

DHL EXPORT BAROMETER

AUSTRALIAN EXPORT TRENDS



EMERGING MARKETS BOOST EXPORTERS' GLOBAL EXPANSION PLANS

Exporters have put the global financial crisis (GFC) behind them and are now bullish about export expansion in the emerging markets of Latin America, Asia and Africa.

According to results of the 2010 DHL Export Barometer, exporters are so bullish, that the number of exporters expecting to increase orders over the next 12 months is at an all time high – 69 per cent.

Considering Australia was the only industrialized country to achieve export volumes, at a time when world trade contracted by its largest amount in 70 years, exporters' optimism is warranted.

Throughout the GFC, exporters proved themselves to be the unsung heroes of the crunch; maintaining market share and employment levels.

The DHL Export Barometer confirms Australian exporters' resilience during the GFC and indicates that, notwithstanding any unexpected financial shocks, they are well positioned to take up opportunities particularly in emerging markets in a post-GFC world.

It is little wonder Australia's remarkable economic and financial resilience has led some overseas commentators to describe the Australian story as going from 'down under to down wonder.'

Tim Harcourt

Chief Economist

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CRISIS? WHAT CRISIS?

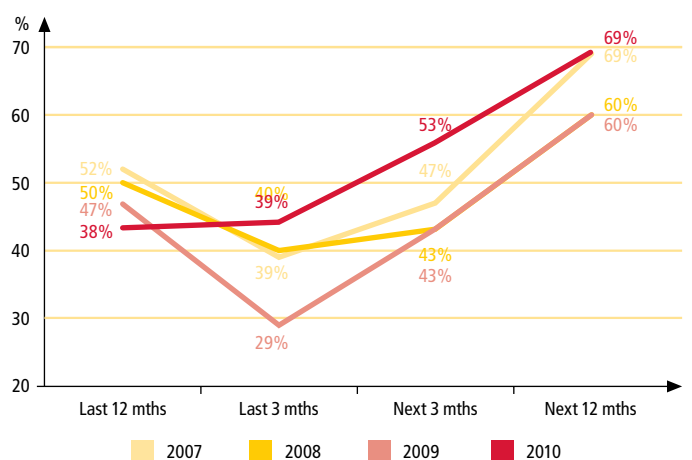
This year, the Export Barometer recorded the highest level of 12 month confidence ever registered. 69 per cent of exporters believe orders will increase in the coming year which would imply exporters are well into recovery and already aggressively expanding their overseas operations.

Short term optimism is also high, with 53 per cent of exporters expecting to expand in the next 3 months.

As evidenced in the Asian financial crisis (1997-98), exporters who stayed in the trouble markets saw their business rapidly expand when the region experienced a "V-shaped" recovery.

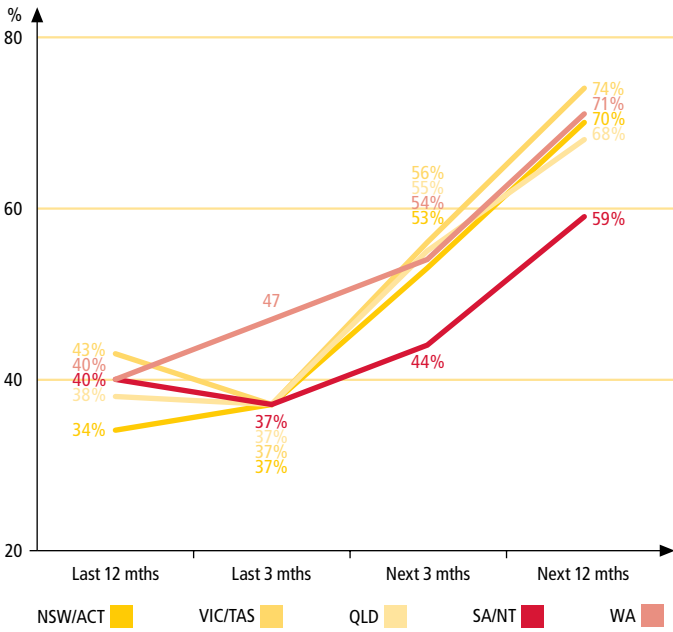
The level of optimism held by the exporter sector shows that Australian exporters are prime position in the box seat when the emerging economies picked up steam.

