

**PERFORMANCE OF MANUFACTURING INDEX**

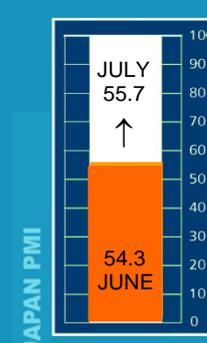
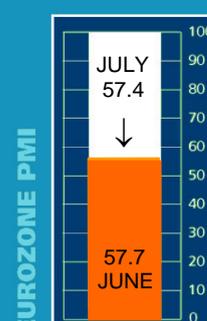
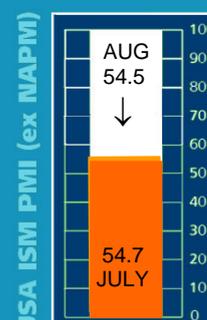
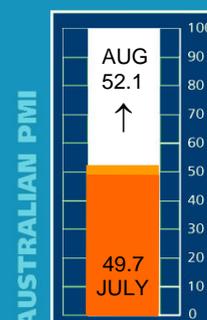
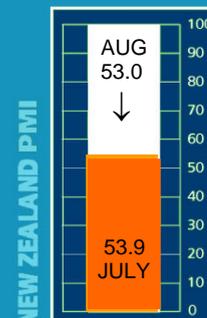
# LITTLE CHANGE IN MANUFACTURING ACTIVITY

## BUSINESS NZ PMI FOR AUGUST 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 for August experienced a small decrease in activity to stand at 53.0, down 0.9 points from July. This continues a series of largely similar, positive results since February. When compared with previous August figures, the 2006 result was mid-range, higher than 2005 but lower than the peak of 2004.
- Activity during August 2006 was positive for all regions, especially in the South Island. Otago/Southland (58.2) again had the highest level of activity, although its value was lower than the previous month for the first time in six months. The Northern, Central and Canterbury/Westland regions all experienced moderate expansion (52.5, 53.5 and 55.7 respectively).
- All five seasonally adjusted main diffusion indexes recorded expansion for August 2006. *New orders* (57.5) again led the way, followed by *production* (53.3). *Employment* (49.2) showed a decline for the third consecutive month, while both *finished stocks* (50.9) and *deliveries* (51.3) showed small levels of expansion.
- By industry group, the month of August showed most industries in moderate to minor expansion. The exceptions were the *petroleum, coal, chemical & associated product* sector (58.1), which showed the strongest expansion for the month, followed closely by the *food, beverage & tobacco* sector (57.1). In contrast, the *wood & paper product* sector (51.3) experienced the smallest increase for the month.
- Results by firm size showed somewhat of a reversal in trends from previous months. Large firms (101+ workers) (47.1) recorded the weakest result for the month after leading the series for the previous four months. Other firms displayed levels of expansion ranging between 54.0-55.0.
- The 2006 August value continues a steady period of results, with strong results for new orders, modest production levels and weak employment activity. The ratio of negative (55.8%) to positive (44.2%) comments was slightly more towards negative than in July, and mainly concerned the recent pick up in the NZ\$, a general slowdown in the economy and the winter weather.



## PRODUCTION

- The seasonally adjusted Business NZ *production* diffusion index for August stood at 53.3, down from 54.8 in July and almost the same level as June. The 2006 result was the second lowest for an August month, with only the 2003 result (48.9) being lower.
- The *food, beverage & tobacco* sector (58.6) showed the highest level of expansion for August, while the *wood & paper product* sector (47.8) was the only sector in decline.
- Production was weaker in the Northern region (51.1) compared with other parts of the country, albeit still showing expansion. The Canterbury/Westland region (57.8) experienced the highest activity level, followed by the Otago/Southland region (56.0).

## EMPLOYMENT

- The seasonally adjusted Business NZ *employment* diffusion index (49.2) for August again showed a decline for the month, down 0.4 points from July. This was also the lowest result for an August month.
- Most industries experienced either a minor increase or decrease in employment during August. The strongest result was for the *petroleum, coal, chemical & associated product* sector (52.6), while the *metal product* sector (43.8) experienced the strongest decline.
- Both the Otago/Southland and Canterbury/Westland regions (50.0) showed no change in employment activity during August, while the Central region (46.0) experienced its lowest result since the start of the year.

## NEW ORDERS

- The seasonally adjusted Business NZ *new orders* diffusion index for August (57.5) continued to remain the highest sub-index value for the month, however both the 2002 and 2004 August results were higher.
- The *metal product* sector (63.4) again showed very strong expansion during August, followed by three other industries with 60+ values.
- The Otago/Southland region (70.0) recorded a fairly similar result to July, while the remaining regions also showed healthy levels of new orders.

## FINISHED STOCKS

- The seasonally adjusted Business NZ *finished stocks* (50.9) sub-index value for August fell from July, although still showing expansion for the month. As in July, the 2006 result for August was the second lowest for an August month.
- The *petroleum, coal, chemical & associated product* sector (62.8) showed strong expansion in stock levels, while the *metal product* sector (50.0) showed no change.
- Finished stocks were in positive territory for all regions except the Central region (44.0) during August. The remaining regions had similar levels of expansion around the 54.0 value.

## DELIVERIES

- The seasonally adjusted Business NZ *deliveries of raw materials* diffusion index stood at 51.3 in August, which was the lowest value since January 2006.
- The *petroleum, coal, chemical & associated product* sector (62.8) showed significant expansion in deliveries during August, while the *machinery & equipment* sector (50.0) showed no change.
- The Central region (48.0) again experienced the only decline during August, while the Northern region (52.4) experienced the highest level of expansion.

National Indexes	Aug 2003	Aug 2004	Aug 2005	Aug 2006
Business NZ PMI (s.a)	51.1	58.0	52.3	53.0
- Production (s.a)	48.9	59.8	53.8	53.3
- Employment (s.a)	51.2	50.6	50.9	49.2
- New orders (s.a)	54.8	62.3	52.1	57.5
- Finished stocks (s.a)	50.6	55.3	51.3	50.9
- Deliveries (s.a)	49.5	59.9	54.6	51.3

Regional Indexes*	Aug 2003	Aug 2004	Aug 2005	Aug 2006
Business NZ PMI (s.a)	51.1	58.0	52.3	53.0
- Northern	52.2	61.1	54.0	52.5
- Central	48.6	55.9	51.3	53.5
- Canterbury / Westland	60.2	59.6	47.6	55.7
- Otago/Southland	53.4	57.5	60.9	58.2

\*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 (September results): 13 October 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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