

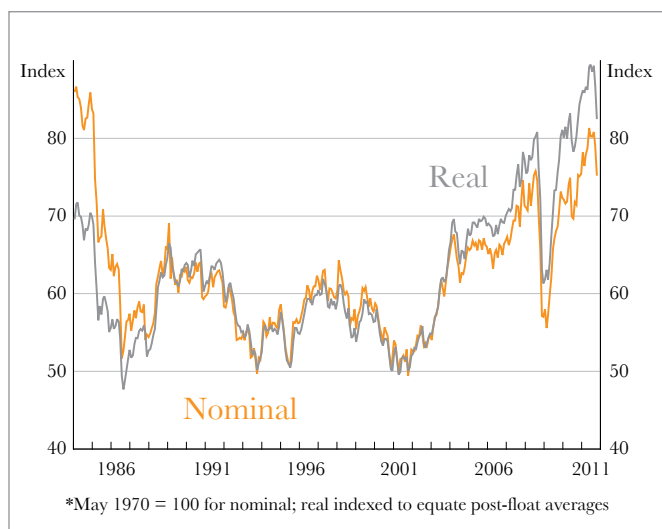
Impact of the High Australian Dollar on Queensland Businesses

OCTOBER 2011

1. Introduction and Summary

1.1 “The Australian dollar over the past six months has maintained a position either above or close to parity with the United States dollar. Irrespective of this rollercoaster ride, in historical terms it continues to be at a high level. A similar trend is evident across most commodities of Queensland’s major trading partners with the Trade Weighted Index illustrated below.

AUSTRALIAN DOLLAR TWI*



Sources: RBA; Thomson Reuters; WM/Reuters

1.2 CCIQ is deeply concerned about the impact of the high Australian dollar on Queensland business, which is affecting areas such as employment, profitability, sustainability and continued growth. In short Queensland businesses are experiencing significant pressure on their everyday practices as a result of the high Australian dollar at present.

1.3 Latest research conducted by CCIQ has found that a significant number of businesses are continuing to suffer from the sustained position of the Australian dollar. This has led to businesses losing competitive advantage in their respective markets.

1.4 It is hoped that the findings in this report will help Government and other stakeholders to further understand this issue and assist businesses where possible in this period of adjustment.

1.5 Queensland businesses are being directly and seriously affected by the rise in the currency’s value and key findings include:

- The majority of Queensland businesses (62%) have been negatively and directly impacted as a result of the high Australian dollar
- This has occurred through exports becoming less competitive, decreased tourism and increased international competition for retailers and import competing manufacturing. Manufacturing and tourism have taken the biggest hits, with big drops in sales, visitor

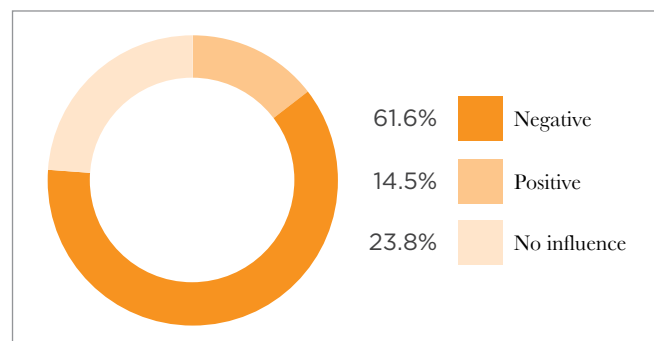
stays and, consequently, profitability. Retailers also report suffering through competition with international online retailing. Other businesses have been indirectly impacted through the flow of the above affects.

- The impact of the high Australian dollar has contributed to more than half of Queensland businesses having to change practices due to their concern of decreasing competitiveness. Queensland businesses are reducing manufacturing output, reducing staff, increasing their imports from cheaper overseas markets, sourcing more products online and changing business strategy and target markets.
- Although buying Australian made is of high importance for Queensland businesses, the findings have shown that the majority of businesses will put profitability first.
- This is largely the result of the majority of Queensland businesses experiencing a significant drop off in demand for their products and services. As a result of these impacts, businesses are needing Government recognition and support to assist them through this adjustment period.
- Key assistance measures that businesses require from the Government include, but are not limited to; scrapping unnecessary taxes including the Carbon Tax and Minerals Resource Rent Tax, protect local jobs by encouraging more local purchasing from bigger companies, providing more resources to small businesses and more incentives to employ and encourage capital expenditure.

