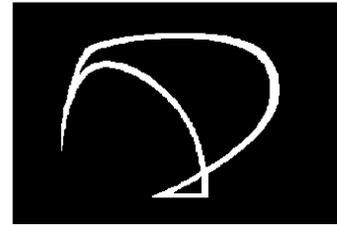


Manufacturers Business Planning Forecasts



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6 April 2000

FORECASTS: JUNE 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.

Recent data has confirmed 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 June 2000, but expect the growth rate to slow in the second half of the year.

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Bank forecasters' view of the economy have changed little since October 1999 except for the short term growth outlook and the level of short term interest rates over the next 12 months.

The strong growth in the commodity sector in the second half of 1999 has lifted expected annual GDP growth levels to 5.1% in June. Growth is forecast to slow, with GDP growth of 3.2% in the year to December 2001.

A strong response is expected from the Reserve Bank to the high level of growth recorded last year. However, because much of this growth is due to an improvement in the commodity sector the level of growth will slow quite quickly, resulting in a fall in interest rates in 2001.

There are a number of risks to the outlook, particularly over the direction of the exchange rate over the next 12 months and the level to which employment growth and investment expenditure improve over the next 12 months. Business uncertainty has resulted in a low level of investment expenditure and meant firms ran out of capacity quickly when the economy improved last year.

Volatile import statistics also mean that it is unclear whether recent strong import growth rates will continue or will slow over the next six months.

It continues to be clear that manufacturers need to pay close attention to the direction of economic activity here and our main trading partners. Growth prospects in our main trading partners continue to improve and there are some signs that investment expenditure and employment growth have improved since the beginning of this year.

Real GDP % Growth

	Years Ending		
	<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	5.5	5.1	3.5
Average	5.1	4.4	3.2
Lowest	4.3	3.5	2.9

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 and an increase in import prices. The underlying inflation rate is forecast to be very stable over the next 18 months.

% Change of Inflation

CPI Excluding Credit Services (Underlying Rate) Years Ending

	<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	2.2	2.6	2.1
Average	2.0	2.3	1.0
Lowest	1.8	2.1	1.8

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. Short term forecasts for growth in labour costs have increased due to the higher CPI in the March and June quarter.

Labour Cost Index % Change

	Years Ending		
	<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	1.9	2.3	2.5
Average	1.7	2.0	2.2
Lowest	1.2	1.6	1.8

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>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	6.2	6.0	5.5
Average	6.0	5.8	5.3
Lowest	5.8	5.7	5.2

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 than forecast late last year.

Interest Rates (90 day bills)

	Years Ending		
	<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	6.9	7.5	7.6
Average	6.8	7.2	6.8
Lowest	6.7	7.0	6.4

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 now expected to appreciate gradually against the Australian dollar, but forecasters remain divided on whether the cross rate will weaken further or appreciate.

	A\$				US\$		
	<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>		<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	84.8	85.4	87.0	Highest	53.0	57.0	61.5
Average	81.1	82.4	82.9	Average	51.8	55.6	59.3
Lowest	79.2	77.6	80.1	Lowest	50.5	52.8	55.3

	TWI		
	<i>June 00</i>	<i>Dec 00</i>	<i>Dec 01</i>
Highest	57.6	62.0	62.4
Average	55.3	56.6	59.1
Lowest	55.9	58.9	60.8

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 WestpacTrust (all other banks are the same but the rates change from day to day) on 5 April 2000 were:

A\$		US\$	
<i>3 October 00</i>	<i>3 April 01</i>	<i>3 October 00</i>	<i>3 April 01</i>
82.78	82.60	50.08	50.02

Source: WestpacTrust

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. These rates for instance are significantly higher than those quoted two months ago for the Australian dollar when forward rates were below 78 cents. 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>2000</i>	<i>2001</i>
Highest	4.8	4.0
Average	4.1	3.6
Lowest	3.4	3.0

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. There was an improvement in the December quarter but stocks are still increasing faster than sales. 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

Quarter	Calendar Years	
	<i>2000</i>	<i>2001</i>
Average	3.7	3.4

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 3.7% by December 2000.

Interest rates (90 day bills)

Calendar Years		
<i>2000</i>	<i>2001</i>	<i>2002</i>
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			
<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
3.5	3.6	3.5	3.5

Source: NZIER Quarterly Predictions