

Survey of Industrial Trends

158th Report March Quarter 2001

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

Activity levels weakened further in the March quarter according to the March quarter Survey of Industrial Trends. However, the pace of deterioration slowed appreciably, indicating that the slowdown in activity may bottom out by the June quarter. Nonetheless, as indicated by the sharp deterioration in capacity utilisation, the manufacturing sector is operating well below capacity.

Employment and overtime levels deteriorated further, although expectations for numbers employed and overtime showed a modest improvement, confirming evidence from the activity numbers that the deterioration in the labour market may be at least bottoming out.

Investment expectations actually improved from the December survey. Both plant and equipment and building investment plans were stronger in March. That probably reflects the current very low levels of investment in the sector.

Of considerable concern is the sharp deterioration in exports. Whilst the recessionary conditions in the US have been expected to impact Australia's export markets, it is surprising to see this adverse affect on exports appearing so quickly in the Survey.

Profit expectations failed to recover from the decade low levels that were registered in the December Survey. Since March 1991, this is only the second survey where more respondents expect profits to weaken rather than improve over the next 12 months.

Inflation pressures have fallen quickly. Actual and expected selling prices are down sharply. Consistent with the subdued outlook for profits, cost pressures remain strong. The Survey results are supportive of the view that companies have been unable to pass on the various cost increases associated with higher import and energy prices.



Highlights

Business confidence weakened marginally in the March quarter 2001. While only 6% of respondents (vs 11% three months ago) predicted an improvement in the general business situation in Australia in the next six months, the proportion expecting a deterioration eased from 45% to 43%, resulting in a similar net balance as in the previous quarter (-37% vs -34%).

Demand and output outcomes were again down, with falls exceeding the previous quarter's predictions. The net balance for new orders fell to -25% from -14%, while the net result for output declined from -9% to -14%. The proportion of respondents nominating insufficient new orders as their principal constraint on increased production was unchanged at 71%. Expectations for the next three months are less negative (than current quarter actual outcomes) for both new orders (-11%) and output (-6%). This may indicate some steadying of demand and production for the next three months.

Capacity utilisation declined sharply again in the March quarter (-44% vs -28% net balance). Half the manufacturers surveyed (50% vs 36%) reported working below their normal capacity levels. Only 6% worked above their normal capacity, while those working to their normal capacity fell from 56% to 44%.

There was a sharp deterioration in the export performance in the March quarter. Contrary to confident predictions and despite the competitive exchange rate, there was a sizeable negative turnaround. Only 11% (vs 29%) reported higher export deliveries and 21% (vs 10%) lower, giving a -10% (vs 19%) net balance. Despite the disappointing March quarter 2001 performance, forward projections for exports have remained strong (16% vs 20%).

Plans for investment spending on plant and equipment in the next 12 months were firmer in the March quarter 2001. While the proportion of respondents upgrading their capital expenditure plans rose modestly (24% vs 21%) only 20% (vs 32%) intended to cut their spending, resulting in a net balance of 4% (vs -11%). The outlook for investment spending on buildings and structures also firmed slightly (-8% vs -11% net balance, a reasonable outcome in historical terms).

There was a further weakening in the employment position, with the net balance on employment falling to -23% (vs -19%). Overtime worked also recorded a further decline (-18% vs -14%). Expectations for the June quarter 2001 are not quite as negative as in the previous survey, for both employment (-22% vs -27%) and overtime (-21% vs -27%). Labour was easier to recruit. By historical comparisons, these outcomes are consistent with slow employment growth in the economy.

Inflationary pressures were less pronounced in the March quarter 2001. While still high and well above expectations, cost pressures were beginning to abate. The actual net outcome for average unit costs eased slightly to 42% (vs 44% previously). Predictions for the next three months were well down (21% vs 30% net balance). Average selling prices rose at a much slower pace (13% vs 25%) and were expected to stabilise in the next three months (-1% vs 19%).

Profit expectations remained weak in the March quarter, recording the second successive negative outcome since March 1991 (-1% vs -3% net balance). Expected net outcomes on new wage enterprise agreements in the next 12 months continued to decrease and were well down from levels predicted in the previous quarter (6% vs 26%).

