

JANUARY 2005

BUSINESS CONDITIONS HIGHEST IN 13 YEARS, BUT SOME SOFTENING EVIDENT

The January 2005 *Survey of Investor Confidence* continues to show business is performing well. The index of current business conditions increased for the eighth consecutive survey, reaching another record level. The index of *National Economic Conditions* increased to the highest level on record. However, businesses are revealing some concerns in expectations for the future. Key areas to watch at this stage are labour and wages, and own firms' sales and profits.

At the firm level, *Own Business Conditions*, *Own Sales*, and *Own Profitability* for January continued to be reported as sound, while the index levels for these indicators began to ease slightly from the high levels recorded in previous surveys. The easing of indices suggests that conditions, while remaining buoyant, may ease over the next year.

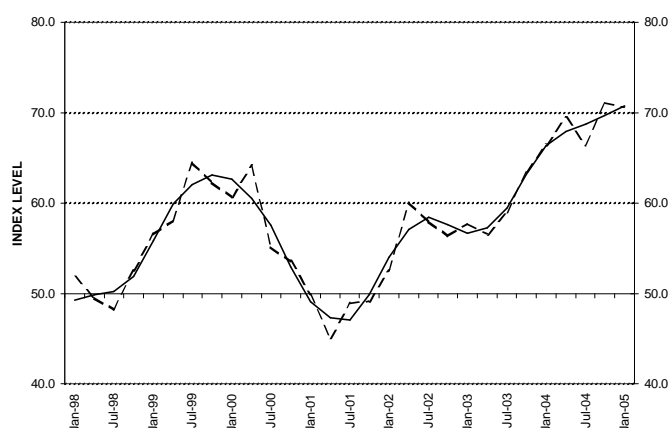
The index of hiring intentions recorded by business was one of the few expectation indexes to increase. Businesses, however, remain concerned with inflation and interest rates, reporting that they expect inflation to rise slightly and the Reserve Bank of Australia to increase interest rates moderately over the first part of the year.

Businesses have begun indicating that they expect to see some easing of economic growth, in line with the easing of other expectations. Unemployment is expected to level out while wage levels are expected to increase steadily. The survey suggests there may continue to be some negative impacts on growth from the exports sector.

The business community remains relatively confident that trading conditions will continue to be strong within their own firms. Profits and sales have mainly lived up to what had been anticipated three months ago, though here again there was some slight easing of the indices.

The top ten constraints on investment reported in the period changed only moderately in the quarter. The largest constraint was *Availability of Suitably Qualified Employees* (previously the second highest) with *Business Taxes and Charges* falling back into second spot from first position. The major constraints on investment reported for the period were generally related to labour, government regulation, and taxes and charges.

NATIONAL ECONOMIC CONDITIONS



NATIONAL ECONOMY

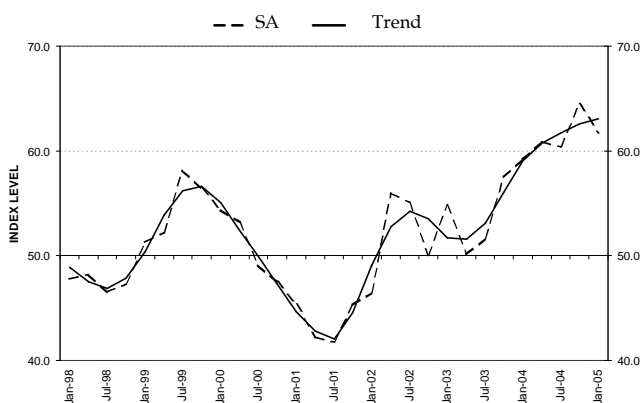
National Economic Conditions

The index of *National Economic Conditions* increased moderately to 70.8, the highest level since this data was first collected in 1991. Clearly, the business community perceives the Australian Economy to be strong. Following the mild dip recorded two years ago, the index has now been positive since January 2002.

National Economic Conditions in seasonally adjusted terms also showed continued strength, though the index level drifted down slightly over the quarter. This may indicate that some moderation is taking place, though the volatility of seasonally adjusted data makes it difficult to place much weight on one quarter's result.

	January 2004	October 2004	January 2005
Excellent	2.9	3.6	2.8
Very Good	27.9	37.6	39.0
Good	45.5	40.9	46.6
Satisfactory	18.6	15.8	9.0
Poor	3.3	1.6	1.7
Very Poor	1.7	0.1	0.0
Deeply Depressed	0.0	0.5	0.8
Original	67.2	70.6	71.5
Seasonally Adjusted	66.4	71.1	70.6
Trend	66.3	69.7	70.8

Climate for Investment



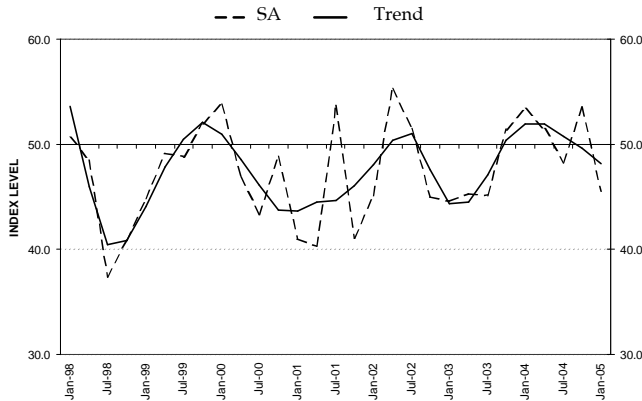
	January 2004	October 2004	January 2005
Excellent	0.7	1.7	1.8
Very Good	8.8	19.3	23.6
Good	52.0	47.4	38.2
Satisfactory	29.9	23.3	27.6
Poor	8.7	8.3	6.4
Very Poor	0.0	0.0	1.5
Deeply Depressed	0.0	0.0	0.8
Original	60.5	63.8	63.1
Seasonally Adjusted	59.2	64.5	61.8
Trend	59.1	62.6	63.1

The index of *Investor Confidence*, which shows the present climate for investment within the economy, continued to increase in trend terms over the quarter, reaching 63.1. Despite the rise in trend terms, the index dipped lower in seasonally adjusted terms, though it remains at a very high level overall. Data on expected investment is weaker (see below).

