

PERFORMANCE OF MANUFACTURING INDEX



November nosedive for manufacturing activity

Bank of New Zealand - Business NZ PMI for November 2008

- The Bank of New Zealand - Business NZ seasonally adjusted PMI for November (35.4) slipped 7.9 points from October and was again the lowest recorded value since the survey began in 2002. It was also the first time the main series value had recorded a sub-40 result. The significant fall mirrors offshore activity levels, and was the seventh consecutive month of contraction for the sector.
- All five seasonally adjusted main diffusion indices were in contraction, with four recording their lowest result to date. *Production* (29.3) experienced a significant fall to post its first sub-30 result, while *employment* (39.9) dropped back to under 40. *New orders* (35.0) fell during November while *deliveries of raw materials* (37.2) experienced its third consecutive fall. *Finished stocks* (47.3) remained largely unchanged from October, although still in contraction.
- Unadjusted activity for November showed weakness in activity spread through most of the country. For the North Island, the Northern region (41.6) produced its lowest result to date, while the Central region (43.8) slid down from October's value. In the South Island, the Canterbury/Westland region (43.4) dropped to its second lowest result recorded (the lowest being June 2008). The Otago/Southland region (51.6) bucked the trend somewhat with another month of expansion, although this was still down on October's result.
- Results for the various manufacturing industries displayed contraction across most sub-groups. The *textile, clothing, footwear & leather manufacturing* sector (33.2) was the hardest hit, while three other sub-groups all displayed figures in a tight range between 43.4-43.5. The *machinery & equipment* sector (45.3) fell from October, while on a positive note the *food, beverage & tobacco* sector (56.3) continued to show expansion.
- The slide in local manufacturing activity comes at a time when record lows are also being recorded internationally. The JPMorgan Global PMI for November (36.4) continued to show worldwide manufacturing suffering its sharpest contraction since the composite survey began in 1998. Both the Australian PMI (32.7) and USA PMI (36.2) are also experiencing values well below 40, with production falling at a significant pace.
- The further fall in activity mirrored the increase in the proportion of negative comments made by respondents during November (sitting at 68.4%), compared with October (67.0%), September (64.3%) and August (68.3%). Those with negative comments outlined that orders were continuing to fall along with an overall slowdown in the market.

The Bank of New Zealand - Business NZ Performance of Manufacturing Index is a monthly survey of the manufacturing sector providing an early indicator of activity levels. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

HIGHLIGHTS

Seasonally-adjusted PMI at its lowest ever value of 35.4.

All five main indices showed ongoing contraction, with four recording their lowest ever results.

Regional activity continues to show contraction across most of the country.

The food, beverage & tobacco sector was the only sub-group showing expansion in November.

The global manufacturing scene continues to worsen, with other countries also showing sub-40 results.

Next Business NZ PMI:

January 22, 2009

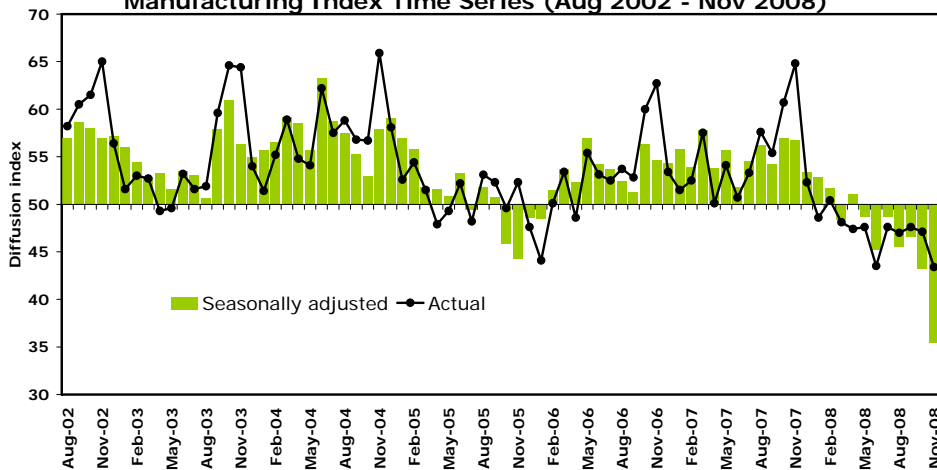
SPONSOR STATEMENT

Bank of New Zealand is delighted to be associated with the Performance of Manufacturing Index (PMI) and Business NZ. This association brings together the significant experience of leading business advocacy body Business NZ, and business finance specialist BNZ. We look forward to continuing our association with Business NZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand manufacturing sector.

Bank of New Zealand (www.bnz.co.nz)

PERFORMANCE OF MANUFACTURING INDEX

Bank of New Zealand - Business NZ Performance of Manufacturing Index Time Series (Aug 2002 - Nov 2008)



November time series tables

National Indexes	Nov 2002	Nov 2003	Nov 2004	Nov 2005	Nov 2006	Nov 2007	Nov 2008
Bank of New Zealand - Business NZ PMI (s.a)	57.0	56.4	57.9	44.3	54.7	56.8	35.4
Production (s.a)	59.5	56.3	58.8	43.2	57.6	58.3	29.3
Employment (s.a)	52.9	56.4	53.5	46.8	50.8	57.1	39.9
New Orders (s.a)	60.6	60.5	61.4	44.2	56.8	59.1	35.0
Finished Stocks (s.a)	51.7	46.7	54.8	49.3	54.2	53.1	47.3
Deliveries (s.a)	57.2	57.5	60.4	43.5	55.7	56.7	37.2

