



NATIONAL SURVEY OF BUSINESS EXPECTATIONS

FOR THE MARCH QUARTER 2004

No. 38

February 2004

AUSTRALIAN ECONOMY CARRIES MOMENTUM INTO NEW YEAR

The *National Survey of Business Expectations* for February 2004 shows key business indicators underlying the Australian economy have continued to improve while strong national and general business conditions have combined to produce an optimistic outlook for the next twelve months.

Australia's Economic Performance continued to trend higher over the year with the index recording 54.9 rising above the 52.5 recorded in the previous quarter.

Australia's General Business Conditions further improved during the quarter building on a strong finish to last year. The two interest rate raises do not appear to have significantly impeded current business conditions. Investment data for building and for plant and equipment were however flat during the quarter indicating some possible adverse consequences may have occurred.

The *Sales Revenue* index rose again during the quarter and is now at its highest level since the series began. *Export* data indicate volumes only increased slightly during the quarter but expectations remain upbeat.

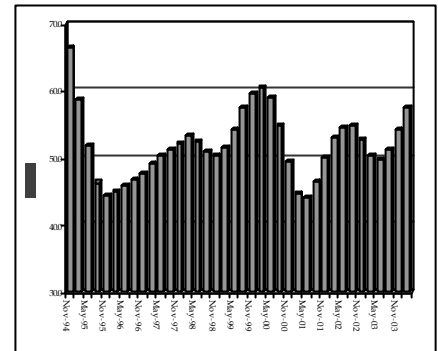
Expectations data were particularly strong across all key indicators underlined by rising profits and sales as well as stable wage costs, non-wage labour costs and selling prices. Businesses expect to continue employing over the next six months. *Overtime Utilisation* has also increased and is expected to continue to do so into the future.

The survey data broken down by size of firm show that the experiences of all three business sizes were relatively similar over the quarter with small, medium and large firms all showing improvement in terms of general business conditions.

Investment data reflect the largest disparity between different sizes of firms with large businesses indicating that investment in plant and equipment remained stable while small and medium sized enterprises increased.

Data on general business conditions, employment and investment by size of firm are shown in Tables 13-15.

GENERAL BUSINESS CONDITIONS Trend Data



I N S I D E

ACCI's *National Survey of Business Expectations* for the February quarter indicates businesses have not been greatly affected by recent increases in interest rates and continue to experience strong trading conditions.

General Business Conditions improved markedly in trend index terms. Expectations also remained buoyant with 86 per cent of respondents indicating conditions will not deteriorate in the next six months.

Other key indicators to improve include *Sales Revenue*, *Profits* and *Employment*. Less substantive improvements occurred in the areas of investment, for both building and plant and equipment. Previous business concerns about wages appear to have been contained during the quarter although expectations are that costs will eventually increase.

Indicators for the next three months are generally optimistic with large increases in the indices for *General Business Conditions* and *Sales Revenue*.

PARTICIPATING ORGANISATIONS

ACT & Region Chamber of Commerce and Industry
Australian Business Limited
Business SA
Chamber of Commerce and Industry Western Australia
Commerce Queensland
Chamber of Commerce Northern Territory

Printing Industries Association of Australia
State Chamber of Commerce (NSW)
Tasmanian Chamber of Commerce and Industry
Victorian Automobile Chamber of Commerce
Victorian Employers' Chamber of Commerce and Industry

SURVEY RESULTS

AUSTRALIAN ECONOMIC PERFORMANCE

Table 1
Australian Economic Performance

	One Year Before	Previous Quarter	Current Quarter
Much stronger	2.3	1.1	2.8
Somewhat stronger	18.9	31.8	33.3
About the same	50.0	50.9	45.6
Somewhat weaker	27.0	14.5	17.0
Much weaker	1.7	1.7	1.3
Index	48.3	54.0	54.8
Trend Index	47.2	52.5	54.9

Australia's Economic Performance data indicates the economy is continuing to build up steam with the index continually rising since February 2003. The index is also higher than at any time during the last two years. Overall 36.1 per cent of business surveyed indicated national conditions were either somewhat or much stronger while only 18.3 per cent felt conditions had weakened.

