



DHL Export Barometer Australian Export Trends

Down but not out

Australian exporters are cautious but optimistic, according to the latest edition of the DHL Export Barometer. Whilst the high dollar and political and economic conditions globally have taken their toll, the majority of exporters remain positive about the next 12 months. Overall export confidence is still on the positive side of the ledger but it is lower than it was in November 2004.

The exporters surveyed are concerned about the exchange rate, but many are learning to do business effectively even with a relatively high Australian dollar. Furthermore, price rises – particularly in agriculture and mining – have countered some of this exchange rate impact, and most exporters don't regard the exchange rate as an impediment to future investment and global expansion.

Capacity constraints – in terms of infrastructure in ports, rail and roads – are considered to have been important to 25 per cent of all exporters over the past year. However, most companies surveyed believe that these impediments are

expected to lessen slightly in the year ahead. Exporters also view manufacturing capacity to be a more important issue than infrastructure on the supply side of the economy.

In terms of Free Trade Agreements (FTAs), exporters are generally positive about their potential benefits. Exporters have warmed to the agreements with Thailand and the United States since they became law on New Year's Day. There was also a favourable initial response to possible pacts with Malaysia, the Association of South East Asian Nations (ASEAN) and the United Arab Emirates (UAE) and continued support for an agreement with China. All in all, the survey shows that as exporters learn more about the practical opportunities available, the more positive they become about FTAs.

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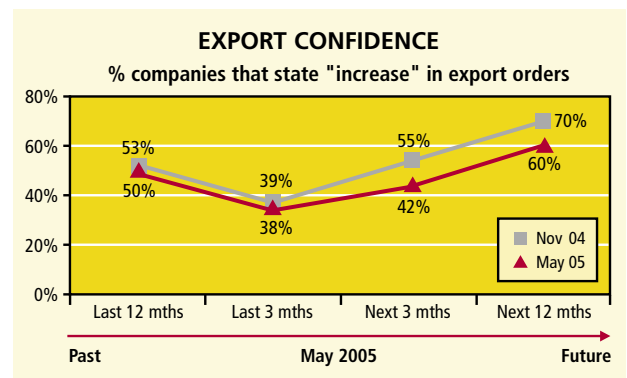
Export Confidence

Overall export confidence is positive. Almost half of Australian exporters (42 per cent) believe there will be an increase in their orders over the next three months and 45 per cent indicated that they will stay the same.

Over the next 12 months the outlook is a little more encouraging. 60 per cent of exporters anticipate that their orders will increase, and 36 per cent believe they will stay the same. A total of 96 per cent believe they will either consolidate or better their position during this period. This compares to only 50 per cent increasing orders over the past year and 35 per cent staying the same – a total of 85 per cent.

Despite this optimism, the outlook for the next 12 months is down on the November 2004 and May 2004 results, where