2. Impact on Business

2.1 62 per cent of businesses have experienced a negative impact on their profitability as a result of the high Australian dollar, while 14 per cent have been positively impacted and 23 per cent not impacted at all.

HAS THE APPRECIATION OF THE AUSTRALIAN DOLLAR HAD A POSITIVE OR NEGATIVE IMPACT ON THE PROFITABILITY OF YOUR BUSINESS?



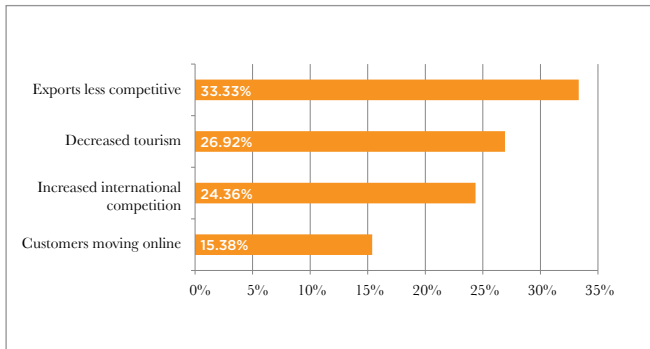
Source: CCIQ Aussie Dollar Survey – August 2011

2.2 The negative impacts experienced by businesses include;

- One third of businesses negatively impacted by the high Australian dollar reported that this was through decreased competitiveness in the export market

- 27 percent indicated they have been negatively impacted through a large drop off in tourism and 24 percent through increased international competition.
- 15 percent have been negatively impacted through other means such as customers moving online.

NEGATIVE IMPACTS ON BUSINESS



Source: CCIQ Aussie Dollar Survey – August 2011

2.3 Positive and Other impacts

- Of those that have experienced a positive impact, the majority (76%) have noted that imports have become cheaper such as retail goods or inputs into end goods or services that are sold.
- Whilst a large number of businesses have not been impacted at all by the high Australian dollar, they have indicated that they do expect to be impacted in the coming months.

“We rely heavily on export sales to the UK, Middle East and South East Asia. Our customers in these regions could not adjust their pricing in accordance with the AUD strengthening and we could not afford to lose the manufacturing volumes provided by these sales. The only solution was to provide these export customers exchange rate protection. The estimated cost to us is \$600k pa.”

“The high Aussie dollar is hurting, as we have to compete against imported product which makes our Australian grown product too expensive. Also exports aren’t viable.”

“Imported fish are much cheaper than we can produce in Australia, so therefore people are buying these, and especially with how tight people’s belts are now.”

“We are a manufacturer. The high A\$ is good for raw material purchases but makes our products less price competitive in the market, especially with cheap Chinese imports.”

“Overseas tourists are down, in my estimation, 50% and we miss them badly.”

“We are no longer competitive in the export market. There is greater competition from imported products, resulting in less profit and as a consequence there is insufficient capital to invest in the new plant and equipment needed to improve our productivity and invest in new product development.”

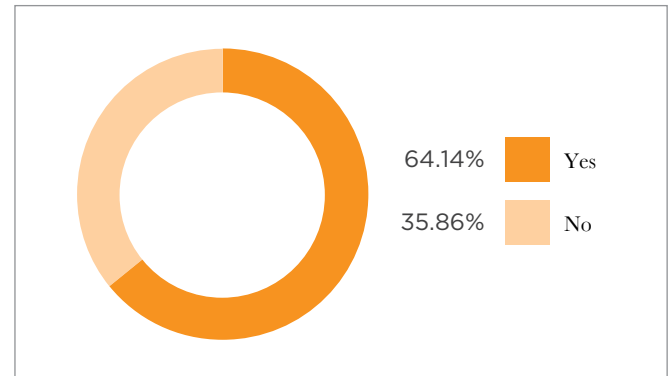
“There are decreased numbers of international tourists and a downturn in the domestic market. People are choosing to go to cheaper destinations to get more for their dollar. We are in Port Douglas and are feeling the impact.”

