

Business Update

Special

Economic Survey of Manufacturing

Manufacturing conditions June 2003 quarter

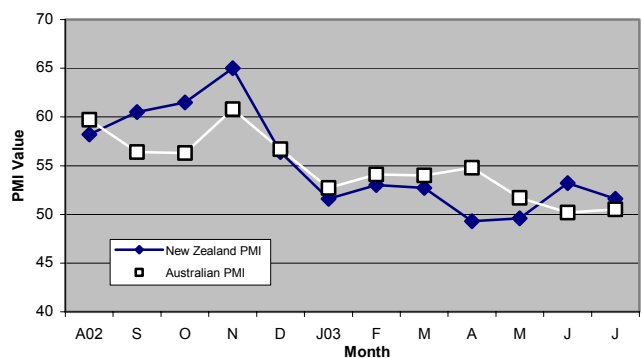
Statistics NZ's Economic Survey of Manufacturing showed seasonally adjusted sales for the June 2003 quarter increasing 0.9%, contradicting market expectations of a 1% fall. Overseas conflict, SARS, and a mini electricity crisis have done less damage than expected, but the sector remains stagnant. The increase was led by *machinery & equipment* though, as this sector is not seasonally adjusted, large changes can influence the total seasonally adjusted sales figure, which happened for this quarter. Removing data for this sector shows seasonally adjusted sales for the other 14 sectors fell 0.4%. Sales were stronger in the June 2001 (4.1%) and 2002 (4.4%) quarters compared with June 2003's 0.9%. But with price movement effects removed, seasonally adjusted sales rose 0.7% over the June 2003 quarter. Over the June year, sales increased 2.8%, compared to a 5.5% rise for the March 2003 year.

Manufacturers serving the domestic sector, especially construction, have been busy; those dependent on exports have found the environment difficult (a reversal of 2001 situation when the tradeables sector was the outstanding performer) because of the \$NZ's rise. Although the \$NZ gains have not been as strong as in previous quarters (the TWI was up 0.9% during the June quarter, compared with 7.2% for the March quarter), its strong showing against major currencies continues to affect profits. Some manufacturers have been shielded by contracting at a fixed \$NZ price or by hedging, but this protection will eventually run out and affect profitability if the value of the \$NZ remains high. The only relief comes from its depreciation against the \$AUS, which has fallen 6.6% since March. The quarterly value of manufacturing exports has continued to fall since the Dec 2002 quarter. BMS (Basic Manufacturing Series) exports (those transformed in some way beyond simple processing) fell 8% over the June quarter, following a 5% fall during the March quarter. ETMs (elaborately transformed manufactures – highly transformed, high value items) grew 11% over the June quarter, in contrast to an 8% fall during the March quarter. Overall, the value of all manufactured exports fell 14% over the June quarter, more than the previous quarter's 12% fall. Over the June 2003 year all manufactured exports fell 11%, compared with a 10% drop during the March year.

Comparison with ANZ-Business NZ PMI

The ANZ-Business NZ Performance of Manufacturing Index shows largely flat activity during April (49.3), May (49.6) and June (53.2), see Graph 1 (values above 50 indicate expansion; distance from 50 indicates strength of expansion). The difference between the highest and lowest PMI value has been only 4.3 points in the first half of 2003. Australia's results were similar, but slightly more buoyant.

Graph 1: ANZ-Business NZ PMI Aug 2002-July 2003



Sales by manufacturing sector

Seven of the 15 industries surveyed had falls in seasonally adjusted sales over the June quarter, compared with 9 industries during the March 2003 quarter and 2 during the June 2002 quarter. *Paper & paper products* had the largest fall (-12.8% or \$90m), exhibiting a downward trend for the third consecutive quarter. Next was *petroleum & industrial chemicals* (-7.8% or \$63m). The *machinery & equipment* sector had the largest quarterly increase (+1.5% or \$196m), largely driven by residential construction. Data for the June year showed 10 sectors increased seasonally adjusted sales. The *beverage, malt & tobacco* sector had the largest increase (+12.8% or \$87m), while *paper & paper products* recorded the largest decline (-16% or \$117m). When results are again adjusted for price movements (see Graph 2), the June 2003 year data show 11 sectors had increases in seasonally adjusted sales, with the largest rise recorded by the *basic metal* sector (+14.6% or \$65m) and the biggest fall by *paper & paper products* (-15% or \$97m).

