Business Special Update

Economic Survey of Manufacturing

March 2005 quarter

Overall, 2004 was a good year for manufacturing Sales were strong in the first half of 2004, while employment rose. Manufacturing exports climbed, especially ETMs ('elaborately transformed manufactures', the more profitable 'value added' goods). However, recent data has shown that the economy is slowing, including the manufacturing sector.

Sales up in March 2005 quarter Seasonally adjusted sales increased 2.9% during the March quarter compared with the Dec quarter, twice as high as many predicted. The 2005 March quarter results were better than the March 2004 (+2.1%) and March 2003 (–1.7%) quarters.

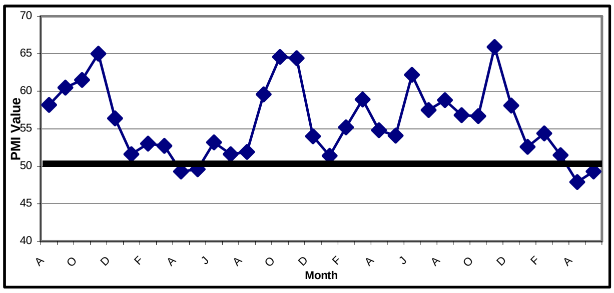
Meat & dairy products the price leaders With price movement effects removed, seasonally adjusted sales for the March quarter were up 1%, following falls in the Dec (–1.1%) and Sept (–2.6%) quarters. The March 2005 quarter was weaker than March 2004's (+1.6%), but stronger than the March 2003's (-1.7%). Recent growth in sales of manufactured goods has been led by *meat & dairy products*; excluding this sector shows seasonally adjusted real manufacturing prices falling 1.5%.

High NZ$ still a problem The continued strength of the NZ$ has shrunk exporters' profits. Over the March quarter the NZ$ rose 1.2% against the trade weighted index, fell 1.4% against the US$ and was relatively unchanged against the Aus$. Since the March quarter it has appreciated against other major currencies, and still hovers above the important US70c mark. This will lessen the risk of further interest rate hikes. NZ's trading partners have been increasing their own official rates recently, so the disparity between NZ and the rest has lessened, although NZ still leads the group. If this pattern continues, demand for the NZ$ should weaken, although a sustained depreciation will depend on demand for agricultural goods and whether inflation persists, causing a rise in interest rates.

Export values rising Manufacturing export values rose 4% over the March quarter, less than increases in the Dec and Sept 2004 quarters. Over the March 2005 year all manufactured exports rose 9%, increasing manufacturing's share of total exports from 88.8% to 89.1%. BMS exports ('basic manufacturing sector' - goods that have been transformed in some way beyond simple processing) were up 7%, and ETM exports were up 8% on the March 2004 quarter. But monthly data show BMS values falling during 2003, rising during 2004, and leveling off in early 2005, just above the $13m mark. ETM exports have also leveled off after 2004's growth, but they did not fall in 2003, so their share of manufactured exports has grown over recent years.

ANZ-Business NZ PMI PMI ('performance of manufacturing index') 2005 values for Jan (52.6[1]), Feb (54.4) and March (51.5) were generally lower than 2004's first quarter, but similar to 2003's. Figures for April and May help confirm that 2004 was a good year for manufacturing activity, and that the high NZ$ has brought the worst activity levels during April and May since the survey began. The June-July results will be revealing, as these months typically record a pick-up in activity from the start of the year.

Graph 1: PMI Aug 2002 – May 2005



[1] *A PMI reading above 50 indicates manufacturing is expanding; below 50, that it is declining*

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ESM sales by manufacturing sectors Nine of the 15 industries observed had increases in seasonally adjusted sales in the March 2005 compared with the Dec 2004 quarter. The *basic metal* sector had the largest percentage rise (+16.2% or $84m), followed by *meat & dairy* (+13.9% or $560m). *Transport equipment* had the largest quarterly fall (-11.9% or $63m), followed by *machinery & equipment* (-9.4% or $134m).

Comparing results from March 2004 to 2005 shows 11 of the 15 sectors had higher seasonally adjusted sales. *Petroleum & industrial chemicals* (+19.3%) led the way, followed by the *basic metal* sector (+13.8%). *Wood products* had the biggest fall (- 8.7%).

With results adjusted for price movements (see graph 2), 8 of the 15 sectors had increases in seasonally adjusted sales compared with the March 2004 quarter, led by *petroleum & industrial chemicals* (+ 13.9%), with the largest fall being *wood products* (- 9.4%).

ESM salary & wage increases Manufacturing pay fell 2.9% or $79m in the March 2005 quarter. Over the March 2005 year pay increased 3.6%, down from the 9% growth in the March 2004 year. Pay in the *meat & dairy products* sector had the highest increase during the March quarter (+16.9% or $68m), and *petroleum & industrial chemicals* had the biggest fall (-18%, or $15m). *Non-metallic mineral products* had the highest yearly increase, (+14.3% or $11m) from March 2004 to 2005 while *petroleum & industrial chemicals* also had the biggest fall in the March year (-6.4% or $5m).

Manufacturing employment, other surveys

- The Quarterly Employment Survey for the March 2005 quarter showed average manufacturing pay was $19.58 per hour, up 0.6% over the quarter, and up 2.7% over the year. This compares with 1.5% for the quarter and 3.6% for the year for all industries combined. Of the 15 industries observed, manufacturing continues to slip downwards, now ranked 12th for average hourly earnings, compared with 11th in the March 2004 quarter.
- The Household Labour Force Survey for the March 2005 quarter showed those in the manufacturing sector fell by 1,900 from the Dec 2004 quarter to reach 291,400, the second consecutive quarterly drop. Manufacturing's share of jobs fell from 14.5% to 14.2% from the March 2004 to the March 2005 quarter.
- The PMI showed employment activity largely unchanged in the March quarter (PMI figures of 52.4, 50.6 and 49.0), although May's PMI (47.2) was the lowest since the PMI began in late 2002.

Raw materials up, finished stocks down
The value of raw materials was $2,980m for the March 2005 quarter, up 2.8% over the quarter and 15% over the year. Finished stocks were up 9.2% over the quarter and 5.1% over the year. The increase in finished stocks follows a rise of 7.3% for the Dec 2004 year. The largest value increase in finished stocks over the year was for in *meat & dairy products*, up $91m, or 3.2%. PMI results in the March 2005 quarter showed finished stocks values between 48.6 and 51.5, and the value of raw materials delivered between 50.9 and 54.7.

Purchases and operating expenditure increase
The March quarter recorded a small increase in purchases and operating expenditure (+0.2%), as well as a rise over the year (+5.2%). Only 3 of the 15 industry groups experienced a rise in such expenditure, however the strong increase for meat & dairy products (+23.5% or $831m) brought the quarterly change into positive territory.

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