



3 September 2008

Mixed messages from manufacturers

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during August 2008, shows total sales in July 2008 increased 21.0% (export sales increased by 40.1% with domestic sales increasing 6.59%) on July 2007.

The NZMEA survey sample this month covered NZ\$632m in annualised sales, with an export content of 51%.

Net confidence rose to -33, up from the -55 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 98.5, up from the previous month's 93, the change index (capacity utilisation, staff levels, orders and inventories) remained steady at 99, and the forecast index (investment, sales, profitability and staff) is at 100.8, up on the previous month's result of 98. Anything less than 100 indicates a contraction.

The reported constraints were: 17% staff and 83% markets.

Staff numbers for July increased year on year by 6.06%.

"Sales have continued to increase and the falling exchange rate is starting to increase returns for exporters. Confidence has improved because of the expectations of more and bigger interest rate cuts," says NZMEA Chief Executive John Walley.

"Overall the message is mixed; there are better margins and better sales at the moment, but sales are uncertain in the medium term as world markets soften. An export led recovery is far from assured right now."

"The lower dollar has helped margins but those margins continue to be hit by high input prices. Cost escalation on raw materials, electricity supply restriction, freight costs and the cost of travel all tend to take any shine off the effects of a falling dollar," says Mr. Walley.

"The improvements in sales and profitability help, but it will take a longer period of favourable conditions before sentiment firms sufficiently for exporters to move into investment and development mode. The pain of the past several years will take some forgetting. More importantly, will policy makers grasp the nettle and make the changes needed to provide greater stability for the tradeable economy?"

"Confidence is improving but has some way to go before it is even close to positive territory. It is interesting that our decade long trend line has confidence becoming increasingly negative, a slow but nevertheless clear trend and one that should be a worry for everyone."

"We will all share the fate of our exporters and the long-term trend is an indication of deep policy problems."

Further cuts in the base rate are needed to bring down the exchange rate and interest costs. We need to break the ever regressing cycle that has been all too evident for more than a decade."



NEW ZEALAND MANUFACTURERS AND EXPORTERS ASSOCIATION Survey of Business Conditions – July 2007 compared with July 2008

SAMPLE SIZE:

The Survey respondents represent elaborate transformed manufacturers with annual sales of approximately \$632 million.

CHANGE OVER 12 MONTH PERIOD

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

		July	June
<u>TOTAL TURNOVER:</u>	Export /Domestic ratio	51/49	46/54
	% Change in Total Turnover INCREASED	21	3.79
<u>DOMESTIC TURNOVER:</u>	% of respondents reporting a rise	60	20
	% of respondents reporting a fall	30	70
	% of respondents reporting no change	10	10
	% Change in Ave Domestic Turnover INCREASED	6.59	-14.72
<u>EXPORT TURNOVER:</u>	% of exporters reporting a rise	66	60
	% of exporters reporting a fall	22	40
	% of exporters reporting no change	11	0
	% Change in Average Export Turnover INCREASED	40.14	39.64
<u>STAFF NUMBERS:</u>	% of respondents reporting a rise	63	60
	% of respondents reporting a fall	18	30
	% of respondents reporting no change	18	10
	% Change in Average Staff Numbers INCREASED	6.06	1.05

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%)	
	July	June	July	June	July	June	July	June	July	June
Profitability (YoY)	17	36	25	08	25	27	33	18	0	0
Cashflow (YoY)	17	18	17	27	17	45	50	9	0	0
Exchange Rate (YoY)	0	18	27	9	27	36	36	36	9	0
Investment Forecast	8	18	25	18	33	45	25	9	8	9
Sales Forecast	0	0	8	36	42	18	50	45	0	0
Profit Forecast	0	18	33	27	25	9	42	45	0	0
Staffing Forecast	0	0	42	55	42	27	17	18	0	0
Confidence	Very Negative		Negative		Neutral		Positive		Very Positive	
	0	9	42	45	50	45	8	0	0	0
Constraint	Production		Skilled Staff		Capital		Market			
	0	9	17	9	0	0	83	82		

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	-33					

Index (base =100)	July 06	Aug 07	Sept 07	Oct 06	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	June 08	July 08
Performance	96	98.5	98	97	97	97.5	101	97.5	98.5	98	100	93	98.5
Forecast	99	102	101	103	106	104.2	105.75	104.25	101	99.75	101	98	100.75
Change	102	103	101	104	104	99	102	102	100	100	100	99	99