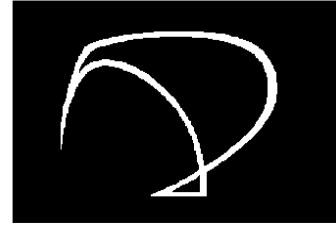


Manufacturers Business Planning Forecasts



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2 February 2000

FORECASTS: MARCH QUARTER 2000

Introduction

This bulletin is designed to help plan your business. It brings together forecasts of important indicators to help prepare budgets and business plans.

The forecasts are drawn from two main sources. The New Zealand information is based on a survey of the five main trading banks (ANZ, ASB, BNZ, National and WestpacTrust). The Australian information is based on consensus forecasts put together by the UK based magazine "The Economist". Sources of other information are as shown.

We stress the information in this publication is by its nature uncertain. Your firm is unique, and you will need to make your own decisions. However, we believe the better informed you are about the way various business people see the future, the better decisions you can make.

Where appropriate we have not only included the average value across all forecasters, but also the highest and the lowest forecast. This gives some idea of the spread of forecasts, and therefore an idea of the uncertainty involved.

The New Zealand Economy

Growth in real GDP, the measure of how much NZ's production is likely to increase or decrease, illustrates how demand in volume terms might change in the New Zealand market.

There is ample evidence from recent data that manufacturing activity was strong in the December quarter, with both improving export and domestic sales growth. As a consequence of the strong growth already recorded in the September quarter, the bank forecasters have significantly revised upwards their growth forecasts for the year to March 2000.

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Average forecasts for economic growth in 2001 are little changed but there is greater uncertainty among the forecasters over the level of growth. This in part reflects much greater uncertainty over the direction of the exchange rate over the next 18 months, particularly the cross rate with Australia.

It is clear the Reserve Bank will face some of its most difficult decisions over the next six months because of the conflicting issues that it must address. It will have an impact on whether we continue to see major volatility in economic growth or achieve a more sustainable growth level.

The flood of imports from Asia, over the last six months, with particularly strong growth in consumer goods, suggests the New Zealand dollar is still over valued against some currencies. This flood of imports, as well as uncertainty over the direction of the exchange rate and the potential impact of government policy changes, means that business confidence has been falling steadily for the last 12 months despite the more recent improvement in economic growth.

The recent flood of imported consumer goods suggests the Reserve Bank should be raising interest rates to dampen consumer demand and take pressure off the current account deficit. The recent sharp rise in manufacturing capacity utilisation would also normally in the past suggested that interest rates should rise.

However, weak business confidence and a subsequent lack of investment activity are the main factors in the rise in capacity utilisation rather than unsustainable economic growth. From a manufacturing perspective, therefore, a rise in interest rates and the exchange rate could seriously damage the current fragile recovery. It is also clear the flood of imports is continuing to suppress price increases on the domestic market so a significant increase in inflation now appears unlikely. Exporters have been able to raise prices as a result of the weaker exchange but this is unlikely to flow through into domestic inflation.

The serious deterioration in the balance of payments may allow the Reserve Bank to raise interest rates while the currency continues to weaken further. This will definitely benefit manufacturers with a strong balance sheet.

One thing that is definite, however, is that manufacturers need to pay close attention to the direction of economic activity here and in our main trading partners. Firms that are able to adjust their activity more quickly will benefit in the present environment. Prospects are looking better for manufacturing with continuing growth in our main trading partners and better prospects of a more favourable exchange rate.

Real GDP % Growth

| | Years Ending | | |
|---------|-----------------|----------------|----------------|
| | <i>March 00</i> | <i>Sept 00</i> | <i>Sept 01</i> |
| Highest | 3.7 | 4.5 | 3.9 |
| Average | 3.5 | 4.2 | 3.7 |
| Lowest | 3.3 | 3.8 | 3.2 |

Source: ANZ, ASB, BNZ, National and WestpacTrust

The second key indicator is the rate of inflation, which gives an idea of price increases, plus wage increase demands. There have been two measures: headline inflation that includes all price movements faced by households including interest rate movements; and underlying inflation that excludes interest rate movements.

The new CPI index released in October excludes interest rates but the annual measure still includes interest rate impacts in earlier quarters. It will not be until the June quarter this year that the headline and underlying rates will be the same.

Inflation is forecast to rise in the March quarter as a consequence of recent petrol price increases. The underlying inflation rate, however, is forecast to be very stable over the next 18 months.

% Change of Inflation

CPI Excluding Credit Services (Underlying Rate) **Years Ending**

| | <i>March 00</i> | <i>Sept 00</i> | <i>Sept 01</i> |
|---------|-----------------|----------------|----------------|
| Highest | 2.0 | 2.0 | 2.3 |
| Average | 1.7 | 1.8 | 1.9 |
| Lowest | 1.5 | 1.7 | 1.5 |

Source: ANZ, ASB, BNZ, National and WestpacTrust

Statistics NZ produces an index that measures movements in the total cost of employing labour. The present expectation is that this index will move generally in line with the rate of inflation. Forecasts for growth in labour costs have reduced this year due to slower wage growth and reduced accident insurance costs.

Labour cost index % change

Years Ending

| | <i>March 00</i> | <i>Sept 00</i> | <i>Sept 01</i> |
|---------|-----------------|----------------|----------------|
| Highest | 1.8 | 2.1 | 2.2 |
| Average | 1.4 | 1.8 | 2.0 |
| Lowest | 0.7 | 1.6 | 1.7 |

Source: ANZ, ASB, BNZ, National and WestpacTrust

The level of unemployment is now expected to fall steadily over the next two years as economic growth improves. High productivity growth and increased labour force participation by workers aged 60 years and over will be two factors impacting the level of employment growth and composition of the labour force.