EXPECTATIONS FOR THE NATIONAL ECONOMY

This section presents business expectations for the next year on a diverse range of economic indicators for the national economy.

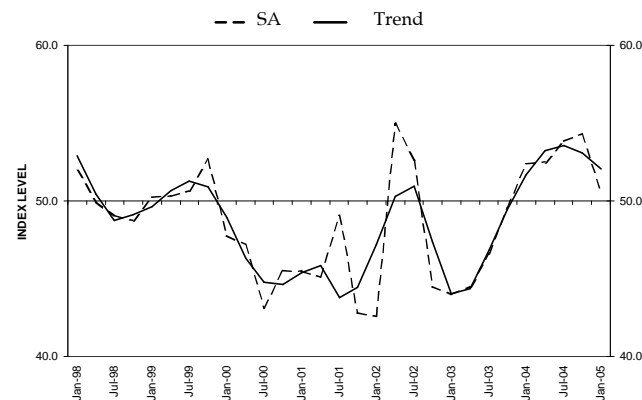
Economic Growth



	January 2004	October 2004	January 2005
Much Higher	0.0	0.0	0.0
Somewhat Higher	30.6	29.8	16.1
About the Same	55.1	50.7	54.7
Somewhat Lower	14.3	18.4	27.3
Much Lower	0.0	1.2	1.9
Original	54.1	52.3	46.2
Seasonally Adjusted	53.3	53.5	45.6
Trend	51.9	49.6	48.1

Despite strong economic and investment conditions, expectations for economic growth fell further into negative territory. However, the dip in the index of *Economic Growth* to 48.1 probably reflects the growing awareness by business of the continuing disparity between exports and imports, which is reducing the recorded levels of GDP from the surge in growth of imports.

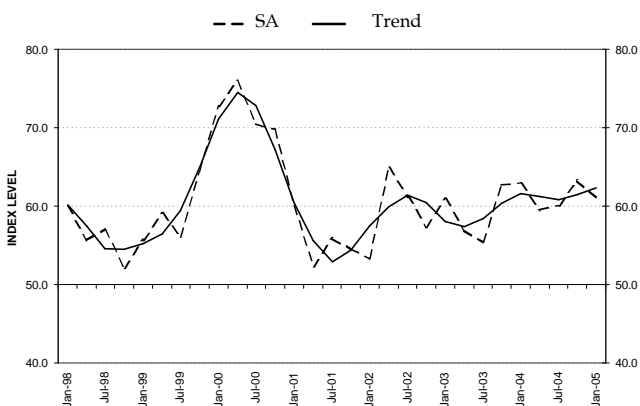
Business Investment



	January 2004	October 2004	January 2005
Much Higher	0.9	0.7	0.0
Somewhat Higher	35.2	35.2	27.7
About the Same	41.7	44.6	53.8
Somewhat Lower	21.8	17.5	16.5
Much Lower	0.4	2.0	2.0
Original	53.6	53.8	51.8
Seasonally Adjusted	52.4	54.3	50.6
Trend	51.7	53.1	52.1

Over the next twelve months the outlook for *Business Investment* remains moderately positive, despite the trend index falling back to 52.1 from the previously recorded level of 53.1. Perceptions are for continued moderate rates of growth, with the trend index remaining relatively on par with the same time last year, when the index was 51.7.

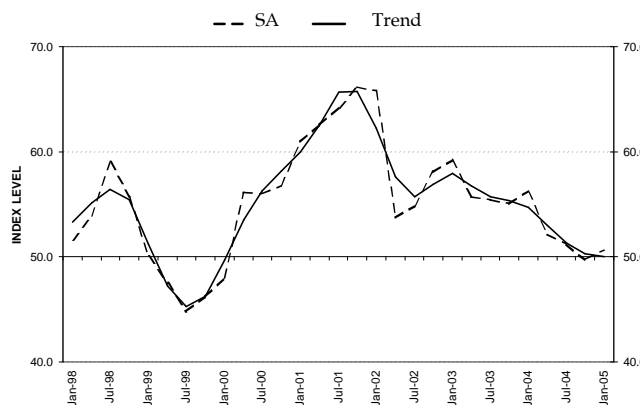
Prices



	January 2004	October 2004	January 2005
Much Higher	1.8	1.0	1.1
Somewhat Higher	46.9	52.8	39.1
About the Same	47.3	45.5	58.9
Somewhat Lower	3.9	0.3	0.0
Much Lower	0.0	0.4	0.8
Original	61.7	63.4	59.9
Seasonally Adjusted	62.9	63.3	61.2
Trend	61.6	61.5	62.3

The January index of *Expected Movement in Prices* recorded 62.3 in trend terms, though there was some weakness in seasonally adjusted figures. Only a tiny proportion of businesses are expecting prices to fall over the next twelve months; however the proportion expecting prices to be somewhat higher has fallen substantially. The data suggests that inflation is being factored into decision-making at modest levels slightly above current levels.

