Bank of New Zealand

BusinessNZ

BANK OF NEW ZEALAND – BUSINESS NZ PERFORMANCE OF MANUFACTURING INDEX

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 weakens in May

Bank of New Zealand - Business NZ PMI for May 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for May (49.3) again dipped below the level of no change to record a minor decline in May, down 2.2 points from April. It was also the lowest May value since the survey began in August 2002, with the previous lowest result being May 2005 (51.4).

- Four of the five main diffusion indices recorded some level of weakening, with *production* (46.9) retreating back to a similar value recorded in March. *Employment* (48.4) remains consistently in decline, with a value the same as April and February. *New Orders* (48.6) experienced its second contraction in 29 months, while *finished stocks* (49.7) dipped below the 50-mark for the first time since March 2006. Lastly, *deliveries* (50.2) was the only main index to show any level of expansion.

- Unadjusted results for May showed mixed activity levels throughout the country. The *Northern* region (44.1) recorded its fifth consecutive decline and now at its lowest level since January 2006. The *Canterbury/Westland* region (48.2) showed a second consecutive decline, although up slightly on April. The *Central* region (52.8) recovered from five consecutive declines to record moderate expansion in May, while the *Otago/Southland* region (51.8) continued to show expansion from the previous month.

- Unadjusted results for the various manufacturing industries were almost all in decline during May. The *machinery & equipment* sector (50.9) continued to buck the trend with its third straight expansion, albeit close to the no change mark. The *metal product* sector (48.1) showed the strongest level of decline, followed by the *food, beverage & tobacco* sector (48.7). The *petroleum, coal, chemical & associated product* sector (49.4) was close to no change, and down slightly from the April results.

- Offshore, manufacturing growth continues to remain soft with the JPMorgan global PMI at 50.4, displaying only negligible improvement in the overall health of the sector. The Australian PMI for May (51.2) was again subdued for the fifth consecutive month, with slower growth in their economy and the rising Australian dollar affecting activity. The US PMI (49.6) recorded its fourth consecutive decrease in activity – not seen since 2003.

- The proportion of negative comments made by respondents continued to increase, reaching a new high of 72.5% in May, compared with 70% in April and 67.3% in March. The majority of negative comments were a continuation of key factors that have been evident for some time, including the global economic slowdown, a flat domestic market, a New Zealand dollar well above historical levels and high interest rates.

<u>HIGHLIGHTS</u>

Seasonally-adjusted PMI down 2.2 points from April to sit at 49.3 for May.

PMI has now been in a technical decline for two of the last three months.

Four of the five main indices indicated some level of decline, with production back to levels seen in March.

Regional activity was negative in the Northern and Canterbury/Westland regions, with the former at its lowest level since January 2006.

The proportion of negative comments continued upwards in May, with close to 2/3rds of manufacturers recording adverse comments.

New Zealand's manufacturing activity continues to mirror lackluster offshore markets, with the global PMI still showing soft growth.

Next Bank of New Zealand - Business NZ PMI: July 10 2008

<u>SPONSOR STATEMENT</u>

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 (www.bnz.co.nz)

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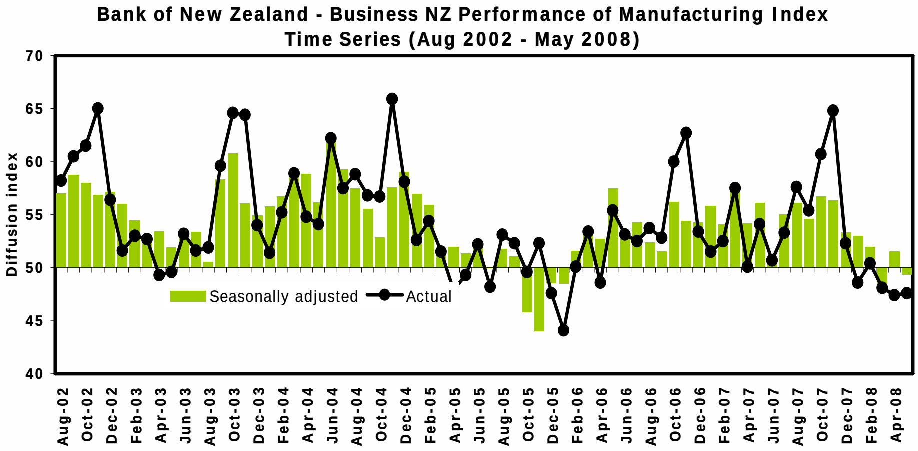


