



# DHL Export Barometer Australian Export Trends

## Oil prices trump exchange rates but fail to dampen exporter confidence

Australian exporters are starting to feel the pinch from higher oil/fuel prices but are still confident about their prospects for the next 12 months. That's the finding of the latest DHL Export Barometer.

The price of oil is now well and truly on the radar screen of the exporter community. For the first time, oil and fuel prices were the number one issue adversely affecting Australian exporters. Exporters are concerned about how rising oil prices will affect overall global demand, but are also watching fuel-related cost pressures on their own businesses. However, despite oil prices coming to the fore, exporter confidence has increased slightly over the past six months thanks to rising optimism – particularly in the manufacturing and service sectors – and the fact that all exporters are used to living with a higher Australian dollar.

The survey, conducted bi-annually, again looked at capacity constraints, including manufacturing capacity and transport and infrastructure 'bottlenecks' which are believed to be easing compared to earlier in the year. However, there is concern amongst exporters about a shortage of skilled labour.

In terms of key markets, China is back on top as the market where Australian exporters are most likely to increase their orders over the next 12 months. Despite Japan's recovery and India's resurgence both markets are still to make an impression on the exporters surveyed.

The DHL Export Barometer shows a sharp rise in the number of exporters claiming that they face no barriers to export in global markets. The benefits of trade liberalisation are flowing through to the businesses that operate regularly in the global marketplace.

In conclusion, oil prices and exchange rates are likely to remain on the radar screen of exporters as we enter 2006. However, the world economy is still growing and Australia's exporters are proving that they are resilient enough to grow and expand their businesses in all corners of the world.

### Tim Harcourt

Chief Economist

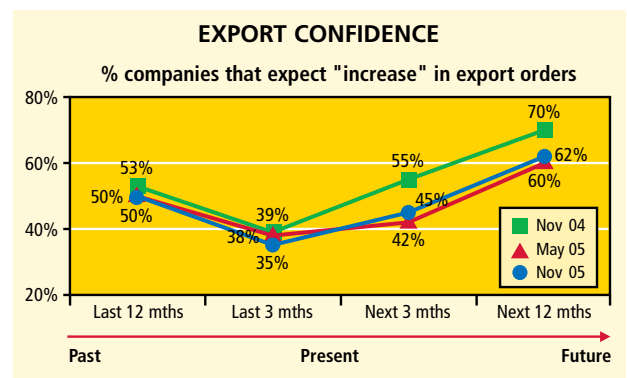
Australian Trade Commission, Sydney

## Export Confidence

Despite the headwinds, Australian exporters registered a slight rise in overall export confidence. Almost half of Australian exporters (45 per cent) believe there will be an increase in their orders over the next three months, and 47 per cent expect orders to stay the same. This compares to 35 per cent who have experienced an increase in export orders over the past three months.

Over the next 12 months, 62 per cent anticipate their orders will increase, and 33 per cent believe they will stay the same. In comparison only 50 per cent have seen an increase in orders over the past year, with 37 per cent staying the same. The 12 month expectation figure of 62 per cent is slightly up on the May 2005 figure of 60 per cent but still down on

the November 2004 survey where 70 per cent anticipated an increase in export orders over 12 months.



