

PERFORMANCE OF MANUFACTURING INDEX

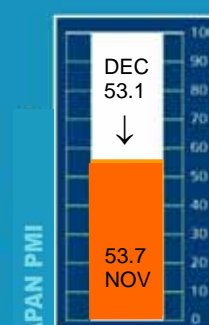
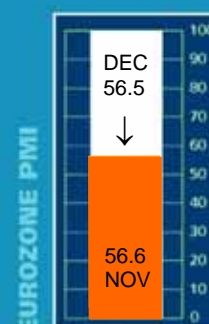
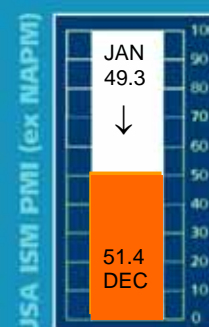
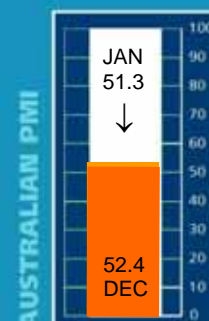
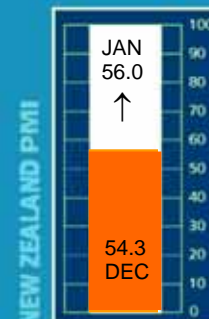
## A HEALTHY START FOR MANUFACTURERS IN 2007

### BUSINESS NZ PMI FOR JANUARY 2007

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 and below 50 indicates it is contracting; with the distance from 50 indicating 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 January (56.0) represented a healthy start to the year for manufacturers, and consistent expansionary activity that has now been evident for four months. In comparison with previous January months, the 2007 result sat firmly in the middle, with 2003 and 2005 experiencing values above, and 2004 and 2006 experiencing values below, the 2007 result.
- Unadjusted activity in January was expansionary and consistent across most of the country. The Canterbury/Westland region displayed the highest activity for January (53.7), closely followed by the Central (52.6) and Northern (51.6) regions. The only exception was the Otago/Southland region (43.4), which experienced a considerable drop in activity after leading regional activity for most of 2006. However, that drop is consistent with the early part of previous years, with the drop for January 2006 (42.8) even lower.
- All seasonally adjusted main diffusion indices recorded expansion for the fourth consecutive month, continuing the trend of healthy expansion across the board. Most indices recorded a similar level of activity compared with the previous month, with the only exception being *deliveries of raw materials* (59.2), which showed a strong lift in activity from December. Interestingly, deliveries also recorded the highest value for the month, the first time since August 2005.
- Most industry groups showed expansion during January. The *food, beverage & tobacco* (56.1) and *petroleum, coal, chemical & associated product* (55.4) sectors led the way in terms of expansion for the month, citing post-Christmas demand and weather with the former, and new orders with the latter as positive influences on activity. At the other end, *machinery & equipment manufacturing* (48.9) displayed the only fall due to a seasonal drop in new orders and issues with the high New Zealand dollar.
- Although the overall seasonally adjusted PMI value was the highest since October 2006, the balance of positive to negative comments from manufacturers continues to shift towards the negative. For January, the proportion of positive comments stood at 45.5%, down from 50% in December and 57% in November. The most common issue continued to be the high value of the New Zealand dollar (28% of those who discussed negative influences mentioned this), followed by the Christmas/Holiday period (21%).



## PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for January stood at 56.5, which was slightly above the December result. The 2007 value was higher than in 2005 and 2006, but below those recorded for 2003 and 2004.
- The *food, beverage & tobacco* sector (58.6) again led production levels for January, although its value was below that recorded in December. In contrast, three industries showed contraction, with the strongest dip in activity coming from the *machinery & equipment-manufacturing* sector (44.7).
- Only one region produced a positive result in January, led by the Central region (54.3). The Canterbury/Westland region (50.0) showed no change.

## EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (52.8) for January produced its highest result since May 2006. Overall, this represents the longest period of expansion since late 2004/early 2005.
- Employment by industry was again mixed during January. The strongest result again came from the *petroleum, coal, chemical & associated product* sector (56.1), while the *wood & paper product* sector (43.2) showed the only decline.
- The Central region (52.1) led the way in terms of employment activity for January. However, the Canterbury/Westland region (39.7) experienced a strong decline in employment – similar to the result in September 2006.

## NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for January (58.3) increased from the December value, and historically was close to the long run average for the month.
- The *food, beverage & tobacco* sector (58.6) recorded strong expansion during January, closely followed by the *petroleum, coal, chemical & associated product* sector (57.6).
- The level of new orders was expansionary across most regions. The Canterbury/Westland region (65.5) showed significant expansion; while in contrast the Otago/Southland region (35.3) experienced its strongest ever fall in new orders.

## FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (50.3) sub-index value for January was down from December, and recorded close to no change for the month. Overall, the 2006 result was below most recorded for the January month.
- Most industries showed a decline in finished stocks for the month, which is often the case post-Christmas. However, the *wood & paper product sector* (52.3) showed some expansion.
- Finished stocks were either negative or in no-change mode by region, with the Central and Otago/Southland regions both at 50.0.

## DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 59.2 in January, and was the most expansionary sub-index for the month.
- The *petroleum, coal, chemical & associated* sector (60.6) result for January was again the highest, closely followed by the *food, beverage & tobacco* sector (60.3).
- The Canterbury/Westland region (58.6) experienced the highest level of expansion during January, while the Otago/Southland region saw no change (50.0).

National Indexes	Jan 2004	Jan 2005	Jan 2006	Jan 2007
Business NZ PMI (s.a)	55.9	57.1	48.6	56.0
- Production (s.a)	57.9	56.3	48.9	56.5
- Employment (s.a)	50.1	55.2	46.3	52.8
- New orders (s.a)	59.0	61.1	50.6	58.3
- Finished stocks (s.a)	53.0	54.3	48.8	50.3
- Deliveries (s.a)	57.0	55.6	47.9	59.2

Regional Indexes*	Jan 2004	Jan 2005	Jan 2006	Jan 2007
Business NZ PMI (s.a)	55.9	57.1	48.6	56.0
- Northern	50.0	53.8	42.3	51.6
- Central	51.0	51.2	44.8	52.6
- Canterbury / Westland	54.9	49.4	49.4	53.7
- Otago/Southland	48.7	54.9	42.8	43.4

\*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 (February results): March 16, 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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