

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 in decline

Bank of New Zealand - Business NZ PMI for March 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for March (48.3) showed a decrease in overall activity for the first time since January 2006, and the lowest value since November 2005. It was also the lowest March value since the survey began in August 2002, with the previous lowest result being March 2005 (51.7).
- For the first time since December 2005, the majority of the main diffusion indices recorded decline rather than expansion. This was due to *new orders* (44.6), *production* (46.4) and *employment* (49.4) all experiencing a drop in activity. The falloff in new orders and production were sharp, with the former a concern for future production in the coming months. Both *finished stocks* (53.0) and *deliveries* (50.7) showed some expansion for March.
- Unadjusted activity for March showed activity was down in all but one region. The *Canterbury/Westland* region (52.4) continued to show expansion, but still down on the previous month. The *Northern* (47.8) and *Central* (45.8) regions recorded their third and fourth consecutive declines respectively, while the *Otago/Southland* region (46.3) experienced its lowest result since January 2007.
- Unadjusted results for the various manufacturing industries were generally in decline during March. The *machinery & equipment* sector (53.4) bucked the trend with the only expansion value shown for an industry, which was also a recovery from two negative results during the start of 2008. The *wood & paper product* sector (38.8) displayed the strongest level of decline, followed by the *textile, clothing, footwear & leather* sector (43.0). The remaining industry values were typically in the 47-49 range.
- New Zealand's manufacturing activity continues to mirror offshore events. Compared with other countries, the Australian PMI for March (51.2) showed that manufacturing growth was still soft, with production stable, new orders picking up but employment down. The manufacturing sector in the USA failed to grow in March (48.6), following on from lackluster results over the previous five months.
- The proportion of negative comments made by respondents jumped strongly, with 67.3% highlighting negative influences for March (up from 63.7% in February). The majority of negative comments were again associated with the high New Zealand dollar (around 23% of all negative comments), while other firms collectively noted the general slowdown and a gloomy outlook in the months ahead.

HIGHLIGHTS

Seasonally-adjusted PMI down 3.5 points from February to sit at 48.3 for March.

PMI at its lowest level since November 2005.

Three of the five main indices indicated a decline, with new orders showing a sharp fall.

Regional activity was positive in only the Canterbury/Westland region and continued to be negative in the North Island.

The proportion of negative comments continued upwards in March.

New Zealand's manufacturing activity mirrors offshore markets.

Next Bank of New Zealand - Business NZ PMI: May 15 2008

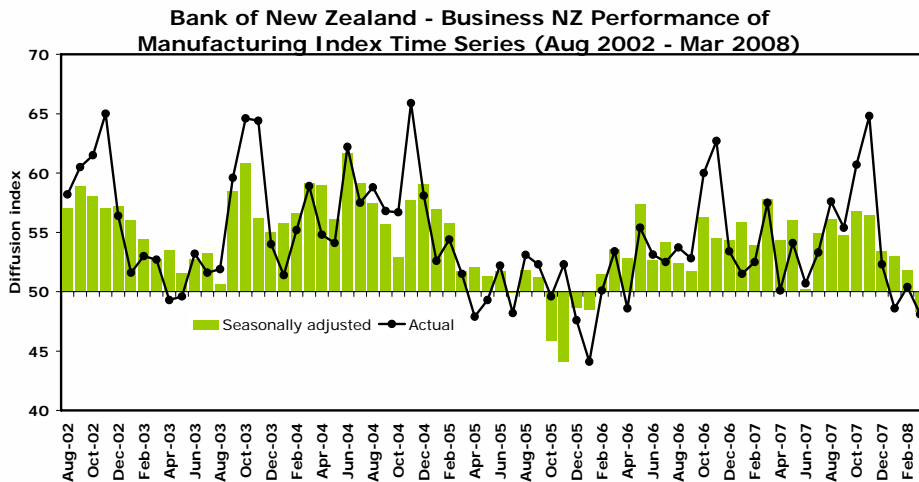
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Bank of New Zealand Ltd is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance 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 - BUSINESS NZ PERFORMANCE OF MANUFACTURING INDEX

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February time series tables

National Indexes	Mar 2003	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008
BNZ - Business NZ PMI (s.a)	52.8	59.1	51.7	53.6	57.8	48.3
Production (s.a)	52.5	61.5	53.4	54.8	62.2	46.4
Employment (s.a)	51.1	51.1	48.5	50.3	49.5	49.4
New Orders (s.a)	53.4	63.1	50.6	54.5	58.9	44.6
Finished Stocks (s.a)	53.6	52.7	51.9	49.1	56.6	53.0
Deliveries (s.a)	51.3	59.4	51.9	53.8	56.2	50.7

Regional Indexes	Mar 2003	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008
BNZ - Business NZ PMI (s.a)	52.8	59.1	51.7	53.6	57.8	48.3
Northern	48.1	58.3	52.6	53.8	55.0	47.8
Central	55.2	60.0	47.8	50.8	54.6	45.8
Canterbury/Westland	63.1	64.6	50.6	54.2	64.1	52.4
Otago/Southland	48.0	49.1	54.3	55.8	61.2	46.3

(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.

