

PERFORMANCE OF MANUFACTURING INDEX



Slight comeback for manufacturing activity in July

Bank of New Zealand - Business NZ PMI for July 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for July (48.8) bounced back from one of its lowest results in June to record its highest value since April. However, the sector was still in decline overall, and the latest figure is the lowest recorded for a July month over the history of the survey.
- Three of the five seasonally adjusted main diffusion indices continued to record weakness, although all improved from the previous month. *Production* (50.0) showed significant improvement from the 42.9 recorded in June, as did *deliveries* (49.6). *Finished stocks* (52.1) was the only sub-index to show expansion for July, while *employment* (46.3) displayed a similar result to the previous month, indicating significant contraction in those employed in the manufacturing sector.
- Unadjusted activity for July showed three of the four regions still in decline. For the North Island, the Northern region (46.8) returned to the level recorded in April, while the Central region (44.9) continued to slip to its second lowest level for the year. In the South Island, the Canterbury/Westland region (52.5) displayed expansion for the first time since March, while Otago/Southland (47.5) remained at similar levels to June.
- Results for the various manufacturing industries generally showed contraction, although a few sub-sectors remained in positive territory. The strongest level of activity was again recorded for the *machinery & equipment* sector (55.1), which was at its highest level since November 2007. The *food, beverage & tobacco* sector (50.7) also recorded a small increase, while the remaining sub-sectors were in decline with the *metal product* sector (42.4) experiencing the strongest level of contraction. This was followed by the *textile, clothing, footwear & leather* sector (46.5).
- In comparison with manufacturing activity offshore, the JPMorgan Global PMI fell to 49.0, the second consecutive contraction for global manufacturing for five years. The Australian PMI (46.9) also continued its decline, while the USA PMI (50.0) showed no change in activity for July.
- The proportion of negative comments made by respondents fell back slightly from June (74.7%), to sit at 70.6% in July. The July level of negative comments was similar to that of April, with actual comments related to a general economic downturn, lack of orders and rising costs of raw materials and other goods.

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 up 3.5 points from 45.3 to sit at 48.8 for July.

Three of the five main indices continued to show contraction, with the sub-index of production back to the level of 'no change' for July.

Regional activity showed the Canterbury/Westland region recovering to exhibit expansion in July.

The proportion of negative comments decreased slightly in July to return back to levels experienced in April.

The global manufacturing scene continued to remain soft, with activity in Australia falling for the second consecutive month.

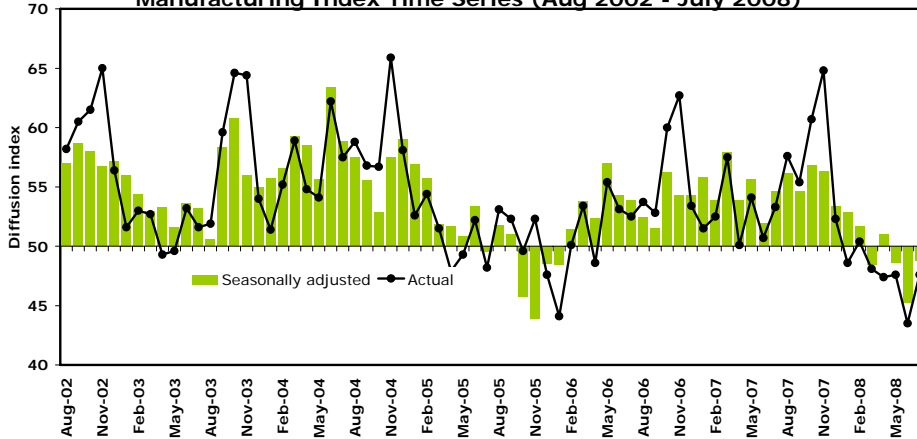
Next PMI: September 11, 2008

SPONSOR STATEMENT

Bank of New Zealand is delighted to be associated with the Performance of Manufacturing Index (PMI). 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 its regional organisations and to playing our part in the ongoing development of the New Zealand manufacturing sector.

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



July time series tables

National Indexes	Jul 2003	Jul 2004	Jul 2005	Jul 2006	Jul 2007	Jul 2008
Bank of New Zealand - Business NZ PMI (s.a)	53.2	58.9	49.6	53.9	54.6	48.8
Production (s.a)	51.9	61.6	47.9	54.4	54.6	50.0
Employment (s.a)	51.8	52.4	49.3	50.1	50.3	46.3
New Orders (s.a)	54.4	63.7	50.5	56.1	56.6	47.9
Finished Stocks (s.a)	53.3	54.2	48.5	52.8	53.5	52.1
Deliveries (s.a)	54.2	56.5	51.2	53.8	56.2	49.6

Regional Indexes	Jul 2003	Jul 2004	Jul 2005	Jul 2006	Jul 2007	Jul 2008
Bank of New Zealand - Business NZ PMI (s.a)	53.2	58.9	49.6	53.9	54.6	48.8
Northern	51.5	60.6	44.8	54.7	54.5	46.8
Central	51.5	55.2	50.6	48.4	54.4	44.9
Canterbury/Westland	49.5	60.9	54.6	48.8	50.9	52.5
Otago/Southland	55.0	45.8	50.7	61.6	49.0	47.5

(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.

