

ANNEXURE D



BUSINESS PROSPECTS FOR AUSTRALIAN MANUFACTURING IN 2002

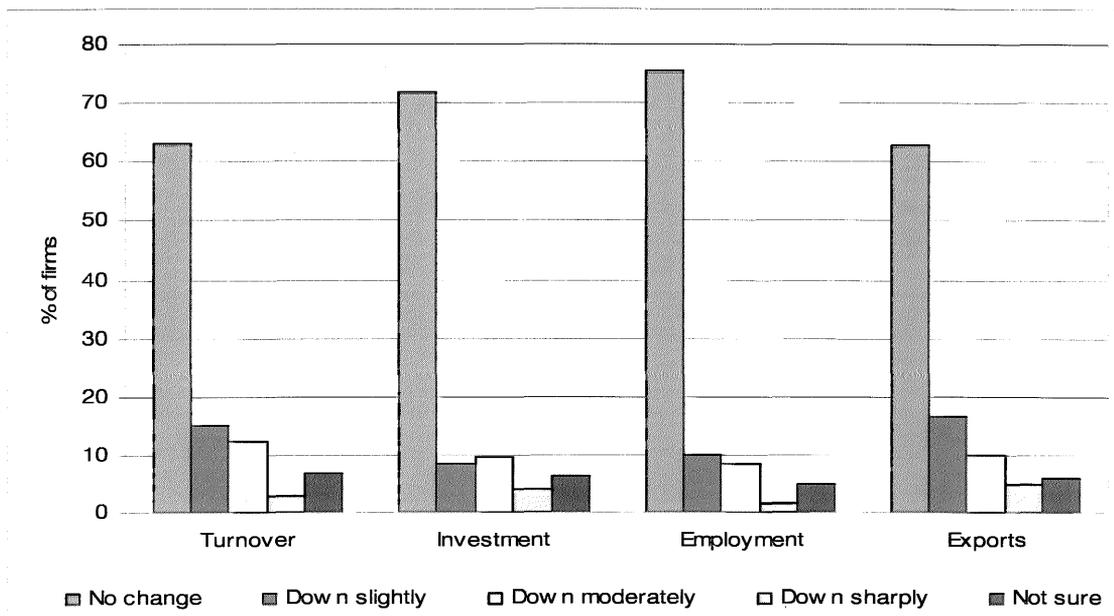
*Results of a Special Survey of Australian
Manufacturing*

February 2002

BUSINESS PROSPECTS FOR AUSTRALIAN MANUFACTURING IN 2002

- Each year, the Australian Industry Group surveys Australian manufacturers to determine prospects for the year ahead. The survey is conducted as part of the Australian Industry Group-PricewaterhouseCoopers Survey of Australian Manufacturing.
- The results incorporate the projections of 880 companies across Australia with an annual turnover in excess of \$50 billion (or 25% of total industrial activity).

Chart 1 Impact of September 11 attacks on manufacturing activity



- The survey was conducted in mid December 2001, just months after the terrorist attacks on New York and Washington. While at the time, there was much speculation about the impact of the terrorist attacks and the military conflict in Afghanistan on the global economy and Australian industry, the evidence to date suggests that Australian manufacturing has been minimally affected up to now. In total, over 60% of firms stated that September 11 had

