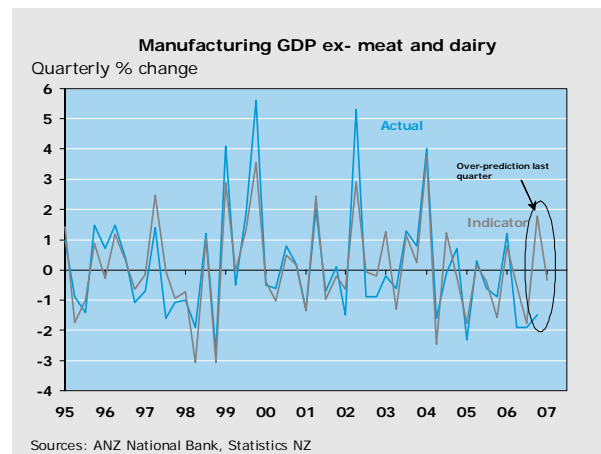


ECONOMIC SURVEY OF MANUFACTURING – MARCH QUARTER 2007

Key points

- **Manufacturing sales rebounded in the March quarter, growing by 0.8 percent. In real terms, sales increased by 0.3 percent.**
- **Real seasonally adjusted manufacturing production (which takes into account stock rebuilding), does not look to have been as strong as the headline sales figure suggests. We expect manufacturing ex-primary food production to make a flat contribution to GDP growth in the March quarter.**
- **On the face of it, today's data was not quite as strong as we were expecting, and will therefore cap some of the potential upside risk to Q1 GDP. However, we remain comfortable with our estimate of 1 percent growth in the quarter.**

	Manufacturing sales (real, s.a.)		Manufacturing sales (nominal, s.a.)	
	q/q	y/y	q/q	y/y
Mar-05	0.5	-1.8	2.9	3.6
Jun-05	-1.8	-3.5	-2.4	-0.2
Sep-05	0	-2.9	1.5	1.1
Dec-05	0.3	-1.0	0.6	2.5
Mar-06	0.1	-1.4	1.3	0.9
Jun-06	1.6	2.1	3.8	7.3
Sep-06	1.0	2.2	1.9	7.8
Dec-06	-1.9	0.8	-2.2	4.7
Mar-07	0.3	1.1	0.8	4.2



Assessment and implications

Manufacturing sales showed modest growth in the March quarter. Total manufacturing sales rose 0.8 percent in the quarter after a fall of 1.9 percent in the December quarter. In real terms, total manufacturing sales also rebounded, up 0.3 percent after a 2.2 percent fall in the previous quarter. Meat and dairy product manufacturing made the largest contribution to the quarterly increase in sales (up \$102 million). If this is removed, manufacturing sales rose by a more modest 0.3 percent. Machinery and equipment manufacturing (up \$70 million) also made a significant contribution to the increase, while transport equipment manufacturing recorded the largest fall in sales in the quarter (down \$88 million). Real seasonally adjusted manufacturing production (which takes into account stock rebuilding), does not look to have been as strong as the headline suggests. We expect manufacturing ex-primary food production to make a flat contribution to GDP growth in the March quarter.

Primary food manufacturing continues to outperform, while forestry was weak. Meat and dairy product manufacturing continues to make large contributions to total economy-wide manufacturing. Annual growth in this sector is still running at 7.6 percent. Also of note, was the fact that most non-commodity manufacturing sectors recorded a lift in sales in the March quarter, despite the high currency. This is possibly a result of the fact that most of New Zealand's manufactured goods head across the Tasman, and the NZD/AUD has not increased as much as the NZD/USD has over recent times. Of reasonable surprise in today's data, was the fact that all manufacturing industries aligned to the forestry sector recorded falls in sales in the quarter. World forestry prices have begun to increase after a period of low prices, and we would have expected this to begin to feed into increased production. But it is likely that there is some timing issues involved here and therefore the impact of this may not be felt till later in the year.

Today's data looks to have capped some of the upside risk to Q1 GDP. This is the final piece of the jigsaw puzzle for Q1 GDP. On the face of it, today's data was not quite as strong as we were expecting, and will therefore cap some of the potential upside risk to Q1 GDP. However, we remain comfortable with our estimate of 1 percent growth in the quarter.

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