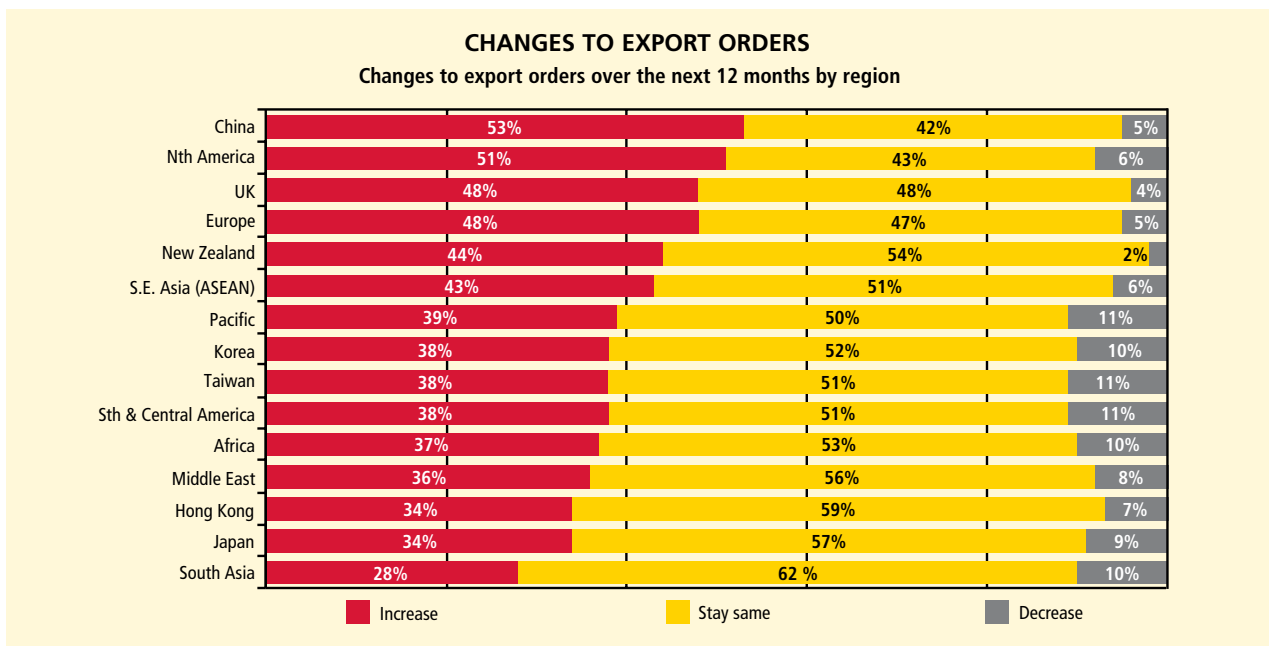
## Export Markets

It's official – Australian exporters really are Panda-huggers! China topped the charts with 53 per cent of exporters to China believing that export orders to the People's Republic will increase over the next 12 months. North America is second on 51 per cent, the UK and Europe on 48 per cent, then comes New Zealand on 44 per cent, ASEAN on 43 per cent and the Pacific islands on 39 per cent.

The Middle East registered 36 per cent (down from 46 per

cent in May) and in a surprising result, both the rebounding Japanese market and the emerging markets of South Asia (including India) registered low rankings.

China's rise may be a sign of the times. When asked which countries would be their top export markets in 10 years time, 30 per cent of exporters nominated China, followed by North America (27 per cent), Europe (26 per cent), ASEAN (24 per cent) and the UK (19 per cent).

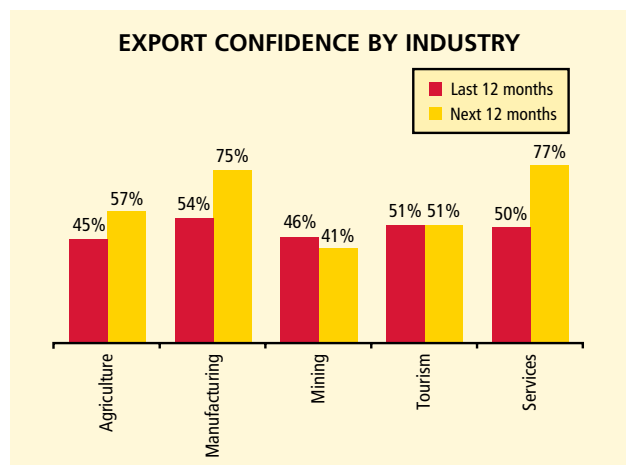


## Industry Sectors

In sectoral terms, both services and manufacturing were the most bullish about the next 12 months. Around 77 per cent of exporters in the services sector and 75 per cent of manufacturers thought orders would increase. This compares with 57 per cent of agricultural exporters, 51 per cent of tourism exporters, and only 41 per cent of mining exporters. In the case of mining, it may be that many think that they are at full capacity and can't possibly see an ever higher peak.

In terms of company profitability, 73 per cent of exporters in the services sector expected an increase, compared to 66 per cent of manufacturers, 50 per cent in tourism, 52 per cent in agriculture and 39 per cent in mining. There's also good news on the jobs front with 52 per cent of manufacturing exporters anticipating an increase in employment, followed by 46 per cent in services, 36 per cent in mining and 30 per cent in agriculture and tourism. Most sectors expect to pay a wage rise in the next 12 months, including 91 per cent

of mining exporters mainly thanks to the resources boom and associated strong demand for skilled labour in Western Australia and Queensland.

