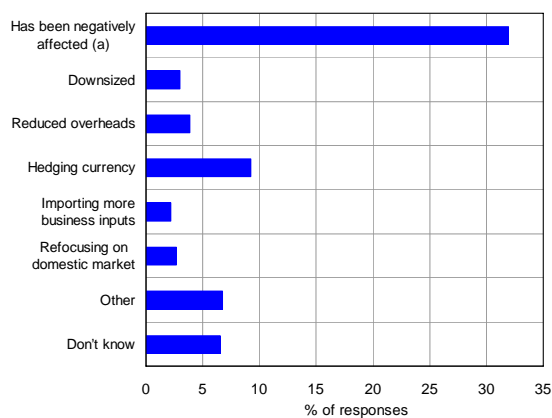
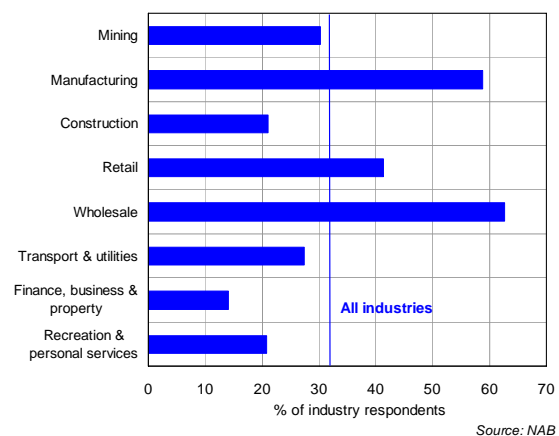


**Business and the dollar**
**27 September 2013**

The recent depreciation of the dollar has not been all good news for Australian business. While a weaker dollar has helped raise returns in export markets and blunted some import competition it has also raised input costs for some domestic industries that are in no position to pass them on. Around one-third of Australian businesses report adverse effects from the level of the Australian dollar, especially in wholesale, manufacturing, retail and mining. Businesses use a diverse range of strategies to deal with the level of the dollar, especially hedging, reducing overheads and downsizing.

- Despite the recent depreciation, 32% of non-farm businesses reported an adverse impact from the \$A. Around two-thirds of wholesale and almost half of retail responses were negative, probably because lack of pricing power is seeing the depreciation squeezing margins in these sectors. Adverse effects were also very pronounced in manufacturing (59% of businesses) and mining (30%).
- The extent of these effects appears plausible given that the combined value of exports and imports of goods and services represents around 40% of Australian GDP and that some businesses may have experienced positive effects.
- Hedging is the most common strategy used by affected firms, especially in wholesale and manufacturing. Downsizing and reducing overheads have also been important responses in mining, manufacturing and wholesale.
- These results are derived from a special question in the September quarter NAB Business Survey. The full results will be released on 17 October. The special question will be included in several future Quarterly surveys.

**Key results\***
**Responses to negative effects of level of Australian dollar**

**Has been negatively affected by level of Australian dollar**


\* Data derived from a special question in the quarterly NAB business survey, in collaboration with the Commonwealth Department of Industry.

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## Analysis

As part of the latest quarterly NAB business survey, to be released in full on 17 October, respondents were asked a special question: *how, if at all, has your business responded to any negative effect of the level of the Australian dollar?* Multiple responses were allowed and were important in mining, manufacturing, wholesale and retail.

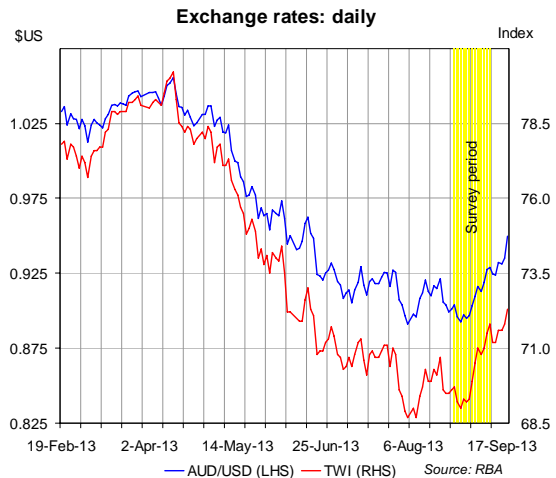
The interviews for this question were conducted between 26 August and 11 September, when the exchange rate averaged \$US 0.908 and 70.2 on a TWI basis. These levels represent declines of 11.5% and 9.5% on the March survey period when the dollar was near its recent peak. Consequently, the responses may reflect the impacts of both an historically high \$A and a sharp depreciation in the \$A and these may have opposite effects on business.

Overall, 32% of non-farm businesses indicated that they had been adversely affected by the level of the dollar. In these cases, the most common response was to engage in currency hedging (9%). Interestingly, a wide range of responses were reported, indicating that affected businesses have adopted many strategies to deal with the level of the \$A.

The combined value of exports and imports is around 40% of Australian GDP. Given that some businesses may have experienced positive effects from the high exchange rate, the survey result appears broadly plausible.

