

Survey of Industrial Trends

152nd Report September Quarter 1999

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

The performance of the manufacturing sector continued on a strong note in the September quarter, consolidating the recovery evident in the three previous survey periods. While the key business confidence indicator eased slightly, demand and production continue to show robust growth for the fourth consecutive quarter, resulting in a distinctly brighter employment outlook. At the same time, reflecting the more buoyant conditions, there are early signs of cost and price pressures emerging.

New orders in the September quarter rose at similar levels to the June quarter while output recorded its fastest growth rate since 1994. Forward expectations for both new orders and output are very strong. Export deliveries were below expectations but solid growth was again predicted for the next three months.

Capacity utilisation was again marginally higher. Aggregate capital spending plans had recovered strongly to their highest levels since early 1997 in the June quarter survey and maintained that level in the September quarter. Plans for plant and equipment spending for the next 12 months eased while investment spending intentions for buildings and structures rose to historically high levels.

The outlook for employment continues to strengthen, with labour indicators showing their highest readings since 1994. A rise in numbers employed is predicted for the next three months, only the second time in more than five years. Overtime worked has continued to grow for the fourth successive quarter.

The survey also shows that the availability of labour has fallen significantly. Perhaps reflecting this tighter labour market and rising oil prices, cost pressures were more pronounced in the September quarter.

Also of significance, average selling prices rose for the first time since the September quarter 1995. This indicates that some inflationary pressures may be emerging in the economy.

Profit expectations remain positive, albeit more subdued than in the two previous quarters.



Highlights

Business confidence in the September quarter 1999 remained positive, albeit marginally below the levels of the previous six months. Almost a quarter of respondents (24% vs 29% three months ago) predicted an improvement in the general business situation in Australia for the next six months while only 10% (vs 12% in June) expected a deterioration, resulting in a net balance of +14% (vs +17%).

Demand and production continued to rise at a solid pace in the September quarter and expectations for the December quarter are buoyant. The net balance for new orders was virtually unchanged at +16%. Output recorded the fastest pace of growth since 1994, with a net balance of +19% up from +13% in the June quarter. The net balance expecting increased new orders rose to +35% (vs +29% in June), while the net balance for output was +26% (vs +29%).

After several quarters of recovery, export growth appeared to be slower in the September quarter (+5% vs +15%). However, a strong rise in export deliveries is again predicted for the next three months (+18% vs +21%).

In response to the sustained lift in output, capacity utilisation continued to edge up in the September quarter to -13% (vs -14%), the highest level of capacity utilisation since the March quarter 1995. One-fifth (20% vs 15%) nominated insufficient capacity as their main constraint on increased production.

Despite the lift in capacity utilisation and optimism about future output and orders, in aggregate capital spending plans remain only marginally positive. Capital expenditure plans for plant and equipment for the next 12 months were actually weaker with the net balance down to -3% (vs +8%). By contrast, capital expenditure plans for buildings were much firmer, with the net balance of +6% (vs -2% previously) representing a very strong outcome in historical terms.

Reflecting the consistently strong results for new orders and output, the employment outlook continued to strengthen in the September quarter. The actual net outcome for numbers employed improved to -2% (vs -5%). Whilst marginally negative, it is well above its long term trend (-11%) and the best outcome since the June quarter 1995. A positive outcome (+6% vs +4%) is again predicted in the next quarter, for only the second time in more than five years. Overtime worked recorded its fourth consecutive positive net outcome (an unchanged +6%) – these are the first positives since 1994. Expectations for the next quarter remain positive (+3% vs +2%). A net balance of +18% (vs +1%) said labour was harder to recruit than three months ago.

Perhaps reflecting the tightening in the labour market and higher oil prices, cost pressures rose. While historically still relatively low, the net balance of respondents reporting higher average unit costs rose in the September quarter (+13% vs +2%). Further cost rises are expected in the next three months (+7% vs +2%). For the first time since September 1995, a rise in average selling prices was reported by a net balance of +5% (vs -6% previously). On balance, manufacturers predict similar price increases in the next three months (+5% vs -5%).

The outlook for profits remained firm, although the net balance predicting higher profits in the next 12 months was lower (+27% vs +37%).

