

**PERFORMANCE OF MANUFACTURING INDEX**

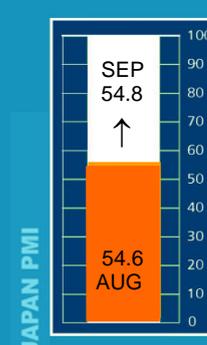
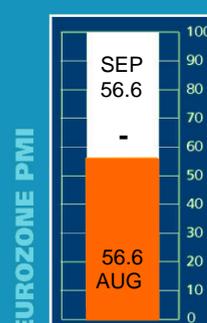
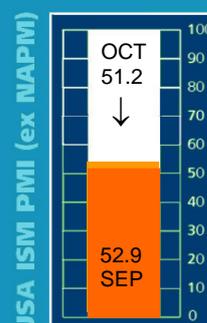
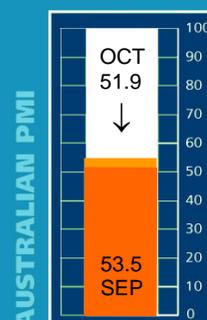
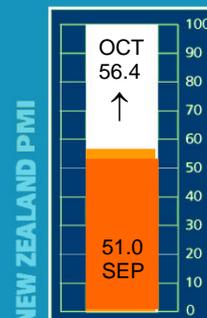
**MANUFACTURING EXPANSION SHOWS GOOD  
LEAD IN TO CHRISTMAS**

**BUSINESS NZ PMI FOR OCTOBER 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 PMI for October showed a healthy level of activity approaching Christmas, despite the increasing value of the New Zealand dollar and a downturn in numbers employed in the sector. The October PMI experienced a strong pick up in expansion to stand at 56.4, up 5.4 points from September and the second highest level of activity since February 2005. October has typically been a good month for activity in the manufacturing sector, with the 2006 result only bettered by those in 2002 and 2003. This October's result is significantly better than that of October 2005 (45.9).
- All regions contributed to the overall expansion, led by Canterbury/Westland (64.7) and Otago/Southland (62.4), with Northern (59.3) and Central (57.8) results also positive.
- All seasonally adjusted main diffusion indexes were in expansion mode for the first time since May 2006. Two particularly good signs are the bounce-back in *production* (57.4) from its 'no-change' result in September, and the important *new orders* (60.4) index showing its second highest result since January 2005.
- The level of expansion varied across industry groups. The *food, beverage & tobacco* sector (68.3) continued to display the highest level of activity, followed by the *petroleum, coal, chemical & associated product* sector (62.4). At the other end of expansion, the *metal product* sector (52.6) showed moderate expansion in October.
- A potential note of caution lies in the *employment* index, which is hovering close to the 50 mark, after a period of slight decline in the previous four months. Statistics NZ's data for the September quarter also shows a decline in manufacturing employment, but on a larger scale. November's PMI should give more indication of whether the decline picked up in both surveys is a positive indicator of improved productivity or a negative one of diminishing confidence within the sector.
- Comments from manufacturers in the October PMI were split fairly evenly between negative (50.5%) and positive (49.5%), with concern over the value of the New Zealand dollar the main issue. Given the strength of the NZ\$ was a key factor for weak activity in the second half of 2005, further increases may potentially put a dampener on results for the last two months of 2006.



## PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for October stood at 57.4, a significant improvement from 49.9 in September and the highest value since May 2006. The 2006 result was only better by values in 2002 and 2003.
- The *food, beverage & tobacco* sector (75.8) produced a stellar result to again exhibit the highest level of expansion for October. The *metal product* sector (50.0) however showed no change for the month.
- All regions showed above-60 results for October, led by the Canterbury/Westland region (67.2). The remaining regions all had very consistent results, ranging between 60.6 and 61.8.

## EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (51.1) for October showed the first increase in activity since May 2006. Results for October have traditionally shown an increase in employment activity, with the 2006 result sitting mid-range compared with the same month in other years.
- Most industries experienced either minor or moderate increases in employment during October. The strongest result was again for the *petroleum, coal, chemical & associated product* sector (57.5), while the *wood & paper product* sector (47.4) experienced a decline.
- The Otago/Southland region (55.6) led the way in terms of employment activity for October, followed by the Northern region (53.2). The remaining regions showed a slight increase in activity.

## NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for October (60.4) continued to remain the highest sub-index value for the month, and higher than the 2004 and 2005 October results.
- The *food, beverage & tobacco* sector (72.6) continued to record strong expansion during October, followed by the *wood & paper product* sector (63.2).
- New orders in the Canterbury/Westland region (71.9) were particularly high, although this tends to be typical of October. The remaining regions all displayed post-60 results.

## FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (53.1) sub-index value for October was the highest result since May 2006, showing moderate expansion. Also, it was the second highest result for an October month.
- The *petroleum, coal, chemical & associated product* sector (61.3) showed healthy expansion in stock levels, while the *wood & paper product* sector (47.4) showed the only decline.
- Finished stocks were in positive territory for all regions except Central (49.0) during October. The remaining regions had levels of expansion ranging from 55.6-59.4.

## DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 57.0 in October, which was the highest result since November 2004.
- The *food, beverage & tobacco* sector (71.0) showed significant expansion in deliveries during October, followed by the *petroleum, coal, chemical & associated product* sector (65.0).
- The Otago/Southland region (69.4) experienced the highest level of expansion during October, closely followed by the Canterbury/Westland region (67.2).

National Indexes	Oct 2003	Oct 2004	Oct 2005	Oct 2006
Business NZ PMI (s.a)	60.9	53.0	45.9	56.4
- Production (s.a)	66.2	54.2	44.1	57.4
- Employment (s.a)	52.6	50.1	45.9	51.1
- New orders (s.a)	66.8	56.4	46.8	60.4
- Finished stocks (s.a)	53.5	51.3	48.9	53.1
- Deliveries (s.a)	57.7	50.9	46.2	57.0

Regional Indexes*	Oct 2003	Oct 2004	Oct 2005	Oct 2006
Business NZ PMI (s.a)	60.9	53.0	45.9	56.4
- Northern	64.2	56.8	48.4	59.3
- Central	64.2	57.7	48.8	57.8
- Canterbury / Westland	75.0	56.0	52.7	64.7
- Otago/Southland	59.7	54.8	54.9	62.4

\*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 (November results): 15 December 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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