The index on *Australia's Economic Performance* recorded 54.9 in trend terms during the February quarter to be moderately higher than the 52.5 recorded during the previous survey. The economy during the same quarter last year was struggling with the trend index recording 47.2. The most recent interest rate movements do not appear to have substantially damaged economic performance.

Table 2
General Business Conditions

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	28.6	38.4	31.5
Same	49.5	45.8	54.5
Down	21.9	15.7	14.0
Net Balance	+6.6	+22.7	+17.4
Trend Index	50.1	58.5	63.4

GENERAL BUSINESS CONDITIONS

General Business Conditions have started the year in the far stronger position than at the beginning of 2003. The index during the previous quarter experienced a significant increase, with this momentum having continued into the current survey results. The trend index recorded 58.5 during the most recent quarter, significantly higher than the 54.6 recorded during the previous period. The year-on-year results indicate how much the economy has developed over 12 months. Expectations are for conditions to improve further over next 12 months with the index recording 63.4. This result is the most optimistic for two years.

SALES REVENUE

Sales Revenue data remain buoyant, building on the solid foundation which emerged during last year, while consumer spending does not appear to have been curtailed. The current trend index recorded 57.8, a strong rise over the previous quarter's result of 54.7 and higher than any time during the last two years. Compared with the same quarter last year the result highlights just how upbeat Australia's economy is at the moment. Expectations became more optimistic during the most recent quarter recording an index of 65.2.

Table 3
Sales Revenue

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	39.5	45.2	39.8
Same	32.8	31.4	40.5
Down	27.3	23.4	19.7
Net Balance	+12.2	+21.8	+20.0
Trend Index	52.0	57.8	65.2

EXPORTS

Exports data did not receive the same boost during last year as did the domestic economy. At the beginning of this year the results have remained largely unchanged, no doubt constrained by a higher exchange rate. The trend index recorded 52.5 during the most recent quarter which is flat compared with a trend index of 52.3 recorded during the previous quarter. Expectations, while optimistic, are nevertheless well down on what may be expected with a lower Australian dollar.

Table 4
Exports

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	18.6	18.1	17.5
Same	69.4	68.3	70.9
Down	11.9	13.6	11.6
Net Balance	+6.7	+4.5	+6.0
Trend Index	51.0	52.5	57.2

WAGES GROWTH

Wages Growth appears to have stabilised indicating the economy may be able to sustain the current rate of growth over the longer term without the risk that inflation will move outside the RBA's target range. The index in trend terms recorded 65.8 during the current quarter rising above the previous index of 63.2. Wage growth during the same quarter last year recorded 59.7. Wage pressures are expected to be moderate for the foreseeable future.

Table 5
Wages Growth

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	29.5	34.6	26.9
Same	62.0	58.2	63.8
Down	8.1	7.1	9.3
Net Balance	+21.4	+27.5	+17.7
Trend Index	59.7	65.8	63.9

Table 6
Non-Wage Labour Costs

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	29.2	33.4	26.8
Same	62.7	62.5	66.9
Down	8.0	4.0	6.4
Net Balance	+21.2	+29.4	+20.4
Trend Index	60.3	65.9	62.3

NON-WAGE LABOUR COSTS

Non-Wage Labour Costs, which include all of the on-costs attached to employing as well as the various benefits provided by employers, recorded a marginally higher trend index during the current survey quarter. During the corresponding quarter last year the *Non-Wage Labour Costs* index recorded 60.3. The relative growth in *Non-Wages Labour Costs* has been considerably smaller than other key business variables.

Table 7
Selling Prices

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	16.5	15.8	20.2
Same	65.0	74.5	72.3
Down	18.4	9.7	7.5
Net Balance	-1.9	+6.0	+12.7
Trend Index	49.6	54.7	57.5

SELLING PRICES

As with *Wages Growth* and *Non-Wage Labour Costs*, *Selling Prices* remained stable during the latest quarter, having moved little over the previous nine months. The trend index recorded 54.7 during the current survey quarter similar to that recorded during the previous quarter. Expectations data indicate that prices will remain reasonably stable over next year.

