

PERFORMANCE OF MANUFACTURING INDEX

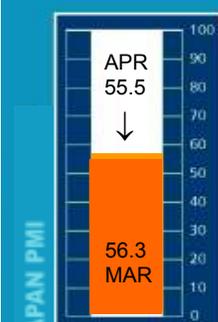
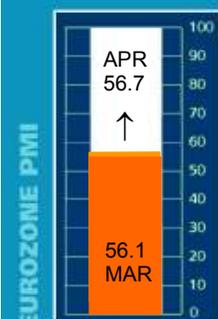
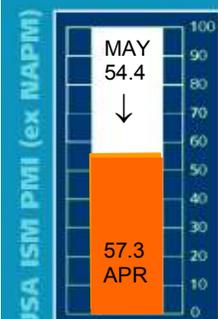
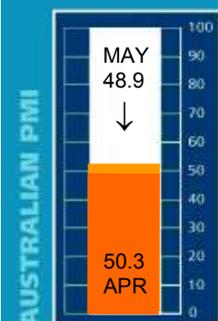
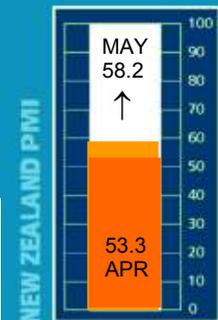
STRONG LIFT IN MANUFACTURING ACTIVITY

BUSINESS NZ PMI FOR MAY 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 experienced a strong lift in May to stand at 58.2, up 4.9 points from April. The 2006 result was the highest since December 2004, which also stood at 58.2. When compared with previous May figures, the 2006 result was higher than 2003, 2004 and 2005.
- Activity by region showed increased activity throughout the country, with particularly strong results for the South Island regions. The Canterbury/Westland result recovered from its worse result in April to show the strongest expansion in May (59.1), closely followed by the Otago/Southland region (58.5). The Northern region (55.1) experienced its highest result since December 2004, while the Central region (52.5) showed moderate expansion.
- All five seasonally adjusted main diffusion indexes again recorded expansion for May 2006, with values for most the highest since late 2004/early 2005. *New orders* (61.1) recorded the highest value for the month, followed by *production* (59.5). Interestingly, *finished stocks* (55.7) recorded its highest value since the survey began in 2002.
- Results by industry groups showed particularly strong results for certain sectors. The *machinery & equipment manufacturing* sector (62.2) showed the strongest expansion for the month, followed by the *food, beverage & tobacco* sector (57.6). The *petroleum, coal, chemical & associated product* sector (50.1) continued to hover around the no change mark.
- Results by firm size showed larger firms rebounding in activity for May, with large firms (101+ workers) (60.4) recording the highest level of expansion for May, followed by medium-large firms (51-100 workers) (58.2). All other firms by size recorded values between 52.3-55.2.
- The month of May confirms a change in fortune for manufacturers, who suffered through a bleak 2005. After positive results for the previous three months, the May 2006 result shows a strong lift in activity, spurred on by strong levels for production and new orders. Although comments from manufacturers were generally more negative (54.5%) than positive (45.5%), the gap has continued to close. The lower value of the New Zealand dollar has been seen as a positive result for most export orientated manufacturers, while there has been a lift in the number of manufacturers commenting about increased overseas orders.



PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for May stood at 59.5, up from 52.4 in April and the highest result since December 2004. The 2006 result was also the highest for May, with previous values ranging between 52.2-58.1.
- The *machinery & equipment* sector (61.7) showed very healthy expansion for May, while *metal product manufacturing* (44.2) was in decline.
- Production in the South Island was particularly high, with the Canterbury/Westland region (65.2) leading the way, followed by the Otago/Southland region (62.0). The Central region (50.9) remained around the level of no change.

EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (53.5) for May was up 1.5 points from April, and the highest value since January 2005. The 2006 result was also the highest recorded for a May month.
- *Machinery & equipment manufacturing* (56.4) led employment movements during May, while the *petroleum, coal, chemical & associated product* sector (43.2) experienced the strongest decline.
- The Canterbury/Westland region (54.5) showed the highest expansion in employment during May, while the Central region (49.1) was the only one to experience a decline.

NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for May (61.1) was well above the April result, and the highest sub-index value for the month. The May 2006 result was also higher than previous May results.
- The *machinery & equipment* sector (72.3) showed significant expansion during May, followed by the *food, beverage & tobacco* sector (59.4). In comparison, the *metal product* sector (44.2) suffered another low result.
- The Otago/Southland region (64.0) continued to show strong expansion in May, while all other regions ranged in value between 57.1-58.4.

FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (55.7) sub-index value for May showed continuing expansion compared with previous months, and the highest value ever recorded for the sub-index.
- The *food, beverage & tobacco* sector (57.8) continued to show expansion in stock levels, while the *metal product sector* (50.0) showed no change.
- Finished stocks in the Central region (46.4) were the only sub-index by region to show any decline for May. All other regions experienced a similar level of expansion.

DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 56.3 in May, which was the highest result for the sub-index since November 2004.
- The *food, beverage & tobacco* sector (60.9) again showed strong expansion in deliveries during May, while the *metal product* sector (43.3) recorded the strongest decline.
- The Canterbury/Westland region (59.1) experienced healthy expansion during May, followed by the Otago/Southland region (56.0).

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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| National Indexes | May 2003 | May 2004 | May 2005 | May 2006 |
|------------------------------|-------------|-------------|-------------|-------------|
| Business NZ PMI (s.a) | 52.4 | 56.9 | 52.1 | 58.2 |
| - Production (s.a) | 52.3 | 58.1 | 52.2 | 59.5 |
| - Employment (s.a) | 50.8 | 52.4 | 49.2 | 53.5 |
| - New orders (s.a) | 52.8 | 60.7 | 53.2 | 61.1 |
| - Finished stocks (s.a) | 53.4 | 51.5 | 51.6 | 55.7 |
| - Deliveries (s.a) | 52.0 | 58.8 | 52.2 | 56.3 |

| Regional Indexes* | May 2003 | May 2004 | May 2005 | May 2006 |
|------------------------------|-------------|-------------|-------------|-------------|
| Business NZ PMI (s.a) | 52.4 | 56.9 | 52.1 | 58.2 |
| - Northern | 47.9 | 55.7 | 49.4 | 55.1 |
| - Central | 50.1 | 52.0 | 50.1 | 52.5 |
| - Canterbury / Westland | 53.4 | 57.3 | 48.9 | 59.1 |
| - Otago/Southland | 51.8 | 51.3 | 46.8 | 58.5 |
| | | | | |

*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 (June results): 14 July 2006