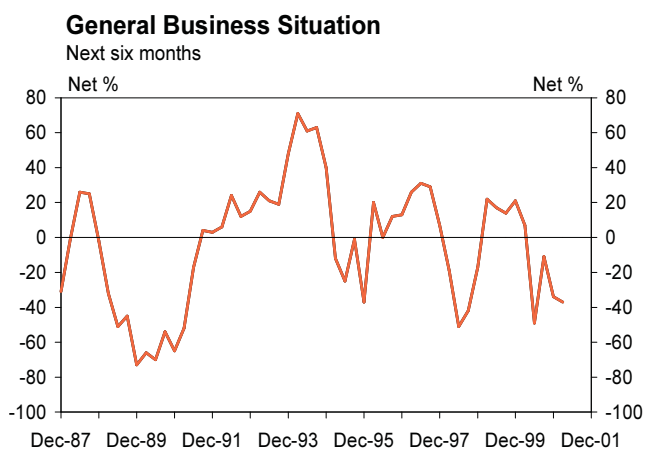
Net response or "balance" is calculated by the proportion of "ups" less "downs" on individual questions, thereby yielding the net balance. A positive balance indicates a net upward or improving trend and a minus balance a net downward or deteriorating trend. The 158th consecutive survey was conducted in the three weeks ending 1 March 2001. A total of 205 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 June 2001.

General business situation: confidence still declining

Business confidence weakened marginally in the March quarter 2001. Only 6% of the manufacturers surveyed (vs 11% three months ago) predicted an improvement in the general business situation in the next six months. However, the proportion expecting a deterioration was also marginally lower (43% vs 45%), resulting in a net balance of -37% (vs -34%). Half the respondents (51% vs 44%) expected no change.

General Business Situation

	Dec Qtr 2000	Mar Qtr 2001
Up (%)	11	6
Down (%)	45	43
Balance (%)	-34	-37

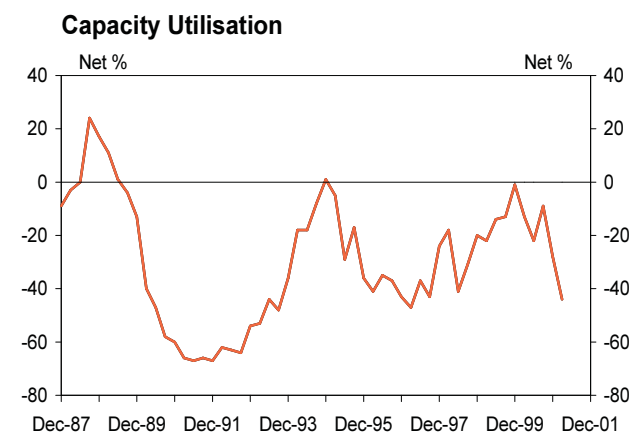


Capacity utilisation: continues to fall

Capacity utilisation in the March quarter 2001 was again well down from the previous quarter. The proportion of respondents who reported working above their normal capacity eased from 8% to 6%. The proportion working below normal capacity rose sharply from 36% to 50%, resulting in a net balance of -44% (vs -28%). However, 44% (vs 56%) reported working at normal capacity levels.

Capacity Utilisation

	Dec Qtr 2000	Mar Qtr 2001
Above (%)	8	6
Below (%)	36	50
Balance (%)	-28	-44



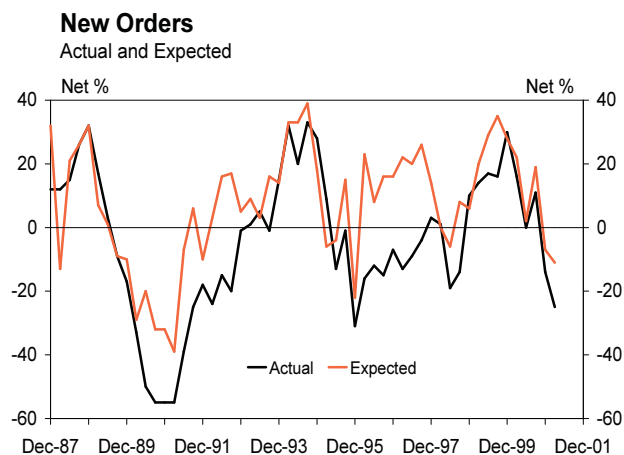
New orders received: decline continues

Demand continued to contract in the March quarter 2001, with the decline exceeding predictions. The proportion of respondents recording an increase in new orders fell (16% vs 24%). The proportion reporting a decline rose (41% vs 38%), resulting in a -25% net balance (vs -14%). Predictions for new orders over the next three months were also negative. However, the decline in demand was expected to slow down (net balance of -11%).