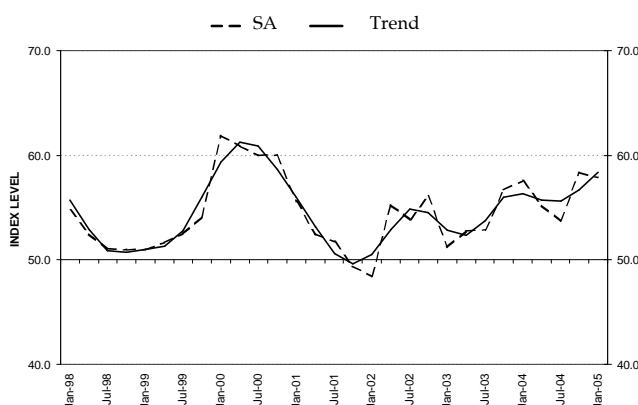
Unemployment



	January 2004	October 2004	January 2005
Much Higher	2.6	0.0	1.2
Somewhat Higher	23.4	21.4	14.3
About the Same	67.0	58.1	68.3
Somewhat Lower	7.0	20.1	15.4
Much Lower	0.0	0.4	0.8
Original	55.4	50.1	49.9
Seasonally Adjusted	56.2	49.8	50.7
Trend	54.8	50.3	50.0

The trend index of *Unemployment* declined slightly from 50.3 in October to be 50.0 in January (an index of 50 is completely neutral). The January result suggests an expectation for unemployment to continue at current levels with no major change either way expected. Most business will be well aware of the difficulties finding suitably qualified employees, and may not be convinced that unemployment can fall much further.

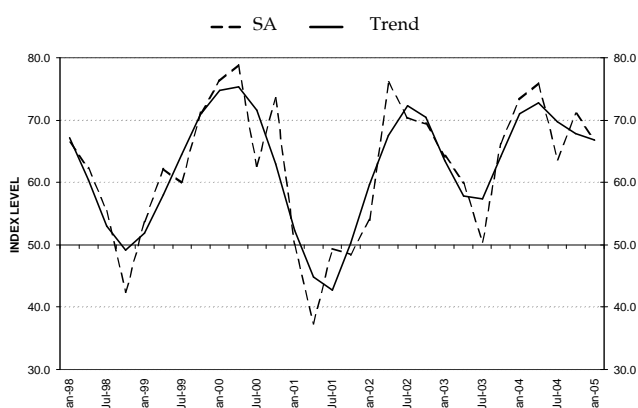
Wages Growth



	January 2004	October 2004	January 2005
Much Higher	3.0	0.6	3.3
Somewhat Higher	34.7	28.6	31.9
About the Same	55.2	67.1	60.8
Somewhat Lower	5.8	3.7	3.2
Much Lower	1.3	0.0	0.8
Original	58.0	56.5	58.4
Seasonally Adjusted	57.5	58.4	57.9
Trend	56.3	56.7	58.3

The index of *Wages Growth* expectations increased slightly to 58.3, in line with the other indicators on labour scarcity. Despite the continuing small rises in the index, the expectations are only suggestive of moderate wages pressures at this stage and do not indicate an expectation of severe wages pressures. The index was 56.3 in the corresponding period of last year.

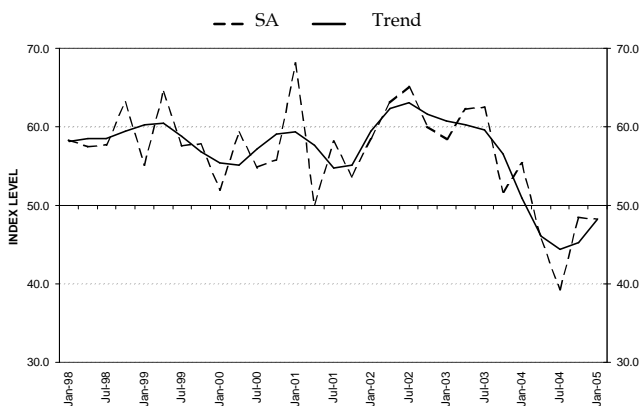
Interest Rates



	January 2004	October 2004	January 2005
Much Higher	1.8	1.2	0.0
Somewhat Higher	87.4	81.3	68.6
About the Same	6.9	14.8	25.6
Somewhat Lower	3.9	2.7	4.9
Much Lower	0.0	0.0	0.8
Original	71.8	70.2	65.5
Seasonally Adjusted	73.3	71.0	66.9
Trend	71.0	67.9	66.8

The index of *Interest Rates* eased over the quarter with the trend index declining to 66.8 from the 67.9 recorded in October. This was driven by a large fall in the number of businesses expecting rates to rise. However, the high index level still strongly suggests continued expectations for monetary policy to be tightened over the next twelve months, but there has been a re-evaluation as to the extent of the expected rise. The change in the index is in line with the moderation in the tone of RBA's public communications.

