

The Bank of New Zealand - Business NZ Performance of Manufacturing Index is a monthly survey of the manufacturing sector providing an early indicator of activity levels. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

pmi

Manufacturing growth continues, but mixed results evident

Bank of New Zealand - Business NZ PMI for January 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for January (53.3) showed manufacturing activity close to the same level as December, although elements of the broader results showed some softening in the sector. Comparing all January values, the 2008 result was the second lowest, with only the 2006 result (48.7) showing contraction in activity.
- Unadjusted activity for January told the tale of two islands. Both South Island regions again recorded expansionary results, led by the Otago/Southland region (58.8), followed by the Canterbury/Westland region (55.2). For the North Island, the story was very different, with the Northern region (47.2) showing its strongest decline in activity since April 2006, while the Central region (42.3) displayed its worst result since the survey began, falling a further 2.6 points from December.
- All five seasonally adjusted main diffusion indices recorded expansion for the sixth consecutive month, although only *deliveries* (55.7) and *finished stocks* (54.5) displayed a higher result than December. *Production* (51.5) experienced its lowest value since June 2007, and the second lowest January result on record. *Employment* (51.2) was largely unchanged from December, while *new orders* (54.1) were at its lowest level since April 2006.
- Unadjusted results for the various manufacturing industries were mainly showing declines during the first month of 2008. The *food, beverage & tobacco* sector (52.8) continued to lead the way, although significantly down from the December result. In contrast, the *metal product* sector (47.6) remained almost unchanged from last month's result, while the *petroleum, coal, chemical & associated product* sector (48.7) experienced a decline for the first time since April 2007. The *machinery & equipment* sector (48.5) also showed a significant fall in activity compared with the later half of 2007.
- In comparison with other countries, the Australian PMI in January fell to 49.2, the first contraction in activity after 19 months of expansion. The reason for the fall was put down to the impact of global market turbulence. USA (50.7) recorded a slight increase in January, compared with the contraction in December, which was mainly due to a lift in production. The latest JPMorgan Global PMI for Manufacturing lifted slightly to 51.4, although the overall trend shows a weaker level of expansion compared with 2006 and 2007.
- The proportion of negative comments made by respondents continued to increase, with 60.8% highlighting negative influences for January (up from 54.3% in December). The majority of negative comments were again associated with the high New Zealand dollar and staff shortages, while the standard Xmas shutdown period also played a role.

HIGHLIGHTS

Seasonally-adjusted PMI down 0.3 points from December to sit at 53.3 for December.

All five main indices continued to show expansion, although three of the five were lower than December.

Regional activity was positive in the South Island, but negative in the North Island.

The proportion of negative comments increased in January.

The global PMI highlights broader concerns about the world economy, primarily affecting production and new orders.

Next Bank of New Zealand - Business NZ PMI: 13 March 2008

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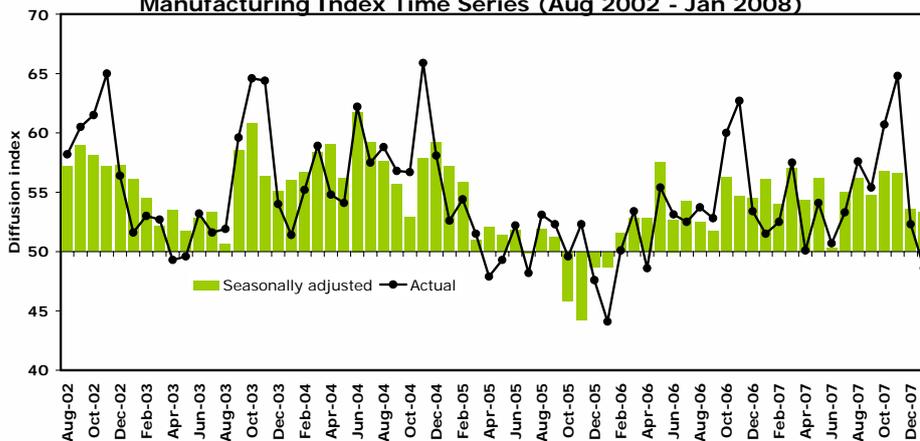
Bank of New Zealand Ltd is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business NZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand manufacturing sector.

BANK OF NEW ZEALAND - BUSINESS NZ PERFORMANCE OF MANUFACTURING INDEX

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Bank of New Zealand - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Jan 2008)



January time series tables

National Indexes	Jan 2003	Jan 2004	Jan 2005	Jan 2006	Jan 2007	Jan 2008
BNZ - Business NZ PMI (s.a)	56.1	56.0	57.2	48.7	56.1	53.3
Production (s.a)	59.1	58.0	56.4	49.0	56.6	51.5
Employment (s.a)	51.9	49.9	55.0	46.1	52.6	51.2
New Orders (s.a)	56.0	59.2	61.1	50.4	57.9	54.1
Finished Stocks (s.a)	53.5	52.8	54.6	49.4	51.3	54.5
Deliveries (s.a)	59.6	57.0	55.4	47.3	58.4	55.7

Regional Indexes	Jan 2003	Jan 2004	Jan 2005	Jan 2006	Jan 2007	Jan 2008
BNZ - Business NZ PMI (s.a)	56.1	56.0	57.2	48.7	56.1	53.3
Northern	45.1	50.0	53.8	42.3	51.6	47.2
Central	58.8	51.0	51.2	44.8	52.6	42.3
Canterbury/Westland	48.5	54.9	49.4	49.4	53.7	55.2
Otago/Southland	59.9	48.7	54.9	42.8	43.4	58.8

(s.a denotes seasonally adjusted)

The Bank of New Zealand - Business NZ PMI contains data obtained through Business NZ's 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.

