across all sub-sectors.

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.

HIGHLIGHTS

Seasonally-adjusted PMI at its second lowest ever value of 42.5.

Four of the five main indices showed ongoing contraction, although all improved from November.

Regional activity was particularly weak in the Northern region with its first sub-40 result.

The food, beverage & tobacco sector continued to buck the trend showing expansion in December.

The global manufacturing scene continues to contract, with some countries continuing to show worsening results.

Next Business NZ PMI: 12 February 2009

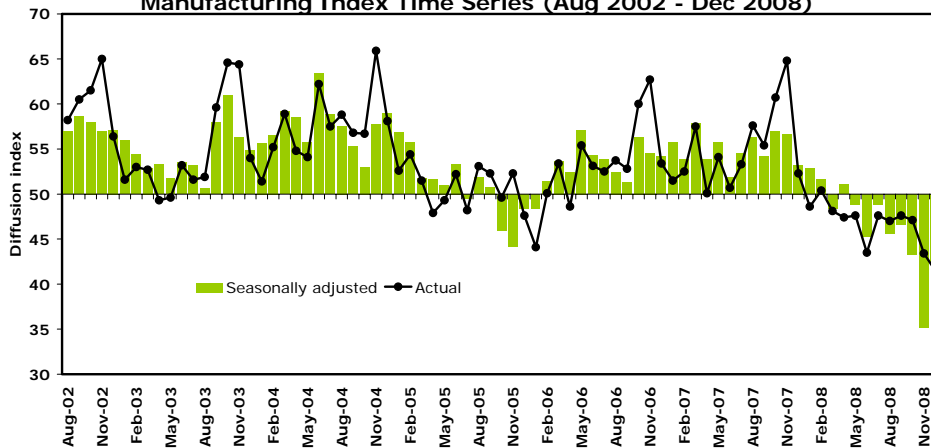
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Bank of New Zealand Ltd is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance 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 (www.bnz.co.nz)

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



December time series tables

National Indexes	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008
Bank of New Zealand - Business NZ PMI (s.a)	57.1	54.8	58.9	48.4	54.2	53.2	42.5
Production (s.a)	59.5	55.4	62.6	47.5	55.0	53.5	39.9
Employment (s.a)	51.7	50.1	55.1	46.8	50.2	50.7	41.9
New Orders (s.a)	60.7	56.5	61.4	48.2	56.8	55.1	42.2
Finished Stocks (s.a)	52.0	51.1	53.6	53.2	52.5	52.0	50.5
Deliveries (s.a)	56.0	57.8	56.4	49.5	55.1	53.6	43.7

National Indexes	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008
Bank of New Zealand - Business NZ PMI (s.a)	57.1	54.8	58.9	48.4	54.2	53.2	42.5
Northern	54.2	51.1	58.8	47.3	51.8	52.0	35.4
Central	54.7	48.7	56.8	45.1	50.4	44.9	45.4
Canterbury/Westland	58.8	65.3	56.5	54.6	59.4	57.5	49.4
Otago/Southland	71.5	54.5	58.2	44.5	59.5	60.9	51.1

(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.

Global Demand Slowest in Decades

- Trading-partner growth seen stalling in 2009
- Marking the worst conditions in decades
- Tourism markets looking just as weak
- And further consensus downgrades likely
- Trouble? – NZ hasn't yet seen the half of it

While December's Performance of Manufacturing Index gave the impression of negativity abating, it's difficult to believe any genuine claw-back is at hand. Not with the world economy looking as awful as it is. Indeed, New Zealand's trading-partner demand is shaping up as the very slowest in decades. Trouble redoubled? We haven't seen the half of it.