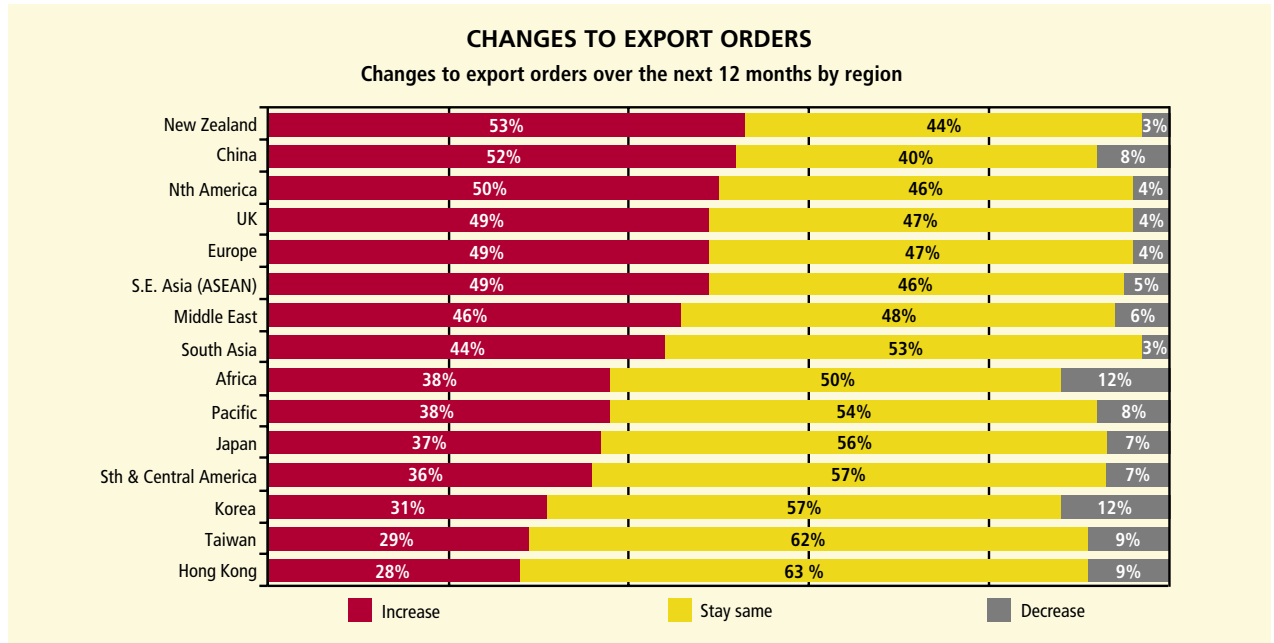
70 per cent and 65 per cent respectively, indicated that they would experience an increase in export orders.



Export Markets

Kiwis really can fly! New Zealand tops the regional results for the first time, with 53 per cent of exporters believing that export orders to the 'shaky isles' will increase over the next 12 months. China is second on 52 per cent, although the People's Republic did register a small fall from November 2004 (down from 60 per cent). North America comes third at 50 per cent (down from 60 per cent) with the UK, Europe

and ASEAN all on 49 per cent. The UK was 'Top of the Pops' in November but has slipped down the rankings to fourth. Surprisingly, the North East Asian giants of Japan (37 per cent), Korea (31 per cent), Taiwan (29 per cent) and Hong Kong (28 per cent) lag at the bottom of the table.

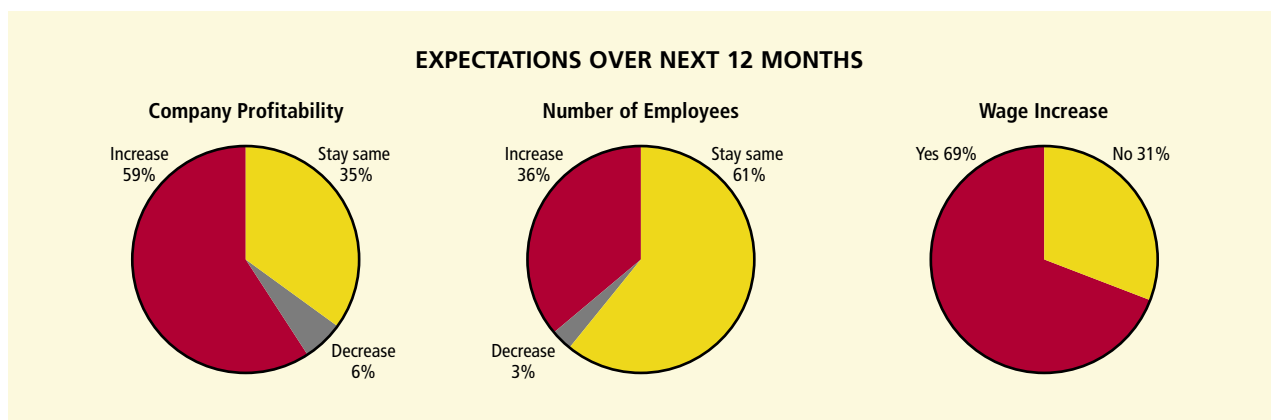


Profitability and Employment

On the whole, exporters are still bullish about the next 12 months, with 59 per cent expecting an increase in profitability. However, this is down from 74 per cent in November 2004 and in most cases the increase in profitability is not expected to lead to an expansion in the workforce. Only 36 per cent of exporters expect to increase employment over the next 12 months, with 61 per cent indicating that they will maintain their payroll at the same size. Only three per cent anticipate a

reduction in employment suggesting that the labour market is getting closer to full employment.