From Worse to Bad

- July's (manufacturing) PMI "recovers"
- But at 48.8 remains in contraction mode
- Lower exchange rate is helping
- But global slowdown looking more obvious
- Including for Australia and, now, emerging markets

Every long journey starts with a single step. So might July's Performance of Manufacturing Index (PMI) – which lifted to 48.8, from June's 45.3 – be the beginnings of a voyage back to robust expansion? We think not.

To be sure, there are factors now riding to the rescue of New Zealand's manufacturing sector. It's part of the rebalancing story. However, there are that many more existing and emerging "issues" weighing against any immediate relief for the sector.

Even if we confine ourselves to the headline PMI we can see things are still very tough. The reading back in June, of 45.3, was very low in relation to the usual ranges of these types of diffusion indexes. As a rough rule, something near 60 is rampaging, while anything flirting with 40 is utter collapse.

The 50 mark, of course, denotes sideways motion. So, as much as July's 48.8 was "better" than 45.3, it's still indicating that things are going backwards.

Yes, there have been some promises of relief. The affirmation of an easing cycle in interest rates is one. The declining exchange rate is another.

Moreover, since July's PMI survey was conducted we've seen not only further slippage in the currency, including

against the US dollar (to test below 0.7000), but also a sharp correction in most commodity prices. The latter might help relieve the raw material cost pressures that were adding to the distress of manufacturing profitability – as we highlighted in last month's PMI commentary.

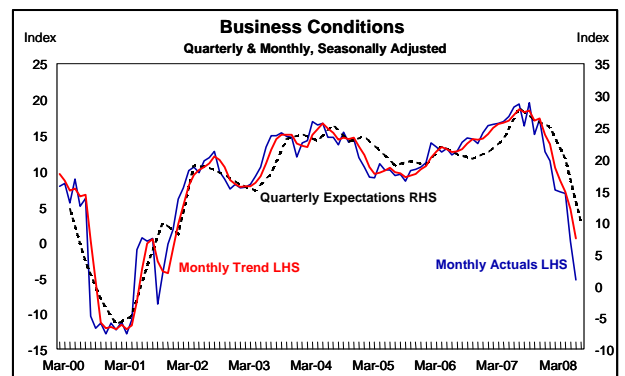
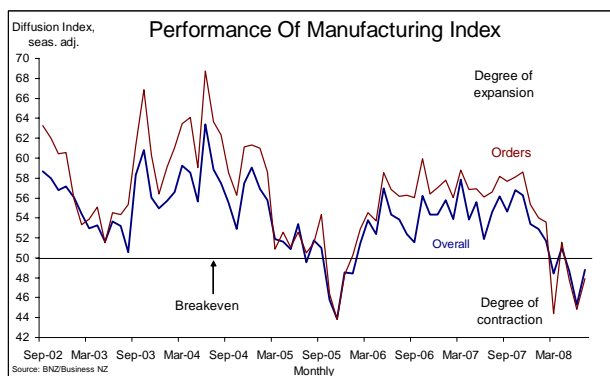
Yet we can't get too sanguine about manufacturing prospects, at least not for the foreseeable future.

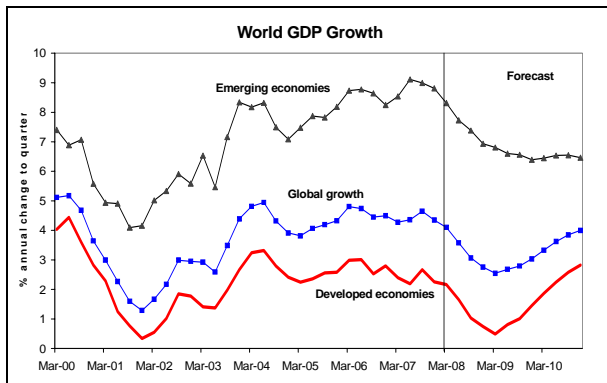
The construction sector is still tracking very weakly, both here and in key overseas markets. And local business investment, as a whole, is now looking a bit shaky as well. Even spending on big-ticket items is what's collapsing the most in the consumer space. All of this is never good news for the manufacturing sector, which is leveraged to the capital/durables goods cycle.

As disconcerting as this is, we also note the clearer loss of momentum that's appearing in the global economy. Just over the last month especially, the indicators have turned decidedly sour.

While the ability of the US to keep skirting a headline recession remains under question, there are indications that the European and Japanese economies are starting to stall, or even go backwards, already. Risks of a recession in the UK, meanwhile, are rising to uncomfortable proportions, with particularly horrid statistics and stories coming to light around the property market.

We've also seen the RBA rather abruptly shift to a clear easing bias as it sees the Australian economy slowing noticeably. This was certainly corroborated by Tuesday's reported slump in NAB's business survey, with even the mining industry now coming off the boil, it would seem.





Arguably the more significant news, however, is that many of the emerging market economies are now also losing their lustre. This curtails a key source of growth that had been relied on to keep the world economy afloat.

That the emerging markets are, indeed, starting to slow down, fits with the fact commodity prices have gone into reverse. Indeed, they have, by and large, fallen as much over the last four weeks as they rose in the previous twelve. Crude oil prices have been very much part of this correction.

While this will reduce some of the stagflation headaches, perhaps the most important message from the recent correction in oil prices, and commodity prices in general, is that it is warning of a bona fide loss of steam in global demand. This is something always important for New Zealand to watch for, especially the manufacturing sector.

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