

ALAN KOHLER, PRESENTER: As the CEO of the manufacturing industry's peak body AIG Heather Ridout is the captain of a 'Titanic' that's scraping along the iceberg with a hole in its side. The highest profile rending of the nation's manufacturing garment has been Pacific Brands decision to close local production at a cost of 1850 jobs but there are many more smaller tragedies taking place across an industry in distress. In fact AIG's PMI index is down more than the same index in the United States which has been in recession since December 2007.

I got a bit of a shock Heather Ridout this week when I looked at the PMI that you put out earlier in the week and compared it with the same index for America manufacturing index, and ours was worse. I mean how do you compare how our manufacturing industry's going with America's?

HEATHER RIDOUT, AUSTRALIAN INDUSTRY GROUP CEO: Well our manufacturing industry was declining before America started to decline because we had the high interest rates in Australia, the high dollar, we were already struggling under the weight of all those before we had the global financial crisis which of course hit the American industry for dead. But the issue is both of us have in common the fact that inventories are being wound down in both economies as they are in China and Europe.

ALAN KOHLER: Fact inventory was the main reason our economy went backwards in December.

HEATHER RIDOUT: Indeed and that has some way to go. And I think once that bottoms we'll start to see some pick up in production but basically also demand is also very, very weak and that's why inventories are drying up and new orders are very soft on the back of that. The inventory issue is certainly a contributor to the weakness of our PMI and the ISM in America.

ALAN KOHLER: We had obviously quite a high profile manufacturing event or shutdown two weeks ago with Pacific Brands. But how widespread is the shrinkage of manufacturing?

HEATHER RIDOUT: Well the auto industry and the TCF industry have been on their own orbits within manufacturing for some time. The textiles and footwear industry has been going through massive structural adjustments and the players that are remaining are the niche players, boutiques that are really good at design and marketing. The manufacturers in apparel areas for defence and etc, they're doing OK but the general industry as everyone knows has been restructuring for a number of years. China actually is restructuring out of textiles.

That's now moving to Vietnam and Cambodia. So it's a very fluid industry. So to some extent that is on its own orbit but there's no doubt about it that the global financial crisis, the pressures on credit particularly that that has brought has brought a lot of these decisions to a head because they can't get money, they can't get it at a competitive cost if they can get it at all, it's affecting their cash flow, it's affecting their investment decisions so it's making things a lot worse.

ALAN KOHLER: And do you think that we'll come out of this global financial crisis

with any manufacturing industry to speak of?

HEATHER RIDOUT: Oh, indeed. I mean manufacturing has shown enormous resilience. We still employ over one million people, the biggest employer of full time labour by a country mile.

ALAN KOHLER: It's shrinking every month at the moment, isn't it?

HEATHER RIDOUT: It is at the moment, so is the rest of economy. We saw that earlier this week. It's quite tough but manufacturing has shown resilience. It's become much more globalised and the business model has changed for virtually every company whether you're operating in Bendigo or Melbourne. So I'm quite optimistic the industry will regroup and will show resilience through this but it's going to be a very tough period because you've got the combination of really weak demand, the combination of really tough credit and a real pressure on your cash flows and limited in terms of your short term cost adjustments because we've already been through that so it's very tough.

ALAN KOHLER: And do you think there's anything much that can be done by the Australian Government apart from a bit of government procurement, for manufacturing?

HEATHER RIDOUT: I think there's a range of things that can be done. I think we can have a look at the areas of business capability and Kim Carr announced some useful things last week. I think the areas of credit we might need to get more focused on that because if good companies can't get access to credit for cash flow or for investment that is a very negative thing.

ALAN KOHLER: Are you talking there about the so called Rudd bank?

HEATHER RIDOUT: Yeah well maybe some version of it for SMEs but we're sort of thinking about proposals down that track. I think around innovation there's a whole lot of stuff the Government have got there they're not acting on. So there's issues around that. I think the skills area, trying to support companies to do different things about employment before putting people off, there's area there. But industry doesn't have its hand out. It really is the macro economic framework is going to be the big determinant and they're going to have to make their own decisions about how they're going to survive.

ALAN KOHLER: And just finally what's your macro economic outlook for the world and for Australia?

HEATHER RIDOUT: I think the world is in a really tough place. I think the world's in a worst place than it was four or five months ago. It was more uncertain and uncertainty as well all know for business is a shocker, it's a real disease and for Australian industry I think now they're feeling the full brunt of the world economic slowdown, the credit crunch and I think we face a tough 12 months to two years and I think the world afterwards is going to be one of tighter credit, more difficult credit to get access to. Weaker demand and much more cautious consumer and a much more cautious lender.

ALAN KOHLER: Thanks for joining us Heather Ridout.

HEATHER RIDOUT: My pleasure.