Unemployment % (HLFS)

Years Ending

| | <i>March 00</i> | <i>Sept 00</i> | <i>Sept 01</i> |
|---------|-----------------|----------------|----------------|
| Highest | 6.9 | 6.7 | 6.3 |
| Average | 6.5 | 6.3 | 5.9 |
| Lowest | 6.3 | 5.9 | 5.5 |

Source: ANZ, ASB, BNZ, National and WestpacTrust

The other major cost driver is interest rates. In general overdraft rates and mortgage

rates will move in line with the 90 day bill rate. Interest rates are now forecast to increase more strongly this year in response to the strong economic activity in the second half of 1999 and the weaker exchange rate. Further weakness in the exchange rate could result in a stronger rise in interest rates.

Interest Rates (90 day bills)

| | Years Ending | | |
|---------|--------------|---------|---------|
| | March 00 | Sept 00 | Sept 01 |
| Highest | 6.0 | 6.7 | 7.2 |
| Average | 5.8 | 6.5 | 6.9 |
| Lowest | 5.7 | 6.2 | 6.2 |

Source: ANZ, ASB, BNZ, National and WestpacTrust

Exchange Rates

A number of forecasts of exchange rates are available. Individual cross-rates (e.g. the NZ\$/A\$) can change quite sharply, but the trade weighted index (TWI) is more stable because of the way the Reserve Bank operates. There is considerable uncertainty over the short-term movement against the Australian Dollar, reflecting significant volatility over the last two months. The general view is that the currency will appreciate against the US\$ but less strongly than forecast last year. The currency is expected to stay much lower against the Australian dollar, with forecasters divided on whether the cross rate will weaken further or appreciate.

| A\$ | | | | US\$ | | | |
|---------|----------|---------|---------|---------|----------|---------|---------|
| | March 00 | Sept 00 | Sept 01 | | March 00 | Sept 00 | Sept 01 |
| Highest | 82.3 | 85.0 | 87.7 | Highest | 53.0 | 57.5 | 63.0 |
| Average | 79.0 | 80.9 | 82.7 | Average | 52.4 | 56.1 | 60.6 |
| Lowest | 76.5 | 76.3 | 77.9 | Lowest | 51.8 | 53.0 | 55.7 |

| TWI | | | |
|---------|----------|---------|---------|
| | March 00 | Sept 00 | Sept 01 |
| Highest | 56.1 | 60.3 | 64.2 |
| Average | 55.0 | 58.3 | 61.3 |
| Lowest | 53.6 | 55.7 | 58.2 |

Source: ANZ, ASB, BNZ, National and WestpacTrust

In practice, buying forward the A\$ and US\$ will reduce the risk in cross rate movements. Sell rates quoted by the National Bank (all other banks are the same but the rates change from day to day) on 2 February 2000 were:

| A\$ | | US\$ | |
|-------------|----------|-------------|----------|
| 2 August 00 | 2 Feb 01 | 2 August 00 | 2 Feb 01 |
| 77.98 | 77.88 | 49.38 | 49.35 |

Source: National

Forward cover rates are based on the exchange rate when it is bought so it pays to watch daily movements and buy at the right time, particularly in light of recent movement in the exchange rate with Australia and the US. Lower interest rates in

New Zealand reduced some of the benefits of buying forward cover so future interest rate changes will have an impact on whether it is useful to have forward cover.

The Australian Economy

The performance of the Australian economy impacts in two ways. It provides a measure of how well exporting is likely to go, and it gives an idea of what kind of competition there is coming from Australian sourced products.

| GDP Growth | | |
|-----------------------|-------------|-------------|
| Calendar Years | | |
| | <i>1999</i> | <i>2000</i> |
| Highest | 4.8 | 4.8 |
| Average | 4.2 | 3.9 |
| Lowest | 3.5 | 2.8 |

Source: The Economist

Australian GDP growth held up more strongly than expected in 1998 but has been gradually slowing during 1999 and is expected to slow further in 2000. Retail sales growth has remained strong, despite a fall in motor vehicle sales, but manufacturing sales growth declined sharply in the June and September quarters. Exports from the primary sector have improved significantly while import growth for consumer goods has been much weaker than in New Zealand, resulting in recent improvements in Australia's balance on merchandise trade.

The introduction of GST in the middle of the year will create some volatility, with increased demand for some goods while consumers will be holding off purchasing others where the current sales tax level is higher than the new GST rate.

Unemployment continues to fall but wage growth has been weak, rising at a lower level than the rate of inflation.

| Headline Inflation | | |
|---------------------------|-------------|-------------|
| Calendar Years | | |
| <i>Quarter</i> | <i>1999</i> | <i>2000</i> |
| Average | 1.4 | 3.3 |

Source: The Economist

Australian inflation has been much weaker than earlier forecasts due to weaker wage growth and higher productivity growth. Rising producer prices, mostly stronger due to commodity prices and the impact of the introduction of GST are expected to result in inflation now rising to 3.3% by December 2000.

Interest rates (90 day bills)

| Calendar Years | | |
|----------------|------|------|
| 2000 | 2001 | 2002 |
| 5.6 | 5.7 | 5.4 |

Source: NZIER Quarterly Predictions

Short-term interest rates in Australia have remained stable, but strengthening economic growth in 2000 is expected to result in a small rise in interest rates this year.

Rest of the World

Short term international prospects improved, with much quicker growth in Asia in 1999 than previously expected. Growth continues in the US, Australia, the UK and Germany, but Japan is not forecast to begin reasonable economic growth until 2001.

World GDP Growth (Trading Partners)

| Calendar Years | | | |
|----------------|------|------|------|
| 1999 | 2000 | 2001 | 2002 |
| 3.3 | 3.2 | 3.4 | 3.5 |

Source: NZIER Quarterly Predictions