Companies that expect an "increase" in export orders



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States that expect an "increase" in export orders



With its large mineral wealth and buoyant economic conditions, it is often assumed Western Australia will lead the pack in terms of economic and export growth.

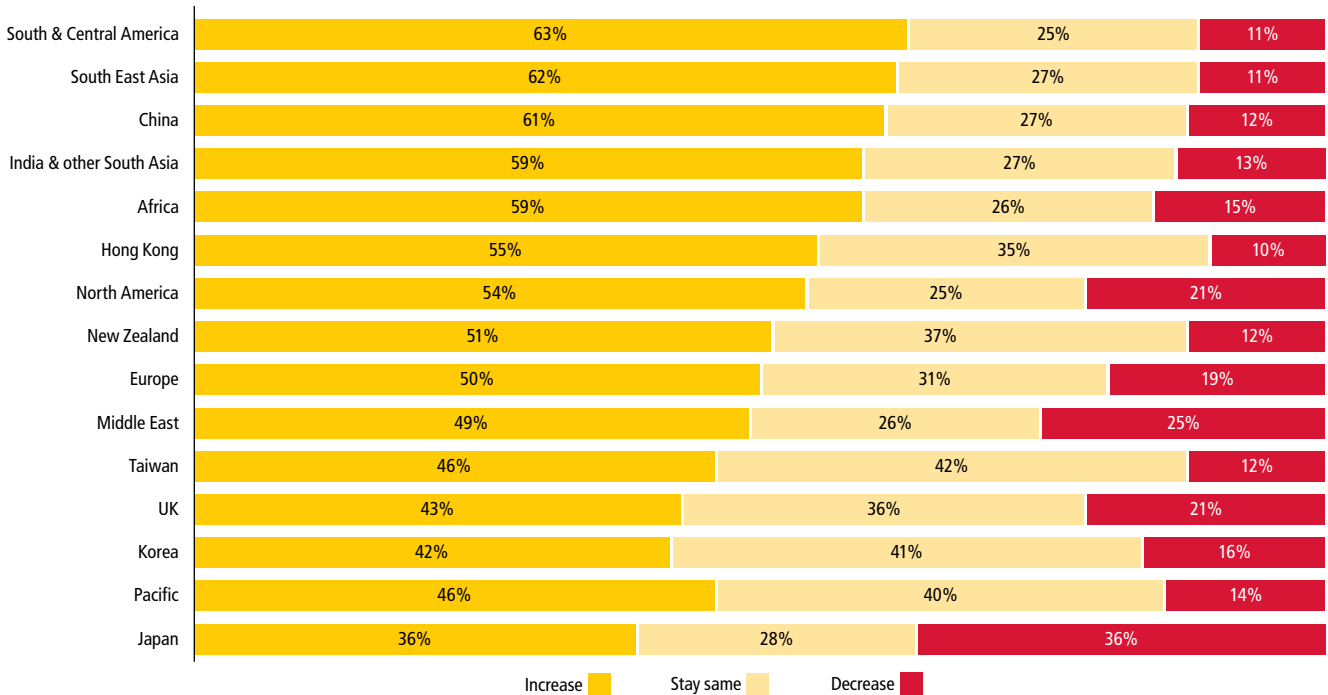
In fact, many commentators talk of a 'two speed economy' with the resource rich states of WA and Queensland leaving the southern and eastern states in their wake.

The Export Barometer supports this to an extent. WA has experienced the largest increase in orders over the past 3 months. However, over the next 12 months, it is Victoria and Tasmanian leading the charge, with 74 per cent of exporters expecting an increase in orders.

