



DHL Export Barometer Australian Export Trends

Long term outlook bullish, but exchange rates and oil prices on the radar

Exporters are anticipating a tougher three months ahead but expect a better outlook over the full year. Whilst mindful of the adverse impact of higher oil/fuel prices and fluctuations in exchange rates, Australian exporters are finding life a little easier on the supply side. That's the key finding of the latest DHL Export Barometer measuring the sentiment of Australia's exporter heartland.

Whilst the price of oil first came onto the radar screen of the exporting community in November last year, exchange rates have again become the number one issue impacting Australian exporters. However, exporters predict that oil/fuel prices will have a greater impact over the next 12 months.

The exporters surveyed reported that export sales over the past 12 months were the strongest in the history of the DHL Export Barometer. Increased volumes continue to drive resource export sales while ongoing demand for manufacturing exports will encourage future investment in manufacturing capacity.

China is still on top as the market where Australian exporters are most likely to increase their orders over the next 12 months. However, a key development has been a sharp jump in export orders to the Middle East. Surprisingly while the macroeconomic data from our largest trading partner continues to improve, Japan is still to make an impression on exporter sentiment.

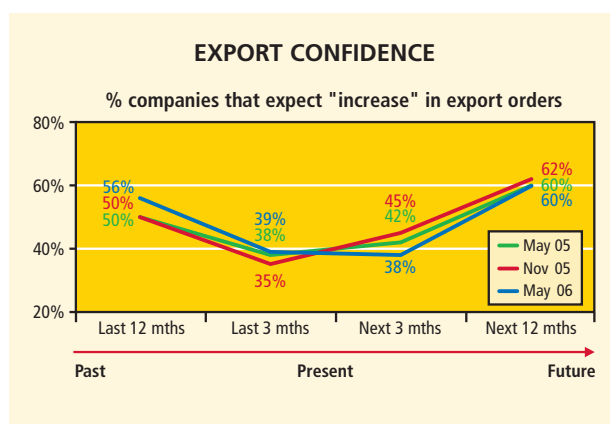
Overall, the strong results in mining, and to some extent services, are boosting confidence, especially over the medium term. Exporters are particularly confident about China and are increasing their activity in South East Asia through strategic alliances, as well as traditional exporting and importing.

Tim Harcourt
Chief Economist
Australian Trade Commission, Sydney

Export Confidence

Despite concerns over exchange rates and oil prices, Australian exporters remain confident about the year ahead. However, there are some rocky times expected in the short term. Only 38 per cent of Australian exporters believe they will increase their orders over the next three months and 47 per cent say they will stay the same.

However, over the next 12 months, 60 per cent anticipate an increase in orders, and 34 per cent believe they will stay the same. That is a total of 94 per cent who believe they will either consolidate or better their position. This compares to 56 per cent increasing their orders over the past year and 27 per cent staying the same – a total of 83 per cent. This "rearview mirror" result of the past 12 months is the strongest on record.