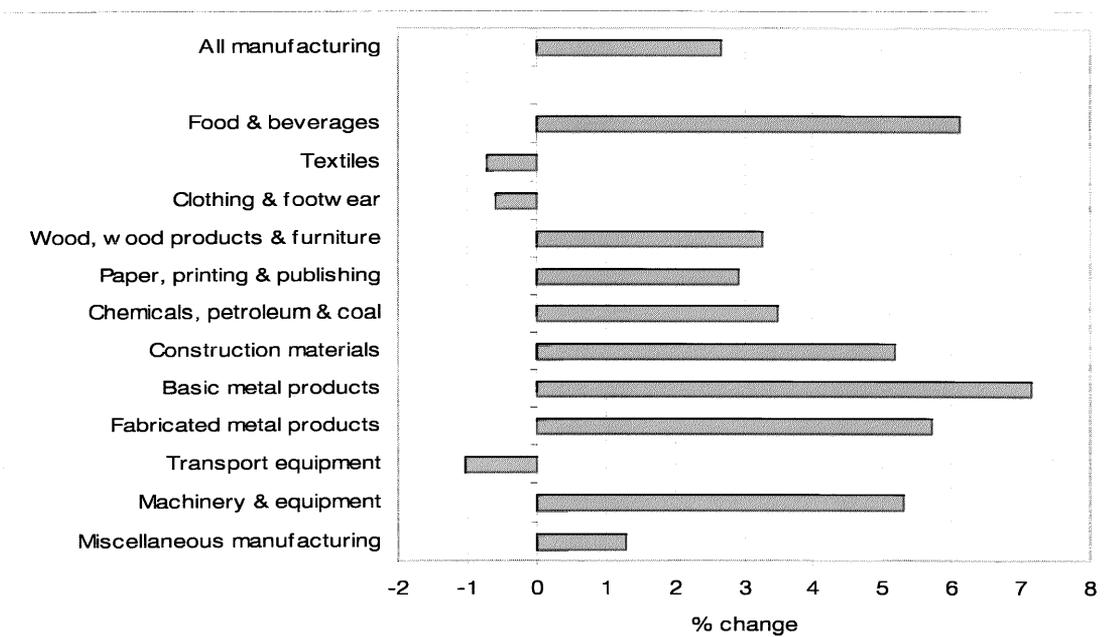
no impact on business activity compared to under 5% of firms who stated it led to a sharp reduction in activity (Chart 1).

- With the impact appearing to be modest for most firms, the growth forecasts for 2002 presented below are for maintenance of moderate growth conditions. However, firms do anticipate a softening in export growth opportunities in 2002.

Turnover/Growth

- ◆ Australia's manufacturing sector grew by only 0.2% based on the National Accounts (as at the end of September 2001).
- ◆ While remaining positive, this is well down on the 4% growth rate (National Accounts) recorded as at end September 2000, reflecting the impact of the housing and economic downturn in late 2000.
- ◆ Growth conditions are expected to ease towards the middle of the year and then recover as exports and world growth improves.
- ◆ The robust housing market and resilient consumer demand has assisted the sector to grow towards the end of 2001 and into the early part of 2002.

Chart 2 *Business expectations for manufacturing growth in 2002*



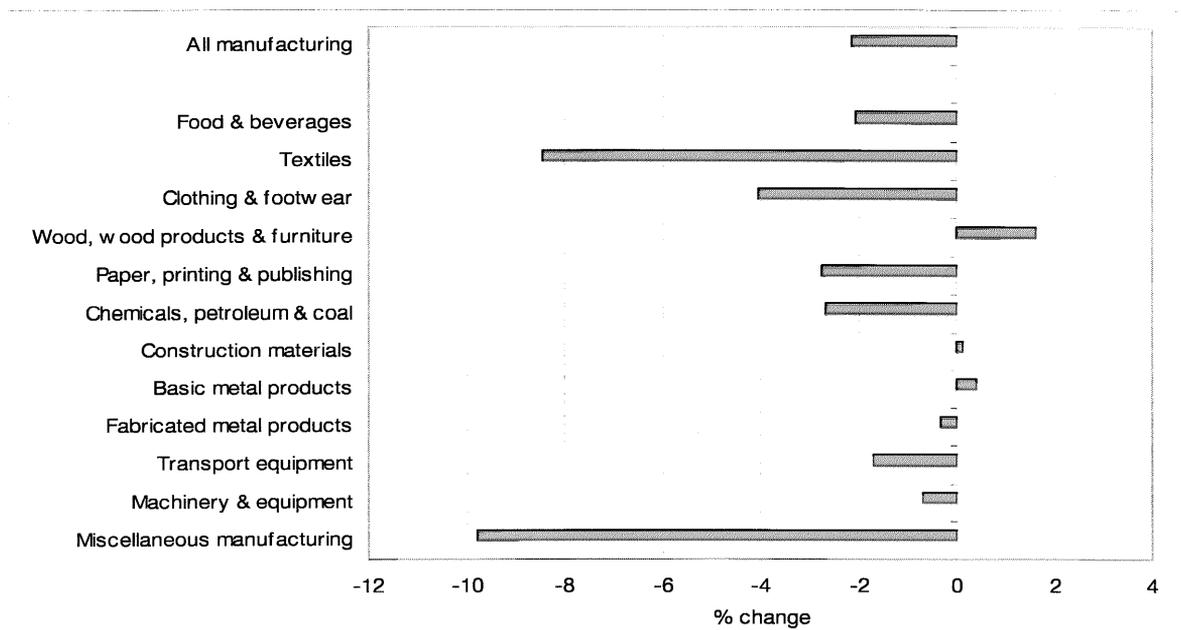
- ◆ Based on the Ai Group survey, it is expected that the manufacturing sector will grow by around 2.7% by the end of 2002.