New orders

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	24	16	18
Down (%)	38	41	29
Balance (%)	-14	-25	-11

* Expectation for the next quarter



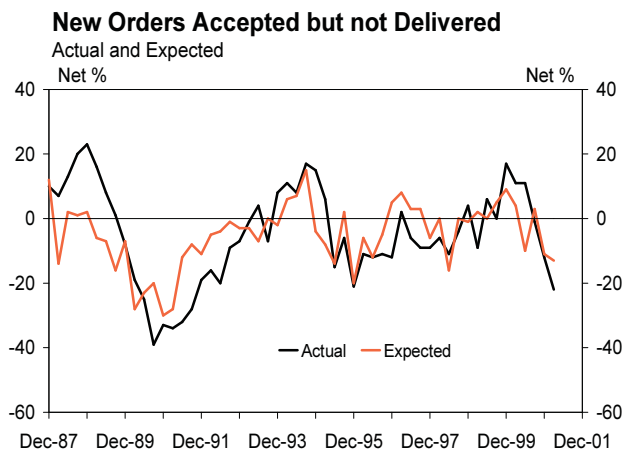
New orders outstanding: down

The backlog of outstanding orders fell again in the March quarter 2001 (-22% net balance vs -12%). A further decline in the backlog is predicted for the next three months (-14% vs -11%).

New orders accepted but not yet delivered

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	11	10	9
Down (%)	23	31	23
Balance (%)	-12	-21	-14

* Expectation for the next quarter



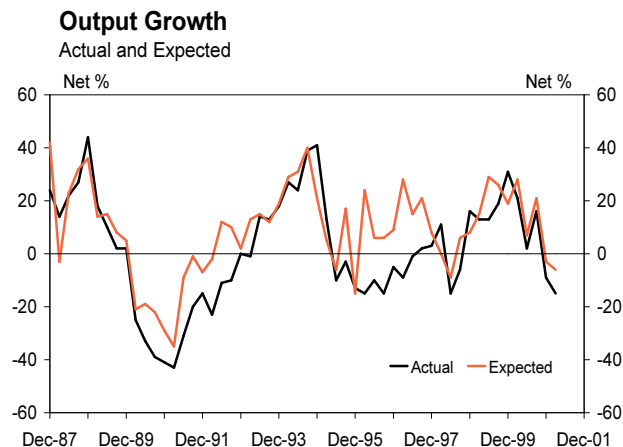
Output: still falling

In line with contracting demand and declining business expectations, output also fell in the March quarter 2001. The proportion of respondents reporting a rise was lower than three months ago (19% vs 23%), while those recording a decline rose (33% vs 32%), resulting in a net balance of -14% (vs -9%). Expectations for output in the next three months are for a further, albeit slower, decline (-6% vs -3%).

Output

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	23	19	20
Down (%)	32	33	26
Balance (%)	-9	-14	-6

* Expectation for the next quarter



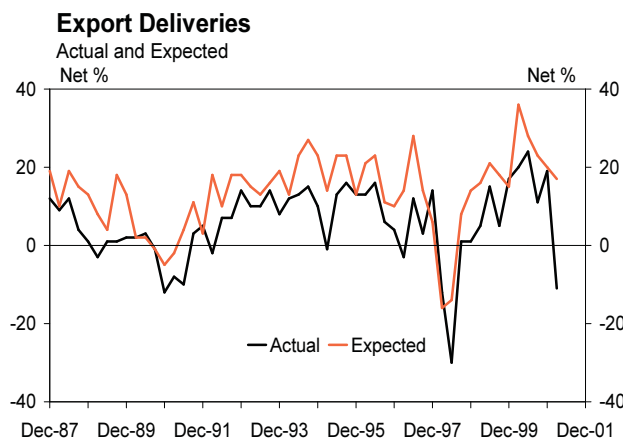
Export deliveries: negative turnaround

Contrary to confident predictions and despite the competitive exchange rate, there was an unexpected negative turnaround in exports in the March quarter. The proportion of respondents reporting a rise in export deliveries was almost three times lower than in the previous quarter (11% vs 29%) while those recording a decline doubled (21% vs 10% previously), resulting in a net balance of -10% (vs 19%). However, forward predictions for export growth have remained strong (16% vs 20%).