States like Victoria have diversified their manufacturing base and have moved to high value services industries like biotechnology, health sciences and multi-media. SA and Tasmania have low unemployment rates and have also found new export industries beyond their traditional base. The Export Barometer shows wages will rise in every state and most exporters expect buoyant labour market conditions.

MORE BEES, LESS BRICS

Changes to export orders over the next 12 months by region



Australian exporters have proven how diverse they are by the markets they have identified as growth regions. Latin America is top of the pops for the first time in the history of the Export Barometer. Over the next 12 months, exporters are also expecting to increase orders to South Asia (mainly India), China and ASEAN.

China and India regularly rate as growth markets, however the significant growth identified by exporters in Latin America proves Brazil is now a significant global player.

Brazil has combined strong macroeconomic management with an expansion of the middle class. It has also reduced poverty by

providing better education and greater access to social security to low income earners. The small open economies of the Andes are following the Chilean model of open markets but being careful to ensure social progress when developing their significant resource endowments.

The results of the Export Barometer prove the importance of emerging economies in terms of shares of Australian trade.

THE IMPACT OF THE GFC

Despite the abounding optimism, exporters weren't totally immune to the effects of the GFC.

When comparing orders to pre-August 2008 levels, the most affected export markets were Japan, North America and Europe. The least affected were Latin America, China, India, ASEAN and the Pacific.

Unsurprisingly, the worst hit industry was tourism. 78 per cent of tourism exporters were negatively affected by the GFC.

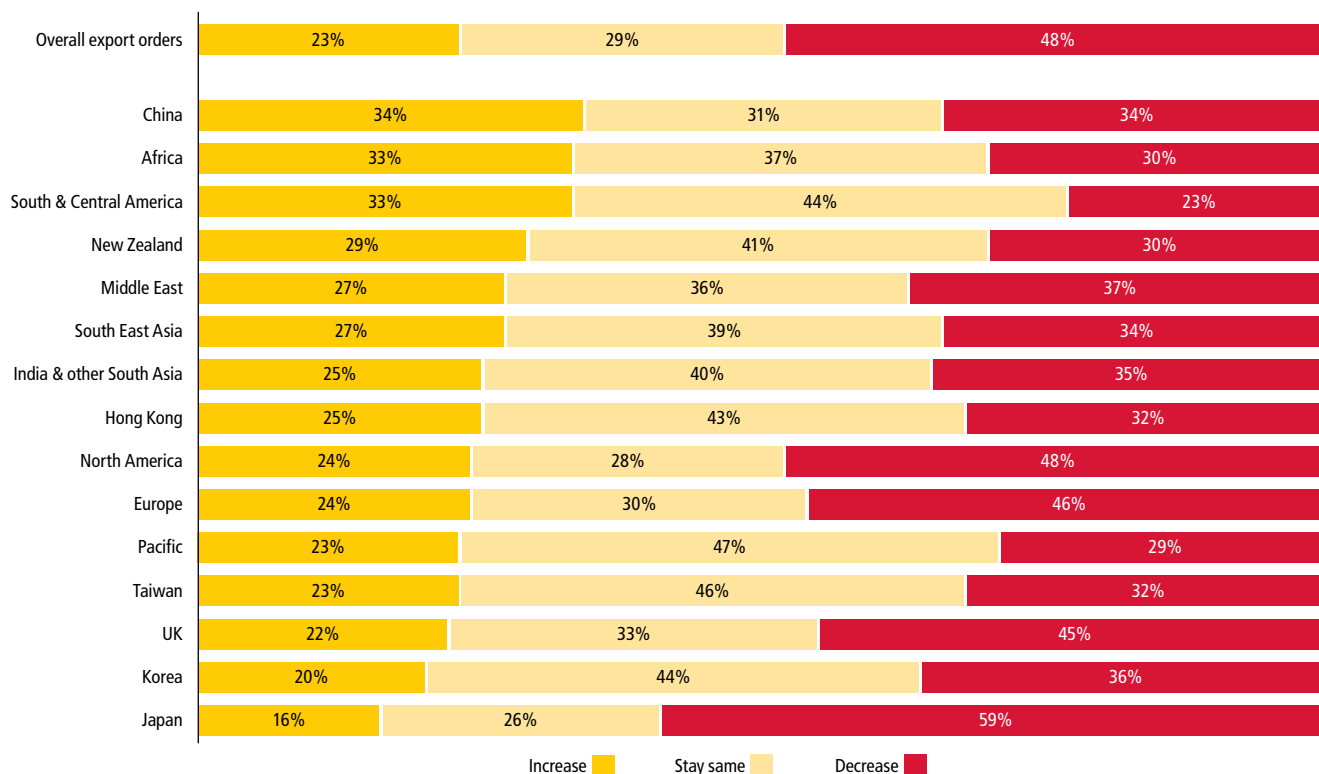
Tourism had a range of issues to deal with last year, including exchange rates, cheaper competition due to airfare price wars in

