



**7 August 2009**

## **Economic decline slows, but recovery uncertain**

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during July 2009, shows total sales in June 2009 decreased 6% (domestic sales increased by 3% with export sales decreasing 19%) on June 2008.

The NZMEA survey sample this month covered NZ\$328m in annualised sales, with an export content of 37%.

Net confidence rose to -27, up from the -58 result reported last month, the best since this time last year.

The current performance index (a combination of profitability and cash flow) is at 91, up from the previous month's 88.5, the change index (capacity utilisation, staff levels, orders and inventories) increased to 96 from 94 last month, and the forecast index (investment, sales, profitability and staff) is at 96, up on the previous month's result of 90. Anything less than 100 indicates a contraction.

Markets were the only reported constraint.

Staff numbers for June decreased year on year by 19%.

"Overall this month's sales are still getting worse but the rate of deterioration has slowed," says NZMEA Chief Executive John Walley.

"Domestic sales have increased for the first time since December last year due to a stabilising housing market and forecasts of domestic growth towards the end of this year, but exports and sustainable medium term growth continue to look weaker. This growth outlook presents further risks to the economy."

"Policy settings generally, and in particular the Official Cash Rate (OCR), are driving this outcome. As confidence in the global recovery grows our higher interest rates have seen the re-emergence of the carry trade, which has overvalued our exchange rate. This is hampering the recovery of the tradeable sector," says Mr. Walley.

"Confidence is less negative and all three compound indexes are up, which indicates that things are improving and that some improvement on current conditions is anticipated."

"Commentary from respondents reported that order lead times are shortening, last minute decisions are being made, there are few forward orders and some payments are very slow. Generally, capacity is being reduced so overall jobs are lost. A few comments are positive and some have said July figures will be better; for others the 9 day fortnight is helping."

"We must avoid a return to the unbalanced and unsustainable asset driven consumption of the last cycle. The productivity review with Don Brash, the tax review and what appears to be an increasingly open minded approach from Bill English and John Key present opportunities to better align policy behind the real economy."

"Only time will tell if the political will is there to make the necessary changes this time round."

For further comment contact John Walley, 03 353 2545, 021 809 631.

**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 2009 compared with June 2008

**SAMPLE SIZE:** The Survey respondents represent elaborate transformed manufacturers with annual sales of approximately \$328 million.

#### CHANGE OVER 12 MONTH PERIOD

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

|                           |  | June  | May   |
|---------------------------|--|-------|-------|
| <b>TOTAL TURNOVER:</b>    | Export /Domestic ratio                               | 37/63 | 45/55 |
|                           | % Change in <b>Total Turnover DECREASED</b>          | -6    | -27   |
| <b>DOMESTIC TURNOVER:</b> | % of respondents reporting a rise                    | 30    | 9     |
|                           | % of respondents reporting a fall                    | 60    | 81    |
|                           | % of respondents reporting no change                 | 10    | 9     |
|                           | % Change in Ave <b>Domestic Turnover INCREASED</b>   | 3     | -24   |
| <b>EXPORT TURNOVER:</b>   | % of exporters reporting a rise                      | 55    | 45    |
|                           | % of exporters reporting a fall                      | 44    | 54    |
|                           | % of exporters reporting no change                   | 0     | 0     |
|                           | % Change in Average <b>Export Turnover DECREASED</b> | -19   | -30   |
| <b>STAFF NUMBERS:</b>     | % of respondents reporting a rise                    | 30    | 18    |
|                           | % of respondents reporting a fall                    | 60    | 63    |
|                           | % of respondents reporting no change                 | 10    | 18    |
|                           | % Change in Average <b>Staff Numbers DECREASED</b>   | -19   | -13   |