Export Deliveries

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	29	11	24
Down (%)	10	21	8
Balance (%)	19	-10	16

* Expectation for the next quarter

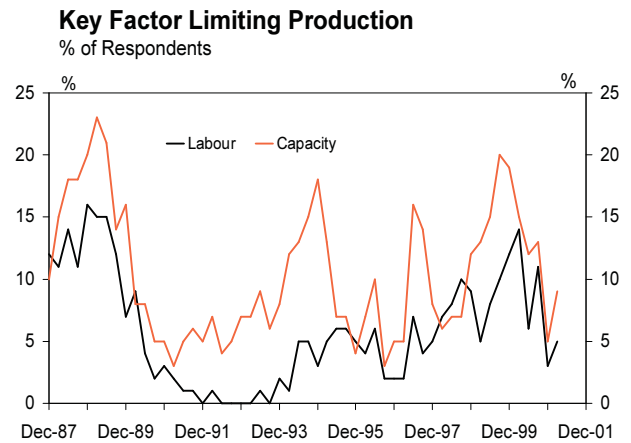


Factors limiting production: orders

The proportion of respondents nominating insufficient new orders as their single largest constraint on increased production was unchanged in the March quarter (71%). The proportion nominating capacity (9% vs 5%) and labour (5% vs 3%) as their principal limiting factor rose. Only 2% (vs 1%) nominated finance and 1% (vs 0%) material as their major impediment.

Factors Limiting Production

	Jun Qtr 2000	Dec Qtr 2000	Mar Qtr 2001
Orders (%)	59	71	71
Capacity (%)	13	5	9
Labour (%)	11	3	5
Finance (%)	4	1	2
Material (%)	1	0	1



Profit expectations: subdued

Profit expectations firmed marginally in the March quarter. While 31% of the respondents predicted higher profits in the next 12 months (vs 27% previously), another 32% (vs 30%) expected a decline, resulting in a marginally firmer net balance of -1% (vs -3%). Since March 1991, this is only the second survey where more respondents expect profits to weaken rather than improve over the next 12 months.

Profit Expectations

	Dec Qtr 2000	Mar Qtr 2001
Up (%)	27	31
Down (%)	30	32
Balance (%)	-3	-1

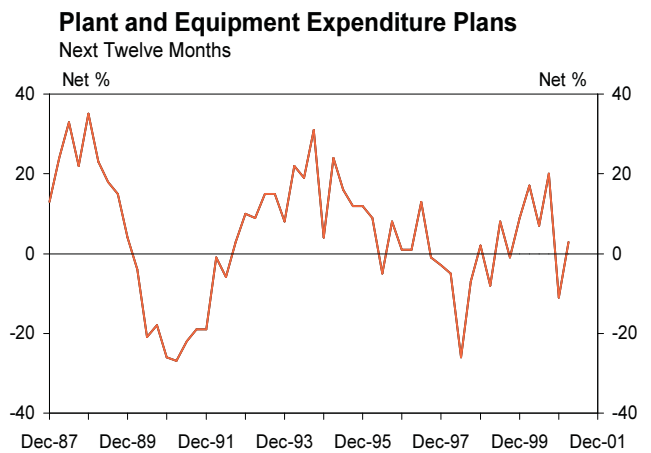


Plant and equipment expenditure plans: well up

Despite weaker business expectations, and subdued demand, output and profit predictions, the outlook for investment spending on plant and equipment in the next 12 months was well up in the March quarter 2001. The proportion of manufacturers reporting plans to increase spending on plant and equipment rose (24% vs 21% previously) while those expecting a decline was much lower (20% vs 32%), resulting in a net balance of 4% (vs -11%). More than half the respondents (56% vs 47%) expected no change in their spending plans.

Plant & Equipment Expenditure

	Dec Qtr 2000	Mar Qtr 2001
Up (%)	21	24
Down (%)	32	20
Balance (%)	-11	4

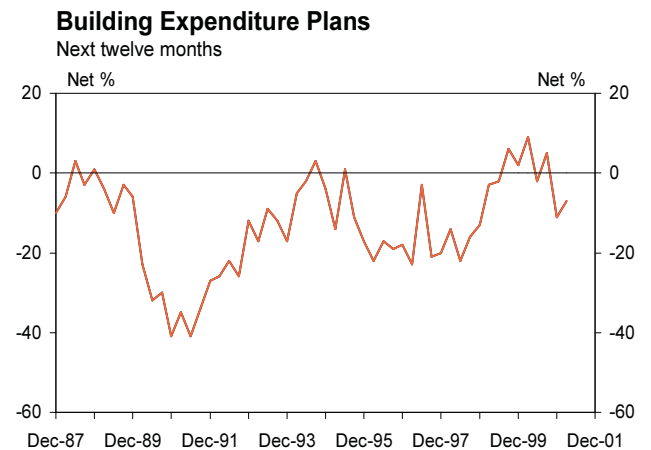


Building expenditure plans: also firming

In line with the improving outlook for investment in plant and equipment, spending plans on buildings and structures also firmed modestly. The proportion of respondents reporting an increase in their intended capital expenditure was lower than three months ago (15% vs 18%). However, those predicting a decline also fell (23% vs 29%), resulting in a net balance of -8% (vs -11%). Well over half the respondents (62% vs 53%) expected no change in their spending plans.