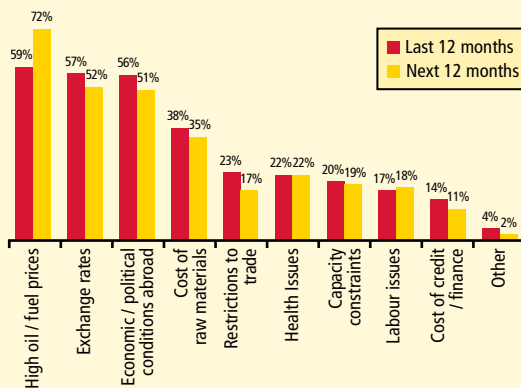


## External Influences

The recent increases in oil and fuel prices are now on the radar screen for Australian exporters. Nearly three in five (59 per cent) exporters believe that the rise in fuel prices has had the biggest negative impact on their export sales over the past 12 months. Furthermore, 72 per cent believe that this will affect business conditions over the coming year.

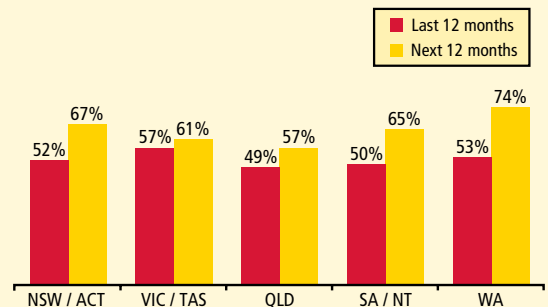
It's predicted that the negative effect of higher oil and fuel prices will have a larger impact on exporters than exchange rates (52 per cent), political and economic conditions (51 per cent), raw material costs (35 per cent), trade restrictions (17 per cent) and health issues (22 per cent). Whilst exchange rates still register highly, there is some evidence that exporters are getting used to living in the '70s and only a minority of exporters (16 per

### FACTORS NEGATIVELY IMPACTING SALES

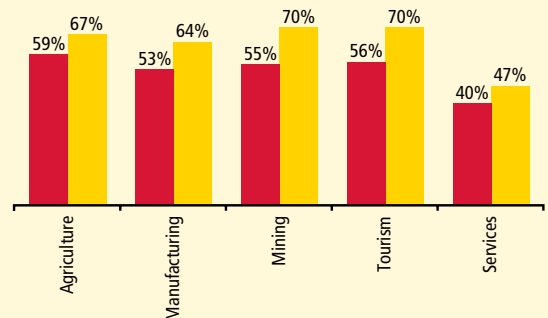


cent) said it would affect their future investment and business expansion plans. High oil and fuel prices were expected to affect mining and tourism operators the most (70 per cent of those surveyed) over the next 12 months, with Western Australia the most affected state (74 per cent).

### EFFECT OF HIGH OIL/FUEL PRICES BY STATES



### EFFECT OF HIGH OIL/FUEL PRICES BY INDUSTRIES



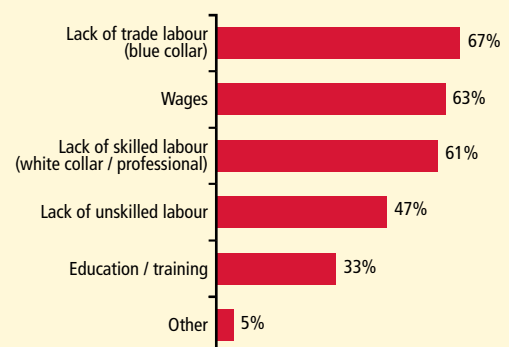
## Domestic Influences

Capacity constraints were considered important in the May survey (25 per cent) but overall are thought to be less so in November (20 per cent). Manufacturing capacity was considered important to 41 per cent of those surveyed, followed by infrastructure (road, rail, ports and sea) on 32 per cent, and blockages in supply chains on 20 per cent.

The most important supply side constraint was the shortage of skilled labour. Of those exporters experiencing labour issues, many are facing 'blue collar blues' as 67 per cent complained of a shortage of key skilled tradespersons, 61 per cent surveyed mentioned a lack of white collar/professional labour, whilst 47 per cent said they couldn't get enough unskilled labour. The exporters surveyed were concerned about the level of investment in education and training that is needed to ensure a steady flow of well trained, well qualified skilled workers in the future.

### LABOUR ISSUES

What type of labour issues have you been affected by?



