

PERFORMANCE OF MANUFACTURING INDEX

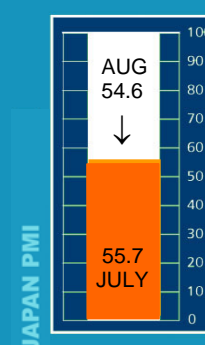
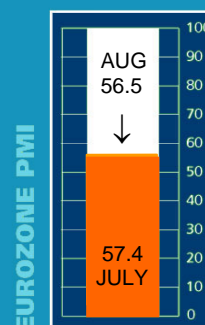
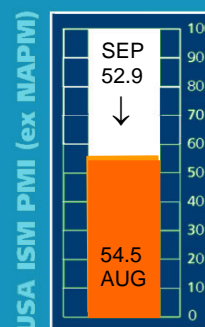
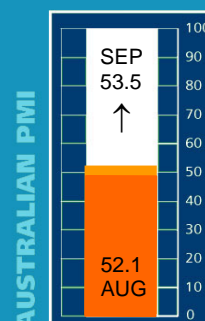
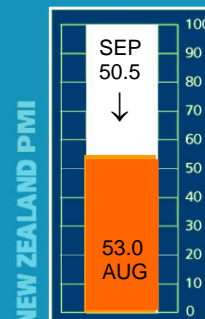
MANUFACTURING EXPANSION FALLS

BUSINESS NZ PMI FOR SEPTEMBER 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 for September experienced a drop in expansion to stand at 50.5, down 1.8 points from August and close to levels indicating no change in activity. The September result was also the lowest value recorded since January 2006. When compared with previous September figures, the 2006 result was the second lowest, with only the 2005 result (50.0) fairing worse.
- Activity was again positive for most regions with the South Island regions continuing to experience higher levels of activity. The Otago/Southland region (60.6) recorded the highest level of activity for the fourth month in a row, with levels similar to that of June 2006. The Northern and Canterbury/Westland regions (52.2 and 54.2 respectively) showed moderate expansion, while the Central region (50.0) showed no change for the month.
- Three of the five seasonally adjusted main diffusion indexes recorded expansion for September 2006. *New orders* (53.0) continued to record the highest value for the month, although well down on results from recent months. Both *finished stocks* (51.0) and *deliveries* (51.6) showed slight expansion, while *employment* (47.8) continued to exhibit a decline for the fourth consecutive month. *Production* (49.4) recorded its first decline since January 2006, albeit at a minor rate of decline.
- By industry group, the September results were generally mixed across the various sectors. The *food, beverage & tobacco* sector (58.1) displayed the highest level of activity, while the *petroleum, coal, chemical & associated product* sector (53.0) and *metal product* sector (54.1) showed moderate expansion for the month. In contrast, the *machinery & equipment manufacturing* sector (49.1) experienced a small decrease in September.
- Results by firm size continue to show contrasting trends between small and large firm sizes. Small firms (1-10 workers) (46.3) recorded the weakest result for the month after displaying moderate expansion in August. In contrast, large firms (101+ workers) (53.7) shifted from a decline in August to expansion in September.
- The main 2006 September value, while still in positive territory, indicates a slight fall from the values recorded over most of 2006. Of particular concern are the decline in production activity and the fall in the level of expansion for new orders. Negative comments (59%) from respondents outweighed positive ones (41%), with continuing concerns about recent lifts in the NZ\$.



PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for September stood at 49.4, down from 52.5 in August and the first decline in production recorded since January 2006. The 2006 result was also the lowest for a September month.
- The *food, beverage & tobacco* sector (60.3) continued to exhibit the highest level of expansion for September, while the *machinery & equipment manufacturing* sector (47.6) was the only sector in decline.
- Production was down in the Central region (44.0) compared with other parts of the country. The Otago/Southland region (67.5) displayed very strong levels of production, followed by the Canterbury/Westland region (56.9).

EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (47.8) for September again showed a decline for the month, down 1.2 points from August. This was also the lowest result for a September month.
- Most industries experienced either a minor increase or decrease in employment during September. The strongest result was for the *petroleum, coal, chemical & associated product* sector (51.4), while the *food, beverage & tobacco* sector (44.8) experienced a decline.
- Both the Otago/Southland and Central regions (50.0) showed no change in employment activity during September, while the Canterbury/Westland region (38.9) experienced its lowest result since the survey began.

NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for September (53.0) continued to remain the highest sub-index value for the month, however the 2006 result was the second lowest compared with previous September results.
- The *food, beverage & tobacco* sector (63.8) again showed strong expansion during September, while the *machinery & equipment manufacturing* sector (50.0) was unchanged.
- The Otago/Southland region (67.5) recorded another 65+ result for the month, while in contrast the Central region recorded a slight decline (48.0)

FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (51.0) sub-index value for September was very similar to August, showing slight expansion for the month. As in the previous two months, the 2006 result for September was the second lowest for a September month.
- The *food, beverage & tobacco* sector (63.8) showed strong expansion in stock levels, while the *machinery & equipment* sector (48.8) showed a slight decline
- Finished stocks were in positive territory for all regions except Otago/Southland (45.0) during September. The remaining regions had levels of expansion ranging from 52.8-60.0.

DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 51.6 in September, which was the second lowest result for a September month.
- The *metal product* sector (59.3) showed significant expansion in deliveries during September, while the *machinery & equipment* sector (48.8) showed a slight decline.
- The Northern region (49.5) experienced the only decline during September, while the Otago/Southland region (60.0) experienced the highest level of expansion.

National Indexes	Sep 2003	Sep 2004	Sep 2005	Sep 2006
Business NZ PMI (s.a)	57.3	54.5	50.0	50.5
- Production (s.a)	59.2	55.3	50.1	49.4
- Employment (s.a)	52.9	52.4	48.2	47.8
- New orders (s.a)	60.1	56.9	51.8	53.0
- Finished stocks (s.a)	54.6	53.2	49.4	51.0
- Deliveries (s.a)	56.8	53.2	49.8	51.6

Regional Indexes*	Sep 2003	Sep 2004	Sep 2005	Sep 2006
Business NZ PMI (s.a)	57.3	54.5	50.0	50.5
- Northern	62.1	58.5	52.1	52.2
- Central	57.0	54.3	53.1	50.0
- Canterbury / Westland	65.2	54.9	46.7	54.2
- Otago/Southland	52.1	62.3	59.8	60.6

*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 (October results): 17 November 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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