Building Expenditure

	Dec Qtr 2000	Mar Qtr 2001
Up (%)	18	15
Down (%)	29	23
Balance (%)	-11	-8



Stocks of raw materials: lower

Stocks of raw materials fell in the March quarter (-15% vs 6%). On balance, a further rundown of inventories is predicted for the next three months (a net balance of -17% vs -12% previously).

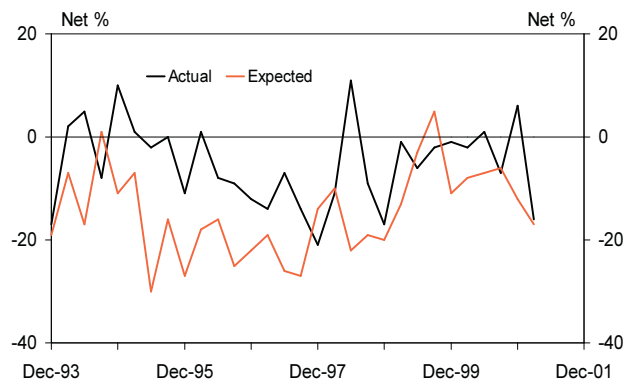
Stocks of raw materials

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	22	9	8
Down (%)	16	24	25
Balance (%)	6	-15	-17

* Expectation for the next quarter

Stocks of Raw Materials

Actual and Expected



Stocks of finished goods: also lower

Stocks of finished goods also fell in the March quarter, with a net balance of -7% (vs 16% previously). On balance, an accelerated rundown in stock levels is predicted for the next three months (-19% vs -6% previously).

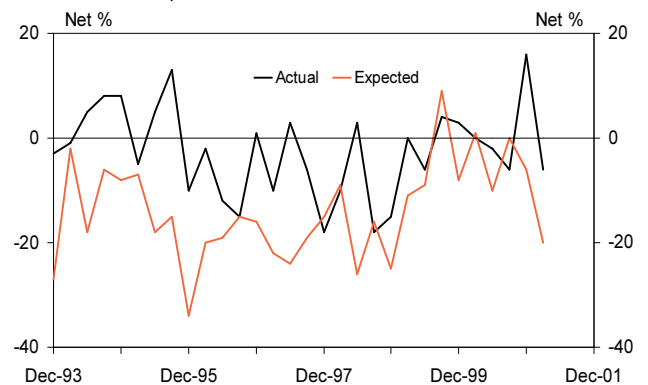
Stocks of finished goods

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	32	16	9
Down (%)	16	23	28
Balance (%)	16	-7	-19

* Expectation for the next quarter

Stocks of Finished Goods

Actual and Expected



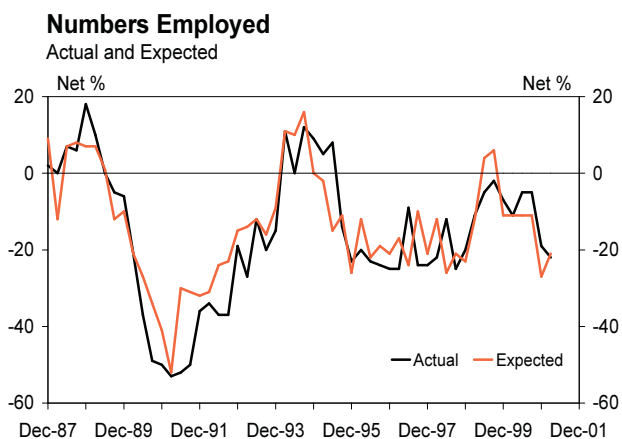
Employment: subdued outlook

There was little change in both numbers employed and the outlook for employment, which has remained subdued. The proportion of respondents reporting an increase in numbers employed was unchanged (11%). The proportion recording a fall was higher (34% vs 30%) resulting in a net balance of -23% (vs -19%). A similar outcome is predicted for the next quarter (-22% vs -27%).