Currency Tops Manufacturing Concerns

- Currency strength remains manufacturing worry
- Exchange rate certainly above long-term trend
- But mostly against weak US dollar and poorly yen
- TWI moderation hinges on NZ growth/inflation easing
- Global growth, commodity prices, also key

Welcome to the first of many Bank of New Zealand economic commentaries to accompany the Performance of Manufacturing Index survey. Our newly minted association with the survey, and its publisher, Business New Zealand, is designed to further promote and discuss issues relevant to the business sector.

While there are many such issues on manufacturing's plate right now (which we'll delve into in upcoming pieces), we thought we'd begin with one highlighted in today's otherwise reasonable-looking Performance of Manufacturing survey for January – the exchange rate.

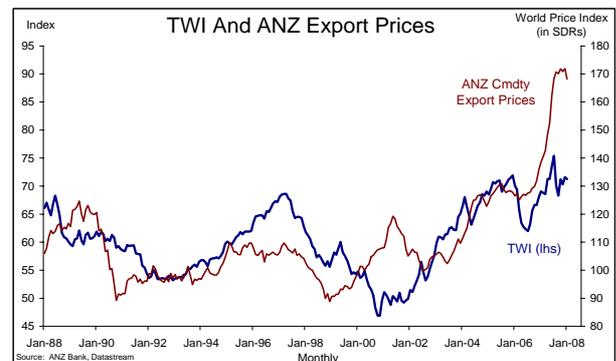
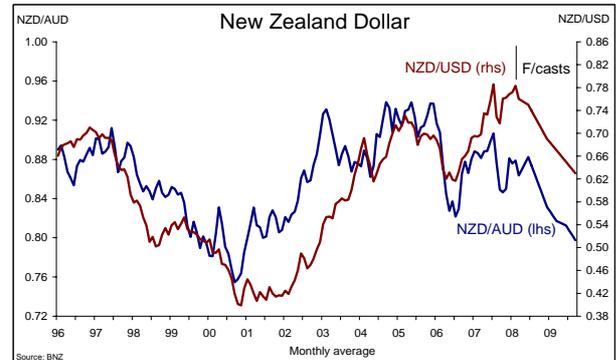
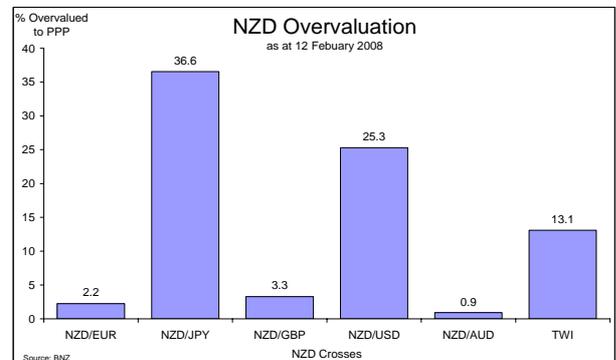
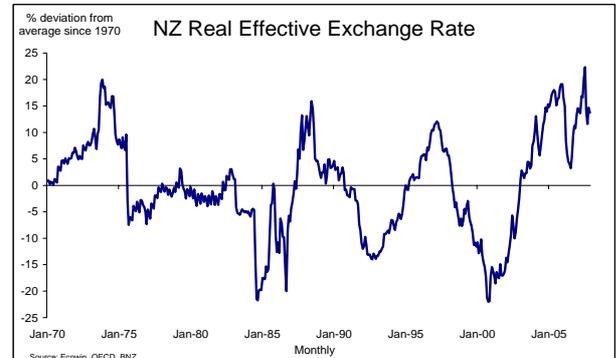
It's a reminder that the currency is, generally speaking, loitering well above its long-term trend. How much so? We'd say about 10% to 20%, on a long-term, inflation-adjusted, trade-weighted basis.

Yet the NZ dollar is not universally high. Sure, at nearly 80 cents it is currently lofty against the US dollar. However, this, in part, reflects the fact the Greenback has fallen to a very weak level over recent years. For similar reasons, the NZ dollar is even stronger against the globally shunned Japanese yen. In contrast, NZD/AUS (0.8700), NZD/EUR (0.5400) and NZD/GBP (0.4000) are not clearly above long-term norms.

In any case, we expect the NZ dollar to struggle against all-comers over the coming year and particularly two. But that does depend on abatement in NZ economic growth and, particularly, inflation – the very things that have fundamentally fortified the exchange rate (and interest rates for that matter) over recent years.

The other thing important to the Kiwi dollar's path will be the international backdrop. Related to the "credit crunch", global growth is expected to slow this year, with risks to the downside. In this environment, commodity (export) prices are also likely to meet headwinds, having increased with gusto over the last year or two. Any downbeat news from such international quarters would undoubtedly mark the NZ dollar lower.

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