In terms of wages, 69 per cent of exporters surveyed expect to pay a wage rise in the next 12 months. This is down by 8 per cent from last November and by 5 per cent on the results from May 2004. Expectations of wage increases are strongest in mining and services – perhaps reflecting labour market tightness in these industries.



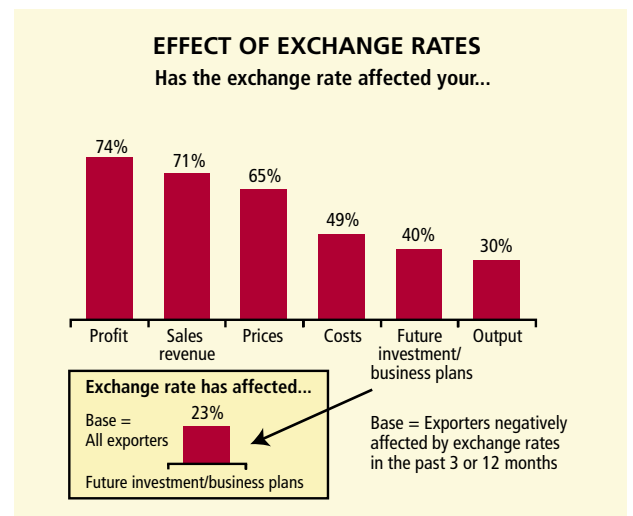
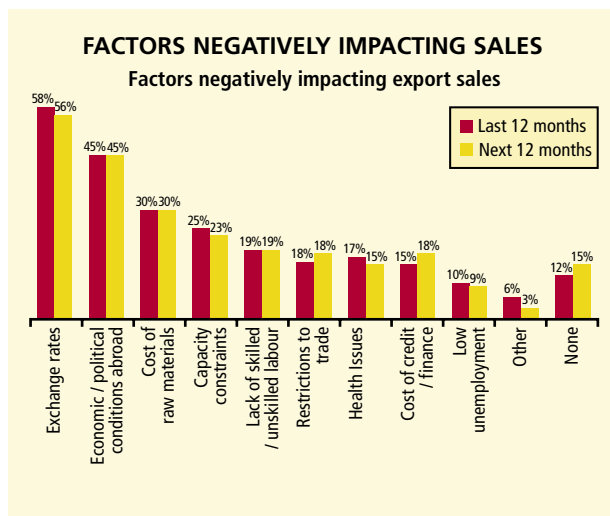
The Exchange Rate

Like the famous Australian rock band, Skyhooks, exporters are getting used to 'Living in the '70s'. The exchange rate has remained at the high 70 cent mark in US dollar terms for some time and it still registers as an issue with exporters. In fact, the exchange rate and economic and political conditions abroad are again, the two main issues exporters worry about in their decision-making.

On the exchange rate, 58 per cent of exporters said it has had a negative impact on sales over the last 12 months, while

56 per cent anticipate that it will have a negative impact in the next 12 months. Of this group, 74 per cent said it has negatively affected profits over the past 12 months, and 71 per cent said it has negatively affected sales revenue.

Companies in agriculture (84 per cent) and the mining sector (65 per cent) are particularly affected by the exchange rate, followed by services (61 per cent) and tourism (56 per cent). By contrast, the exchange rate was a factor for only 35 per cent of manufacturing exporters.

