AUSTRALIAN INDUSTRY GROUP

AUSSIE DOLLAR CHALLENGES MANUFACTURING COMPETITIVENESS

Ai Group Economics

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KEY FINDINGS

The appreciating Australian dollar continues to have a significant impact on manufacturing. Over the course of 2003, the impact increased as the Australian dollar moved higher, resulting in a further lowering of competitiveness, an erosion of export income and increases in import competition.

The Australian dollar broke the US$0.74 mark by early December, moving well past the critical $US0.70 level previously identified as the point at which most manufacturing products would become highly uncompetitive on world markets.

Ai Group conducted a new survey of 800 manufacturing companies in late November and December 2003 to analyse the implications of the continued surge of the Australian dollar and to provide a more detailed examination of the impact on competitiveness, exports, import competition and business performance.

The survey reveals that almost two thirds of exporters believe the Australian dollar will not be higher than US$0.74 by June 2004. With some market forecasts putting the Australian dollar at US$0.80 by the middle of 2004, there is a strong indication that the sector in general appears to be underestimating the extent of the Australian dollar appreciation.

The continued appreciation of the Australian dollar during 2003 was associated with a sharp increase in the proportion of manufacturing exporters experiencing a loss of competitiveness (from 36 per cent in May to 56.9 per cent currently). The estimated loss per exporter averaged 4.6 per cent of total export revenue. For the sector overall, this amounts to an estimated loss in exports of over $3.2 billion annually.[1]

The higher Australian dollar has also impacted on manufacturing more broadly through its impact on import penetration. Critically, the survey reveals that lost sales due to higher import penetration are at least as significant to the sector as lower export returns.

[1] Based on manufactured exports (industry of origin) of $70 billion annually.

Over half (53%) of all manufacturers report increased import competition due to the appreciation of the currency. This has led to a reduction in domestic sales. While the total loss due to import competition is a somewhat subjective measure, the assessed loss in sales per firm due to higher import competition is estimated at 2.1 per cent of turnover. This implies a loss of domestic sales to the industry of $4.1 billion in a full year.[2]

Based on these results, for manufacturing overall, the appreciation of the Australian dollar at its current level could have accounted for a $7.3 billion, or 2.7 per cent reduction in the total industry turnover for 2003.

These impacts have been disguised by strong domestic conditions, particularly flowing from buoyant levels of activity in the construction and automotive sectors and from strong consumer spending. Without these strong domestic conditions, the continued appreciation of the Australian dollar mark would have had far greater implications for the performance of the sector.

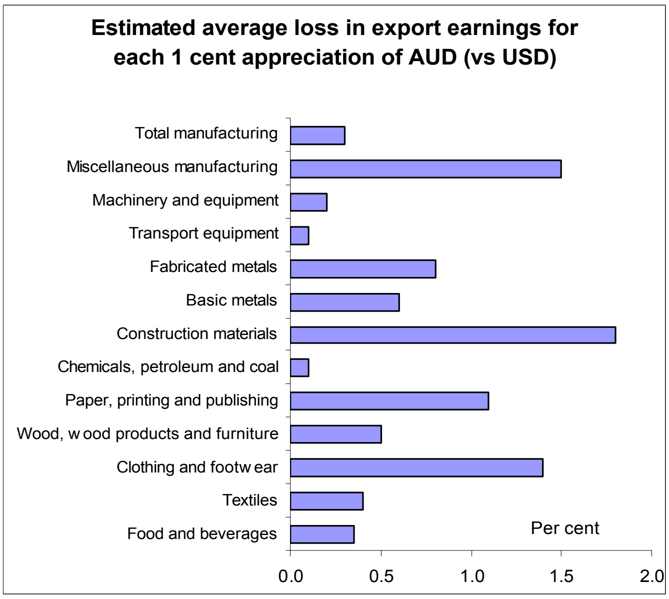
Even so, the higher Australian dollar still contributed to a moderation in sales and profit growth over the year to September 2003. On a year-on-year basis, sales growth eased from 5.5 per cent (trend, constant price terms) in September 2002, to 1.5 per cent by the September quarter 2003. Over the same period, annual profit growth eased from 24.6 per cent (trend) to 6.3 per cent.

A continued appreciation of the Australian dollar will further impact on the competitiveness and performance of domestic manufacturing.

The survey found that the rising dollar has impacted on business planning about future operations. Around one in five firms are contemplating moving at least some production offshore – 3% are considering moving all production offshore, and 17% are considering relocating some production offshore. Around one in ten exporters are now more likely to take out hedging insurance.

[2] Based on manufacturing turnover excluding exports of $200 billion annually.

The survey suggests the US$0.70 mark remains a critical point for the manufacturing sector as a whole. At this level exports become highly uncompetitive on world markets. Manufacturers of elaborately transformed manufactures such as transport equipment, as well as chemicals, petroleum and coal products and the food and beverages sectors, appear better equipped to adapt to changes in the value of the currency. This may reflect a relatively high proportion of large firms in these sectors.



Furthermore, while results should be used as indicative only, the survey results show that, for each one cent appreciation of the Australian dollar against the US dollar, export earnings for manufacturing overall are reduced by around 0.3 per cent. This amounts to an annual loss of $210 million for every one cent appreciation.