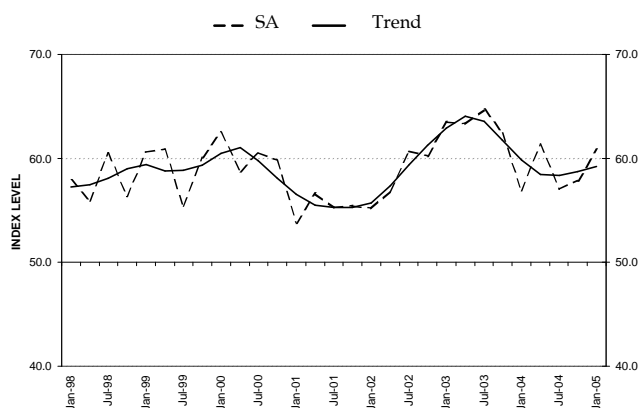
Exchange Rate



	January 2004	October 2004	January 2005
Much Higher	3.6	0.2	1.8
Somewhat Higher	48.1	22.8	33.4
About the Same	24.1	45.5	28.2
Somewhat Lower	22.5	31.5	35.7
Much Lower	1.8	0.0	0.8
Original	57.3	47.9	49.9
Seasonally Adjusted	55.3	48.5	48.2
Trend	50.9	45.2	48.2

The index on the expected direction for the *Exchange Rate* (measured against the US dollar) increased during the quarter to 48.2, which is still slightly below neutral. It appears that businesses are polarised into two main camps, with most businesses expecting increases or decreases over the next twelve months, with a sharp reduction in the number believing the exchange rate would remain relatively unchanged. On the whole, however, the data is fairly balanced bringing the trend index back into neutral territory.

Current Account Deficit



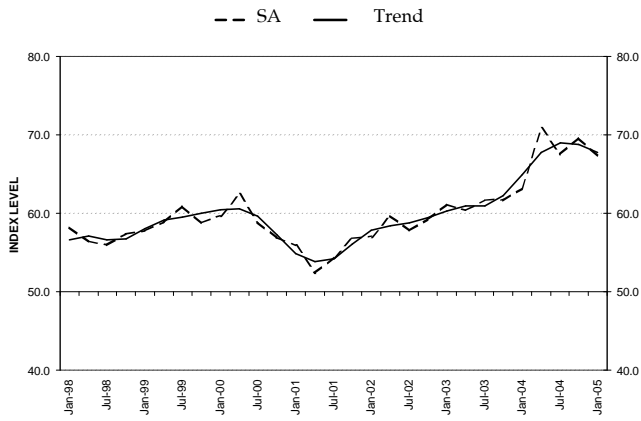
	January 2004	October 2004	January 2005
Much Higher	4.7	2.9	2.8
Somewhat Higher	31.3	39.3	50.1
About the Same	47.5	40.9	32.3
Somewhat Lower	16.5	16.8	13.8
Much Lower	0.0	0.0	1.1
Original	56.1	57.1	59.9
Seasonally Adjusted	56.9	57.9	60.8
Trend	59.9	58.7	59.2

In trend terms the index of the *Current Account Deficit* has risen slightly compared with last quarter recording 59.2 for January as opposed to the 58.7 recorded in October. The data show a general expectation for Australia's current account deficit to continue to expand over the next twelve months.

OWN BUSINESS

This section presents an analysis of the assessments business have made about their own firm's current performance.

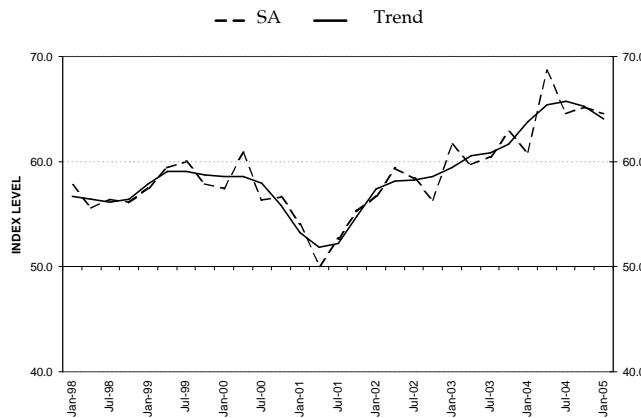
State Within Own Business



	January 2004	October 2004	January 2005
Excellent	3.7	11.9	9.9
Very Good	25.2	25.1	28.0
Good	31.3	34.4	34.2
Satisfactory	30.3	23.3	17.2
Poor	7.4	4.9	9.0
Very Poor	2.2	0.3	0.8
Deeply Depressed	0.0	0.0	0.9
Original	63.5	69.1	67.8
Seasonally Adjusted	63.1	69.7	67.4
Trend	64.9	68.8	67.7

Much of the positive data on the national economy is underpinned by businesses' experiences. While the index of *Conditions within Own Business* eased slightly during January the index level remains at historically high levels. The index in trend terms was recorded at 67.7 for the quarter and is down on the peak reached two quarters ago when the index value was 69.0 in trend terms.

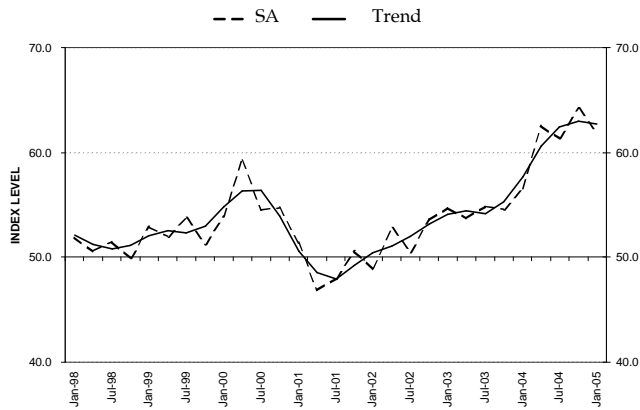
Sales



	January 2004	October 2004	January 2005
Excellent	3.1	4.4	5.1
Very Good	20.1	22.1	24.8
Good	34.6	41.2	38.0
Satisfactory	28.5	24.3	22.3
Poor	11.5	6.2	7.7
Very Poor	2.2	1.8	1.3
Deeply Depressed	0.0	0.0	0.8
Original	61.4	64.8	65.0
Seasonally Adjusted	60.9	65.2	64.5
Trend	63.8	65.2	64.0

Similar to the reports of businesses' own performance over the quarter, the index on *Sales* has slipped back a little to 64.0 in trend terms, which is down from 65.2 recorded in October. The index is still quite strong, so the small decline should not mean that conditions are much worse than previously; but the results could signal the start of a more general easing in activity.

