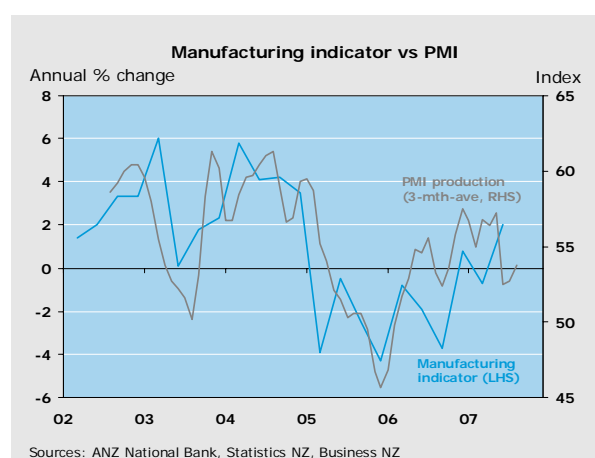


ECONOMIC SURVEY OF MANUFACTURING – JUNE QTR 2007

Key points

- Both real and nominal manufacturing sales rose by 1.7 percent in the June quarter.
- Basic metal and wood product manufacturing led the increase, while primary food manufacturing sales declined.
- After adjusting for stock movements, we estimate that manufacturing production volumes rose by a stronger than expected 1 percent. This poses a slight upside risk to our June quarter GDP estimate of 0.5 percent.

	Manufacturing sales (real, s.a.)		Manufacturing sales (nominal, s.a.)	
	q/q	y/y	q/q	y/y
Jun-05	-1.9	-3.5	-2.5	-0.4
Sep-05	0.1	-2.9	1.6	1.1
Dec-05	0.3	-1.0	0.6	2.5
Mar-06	0.2	-1.4	1.3	0.8
Jun-06	1.1	1.9	3.6	7.6
Sep-06	1.1	2.0	2.1	7.0
Dec-06	-1.9	0.6	-2.2	4.8
Mar-07	0.4	0.8	0.8	4.3
Jun-07	1.7	1.3	1.7	2.3

**Assessment and implications**

Total manufacturing sales increased in the June quarter by 1.7 percent, following a 0.8 percent increase in the March quarter. In real terms, total manufacturing sales also rose by 1.7 percent, indicating that prices were unchanged in the quarter. After recording the largest increase in sales in the March quarter, meat and dairy product manufacturing recorded the largest fall in the June quarter (down \$55 million). If this is removed, manufacturing sales rose by a stronger 2.7 percent (2.4 percent in real terms). The largest contributions to the increase in manufacturing sales in the quarter came from basic metal manufacturing (up \$78 million) and wood product manufacturing (up \$76 million).

On a production basis, taking into account stock movements, we estimate that manufacturing production volumes rose by 1 percent in the quarter. If translated into the GDP accounts (due on 28 September), this will be the second consecutive quarterly expansion in the manufacturing sector following contractions throughout most of 2006. While manufacturing production looks to have recovered in the first half of this year, in line with the Business NZ PMI readings, this momentum does not look likely to be sustained. The PMI suggests that annual manufacturing production will remain flat towards the end of the year.

Strong demand from global growth looks to be offsetting the high NZD. While the high level of the NZD has put the manufacturing sector under pressure by reducing export competitiveness and forcing domestic producers to compete with cheaper imported alternatives, overall demand for New Zealand's manufacturing products remain strong courtesy of solid global growth. With half of New Zealand's manufactured exports sold across the Tasman, strong Australian economic growth over the first half of this year has translated through into strong manufacturing export volumes. Though the recent decline in the NZD will benefit manufacturing exporters, how recent financial market turbulence impacts on global growth remains a key source of uncertainty.

On balance, today's data provides a slight upside risk to our June quarter GDP growth estimate of 0.5 percent. Today's manufacturing survey is the final partial indicator of June quarter GDP. On the face of it, it was slightly stronger than what we were expecting, but not material enough for us to alter our forecast. On the expenditure GDP side, stocks are expected to make a strong positive contribution to growth in the quarter, offsetting flat private consumption and a negative contribution from net exports.

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ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-802 2024
<http://www.anz.com/nz> e-mail ecnmcs@anz.com