#### CHANGE OVER 12 MONTH PERIOD

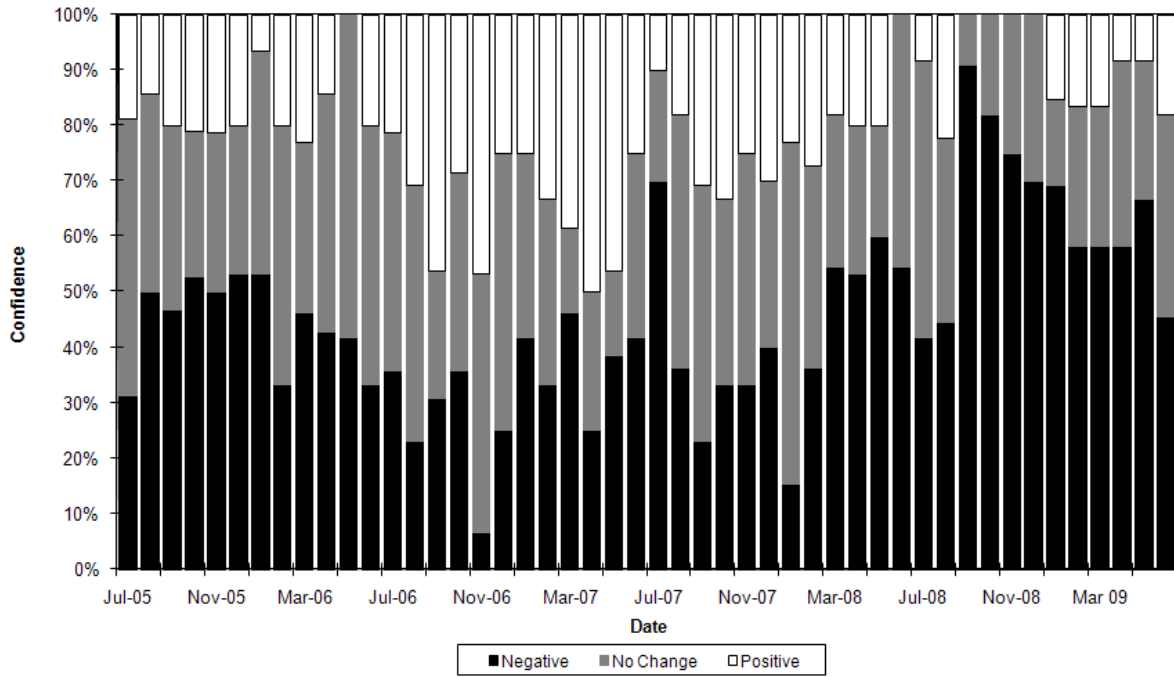
(The table below represents the above returns expressed as percentages.)

|                            | Large Fall<br>(Over 15%) |     | Modest Fall<br>(2.5%-15%) |     | No Change<br>(Within 2.5%) |     | Modest Rise<br>(2.5%-15%) |     | Large Rise<br>(Over 15%) |     |
|----------------------------|--------------------------|-----|---------------------------|-----|----------------------------|-----|---------------------------|-----|--------------------------|-----|
|                            | June                     | May | June                      | May | June                       | May | June                      | May | June                     | May |
| <b>Profitability (YoY)</b> | 55                       | 42  | 27                        | 42  | 0                          | 0   | 9                         | 17  | 9                        | 0   |
| <b>Cashflow (YoY)</b>      | 9                        | 42  | 45                        | 17  | 36                         | 25  | 9                         | 17  | 0                        | 0   |
| <b>Exchange Rate (YoY)</b> | 0                        | 17  | 55                        | 8   | 18                         | 42  | 27                        | 33  | 0                        | 0   |
| <b>Investment Forecast</b> | 27                       | 33  | 9                         | 25  | 45                         | 25  | 18                        | 17  | 0                        | 0   |
| <b>Sales Forecast</b>      | 18                       | 33  | 36                        | 42  | 18                         | 8   | 27                        | 17  | 0                        | 0   |
| <b>Profit Forecast</b>     | 27                       | 33  | 27                        | 42  | 9                          | 8   | 36                        | 17  | 0                        | 0   |
| <b>Staffing Forecast</b>   | 9                        | 33  | 18                        | 17  | 55                         | 50  | 18                        | 0   | 0                        | 0   |
| <b>Confidence</b>          | <b>Very Negative</b>     |     | <b>Negative</b>           |     | <b>Neutral</b>             |     | <b>Positive</b>           |     | <b>Very Positive</b>     |     |
|                            | 18                       | 25  | 27                        | 42  | 36                         | 25  | 18                        | 8   | 0                        | 0   |
| <b>Constraint</b>          | <b>Production</b>        |     | <b>Skilled Staff</b>      |     | <b>Capital</b>             |     | <b>Market</b>             |     |                          |     |
|                            | 0                        | 0   | 0                         | 0   | 0                          | 0   | 100                       | 100 |                          |     |

| 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 | -27  |      |     |      |     |     |     |

