

Business Update

Special

Economic Survey of Manufacturing

Manufacturing conditions - June 2004 quarter

Seasonally adjusted sales during the June quarter were stronger than predicted, according to Statistics NZ's Economic Survey of Manufacturing. Sales increased 2.5% over the Dec quarter, following a slight dip from the 3.2% increase for the March quarter, but on par with the 2.5% increase for the Dec 2003 quarter. The 2004 figure was up on the June 2003 quarter (+1.4%), but lower than June 2002 (+4.8%). With the effects of price movements taken out, seasonally adjusted sales for the June quarter were 0.9%, following March and Dec increases of 2.1% and 2.9%. Comparing the June 2004 and June 2003 quarters, 2003 sales were higher at 1.7%.

NZ\$ key to manufacturing fortunes

Manufacturing has fared well in recent quarters, and with the Reserve Bank pushing back a predicted slow-down, it may be a soft landing over the next 1-2 years. During 2003 and early 2004 there was much comment on 'a tale of two economies', with firms geared to the export market suffering from the weak world economy, lower commodity prices and the appreciating NZ\$, while firms geared to the domestic market enjoyed healthy sales.

But the picture is changing: the global economy is gathering modest momentum which will drive demand for increased exports, while the domestic sector may dissipate as migration slows and house prices cool: the future strength of the NZ\$ will help determine how exporters will fare. Over the June quarter the NZ\$ fell 2.6% against the TWI and 5.5% against the US\$ but rose 4.6% against the AUS\$. Since the June quarter the NZ\$ has appreciated against the major currencies and is currently close to A\$0.95, the highest post-float point since the record high in 1995. If NZ's interest rates keep increasing and Australia's remain on hold, further strengthening of the NZ\$ against the A\$ may continue for some time, conceivably leading to parity. Given that Australia is NZ's top export destination, this will impact on NZ exporters' bottom line.

Labour shortages still intractable

The latest ANZ-Business NZ Performance of Manufacturing Index shows there are still problems gaining skilled or unskilled labour, and record low unemployment and falling migrant numbers makes early resolution unlikely; some firms are struggling to fill new orders or explore new product ranges.

Manufacturing value increasing

The June quarterly value of manufactured exports recorded an increase, against the trend of the last few years. The value of manufactured exports rose 11.4% over the June quarter, higher than that in the Dec (+9.5%) and March (+3.3%) quarters. Over the June 2004 year, manufactured exports rose 3%, increasing their share of total exports from 88.2% to 88.8% when comparing the June 2003 and 2004 quarters. Basic Manufacturing Sector (BMS) exports (those transformed beyond simple processing) rose 2.7% over the June quarter, in contrast to the 0.8% and 2% falls during the Dec and March quarters. Elaborately Transformed Manufactures (ETMs) exports (substantially transformed, high value-added items) rose 25.4% over the June quarter, compared with decreases in the March (-11%) and Dec (-6.5%) quarters. ETM exporters tend to be price makers not takers because of their specialised processes and niche positioning, protecting them somewhat against exchange rate movements.

PMI scores picking up

The ANZ-Business NZ Performance of Manufacturing Index shows high values for April (64.6), May (64.4) and June (54.0), better than the March quarter and than at the same times in 2003. Activity was modest for the first two quarters of 2003 but picked up later in the year. 2004 results show more activity, but the NZ PMI has not been going long enough to allow for seasonal adjustment, so some months (e.g. Nov) will have higher values because of unsmoothed data. NZ's PMI scores continue to follow Australia's (though Australia's data is seasonally adjusted), with the level of expansion showing some contrast over the last few months.