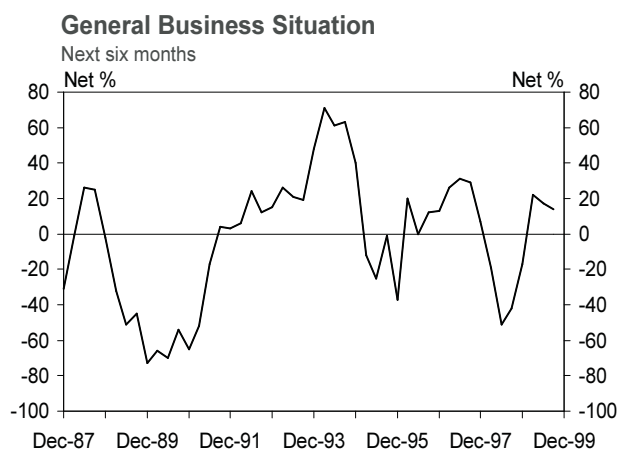
Net response or "balance" is calculated by the proportion of "ups" less "downs" on individual questions, thereby yielding the net balance. A positive balance indicates a net upward or improving trend and a minus balance a net downward or deteriorating trend. The 152nd consecutive survey was conducted in the three weeks ending 2 September 1999. A total of 206 responses were received, and provided a reasonable cross-section of Australian manufacturing in respect of industry groups and size of operation. The next survey will be conducted in December 1999.

General business situation: healthy

Business confidence in the September quarter remained healthy, albeit marginally below the levels of the previous six months. Almost a quarter of the manufacturers surveyed (24% vs 29% in the previous quarter) predicted an improvement in the general business situation in the next six months, while the proportion expecting a deterioration edged down marginally (10% vs 12%, previously), resulting in a net balance of +14 (vs +17%). Two-thirds of the respondents (66% vs 59%) expected no change.

General Business Situation

	Jun Qtr 1999	Sep Qtr 1999
Up (%)	29	24
Down (%)	12	10
Balance (%)	17	14

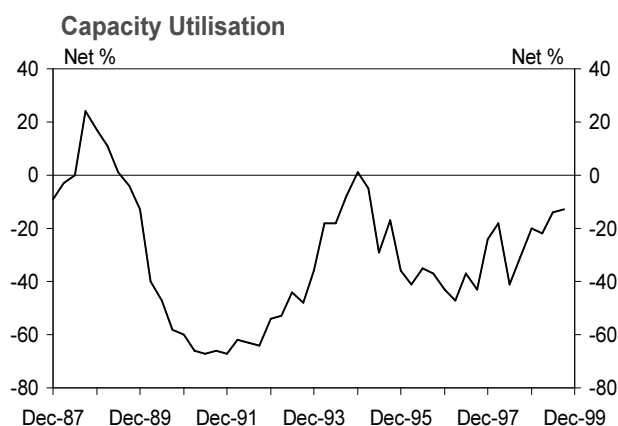


Capacity utilisation: still rising

Responding to rising output, capacity utilisation continued to edge up in the September quarter, with the net balance of -13% in line with the average level over the past 12 years. The proportion of respondents who reported working above their normal capacity was marginally higher (17% vs 15%). The proportion working below normal capacity was similar to that of three months ago (30% vs 29%), resulting in a net balance of -13% (vs -14%). More than half the firms surveyed (53% vs 56%) reported working at normal capacity levels.

Capacity Utilisation

	Jun Qtr 1999	Sep Qtr 1999
Above (%)	15	17
Below (%)	29	30
Balance (%)	-14	-13



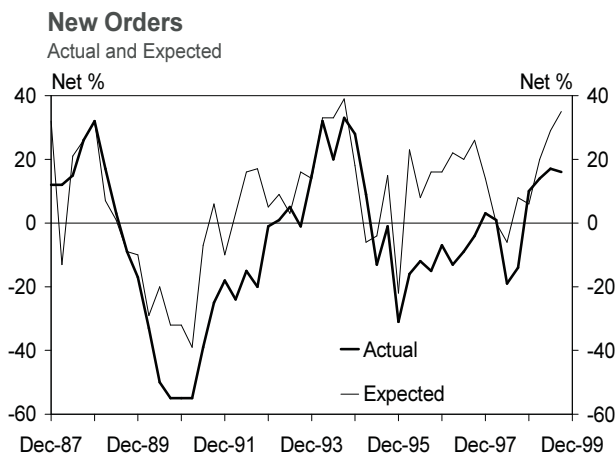
New orders received: stay high, stronger demand predicted

While failing to match buoyant expectations, demand continued to strengthen in the September quarter. The proportion of respondents recording an increase in new orders remained unchanged (36%). The proportion reporting a decline was also virtually unchanged (20% vs 19%), resulting in a net balance of +16% (vs +17%). Forward expectations for new orders over the next three months continue to surge (+35% vs +29%).