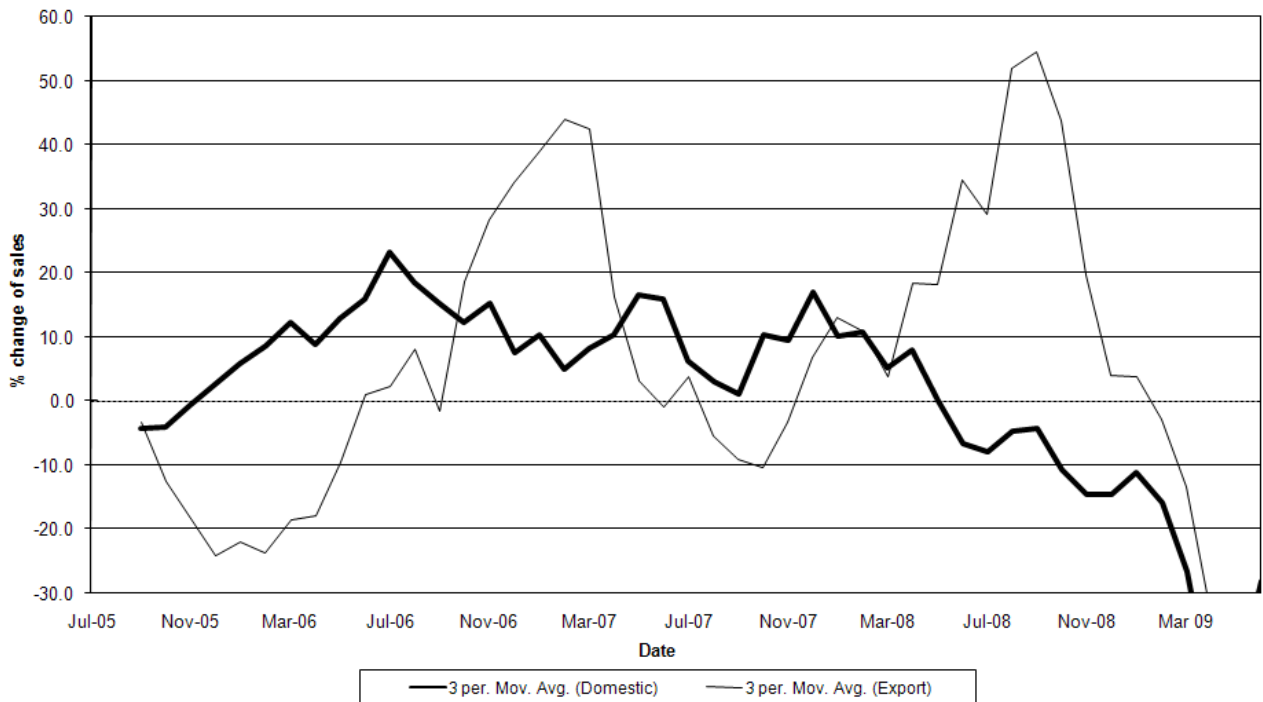
| Index<br>(base =100) | May<br>08 | Jun<br>08 | July<br>08 | Aug<br>08 | Sept<br>08 | Oct<br>08 | Nov<br>08 | Dec<br>08 | Jan<br>09 | Feb<br>09 | Mar<br>09 | Apr<br>09 | May<br>09 | June<br>09 |
|----------------------|-----------|-----------|------------|-----------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Performance          | 100       | 93        | 98.5       | 97        | 92.5       | 88.5      | -         | 96        | 90.5      | 94        | 89.5      | 91        | 88.5      | 91         |
| Forecast             | 101       | 98        | 100.75     | 102       | 95         | 92.25     | -         | 91.25     | 88        | 90.25     | 96.75     | 91.25     | 89.75     | 95.75      |
| Change               | 100       | 99        | 99         | 99        | 98         | 96        | -         | 96        | 94        | 92        | 91        | 94        | 94        | 96         |

### Confidence



### Sales

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



### Future Expectations

