

# AUSTRALIAN Business

**AND THE GLOBAL ECONOMIC AND FINANCIAL CRISIS**

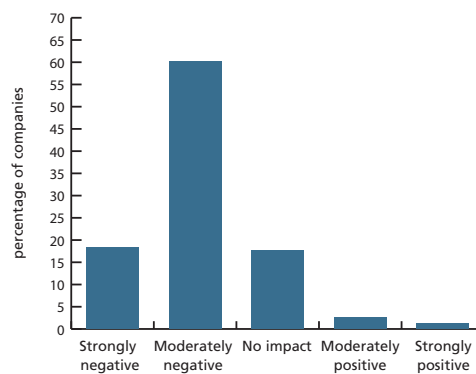
**JANUARY 2009**

## BUSINESS EXPECTATIONS WEAKEN

### KEY FINDINGS

- The industry slowdown precipitated by the global economic and financial crisis intensified in January, with declining levels of new orders severely denting business expectations for future growth.
- The proportion of companies reporting negative impacts as a result of the crisis was 78%, a higher number than in the preceding three months. Only 4% of firms experienced positive impacts in January, with 18% citing no change.
- Manufacturing remains the sector hardest hit, with 80% of business identifying negative impacts, although a high proportion of services (77%) and construction (75%) firms have also been affected.
- Businesses continue to raise the prospect of shelving planned expenditure on capital investment and training while they focus on contending with falling demand.
- On a more positive note, the proportion of firms reporting a beneficial impact from the depreciating Australian dollar increased in January, with the number reporting detrimental effects declining by a similar degree.
- Lowering costs, as opposed to revising business plans, was the preferred business strategy for dealing with the global economic and financial crisis in January.

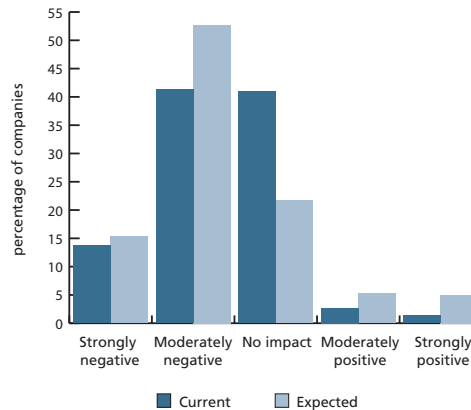
Overall impact on business



### PRODUCTION AND EMPLOYMENT

- Production by Australian business remains hard hit by the global financial and economic crisis, with 14% experiencing strong negative effects and a further 41% identifying moderate negative impacts.
- Only 4% of companies cited a positive impact on production levels in January.
- Manufacturing again contained the largest proportion of firms reporting a negative impact on production (59%), compared with 55% of constructors and 50% of services firms.
- The deterioration in production is expected to deepen in the coming months, with 15% anticipating strong negative impacts and 53% preparing for moderate negative effects.
- The proportion of companies citing a negative impact on employment fell in all three sectors, leading to an overall decline in the proportion of firms affected, from 59% to 53%.
- Employment in the manufacturing sector remains the most affected by the crisis (56%), followed by services (52%) and construction (49%).

Current and expected production



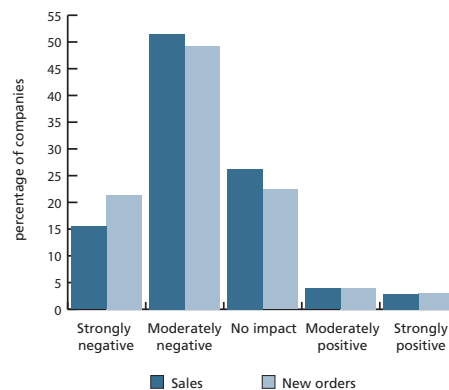
### WHAT IS THE GLOBAL ECONOMIC AND FINANCIAL CRISIS SPECIAL SURVEY?

Since October 2008 Ai Group has been monitoring the impact of the global economic and financial crisis on manufacturing, construction and services.

### SALES AND NEW ORDERS

- Around two-thirds of Australian businesses (67%) attributed a downturn in sales in January to the global economic and financial crisis, down slightly from 70% in December.
- On a positive note, 7% of firms indicated the crisis had led to an increase in sales in January.
- Services sales remain the hardest hit by the economic turmoil, with 70% of companies in the sector reporting a negative impact.
- A falling proportion of firms cited negative impacts on sales in the manufacturing (down from 70% to 66%) and construction (down from 65% to 60%) sectors.
- The impact of the global economic and financial crisis is hitting the order books of Australian firms particularly hard, with more than one in five (21%) reporting a strong negative impact and an additional 49% citing moderate negative effects.
- The proportion of companies citing a negative impact on new orders fell slightly in manufacturing (from 74% to 73%) and services (from 70% to 68%), but lifted from 65% to 69% in the construction sector.

Current sales and new orders



The results of the January Global Economic and Financial Crisis Survey are based on a total of around 300 companies in the manufacturing (48%), services (40%) and construction sectors (12%). Companies were asked a range of questions concerning the impact of recent volatility in global and Australian financial markets on their business' operations and finances.