– Queensland Business Operators

3. Reduced Demand

- 3.1 Over 64 per cent of businesses have indicated that they have experienced reduced demand for their products as a result of the rising Australian dollar.
- 3.2 Of the 35 per cent that have not experienced reduced demand, the majority of these have indicated demand has stayed at average levels and has not increased markedly due to the rising Australian dollar.

HAVE YOU SEEN REDUCED DEMAND FOR YOUR PRODUCTS DUE TO THE HIGH DOLLAR?



Source: CCIQ Aussie Dollar Survey – August 2011

- 3.3 Comments from businesses that have experienced reduced demand for their products include:

“We are manufacturers in an industry that is subject to strong competition from cheap Chinese imports.”

“Our business is in the swimming pool industry and most products are imported. Many goods are also now available over the internet, except they tend to not hold an Australian guarantee and are different models from those available in Australia; hence parts are not easily available.”

“Export demand has all but dried up. Domestic market has been poor all year but has further declined post Carbon Tax and OS Share market fluctuations.”

“High interest rates, much higher than necessary, have led to our dollar being valued way above our punching weight. This has greatly reduced incoming tourist numbers which has affected our tourist accommodation business.”

“This Government with its policies, hell-bent on introducing new taxes during global instability, is causing unstable and insecurity for the future sustainability of our nation. No one wants to spend money and everyone is worried what the future holds for them. We are greatly worried.”

– Queensland Business Operators

4. Business Practices

- 4.1 The sustained position of the Australian dollar for the past six months or more has led to 56 per cent of businesses changing their practices in some way to mitigate against the high dollar.
- 4.2 Those that have made changes to business practices report:
 - Reducing manufacturing output and changing business strategy
 - Increasing their import levels
 - Reducing prices to increase sales and improve competitiveness
 - Spending cuts and finding extra savings

- Increasing online purchasing
- Changing product range to suit new environment
- Diversifying marketing strategies
- Finding new clientele

"We have had to encourage a big shift in employment attitude. Our business is now preparing itself for low risk activities."

"We can import product made in our UK factory cheaper than we can manufacture the same product in Australia. Our export sales have been adversely affected."

"We have changed from focusing on capital growth tactics to cash flow tactics to ensure our business remains viable"

"We have increased buying on line. We aren't yet making any profit, but it makes it more affordable to buy in the USA."

"We have had to find massive savings in our business to match the fall in tourism numbers."

"We are changing our product range to minimise the competition from importers. We are doing this by moving to commercial/industrial components."

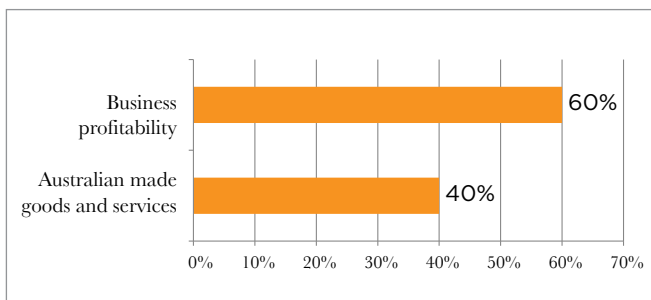
- Queensland Business Operators

- 4.3 There has been a significant trend in manufacturing taking their 'tooling' overseas and doing their component production offshore. This has not only been driven by the exchange rate but also labour costs and more recently from factors such as electricity price rises and the possibility of a carbon tax.
- 4.4 Of the businesses that have not changed business practices, the majority (44%) of these are not affected by a fluctuating exchange rate and therefore had no need to adjust.

5. Business Profitability vs Buying Australian Made

- 5.1 When asked about whether businesses would prefer to purchase Australian made goods and services at the expense of business profitability, 60 per cent of Queensland businesses indicated that their profitability was in fact more important.

WHICH IS MORE IMPORTANT TO YOUR BUSINESS
- BUYING AUSTRALIAN MADE GOODS AND SERVICES
OR BUSINESS PROFITABILITY?



Source: CCIQ Aussie Dollar Survey – August 2011

- 5.2 Although this is not surprising, it highlights that the Australian dollar is hurting those businesses which rely on selling Australian made goods and services
- 5.3 CCIQ encourages purchasing Australian goods and services but also understands business priority towards being financially responsible. For this reason CCIQ highlights the need for additional assistance to Queensland businesses as they adjust to this more challenging environment.

