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*IMMEDIATE RELEASE*

## **We have found the wall – what next?**

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during July 2008, shows total sales in June 2008 increased 3.79% (export sales increased by 39.6% with domestic sales decreasing 14.7%) on June 2007.

The NZMEA survey sample this month covered NZ\$566m in annualised sales, with an export content of 46%.

Net confidence dropped to -55, down from the -40 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 93, down from the previous month's 100, the change index (capacity utilisation, staff levels, orders and inventories) went down to 99 from 100 last month, and the forecast index (investment, sales, profitability and staff) is at 98, down on the previous month's result of 101. Anything less than 100 indicates a contraction.

The reported constraints were: 9% capacity, 9% staff and markets 82%.

Staff numbers for June increased year on year by 1.05%.

"The numbers in the survey and the comments from manufacturers and exporters all reference a slow down or weakness in forward demand and current performance. Domestic demand has dropped away but has been propped up by higher export sales. Across the board rising costs are eating away at margins," says NZMEA Chief Executive John Walley.

"The low returns, a lower backlog of forward orders, slow payment, and an all round nervousness about cash-flow have seen confidence drop further. For the first time in some years all three composite indicators are in contraction territory and future indications are all negative."

"The interest rate cut and the fall against the US dollar happened after we closed this survey. A more realistic exchange rate should herald some improvement in returns once any higher forward cover works through. Demand will be the constraint, as markets indicate a reducing tolerance to risk and consumers tighten their belts."

"In a world of cost driven inflation we need to shift our attention away from the interest rate, the "brakes" of the economy, and work out how to make the supply side, the "engine", more productive. Lifting activity and productivity in the real economy is the only way forward. Our policy framework needs to be aligned to the new world dynamics of fussy credit, slow demand and high commodity prices."

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

## NEW ZEALAND MANUFACTURERS AND EXPORTERS ASSOCIATION

### Survey of Business Conditions – June 2007 compared with June 2008

**SAMPLE SIZE:** The Survey respondents represent elaborate transformed manufacturers with annual sales of approximately \$566 million.

#### CHANGE OVER 12 MONTH PERIOD

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

		June	May
<b><u>TOTAL TURNOVER:</u></b>	Export /Domestic ratio	46/54	56/44
	% Change in <b>Total Turnover INCREASED</b>	3.79	-3.71
<b><u>DOMESTIC TURNOVER:</u></b>	% of respondents reporting a rise	20	33
	% of respondents reporting a fall	70	66
	% of respondents reporting no change	10	0
	% Change in Ave <b>Domestic Turnover DECREASED</b>	-14.72	-15.32
<b><u>EXPORT TURNOVER:</u></b>	% of exporters reporting a rise	60	37.5
	% of exporters reporting a fall	40	50
	% of exporters reporting no change	0	12
	% Change in Average <b>Export Turnover INCREASED</b>	39.64	8.13
<b><u>STAFF NUMBERS:</u></b>	% of respondents reporting a rise	60	44
	% of respondents reporting a fall	30	11
	% of respondents reporting no change	10	44
	% Change in Average <b>Staff Numbers INCREASED</b>	1.05	7.46

#### 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%)	
	June	May	June	May	June	May	June	May	June	May
<b>Profitability (YoY)</b>	36	20	08	10	27	20	18	50	0	0
<b>Cashflow (YoY)</b>	18	10	27	20	45	20	9	50	0	0
<b>Exchange Rate (YoY)</b>	18	0	9	33	36	22	36	44	0	0
<b>Investment Forecast</b>	18	10	18	50	45	0	9	30	9	10
<b>Sales Forecast</b>	0	0	36	20	18	20	45	60	0	0
<b>Profit Forecast</b>	18	0	27	20	9	30	45	50	0	0
<b>Staffing Forecast</b>	0	0	55	20	27	60	18	20	0	0
<b>Confidence</b>	Very Negative		Negative		Neutral		Positive		Very Positive	
	9	0	45	60	45	20	0	20	0	0
<b>Constraint</b>	Production		Skilled Staff		Capital		Market			
	9	10	9	20	0	0	82	70		

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	-55						

Index (base =100)	June 07	July 06	Aug 07	Sept 07	Oct 06	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	June 08
Performance	95.5	96	98.5	98	97	97	97.5	101	97.5	98.5	98	100	93
Forecast	102	99	102	101	103	106	104.2	105.75	104.25	101	99.75	101	98
Change	103	102	103	101	104	104	99	102	102	100	100	100	99