New orders

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	36	36	44
Down (%)	19	20	9
Balance (%)	17	16	35

* Expectation for the next quarter



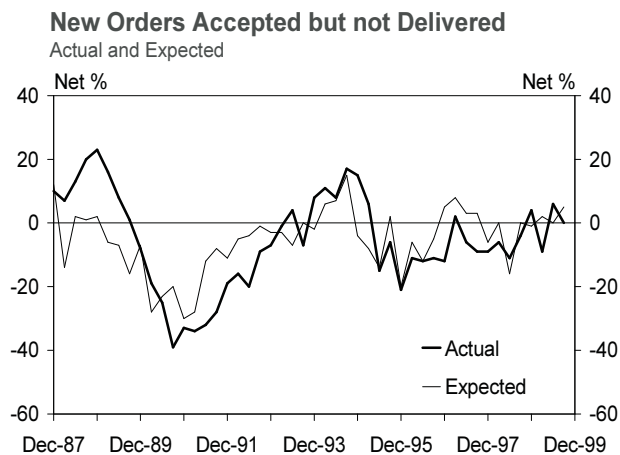
New orders outstanding: steady

There was no change in outstanding orders in the September quarter 1999. The proportion of respondents reporting rises in their backlog was lower (13% vs 19%). The proportion recording a decline was unchanged (13%), resulting in a net balance of 0% (vs +6%). A large majority of respondents (73% vs 68%) reported no change. On balance, a modest rise in the backlog is expected in the next three months (+5% vs +0%).

New orders accepted but not yet delivered

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	19	13	15
Down (%)	13	13	10
Balance (%)	6	0	5

* Expectation for the next quarter



Output: rising trend continues

Consistent with strong levels of business confidence and positive outcomes reported for exports and new orders, output continued to rise in the September quarter recording the fastest pace of growth since 1994. The proportion of respondents reporting a rise was almost the same as three months ago (34% vs 33%) while the proportion reporting a decline fell (15% vs 20%), resulting in a net balance of +19%. As with new orders, forward expectations continue to outpace output outcomes and remain buoyant (+26% vs +29%).

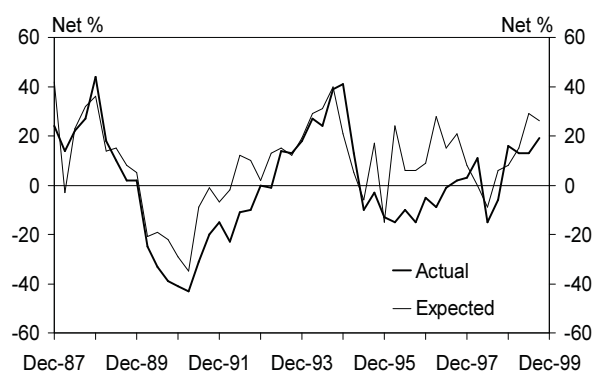
Output

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	33	34	37
Down (%)	20	15	11
Balance (%)	13	19	26

* Expectation for the next quarter

Output Growth

Actual and Expected



Export deliveries: positive but off highs

Exports continued to grow in the September quarter but at a slower pace than three months ago and well below the more confident expectations. A lower proportion of respondents (21% vs 29% previously) reported a rise in export deliveries. The proportion reporting a decline was virtually unchanged (16% vs 14% previously), resulting in a net balance of +5% (vs +15%). Expectations for future growth in exports continue to be firm, with a net balance of +18% (vs +21%) predicting a rise in export deliveries.

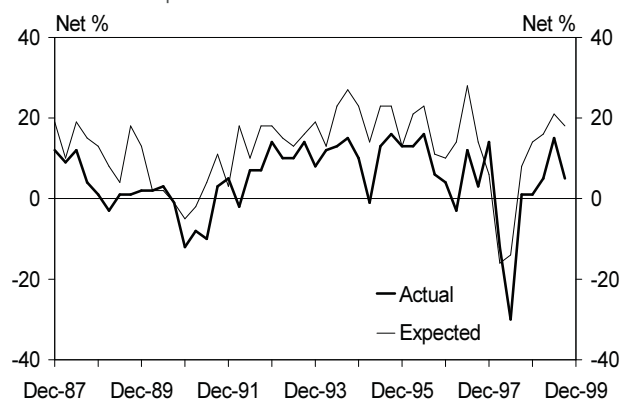
Export Deliveries

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	29	21	26
Down (%)	14	16	8
Balance (%)	15	5	18

* Expectation for the next quarter

Export Deliveries

Actual and Expected



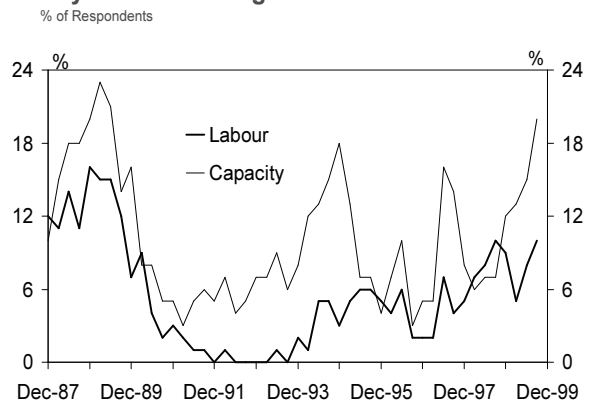
Factors limiting production: capacity an increasing constraint

Insufficiency of new orders remained the major constraint on increased production in the September quarter but insufficient capacity is becoming an increasing impediment. While half the respondents (53% vs 62% previously) nominated orders as their main constraint, one-fifth (20% vs 15%) nominated capacity as their principal single limiting factor. Other constraints reported by respondents were: labour (10% vs 8%, previously), finance (1% vs 5%) and material (unchanged 3%).