Those sectors with export income highly sensitive to upward movements in the Australian dollar include clothing and footwear; fabricated metal products; basic metal products; construction material products; paper, printing and publishing and miscellaneous manufacturing. Sectors with less sensitivity to movements in the value of the Australian dollar include chemicals, petroleum and coal products; transport equipment; and machinery and equipment. These sectors are generally involved in the production of more elaborate manufactured products.

Full details of survey findings follow.

BACKGROUND

The impact of a rising currency on the Australian economy is multilayered. In general, a higher Australian dollar translates into lower input costs through reduced import prices and it improves the purchasing power of consumers and businesses. On the negative side however, a stronger Australian dollar reduces the competitiveness of exports and can raise the extent of import competition.

As an increasingly globally focused and exposed sector (with import penetration at over 35% and an export propensity of almost 25%), Australia's manufacturing industry is particularly sensitive to movements in the value of the Australian dollar. The Australian dollar – US dollar exchange rate is particularly important for Australian firms, with over two-thirds of exports (68.4%) and almost half (49.8%) of imports denominated in US dollars.[3] This is far greater than the US share of Australia's total exports (approximately 10%) and imports (approximately 18%).

The timing and impact on the economy from changes in the currency depend upon a variety of factors such as the length of contracts and the extent of currency hedging.

In the short term for instance, firms exporting products denominated in Australian dollars may be protected from losses under pre-existing contracts. This would be the case in sectors exporting products such as electrical machinery, beverages and miscellaneous manufactures, which tend to have a relatively high proportion of exports denominated in Australian dollars. In contrast, non-ferrous metals, metal ores, manufactured gas and coal and petroleum products are more likely to be denominated in US dollars, which may lower prices and dent earnings for firms exporting these products in the short term if fixed contracts are in place. The opposite holds true for imports – in the short term the appreciation of the Australian dollar may leave importers purchasing in US dollars unaffected, and negatively impact on importers purchasing in Australian dollars.

However, once export contracts are up for renegotiation or when adjustment clauses apply, an appreciating dollar reduces the competitiveness of Australian goods more generally on world markets, thereby eroding export volumes. A stronger Australian dollar can also damage the competitiveness of the sector by lowering Australian dollar returns if exports are denominated in foreign currencies and by raising the extent of import competition. These adjustments will flow through to lower profitability.

[3] As at March quarter 2003. Sourced from ABS publication 5422.0.

The impacts of changes in the value of the Australian dollar can also be influenced by the extent of hedging, including natural hedges (buying and selling in the same currency), which can provide a buffer to changes in the value of the currency. Evidence suggests however, that a large majority of firms, particularly small firms, do not hedge.

In response to the continued strengthening of the domestic currency, the Australian Industry Group was one of the first to raise these issues when in May 2003 it released a special report on the impact of the appreciating Australian dollar on manufacturing. At the time, the Australian dollar had broken through the US$0.60 mark and had appreciated by 25 per cent from a low of near US$0.48 in April 2001.

The May 2003 survey found that, for over one in three exporters, the continued appreciation of the Australian dollar during 2003 contributed to lower competitiveness. Over one quarter of exporters reported that the higher dollar had led to a fall in exports. This was supported by official data that showed the value of manufactured exports (by industry of origin) was down by around 5 per cent on an annual basis.

Further, manufacturers warned that if the Australian dollar broke through the US$0.65 mark, exports of basic manufactures would become increasingly uncompetitive on the world market. For elaborately transformed manufactures, the critical point was closer to US$0.70.

Following the release of the May 2003 survey, the Australian dollar rose to US$0.74 by early December 2003 (an appreciation of almost 19%) and breached these key competitiveness thresholds. Significant gains were also recorded against most South East Asian currencies including Korea, and also China (whose currency is effectively pegged to the US dollar). More modest increases were recorded against dollar block nations New Zealand and Canada, and the currencies of Japan, the United Kingdom and the Euro. Nevertheless, on a trade weighted basis the value of the Australian dollar has risen by almost 13 per cent in the period from May to early December 2003.

While the Australian dollar is typically subject to a relatively high degree of volatility – since its float the Australian dollar on average has fluctuated within a 12.5 cent range against the US dollar – 2003 was a particularly turbulent year with the domestic appreciating by around 17 cents or 30 per cent against the US currency.

To further analyse the implications of the continued surge of the Australian dollar, Ai Group undertook a follow-up survey of manufacturers in late November and early December 2003, providing a more detailed examination of the impact on competitiveness, exports, import competition and business performance.

