

**PERFORMANCE OF MANUFACTURING INDEX**

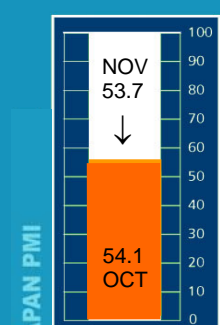
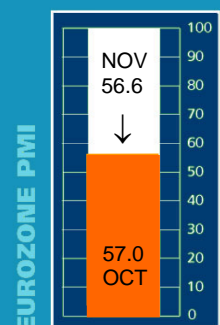
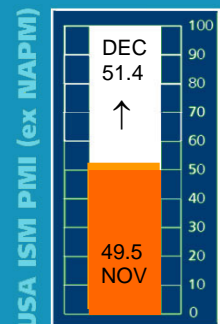
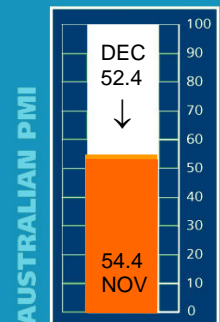
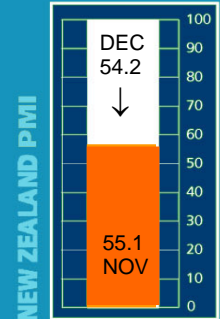
**MANUFACTURERS EXPERIENCE A POSITIVE END TO 2006**

**BUSINESS NZ PMI FOR DECEMBER 2006**

The Business NZ Performance of Manufacturing Index (Business NZ PMI) is a monthly survey of the manufacturing sector providing an early indicator of activity levels. The Business NZ PMI contains data obtained through Business NZ's regional organisations: Employers & Manufacturers Association (Northern), Employers & Manufacturers Association (Central), Canterbury Employers' Chamber of Commerce and Otago Southland Employers' Association. When interpreting the data, a PMI reading above 50 points indicates manufacturing is generally expanding; below 50 indicates it is contracting; the distance from 50 indicates the strength of expansion or contraction. The main PMI and sub-index results are shown on a seasonally adjusted basis.

**KEY FINDINGS**

- The Business NZ seasonally adjusted PMI for December (54.2) continued a good run of activity for the manufacturing sector in the last quarter of 2006. Although the December PMI value indicated a lower level of expansion compared with October and November, activity over the last quarter was the strongest for any period since late 2004/early 2005. Looking over the history of the survey, results for December 2002-2005 ranged between 48.5 and 59.0.
- As in October and November, unadjusted activity in December was expansionary across the country. However, the majority of expansionary activity was concentrated in the South Island, with the Otago/Southland and Canterbury/Westland regions displaying almost equal results (59.5 and 59.4 respectively). Both the Northern (51.8) and Central (50.4) regions also displayed a similar level of activity, although both down from the post-60 results in November.
- All seasonally adjusted main diffusion indices recorded expansion for the third consecutive month. The last time this occurred was late 2004/early 2005. Almost all of the indices recorded a very similar level of activity compared with the previous month, with the only exception being *production* that fell to 55.9 in December after sitting at 58.5 for two months. The highest value for December was *new orders* (56.4), while *employment* (50.8) continued to show weak signs of expansion.
- The level of expansion tended to vary across all industry groups. The *petroleum, coal, chemical & associated product* sector again recorded the strongest activity, with the bulk of this sub-group made up of those in the plastics industry. *Metal product manufacturing* (50.0) showed no change for December, while *machinery & equipment manufacturing* sector (44.2) produced its lowest result since April 2006.
- After recording a value of 57.1% in November, the proportion of positive comments from manufacturers settled back to historical levels in December to be exactly even for the month (i.e. 50.0% for both positive and negative comments). The end of the year tends to lead to the seasonal shut down for many firms, thus reducing revenue-earning days. However, the Christmas period continues to give some firms a boost in sales. Roughly a quarter of respondents who provided a major influence on activity that was deemed to be positive specifically mentioned the Christmas/holiday season. In addition, a few comments from



## PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for December stood at 55.9, which was below the 58.5 recorded for both October and November. The 2006 value was higher than the 2005 value, but below those recorded between 2002 and 2004.
- The *food, beverage & tobacco* sector (65.5) produced a significant result to lead production levels for December. In contrast, the *machinery & equipment* sector (40.2) showed a strong decline.
- Three out of the four regions produced positive results for December, again led by the Canterbury/Westland region (66.7). The Northern region (50.0) showed no change.

## EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (50.8) for December produced a second consecutive result very close to 'no change'. However, historically any value on the up side is encouraging.
- Employment by industry was generally mixed during December. The strongest result was for the *petroleum, coal, chemical & associated product* sector (56.4), while the *food, beverage & tobacco* sector (50.0) showed no change.
- The Otago/Southland region (56.5) continued to lead the way in terms of employment activity for December, while the remaining regions ranged in value between 48.0 and 51.7.

## NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for December (56.4) slipped slightly from the November value, although was still the highest index value for the month.
- The *petroleum, coal, chemical & associated product* sector (62.8) recorded strong expansion during December, followed by the *food, beverage & tobacco* sector (60.3).
- The level of new orders across the regions was distinct between the North and South Islands, led by the Otago/Southland and Canterbury/Westland regions (65.2 & 65.0 respectively). In contrast, the two North Island regions ranged in value between 52.9 and 53.7.

## FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (53.9) sub-index value for December was unchanged from November, and showing moderate expansion. Overall, the 2006 result was similar to 2004 and 2005.
- The *food, beverage & tobacco* sector (69.0) showed very strong expansion in stock levels, while the remaining sectors produced results varying from expansion to decline.
- Finished stocks were negative in all but one region, led by the Northern region at 55.5. The remaining regions ranged in value between 44.1-46.7

## DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 54.1 in December, which was slightly down on the November result. Overall, deliveries have experienced an increase in activity for eleven consecutive months.
- The *petroleum, coal, chemical & associated* sector (61.2) result for December was the highest, compared with the *machinery & equipment manufacturing* sector (44.2) that produced the lowest result.
- The Otago/Southland region (58.7) experienced the highest level of expansion during December, followed by the Canterbury/Westland region (55.0).

National Indexes	Dec 2003	Dec 2004	Dec 2005	Dec 2006
Business NZ PMI (s.a)	54.9	59.0	48.5	54.2
- Production (s.a)	56.2	63.5	48.4	55.9
- Employment (s.a)	50.2	55.3	47.2	50.8
- New orders (s.a)	57.4	61.7	48.2	56.4
- Finished stocks (s.a)	51.6	54.3	54.2	53.9
- Deliveries (s.a)	57.9	56.1	48.9	54.1

Regional Indexes*	Dec 2003	Dec 2004	Dec 2005	Dec 2006
Business NZ PMI (s.a)	54.9	59.0	48.5	54.2
- Northern	51.1	58.8	47.3	51.8
- Central	48.7	56.8	45.1	50.4
- Canterbury / Westland	65.3	56.5	54.6	59.4
- Otago/Southland	54.5	58.2	44.5	59.5

\*Regions (grouped according to Business NZ's associated 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

Next Business NZ PMI (January results): 16 February 2007

## WHAT IS THE PMI?

The Business NZ Performance of Manufacturing Index (PMI) is a composite index based on the diffusion indexes for production, new orders, delivered, inventories and employment with varying weights.

A PMI reading above 50 points indicates that manufacturing is generally expanding; below 50 that is declining. The distance from 50 is indicative of the strength of the expansion or decline.

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