Factors Limiting Production

	Mar Qtr 1999	Jun Qtr 1999	Sep Qtr 1999
Orders	61%	62%	53%
Capacity	13%	15%	20%
Labour	5%	8%	10%
Finance	3%	5%	1%
Material	3%	3%	3%

Key Factor Limiting Production



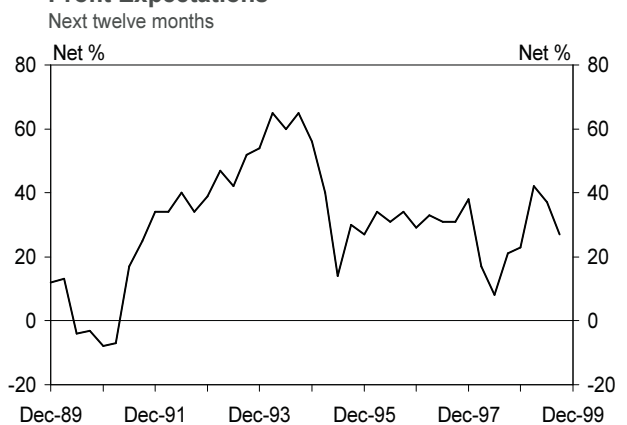
Profit expectations: off recent highs

Profit expectations eased further in the September quarter 1999 from the March quarter peak. The proportion of the respondents predicting higher profits in the next 12 months eased to 44% from 50% previously. The proportion expecting a decline rose from 13% to 17%, resulting in a net balance of +27% (vs +37%).

Profit Expectations

	Jun Qtr 1999	Sep Qtr 1999
Up (%)	50	44
Down (%)	13	17
Balance (%)	37	27

Profit Expectations

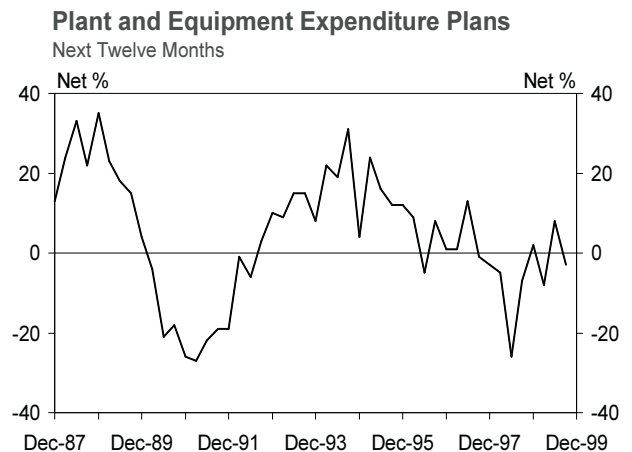


Plant and equipment expenditure plans: easing

Despite strong demand and output and rising capacity shortages, the outlook for investment spending on plant and equipment in the next 12 months weakened slightly in the September quarter, compared with three months ago. The proportion of manufacturers reporting plans for increased spending was down (22% vs 32% previously) while those expecting a decline edged up (25% vs 24%), resulting in a net balance of -3% (vs +8% previously). More than half the respondents (53% vs 44%) expected no change.

Plant & Equipment Expenditure

	Jun Qtr 1999	Sep Qtr 1999
Up (%)	32	22
Down (%)	24	25
Balance (%)	8	-3

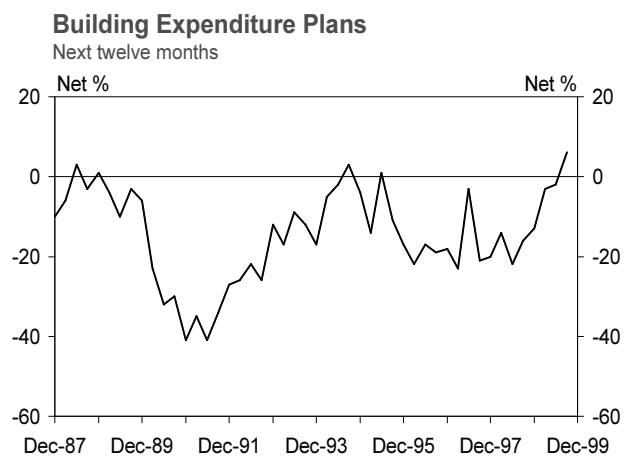


Building expenditure plans: upward trend

In contrast with plant and equipment, spending plans on buildings and structures were much firmer, registering the first positive net outcome since the September quarter 1994. The proportion of respondents reporting an increase in their intended capital expenditure rose (30% vs 24% three months ago). The proportion predicting a decline was lower (24% vs 26%), resulting in a net balance of +6% (vs -2%). This is a very strong outcome in historical terms (refer graph). Close to half the respondents (46% vs 50%) again expected no change in their spending plans.