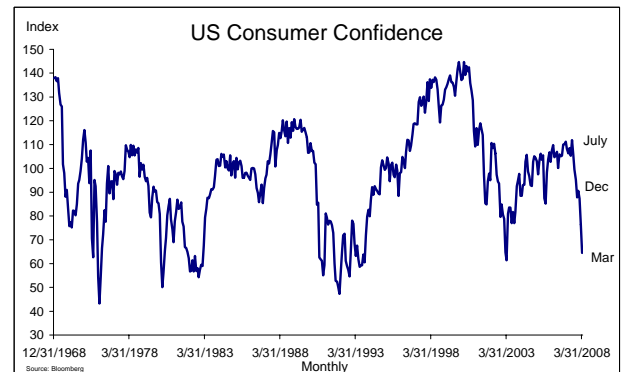
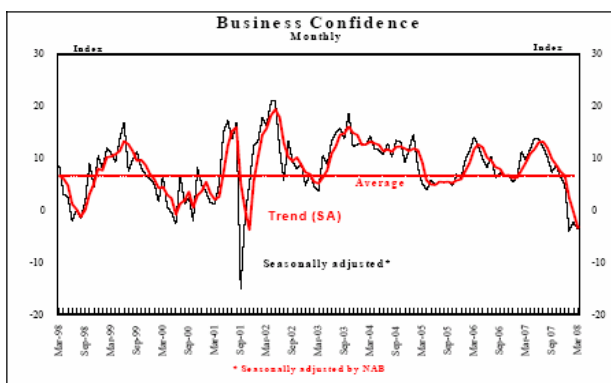
Trading-Partner Growth Softening

- Trading-partner growth outlook waning
- Australia suddenly looking softer, ex-mining
- The US is beginning a consumer-led recession
- UK looking vulnerable and Europe slowing
- Thank goodness for China (and the new FTA)

New Zealand's manufacturing sector now looks to be slipping, having warned it was losing momentum over recent months. Much of the explanation, and concern, relates to obvious factors, including the ongoing strength in the NZ dollar, cost pressure, resource constraints and, now, weakening domestic demand. But there is another factor well worth noting – offshore demand. It is slowing already, and will probably continue to do so for the foreseeable future.

And we can start with New Zealand's biggest trading partner (even more so in respect of manufactured exports), Australia. While it has been pressing forth for a while now (to such an extent that resource-constraint and inflation issues have surfaced), signs of an economic slowdown are now coming through loud and clear.

This was certainly the message from the Tuesday's business survey from the National Australia Bank (the parent company of the Bank of New Zealand). Australian business confidence slumped further, to its lowest point since September 2001. And business conditions fell to their lowest level since December 2002. The sharp moderation – now quite plain since the end of last year – has been pretty much across the board sector-wise and regionally, with the notable exception of the mining industry (which has held Western Australia aloft). Australian consumer sentiment has sagged to a similar degree and over a similarly short, four-month, period.

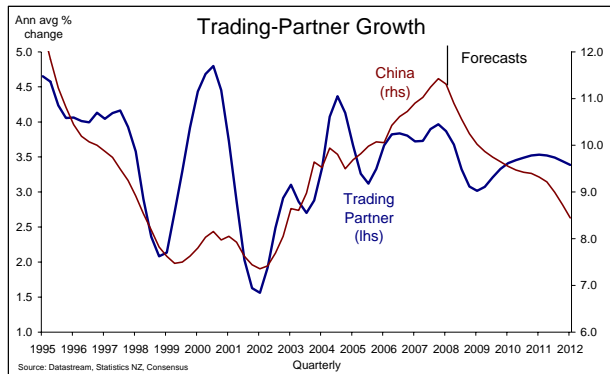


The United States – still New Zealand's second largest trading partner, let's remember – is now entering a consumer-led recession. Up until very recently by far the biggest economic drag had been home construction, with household spending actually holding up pretty well. But consumer confidence has thrown in the towel over recent months. And the labour market is beginning to weaken. This promises to be the straw that breaks the back of consumer spending, which will be most important for the global economy.

As for the UK economy (New Zealand's fifth greatest trading partner), it seems to be hanging in there, even in respect of retail spending. But we harbour concerns about its performance for 2008 – especially with London's heavy reliance on financial services to earn a crust and a British housing market that is looking more and more vulnerable to a marked correction.

An economy that appears to have weathered the credit market consequences with reasonable aplomb is that of the Eurozone. The ECB has seen no cause to touch its policy interest rate to date – albeit partly because it was never that high going into the crisis (4.00%, compared with the United Kingdom's 5.75% and the United States' 5.25%). Nonetheless, the consensus expectation for 2008 growth has been progressively downgraded to 1.5%, from the 2.2% view back in October, which represents a clear cooling from last year's 2.6% rate of expansion. And further downgrades seem to be the risk.