May time series tables

National Indexes	May 2003	May 2004	May 2005	May 2006	May 2007	May 2008
BNZ - Business NZ PMI (s.a)	51.9	59.2	51.4	57.5	56.1	49.3
Production (s.a)	51.6	61.6	51.0	58.3	55.7	46.9
Employment (s.a)	50.1	51.2	48.3	52.6	50.8	48.4
New Orders (s.a)	51.6	63.4	51.4	59.0	57.6	48.6
Finished Stocks (s.a)	52.9	52.7	50.4	54.1	56.7	49.7
Deliveries (s.a)	51.8	59.5	51.8	55.9	54.2	50.2

Regional Indexes	May 2003	May 2004	May 2005	May 2006	May 2007	May 2008
BNZ - Business NZ PMI (s.a)	51.9	59.2	51.4	57.5	56.1	49.3
Northern	47.9	55.7	49.4	55.1	49.8	44.1
Central	50.1	52.0	50.1	52.5	54.8	52.8
Canterbury/Westland	53.4	57.3	48.9	59.1	58.0	48.2
Otago/Southland	51.8	51.3	46.8	58.5	61.9	51.8

(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.

Bank of New Zealand

Performance of Manufacturing Index

12 June 2008

Forestry Production Getting the Chop

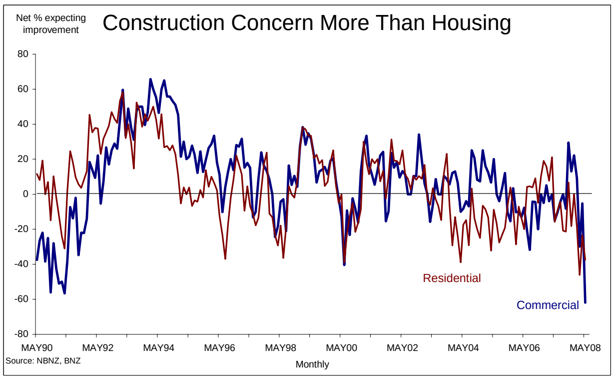
- Forestry sector looking as soft as any
- Production falling as construction contracts
- Still waiting for own commodity price boom
- While costs keep rising
- Pruning the theme for the meantime

In assessing the softest spots in the economy, spare a thought for forestry. While it's still waiting for global commodity boom benefits, it is surely looking as poorly as any sector right now, including the more widely noted, and severely squeezed, household sector.

This was certainly the signal from May's Performance of Manufacturing Index. It saw the wood and paper product sectors register a 37.8 result – the second-worst on record, and very deep into the contraction zone.

Yet this should not come as a big surprise. The forestry industry is facing a multitude of major headwinds.

For a start, it is highly exposed to the current downturn in the domestic construction industry. And while much of this is centred on the housing market – where an already marked pull-back is likely to continue for a while yet – there have also been signs that non-residential construction work is looking less robust, especially beyond the next six months or so.

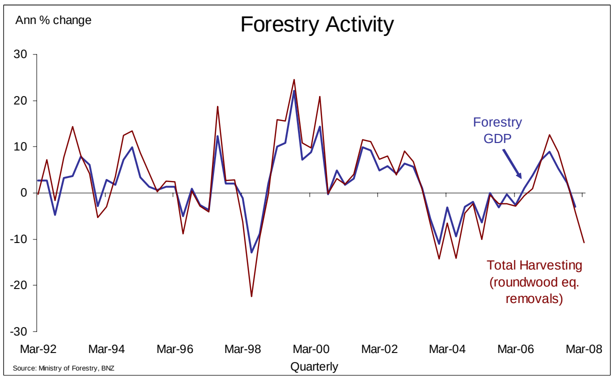


Onto this we can add the international housing and construction markets, which are either weak already, or about to become so inclined, in respect of New Zealand's traditional forestry export markets of Australia, North Asia and the United States. China would be the notable exception.

