



DHL Export Barometer Australian Export Trends

Exporters to gain from world economic recovery

Australia has received a lot of good economic news lately. Forecasts from both the private sector and official sources – most recently the International Monetary Fund (IMF) – indicate that the world economy may well be improving. This bodes well for Australian exporters, who, for the past year, have been the missing piece of the jigsaw in an otherwise pretty healthy Australian economic picture. They have been saddled down by slow growth in our major trading partners, security concerns in the Middle East, SARS, the drought and of course, a strengthening Australian currency.

However, new economic data points to better times ahead for Australian exporters. More importantly, Australian exporters themselves are confident about their prospects over the next 12 months. They have kept their chins up and have coped well with the difficult external pressures – particularly with a strong dollar – and remain relatively bullish about market conditions.

This is one of the key findings of the second bi-annual DHL Export Barometer – findings that are in keeping with a more buoyant world economy. Across industry sectors, states and territories, and a range of market destinations, Australian exporters are an optimistic crowd. Furthermore, they see exporting as a long-term process that requires investment and a ‘fair dinkum’ commitment to stay in the market in good times and in bad. Let’s hope that the DHL Export Barometer will continue to bring good news and therefore reward the faith shown by our committed Australian exporters when we next report in November 2004.

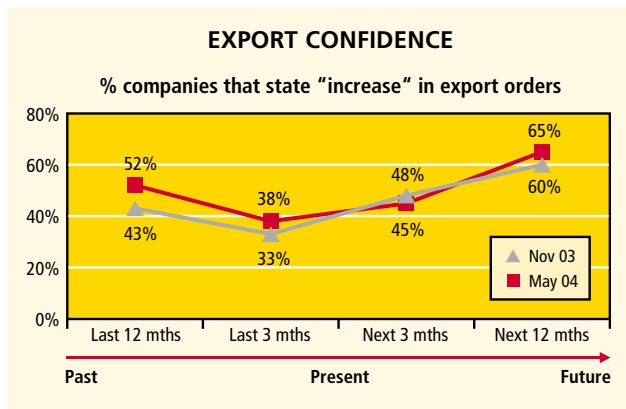
Tim Harcourt
Chief Economist
Australian Trade Commission
(Austrade)

Export Confidence

Despite the troubled times of the past year, nearly half of Australian exporters (45 per cent) believe there will be an increase in their orders over the next three months, while 46 per cent anticipate orders will stay the same.

The news looks even better over the next 12 months. 65 per cent of exporters anticipate their orders will increase, while 28 per cent anticipate they will stay the same. That is a total of 93 per cent who believe they will either consolidate or better their position over the next year.

How does this compare with the November 2003 DHL Export Barometer figures? The 12-month anticipation figure of 65 per cent is up on the 60 per cent figure anticipated by exporters in November 2003. The three-month anticipation figure of 45 per cent is down three per cent on the November 2003 figure, while the 52 per cent reported increase in exports



over the last twelve months is a significant increase on the November study, which was reported at 43 per cent.

Export Markets

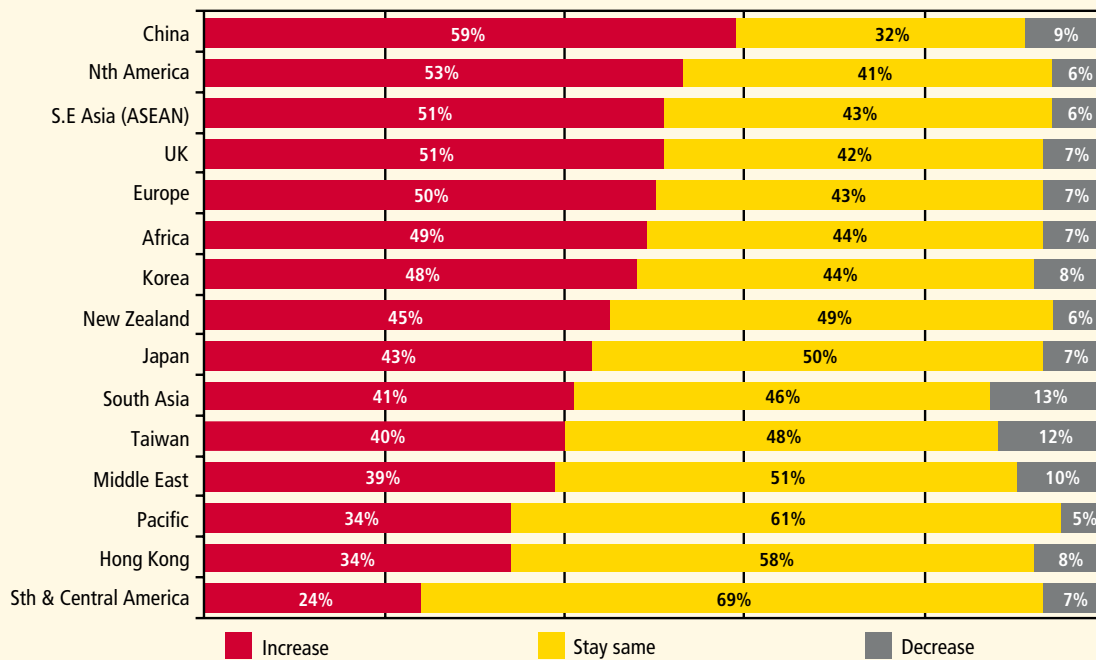
The export market results reflect the economic recovery occurring in Asia and North America with slower results in Europe.