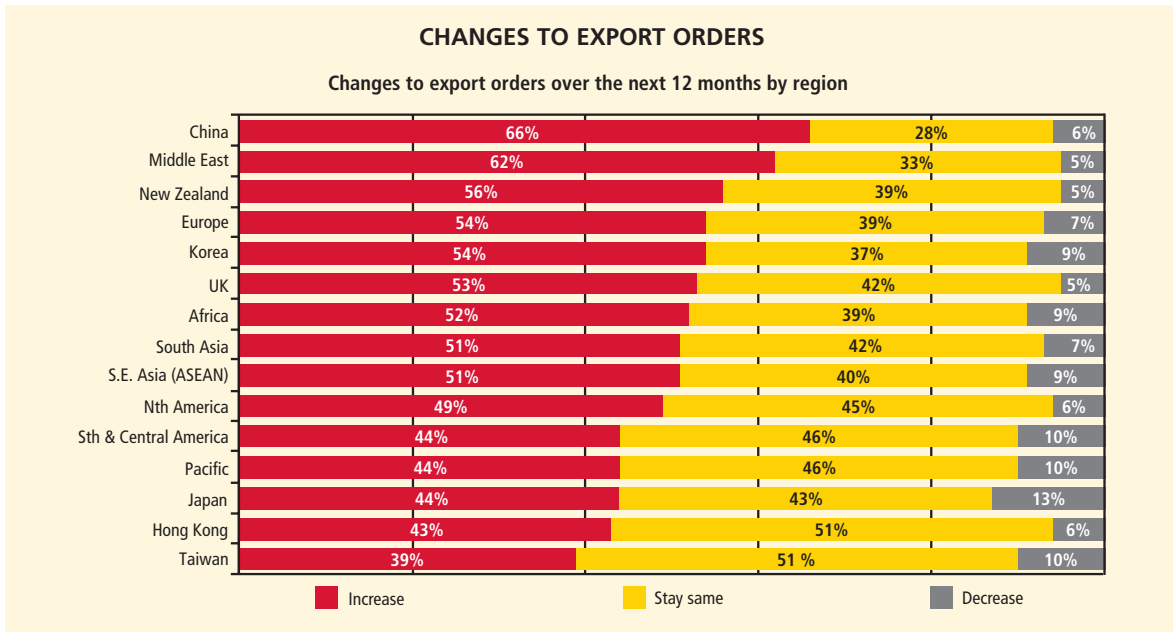


Export Markets

China remains on top of the ladder – and climbing – with 66 per cent of exporters believing that export orders to the People’s Republic will increase over the next 12 months. This is an increase from 53 per cent in November. The Middle East has shot up by 26 per cent from six months ago, to second place, with the United Arab Emirates (UAE) playing a prominent role in the region’s resurgence. New Zealand is again in a strong

position, in third on 56 per cent whilst Europe and Korea are positioned fourth and fifth on 54 per cent.

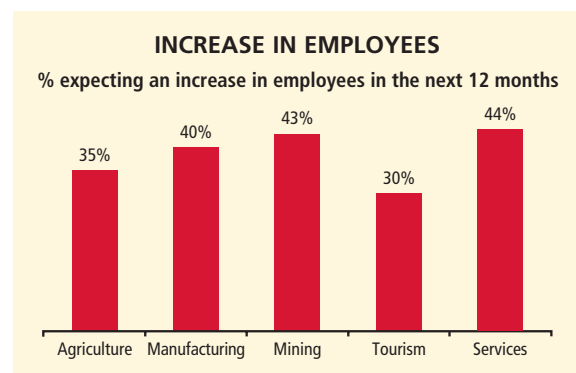
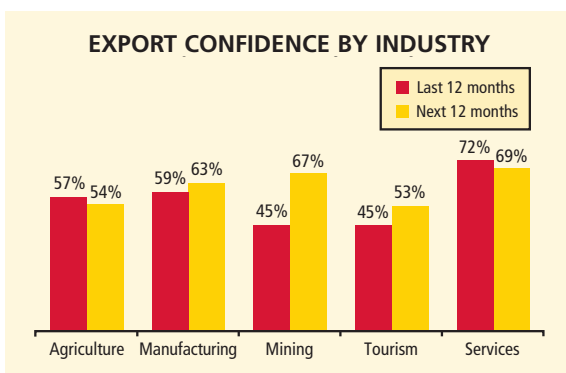
Despite Japan’s recovery it remains ranked towards the bottom of the chart along with the other Asian Tigers, Hong Kong and Taiwan. These countries may be missing out on export orders due to the rush to Shanghai and other booming urban centres in China.



Industry Sectors

It’s the rush that never ended. The commodity boom has lasted longer than most exporters expected. And there’s more to come. Mining exporters expect strong performances over the next three months, with 50 per cent expecting increased orders over that period, followed by 44 per cent of services exporters and 40 per cent of manufacturers. But it’s not just about rocks and crops, with services exporters the most bullish about the next 12 months. Almost 70 per cent of services exporters expect business to improve over the year ahead, compared to 67 per cent of miners and 63 per cent of manufacturers.

