

PERFORMANCE OF MANUFACTURING INDEX

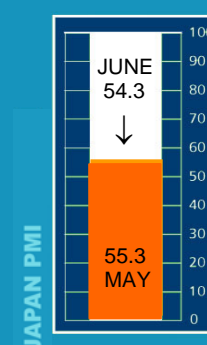
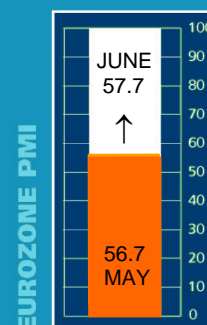
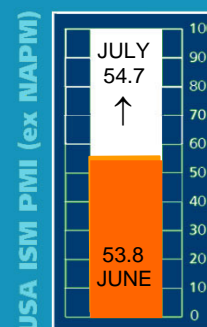
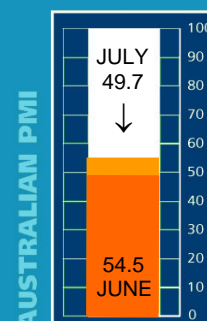
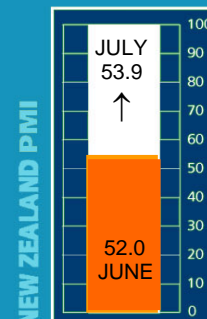
MANUFACTURING ACTIVITY STEADY

BUSINESS NZ PMI FOR JULY 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 experienced a slight increase in activity in July to stand at 53.9, up 1.9 points from June. This continues a series of positive results since February. When compared with previous July figures, the 2006 result was higher than 2003, which showed a slight decline, but lower than 2004 and slightly up from 2003.
- Activity by region was mixed during July. Otago/Southland (61.6) had its fifth consecutive monthly increase in activity, and showed the highest level of expansion of all regions. The Northern region (54.7) improved on its June level of expansion, while the Central (48.4) and Canterbury/Westland (48.8) regions experienced a decline.
- Four of the five seasonally adjusted main diffusion indexes again recorded expansion. *New orders* (56.4) continued to record the highest value for the month, followed by *production* (55.1). *Employment* (49.8) again showed a decline, albeit close to the 'no change' threshold, an improvement on the lowest ever value recorded for this index during June. *Finished stocks* (52.6) and *deliveries* (54.4) continued to show more moderate levels of expansion.
- Industry group results were also mixed. The *machinery & equipment* sector (59.0) showed the strongest expansion for the month, followed by the *metal product* sector (54.3). The *food, beverage & tobacco* sector (48.4) experienced its first decline in activity since February 2006.
- Results by firm size showed stronger activity as the size of the firm increased. Micro sized firms (1-10 workers) (45.3) were again the only group in decline during July. In comparison, large firms (101+ workers) (58.3) recorded a strong result for the month.
- The 2006 July result was close to the level of expansion for June, and apart from the blip in May has been relatively steady for the last 6 months. Positive comments (48.9%) from respondents were on a par with negative ones (51.1%). A winter seasonal dip in activity played a part in some of the negative comments. Positive comments were linked with the continued trend downwards of the New Zealand dollar, which has brought a significant lift in orders, improving competitiveness and return on sales.



PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for July stood at 55.1, up from 53.3 in June. The 2006 result was the second highest for a July month, only bettered by the 2004 (63.2) result.
- The *machinery & equipment* sector (60.8) showed very healthy expansion in production for July, while the *petroleum, coal, chemical & associated product* sector (41.1) showed a strong level of decline for the month.
- Production varied across regions during July. The Otago/Southland region (61.5) experienced the strongest result, while the Canterbury/Westland region (47.1) again experienced a low production activity level, although not to the extent of its worst ever result in June.

EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (49.8) for July was up 4.2 points from June, and the second consecutive month the index has been in decline. The July 2005 result was also in decline.
- Most industries experienced a decrease in employment during July, although the *machinery & equipment* sector (56.8) bucked the trend as the best performing sector for the month. The *food, beverage & tobacco* sector (43.3) experienced the strongest decline.
- Both the Otago/Southland (55.8) and Northern (52.1) regions showed an increase in employment during July, while the remaining regions showed a decline.

NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for July (56.4) continued to remain the highest sub-index value for the month. The July 2006 result was also higher than for the July 2005 and 2003 results, but still below the 2004 figure.
- The *metal product* sector (58.1) showed strong expansion during July, followed by the *machinery & equipment* sector (56.8).
- The Otago/Southland region (69.2) continued to show significant expansion in July, while the Central and Canterbury/Westland regions (49.1 and 47.1 respectively) produced a decline.

FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (52.6) sub-index value for July showed moderate expansion, and at similar levels to April 2006. The 2006 result was the second lowest for a July month.
- The *metal product* sector (60.8) showed strong expansion in stock levels, while the *food, beverage & tobacco* sector (50.0) showed no change.
- Finished stocks were in positive territory for all regions during July, led by the Northern region (56.9).

DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 54.4 in July, which has been very steady for the last five months.
- The *machinery & equipment* sector (64.9) showed significant expansion in deliveries during July, while the *food, beverage & tobacco* sector (45.0) was in decline.
- The Central region (46.5) experienced the only decline during July, while the Otago/Southland region (59.6) continued to show healthy expansion.

National Indexes	July 2003	July 2004	July 2005	July 2006
Business NZ PMI (s.a)	53.0	61.1	49.6	53.9
- Production (s.a)	52.2	63.2	48.6	55.1
- Employment (s.a)	51.8	53.5	49.1	49.8
- New orders (s.a)	54.3	68.6	50.6	56.4
- Finished stocks (s.a)	53.1	53.0	48.4	52.6
- Deliveries (s.a)	54.2	59.1	51.5	54.4

Regional Indexes*	July 2003	July 2004	July 2005	July 2006
Business NZ PMI (s.a)	53.0	61.1	49.6	53.9
- Northern	51.5	60.6	44.8	54.7
- Central	51.5	55.2	50.6	48.4
- Canterbury / Westland	49.5	60.9	54.6	48.8
- Otago/Southland	55.0	45.8	50.7	61.6

*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 (August results): 15 September 2006

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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