China again leads the way, with 59 per cent of those who currently export to this market, expecting an increase in orders. This is followed by North America (53 per cent), ASEAN (51 per cent), UK (51 per cent) and Europe overall (50 per cent). The anticipated export orders for

the Middle East are, not surprisingly, down on the November 2003 results – from 55 per cent to 39 per cent.

Exporters currently exporting to the Pacific, Hong Kong and South and Central America are expecting the least increase in orders – at 34 per cent, 34 per cent and 24 per cent respectively.

CHANGES TO EXPORT ORDERS IN NEXT 12 MONTHS BY REGION



Why Export?

So why do companies choose to export in the first place, and have their expectations been met?

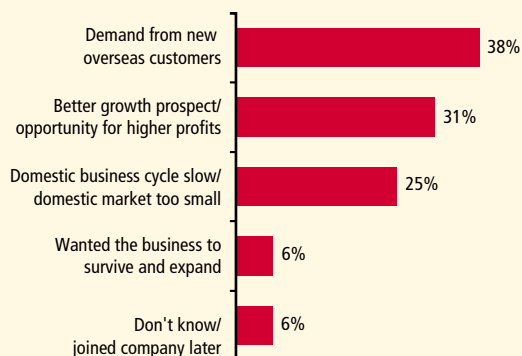
For many, it's 'demand driven'. 38 per cent of companies surveyed said the decision to export was driven by new customers, while 25 per cent thought the domestic market in Australia was too small and the business cycle too slow. 31 per cent however, proactively export,

believing it is a good way to grow their business and boost profits.

The findings of the DHL Export Barometer show that expectations have largely been met, with exporters citing increased sales, growth, competitiveness and the ability to innovate and build their brands as some of the many benefits of exporting.

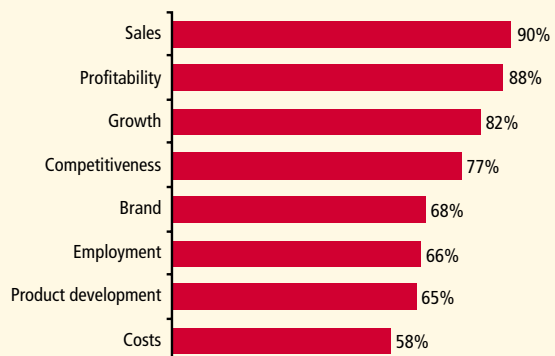
WHY BEGIN EXPORTING?

Reason for exporting in the first instance



EXPORTING BENEFITS

Has exporting helped you in terms of ...



The Exchange Rate

The exchange rate was a hot topic in the November 2003 DHL Export Barometer and has got hotter ever since. Despite some correction in the past two weeks, during this survey period exporters experienced one of the largest appreciations in Australian economic history.

So how does the exchange rate affect exporters' fortunes? Naturally, the rising exchange rate did worry the exporters surveyed. In fact, the exchange rate and economic and political conditions abroad, were the two factors exporters worried about the most when making their decisions. However, in a new development, health issues (such as bio-terrorism and bird flu) were also prominent.

