

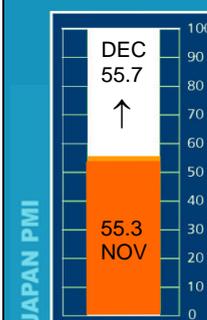
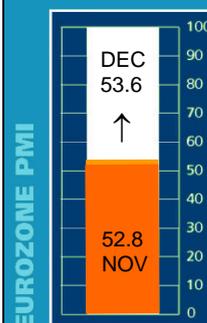
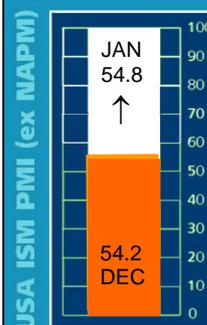
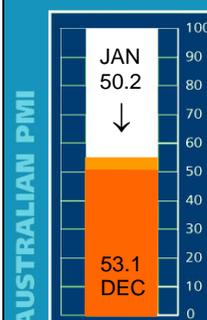
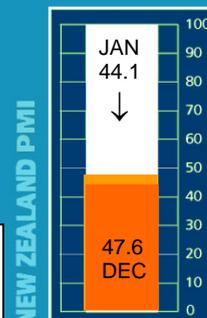
# MANUFACTURING HITS THE NEW YEAR WITH A THUD

## BUSINESS NZ PMI FOR JANUARY 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.

### KEY FINDINGS

- The Business NZ Performance of Manufacturing Index stood at 44.1 for January, down 3.5 points from December. The January 2006 value was considerably lower than the relatively similar values of 51.6, 51.4 and 52.6 for the January 2003-2005 months, and for the second consecutive time was the lowest overall PMI result since the survey began in August 2002.
- Activity by region produced record lows in most areas. The Northern region (42.3) fared the worst, recording its lowest ever result for the month, closely followed by the Otago/Southland region (42.8). The Central region (44.8) also showed a strong fall. The Canterbury/Westland region (49.4) produced a result that was close to no change.
- All five sub-indexes recorded their lowest ever values for the January 2006 month. Results across the sub-indexes were relatively similar, with *production* (42.5) producing the lowest value, followed by *deliveries* (43.3) and *employment* (43.5). Both *new orders* (45.7) and *finished stocks* (45.9) fared only slightly better.
- Results by industry groups showed a decline in almost all sectors during January. The *machinery & equipment* sector (51.1) was the only one to show any expansion for the month. The *wood & paper product* sector (37.9) showed the strongest level of decline, followed by the *metal product* sector (39.1). Other industry group values ranged from 42.2-45.8.
- Micro sized firms (1-10 workers) (50.4) again fared the best of firms by size for the month of January. All other firms by size produced their worst ever result, with medium-large sized firms (51-100 workers) (40.5) recording the strongest level of decline.
- The 2006 January result has set a low tone for the start of the New Year. Although the first few months of the year are typically a quiet period for manufacturers, the level of decline is a cause for concern, especially since *new orders* (a gauge of activity for the months ahead) also recorded its lowest ever value. Comments from manufacturers provide an array of largely negative sentiment, citing the high New Zealand dollar and lack of orders as key concerns.



## PRODUCTION

- The Business NZ *production* diffusion index stood at 42.5, which was the lowest sub-index for January. The 2006 result was well below the values ranging from 49.8-53.0 for the previous three January months, and the lowest for any month on record.
- The *machinery & equipment* sector (56.0) was the only one to show expansion during January - all others experienced a decline.
- The Canterbury/Westland region stood at 47.5 for January, while the remaining three regions all showed significant declines, ranging from 37.5-43.0.

## EMPLOYMENT

- The Business NZ *employment* diffusion index (43.5) experienced its lowest ever result since the survey began for the second consecutive month, although the sub-index has shown a decline for three of the four January months that have been recorded.
- No industry group showed expansion in employment during January. The best result was for the *machinery & equipment* sector (49.0), which displayed a small decline.
- All regions experienced a decline in employment activity during January. The level of decline varied amongst the regions, with Canterbury/Westland region (48.8) showing a small fall, while the Otago/Southland region (39.6) showed a sizeable drop.

## NEW ORDERS

- The Business NZ *new orders* diffusion index for January (45.7) was the lowest result since the survey began. Other January results have ranged from 50.7-56.2.
- The *machinery & equipment* sector (51.0) showed slight expansion, while the *metal product* sector (37.5) displayed the lowest level of decline for the month.
- The Central and Canterbury/Westland regions (49.2 & 48.8 respectively) showed a slight decline during the first month of 2006, while the Northern and Otago/Southland regions (43.0 & 45.8 respectively) fared worse.

## FINISHED STOCKS

- The Business NZ *finished stocks* (45.9) sub-index value for January was the lowest of the sub-indexes for the month, as well as being the lowest ever value for the sub-index over the history of the survey.
- The *food, beverage & tobacco* sector (51.7) continued recording expansion during January, while all other sectors recorded a decline.
- Finished stocks in the Canterbury/Westland region (58.8) was the only sub-index by region to show any expansion for January. All other regions experienced a decline in activity, with the Northern region (42.1) producing the worst result.

## DELIVERIES

- The Business NZ *deliveries of raw materials* diffusion index stood at 43.3 in January, which was down on previous January months and the lowest value recorded since the survey began.
- No industry group showed expansion in deliveries during January. The *machinery & equipment* sector (48.0) recorded the highest value in January, followed by the *petroleum, coal, chemical & associated product* sector (46.6).
- The Canterbury/Westland region (48.8) displayed a slight decline for December, closely followed by the Central region (48.4).

National Indexes	Jan 2003	Jan 2004	Jan 2005	Jan 2006
<b>Business NZ PMI</b>	<b>51.6</b>	<b>51.4</b>	<b>52.6</b>	<b>44.1</b>
- Production	53.0	51.4	49.8	42.5
- Employment	49.3	47.3	52.4	43.5
- New orders	50.7	54.1	56.2	45.7
- Finished stocks	51.2	50.2	51.5	45.9
- Deliveries	54.7	52.3	50.9	43.3

Regional Indexes*	Jan 2003	Jan 2004	Jan 2005	Jan 2006
<b>Business NZ PMI</b>	<b>51.6</b>	<b>51.4</b>	<b>52.6</b>	<b>44.1</b>
- Northern	45.1	50.0	53.8	42.3
- Central	58.8	51.0	51.2	44.8
- Canterbury / Westland	48.5	54.9	49.4	49.4
- Otago/Southland	59.9	48.7	54.9	42.8

\*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): 17 March 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.



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