Adding to the production woes most recently has been the talked-about hangover from the harvesting that occurred last year in order to beat the Kyoto deforestation charges that kicked in on 1 January 2008.

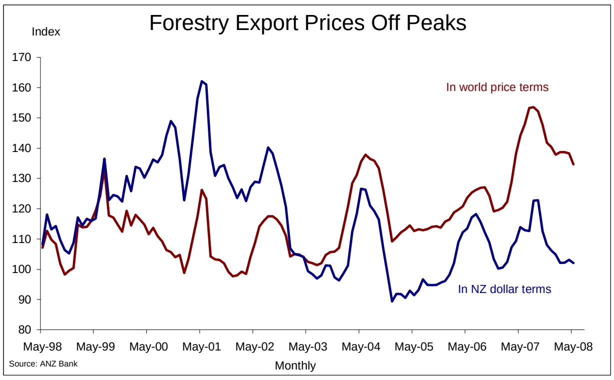
For the March quarter there were also reports of premature shut-downs because of the early-Easter, while fire risk, amid tinder-dry conditions, also hampered activity in some areas.

It has thus been little surprise to see total ("roundwood equivalent") harvesting in the March quarter of 2008 down 11% on a year ago. This is not only weaker than the -4% y/y result in the December quarter but implies a clear and further drop on a quarterly basis according to our seasonally adjusted estimates. This is likely to translate into negative impacts from forestry in the Q1 GDP accounts (due 27 June).



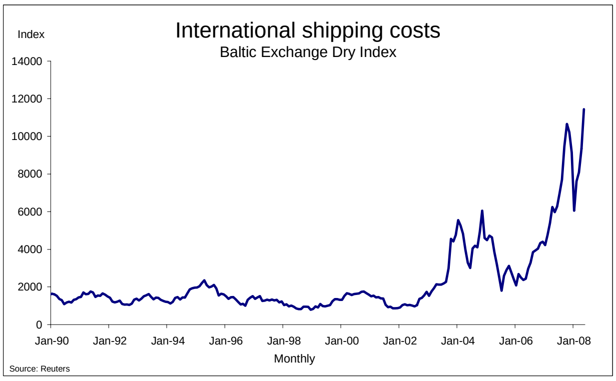
And it's not as though the forestry sector is enjoying higher prices to offset production weakness (the way the dairy sector is, for example, in light of the recent drought). Indeed, forestry product prices have, in the main, completely sidestepped the global commodity boom. Sure, the industry is hopeful of better returns later in the year, as fundamental demand-supply factors are seen tightening up. However, for the meantime, prices look subdued.

As an example of this we note May's ANZ world commodity price index for New Zealand's forestry product exports had fallen 12% from its August 2007 peak, to be 7% lower than in May 2007. And it gets softer when converting into Kiwi dollars. In these terms, forestry export prices declined 10% y/y, following their 17% drop since August.



It's not just international prices, however. We are also conscious of the potential for domestic prices to come under downward pressure, in line with the way housing demand has dried up, leaving builders under pressure to reassess their margins in order to get contracts and make sales.

All the while, input costs for the forestry sector continue to rise. One of the more noticeable of these has been fuel, which is always a big issue for a sector so reliant on the running of capital equipment. And in respect of the heavy transportation requirements for forestry, there are not only the higher internal costs to think about but also rising world freight charges to bear in mind.



As an indicator of the latter, we note the Baltic Dry bulk international shipping rate has nearly doubled since the start of the year, to be comparable to the highs seen around October of last year. Sure, this index might not be directly relevant to the forestry sector. But it certainly highlights the upward pressure in global shipping rates of late.

Rolling this all together, it's easy to see how difficult business has become in the forestry industry. It's no wonder, then, that firms in the field were as glum as they were in May's Performance of Manufacturing Index survey. It looks as though we're in for a period of pruning.

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