Movement in Australian dollar versus selected currencies (at close 10/12/03)

Currency	Appreciation since 30/4/03 (%)	Appreciation since 31/12/02 (%)
US dollar	18.8	30.7
Euro	8.2	12.1
Japanese Yen	6.8	18.3
UK Pound	8.7	20.1
New Zealand dollar	2.5	6.1
Canada dollar	8.0	8.6
Hong Kong dollar	18.3	30.1
Singapore dollar	14.6	28.8
Malaysian Ringgit	18.8	30.7
Korean Won	16.0	30.4
Chinese Renminbi	18.8	30.7
Trade weighted index	12.5	22.2

Source: Reserve Bank of Australia

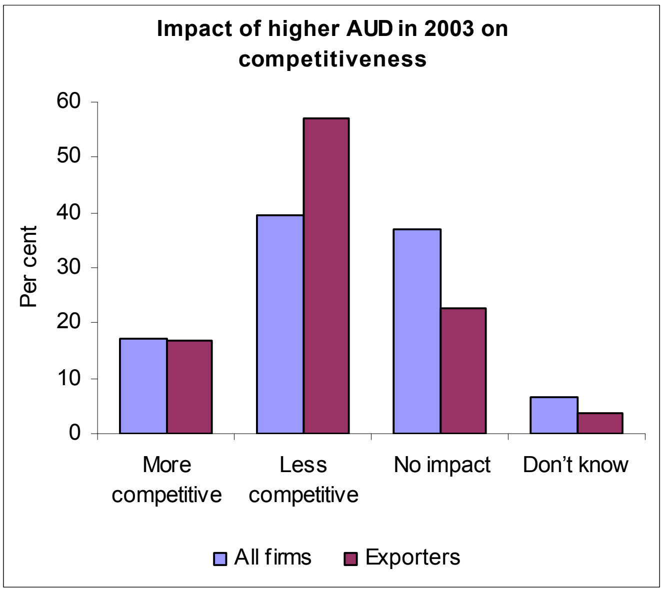
The findings of the survey are particularly important given that it appears likely that the days of a super-competitive Australian dollar providing support to exports and a buffer to import competition are now behind us, with research pointing to a fair value in the US$0.65 to US$0.75 range, and probably not much different to the US$0.725 average over the 1990s as a whole.[4]

The survey was conducted in conjunction with the December 2003 quarterly ***Survey of Australian Manufacturing***, and covers the responses of 800 manufacturers including 423 exporters across all firm sizes and industry sectors.

[4] For a detailed examination of the factors behind the valuation of the Australian dollar refer to the Ai Group report *Where will the soaring dollar land?* at www.aigroup.asn.au

WHAT IMPACT HAS THE CONTINUED APPRECIATION OF THE AUSTRALIAN DOLLAR HAD ON COMPETITIVNESS?

The appreciation of the Australian dollar has had a significant impact on the competitiveness of domestic manufacturing, with each upward move in the dollar over 2003 accentuating the impact on domestic manufacturers.



Some manufacturers (17.1%) have benefited from the higher Australian dollar, presumably because a lowering of import costs has reduced the price of raw materials. For 36.9 per cent of manufacturers, the movement in the currency over 2003 has had no impact. For 39.4 per cent of manufacturers however, the rising Australian dollar has reduced competitiveness through a loss of export competitiveness and higher import competition.

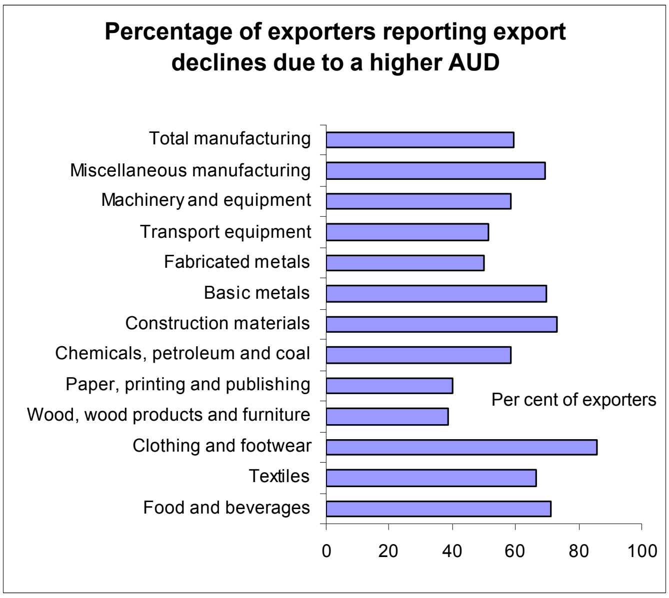
The impact of the stronger Australian dollar has been more adverse for exporters. This reflects the loss of competitiveness of Australian manufactured goods on world markets. While the proportion of exporters reporting a lift in competitiveness is similar to the industry average (given around half of all exporters also import), the proportion reporting a loss of competitiveness is much higher at 56.9 per cent.

This result marks a sharp deterioration compared with the May 2003 survey, when 36 per cent of exporters reported a lowering of competitiveness. This reflects the sensitivity of manufacturing exports to changes in the value of the currency, which has appreciated by almost 19 per cent versus the US dollar in the period from May to December 2003.

WHAT HAS A HIGHER AUSTRALIAN DOLLAR MEANT FOR EXPORTS AND EXPORT REGIONS?

A higher currency can impact on exporters through lower Australian dollar returns if exports are denominated in foreign currencies; through the need to cut Australian dollar prices to maintain competitiveness; and through a potential loss of export volumes.