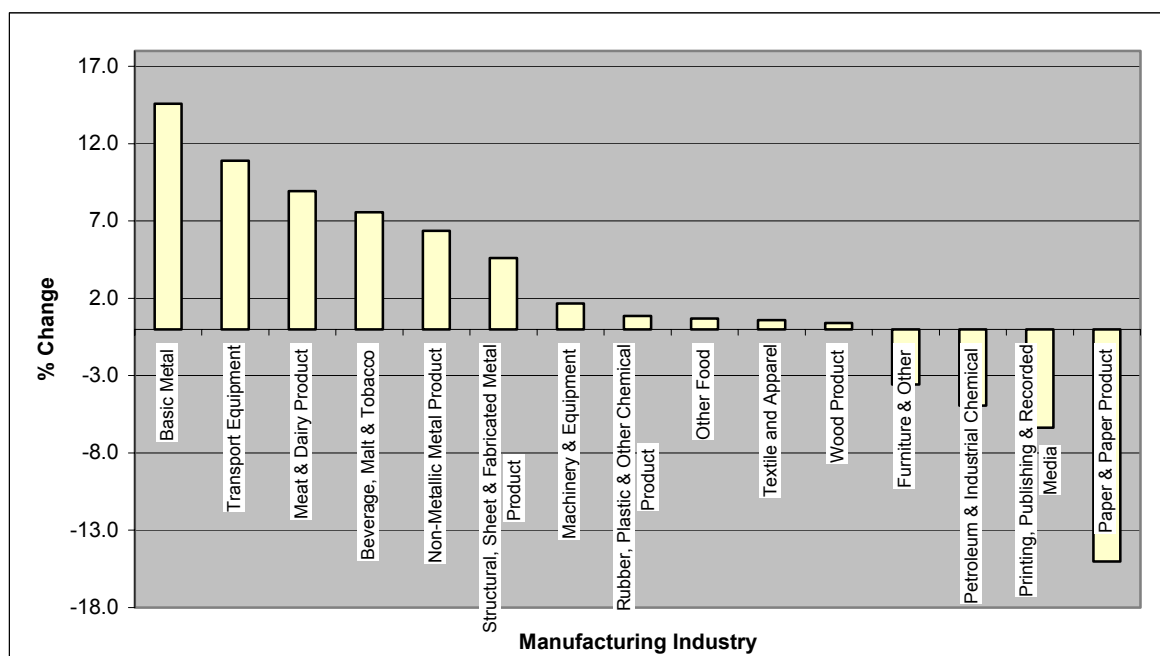
Continued wage and salary increases

Salaries and wages displayed a typical June rebound on a March quarter decline, increasing 6.4% over the quarter to reach \$2,533m. Over the year salaries and wages increased 7.8%, compared with the 2.6% increase for the June 2002 year. By manufacturing sector, the *structural, sheet & fabricated metal product* sector had the biggest increase in remuneration during the June quarter (+18.8%) and *meat & dairy products* had the biggest fall (-4.3%). The *wood product* sector again showed a strong increase – up 15.3% over the June 2003 year, after a 25.4% increase for the March 2003 year.

Other survey data

- The Quarterly Employment Survey showed average manufacturing earnings were \$18.94 per hour, up 1.6% over the May quarter, and up 3% over the May year.
- The PMI showed employment activity contracting in April (49.1) and May (48.8) but growing in June (52.6).
- The Household Labour Force Survey showed numbers employed in manufacturing were largely unchanged from the March to June quarters. Over the year employee numbers were down 11,400 or 3.9%. Manufacturing employs 14.8% of the NZ workforce, compared with 15.7% in the June 2002 quarter.

Graph 2: Annual June percentage change in seasonally adjusted sales using Dec 1997 quarter prices



Raw materials rise, finished stocks fall

The value of raw materials was \$2,655m for the June 2002 quarter, up 2.3% over the quarter and 1.7% over the year. Finished stocks were down 4.5% over the quarter, but up 36.9% over the year (largely due to restructuring in the *meat & dairy* sector). Eight manufacturing groups ran down their stock of raw materials; the same number did the same with finished stocks. The PMI showed deliveries of raw materials expanding only slightly, with values of 50.0, 50.3 and 54.6 from April to June. Data on finished stocks was almost unchanged for the first two months of the quarter (50.0 & 50.3), but picked up slightly during June (54.6).

Purchases and operating expenditure rise

After a 4.4% drop during the March quarter, the June quarter saw a rise in purchases and operating expenditure (+3.4%), as well as an increase over the year (+3.5%). *Machinery & equipment* had the largest quarterly increase (+12.1%) and *paper & paper products* the largest decline (-6.1%). Over the year the largest rise was for the *beverage, malt & tobacco* sector (+22.3%) and the largest fall was also for *paper & paper products* (-11.2%).

Contact: Stephen Summers ssummers@businessnz.org.nz