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IMMEDIATE RELEASE

Situation tenuous as confidence drops

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during June 2008, shows total sales in May 2008 decreased 3.71% (export sales increased by 8.13% with domestic sales decreasing 15.3%) on May 2007.

The NZMEA survey sample this month covered NZ\$469m in annualised sales, with an export content of 56%.

Net confidence dropped to -40, down from the -33 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 100, up from the previous month's 98, the change index (capacity utilisation, staff levels, orders and inventories) stayed at 100, and the forecast index (investment, sales, profitability and staff) is at 101, up on the previous month's result of 99.8. Anything less than 100 indicates a contraction.

The reported constraints were: 10% capacity, 20% staff and markets 70%.

Staff numbers for May increased year on year by 7.46%.

"Comments from manufacturers and exporters indicate worries about the future. Sales are holding up now but there are few forward orders and confidence figures are reflecting that uncertain future. The rising cost of raw materials, energy and transport fuel are eating into profit margins for manufacturers as they are for the rest of the economy," says Chief Executive John Walley.

"Concerns about the viability of thinning supply chains affecting the cost and supply of goods required are continuing as suppliers lose 'critical mass' and yet more activity moves offshore. The relocation of some large manufacturers offshore has made supply more difficult, reducing the international competitiveness of New Zealand's manufacturers."

"Skilled staff shortages in the workforce, particularly engineers and accountants, were identified as concerns. The 'brain drain' to Australia was in the headlines when the survey was open, contributing to this sentiment. This must be a major concern for our future."

"Better returns on sales to Australia due to the improving exchange rate are positive, underpinning the increased export sales, but margins remain under pressure. The reduction of sales in the domestic sector reflects problems faced in the rest of the economy. Recent figures show a reduction in business borrowing, indicating that pressures previously seen in the tradeable sector have spread to the domestic sector."

"There is a hope that the long period of pain due to high exchange rates will come to an end, but that hope is edged with sadness that the suffering will now be passed on to the domestic sector."

"Although the situation is improving for exporters, uncertainty means that many are reluctant to invest in capacity expansion. A key question is - will it now be just once more around the trade cycle or will there be a serious attempt to focus policy on supporting the tradeable sector?"

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The New Zealand Manufacturers and Exporters Association gathers results from members around New Zealand. It provides a snapshot of manufacturers and exporters' turnover and sentiment.

NEW ZEALAND MANUFACTURERS AND EXPORTERS ASSOCIATION

Survey of Business Conditions – May 2007 compared with May 2008

SAMPLE SIZE: The Survey respondents represent elaborate transformed manufacturers with annual sales of approximately \$469 million.

CHANGE OVER 12 MONTH PERIOD

(The table below represents the above returns expressed as percentages)

		May	April
TOTAL TURNOVER:	Export /Domestic ratio	56/44	45/55
	% Change in Total Turnover DECREASED	-3.71	27
DOMESTIC TURNOVER:	% of respondents reporting a rise	33	53
	% of respondents reporting a fall	66	30
	% of respondents reporting no change	0	15
	% Change in Ave Domestic Turnover DECREASED	-15.32	10.35
EXPORT TURNOVER:	% of exporters reporting a rise	37.5	81
	% of exporters reporting a fall	50	18
	% of exporters reporting no change	12	0
	% Change in Average Export Turnover INCREASED	8.13	56.2
STAFF NUMBERS:	% of respondents reporting a rise	44	64
	% of respondents reporting a fall	11	21
	% of respondents reporting no change	44	14
	% Change in Average Staff Numbers INCREASED	7.46	8.28

CHANGE OVER 12 MONTH PERIOD

(The table below represents the above returns expressed as percentages.)

	Large Fall (Over 15%)		Modest Fall (2.5%-15%)		No Change (Within 2.5%)		Modest Rise (2.5%-15%)		Large Rise (Over 15%)	
	May	Apr	May	Apr	May	Apr	May	Apr	May	Apr
Profitability (YoY)	20	13	10	20	20	27	50	40	0	0
Cashflow (YoY)	10	7	20	27	20	47	50	20	0	0
Exchange Rate (YoY)	0	13	33	20	22	47	44	13	0	7
Investment Forecast	10	7	50	20	0	33	30	33	10	7
Sales Forecast	0	0	20	33	20	20	60	47	0	0
Profit Forecast	0	7	20	33	30	27	50	33	0	0
Staffing Forecast	0	0	20	40	60	40	20	20	0	0
Confidence	Very Negative		Negative		Neutral		Positive		Very Positive	
	0	7	60	47	20	27	20	20	0	0
Constraint	Production		Skilled Staff		Capital		Market			
	10	0	20	27	0	0	70	73		

Net Confidence	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2003	+21	-6	+12	-11	-5	+12	-6	0	+11	+40	+29	+33
2004	+5	+19	+41	+41	+36	+50	+12	+20	+7	0	-7	+5
2005	+13	-13	-6	-25	-33	-13	-13	-36	-27	-32	-29	-33
2006	-47	-13	-23	-29	-42	-13	-14	+8	+15	-7	40	0
2007	-17	0	-8	25	8	-17	-60	-18	+8	0	-8	-9
2008	+8	-10	-36	-33	-40							

Index (base =100)	May 07	June 07	July 06	Aug 07	Sept 07	Oct 06	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08
Performance	96	95.5	96	98.5	98	97	97	97.5	101	97.5	98.5	98	100
Forecast	102	102	99	102	101	103	106	104.2	105.75	104.25	101	99.75	101
Change	103	103	102	103	101	104	104	99	102	102	100	100	100