



**3 July 2009**

## **Dollar up, house prices recovering – the real economy struggles.**

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during June 2009, shows total sales in May 2009 decreased 27% (export sales decreased by 30% with domestic sales decreasing 24%) on May 2008.

The NZMEA survey sample this month covered NZ\$468m in annualised sales, with an export content of 45%.

Net confidence dropped to -58, down from the -50 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 88.5, down from the previous month's 91, the change index (capacity utilisation, staff levels, orders and inventories) remained steady at 94, and the forecast index (investment, sales, profitability and staff) is at 89.8, down on the previous month's result of 91.3. Anything less than 100 indicates a contraction.

Markets were the only reported constraint.

Staff numbers for May decreased year on year by 13%.

"We have seen the extreme drop in sales last month come back slightly this month," says NZMEA Chief Executive John Walley.

"Interestingly, for the first time in months export sales performed worse than domestic sales. This indicates that markets here and abroad are in a similar position and the higher dollar is starting to squeeze export margins."

"What confidence there was is fading in light of recent events. Confidence improved in the first quarter as monetary policy easing fuelled hopes of a recovery, but in recent times a higher dollar and a lack of easing in business interest rates have made conditions look significantly less expansionary. This combined with real sales numbers has knocked confidence," says Mr. Walley.

"The further drop in staff numbers shows that the consistent drop in sales over the past few months is causing manufacturers to shed capacity. Unfortunately there is no sign yet that this will turn around as expectations for staff, turnover, profit and investment all continue to track downwards."

"Policy changes are needed to help to turn these expectations around. We need more stability in the tradeable sector through lower and more broadly based taxation, and monetary policy measures to control credit volumes. The last thing we need right now is more upward pressure on the exchange rate driven by yet more debt driven consumer spending."

"Some movement in these policy measures might turn confidence in the tradeable sector around as the recovery expected towards the end of this year comes closer. In the shorter term the pressure will be on the Reserve Bank to provide more than just talk to deliver on better conditions for exporters at the end of the month."



## NEW ZEALAND MANUFACTURERS AND EXPORTERS ASSOCIATION

### Survey of Business Conditions – May 2009 compared with May 2008

**SAMPLE SIZE:** The Survey respondents represent elaborate transformed manufacturers with annual sales of approximately \$468 million.

#### CHANGE OVER 12 MONTH PERIOD

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

		May	April
<b>TOTAL TURNOVER:</b>	Export /Domestic ratio	45/55	42/58
	% Change in <b>Total Turnover DECREASED</b>	-27	-59
<b>DOMESTIC TURNOVER:</b>	% of respondents reporting a rise	9	18
	% of respondents reporting a fall	81	63
	% of respondents reporting no change	9	18
	% Change in Ave <b>Domestic Turnover DECREASED</b>	-24	-62
<b>EXPORT TURNOVER:</b>	% of exporters reporting a rise	45	18
	% of exporters reporting a fall	54	81
	% of exporters reporting no change	0	0
	% Change in Average <b>Export Turnover DECREASED</b>	-30	-53
<b>STAFF NUMBERS:</b>	% of respondents reporting a rise	18	33
	% of respondents reporting a fall	63	50
	% of respondents reporting no change	18	16
	% Change in Average <b>Staff Numbers DECREASED</b>	-13	-17

#### CHANGE OVER 12 MONTH PERIOD

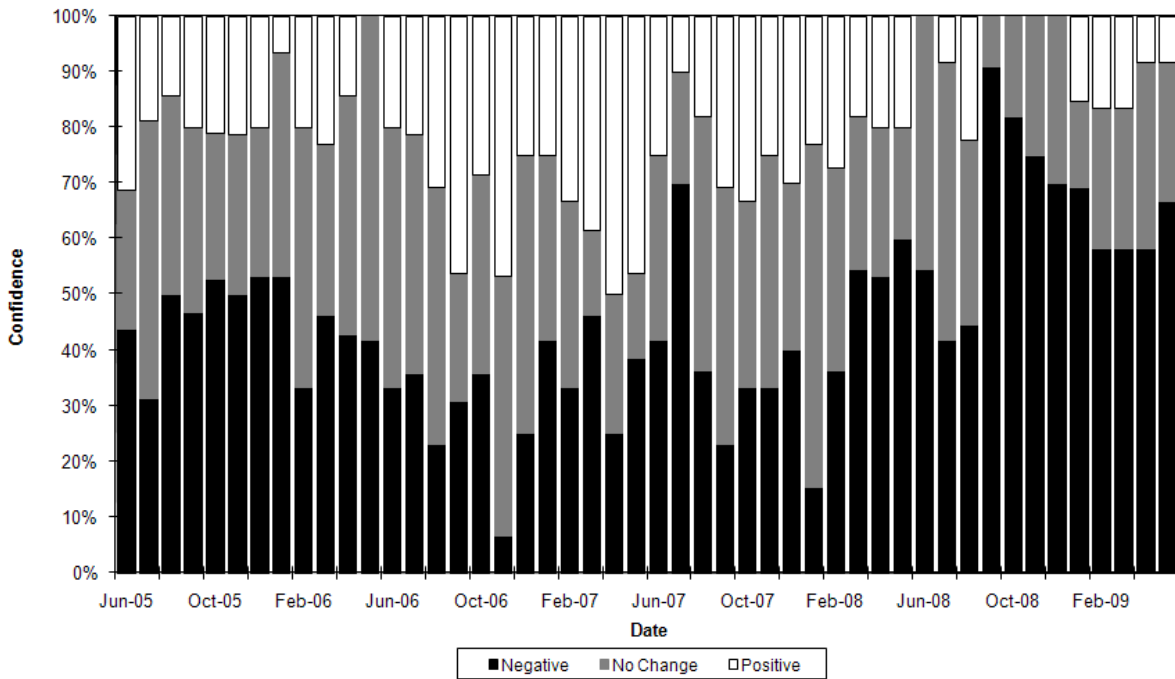
(The table below represents the above returns expressed as percentages.)