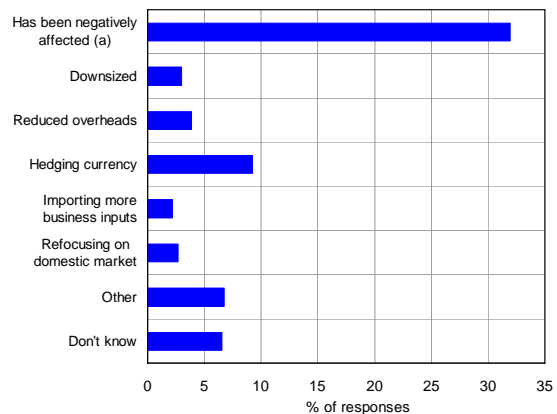
As expected, trade-exposed manufacturing reported a relatively high incidence of adverse effects from the level of the \$A, despite the recent depreciation. In fact, it is possible that the result would have been more adverse in previous quarters. Surprisingly, however, the most negative impacts were reported by wholesale trade. This may be because the \$A, while high, is lower than it has been, leading to higher import prices that have had to be absorbed in lower margins. Adverse effects were also high in retail trade, possibly again as a result of margin compression.

### Exchange rate high but falling



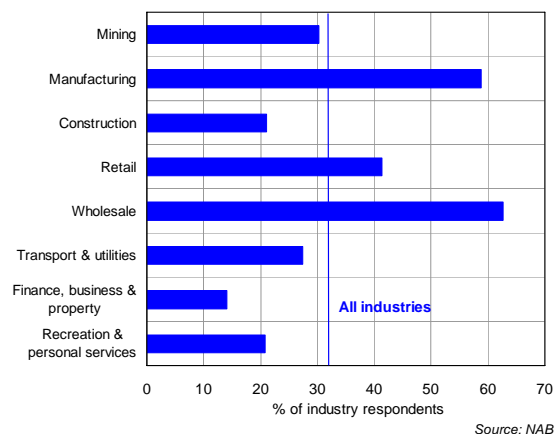
### A wide range of responses

#### Responses to negative effects of level of Australian dollar



### Wholesale, manufacturing, retail & mining worst affected

#### Has been negatively affected by level of Australian dollar



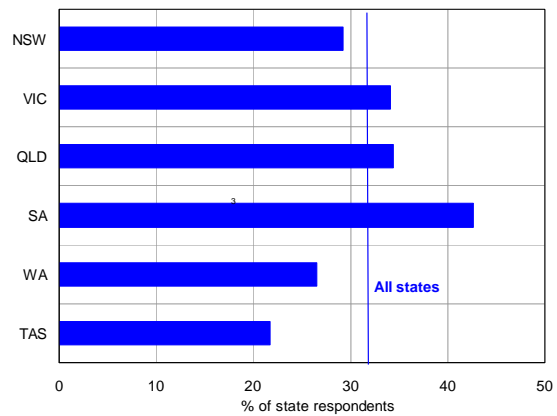
## Analysis (cont.)

The mining sector also reported large adverse effects from the \$A, although this may reflect the combined effects of a high \$A and weaker foreign currency commodity prices. Adverse effects were relatively minor in transport & utilities, with a high \$A contributing to high import volumes. Industries with a predominantly internal focus, such as recreation & personal services, finance, business & property and construction also recorded relatively low adverse effects.

Negative exchange rate effects were more prevalent in SA than elsewhere, possibly reflecting the relative importance of manufacturing there. Impacts from the \$A were less pronounced in WA despite the presence of the mining sector. Negative responses were lowest in Tasmania, although on a small sample.

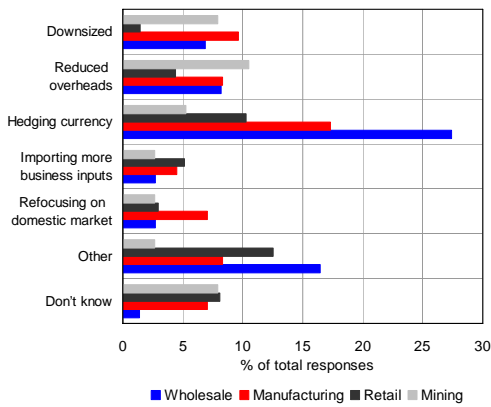
### South Australia bearing brunt of \$A

Has been negatively affected by level of Australian dollar

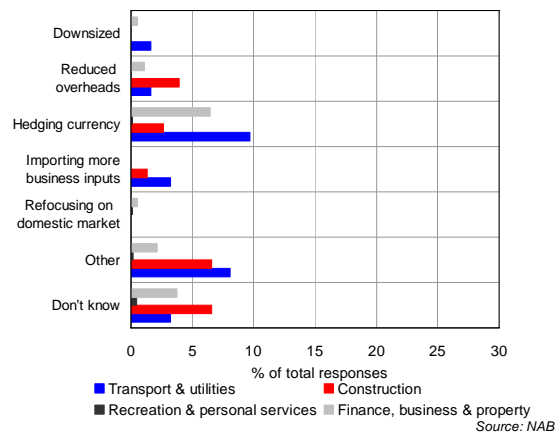


### Hedging important for wholesalers, retailers, manufacturers, transport & finance

Responses to negative effects of level of Australian dollar



Responses to negative effects of level of Australian dollar



Hedging was the main response in wholesale, manufacturing, transport & utilities and finance, business & property and the second most common response in retailing.

Downsizing and reduced overheads were important in manufacturing, mining and wholesale.

Retail, manufacturing, transport and wholesale were the main industries to increase their use of imports.

Manufacturers were also keen to refocus on the domestic market.

'Other' responses were important in wholesale, retail, manufacturing and transport. Responses were broadly in line with the impact of the depreciation: reduced margins in response to higher input costs (wholesale and retail), price increases (manufacturing), and no action (transport).

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