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AS TRADE CONFIDENCE LAGS BEHIND, AUSTRALIAN BUSINESS LOOKS TO EMERGING ASIA FOR GROWTH: HSBC

Rising interest rates and exchange rate fluctuations impeding growth

One-third of Australian traders sees strongest growth in Greater China

Australia's confidence in line with developed markets despite its emerging market prospects

Despite a majority of trade-oriented businesses in Australia seeing the booming emerging markets in Greater China and Southeast Asia as the most promising regions for trade growth in the next six months, confidence has stayed flat as Australia's traders remain stuck in a developed market mindset.

According to the latest HSBC Trade Confidence Index, Australian exporters and importers expect trading business conditions to marginally improve but their overall level of confidence has remained static since the second half of 2009, when Australia recorded the highest jump among the countries surveyed. Moreover, traders are increasingly concerned about the impact of rising interest rates and foreign exchange fluctuations on their businesses in the next six months.

Andrew Skinner, head of trade and supply chain for HSBC in Australia, said: "While Australia's traders remain positive about the future, the survey suggests they are tentative in their outlook as the volatility of exchange rates and rising interest rates weigh on their minds.

"Australia's confidence positions it among the developed economies, yet almost three out of five Australian respondents are trading with the booming emerging markets of Greater China and Southeast Asia and more than half cite these areas as the most promising for growth. This suggests a gulf between expectations and the positive economic reality.

"The evolving dynamics of intra-Asian trade has put Greater China at the centre of activity, with markets like Australia continuing to gear up for increased trade with this bloc. Last year, China became Australia's largest trading partner and our largest export market with two-way trade reaching \$83 billion.

"With China's economy set to grow at a rate of around 10 per cent in 2010, Australian businesses appear to underestimate the extent to which they will benefit as the shift of economic power from West to East grows apace.

"Australia's trade-oriented businesses need to unshackle themselves from their developed market mindset and embrace the opportunities they have as part of the dynamic emerging markets region of Asia," Andrew Skinner said.

As trade confidence lags behind, Australian business looks to emerging Asia for growth: HSBC/2

The HSBC Trade Confidence Index is the biggest survey of its kind surveying over 5,000 trade-oriented enterprises in 17 markets.

While the overall Australian outlook remains firmly in positive territory, with a score of 107, it is the lowest confidence in Asia and the third-lowest level of confidence among the 17 surveyed markets, followed only by France and Germany. Australia's confidence levels are slightly ahead of the developed market average of 106, but well below the emerging market average of 122. The UAE, India and Vietnam scored highest with 134, 133 and 132 respectively while Australia's top trading partner, China, placed sixth with a score of 120.

The HSBC Trade Confidence Index for Australia in 1H10 also found:

- The two most promising regions for trade growth in the next six months are Greater China (33%) and Southeast Asia (23%), reinforcing the importance of emerging Asia to Australia's economic prospects.
- Most trade-oriented businesses are already doing business with Greater China (58%) and Southeast Asia (54%) with these figures remaining steady since the last survey. Notably, those trading with US/Canada increased five percentage points to 43 per cent since 2H09 as the US economy recovered.
- Rising interest rates are cited by a quarter of respondents as the top barrier to growing their business, up almost 80 per cent since 2H09 when it was mentioned by just 14 per cent of respondents.
- Fluctuating exchange rates is cited by almost a third (32%) of respondents as the top barrier to growing their business.
- Fluctuating exchange rates are expected to work against Australian businesses, with more seeing the outlook as unfavourable (31%) than favourable (25%). Thirty-seven per cent are ambivalent on the outlook for exchange rates.
- Forty-nine per cent expect to see an increase in trade volumes in the next six months – up from 42 per cent in 2H09 and almost double what it was in 1H09 (25%).
- Fears that buyers will default on payment continue to fall – just 12 per cent of respondents expect defaults to increase, down from 16 per cent in 2H09 and 36 per cent in 1H09.
- The need for trade finance is expected to increase in the next six months – 19 per cent say they expect it to increase. When asked which channels business will use to meet future trade financing obligations, 47 per cent identified banks (up from 44% in 2H09) and 41 per cent said they would self-fund from existing cash flow.
- The ability to access trade finance is expected to increase in the next six months – 18 per cent expect it to increase (up from 11% in 2H09).

Trade Confidence Index results for markets outside Australia

The HSBC Trade Confidence Index demonstrated that the global outlook for trade is positive. Key findings include:

- The majority of traders in Latin America (64%), Middle East (63%), Greater China (63%) and India (61%) expect an increase in trade volumes in the next six months.
- Globally, over half of traders (56%) including those in the UK, the US, Canada and Germany are bullish about their outlook on trade volumes.
- In Greater China, only eight per cent said that the impact of trade regulations would be unfavourable to their businesses compared to 34 per cent who said exchange rates may work against them.
- One-third (33%) of traders in the US and Canada are bearish about the impact of exchange rates on their businesses in the next six months.
- The proportion of Mainland traders who point to South-East Asia as the most promising region for trade growth doubled to 20 per cent from 10 per cent six months ago since the launch of the China-ASEAN free trade deal.
- US traders looking at Latin America for growth also nearly doubled from 14 per cent to 27 per cent in the last six months.
- Six in 10 Indian traders (60%) and over half of South-East Asian traders (53%) expect their need for trade finance to increase in the next six months.
- Over a third of traders in Greater China (38%) expect to borrow more to fuel expansion with over half (53%) to use banks to finance trade.

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Media enquiries to:

Kate Epworth on +61 2 9006 5682 /

+61 418 700 172 /

kateepworth@hsbc.com.au

Daniel Pigott on +61 2 9006 5396 /

+61 468 988 176 /

danielpigott@hsbc.com.au

Notes to editors

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About the HSBC Trade Confidence Index

The HSBC Trade Confidence Index covers a total of 17 markets – including key economies in the Asia-Pacific region, the Middle East, Latin America, the US and Canada and Europe. In the biggest opinion survey of its kind, 5,120 trade-oriented small and mid-market enterprises were asked about their six-month outlook on: trade volume; buyer and supplier risks; the need for trade finance; access to trade finance; and the impact of foreign exchange and government trade regulations on their businesses. The results were used to calculate an index ranging from 0 to 200, where 200 represents the highest confidence level, 0 represents the lowest and 100, neutral.

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