

MANUFACTURING EXPANSION EASES

FOR THE MONTH OF DECEMBER 2004

The ANZ-Business NZ Performance of Manufacturing Index (ANZ-Business NZ PMI) is a monthly survey of the manufacturing sector providing an early indicator of activity levels. The ANZ-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.

KEY FINDINGS

- The ANZ-Business NZ Performance of Manufacturing Index stood at 58.1 for the month of December, indicating a healthy level of expansion, although at a lesser rate than in November (65.9). A drop in expansion from November to December is typical, but the December 2004 PMI value was still the highest December value since the survey began in August 2002.

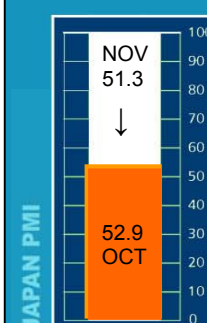
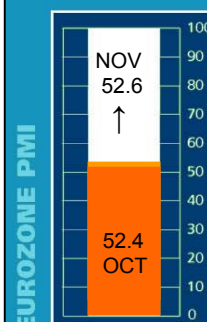
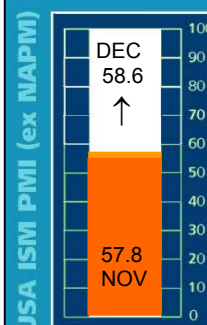
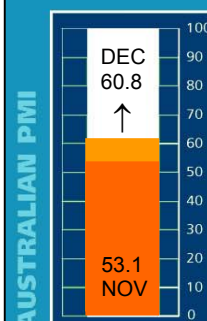
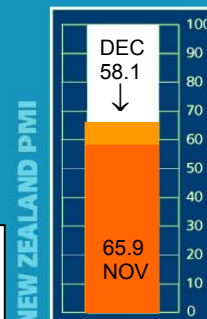
New orders (61.6) and *production* (61.3) continued to deliver the strongest sub-index values in December. They have been separated by one point or less since September 2004. *Deliveries* (55.5) and *employment* (54.3) displayed similar levels, while *finished stocks* (50.9) were close to no change.

Manufacturing activity was again expansionary for all industries during December. The *food, beverage & tobacco* sector (64.9) recorded a strong value, as in previous Decembers, while *metal products* (59.0) and *petroleum, coal, chemical & associated products* (56.9) also showed healthy expansion.

All four regions displayed expansion in December, continuing the trend of the previous four months. Scores were fairly closely grouped: Northern (58.8), Otago/Southland (58.2), Central (56.8) and Canterbury/Westland (56.5), and most regions had stronger expansion than in December 2003.

As in November, the level of expansion increased by the size of the firm. Large firms (101+ workers) recorded strong expansion (63.4), closely followed by medium-large sized firms (51-100 workers) (62.5). Small-medium sized (11-50 workers) firms also recorded healthy expansion (59.1), but micro firms (1-10 workers) experienced a decline in activity (45.6) for the first time since May 2004.

December was busy time for manufacturers coping with the pre-Christmas rush and arrangements for the holiday shutdown. Comments from manufacturers indicated an upbeat outlook, although the continuing high value of the New Zealand dollar, especially against the U.S. currency, meant many exporters were not as competitive as in previous years.



PRODUCTION

- The ANZ-Business NZ *production* diffusion index stood at 61.3 for December, the highest value for a December month since the survey began. Although it was down on November's strong result, it still indicated healthy expansion.
- The sectors with the highest production values were *food, beverage & tobacco* (69.0) and *wood & paper products* (59.1).
- North Island manufacturers showed higher levels of expansion in the production index than those in the South Island: Northern (62.6), Central (62.0), Canterbury/Westland (57.0), Otago/Southland (57.1).

EMPLOYMENT

- Although the ANZ-Business NZ *employment* diffusion index (54.3) for December was lower than the November value, it still recorded a value higher than most of 2004. This was in contrast to previous December months, which indicated no change or a slight decline from their year's result.
- The *food, beverage & tobacco* sector (63.1) recorded the strongest expansion in employment in December, while the *textile, clothing, footwear & leather* sector (45.5) recorded a decline.
- Employment results by region were mixed: the Northern (56.0) and Canterbury/Westland regions (55.8) showed positive expansion, while Otago/Southland (50.0) recorded no change and the Central region (49.1) experienced a slight decline.

NEW ORDERS

- The ANZ-Business NZ *new orders* diffusion index (61.6) continued to record the highest value of the five diffusion indexes. The December 2004 result was higher than that recorded in December 2003 (57.3), and similar to that recorded in December 2002 (61.7).
- New orders were fairly strong across most manufacturing sectors, notably *food, beverage & tobacco* (66.7) and *metal products* (63.3).
- The Otago/Southland region (71.4) continued to record a very strong expansionary level for new orders, while the other regions recorded values between 62.0 and 55.8.

FINISHED STOCKS

- The ANZ-Business NZ *finished stocks* (50.9) diffusion index for December indicated scant expansion during December, in contrast with the record high in November (59.3), however the drop is largely the result of manufacturers' promptness in having Christmas stock levels in place by the start of December.
- The *textile, clothing, footwear & leather* sector (59.1) recorded a high level of expansion for December. In contrast, the *wood & paper product* (43.1) and *machinery & equipment* sectors (45.7) both experienced a decline.
- The Canterbury/Westland and Northern regions increased stock activity during December (58.1 and 51.7 respectively), while the other regions experienced a decline.

DELIVERIES

- The ANZ-Business NZ *deliveries of raw materials* diffusion index stood at 55.5 for December 2004, a similar value to those recorded during December 2002 and 2003.
- The *food, beverage & tobacco* sector recorded a high level of expansion for December (65.5), while most other sectors recorded values between 50-60.
- Deliveries of raw materials were again expansionary for all four regions, led by Canterbury/Westland (57.0).

National Indexes	Dec 2002	Dec 2003	Nov 2004	Dec 2004
ANZ-Business NZ PMI	56.4	54.0	65.9	58.1
- Production	58.1	54.0	69.5	61.3
- Employment	50.8	49.2	58.2	54.3
- New orders	61.7	57.3	69.8	61.6
- Finished stocks	49.0	48.2	59.3	50.9
- Deliveries	55.6	57.3	66.9	55.5

Regional Indexes*	Dec 2002	Dec 2003	Nov 2004	Dec 2004
ANZ-Business NZ PMI	56.4	54.0	65.9	58.1
- Northern	54.2	51.1	68.0	58.8
- Central	54.7	48.7	62.2	56.8
- Canterbury / Westland	58.8	65.3	61.0	56.5
- Otago/Southland	71.5	54.5	67.9	58.2

*Regions (grouped according to Business NZ's associated regional organisations)

Northern (EMA Northern): Northland, Auckland, Waikato, Bay of Plenty

Central (EMA Central): Gisborne, Hawke's Bay, Taranaki, Manawatu, Wanganui, Wellington, Nelson, Tasman

Canterbury/Westland (CECC): Canterbury, Marlborough, West Coast

Otago/Southland (OSEA): Otago, Southland

Next ANZ-Business NZ PMI (January results): 18 February 2005

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.



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