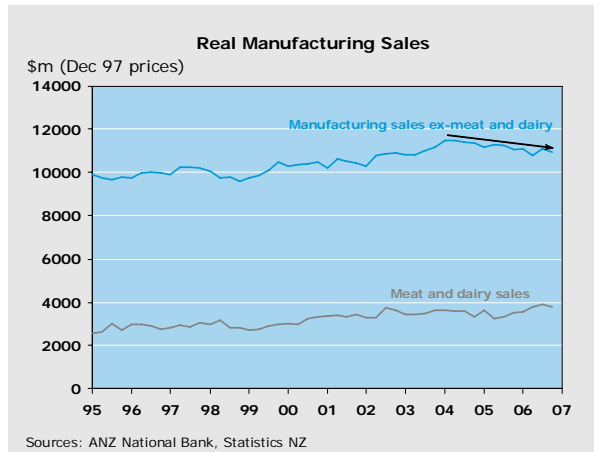
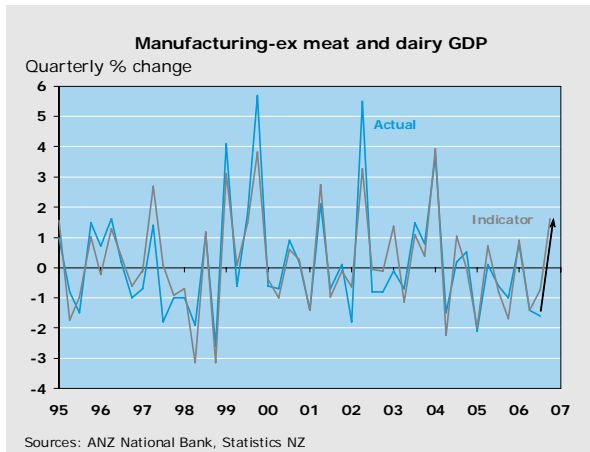


ECONOMIC SURVEY OF MANUFACTURING – DECEMBER QUARTER 2006

Key points

- Manufacturing sales were weak in the December quarter, dragged down by falls in meat and dairy sales.
- The fall in headline sales masks a strong rebound in manufacturing production, which we estimate will add 0.2 percentage points to Q4 GDP growth.
- Today's data has allowed us to firm up our estimate for December quarter GDP, which we forecast to have expanded by 1.0 percent in the quarter. This is similar to the Reserve Bank's March *Monetary Policy Statement* forecast.

	Quarterly	Annual
Manufacturing sales (Nominal)	-2.2% q/q	4.8% y/y
Manufacturing sales (Real)	-2.1% q/q	0.9% y/y



Assessment and implications

Total manufacturing sales fell 2.2 percent in nominal terms and are down 2.1 percent in real terms, driven by a fall in meat and dairy sales. The 6.3 percent decline in meat and dairy sales (3.8 percent decline in real terms) comes after five consecutive quarters of increases, and reflects a partial pullback rather than a sign of softness in demand. Excluding meat and dairy products, manufacturing sales fell by a more modest 0.6 percent in the December quarter. Real manufacturing sales ex-meat and dairy have been trending downwards since early 2004, with the high level of the NZD having an effect. The exporting of meat and dairy products out of stocks, which was the theme of the past two quarters, looks to have slowed in December with sales remaining subdued but stock levels rebounding strongly.

Despite weakness in the headline sales number, manufacturing production was strong in the December quarter. A rise in stocks levels point to a strong rebound in manufacturing production, and will contribute to a rebound in inventories after a large drawdown in the September quarter. We estimate that manufacturing ex-primary GDP expanded by 1.5 percent in the quarter and will contribute 0.2 percentage points to Q4 GDP.

Today's data is the final piece of the jigsaw for Q4 GDP. We are comfortable with our forecast of 1.0 percent growth in the quarter, similar to the Reserve Bank's March *Monetary Policy Statement* forecast. The monetary policy implications from today's release are limited. The Reserve Bank's focus is towards renewed momentum in domestic demand, specifically the housing market, and whether this will be sustained. In this regard, the REINZ February housing market report due later this week and the next National Bank *Business Outlook* due at the end of the month will be key.

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