Employment

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	11	11	6
Down (%)	30	34	28
Balance (%)	-19	-23	-22

* Expectation for the next quarter



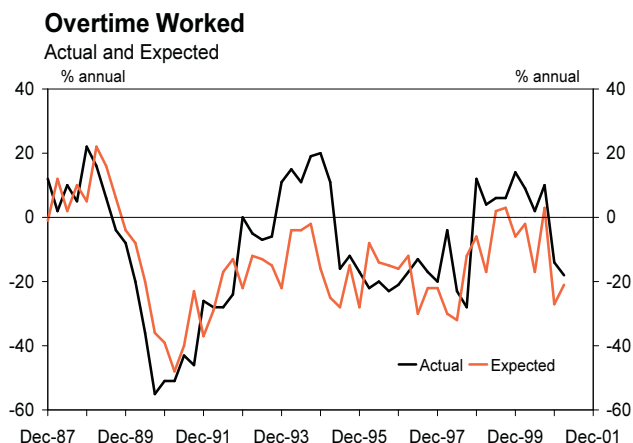
Overtime: down

Reflecting weaker business conditions, overtime worked continued to decline in the March quarter 2001. The proportion of respondents reporting higher levels of overtime worked fell from 22% to 14%. The proportion recording a decline also fell (32% vs 36%), resulting in the second negative net balance after eight consecutive positive quarters (-18% vs -14%). A further decline from current levels in overtime worked is predicted for the next three months, despite a small improvement in expectations (net balance of -21% vs -27% previously).

Overtime

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	22	14	11
Down (%)	36	32	32
Balance (%)	-14	-18	-21

* Expectation for the next quarter



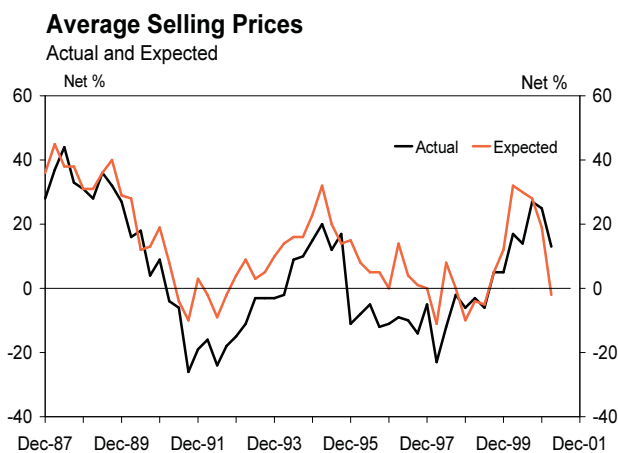
Average selling prices: stabilising

On balance, average selling prices are expected to stabilise in the next three months. In line with predictions, increases in average selling prices continued to decelerate in the March quarter 2001. The proportion of respondents reporting price increases fell from 36% to 25%. The proportion recording a decline was marginally higher (12% vs 11%), resulting in a net balance of 13% (vs 25%). Only 18% (vs 31% previously) expected price increases and 19% (vs 12%) decreases in the next three months, giving a marginally negative net balance of -1% (vs 19%).

Average selling prices

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	36	25	18
Down (%)	11	12	19
Balance (%)	25	13	-1

* Expectation for the next quarter



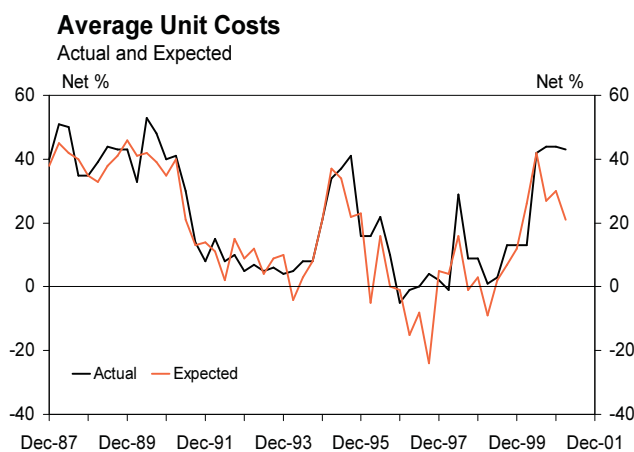
Average unit costs: remain high

Increases in average unit costs are also beginning to abate. While the proportion recording a decline was smaller than predicted (5% vs 9% previously), those reporting rising costs also fell (47% vs 53%), resulting in a net balance of 42% (vs 44%). Costs are predicted to rise at a slower but still strong pace in the next three months (net balance of 21% vs 30%).

Average unit costs

	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001E*
Up (%)	53	47	35
Down (%)	9	5	14
Balance (%)	44	42	21

* Expectation for the next quarter



Availability of labour and finance: easier to get

Labour was again marginally easier to recruit in the March quarter 2001, with a net balance of -6% (vs -5% previously). This contrasted with measures of tightness approaching cyclical highs recorded in the June and September quarters 2000. There was also an easing in the availability of finance (-6% vs 0%). Of the respondents, a similar proportion (80% vs 84%) reported no change, while 7% (vs 8%) reported finance harder to obtain and 13% (vs 8% easier).