The Ai Group survey shows the loss of competitiveness for exporters is flowing through to lower export earnings. The sensitivity of export earnings to fluctuations in the currency is illustrated by the fact that almost two-thirds of exporters (59.6%) report a cut in export earnings due to the higher dollar in 2003. This compares with the one-quarter of firms who reported a negative impact in the May 2003 survey. Over 2003, a further 29.4 per cent of exporters were unaffected.

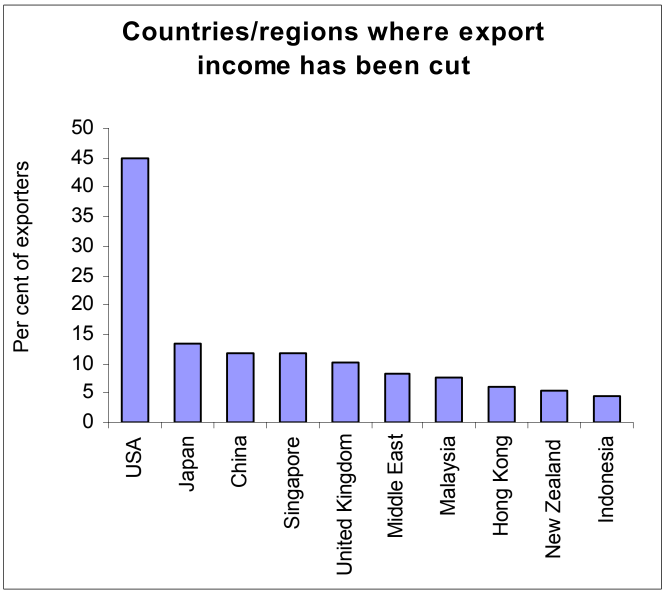


Consistent with the May 2003 survey, sectors highly exposed to exports such as clothing and footwear; food and beverages; basic metal products; textiles; and miscellaneous manufacturing are among the worst affected. In these sectors a relatively high proportion of exporters (in excess of 66%) reported a decline in export earnings in 2003 due to the higher Australian dollar.

In contrast, the least affected sectors included wood, wood products and furniture and paper, printing and publishing, both domestically focused, as well as manufacturers of elaborately transformed manufactures such as transport equipment; machinery and equipment; and fabricated metal products. Again, this is consistent with the May 2003 survey.

It is clear that while recent weakness in the global economy has played some part in reducing export revenues, the impact of the stronger Australian dollar has been significant. The average loss per exporter due to the strengthening Australian dollar over 2003 amounted to an estimated 4.6 per cent of export earnings, or $3.2 billion across the entire sector.

Reflecting a general loss of competitiveness of Australia's manufactured goods on world markets, the regions where export income has been cut most substantially represent a mix of Australia's major export destinations.



The US stands out in particular however, with almost half of exporters (44.8%) nominating the US as a region where export income had been lowered due to the higher Australian dollar.[5] To some extent, this is also likely to reflect subdued activity in the US economy, and is consistent with research published by the Reserve Bank of Australia which showed over half of the decline in exports in 2002/03 was attributable to a fall in exports to the US.

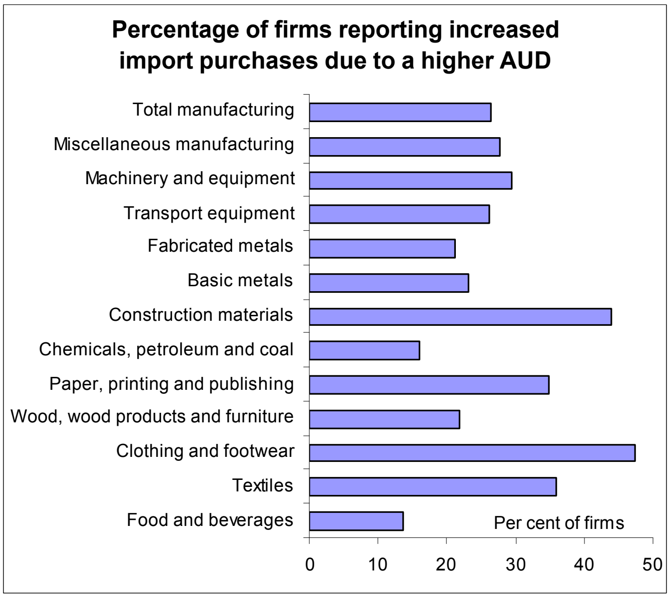
Over 10 per cent of exporters nominated Japan, China, Singapore and the United Kingdom. For all these regions the Australian dollar has appreciated by more than 20 per cent over 2003 (excluding Japan where the dollar has appreciated by 18%).

A fall in export returns is also evident where exports are directed to regions where there has been a smaller appreciation of the Australian dollar. For example export returns from New Zealand were lower for 5.5 per cent of exporters despite the relatively modest appreciation (6%) of the Australian dollar against the New Zealand currency over 2003. The Australian dollar appreciated by a relatively modest 9 per cent against the Canadian dollar and 4.1 per cent of exporters indicated a reduction in export income from Canada.

[5] Firms could nominate more than one export destination where export income had been reduced due to the higher AUD over 2003.

WHAT HAS A HIGHER AUSTRALIAN DOLLAR MEANT FOR IMPORT COMPETITION?