"We manufacture a finished product here in Australia for a niche market. If we don't find cheaper alternatives for our inputs, we won't be able to compete against the imported Chinese products."

It's actually much more a case of 'Business Survival' rather than 'Business Profitability'. It's remaining competitive in an increasingly competitive market. Once the good times are back, and if we are still in business then certainly I would happily shed some profit to buy Australian"

"Generally buying Australian is more expensive and in this day, you need to look at affordability. Buying Australian is not affordable for us."

"Without profits our business will fold. We do however value quality products over cheap so we do look for Aussie made over cheap Chinese where we can. We do believe our manufacturing will cease to exist in Australia over the next few decades. This is a great shame."

"If our business is not competitive, our customers will not purchase from us and in the end we will have to cease doing business. This would result in 20 people losing their jobs. Profitable companies employ staff."

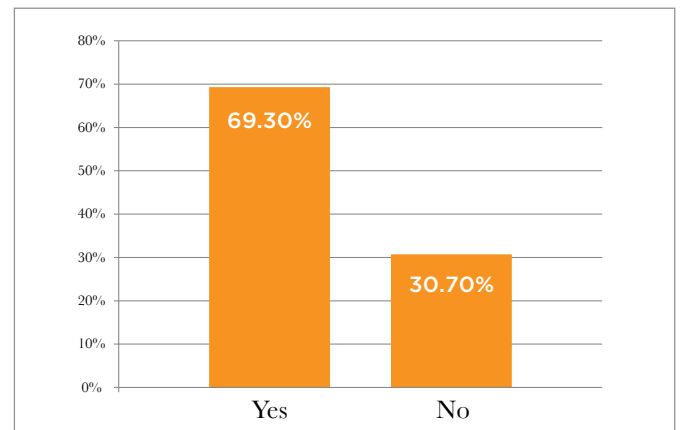
"We can't compete with large nationwide companies that have larger buying potential nationally/internationally and shut us out of buying locally at a good price. We have to go offshore just to stay in the market price range."

- Queensland Business Operators

6. Government Assistance

- 6.1 The majority of businesses in Queensland believe that the Government could do more to help with those that have been affected negatively by the high Australian dollar. 69 per cent of businesses have indicated that various tools at the Government's disposal would greatly assist in this adjustment phase.

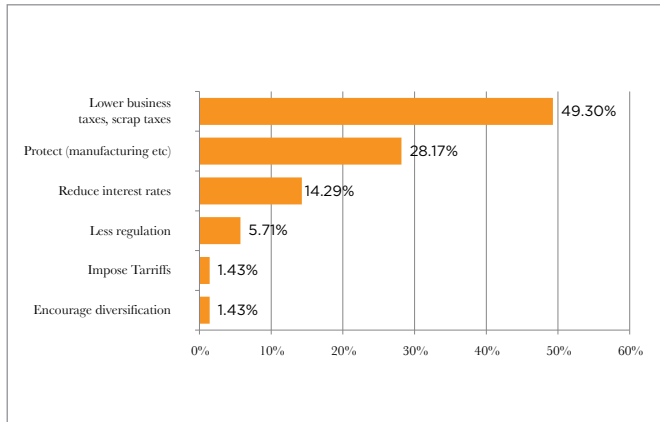
COULD GOVERNMENT DO MORE TO HELP BUSINESSES THAT HAVE BEEN NEGATIVELY AFFECTED BY THE HIGH AUSTRALIAN DOLLAR?



Source: CCIQ Aussie Dollar Survey – August 2011

- 6.2 Half of Queensland businesses believe that the most effective way the Government can assist those negatively impacted would be through lowering business taxes and scrapping pending taxes such as the Carbon Tax and the Minerals Resource Rent Tax.
- 6.3 Other suggestions included 28 per cent of businesses asking for more protection in the manufacturing sector (Buying Australian, subsidies, stopping import dumping etc) and 14 per cent asking for a drop in interest rates (although CCIQ notes that Government has no direct control over monetary policy).

WHAT COULD THE GOVERNMENT DO MORE TO HELP BUSINESSES THAT HAVE BEEN NEGATIVELY AFFECTED BY THE HIGH AUSTRALIAN DOLLAR?



