

MEDIA RELEASE

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INDUSTRY IN RECOVERY MODE IN 2010

The latest Australian Industry Group/Deloitte CEO survey, *Industry in Recovery Mode in 2010*, suggests that growth in the ninety percent of the economy represented by the manufacturing, construction and services sectors is going to be reasonably solid, albeit uneven, in the year ahead. This report complements the strong showing expected from the mining sector.

"We are very pleased the economy is rebounding and looks set to consolidate this year with improving conditions anticipated across manufacturing, services and construction. However, the recovery is uneven and the rebound will not be as sharp as that which occurred following previous downturns. Despite the stronger sales and employment expectations, investment trends across these sectors remain soft and conservative," Ai Group Chief Executive, Heather Ridout, said today.

"We expect business performance in 2010 to reflect the positive drivers such as improving consumer confidence, rising household wealth and exposure to strong growth in China. Partially offsetting these positives will be the fading of fiscal stimulus, rising interest rates and the dampening impacts of the stronger dollar on exporting and import-competing businesses.

"The challenges for policy and for businesses will be to strengthen the recovery while addressing the ongoing requirement to build on the foundations of longer-term growth," Mrs Ridout said.

Manufacturing partner for Deloitte, Damon Cantwell, advised businesses that 2010 would provide a range of opportunities for companies to recover ground.

"While 2009 was characterised as a year founded on survival, 2010 offers real opportunities for growth," Mr Cantwell said.

Mr Cantwell warned companies to ensure they were across what the data was saying about how their individual sector was likely to fare through the recovery.

"The Ai Group CEO survey points to specific strategies that companies can adopt to position themselves to make the best of the recovery.

"This includes engaging with growth markets including China and India, and ensuring they are making the most of the support available through government initiatives for R&D and innovation," Mr Cantwell said.

Survey highlights:

- An improvement in activity is expected in 2010 in all three sectors surveyed, although it is likely to be stronger in the services and manufacturing sectors than the construction sector.
- Improving consumer confidence in incomes growth and employment prospects, rising household wealth and exposure to strong growth in China will drive growth in the coming year.
- The fading of Government stimulus and rising interest rates will particularly impact on the construction industry.
- Manufacturers on average anticipate a 5.6% increase in the nominal value of sales in 2010, to around \$415 billion, in the services sector sales are forecast to rise 6.6% and construction sales are expected to grow by 2.5% in 2010.
- Employment will improve modestly. Building on gains late in 2009, the manufacturing sector expects a 2.9% lift, in the services sector employment is anticipated to rise by 2.3% while the construction industry is expecting only a slight improvement of 0.5%.
- Employers across the sectors are concerned about a possible re-emergence of skills shortages as the economy returns to growth and how this will impact on employment and wages.
- Spending on R&D and training will grow conservatively in 2010. Businesses in the services sector are likely to spend the most on R&D but training budgets remain tight, manufacturing up 3.4%, services 1.9% and construction 1.2%.
- The higher exchange rate will continue to cap exports in 2010. The services sector is expecting the biggest lift, 8.2%, bringing total exports in 2010 to around \$57.7 billion.

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Note: The full survey can be found at <http://www.aigroup.com.au/policy/reports>

Background: A total of 514 CEOs in the manufacturing, services and construction sectors participated in the survey, which was conducted in the first half of December 2009. Combined, these companies had sales revenue of around \$27.9 billion and employed almost 130,000 people. Based on these companies' forecasts, overall industry estimates were derived for national sales, investment, employment, exports and a number of other business indicators.