Table 8
Profits

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	25.8	28.3	28.0
Same	43.3	47.4	53.2
Down	30.4	24.2	18.8
Net Balance	-4.7	+4.1	+9.2
Trend Index	46.0	54.4	58.6

PROFITS

Profitability showed some strong signs of recovery over the latest quarter, with large improvements having taken place over the previous nine months. The trend index recorded 54.4 with some 75.7 per cent of respondents indicating profits were either higher or steady during the quarter. Expectations have also strengthened on the previous year as businesses consider the next twelve months will be good for their bottom line.

EMPLOYMENT

The *Employment* growth index recorded a trend index of 56.6 slightly higher than the previous quarter's 55.1. Strong expectations of future profits and moderate cost increases appear to have translated into better labour market conditions over the next twelve months.

Table 9
Employment

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	16.7	26.8	21.7
Same	62.9	60.1	63.2
Down	20.4	13.1	15.1
Net Balance	-3.7	+13.7	+6.6
Trend Index	49.5	56.6	56.7

OVERTIME

Overtime Utilisation continues to grow steadily from last year corresponding to the tighter labour market conditions. The trend index recorded 53.3 during the most recent quarter a moderate improvement on that of the previous quarter. During the corresponding quarter last year the index recorded 48.5. Expectations are that overtime will remain stable in the next twelve months.

Table 10
Overtime

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	25.4	24.8	16.1
Same	56.8	60.7	63.1
Down	17.8	14.5	20.8
Net Balance	+7.7	+10.2	-4.8
Trend Index	48.5	53.3	50.7

INVESTMENT IN BUILDINGS

The data on *Investment in Buildings* recorded a trend index of 52.1 equal to that recorded during the previous quarter. *Investment in Buildings* has improved over the year, however, with the corresponding quarter last year recording an index of 47.8. Expectations data suggest that investment growth will continue at its current pace for the next six months.

Table 11
Investment in Buildings

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	15.9	19.4	18.2
Same	65.4	64.6	62.6
Down	18.6	16.0	19.1
Net Balance	-2.7	+3.5	-0.9
Trend Index	47.8	52.1	50.7

Table 12

Investment In Plant and Equipment

	Same Qtr Last Year Actual	Latest Quarter Actual	Next Quarter Expectation
Up	26.0	23.2	24.6
Same	54.9	62.2	56.0
Down	18.6	14.6	19.4
Net Balance	+7.4	+8.5	+5.2
Trend Index	51.9	54.5	54.8

INVESTMENT IN PLANT AND EQUIPMENT

The index on *Investment in Plant and Equipment* also remained relatively stable during the past quarter. Investment has shown the least improvement relative to other indicators in the survey. Given that investment can be more interest rate sensitive, recent interest rate movements may be influencing businesses' decisions. The trend index during the latest quarter recorded 54.5 similar to the 54.3 recorded during the previous survey. Expectations data suggest over the next twelve months investment growth will be slightly higher.

COMPARISONS BY SIZE OF FIRM

A number of comparisons by size of firm are provided below. The *National Survey of Business Expectations* is the only private sector survey in Australia which provides a comparison of expectations for firms of every size. And as the data below show, there are important differences in the expectations of firms depending on their size. Please note that these data are weighted by industry.

GENERAL BUSINESS CONDITIONS

General Business Conditions during the latest quarter in net balance terms improved substantially for all firms recording +21.6, +23.1 and +19.3 for small, medium and large firms respectively (1-19, 20-100, 100+ employees). It should be noted that improvements were also equally distributed amongst all.

Expectations do however differ greatly with small firms being the most optimistic with the net balance of +24.1. Medium sized firms recorded a slightly lower net balance of +18.0 and large sized firms, while still remaining, optimistic recorded +11.8.