- ◆ Prospects for growth in 2002 remain strongest for food and beverages; construction material products and metal products sectors.
- ◆ Prospects for exports in 2002 are weakest for clothing and footwear, textiles; and surprisingly, transport equipment sectors.

Employment

- ◆ Employment in manufacturing fell 3% for the year ending 2001 (ABS labour force data). This was considerably greater than that anticipated by companies surveyed by Ai Group at the start of the year (2%).
- ◆ The larger than anticipated reductions reflected the difficult operating conditions firms experienced, including lower selling prices, higher costs, declining margins, a highly competitive market and the winding back of stocks coming out of the worst downturn in 20 years at the start of the year.
- ◆ This is in contrast to twelve months ago (end 2000), when manufacturing employment grew by over 3% according to ABS data. However, due to changes in the collection of employment data by ABS in mid 2000, the real level of employment growth was probably closer to 1%.

Chart 3 *Business expectations for manufacturing employment in 2002*



- ◆ Employment conditions are expected to remain tight throughout 2002. With uncertainty remaining about business conditions in the first half of 2002, and

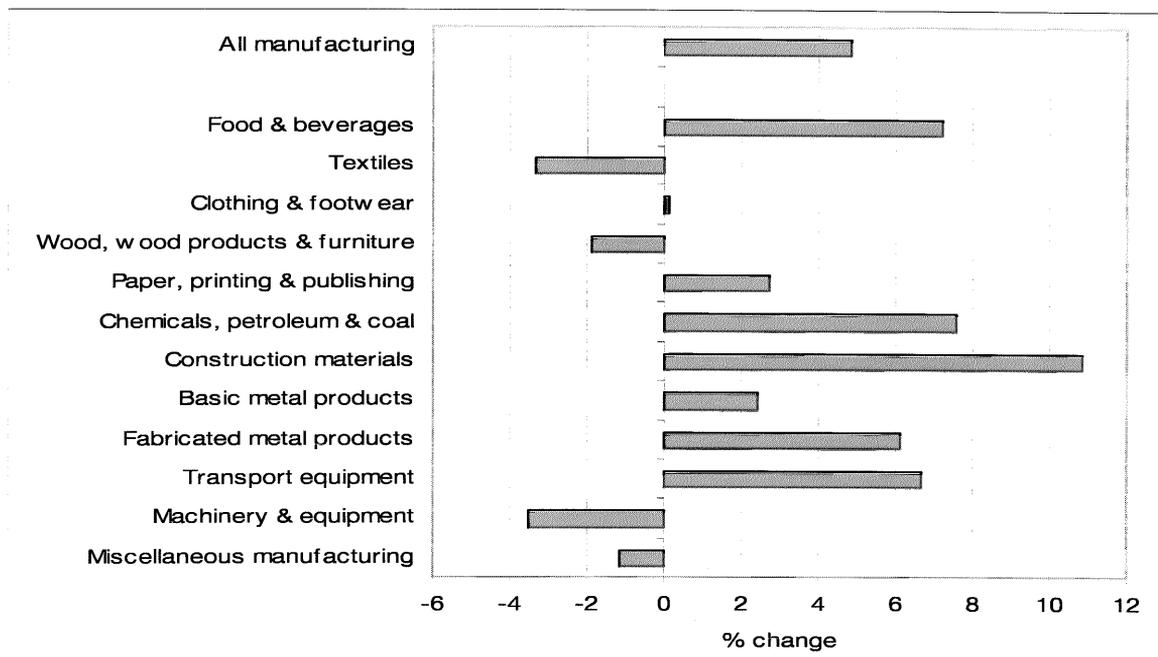
firms continuing to look for opportunities to improve productivity and lower costs to remain competitive, further job reductions are anticipated.

