

DHL EXPORT BAROMETER 2016

EXPORTER CONFIDENCE PLATEAUS AMID COMPETING HEAD AND TAILWINDS

Exporters are still muddling through the waters of an uncertain world economy with Brexit, populist election candidates, low growth and fears of further financial stress. However, America's back, free trade agreements are helping (particularly with China) and emerging Asian markets are on Australian exporter's horizons.

The 2016 DHL Export Barometer has recorded no increase in exporter confidence for the first time since 2011. According to this year's DHL Export Barometer, 65% of exporters expect an improvement in export sales over the next 12 months, just down on 66% a year ago.

The weakened Aussie dollar has helped on the revenue side but it has jacked up raw material costs as three out of four Australian exporters now simultaneously import in this modern era of globalisation.

And it's not just China where export forecasts are strong. The 2016 research shows North America has moved up the charts along with the Middle East, Europe, ASEAN – and even Japan and India are seen as favourable regarding future export prospects.

Despite political controversy, particularly in the USA, exporters regard free trade agreements (FTAs) to be useful and increasingly so. Exporters rate highly the FTAs with China, the USA, NZ, Singapore and ASEAN. Looking forward, strong numbers would like to see similar agreements with the EU, India, Indonesia and the Gulf Co-operation Council.

The FTAs in North East Asia – with Japan in particular – are enticing new exporters and new products and services as well as boosting existing export sales.

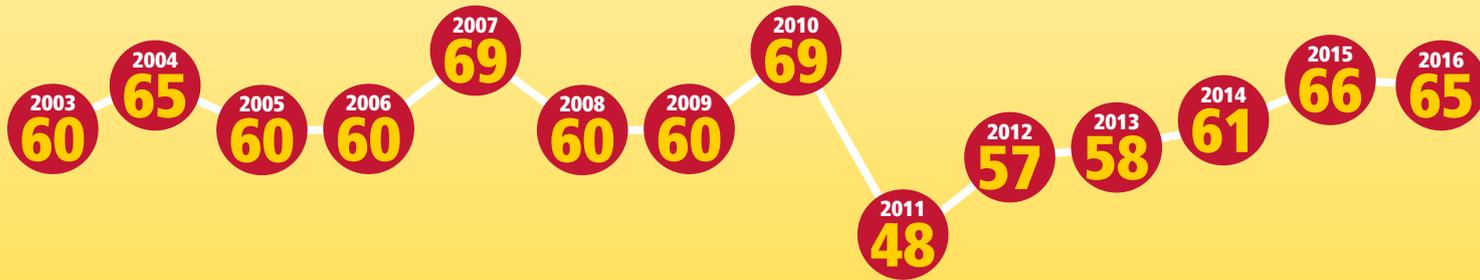
In short, it's never been a more exciting time to be an Australian exporter!

Tim Harcourt

JW Nevile Fellow in Economics
UNSW & The Airport Economist



▼ % Exporters that expect orders to increase over next 12 months



EXPORT CONFIDENCE IS DOWN, BUT ONLY JUST

For the first time since 2011, when world trade was cleaning up after the sub-prime crisis and the collapse of Lehman Brothers, exporter confidence has decreased. However it's more of a 'plateauing' of export confidence than a sharp decline, with 65% of exporters expecting orders to increase – just down on last year's 66%.

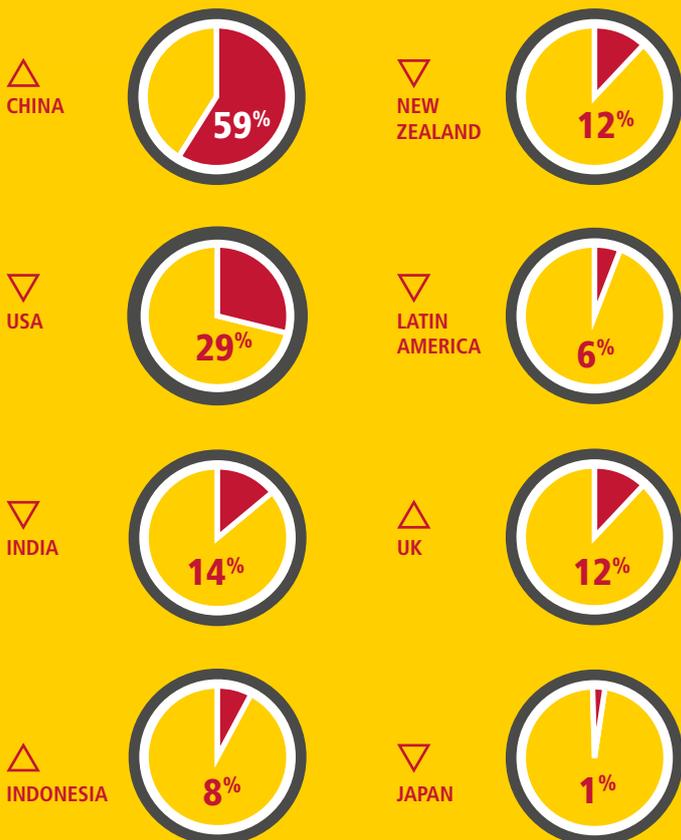
Exporters are still yet to return to the highs seen in 2007 and 2010, when confidence peaked among Australian businesses.