The only meaningfully positive news on the trading-partner growth front, then, has been from China (our fourth largest trading partner in respect of merchandise exports). Its economy expanded a brisk 11.4% last year. And while the Chinese officials have been tweaking

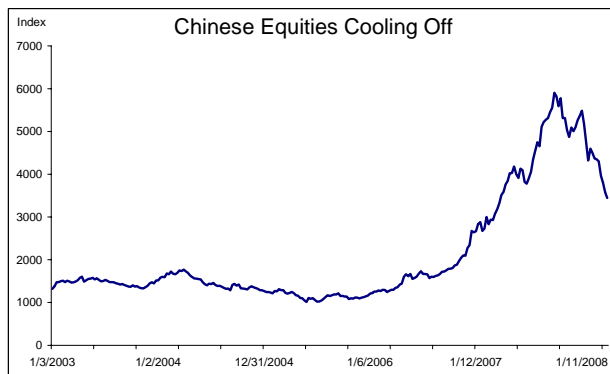


policy to try to slow things down, and though the consensus formally anticipates a slowdown to 10.2% for this year, we'll believe it when we see it.

That said, we can't help but notice the Chinese equity market has fallen 40% since late last year. That does not look like an economy decoupled from the global disturbances or one immune from a loss of economic momentum on its own account.

In any case, when we tot everything up, it's quite clear that New Zealand's broad trading-partner growth expectations have been steadily shrinking over recent months. Sure, 2007 ended on a stronger note than many were expecting (rather like the NZ economy itself). However, New Zealand's trading-partner expansion is expected to be 3.1% for calendar 2008, compared to the 3.5% view taken just a few months prior, in December. And we suspect it will keep shifting down the gears.

We say this mindful of the way many internationally respected institutions – such as the OECD and the IMF – have recently been scrambling to lop their global growth forecasts. They're coming up with slowest paces in four, five, even six years. Indeed, the IMF has just carved its global growth forecasts for 2008 to



3.7%, from 4.1%. That's a big "adjustment", especially as its previous forecasts were barely three months ago. The IMF also attached a 25% probability to a global (not just US) recession. That needs to be taken seriously.

And don't underestimate all this world GDP forecasting – as both a good sense of how things are shifting globally, its importance to New Zealand's export sector, and the weight the Reserve Bank will place on it.

Indeed, the RBNZ may well start to presume, in its central forecasts, a view of global growth weaker than the consensus view it normally adheres to. It's done it before, ten years ago, when the Asian Crisis had an aggressively downside impetus about it. The fact the RBNZ might "get in front" of the consensus downward momentum again, perhaps for the June MPS, will thus be telling. And wise, in our view.

That was then...

Country	Weight	2005	2006	2007	2008
Australia	27.5	2.8	2.7	3.9	3.6
United States	17.2	3.2	2.9	2.2	2.1
Japan	13.3	1.9	2.4	1.8	1.5
Canada	2.0	2.9	2.8	2.6	2.2
Eurozone	11.6	1.4	2.9	2.6	1.9
UK	6.4	1.9	2.8	3.1	1.9
Asia ex-Japan	21.9	6.9	7.5	7.4	7.0
Total	100.0	3.4	3.7	3.8	3.5

... this is now.

Country	Weight	2006	2007	2008	2009
Australia	27.5	2.7	3.9	3.3	3.2
United States	17.2	2.9	2.2	1.4	2.3
Japan	13.3	2.2	2.0	1.3	1.8
Canada	2.0	2.8	2.7	1.5	2.3
Eurozone	11.6	2.9	2.6	1.5	1.8
UK	6.4	2.8	3.1	1.7	1.9
Asia ex-Japan	21.9	7.5	7.7	6.6	6.6
Total	100.0	3.7	3.9	3.1	3.3



craig_ebert@bnz.co.nz

Contact Details

Bank of New Zealand Research



Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Markets Economist
+(64 4) 474 6799

Mark Walton
Markets Economist
+(64 4) 474 6923

Danica Hampton
Currency Strategist
+(64 4) 472 4767

Main Offices

Wellington
1 Willis Street
PO Box 2392
Wellington
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
125 Queen Street
PO Box 2139
Auckland
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
129 Hereford Street
PO Box 1461
Christchurch
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

NAB/nabCapital Research



Peter Jolly
Head of Research
+(61 2) 9295 1199

Alan Oster
Group Chief Economist
+(61 3) 8641 3464

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Contact Phone Numbers

Wellington
Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney
Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London
Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +(44 20) 7796 4761

New York
Foreign Exchange +1800 125 602
Fixed Income/Derivatives +1877 377 5480

Hong Kong
Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

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