	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
<b>Profitability (YoY)</b>	42	58	42	17	0	0	17	17	0	8
<b>Cashflow (YoY)</b>	42	25	17	17	25	42	17	17	0	0
<b>Exchange Rate (YoY)</b>	17	8	8	25	42	17	33	42	0	8
<b>Investment Forecast</b>	33	33	25	25	25	33	17	8	0	0
<b>Sales Forecast</b>	33	17	42	42	8	25	17	17	0	0
<b>Profit Forecast</b>	33	33	42	17	8	42	17	8	0	0
<b>Staffing Forecast</b>	33	25	17	25	50	50	0	0	0	0
<b>Confidence</b>	Very Negative		Negative		Neutral		Positive		Very Positive	
	25	17	42	42	25	33	8	8	0	0
<b>Constraint</b>	Production		Skilled Staff		Capital		Market			
	0	8	0	0	0	0	100	92		

Net Confidence	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
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	-22	-91	-82	-	-73
2009	-54	-42	-42	-50	-58							

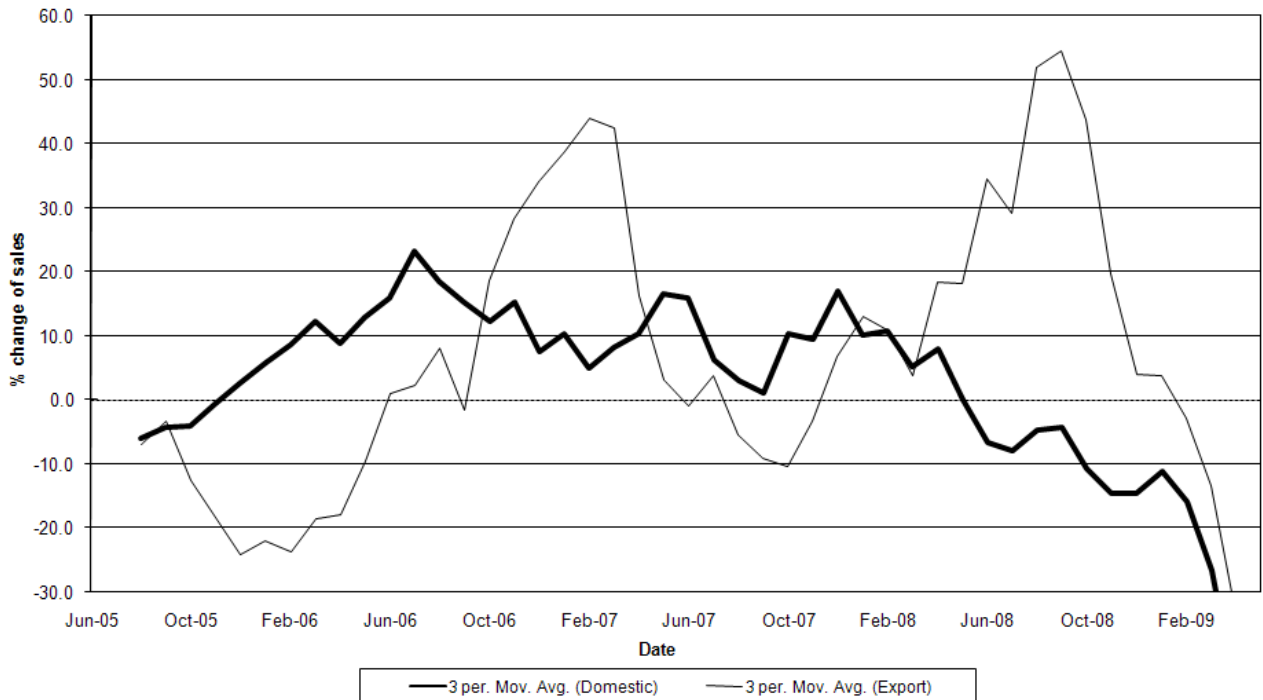
Index (base =100)	Apr 08	May 08	Jun 08	July 08	Aug 08	Sept 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09
Performance	98	100	93	98.5	97	92.5	88.5	-	96	90.5	94	89.5	91	88.5
Forecast	99.75	101	98	100.75	102	95	92.25	-	91.25	88	90.25	96.75	91.25	89.75
Change	100	100	99	99	99	98	96	-	96	94	92	91	94	94

### Confidence



### Sales

(3 month moving average of %change year to year )



### Future Expectations