- ◆ It is expected that employment in the manufacturing sector will decline by about 2% over the year based on the Ai Group survey.
- ◆ Only the housing-related sectors of wood, wood products and furniture; construction material products; and basic metal products anticipated any job increases in 2002.
- ◆ The largest declines in employment are anticipated in the textiles; clothing and footwear; and miscellaneous manufacturing sectors.

Exports

- ◆ Australia's manufactured exports are growing at around 3% (estimate based on ABS export data as at the end of 2001).
- ◆ While remaining positive, this is well down on the 21% growth rate recorded in official figures twelve months ago (end 2000), reflecting the impact of the global slowdown.
- ◆ Export conditions are expected to remain soft in the first half of 2002, and pick-up in the second half of the year as world economies recover.
- ◆ Unlike previous export downturns, when manufactured exports fell in annual terms (eg 1996 and 1999), because the current easing is coming off a very strong previous year's peak, there is some prospect that we may avoid an overall decline.
- ◆ Based on the Ai Group survey, it is expected that exports will recover to around 5% growth by the end of 2002.
- ◆ Prospects for exports in 2002 remain strongest for food and beverages; chemicals and related products and transport equipment, although down on the previous year.
- ◆ Currently exports (based on ABS data) in these areas are growing by 22% for food and beverages; 12% for chemicals; 35% for automobiles; and 20% for transport equipment.
- ◆ Prospects for exports in 2002 are weakest for textiles; basic metal products; and machinery and equipment.

Chart 4 Business expectations for manufacturing exports in 2002



- ◆ Currently exports (based on ABS data) in these areas are declining by 15% for textiles; 38% for telecommunications equipment; 11% for electrical machinery; and 30% for power generating machinery and equipment. While iron and steel exports grew strongly in 2001 (36%), this was off a low 2000 base (reflecting the Newcastle shutdown), with prospects expected to be soft for much of 2002.
- ◆ Strongest growth prospects remain in the European Union, United Kingdom and the United States. Weakest prospects are in ASEAN countries (currently down 13%), although China and Korea remain positive.
- ◆ The low Australian dollar relative to US, UK and Euro currencies continues to offer competitive opportunities to Australian exporters.

Investment

- ◆ Manufactured investment based on official data fell by an estimated 14% in 2001 reflecting difficult operating conditions and the weak liquidity positions companies found themselves in following the largest downturn in over twenty years, experienced in late 2000.
- ◆ The decline was similar to that experienced in the previous year (end 2000), when investment in new plant and machinery and building infrastructure fell by 12% (ABS capital expenditure data).

- ◆ Investment conditions based on the Ai Group survey for all but one sector (transport equipment) are expected to remain weak for 2002. Excluding transport equipment, new investment in manufacturing is expected to fall by around 1.5%.
- ◆ Because of unique conditions for investment prevailing in the transport equipment sector, the inclusion of the sector nevertheless pulls up the overall increase in manufacturing investment anticipated for 2002 to around 4%. The Automotive Competitiveness and Investment Scheme (ACIS), which offers import credits for new investment and production activity in the automotive industry, is expected to contribute around \$90 million in additional investment in 2002.
- ◆ As a consequence, investment prospects are expected to be strongest in the transport equipment sector, with new investment expected to jump by over 20%. Investment conditions are also forecast to be positive in 2002 in the textiles (also supported by a federal industry program), chemicals, petroleum and coal products and fabricated metal products sectors.
- ◆ The largest declines in investment are anticipated in the clothing and footwear and basic metal products sectors.

Chart 5 *Business expectations for manufacturing investment in 2002*