The impacts of a higher currency fall not only on exporters, but more generally through its propensity to lower import prices and raise import competition.



The increased competitiveness of imports relative to domestic products from the stronger Australian dollar is reflected in the changed purchasing patterns of manufacturers over 2003. Over one-quarter (26.5%) of manufacturers lifted purchases of imports due to the higher Australian dollar in 2003 while almost two-thirds (65.2%) reported that imports remained unchanged.

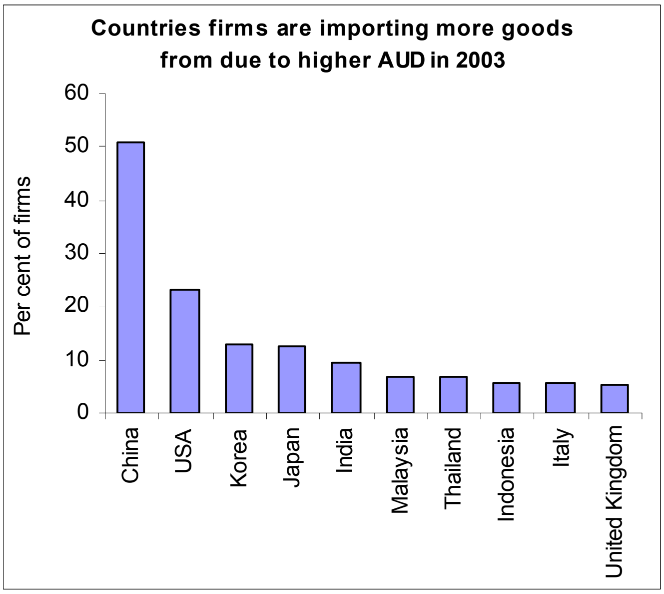
The proportion of firms citing higher imports was generally highest in sectors with a relatively strong focus on basic manufactured products, and therefore whose purchasing decisions are likely to be more sensitive to movements in the value of the Australian dollar.

The clothing and footwear sector had the most significant proportion of firms lifting imports (47.4%), followed by construction material products (43.9%); textiles (36.0%); and paper, printing and publishing (34.8%). While, historically, a relatively small proportion of construction materials are imported, strong construction activity domestically may have lifted foreign purchases. Australian Bureau of Statistics data show imports of construction materials[6] have increased by over 10 per cent in 2003.

Other sectors had a lower propensity to raise imports. These included food and beverages (with 13.6% of firms reporting a lift in purchases of imports); chemicals, petroleum and coal products (16.0%); fabricated metal products (21.2%); wood, wood products and furniture (22.0%); and basic metal products (23.1%). These generally reflect a mix of sectors involved in value added manufacturing and those linked to

[6] Defined as non-metallic minerals nec in Australian Bureau of Statistics publication 5439.0, and calculated on a quarter on quarter basis.

Australia's rich natural resources base, and are therefore likely to be less sensitive to changes in the value of the Australian dollar.



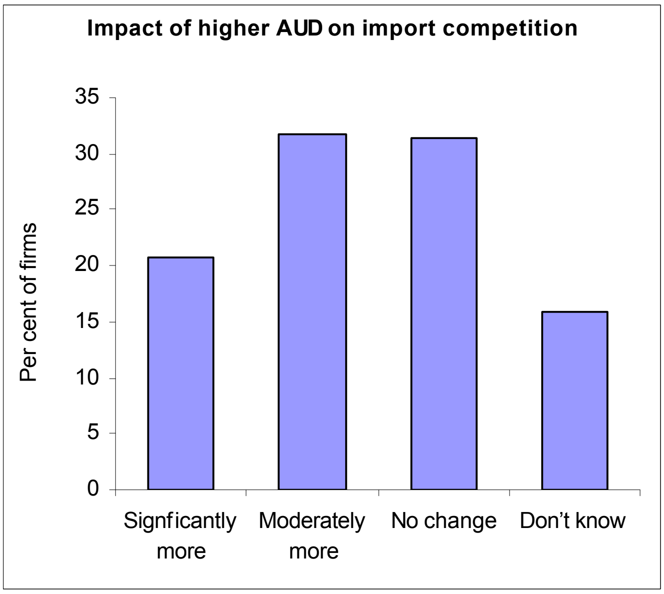
Reflecting a highly competitive currency and the continued rise of China in the trade of manufactured products (particularly its dominance in basic manufactures), over half of all firms (50.8%) reported increased imports from China due to the appreciation of the Australian dollar over 2003.[7] This compares with the 23 per cent of firms who reported an increase in imports from the US and the 10 per cent of firms reporting a rise in imports from Korea and Japan.

The attractiveness of imports relative to domestic manufactures has also increased across the economy overall. Over the past ten years import penetration of manufactures has risen from 26.6 per cent of manufacturing sales to over 32 per cent, largely reflecting the increasingly open nature of trade in manufactured goods; increasing specialisation in manufacturing production; global over-capacity and the supply of relatively cheap manufacturers from emerging economies such as China and India.