Profitability



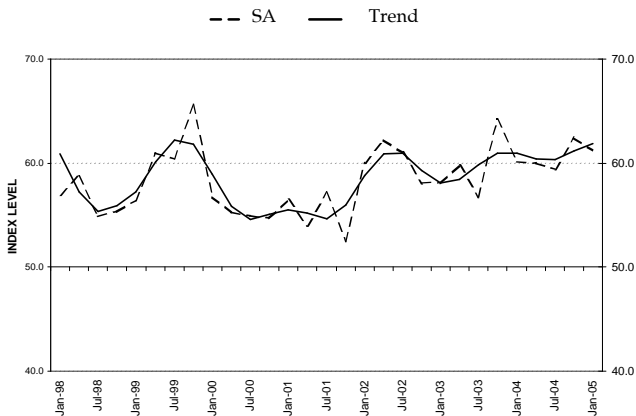
Level of Profitability			
	January 2004	October 2004	January 2005
Excellent	5.2	8.5	6.3
Very Good	10.6	25.4	20.0
Good	29.5	25.2	25.1
Satisfactory	35.5	22.6	37.5
Poor	13.7	18.3	11.1
Very Poor	5.0	0.0	0.0
Deeply Depressed	0.5	0.0	0.0
Original	56.8	63.8	62.2
Seasonally Adjusted	56.6	64.2	61.9
Trend	57.7	63.0	62.7

The index on *Profitability* declined slightly to 62.7 in January from the 63.0 recorded in the last quarter. The recent reductions in sales data may be beginning to have impacts on profitability; however the index remains strong, with no firms at all reporting profits being either very poor or deeply depressed.

EXPECTATIONS FOR OWN BUSINESS

In addition to asking firms to evaluate their current business conditions, the survey also asks respondents to provide an indication as to the expected level of activity in the business over the next six months. The relevant data is presented in this section.

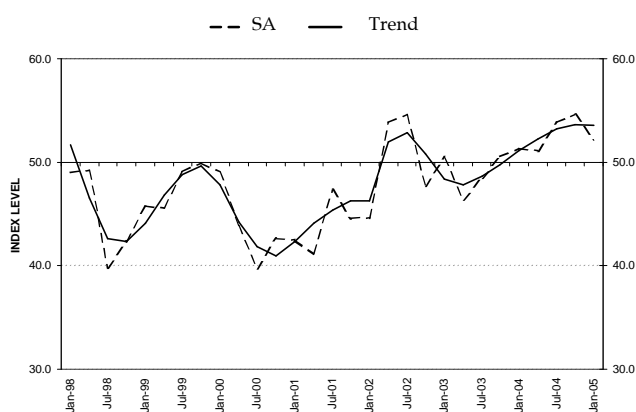
Level of Activity



	January 2004	October 2004	January 2005
Much Higher	0.6	3.7	7.5
Somewhat Higher	48.4	46.8	40.8
About the Same	45.5	41.5	44.7
Somewhat Lower	4.5	8.0	5.7
Much Lower	1.1	0.0	1.3
Original	60.7	61.5	61.8
Seasonally Adjusted	60.1	62.4	61.2
Trend	61.0	61.2	61.9

The expected activity levels over the next six months continue to be positive for business. During the past year expectations of higher production have been strong, culminating with the latest index of 61.9, up from the 61.2 recorded in October. The index has remained fairly steady at these levels over the past year and suggests that continued growth in the Australian economy should be expected.

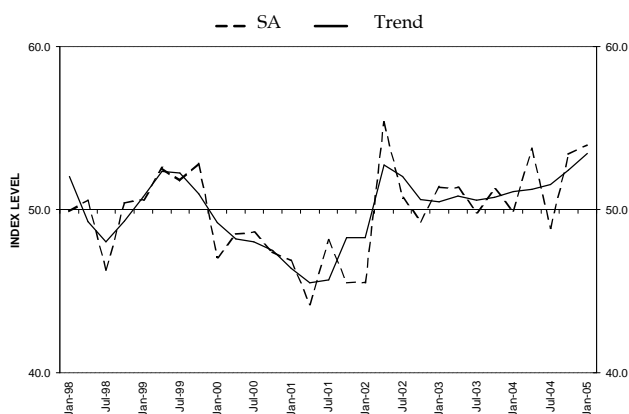
Level of Investment



	January 2004	October 2004	January 2005
Much Higher	5.2	5.3	6.2
Somewhat Higher	16.6	27.8	18.8
About the Same	55.8	49.0	51.5
Somewhat Lower	19.7	14.9	21.4
Much Lower	2.6	3.0	2.1
Original	50.5	54.4	51.4
Seasonally Adjusted	51.3	54.6	52.2
Trend	51.1	53.6	53.5

Expectations for business investment remained basically unchanged in January, with the trend index level moving to 53.5 from the 53.6 recorded for the previous quarter. The data again points to a strong economy currently, but the level of activity may begin to taper over the coming year.