Indicating the optimism may not always translate to definitive results, 47% of exporters did achieve an increase in orders over the year compared to 53% in the previous year.

INTERNATIONAL COMPETITION HEATS UP

China is increasing its grip as the main international competitive threat among exporters who say international competition negatively affects their export sales.. China sits in top place, with 59% of exporters naming 'the middle kingdom' as its main competition – particularly among manufacturing exporters (73%). Much further back in second place was USA (29%), dropping to India (14%), New Zealand (12%), the UK (12%), Indonesia (8%), Latin America (6%) and Japan (1%).

▼ **International competition: countries that are the greatest competitive threat**



NORTH AMERICA HOLDS STRONG AND CHINA NEVER LEFT

Whilst fear of an economic downturn in China is a regular talking point, the 2016 DHL Export Barometer shows that exporters still have confidence in expanding their sales in China.

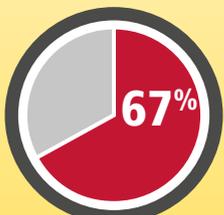
When asked which countries they most expect to increase export orders, China again ranked in first place with 60% of exporters expecting growth over the next 12 months – up from 56% in 2015. Similarly, predicting the recovery in North America continues with 59% expecting an expansion compared with 55% last year.

Despite talks of 'Eurosclerosis', Europe ranks fourth for growth prospects just after the Middle East, showing that exporters do have some 'Eurovision'. These regions are followed by ASEAN, Japan – bolstered by the Japan Australian Economic Partnership (JAPEA) – and India. New Zealand, our closest neighbour, holds steady with exactly half of exporters expecting an increase in orders over the coming year.

The impending Brexit has not put exporters off the UK, which maintains its place as a significant export destination in its own right. Indonesia, South Korea and Hong Kong are also recording steady expected increases.

▼ **Portion of exporters who expect orders to increase over next 12 months**





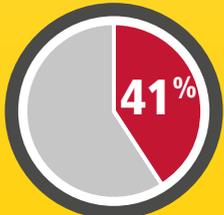
CHINA



USA



NEW ZEALAND



SINGAPORE



AANZFTA

ALL THE WAY WITH THE FTAS

With the rise of economic populism – particularly in the United States – free trade agreements (FTA) have become widely unpopular. But according to the 2016 DHL Export Barometer there is evidence that exporters like Australia’s free trade agreements and that they actually work in a practical business sense, despite the political controversy.

In terms of existing agreements, a positive view of the FTA with China – ChAFTA – is increasing with 67% of exporters saying it has positive impacts going forward. This is quite a significant increase compared to last year, when 58% viewed ChAFTA as positive for exporters.

The FTA with the USA is now gaining traction despite a slow start, with 59% of exporters claiming that the agreement has had a positive impact on their business. This was followed by New Zealand (51% from Closer Economic Relations), Singapore on 41% and AANZFTA – the agreement between Australia, New Zealand and ASEAN on 39%.

The “trifecta” of new Asian FTAs – Japan, South Korea and China – are spurring exporters to develop initiatives to suit these markets. Nearly a third (30%) of Australian businesses that reported a positive impact from ChAFTA have localised their online presence to increase exports. Developing localised products and services is more the focus for exporters targeting the sophisticated, high-income Japanese and South Korean markets (among 27% and 28% of exporters respectively).

Positive impact of current FTAs or closer economic partnerships on business

Perceived impact of future FTAs or closer economic partnerships on business

EUROPEAN UNION

55% POSITIVE



INDIA

49% POSITIVE



TRANS-PACIFIC PARTNERSHIP

49% NEUTRAL



INDONESIA

52% NEUTRAL



GULF CO-OPERATION COUNCIL

64% NEUTRAL

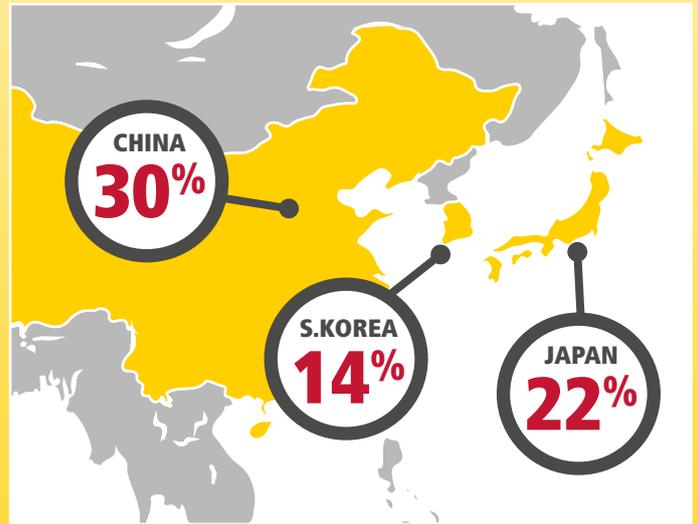


LATIN AMERICA

70% NEUTRAL



Expected increase in exports to the location



WHERE NEXT FOR FTAS?