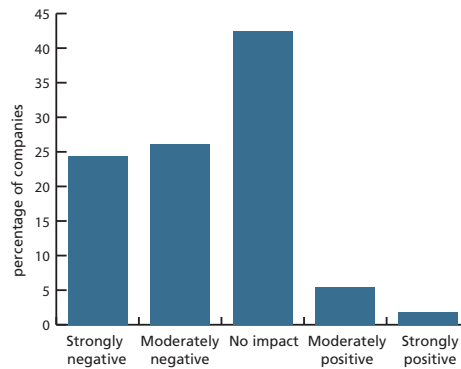
The results are current as at 21 January and the survey was conducted two weeks prior.

More information can be obtained from the Ai Group website [www.aigroup.asn.au](http://www.aigroup.asn.au).

## CAPITAL INVESTMENT

- Capital investment plans remain affected by weak business conditions, with just over half of the companies surveyed in January reporting negative impacts.
- Almost one-quarter of businesses (24%) cited strong negative impacts on capital expenditure plans, with another 26% experiencing moderate negative effects.
- Almost 43% of companies claimed the global economic and financial crisis had no impact on their capital investment plans in January, while the remaining 7% reported a positive influence.
- The credit crisis has impacted on the capital investment plans of firms in all sectors with 52% of manufacturing and construction firms citing a negative impact, compared with 48% of services businesses.
- Conversely, the construction sector contained the highest proportion of firms reporting a positive impact on capital investment plans (18.5%), compared with 6.2% of manufacturers and 5.6% of services firms.

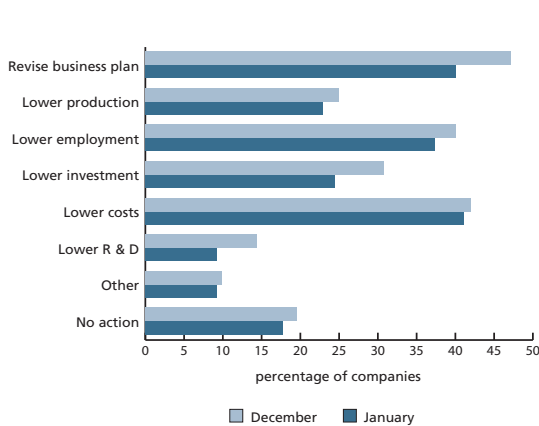
## Capital investment



## BUSINESS RESPONSE TO FINANCIAL CRISIS

- Companies are refining their responses to the global economic and financial crisis by concentrating on fewer actions.
- Lowering costs was the most popular action taken in January (41%), followed by revising business plans (40%); lowering employment (37%) and lowering investment (25%).
- The number of companies taking no action fell to 18% in January, indicating that most firms are now responding to the financial crisis in some manner.
- Manufacturer's main strategies are focusing on lowering costs (43%) and lowering employment (41%).
- For services companies, the preferred strategies are revising business plans (46%) and lowering costs (43%).
- The popularity of actions taken is more evenly spread across the construction sector; with 30% of firms revising business plans in January; 27% electing to lower production; and 27% cutting back employment.

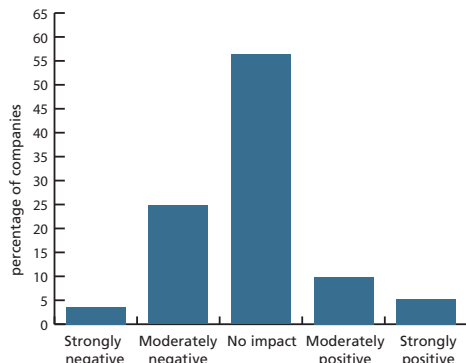
## Action taken to deal with financial crisis



## AVAILABILITY AND COST OF CREDIT

- In January, 24% of firms reported a negative impact on their access to short-term credit, while 25% claimed access to long term credit had been negatively affected.
- Around three-quarters of businesses cited no impact on the availability of both short-term and long-term credit.
- For 28% of companies, the cost of credit was negatively affected in January, while 56% of firms cited no impact.
- The recent decline in interest rates was felt by some businesses in January, with 15% reporting positive impacts as a result of the global economic and financial crisis.
- An increase in the cost of credit was most prevalent in the services sector with 36% of firms reporting a negative effect, followed by the construction (26%) and manufacturing (23%) sectors.
- The construction sector reported the highest incidence of positive effects on their cost of credit at 23%.