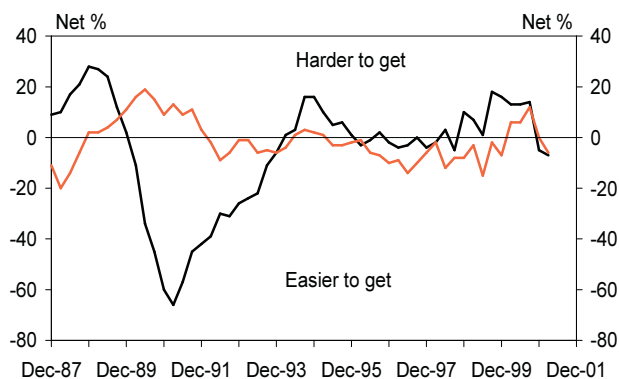
Labour

	Dec Qtr 2000	Mar Qtr 2001
Harder to get (%)	14	9
Easier to get (%)	19	15
Balance (%)	-5	-6

Finance

	Dec Qtr 2000	Mar Qtr 2001
Harder to get (%)	8	7
Easier to get (%)	8	13
Balance (%)	0	-6

Availability of Labour & Finance



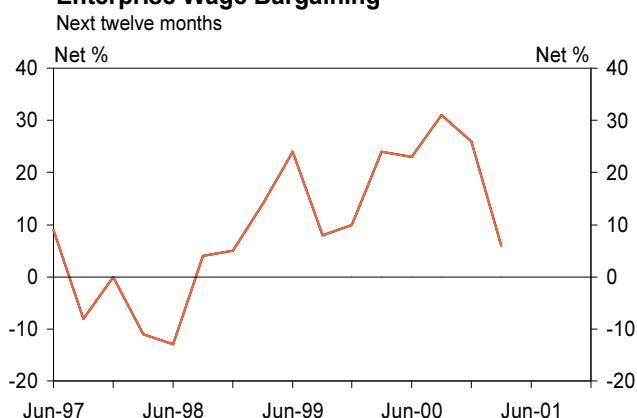
Enterprise wage agreements: marginally higher outcomes predicted

Given the importance of enterprise bargaining, this additional question continues to be included as a supplement. The outlook reported in the March quarter 2001 again was for higher outcomes, albeit well below the previous quarter's outcome (6% vs 26%). This result firms earlier indications of a pause in the upward trend shown by this series since June 1998.

Enterprise wage agreements

	Dec Qtr 2000	Mar Qtr 2001
Up (%)	37	16
Down (%)	11	10
Balance (%)	26	6

Enterprise Wage Bargaining



Summary of Results – Key to Industry Classification

A	(% of Respondents)
Food, beverages, tobacco	14
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	4
Wood, wood products, furniture	7
Paper, paper products, printing	11
Chemicals, paints, pharmaceutical's, soaps, cosmetics petroleum & coal products	4
Non-metallic mineral products: glass, pottery, cement bricks	7
Basic metal products: processing, smelting, refining, pipes & tubes	5
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	14
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	7
Other machinery & equipment: electrical, industrial scientific, photographic	9
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	15

B	1-100	101-200	201-1000	Over 1000
How many employees are covered by this return?	47%	17%	15%	21%

C	WA	SA	VIC	NSW	QLD	TAS
In which state is the main production to which this return relates?	6%	15%	26%	33%	15%	5%

1. Do you consider that the general business situation in Australia will improve, remain the same or deteriorate during the next six months?	Improve 6%	Same 51%	Deteriorate 43%
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2. At what level of capacity utilisation are you working?	Above Normal 6%	Normal 44%	Below normal 50%
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3. What single factor is most limiting your ability to increase production?	None Orders Material Other	8% 71% 1% 4%	Finance Labour Capacity	2% 5% 9%
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4. Do you find it is now harder, easier, or the same as it was 3 months ago to get:	Harder	Same	Easier
(a) labour?	9%	76%	15%
(b) finance?	7%	80%	13%

5. Do you expect your company's capital expenditure during the next 12 months to be greater, the same, or less than the past year:	Greater	Same	Less
(a) on buildings?	15%	62%	23%
(b) on plant & machinery?	24%	56%	20%

Past and Future Trends

Excluding normal seasonal changes, what has been your company's experience over the past 3 months & what changes do you expect during the next 3 months in respect of