Building Expenditure

	Jun Qtr 1999	Sep Qtr 1999
Up (%)	24	30
Down (%)	26	24
Balance (%)	-2	+6



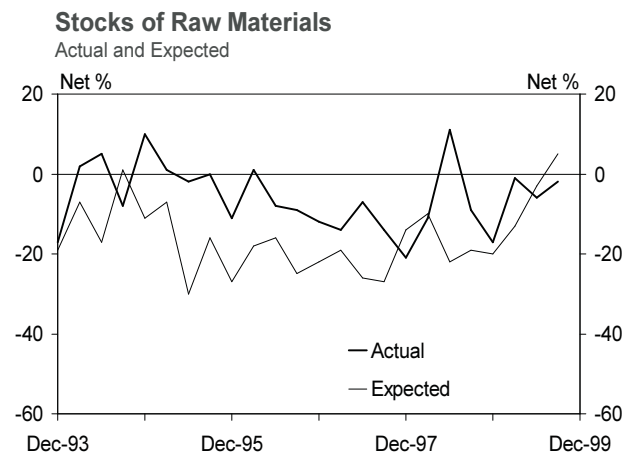
Stocks of raw materials: expectations turn positive

On balance, stocks of raw materials fell only marginally in the September quarter (-2% vs -6% previously). On balance, a modest rise in inventories is predicted for the next three months (a net balance of +5% vs -3% previously), the first such rise since the September quarter 1994.

Stocks of raw materials

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	11	14	15
Down (%)	17	16	10
Balance (%)	-6	-2	+5

* Expectation for the next quarter



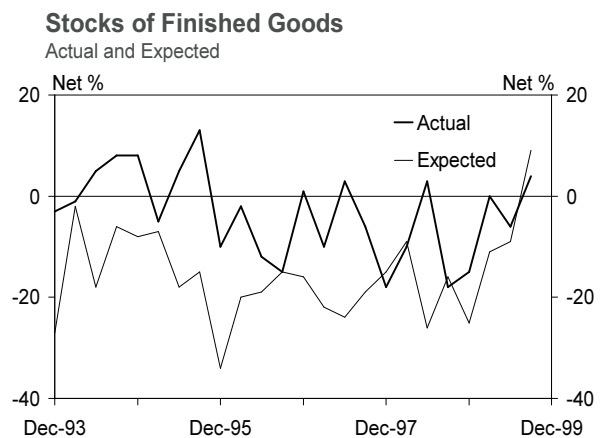
Stocks of finished goods: up relatively strongly

On balance, stocks of finished goods rose, with a net balance of +4% (vs -6% previously). On balance, a further increase in inventories is predicted for the next quarter (+9% vs -9%). This is the first positive expectations number in the history of this question (first asked 1991). The overall positive trend on stocks is consistent with some precautionary build-up in stocks in the lead up to Y2K.

Stocks of finished goods

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	14	19	17
Down (%)	20	15	8
Balance (%)	-6	4	9

* Expectation for the next quarter



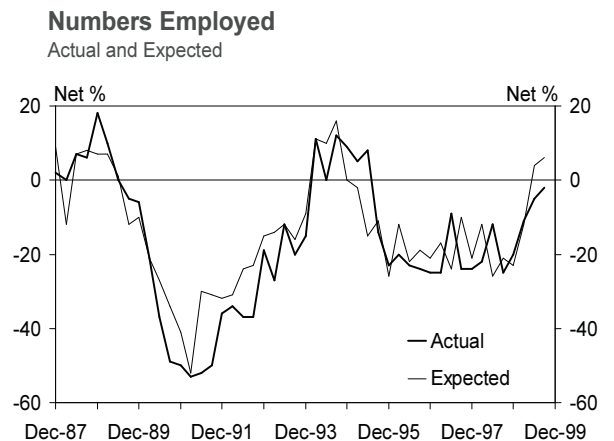
Employment: strengthening outlook

The employment outlook continued to strengthen in the September quarter 1999. The proportion of respondents reporting an increase in numbers employed declined from 25% to 21%, but those recording a decrease also fell (23% vs 30%), resulting in a net balance of -2% (vs -5%). Whilst still marginally negative, it is well above its long term trend (average -11%) and the best outcome since the June quarter 1995. The outlook for employment remains positive, for only the second time in more than five years. A net balance of +6% (vs +4%) are predicting a rise in numbers employed in the next quarter.