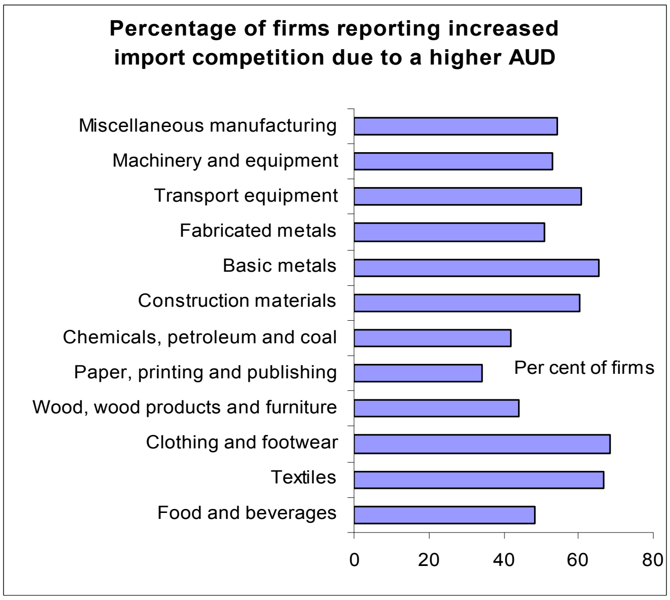
The results of the Ai Group survey show that the continued appreciation of the Australian dollar has contributed substantially to a rise in import competition.

Over half of all firms reported that import competition for their products had increased due to the higher Australian dollar in 2003. Over 20 per cent of businesses reported a significant rise, and almost 32 per cent reported a moderate rise. A further 31 per cent of firms reported no change, and 16 per cent did not know.

[7] Firms could nominate more than one country where imports had been lifted due to the higher AUD over 2003.



The rise in import competition has had varying impacts on different sectors. More than 60 per cent of firms in the clothing and footwear; textiles; basic metal products; transport equipment; and construction material products sectors reported an increase in import competition due to the higher Australian dollar in 2003. With the exception of construction material products, these sectors typically have encountered a rise in import competition over the past decade, and, particularly for textiles; clothing and footwear; and transport equipment, a lowering of tariff protection.



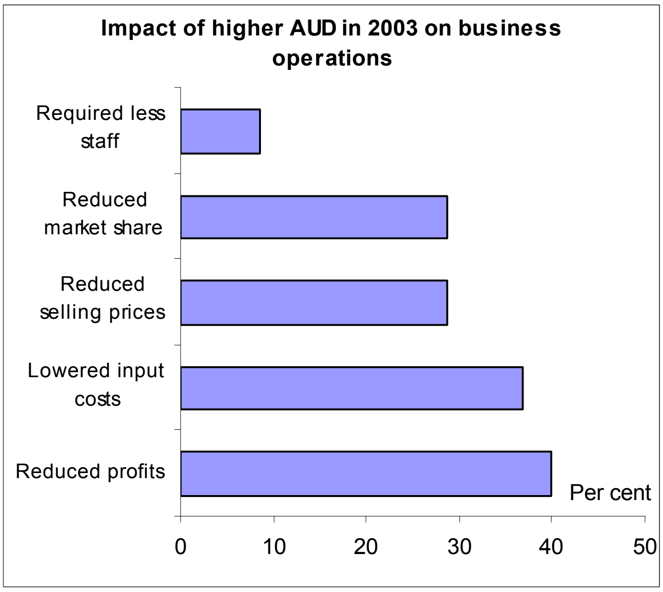
Less than 50 per cent of firms in the paper, printing and publishing; chemicals, petroleum and coal products; wood, wood products and furniture; and food and beverages sector, reported a rise in import competition.

While estimates of lost domestic sales due to import competition are somewhat subjective, on average firms estimate that the loss in sales to the manufacturing industry from the higher Australian dollar in 2003 and the resultant increase in import competition is equivalent to 2.1 per cent of turnover – an assessed annual loss to the sector of $4.1 billion in sales in 2003. This implies a greater impact on the manufacturing sector's bottom line than the impact of lower export returns.

WHAT IMPACT HAS THE HIGHER AUSTRALIAN DOLLAR HAD ON COMPANY OPERATIONS AND PERFORMANCE?

Over the past year, strong domestic economic conditions have supported manufacturing during a period of considerable weakness in the global economy and exports. Strong levels of construction and automotive activity, as well as strong consumer spending flowing through to the manufacturing sector have been particularly important. Nevertheless, the results of the Ai Group survey confirm that manufacturing growth has been held back by the impact of the rising dollar. The appreciation has eroded the competitiveness of domestic manufacturing, lowered export earnings and intensified import competition.

The combined impacts of the stronger Australian dollar on both export and domestic markets amounts to 2.7 per cent of total manufacturing turnover, or over $7.3 billion on an annual basis. While these impacts have been countered by buoyant domestic conditions, the higher Australian dollar is likely to have contributed to a moderation in sales and profit growth over the year to September 2003. On a year-on-year basis, sales growth eased from 5.5 per cent (trend, constant price terms) in September 2002, to 1.5 per cent by the September quarter 2003. Over the same period, annual profit growth eased from 24.6 per cent (trend) to 6.3 per cent. While a variety of factors were at play, the rise in the dollar was undoubtedly a significant factor.