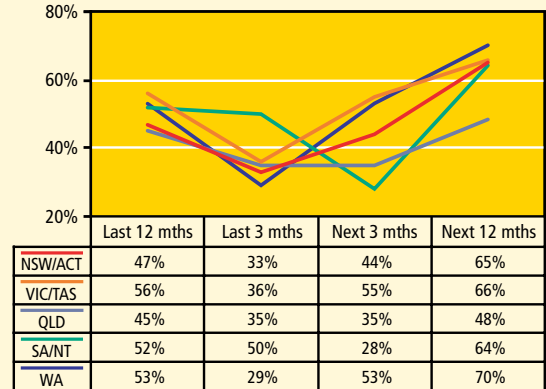
## State by State

The Sandgropers have bounced back with Western Australia now the most optimistic region in Australia. 70 per cent of exporters in that state anticipate an increase in orders over the next 12 months. In addition, compared to other states, a higher proportion of Western Australian exporters expect an increase in profitability (68 per cent) and employee wages (84 per cent) over the next year.

Over the next three months, Victoria and Tassie are the most optimistic on 55 per cent, with Western Australia on 53 per cent. South Australia and Northern Territory are the least optimistic about the next three months (28 per cent) but brighten up over a longer stretch (64 per cent). This result is in contrast to the November 2004 DHL Export Barometer, when at that time, South Australia and Northern Territory were the most optimistic states.

### EXPORT CONFIDENCE BY STATE

% companies that expect an "increase" in export orders



## Free Trade Agreements

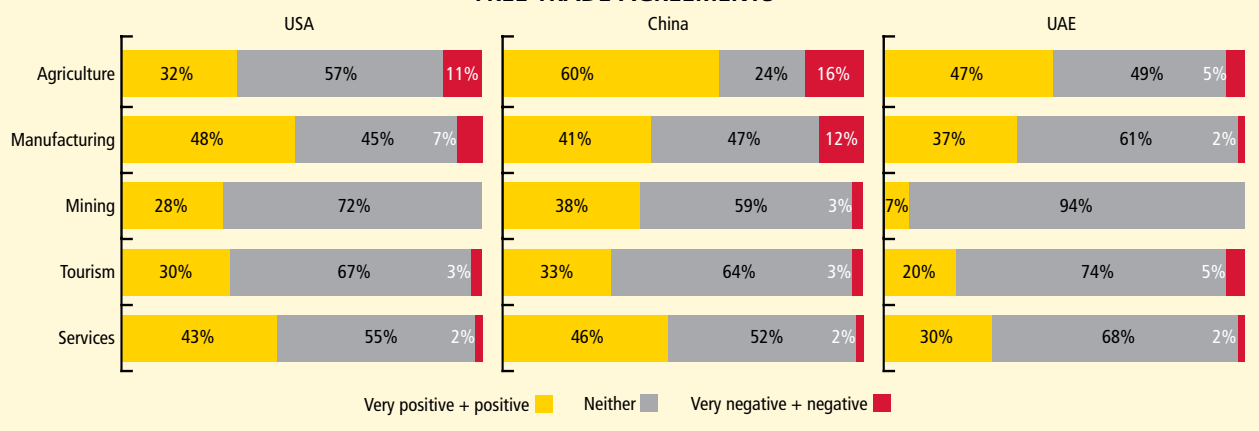
The DHL Export Barometer asked about the impact of Free Trade Agreements (FTAs) on different sectors (focusing on the agreement that is in place with the USA and the two proposed with China and the United Arab Emirates).

In the case of the USA FTA, manufacturing exporters were the most positive on 48 per cent, followed by services on 43 per cent. In the case of China, agricultural exporters were the most favourable on 60 per cent, followed by services on 46 per cent. Overall, 42 per cent of all exporters supported an agreement with China whilst only seven per cent were somewhat or very negative. In the case of the UAE, agricultural

exporters were the most in favour (47 per cent) followed by manufacturing (37 per cent) and services (30 per cent).

Despite some of the headlines about stalled trade negotiations and the frustration experienced by Australian trade negotiators, their efforts are not in vain. The survey shows a sharp rise in the proportion of exporters (47 per cent compared to 30 per cent six months ago) claiming that they face no barriers to export in global markets. With two new agreements (Thailand and United States) in place, there are strong sentiments amongst the exporting community that formal trade barriers are being reduced.

### FREE TRADE AGREEMENTS



Research was conducted by ACA Research. Data was captured through structured telephone interviews with 308 Australian exporters, each targeted for the survey using stratified sampling techniques according to industry sector.