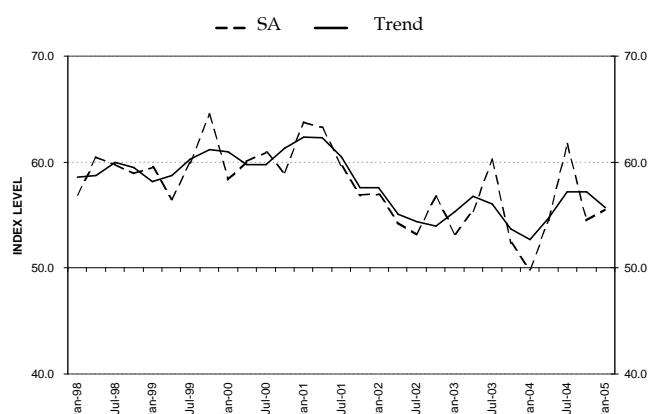
Number of Full-Time Employees



	January 2004	October 2004	January 2005
Much Higher	2.3	0.0	0.0
Somewhat Higher	15.3	25.6	30.9
About the Same	64.7	63.0	55.3
Somewhat Lower	15.3	11.4	13.0
Much Lower	2.4	0.0	0.8
Original	50.0	53.6	54.1
Seasonally Adjusted	49.9	53.4	54.0
Trend	51.1	52.4	53.4

The data on *Expected Growth in Full-Time Employment* show that a good proportion of firms expect that their full-time employment levels will be expanded over the next six months. The index of *Expected Growth in Full-time Employment*, in trend terms, continued to rise to 53.4 with approximately 30 percent of businesses expecting to increase their staffing levels to some extent over the next six months.

Capacity in Relation to Demand



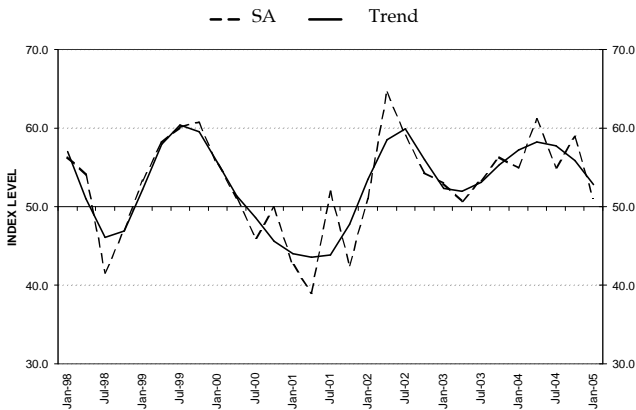
	January 2004	October 2004	January 2005
More than Adequate	13.3	22.5	27.9
Adequate	73.2	66.3	53.5
Less than Adequate	11.9	11.2	18.6
Original	49.0	55.7	54.6
Seasonally Adjusted	49.9	54.5	55.6
Trend	52.7	57.1	55.7

Capacity in Relation to the Expected Level of Demand declined over the quarter to be at 55.7 in trend terms. However, the index remained firmly within positive territory, with the majority of firms still reporting satisfactory or adequate levels of capacity relative to their expected demand. The strong levels of investment should be keeping firms able to deal with their expected levels of activity.

CURRENT TRENDS IN THE NATIONAL ECONOMY

In addition to asking respondents to gauge current national business conditions, businesses are asked for their expectations of where the economy is headed in the short-run.

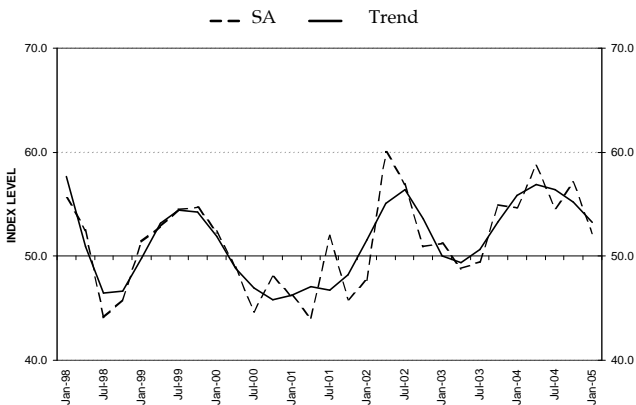
Trend in National Economic Conditions



	January 2004	October 2004	January 2005
Improving Rapidly	0.7	2.8	1.9
Improving Slowly	45.7	41.1	32.8
No Change	33.6	42.2	39.6
Deteriorating Slowly	19.7	13.9	24.8
Deteriorating Rapidly	0.4	0.0	0.8
Original	56.6	58.2	52.5
Seasonally Adjusted	55.0	58.9	51.0
Trend	57.2	55.9	52.8

The index of *Expected National Economic Conditions* declined somewhat during the quarter, but remained in positive territory. Confidence in the economy has been eroded to some extent. This index suggests that business still expect improvements but the slipping of the index does suggest that businesses are generally less assured than they were in previous periods. The index has weakened significantly from the 58.2 recorded in April of 2004.