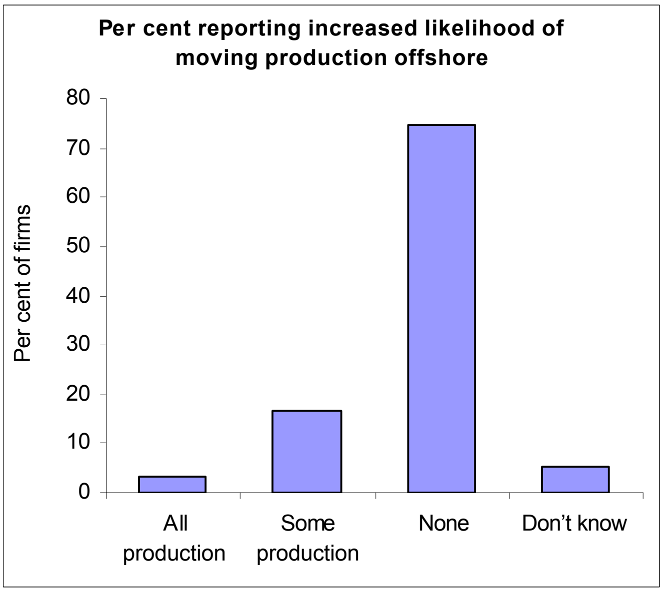
Reflecting this, just under 40 per cent of all manufacturers (39.9%) reported that profits were lower than they would have been without the appreciation of the Australian dollar in 2003.[8] The results also reflect the double-edged nature of the impact of a stronger dollar on manufacturers.

While some firms have benefited from the lower cost of imports flowing through to reduced input costs (39.4%), the positive impacts for the sector overall appear to have

[8] Firms were able to nominate more than one impact of the appreciation of the Australian dollar over 2003 on company performance.

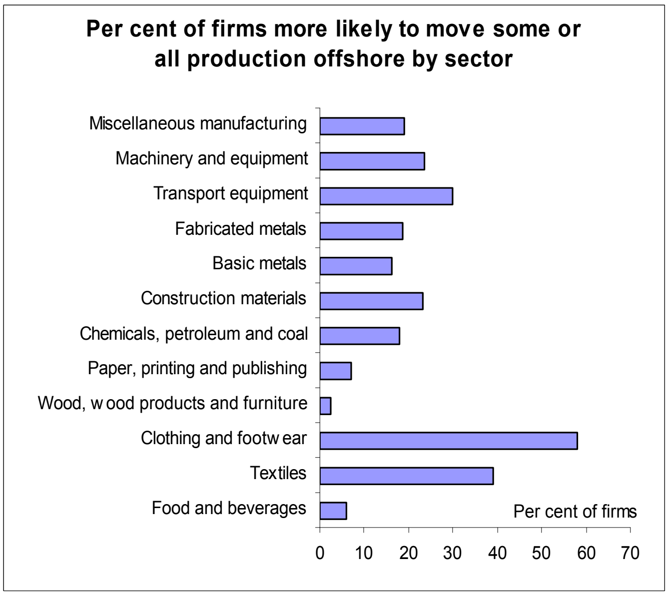
been negated by factors such as lower selling prices (28.8%) and a loss of market share (28.6%).

The relatively high instance of firms reporting lower market share reflects the impact of the stronger dollar on increasing import competition and the decreased attractiveness of Australia's exports on world markets. While the manufacturing sector was able to draw on strong domestic conditions to counter these impacts there was an overall decline in the proportion of activity accounted for by domestic manufacturers.



Reflecting increased pressures on the bottom line and competitiveness, 8.6 per cent of manufacturers report lower employment than would have been the case without the appreciation of the Australian dollar.

In response to the impact of the appreciating dollar on the bottom line, a significant proportion of manufacturers are considering relocation strategies to maintain competitiveness. The continued advance of China in world trade, particularly in terms of basic, labour intensive manufactures, has increased the focus on the ability of domestic producers to compete globally. The findings of the Ai Group survey suggest the appreciation of the dollar in 2003 has accentuated the competitive advantage of countries such as China relative to Australia.



Reflecting this, sectors with a high exposure to global markets, movements in the value of the Australian dollar, and relatively labour intensive production activity are now more likely to move at least some production offshore due to the stronger dollar. This includes the clothing and footwear and textiles; and to a lesser extent the transport equipment and machinery and equipment sectors. In particular, 59.7 per cent of clothing and footwear, and 39.1 per cent of textiles firms indicated the higher Australian dollar had increased the likelihood of moving some or all production offshore.

The challenges faced by Australia's textiles, clothing and footwear sectors have been well documented. Countries dominating the global TCF markets are those with relatively low labour costs such as China and India. The upward surge of the Australian dollar has again reduced the competitiveness of a substantial proportion of local producers, increasing incentives to relocate production activity offshore.

As well, both the transport equipment and machinery and equipment (particularly white-goods) sectors have confronted increasing import competition over the past few years from a steady supply of low cost alternatives from competitors such as China and the South East Asian economies. These countries benefit from larger domestic markets and therefore have a greater capacity to reap benefits from economies of scale and lower marginal costs than Australian firms. Also, as noted earlier, the transport equipment sector, and the textiles and clothing and footwear sectors, have undergone a significant period of adjustment to lower tariff regimes over the past decade. This has increasingly opened these sectors to changes in the competitive landscape, including movements in the exchange rate.