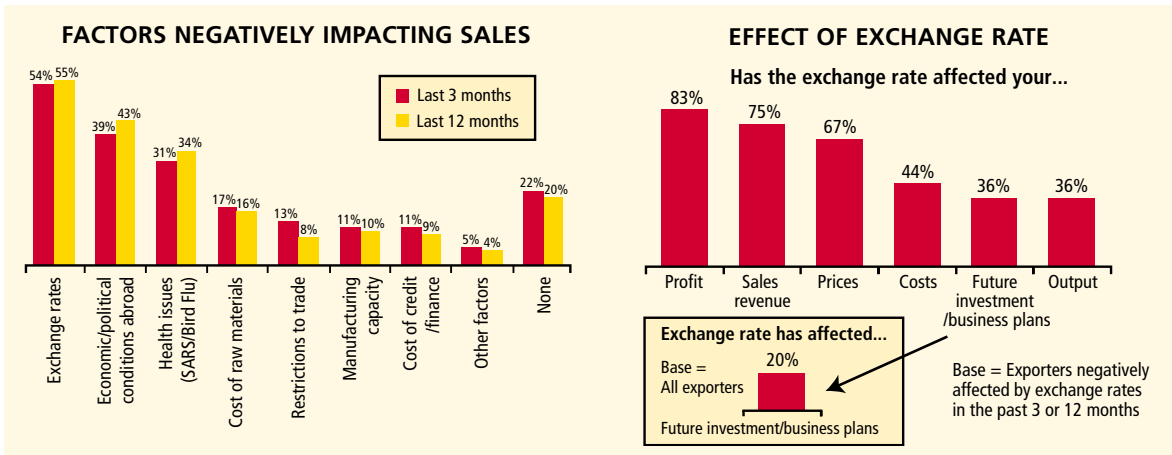
Over half of the respondents surveyed (55 per cent) felt that the exchange rate had affected their sales over the past 12 months, and 54 per cent over the past three months. Of those affected, 83 per cent felt it had directly impacted their profits, while 67 per cent stated that it had impacted their prices. 36 per cent believed the exchange rate would impact their output and 36 per cent indicated that their future investment and business plans would be adversely affected.

Overall, a total of one in five (20 per cent) of all exporters thought their investment plans had been influenced by the exchange rate. Despite this, the majority of companies surveyed were not deterred and continue to see exporting as a long-term commitment.

Over the last three months, companies in agriculture (79 per cent) have been the most affected by the exchange rate, closely followed by the mining sector (63 per cent) and manufacturing (63 per cent). However, the exchange rate had a noticeably smaller impact on services (46 per cent) and tourism (31 per cent). Looking forward, the exchange rate is expected to be a continuing factor for 54 per cent of exporters over the next 12 months. The tourism sector however, is more concerned with future economic and political conditions (68 per cent) and health concerns (55 per cent).

US dollar

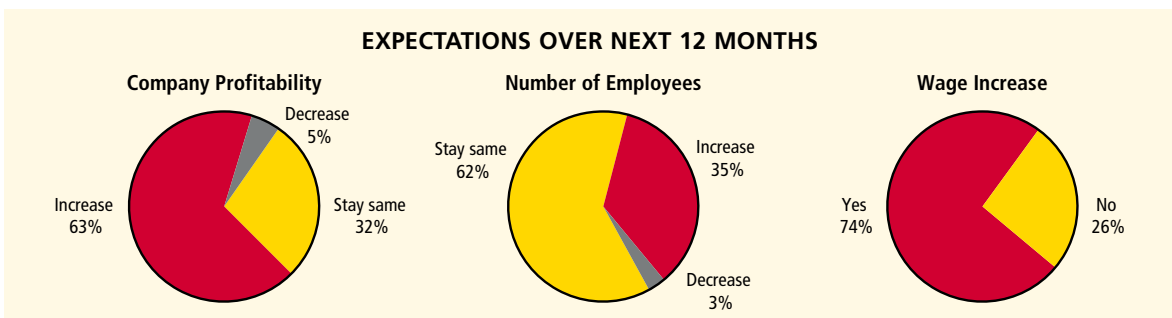
It is important to note that the appreciation of the Aussie dollar against the US dollar has actually affected the currency in which exporters are being paid. In November 2003, 45 per cent of exporters reported being paid in US dollars, with this dramatically declining to 30 per cent in May 2004.