In terms of future FTA destinations and positive potential impacts, the European Union (EU) was nominated among the highest proportion of exporters (55%). India was next (49%) before Indonesia (45%), with the Gulf Co-operation Council FTA likely to positively impact just one-third (34%).

Interestingly, the controversial Trans Pacific Partnership (TPP) received a positive response from 47% of Australian exporters surveyed – continuing the steady increase seen in previous years (46% in 2015 and 37% in 2014). Almost half of exporters thought they would be likely to benefit from the TPP, while 49% thought it would be neutral and just 4% expected it would be negative. More than one-third (37%) of exporters thought they would start exporting to new TPP countries after coming into effect and 28% said they would develop new products and services especially to benefit from the TPP.

Expected positive impact on exports to TPP countries



INCREASED EXPORTS



START NEW EXPORTS



DEVELOP NEW PRODUCTS



ENHANCE ONLINE PRESENCE



INVEST IN PLANT/EQUIPMENT

▼ **Perceived negative impact of the weakening Australian dollar**

55%	COST RAW MATERIALS
47%	PRICES YOU CHARGE
45%	PROFIT
39%	OVERSEAS COMPETITION
37%	SALES REVENUE
28%	OUTPUT
26%	FUTURE INVESTMENTS
19%	HEADCOUNT

▼ **Strategies to combat fluctuation**



AUSSIE BATTLER OR DOLLAR DAZZLER: FLUCTUATION IMPACTS

The impact of the exchange rate on exporters is often underplayed. Whilst a weakening dollar helps with competitiveness on the price side, many Australian exporters rely on importing raw materials so a weaker dollar drives costs up.

Overall, exchange rates are less of an issue as they were in 2011, when the Australian dollar reached parity with the US Greenback. According to the 2016 DHL Export Barometer, exchange rates, international competition and the cost of raw materials were the main negative factors affecting export sales over the past 12 months.

Reflecting recent events, there has been a sharp increase in the expectation that economic/political conditions abroad would negatively impact sales (up 9% to reach 23%). Similarly, there was also a jump in 'internal and external capacity constraints' (again increasing 9% to hit 20%).

In terms of strategies to deal with a fluctuating exchange rate, 38% of exporters said they have improved their service levels to add value and 28% decided to compete online.

NEGATIVE PERCEPTIONS OF GST THRESHOLD CHANGES

When asked about the recent government decision to charge GST on all imports, more than half (53%) of Australian businesses said they would be negatively impacted with 38% mentioning administrative burden and 37% expecting delays at the border waiting to clear customs. Just 18% of respondents said it would make it easier for them to compete with overseas retailers.

Not surprisingly, businesses that export-only predict a lesser impact – however almost half of Australian businesses that both import and export expect the removal of the GST threshold will result in delays for goods to clear the border. More than a third (38%) of businesses that both import and export believe the cost of doing business will increase due to the need to bring in raw materials.

▼ **Perceived negative impact from decision to reduce the GST threshold for imported goods from AU\$1000 to \$0 in 2017**



▼ **Perceived negative impact of reducing GST free threshold for imported goods (both importers and exporters)**

INCREASED ADMINISTRATION BURDEN	38%
DELAYS TO CLEAR CUSTOMS	37%
INCREASED RAW MATERIAL COSTS	33%

ABOUT THE DHL EXPORT BAROMETER

Conducted by ACA Research, 302 Australian exporters were surveyed for the 2016 DHL Export Barometer between 24 May and 2 July. The DHL Export Barometer is an initiative aimed at analysing export confidence in Australia and identifying export trends, and was first launched in November 2003. It is based on nationwide independent research, examining the business outlook of Australian exporters, highlighting changes in overseas market demand and providing insights into the factors impacting on Australia's export trade.

The profile of respondents included representatives from all areas of the country, with VIC/TAS representing 36%, NSW/ACT 27%, QLD 16%, WA 13% and SA/NT 8%. They comprise a range of business sizes with 28% having 1-4 employees, 34% classed as small businesses (5-19 people), 23% medium (20-99 people) and 15% as large organisations (100+ employees).

The key industry segments targeted are: primary industries (agriculture, mining), manufacturing and professional services, and were weighted in line with past years' research.