National Indexes	Nov 2002	Nov 2003	Nov 2004	Nov 2005	Nov 2006	Nov 2007	Nov 2008
Bank of New Zealand - Business NZ PMI (s.a)	57.0	56.4	57.9	44.3	54.7	56.8	35.4
Northern	65.4	61.3	68.0	50.7	63.1	59.7	41.6
Central	67.1	63.2	62.2	57.7	61.5	63.1	43.8
Canterbury/Westland	58.8	69.1	61.0	54.3	64.3	71.8	43.4
Otago/Southland	65.2	73.4	67.9	46.5	61.8	70.2	51.6

(s.a denotes seasonally adjusted)

The Bank of New Zealand - Business NZ PMI contains data obtained through Business NZ's 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.

Worst of All Worlds

- More pain ahead
- As global growth slumps
- And domestic demand wilts
- But it's not the end of the world
- Hang in there for 2010

The New Zealand economy is now entering the second stage of this protracted, though, so far, relatively shallow, recession. The first stage down was led by the long overdue correction in the housing market. This fed through into the building sector and household spending more generally. The whole process was then exacerbated by the arrival of the global credit crunch.

Phase two is, in the first instance, being driven by international events. The weighted average growth rate of our trading partners is falling rapidly and looks set to plumb the lows last seen in the early 1980s. This has resulted in a sharp fall in commodity prices which our dairy sector has been unable to escape. In addition, slumping disposable income growth elsewhere is leading to downward pressure on manufactured exports and a significant drop in tourism inflows. Not surprisingly, investment activity is now taking a hit and the unemployment rate is rising rapidly.

This is a worst of all worlds scenario for the domestic manufacturing sector. Not only are exports being clobbered by falling global demand but the reduction in local retail spending and plant and machinery investment are dealing additional blows. Alas, with more of the same to play out, it is difficult to see things improving substantially any time soon.

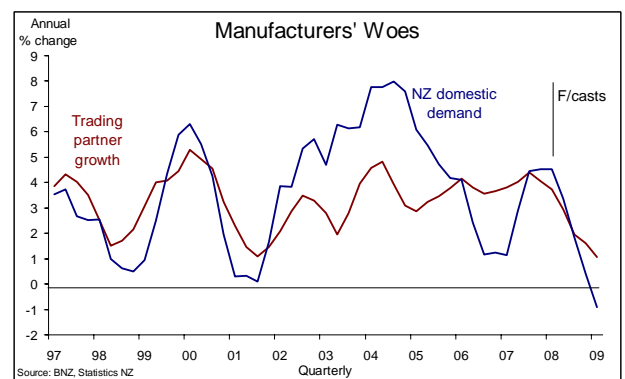
Notwithstanding all this, we maintain our view that Armageddon is not nigh:

- tax cuts are bolstering household incomes;
- falling petrol prices are providing a boost to overall spending and reducing producer input costs;
- inflation is set to fall rapidly;
- interest rates have been slashed and will fall further;
- substantial infrastructure spending is on its way;

- the NZD has fallen, providing a fillip to export earnings;
- capacity utilisation remains at historically high levels suggesting that investment will not collapse;
- the nastiest part of the residential construction slump is probably behind us;
- the unemployment rate looks like it will remain relatively well contained but sufficiently high to restrain rising wage costs and make it easier to find staff; and
- the slump in global growth is already largely captured in our forecasts.

While Armageddon can be averted, there is no doubt in our minds that calendar 2009 will be at least as difficult as 2008. For many it will simply be a matter of survival. To put this in perspective, we are forecasting GDP growth of just 0.6% for the year ahead, unchanged on 2008 but the risks are definitely to the downside.

By 2010 some normality will hopefully return with forecast growth of 3.6% anticipated. As in any downturn, there will always be pockets of strength. This downturn is no different with industries exposed to infrastructure spending particularly well placed. Nonetheless, for many, the next twelve months will simply be a matter of survival with today's survey confirming just how tough things have become.



stephen_toplis@bnz.co.nz

Contact Details

Bank of New Zealand Research



Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Markets Economist
+(64 4) 474 6799

Mark Walton
Markets Economist
+(64 4) 474 6923

Danica Hampton
Currency Strategist
+(64 4) 472 4767

Main Offices

Wellington
1 Willis Street
PO Box 2392
Wellington
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
125 Queen Street
PO Box 2139
Auckland
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
129 Hereford Street
PO Box 1461
Christchurch
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

NAB/nabCapital Research



Peter Jolly
Head of Research
+(61 2) 9295 1199

Alan Oster
Group Chief Economist
+(61 3) 8641 3464

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Contact Phone Numbers

Wellington
Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney
Foreign Exchange +800 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London
Foreign Exchange +800 333 00 333
Fixed Income/Derivatives +(44 20) 7796 4761

New York
Foreign Exchange +1800 125 602
Fixed Income/Derivatives +1877 377 5480

Hong Kong
Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

24 HOUR FOREIGN EXCHANGE SERVICE

Phone Toll Free 6am to 10pm NZT – Wellington Office
0800 739 707 10pm to 6am NZT – London Office – Olivia Core

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division which is part of nabCapital a division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of the National), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither the Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabCapital Securities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabCapital Securities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabCapital Securities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