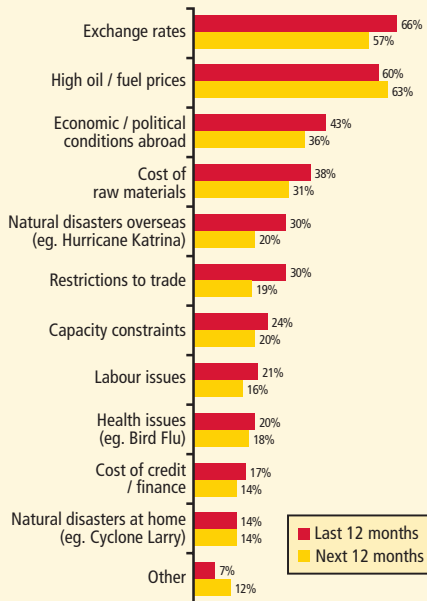
There’s also good news on the jobs front in the services sector, with 44 per cent of exporters in this sector anticipating an increase in employee numbers followed by 43 per cent in mining, 40 per cent in manufacturing, 35 per cent in agriculture and 30 per cent in tourism. Most sectors expect to pay wage rises in the next 12 months but with lower forecasts in tourism and agriculture than in other sectors. Strong profits over the next 12 months are expected in services and manufacturing.



External Influences

The exchange rate and oil/fuel prices continue to be the biggest issues negatively affecting exporters, although economic and political conditions abroad plus the cost of raw materials are still high on the list of concerns for Australian exporters.

FACTORS NEGATIVELY IMPACTING SALES

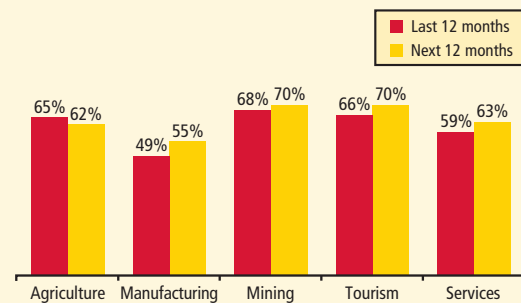


Whilst exchange rates were the biggest issue over the past 12 months, exporters believe in the year ahead, rising oil/fuel prices (63 per cent) will have a greater impact than exchange rates (57 per cent) followed by political and economic conditions (36 per cent) and the cost of raw materials (31 per cent).

Increases in oil and fuel prices were expected to affect mining and tourism operators the most (70 per cent) over the next 12 months, with Western Australia the most affected state (67 per cent).

Natural disasters – both at home and away – had little effect on the majority of exporters. However, 30 per cent did mention Hurricane Katrina in the USA causing disruption, whilst 14 per cent cited Cyclone Larry in northern Australia as having an adverse effect.

EFFECT OF HIGH OIL / FUEL PRICES BY INDUSTRIES



Domestic Influences

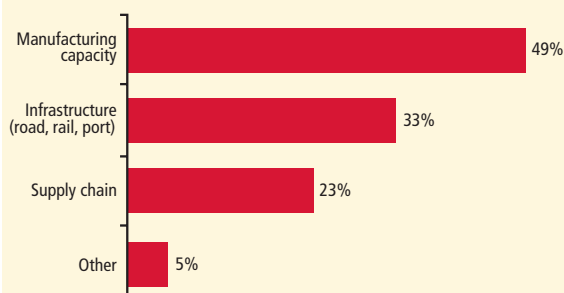
Concerns over domestic capacity constraints have eased relative to a year ago from 23 per cent to 20 per cent. On the supply side, manufacturing capacity was considered important to almost half (49 per cent) of those surveyed, followed by infrastructure (road, rail, ports and sea) on 33 per cent and blockages in supply chains on 23 per cent.

The most important supply side constraint was the shortage of skilled labour. Of those exporters experiencing

labour issues, 72 per cent complained of a shortage of white collar/professional labour, whilst 56 per cent said they couldn't get enough skilled tradespersons and 44 per cent nominated unskilled labour. On education and training, 37 per cent of exporters surveyed were concerned about the level of investment that is needed to ensure a steady flow of well trained, well qualified skilled workers in the future.