Trend in Investor Confidence



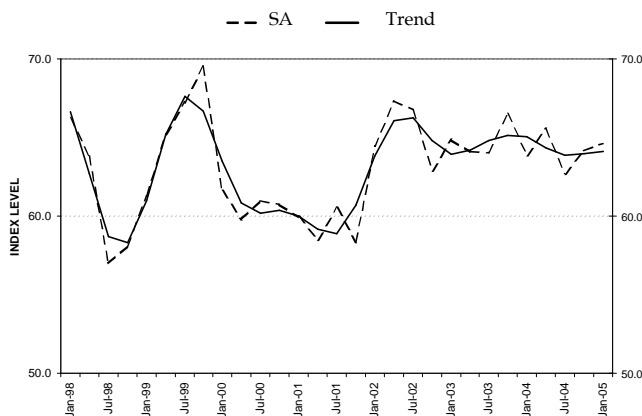
	January 2004	October 2004	January 2005
Improving Rapidly	0.7	2.2	4.0
Improving Slowly	40.5	35.8	20.1
No Change	39.5	48.5	61.2
Deteriorating Slowly	19.3	13.2	13.9
Deteriorating Rapidly	0.0	0.3	0.8
Original	55.6	56.6	53.1
Seasonally Adjusted	54.6	57.1	52.2
Trend	55.8	55.2	53.3

The data on short-run expectations for the climate for investment in the Australian economy has declined, in line with the data on expected national economic conditions. Both indexes have declined from the high levels recorded last year. The trend index of *Investor Confidence* has now declined to 53.3 from the high of 56.9 reached in April 2004. Here again the index itself remains in positive territory, despite the falls in the index level.

CURRENT TRENDS IN OWN BUSINESS

This sections presents survey answers from businesses relating to the current expected conditions within the firms.

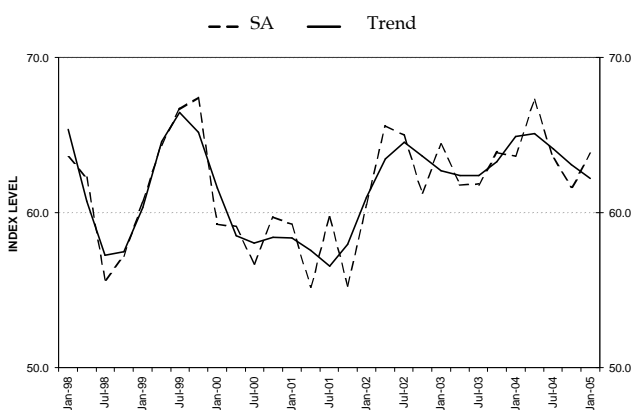
Trend in Own Business Conditions



	January 2004	October 2004	January 2005
Improving Rapidly	5.9	2.8	13.8
Improving Slowly	57.3	57.1	44.7
No Change	26.0	29.6	30.8
Deteriorating Slowly	10.2	10.5	9.8
Deteriorating Rapidly	0.6	0.0	0.9
Original	64.4	63.0	65.2
Seasonally Adjusted	63.9	64.2	64.6
Trend	65.1	64.0	64.1

Respondents expressed confidence for the state of their own firms over the coming year with the trend index of *Expected Conditions within Own Firms* holding relatively steady at 64.1. The high and steady index level shows that despite some uncertainty for the national economy businesses are fairly confident for their own affairs.

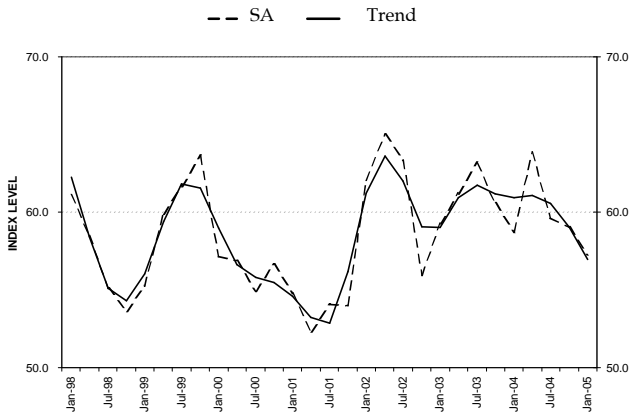
Trend in Own Sales



	January 2004	October 2004	January 2005
Improving Rapidly	3.8	2.0	12.4
Improving Slowly	62.7	54.2	45.7
No Change	24.2	28.8	32.2
Deteriorating Slowly	8.0	14.6	8.9
Deteriorating Rapidly	1.4	0.3	0.8
Original	64.9	60.8	65.0
Seasonally Adjusted	63.7	61.7	63.8
Trend	64.9	63.1	62.2

The index of *Expected Own Sales* expressed in trend terms was 62.2, a slight moderation from October. The index reached a high of 65.1 in April 2004. Despite the fall in the index, it is still generally expected that sales should continue to expand over the short-term and the index is still at a very healthy level.

