

## MANUFACTURING ACTIVITY STILL IN DECLINE FOR MOST REGIONS

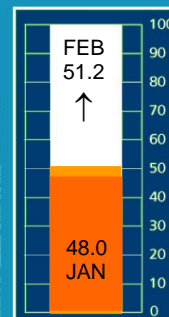
### BUSINESS NZ PMI FOR FEBRUARY 2006

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.

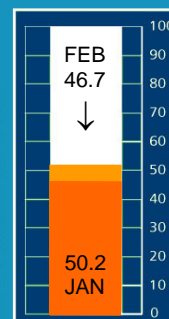
#### KEY FINDINGS

- The Business NZ seasonally adjusted Performance of Manufacturing Index stood at 51.2 for February, up 3.2 points from January. This is the first time since August 2005 that the overall PMI result has shown expansion. However, the February 2006 value was still lower than the relatively similar values of 54.1, 56.3 and 55.5 for the February 2003-2005 months.
- Activity by region produced a split between the Canterbury/Westland region (59.4) and the rest, which all suffered declines. The lowest result was for the Northern region (46.8), followed by the Otago/Southland (48.9) and Central (49.1) regions that experienced only slight declines.
- Most seasonally adjusted sub-indexes recorded minor expansion for the February 2006 month. *New orders* (53.1) showed the strongest level of expansion, followed by *production* (52.3). *Deliveries* (51.7) also recorded some expansion, although both the *employment* (47.0) and *finished stocks* (47.2) indexes continued to show a decline.
- Results by industry groups showed either slight expansion or decline for February. The *petroleum, coal, chemical & associated product* sector (53.7) displayed some expansion for the month, followed by the *metal product* sector (51.8). The *food, beverage & tobacco* sector (45.5) displayed another lackluster result.
- Medium-large sized firms (51-100 workers) (55.5) were the only firm group by size to show significant expansion for February. Micro firms (1-10 workers) (50.1) again showed largely no change, while the remaining firm by size group showed moderate falls in activity.
- Although the result for February shows a slight bounce back from a period of five months in decline when looking at the results on a seasonally adjusted basis, comments regarding current conditions for manufacturing still point to a fragile sector. While the high New Zealand dollar continues to bite and orders are slow to pick up for 2006, its recent fall should enable manufacturers to compete more on the international market. However, the flow through of that exchange rate drop into overseas orders make be some way off yet.

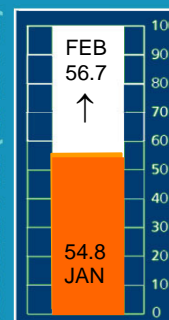
NEW ZEALAND PMI



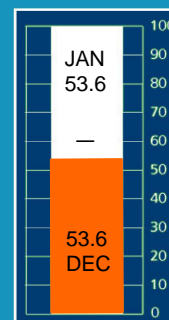
AUSTRALIAN PMI



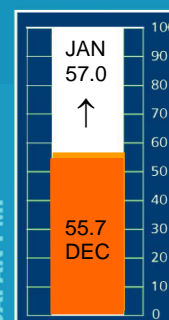
USA ISM PMI (ex NAPM)



EUROZONE PMI



JAPAN PMI



## PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index stood at 52.3, up from 48.1 in January. The 2006 result was well below the values ranging from 55.2-56.9 for the previous three February months, as well as being the first time in expansion since August 2005.
- The *petroleum, coal, chemical & associated product* sector (59.3) showed strong expansion for February, followed by the *metal product* sector (53.8).
- Production in the Canterbury/Westland region stood at 61.0 for February, which was the highest value for the region since February 2005. The Northern region (47.9) was the only one to show a decline during February 2006.

## EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (46.4) for February improved slightly from the January result, although still showed decline. Of the four February results, half were in decline.
- The *metal product* sector (52.6) was the only one to show expansion during February, while the *food, beverage & tobacco* sector (42.2) displayed strong decline during the month.
- The Canterbury/Westland region (53.7) was the only region to show expansion during February. The next best result was the Central region (48.2).

## NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for February (53.1) was the best performing sub-index, producing its highest result since May 2005.
- Both the *petroleum, coal, chemical & associated product* and *metal product* sectors (53.5 and 53.8 respectively) showed similar levels of expansion.
- The Canterbury/Westland region (61.0) showed strong expansion for the February, while the Otago/Southland region (50.0) displayed no change. The remaining regions were in decline.

## FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (47.2) sub-index value for February was the worst result since November 2003, and substantially below the February results for the previous three years.
- Most industries showed a decline in finished stocks for February, with the *machinery & equipment* sector (44.4) fairsing the worst.
- Finished stocks in the Canterbury/Westland region (52.4) was again the only sub-index by region to show any expansion for February. All other regions experienced a decline in activity, with the Otago/Southland region (40.0) producing the lowest value.

## DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 51.7 in February, which was down on previous February months but the highest result since August 2005.
- Only the *petroleum, coal, chemical & associated product* and *machinery & equipment* sectors (58.1 and 54.2 respectively) showed expansion in deliveries during February. The *food, beverage & tobacco* sector (42.2) produced the worst result for the month.
- The Canterbury/Westland region (65.9) displayed very strong expansion in February, while the Central region (50.0) showed no change.

National Indexes	Feb 2003	Feb 2004	Feb 2005	Feb 2006
<b>Business NZ PMI (s.a)</b>	<b>54.1</b>	<b>56.3</b>	<b>55.5</b>	<b>51.2</b>
- Production (s.a)	55.2	56.9	56.6	52.3
- Employment (s.a)	54.4	48.3	51.2	47.0
- New orders (s.a)	53.0	60.8	58.6	53.1
- Finished stocks (s.a)	54.0	52.7	48.6	47.2
- Deliveries (s.a)	52.3	57.6	55.7	51.7

Regional Indexes*	Feb 2003	Feb 2004	Feb 2005	Feb 2006
<b>Business NZ PMI (s.a)</b>	<b>54.1</b>	<b>56.3</b>	<b>55.5</b>	<b>51.2</b>
- Northern	51.2	54.1	53.8	46.8
- Central	54.2	58.1	51.0	49.1
- Canterbury / Westland	50.5	57.1	63.1	59.4
- Otago/Southland	60.4	47.1	51.0	48.9

\*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 (March results): 13 April 2006

## WHAT IS THE PMI?

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

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

## SPONSOR STATEMENT

ANZ National Bank Ltd is delighted to be associated with the survey of NZ Manufacturing and Business NZ. This association brings together the significant experience of leading advocacy body Business NZ and business finance specialist ANZ National Bank Ltd. We look forward to continuing our association with Business NZ and associated regional organisations EMA (Northern), EMA (Central), Canterbury Employers' Chamber of Commerce and Otago Southland Employers' Association, and to playing our part in the ongoing development of New Zealand manufacturing.



## CONTACT

Stephen Summers  
Analyst Business NZ  
ssummers@businessnz.org.nz

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