Profitability and Employment

Despite the difficulties faced by the exchange rate, exporters on the whole are bullish about the next 12 months, with 63 per cent expecting an increase in profitability. There is evidence that exporting benefits employment numbers. Around 35 per cent of exporters expect to increase employment, 62 per cent said they

would maintain their payroll at the same size, while only three per cent anticipated a reduction in employment. In terms of wages, nearly three quarters (74 per cent) of exporters surveyed expected to increase wages in the next 12 months, while the remainder expected wages to stay at current levels.



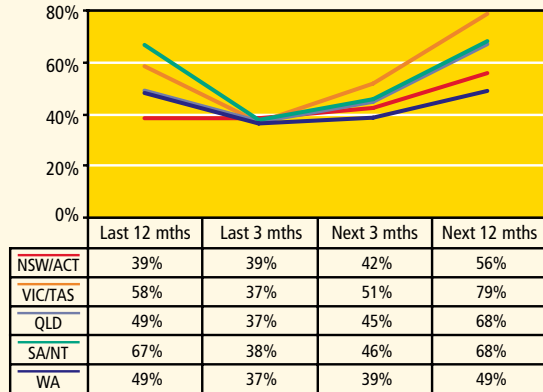
State by State

Who said Melbourne was the ‘Bleak City’? According to the state-by-state breakdown, Victoria/Tasmania were the most optimistic states – with 79 per cent of companies surveyed in those states expecting an increase in export orders over the next 12 months. This was followed by Queensland on 68 per cent, South Australia/Northern Territory, also on 68 per cent, New South Wales/Australian Capital Territory on 56 per cent and Western Australia on 49 per cent. The exchange rate impact on the mining industry may be affecting Western Australia more than other states.

However, in terms of new exporters, it’s a case of ‘if you’re not in Sydney...you’re camping out!’ as there is a significantly higher proportion of new exporters in New South Wales/Australian Capital Territory compared to other states.

EXPORT CONFIDENCE

% companies that expect "increase" in export orders



Free Trade Agreements

Since the last DHL Export Barometer a free trade agreement (FTA) has been announced with the United States of America (USA). This followed on from similar agreement announcements with Singapore and Thailand. At this stage, it is still early days for the FTAs as the announcements are still fresh and much detail needs to be communicated before registering on exporters’ (and potential exporters’) radar screens. In fact, ‘restrictions to trade’ – that are overcome by trade

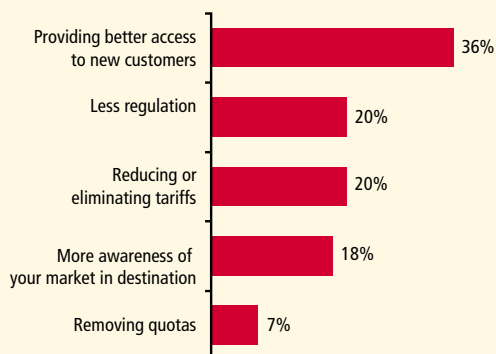
negotiations – tended to only concern a minority of exporters surveyed (10 per cent) when asked about negative factors over the next 12 months. This is well behind the exchange rate, political conditions abroad and health issues – demonstrating the medium term nature of the benefits offered by most trade agreements.

In the case of the FTA with the USA, 75 per cent of exporters were neutral, with 21 per cent believing it would have a positive impact on their business. Around 32 per cent of exporters surveyed already export to the USA, and of those who don’t, around 14 per cent said the FTA would prompt them to look at the US market. The reasons for pro-FTA attitudes were mainly demand driven. Of those companies that believed the FTA would have a positive impact on their business, 36 per cent believed it would provide them with better access to new customers, 20 per cent suggested it would bring less regulation and 20 per cent cited the reduction and elimination of tariffs as a benefit. 18 per cent nominated more awareness of Australia in the US market and 7 per cent nominated the removal of quotas.

However, the main message is that the benefits of FTAs will take time to take hold in the exporter community although they do play a useful ‘head-turning’ effect in terms of raising awareness of particular markets.

BENEFITS OF FTA WITH THE USA

Primary benefit of free trade agreement with the USA (unprompted)



Research was conducted by ACA Research. Data was captured through structured telephone interviews with 314 Australian exporters, each targeted for the survey using stratified sampling techniques according to industry sector.