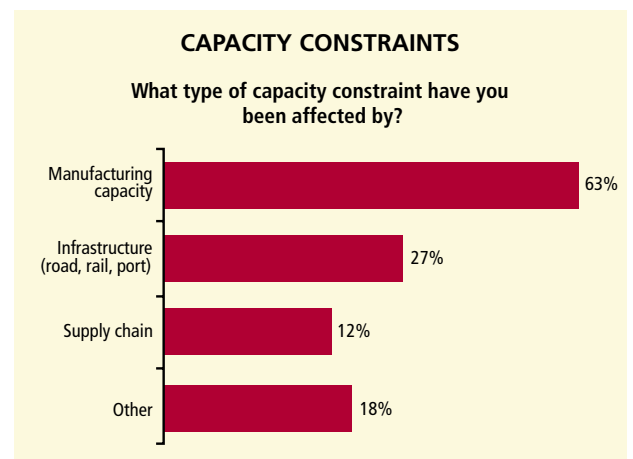


Capacity Constraints

Capacity constraints were considered important to 25 per cent of all exporters over the past 12 months and are expected to be an impediment in the year ahead for 23 per cent of those surveyed. Of those who have been negatively impacted by capacity constraints, manufacturing capacity is considered the biggest impediment to sales (63 per cent) followed by infrastructure (road, rail, ports and sea) on 27 per cent and blockages in supply chains on 12 per cent.

This provides some empirical backing for anecdotal evidence of infrastructure bottlenecks on some major transport routes around Australia. Not surprisingly, bottlenecks are considered a particular problem for exporters in the mining sectors in both Western Australia and Queensland. 44 per cent of Queensland exporters and 37 per cent of exporters in WA that were negatively affected by capacity constraints

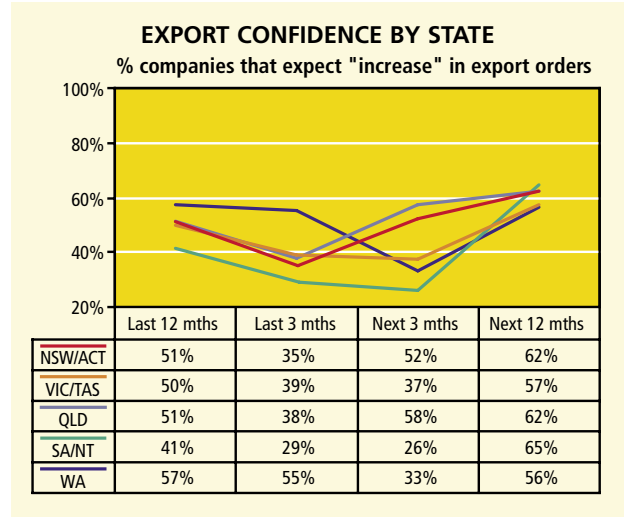
cited a lack of infrastructure as having the biggest negative impact on sales.



State by State

It is often said that it is always good to have 'the long view' in mind. Looking ahead, SA/NT continues to be the most optimistic region in Australia with 65 per cent of exporters in SA/NT anticipating an increase in orders over the next 12 months. This result occurred even though only 26 per cent expect good news over the next three months.

Reflecting a boom in commodity prices, WA was the best performing state over the last 12 months, with 57 per cent of exporters experiencing an increase in export orders during this period. Despite this, exporters in WA are the most cautious about their prospects over the coming year with just over half (56 per cent) indicating that they expect to increase orders during this period.



Free Trade Agreements

On January 1 this year, the starter gun was fired on Free Trade Agreements (FTAs) with both Thailand and the United States (USA). According to the DHL Export Barometer, exporters are warming to these agreements, especially as they learn more about them and see the practical benefits of each.

In the case of the most well known FTA with the USA, 37 per cent of exporters believe that the agreement has had a positive impact on their business. This is up by 12 per cent on the projected results from November 2004 and by 16 per cent on the results of May 2004. In the case of Thailand, 31 per cent believe that the agreement has had a positive impact on their business, up from 21 per cent in November.

In terms of potential FTAs, 41 per cent of exporters said that the impact of an agreement with China would be either positive or very positive, while 34 per cent endorsed a potential agreement with ASEAN. This was followed by Malaysia (33 per cent), and the UAE (29 per cent). In short, exporters are encouraged by the potential benefits of a wide range of FTAs.

Lastly, it was also significant that a large number of exporters (31 per cent) indicated that they are also involved in

importing. Furthermore, 55 per cent of importers use their imports in goods and services that are then re-exported. The fact that many exporters are importers as well, does not detract from a positive endorsement of the FTAs, including a possible agreement with China.

