

2 October 2009

Export and Manufacturing recovery – not yet.

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during September 2009, shows total sales in August 2009 decreased 26% (export sales decreased by 43% with domestic sales decreasing 8%) on August 2008.

The NZMEA survey sample this month covered NZ\$485m in annualised sales, with an export content of 40%.

Net confidence fell to -27, down from the -17 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 96, up from the previous month's 95, the change index (capacity utilisation, staff levels, orders and inventories) went up to 101 from 97 last month, and the forecast index (investment, sales, profitability and staff) is at 97.3, down on the previous month's result of 98.5. Anything less than 100 indicates a contraction.

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

Staff numbers for August decreased year on year by 21%.

"The pace of decline slowed in August, and there are pockets of demand starting to develop for some products. Overall we are yet to see any major lift in demand across the sector," says NZMEA Chief Executive John Walley.

"Uncertainty remains the dominant feeling among manufacturers and exporters. There are reports that the economy is improving but so far there has been little improvement in conditions for those in the tradeable sector."

"There is a fundamental disconnect between the confidence which has fuelled the dollar and falling export returns. News of a tiny rise in Gross Domestic Product in the second quarter, a lower balance of payments deficit and an improved Fonterra payout forecast have driven the dollar higher. However, underlying the headlines was a drop in exports of \$771 million and continued decline in the manufacturing and construction sectors."

"We will see small pockets of the economy succeeding so long as their prices continue to hold, but the widespread recovery needed to get employment levels up and improve our relative wealth remains elusive. Our view is the economy is likely to scrape along the bottom for a while yet and things could turn really ugly early next year."

"Unless we see a more realistic exchange rate sustained for some time it is difficult to expect any widespread investment or capacity expansion in New Zealand from exporters. Currently the margins are simply not large enough, or the medium term outlook strong enough, to justify investment."

"The Government and the Reserve Bank continue to talk about the damage that a high dollar is doing to the economy; it is time to do something about monetary policy. A credit volume control mechanism needs to be added to the Official Cash Rate so that when the time comes the Reserve Bank response to inflation in the domestic economy does not further drive up the dollar and do yet more damage to the tradeable economy. Before that happens, action to reduce the strength of the dollar through a mix of rate cuts, currency interventions and, if necessary, quantitative easing is needed."

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 – August 2009 compared with August 2008

SAMPLE SIZE: The Survey respondents represent elaborate transformed manufacturers with annual sales of approximately \$485 million.

CHANGE OVER 12 MONTH PERIOD

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

		August	July
TOTAL TURNOVER:	Export /Domestic ratio	40/60	54/46
	% Change in Total Turnover DECREASED	-26	-34
DOMESTIC TURNOVER:	% of respondents reporting a rise	33	40
	% of respondents reporting a fall	55	50
	% of respondents reporting no change	11	10
	% Change in Ave Domestic Turnover DECREASED	-8	-17
EXPORT TURNOVER:	% of exporters reporting a rise	44	44
	% of exporters reporting a fall	55	44
	% of exporters reporting no change	0	11
	% Change in Average Export Turnover DECREASED	-43	-46
STAFF NUMBERS:	% of respondents reporting a rise	27	27
	% of respondents reporting a fall	72	63
	% of respondents reporting no change	0	9
	% Change in Average Staff Numbers DECREASED	-21	-23

CHANGE OVER 12 MONTH PERIOD

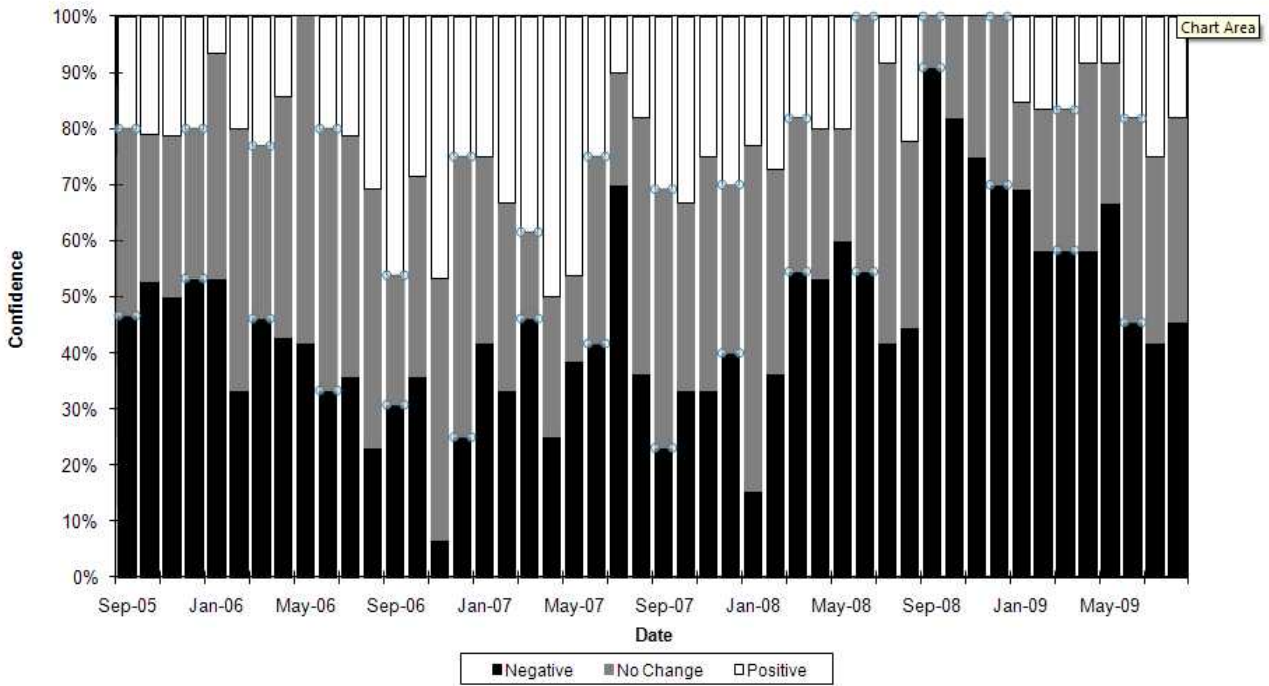
(The table below represents the above returns expressed as percentages.)