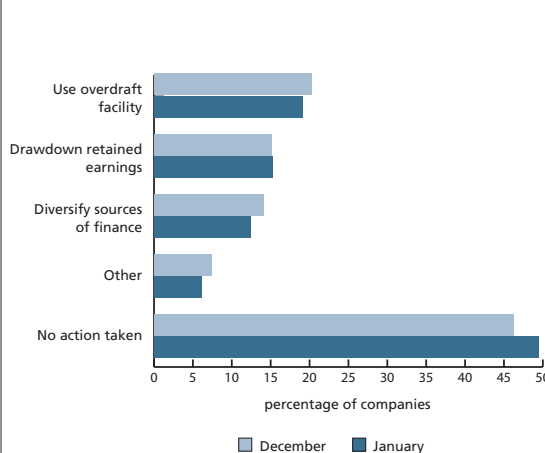
## Cost of credit



## BUSINESS RESPONSE TO FINANCING ISSUES

- Reflecting a lack of urgency to seek funds in a climate of easing investment, an increasing proportion of companies elected to take no action in response to financing issues in January (up from 46% to 49%).
- The favoured approaches used in January remain in line with those of previous months, with 19% making use of overdraft facilities and 15% drawing down retained earnings.
- Around 12% of firms focused on diversifying their sources of finance, down from 14% in December.
- Manufacturing went from the sector most likely take action in December to the least likely in January (down from 55% to 48%).
- Services firms were the most likely to take action to deal with financing issues (54%), followed by construction (51%).
- Use of overdraft facilities was preferred in the construction (30% of firms); manufacturing (18%); and services (17%) sectors.

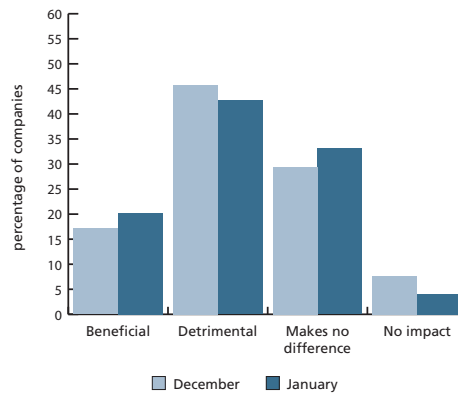
## Action taken to deal with credit



## IMPACT OF LOWER DOLLAR

- While the lower value of the Australian dollar continues to be perceived as more detrimental to business than beneficial, the divergence between the two stances narrowed in January.
- The proportion of companies citing a beneficial impact, largely due to the reduced overseas price of exports, rose from 17% to 20%, while the number experiencing a detrimental impact fell from 46% to 43%.
- Reflecting a relatively greater exposure to exchange rate fluctuations, the manufacturing sector contained the highest proportion of businesses citing a beneficial impact (unchanged at 26%).
- The fall in the Australian dollar is hurting an increasing number of manufacturers (46% from 36% in December), namely through higher raw materials prices.
- The proportion of firms citing an overall beneficial impact lifted in both the services sector (up from 10% to 16%) and the construction sector (up from 6% to 11%).

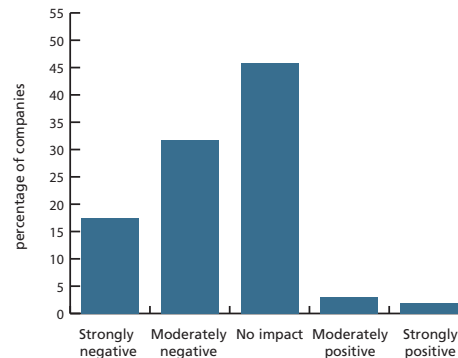
## Impact of lower dollar



## TRAINING EXPENDITURE

- Expenditure on training is an area in which business has signalled an intention to rein-in costs, allowing firms to focus on dealing with the impacts of the global economic and financial crisis.
- Almost half of the companies surveyed in January (49%) stated the crisis was having a negative effect on their training expenditure; with 17% citing strong negative impacts and another 32% identifying moderately negative effects.
- Just under half (46%) confirmed there had been no impact on their training budget in January.
- On a more positive note, 5% of companies identified a positive influence on their training expenditure.
- The construction sector reported the greatest negative impact, with 53% of firms stating the financial crisis had adversely affected training expenditure, followed closely by the manufacturing (49%) and services (48%) sectors.

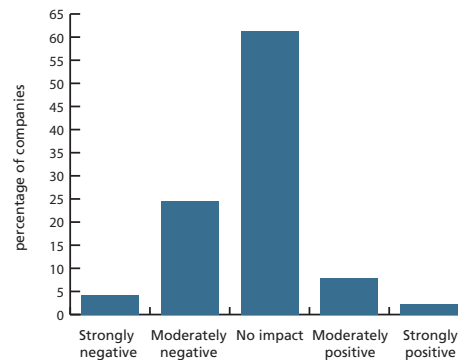
## Expenditure on training



## EXPORT EARNINGS

- The positive and negative impacts of the global economic and financial crisis on export earnings appear to be more or less offsetting each other, with 61% of businesses citing no impact in January.
- More firms, however, cited a net negative impact on export earnings as a result of reduced global demand for Australian exports (29%), than companies identifying a net positive effect (10%).
- The key positive for export earnings is the fact that the recent depreciation in the Australian dollar has increased the competitiveness of domestic goods and services in overseas markets.
- The manufacturing and services sectors contained a much higher proportion of firms citing a net negative impact (34% and 21% respectively), than companies reporting a net positive impact (14% and 2%).
- By contrast, an equal proportion of construction firms identified a net positive and net negative impact (10%).

## Export earnings



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