Employment

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	25	21	25
Down (%)	30	23	19
Balance (%)	-5	-2	6

* Expectation for the next quarter



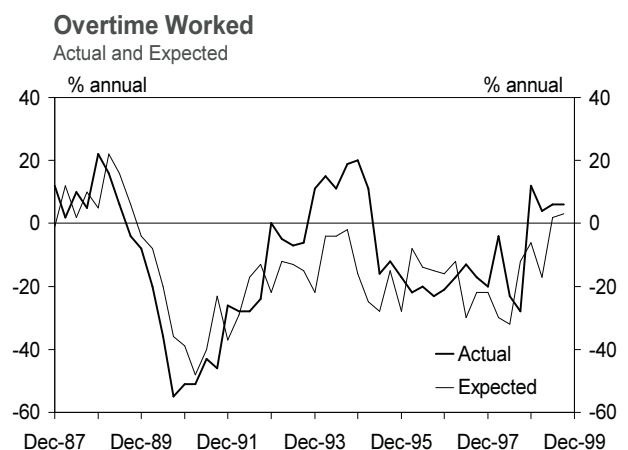
Overtime: a fourth positive quarter

In line with rising demand and output, overtime worked continued to rise in the September quarter 1999. The proportion of respondents reporting higher levels of overtime worked remained unchanged (27%). The proportion recording a decline was also the same (21%), resulting in an unchanged net balance of +6%. Expectations for the next three months remain positive, with a further modest rise in overtime worked predicted for the December quarter 1999 (net balance of +3% vs +2% previously).

Overtime

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	27	27	21
Down (%)	21	21	18
Balance (%)	6	6	3

* Expectation for the next quarter



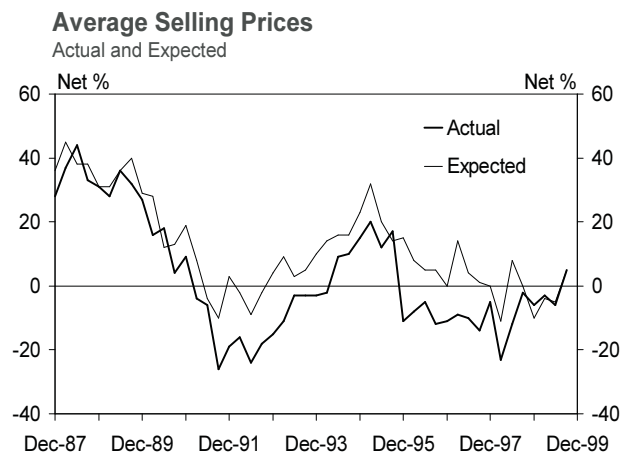
Average selling prices: upward trend begins

The long decline in average selling prices was reversed in the September quarter 1999. On balance and contrary to predictions, prices rose for the first time since September 1995, or four years. Of the respondents, only 13% (vs 20%, previously) reported lower prices and 18% (vs 14%) higher prices, resulting in a net balance of +5% (vs -6%). On balance, a similar net outcome is predicted for the next three months (+5% net balance vs -5%).

Average selling prices

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	14	18	17
Down (%)	20	13	12
Balance (%)	-6	5	5

* Expectation for the next quarter



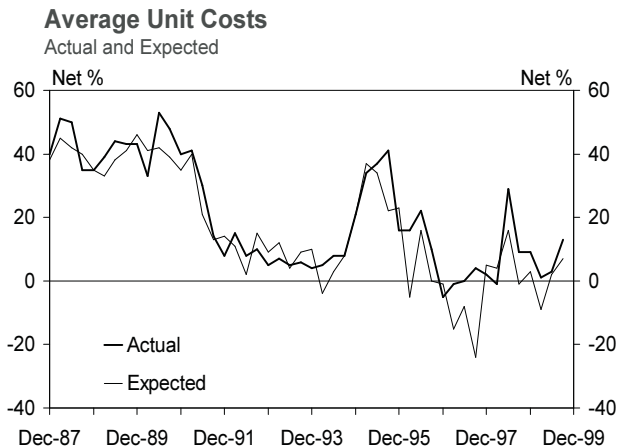
Average unit costs: also rising

Rises in average unit costs in the September quarter were above expectations. Of the respondents, 28% (vs 23% previously) reported a rise in costs and only 15% (vs 20%) a decline, resulting in a net balance of +13% (vs +3%). On balance, further cost increases are predicted for the next three months (+7% vs +2% previously).