	Change in position in the last 3 months			Expected change during the next 3 months		
	Up	Same	Down	Up	Same	Down
6. Numbers Employed	11%	55%	34%	6%	66%	28%
7. Overtime worked	14%	54%	32%	11%	57%	32%
8. All new orders received	16%	43%	41%	18%	53%	29%
9. Orders accepted but not yet delivered	10%	59%	31%	9%	68%	23%
10. Output	19%	48%	33%	20%	54%	26%
11. Average costs per unit of output	47%	48%	5%	35%	51%	14%
12. Average selling prices	25%	63%	12%	18%	63%	19%
13. Export deliveries	11%	68%	21%	24%	68%	8%
14. Stock of raw materials	9%	67%	24%	8%	67%	25%
15. Stocks of finished goods	16%	61%	23%	9%	63%	28%

16. Over the next 12 months do you expect your firms profitability to:

- | | |
|-----------------------|-----|
| (a) Improve? | 31% |
| (b) Remain unchanged? | 37% |
| (c) Decline? | 32% |

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? | 16% |
| (b) Same? | 74% |
| (c) Less? | 10% |

Net Balance of Response by Industry Group

	1	2	3	4	5	6	7	8	9	10	11	12	All Groups
General Business Situation	-14	-43	-25	-43	-59	-67	-36	-70	-31	-27	-42	-26	-37
Capital Spending: buildings	14	-43	0	-21	-9	-56	-64	0	-12	33	21	-6	-8
Capital Spending: equipment	25	14	-22	-21	0	11	-71	-10	0	33	32	10	4
Numbers employed:													
current	3	-57	0	-43	18	-33	-21	-40	-23	-80	-37	-23	-23
expected	10	-43	-14	-21	-14	-33	-71	-33	-19	-40	-47	-3	-22
Overtime													
current	17	-43	-33	-50	18	-11	-21	-60	-27	-67	16	-29	-18
expected	10	-43	-29	-36	-64	11	-36	-33	-15	-40	-5	-13	-21
New Orders													
current	21	-71	-33	-21	0	-44	-50	-60	-27	-40	-16	-48	-25
expected	55	-29	-14	-21	-41	-33	-21	-22	-19	-33	-11	-13	-11
Output													
current	28	-71	-56	-29	27	-33	-29	-60	-15	-47	32	-39	-14
expected	31	-43	29	-14	0	-22	-7	-22	-19	-20	-16	-6	-6
Exports													
current	-8	25	-20	67	-12	0	-78	-50	-38	-17	24	5	-10
expected	8	-50	0	0	12	25	89	50	-8	0	35	15	16
Unit costs													
current	34	14	67	71	64	22	71	20	54	20	11	39	42
expected	7	14	57	43	59	0	57	67	19	-27	-5	6	21
Average prices													
current	10	-14	33	14	23	33	21	-40	-8	13	32	23	13
expected	3	-57	-29	14	-14	0	21	-33	-12	-7	42	-3	-1

Key to Industry Classification

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

Differences Between States and by Size of Firm

Questions	States							Number of Employees			
	NSW	VIC	QLD	SA	WA	TAS	AUS	Under 100	101-200	201-1000	Over 1000
<i>(Net Balance %)</i>											
General Business Situation	-32	-55	-40	-17	-23	-30	-37	-38	-12	-47	-44
Difficulty in obtaining labour	-4	2	-20	-7	-8	-20	-6	-6	-15	-10	2
Difficulty in obtaining finance	-9	-2	-14	-10	15	0	-6	-9	-9	7	-5
Expenditure forecast											
buildings	-7	-2	-14	-7	0	-33	-8	-6	0	-20	-8
plant & machinery	0	0	-7	13	46	-10	4	-2	-9	7	23
Employment											
current quarter	-16	-38	-33	-13	-8	-10	-23	-24	-26	-13	-23
expected	-20	-25	-27	-18	-15	-20	-22	-17	0	-43	-35
Output											
current	-7	-28	-23	-3	8	-30	-14	-15	-26	-13	-5
expected	-3	-21	0	14	-15	-10	-6	-6	12	-17	-12
Cost increase											
current	39	47	53	27	46	40	42	48	56	30	26
expected	29	21	23	0	23	10	21	39	12	17	-9
Selling price increases											
current	12	9	23	10	15	20	13	12	18	-10	28
expected	3	-8	0	-4	8	-10	-1	3	-18	-27	19
Exports											
current	-10	-6	-16	-6	-29	0	-10	-9	-4	-4	-19
expected	20	13	16	18	14	20	16	2	14	9	45

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.