Source: CCIQ Aussie Dollar Survey – August 2011

6.4 CCIQ believes that Queensland businesses need to receive ongoing support from the Government in adjusting to the tough operating environment created by the sustained position of the Australian dollar.

“Stop spending money. Forget the Carbon Tax and help those who need it most.”

“The Government could subsidise Australian Industry that is in direct competition with cheaper imports.”

“The government could put more resources into ensuring that small businesses can survive in hard economic times through interest free long term loans with small monthly repayments. Once the economy picks back up the loan repayments could increase to ensure it is paid back quickly and does not have a negative cash impact on the business. The government could also provide external bookkeepers to assist the business with managing their accounts and cash flows.”

“We are a manufacturing company in the tyre re-tread sector. We have been competing against cheap Chinese new tyres whose prices defy logic as they are so low. The government should look at protecting local manufacturers by stamping out such dumping of those products that are unfairly priced and where dumping occurs, such as in the tyre industry.”

“Bring back buy Australian policy, and force mining companies to invest in Australia and not keep taking from Australia. Mining companies to pay more royalties not get richer.”

“Less borrowing, cease imposition of unwarranted taxation regimes, attend to IR issues and fix/replace (un)Fair Work, possibly fund significant infrastructure (e.g. 4-lane divided highway Brisvegas to Cairns and west to Camooweal) to promote regional development, reduce union powers to sensible levels.”

“Ensure that areas (like Cairns) have alternatives to a single economy. Encourage industry and diversification. First thing we need is a deep water harbour and the ability to load / unload containers to provide ability to ship goods all year round.”

“Get rid of payroll TAX, we are trying to keep people employed and paying taxes and then we get slugged for the privilege. This makes absolutely no sense whatsoever.”

“Stop the carbon tax. No one is buying from us, everyone is afraid.”

“I would think they could give them an amnesty with outstanding tax. 80% of businesses are on arrangements with the ATO for payments and it seems to be never ending. It should be apportioned to ratio of debt. Businesses are hit with PAYG on a percentage rate calculated by the ATO PLUS withholding tax PLUS payroll tax PLUS Fringe benefit tax PLUS GST and if you are on arrangement with the ATO your credit facilities are shot with the banks so you tell me how they can move forward. Payroll tax should be abolished at least especially in this economy. Super will soon increase to 12%, paid Maternity leave and Fair Work all has had an impact on small businesses and now Carbon Tax...Why do we get up every morning?”

– Queensland Business Operators

7. Conclusion

- 7.1 Whilst emphasis has been on the Australian dollar sitting above parity there is recognition that anything above 80 cents is in fact bad for exports. Queensland businesses are not foolhardy enough to predict where the Aussie dollar will lie in 12 months, due in part to the uncertainty currently plaguing European markets.
- 7.2 Accordingly businesses have to adapt. General consensus amongst Queensland businesses is that the dollar at the current level is making it very difficult for exporters and other businesses to survive but they can.
- 7.3 Queensland businesses indicated they have to find those niches, and points of difference to satisfy new opportunities at a price that allows them to make a profit. Feedback indicated that manufacturers, tourism operators and other businesses must work harder at market research or identifying market niches where they can get the premium prices; that results in exchange rates being less significant.
- 7.4 Additionally they need to be unwavering in finding efficiencies in their businesses operations to ensure financial sustainability.
- 7.5 Businesses must focus on things like ingenuity, quality and consistency of value and capacity to produce in a short timeframe. End users will generally pay a premium for a product if you can have it available if and when needed. The businesses that are prospering are those ones that we see adapting to that.
- 7.6 In CCIQ research with professionals and experts increasing use of hedging was also cited as a must. Hedging has become an effective way business owners can minimise their currency shocks and it is something that is becoming increasingly used by SMEs, with the forward exchange contract (FEC) becoming a vehicle of choice.
- 7.7 In summary the world has moved to a stage where barriers to importing and exporting have come down. Whilst there are substantial risks with this there is also now the opportunity to be a global producer and supplier of products and services. Queensland businesses are being directly and seriously impacted by the sustained position of the Australian dollar, but with sufficient assistance and direction the future remains bright.