Average unit costs

	Jun Qtr 1999	Sep Qtr 1999	Dec Qtr 1999E*
Up (%)	23	28	23
Down (%)	20	15	16
Balance (%)	3	13	7

* Expectation for the next quarter



Availability of labour and finance: increasing availability

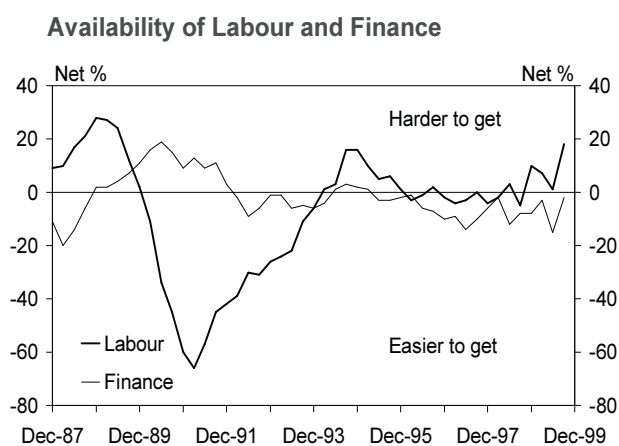
There was a marked decline in the availability of labour in the September quarter 1999, with a net balance of +18% (vs +1% previously) reporting it "harder" to recruit labour. This outcome is marginally higher than the peak levels recorded in 1994 (September/December 1994: +16%). The reported availability of finance reverted to March quarter 1999 levels. Of the respondents to the September survey, 90% (vs 77%) reported no change, while 6% (vs 19%) reported finance easier to obtain and an unchanged 4% harder.

Labour

	Jun Qtr 1999	Sep Qtr 1999
Harder to get (%)	10	20
Easier to get (%)	9	2
Balance (%)	1	18

Finance

	Jun Qtr 1999	Sep Qtr 1999
Harder to get (%)	4	4
Easier to get (%)	19	6
Balance (%)	-15	-2



Enterprise wage agreements: fewer predicting higher outcomes

Given the importance of enterprise bargaining, this additional question continues to be included as a supplement. On balance, the outlook is for lower outcomes than predicted in the March and June quarters 1999 (+8% vs +14% and +24%, respectively).

Enterprise wage agreements

	Jun Qtr 1999	Sep Qtr 1999
Up (%)	36	24
Down (%)	12	16
Balance (%)	24	8

Survey of Industrial Trends in Australia

Total Respondents: 206
No: 152 September 1999

Conducted jointly by: Australian Chamber of Commerce and Industry and Westpac Banking Corporation

Summary Of Results Key To Industry Classification

A (% of respondents)

8	Food, beverages, tobacco	8	Non-metallic mineral products: glass, pottery, cement bricks
4	Textiles, fabrics, floor coverings, felt, canvas, rope	3	Basic metal products: processing, smelting, refining, pipes and tubes
3	Clothing, footwear	20	Fabricated metal products: structural and sheet metal, coating and finishing, wire, springs, hand tools
5	Wood, wood products, furniture	5	Transport equipment: motor vehicles, and parts, excluding repairs, rail, ships, aircraft, including repairs.
10	Paper, paper products, printing	11	Other machinery and equipment: electrical, industrial scientific, photographic
10	Chemicals, paints, pharmaceutical's, soaps, cosmetics, petroleum and coal products	13	Miscellaneous: including manufacturers of leather, plastic and rubber, sporting equipment, jewellery

B	1-100	101-200	201-1000	Over 1000
How many employees are covered by this return?	52	9	19	20

C In which State is the main production to which this return relates?	WA	SA	VIC	NSW	QLD	TAS
	7	10	29	36	14	4

1 Do you consider that the general business situation in Australia will improve, remain the same, or deteriorate during the next six months?	Improve	Same	Deteriorate
	24	66	10

2 At what level of capacity utilisation are you working?	Above normal	Normal for your firm	Below normal
	17	53	30

3 What single factor is most limiting your ability to increase production?	None	7	Finance	1	Other	7
	Orders	53	Labour	10		
	Material	3	Capacity	20		

4 Do you find it is now harder, easier, or the same as it was three months ago to get:	Harder	Same	Easier
(a) labour?	20	78	2
(b) finance?	4	90	6

5 Do you expect your company's capital expenditure during the next twelve months to be greater, the same, or less than in the past year:	Greater	Same	Less
(a) on buildings?	30	46	24
(b) on plant and machinery?	22	53	25

Past and future Trends

Excluding normal seasonal changes, what has been your company's experience over the past three months and what changes do you expect during the next three months in respect of

Change in position during the past three months

Expected change during the next three months

	Up	Same	Down	Up	Same	Down
6 Numbers employed	21	56	23	25	56	19
7 Overtime worked	27	52	21	21	61	18
8 All new orders received	36	44	20	44	47	9
9 Orders accepted but not yet delivered	13	73	13	15	75	10
10 Output	34	50	15	37	52	11
11 Average costs per unit of output	28	57	15	23	61	16
12 Average selling prices	18	69	13	17	71	12
13 Export deliveries	21	63	16	26	66	8
14 Stocks of raw materials	14	70	16	15	75	10
15 Stocks of finished goods	19	66	15	17	75	8