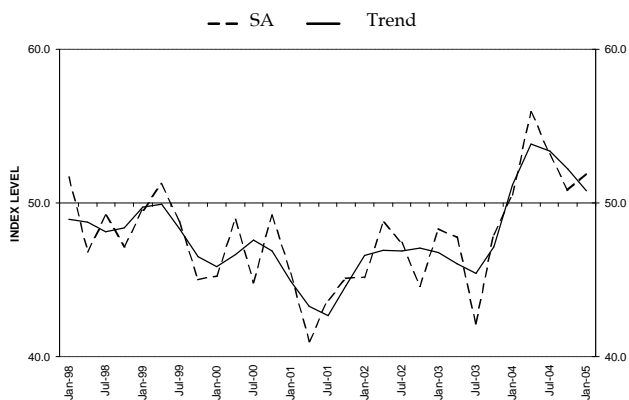
Trend in Own Profits



	January 2004	October 2004	January 2005
Improving Rapidly	3.1	2.4	6.5
Improving Slowly	50.8	44.5	41.0
No Change	31.5	39.2	34.9
Deteriorating Slowly	13.5	13.0	16.8
Deteriorating Rapidly	1.1	0.9	0.9
Original	60.4	58.6	58.9
Seasonally Adjusted	58.8	59.0	57.3
Trend	60.9	59.0	57.0

The index of *Expected Own Profits* fell from 59.0 to 57.0 over the quarter, in response to overall national uncertainties and trends observed in spare capacity, sales and input prices. The index itself remains in positive territory and suggests that profit levels will increase slightly for a significant proportion of businesses. The data show generally that businesses are moving to more conservative positions when formulating their expectations for their growth levels in the short-term.

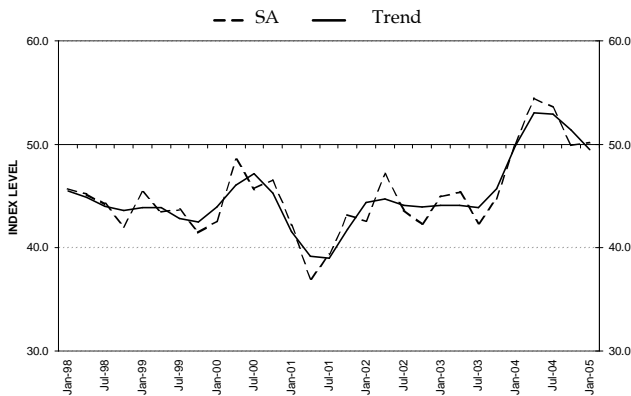
Actual Sales Compared with the Level Expected Six Months Ago



	January 2004	October 2004	January 2005
Much Higher	2.6	1.8	1.3
Somewhat Higher	29.1	28.7	32.1
About the Same	43.6	45.7	45.7
Somewhat Lower	19.8	20.0	17.8
Much Lower	4.9	3.8	3.2
Original	51.2	51.1	52.6
Seasonally Adjusted	50.5	50.9	51.9
Trend	51.2	52.2	50.8

The index of Actual sales has fallen back to a neutral position and shows that sales generally matched the levels that had been expected for the period. This result is consistent with the other data on sales and the small declines in the indices observed.

Actual Profits Compared with the Level Expected Six Months Ago



	January 2004	October 2004	January 2005
Much Higher	1.9	1.9	2.2
Somewhat Higher	29.7	26.9	27.3
About the Same	41.5	44.0	43.9
Somewhat Lower	19.8	22.7	21.5
Much Lower	7.1	4.6	5.1
Original	49.9	49.7	50.0
Seasonally Adjusted	50.1	49.9	50.2
Trend	49.8	51.4	49.5

The gap between actual and expected profits data has now been closed with the index of *Actual Profitability Compared with the Level Expected* falling to a relatively neutral level in the current survey. The index generally shows that profits matched the expected levels. The trend index now stands at 49.5 as compared with the 53.0 reached in the April 2004 survey. By historical standards the index level should still be considered to be a good result.

CONSTRAINTS ON INVESTMENT

ACCI's *Survey of Investor Confidence* seeks information from respondents on the importance of a list of twenty factors as constraints on the level of investment. The overall average index level for all constraints increased in the latest survey to 36.0, up from 34.6 recorded in the previous period.

The table presented below shows the ten most important constraints on business investment. What the table shows is that the labour market continues to prove a hindrance to continued rates of growth in investment and thus in the economy more widely, being the first, third, and fourth largest constraints. The second major type of constraint reportedly holding back investment continues to be government regulation and taxes and charges imposed on business, making up the second, fifth, seventh and eighth constraints.

Business Taxes and Government Charges fell in relative importance to second spot in the quarter while the *Availability of Suitably Qualified Employees* rose back into top spot as a constraint to investment. As with previous surveys, these two indices remain very close in terms of their index levels. The labour market has been a fairly large restriction on investment once again. As long as the labour market remains this tight, finding suitably qualified employees will remain a significant constraint.

The general composition of the top ten list has remained steady over the quarter with only a reshuffling of their order being observed in this round. Labour related constraints made up three of the top five constraints with *Availability of Suitably Qualified Employees* in first, *Wage Costs* in third position and *Non-Wage Labour Costs* in fourth.

TOP TEN CONSTRAINTS ON INVESTMENT

January 2005

1. **Availability of Suitably Qualified Employees** (2)
2. **Business Taxes and Charges** (1)
3. **Wage Costs** (3)
4. **Non-Wage Labour Costs** (4)
5. **State Government Regulations** (7)
6. **Local Competition** (5)
7. **Federal Government Regulations** (6)
8. **Local Government Regulations** (9)
9. **Insufficient Demand** (8)
10. **Charges by Lending Institutions** (10)

The figures in brackets show the ranking in the previous survey.

In interpreting the data, please note that an index level of 50.0 indicates that there is a balance between those who responded that conditions were improved and those that replied that conditions had declined. Thus any level below 50 indicates that conditions are deteriorating, and conversely, a reading above 50 indicates conditions on average are improving.

The January 2005 ACIL Tasman-ACCI *Survey of Investor Confidence* encompasses responses sought during December 2004 about current conditions and future expectations and had 431 respondents.