Table 13 General Business Conditions						
	1-19		20-99		100+	
	Act	Exp	Act	Exp	Act	Exp
Up	37.5	36.4	38.7	35.2	40.6	30.0
Same	46.6	51.3	45.7	47.6	38.1	51.7
Down	15.9	12.3	15.6	17.2	21.3	18.3
Net Balance	+21.6	+24.1	+23.1	+18.0	+19.3	+11.8

EMPLOYMENT

Employment growth again continued to perform strongly during the most recent quarter with large sized firms showing the most robust hiring outcomes. Large firms recorded a net balance of +20.5, with medium and smaller sized firms showing similar growth with net balances of 13.7 and 13.5 respectively. Expectations data for all firms show employment growth will continue over the next twelve months with net balances recording +13.3, +10.2 and +11.4 for small, medium and large firms respectively.

Table 14 Employment						
	1-19		20-99		100+	
	Act	Exp	Act	Exp	Act	Exp
Up	26.3	26.3	26.7	23.0	31.1	21.8
Same	61.0	60.7	60.3	64.3	58.3	67.8
Down	12.7	13.0	13.0	12.7	10.6	10.4
Net Balance	+13.5	+13.3	+13.7	+10.2	+20.5	+11.4

INVESTMENT IN PLANT AND EQUIPMENT

The data on Investment in Plant and Equipment indicate that growth was higher for both small and medium sized enterprises while large businesses remained stable. Small business recorded a net balance of +14.3, while medium sized enterprises recorded a net balance of +14.5. The net balance for large business was +1.4. Expectations data show growth is set to continue over the next twelve months although large business remains the least optimistic.

Table 15
Investment in Plant and Equipment

	1-19		20-99		100+	
	Act	Exp	Act	Exp	Act	Exp
Up	29.0	25.9	29.6	29.0	18.1	29.5
Same	56.3	57.7	55.3	56.8	65.1	44.6
Down	14.7	16.4	15.1	14.2	16.8	25.9
Net Balance	+14.3	+9.6	+14.5	+14.8	+1.4	+3.6

The *National Survey of Business Expectations* is a national survey aggregated from the individual surveys conducted by member associations of the Australian Chamber of Commerce and Industry. These surveys cover firms in every state, in every industry and incorporate firms of every size. The *National Survey* is thus Australia's most comprehensive survey of business expectations. The data in the current survey was gathered during August, September and October. There were 2236 respondents to the survey.

Listed below are the names of the individual surveys which make up this national survey, as well as the person to contact at each organisation if further information is sought.

ACT & Region Chamber of Commerce and Industry
ACT Chamber Survey of Business Expectations
Mr Chris Peters 02-6283-5200

Australian Business Limited
Australian Business Limited/Commonwealth Bank Survey of Manufacturing
Mr Jeff Schubert 02-9927-7445

Business SA
Survey of South Australian Business Expectations
Mr Nathan Paine 08-8300-0009

Chamber of Commerce and Industry of Western Australia
Survey of Business Opinion in Western Australia
Ms Nicky Cusworth 08-9365-7555

Commerce Queensland
Quarterly Pulse Survey of Queensland Business
Ms Helen Jentz 07-3842-2253

Chamber of Commerce Northern Territory
Business Expectations Survey
Ms Jenny Griffiths 08-8936-3100

Printing Industries Association of Australia
Printing Industry Trends
Mr Hagop Tchamkertenian 02-9248-7300

State Chamber of Commerce (NSW)
State Chamber of Commerce/Quarterly Survey of NSW Business Expectations
Ms Louise Southall 02-9350-8100

Tasmanian Chamber of Commerce and Industry
TCCI/Commonwealth Bank Survey of Business Expectations
Mr Nick Behrens 03-6234-5933

Victorian Automobile Chamber of Commerce
Automotive Industry Economic Survey
Mr Michael Sleep 03-9829-1111

Victorian Employers' Chamber of Commerce and Industry
Survey of Business Trends and Prospects
Mr Steven Wojtkiw 03-9251-4333

Australian Chamber of Commerce and Industry
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