16 Over the next 12 months do you expect your firm's profitability to:

(a) Improve	44
(b) Remain unchanged	39
(c) Decline	17

17 Do you expect your firm's next wage enterprise deal will produce annual rises which vis-a-vis the previous deal are:

a) Greater	24
b) Same	60
c) Less	16

Net Balance Of Response By Industry Group

	1	2	3	4	5	6	7	8	9	10	11	12	All Groups
General business situation	24	22	29	36	15	20	6	-14	-17	40	14	31	14
Capital spending: buildings	24	-12	0	9	-5	-35	-6	-57	12	20	18	44	6
Capital spending equipment	-12	-12	0	9	-5	20	-18	-57	-21	10	24	8	-3
Numbers employed													
- current	-6	-22	29	9	0	-25	-18	-29	-9	10	23	12	-2
- expected	12	33	-67	36	15	-32	-24	-29	3	0	32	28	5
Overtime													
- current	12	-56	-14	27	19	-20	12	0	0	10	0	42	6
- expected	18	0	-33	18	30	-21	-6	-29	-9	-10	14	20	3
New Orders													
- current	0	-56	-29	36	40	0	12	-43	43	22	-14	54	16
- expected	47	33	0	36	74	37	0	-14	34	33	27	52	35
Output													
- current	24	-33	14	36	33	10	12	-20	20	20	14	38	19
- expected	65	44	-17	55	30	42	-18	-20	3	20	55	24	26
Exports													
- current	12	-40	0	-33	7	-18	0	0	17	30	42	-7	4
- expected	12	0	25	33	7	0	20	40	22	30	50	8	18
Unit costs													
- current	6	11	43	27	15	-20	-29	57	18	0	5	54	13
- expected	12	22	0	-18	16	-16	-6	14	-9	0	18	44	7
Average prices													
- current	0	22	0	9	14	-10	-18	-14	31	-20	-5	12	5
- expected	0	22	0	0	15	0	-41	-14	29	-20	0	20	5

Key To Industry Classification

- | | |
|---|--|
| <p>1. Food, beverages, tobacco</p> <p>2. Textiles, fabrics, floor coverings, felt, canvas, rope</p> <p>3. Clothing, footwear</p> <p>4. Wood, wood products, furniture</p> <p>5. Paper, paper products, printing</p> <p>6. Chemicals, paints, pharmaceuticals, soaps, cosmetics, petroleum and coal products</p> | <p>7. Non-metallic mineral products: glass, pottery, cement bricks</p> <p>8. Basic metal products: processing, smelting, refining, pipes and tubes</p> <p>9. Fabricated metal products: structural and sheet metal, coating and finishing, wire, springs, hand tools</p> <p>10. Transport equipment: motor vehicles, and parts, excluding repairs; rail, ships, aircraft, including repairs.</p> <p>11. Other machinery and equipment: electrical, industrial scientific, photographic</p> <p>12. Miscellaneous: including manufacturers of leather, plastic and rubber, sporting equipment, jewellery</p> |
|---|--|

Differences Between States And By Size Of Firm

Questions	States							Number Of Employees			
	NSW	VIC	QLD	SA	WA	TAS	Aust	Under 100	101- 200	200 – 1000	Over 1000
	(Net Balance %)							(Net Balance %)			
General business situation	20	9	3	29	0	25	14	26	28	-8	-2
Difficulty in obtaining labour	21	11	21	24	14	25	18	22	17	8	20
Difficulty in obtaining finance	-1	0	-12	0	0	0	-3	-5	0	0	3
Expenditure forecast											
- buildings	7	7	7	-5	0	25	6	11	0	-13	15
- plant & machinery	0	0	-7	0	-7	-25	-3	3	22	-10	-20
Employment											
- current quarter	1	-10	-17	14	-7	50	-2	7	17	-26	-10
- expected	4	3	10	15	-21	38	5	22	22	-37	-2
Output											
- current	23	12	10	38	14	25	19	21	47	-3	22
- expected	30	17	31	30	29	25	26	34	18	0	35
Cost increase											
- current	21	10	21	20	-21	-12	13	33	0	13	-29
- expected	9	7	14	0	-7	12	7	23	-17	8	-22
Selling price increases											
- current	-3	10	3	14	21	0	5	13	-28	-15	20
- expected	4	7	7	-5	14	0	5	13	-17	-24	22
Exports											
- current	13	2	-11	14	0	0	4	7	19	-12	8
- expected	22	18	5	31	29	0	18	13	50	0	28

1 Confidence in the assessment of the Tasmanian, Western Australian performance is limited by the size of the sample.

2 Net response on "balance" is calculated by the number of "ups" less "downs" in individual questions thus giving the net change or expectation. A positive balance indicates a net upward trend and a negative balance a net downward trend.