A much lower propensity to move production offshore was reported in the wood, wood products and furniture (with only 2.6% of firms more likely to move some or all production offshore due to the appreciating currency); food and beverages (6.2%);

and paper, printing and publishing (7.0%) sectors. Historically, these sectors have been less exposed to import penetration, and with the exception of food and beverages, tend to export a lower proportion of output than manufacturing industry overall. Survey results also suggest these sectors are among the least affected in terms of loss of export earnings, and sales reductions due to greater import competition.

LOOKING AHEAD

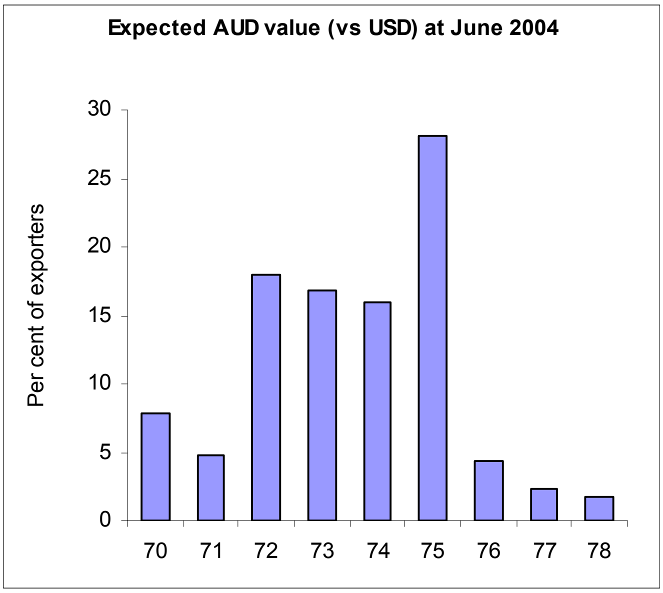
The impact of the appreciating dollar on manufacturing competitiveness over 2003 has been significant, with its impact increasing with each upward movement in the value of the Australian dollar. The Ai Group survey has found the stronger Australian dollar has the potential to cut manufacturing turnover by 2.7 per cent, or more than $7.3 billion in 2003.

For exporters, the survey has revealed that 6.1 per cent of firms already cover currency positions through natural hedging and a further 9.8% are more likely to take out hedging insurance going forward. This leaves the vast majority of exporters open to future movements in the value of the Australian dollar. On top of this is the unknown impact of future currency movements on import competition.

The survey suggests the US$0.70 mark remains a critical point for manufacturing as a whole. Beyond this level, exports tend to become highly uncompetitive on world markets. Manufacturers of elaborately transformed manufactures such as transport equipment, and chemicals, petroleum and coal products and the food and beverages sectors, appear better equipped to adapt to changes in the value of the currency. This may reflect the relatively high proportion of large multinational firms as well as a greater R&D intensity and greater technological advantage in these sectors.

With the Australian dollar already breaching the US$0.70 mark – and reaching $0.74 by early December 2003, these finding have significant implications for the competitiveness of the manufacturing sector.

The survey reveals that almost two thirds of exporters anticipated the Australian dollar would be at or below the US$0.74 mark in June 2004. An additional 27 per cent of exporters anticipated the currency would reach US$0.75 by June.



Some market forecasts suggest the Australian dollar could reach US$0.80 by the middle of this year. This indicates that the sector in general may still be underestimating the extent of the Australian dollar appreciation.

While results should be used as indicative only, the survey results indicate that for each one cent appreciation of the Australian dollar against the US dollar, export earnings for manufacturing overall are reduced by about 0.3 per cent of export earnings, amounting to an annual loss of $210 million for each one cent appreciation of the Australian currency against the US dollar.

The impact of the appreciation of the currency will impact to a different extent across sectors. Those sectors with export income highly sensitive to upward movements in the Australian dollar include clothing and footwear; fabricated metal products; basic metal products; construction material products; paper, printing and publishing and miscellaneous manufacturing. With the exception of construction material products, these sectors are relatively highly exposed to exports and fluctuations in world demand and the Australian dollar.

Sectors with less sensitivity to movements in value of the Australian dollar include chemicals, petroleum and coal products; transport equipment; and machinery and equipment. These sectors are generally involved in the production of more elaborate manufactured products.

Estimated percentage loss in export earnings due to each one cent rise in the value of the Australian dollar (versus US dollar)

Sector	Estimated loss as % of export earnings
Food and beverages	0.35
Textiles	0.40
Clothing and footwear	1.40
Wood, wood products and furniture	0.50
Paper, printing and publishing	1.10
Chemicals, petroleum and coal products	0.10
Construction material products	1.80
Basic metal products	0.60
Fabricated metal products	0.80
Transport equipment	0.10
Machinery and equipment	0.20
Miscellaneous manufacturing	1.50
Total manufacturing	0.30

These losses would be in addition to the impact of a further appreciation of the Australian dollar on import competition and any loss in domestic sales.