	Large Fall (Over 15%)		Modest Fall (2.5%-15%)		No Change (Within 2.5%)		Modest Rise (2.5%-15%)		Large Rise (Over 15%)	
	Aug	Jul	Aug	Jul	Aug	Jul	Aug	Jul	Aug	Jul
Profitability (YoY)	36	42	9	8	9	25	36	17	9	8
Cashflow (YoY)	27	17	9	25	45	25	18	33	0	0
Exchange Rate (YoY)	18	25	36	17	18	25	27	33	0	0
Investment Forecast	27	0	9	8	36	67	18	8	9	17
Sales Forecast	27	17	0	17	27	42	36	25	9	0
Profit Forecast	27	17	9	25	27	33	36	25	0	0
Staffing Forecast	27	8	9	25	45	50	18	17	0	0
Confidence	Very Negative		Negative		Neutral		Positive		Very Positive	
	9	17	36	25	36	33	18	25	0	0
Constraint	Production		Skilled Staff		Capital		Market			
	9	8	0	0	9	0	82	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	-27	-17	-27				

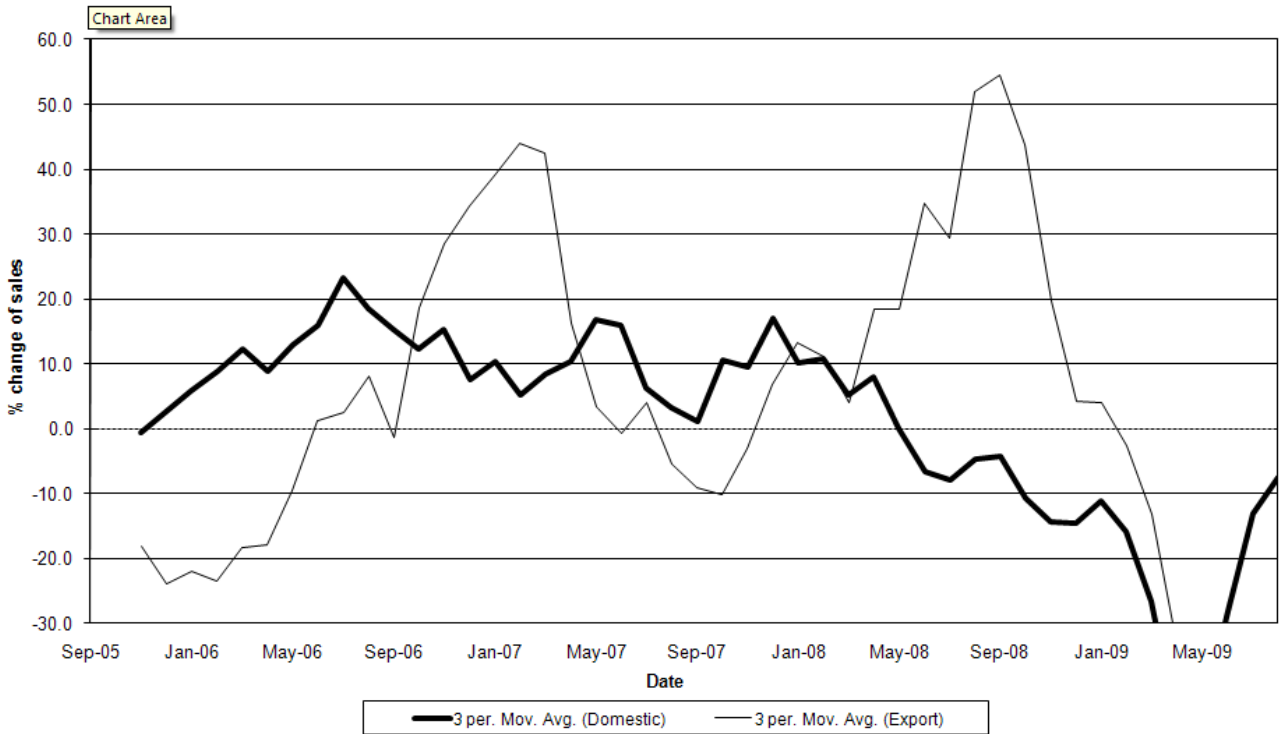
Index (base = 100)	July 08	Aug 08	Sept 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	June 09	July 09	Aug 09
Performance	98.5	97	92.5	88.5	-	96	90.5	94	89.5	91	88.5	91	95	96
Forecast	100.75	102	95	92.25	-	91.25	88	90.25	96.75	91.25	89.75	95.75	98.5	97.25
Change	99	99	98	96	-	96	94	92	91	94	94	96	97	101

Confidence



Sales

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



Future Expectations