Whilst Goldman Sachs famously talked about the BRICs – Brazil, Russia, India and China – the trend may be even more widespread than that with the big emerging economies (BEEs) in Asia, Latin America and the Middle East playing a major role.

Asia and Europe and their reliability on small profit margins. The agricultural industry benefited from a lower exchange rate at the beginning of the crisis plus some more favorable drought-breaking climatic conditions throughout the year.

In terms of states, again the 'two speed economy' argument doesn't hold up according to the results of the Export Barometer. The burden was spread across all regions with NSW & ACT and SA & ACT the worst affected.

Current level of export orders compared to pre-GFC (pre August 2008) by region



OVERALL, ALMOST HALF OF THE EXPORTERS STATE THAT THEIR CURRENT LEVELS OF EXPORT ORDERS IS LOWER THAN THE LEVELS SEEN PRE-GFC

Negatively affected by the Global Financial Crisis in the last 12 months



The GFC mainly affected sales revenue and profits but had little impact on output, employment or future investment and business plans. Exporters saw the exchange rates as a buffer to the GFC as the Australian dollar depreciated early in the crisis before later readjusting. Overseas stimulus packages had some positive impact in China and ASEAN.

EXPORTERS IN THE TOURISM SECTOR ARE SIGNIFICANTLY MORE LIKELY TO HAVE HAD THEIR SALES NEGATIVELY AFFECTED BY THE GFC COMPARED TO EXPORTERS IN THE OTHER SECTORS

MORE THAN ROCKS AND CROPS

According to the Export Barometer, 75 per cent of miners expect an increase in profitability over the next 12 months. However, 64 per cent of services exporters also expect an increase in profitability

and 59 per cent of manufacturing. Tourism is still doing it tough with less than half (46 per cent) of exporters expecting an increase in profitability.

Expecting an increase in profitability in the next 12 months



MINING EXPORTERS ARE SIGNIFICANTLY MORE LIKELY TO EXPECT INCREASES IN PROFITABILITY OVER THE NEXT 12 MONTHS COMPARED TO ALL OTHER INDUSTRIES

VIC/TAS AND QLD EXPORTERS ARE MORE LIKELY TO EXPECT AN INCREASE IN PROFITABILITY OVER THE NEXT 12 MONTHS

Mining’s buoyancy is again reflected in the labour market with 70 per cent of miners expecting an increase in employment and 82 per cent expecting that they will have to pay higher wages. There is less job creation expected in tourism and agriculture. 76 per cent of manufacturers and 73 per cent of services exporters are expected to pay a wage increase. The flexibility afforded to exporters during the GFC has enabled them to reward their workers in terms of employment expansion and better wages in the recovery.

A major challenge will be dealing with capacity constraints such as labor shortages, particularly as demand for resources is expected to be relentless. However, the Export Barometer does show that buoyancy and increased economic activity in the resources export sector flows through to manufacturing and services in terms of pull-through from inputs. This suggests the exporters surveyed believed that a strong resources export sector ‘raises all boats’ rather than undermining other sectors.