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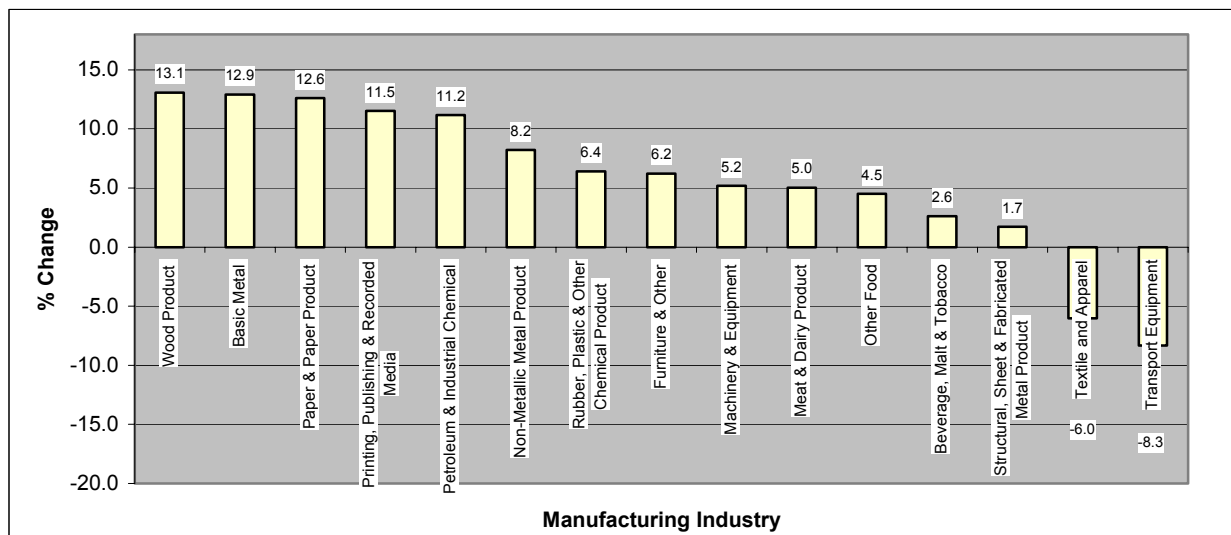
Manufacturing compliance costs

The 2004 Business NZ-KPMG Compliance Survey showed tax and health & safety as the top issues for manufacturing, followed by ACC and employment law. Overall costs were lower in 2004 than 2003, although several law changes with compliance implications had not taken effect by the time of the 2004 survey and can be expected to show up in the 2005 survey. Manufacturers saw average costs fall from \$51,169 in 2003 to \$26,439 in 2004, equating to \$771 per employee in 2003, and \$574 in 2004.

Sector sales promising

Eight of the 15 industries surveyed had higher seasonally adjusted sales than the June 2003 quarter, led by the *basic metal* (+17.7%), and *petroleum & industrial chemical* (+8.2%) sectors, while *structural, sheet & fabricated metals* (-5.5%) and *transport equipment* (-5.1%) declined most. With results adjusted for price movements (see graph), 13 of the 15 storetypes increased seasonally adjusted sales over the June 2003 quarter, led by *wood products* (+13.1%). The largest fall was for *transport* (-8.3%).

Annual June quarter % change in seasonally adjusted sales (Dec 1997 quarter prices)



Pay levels increasing

Manufacturing salaries and wages rose 5.7% or \$149m over the June 2004 quarter, compared with 6.4% in both the June 2003 and 2002 quarters. Over the June 2004 year pay levels grew 8.3%, following increases of 9.0% and 7.3% for the March and Dec years.

Raw materials up, finished stocks down

The value of raw materials was \$2,763m for the June 2004 quarter, up 6.6% over the quarter and 3.9% over the year. But finished stocks were down 5% over the quarter and static over the year, similar to 2003. Results for the PMI mirror those of the ESM, with finished stocks contracting for

two of the three months with values of 48.4, 48.4 and 55.8 and deliveries of raw materials expanding, with values of 55.8, 52.2 and 61.4 April - June.

Purchases & operating spend grows

There was an increase in purchases and operating spending over the June quarter (+7.2%), led by *petroleum & industrial chemicals* (+23.3%) and *furniture & other* (+12.2%). Over the year *meat & dairy products* had the greatest increase (+20.2%) while *textiles & apparel* had the largest fall (-14.4%).

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