CAPACITY CONSTRAINTS

What type of capacity constraint have you been affected by?



LABOUR ISSUES

What type of labour issues have you been affected by?



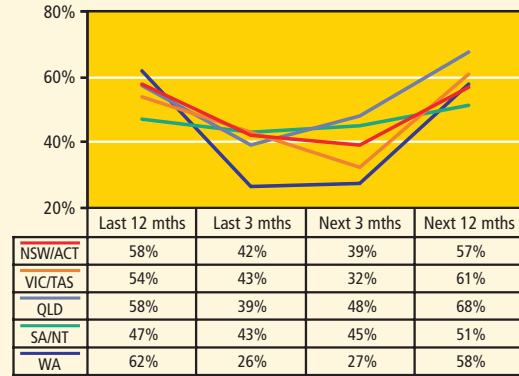
State by State

The Cane Toads have bounced back. Queensland is the most optimistic region in Australia, with 68 per cent of exporters anticipating an increase in orders in the next 12 months. Over the next three months, Queensland again has its sunny side up on 48 per cent, followed by South Australia and Northern Territory on 45 per cent and New South Wales and Australian Capital Territory on 39 per cent.

Queensland exporters are also the most likely to increase employee numbers with 42 per cent expecting an increase, followed by Victoria on 39 per cent and Western Australia on 38 per cent. Victoria is the most optimistic state in terms of profitability whilst, compared to other states, a higher portion of New South Wales exporters anticipate an increase in employee wages.

EXPORT CONFIDENCE BY STATE

% companies that expect an "increase" in export orders



China – the Rising Giant

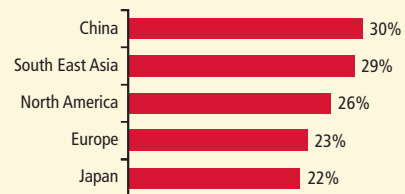
The DHL Export Barometer asked exporters to do a bit of 'blue sky' thinking about their long term future. A third of those surveyed, believe China will be their top exporting destination in five years time. This was followed by ASEAN (29 per cent), North America (26 per cent), Europe (23 per cent) and Japan (22 per cent).

Given China's continued strength, Australian exporters were asked what assistance and guidance they wanted in the region. Exporters were mainly interested in marketing and promotions assistance and in-market representation. In particular, 39 per cent wanted more overseas representation in China, and 38 per cent wanted more resources in South East Asia. This was followed by 27 per cent in North America, 22 per cent in Japan and 10 per cent in South Asia (mainly in India).

In terms of Free Trade Agreements (FTA), 45 per cent of exporters said that an agreement with China would be either positive or really positive, whilst 47 per cent are neutral about whether a FTA will help or hinder their business. Agriculture and manufacturing sectors were the most supportive with more than 50 per cent of exporters in these industries claiming a positive impact.

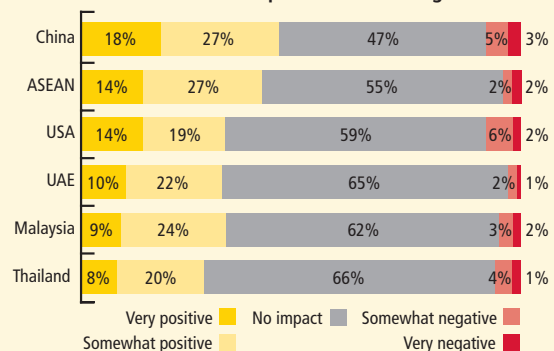
EXPORTING DESTINATIONS

Top 5 exporting destinations in 5 years time



IMPACT OF FREE TRADE AGREEMENTS

Impact on exporters of FTAs or Closer Economic Partnership with the following countries



Research was conducted by ACA Research. Data was captured through structured telephone interviews with 303 Australian exporters, each targeted for the survey using stratified sampling techniques according to industry sector.