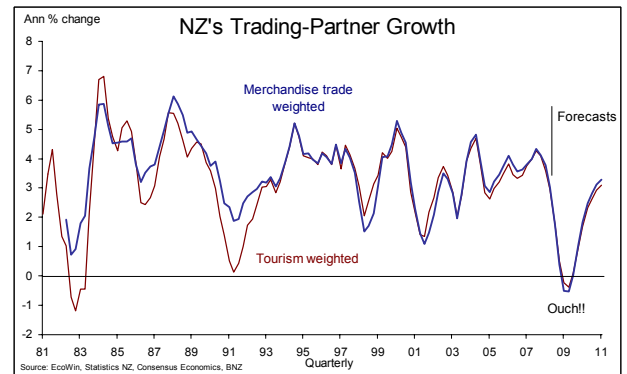
Yes, we know there are some substantial cushions coming into play for NZ manufacturers. We've highlighted these over recent months; things such as the sharply lower exchange rate, plunging shipping costs, falling interest rates and even, nowadays, better availability and affordability of staff, as other sectors lighten up.

However, the dominant issue is fast becoming sagging international demand. Inventory is accumulating the world over, which is why new orders have plunged just as much as industrial production has over the last couple of months. And this is as evident through Asia as it is in the more mature economies New Zealand has strong trading ties with.

The recent track of Consensus economic forecasts helps put this in perspective. As soon ago as September the view was that the global economy would pretty much soft land. Just four months down the track and utter collapse is the agreed view. While always the risk, it has been a stunning down-shift to witness nonetheless.

Totted up, New Zealand's trading-partner growth, weighted by relative merchandise flows, is expected to be dead flat this calendar year. While that might not sound like the end of the world, note that even at the previous low, way back in the early 1980s, this growth indicator registered 1.3%. And it actually held above 2.0% during the early 1990s global recession and the Asian financial crisis of 1998.

This new depth, of complete stalling, is all the more worrying given the increased weight of naturally faster growing economies, such as China and South Korea.



The weak demand we're facing in merchandise export markets this calendar year is a combination of clearly negative results for the US, Europe, the UK and Japan, very slow growth in Australia and well below par expectations for non-Japan Asia (see table for details).

And the outlook is just as bad when looking at New Zealand's tourism-weighted international demand. This will also come to a complete standstill this year. Even during the Asian Crisis of 1997/98, when tourist arrivals dipped about 5%, trading partner growth didn't slip below 2%.

The even bigger concern is that the Consensus view on global growth for this year is not yet soft enough. We would bet a king's ransom on it being reduced even further over coming months, in the least on the realisation that the first half of 2009 will prove weaker than the closing stages of 2008. If we're right, we'll be setting lower lows for trading-partner growth expectations for this year as a whole, or, should that be, hole?

New Zealand Trading Partner Growth						
Consensus Forecasts - December Years						
Trading Partners	Weights %	GDP Growth (ann avg %)				
		2007	2008	2009	2010	2011
Australia	32.0	4.0	2.3	0.9	2.4	2.9
United States	14.0	2.0	1.2	-1.8	2.3	3.1
Japan	11.7	2.0	0.0	-1.7	1.1	1.6
Eurozone	11.7	2.6	0.9	-1.4	0.8	2.0
China	7.3	11.9	9.2	7.4	8.4	9.1
United Kingdom	5.7	3.0	0.8	-2.2	0.6	1.8
South Korea	4.8	5.0	3.7	0.6	3.7	4.8
Taiwan	2.6	5.7	1.6	-1.1	3.1	4.9
Canada	2.0	2.7	0.6	-0.7	2.3	2.8
Hong Kong	2.2	6.4	2.8	-1.3	2.7	4.7
Singapore	3.1	7.7	1.5	-2.4	3.5	5.4
Malaysia	3.0	6.3	5.1	1.4	4.3	5.9
NZ Trading Partners	100.0	4.1	2.2	0.0	2.6	2.2
Forecasts for New Zealand						
Consensus		3.2	0.4	-0.2	2.4	3.2
BNZ Forecasts		3.1	0.3	-0.9	2.3	3.3
The World		3.9	2.4	0.4	2.9	2.6

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