

Survey of Industrial Trends

159th Report June Quarter 2001

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

The 159th Survey of Industrial Trends indicates that business confidence recovered sharply in June. The proportion of respondents expecting business conditions to improve over the next 6 months increased from 6% to 27%, whilst the proportion expecting a deterioration fell from 43% to 27%.

Whereas activity levels showed modest improvements in June, the real story of the Survey is the sharp increase in expectations. Of most significance here was the sharp increase in expected new orders and output. Whilst still very low, capacity utilisation improved somewhat, although investment plans weakened slightly.

Consistent with the lift in expectations for new orders and output, firms have raised their profit forecasts. They have also experienced a sharp improvement in export conditions in the quarter. That success has led to upward revisions in expectations for export sales over the next three months.

Labour market conditions stabilised in the quarter. Both numbers employed and overtime recorded similar readings to March, halting the decline in labour market conditions over the last year or so. There was also a promising improvement in the outlook for jobs over the next quarter. Firms also expect overtime worked to turn around.

Whilst actual selling prices stabilised in the quarter, there was a sharp increase in the proportion of firms expecting to raise their prices over the next three months. That is consistent with improved expected sales conditions and a further modest increase in costs. Costs have now reached the highest net balance in more than 10 years. That was despite firms expecting a much more moderate outcome on costs. The clear message is that firms expect to be able to raise their prices when sales conditions improve, in an attempt to restore margins which appear to have been eroded over the last year.



Highlights

There was a marked upturn in business confidence in the June quarter 2001. More than a quarter of the manufacturers surveyed (27% vs 6% three months ago) predicted an improvement in the general business situation in Australia in the next six months. The same proportion (vs 43%) expected a deterioration, resulting in a much stronger net balance (0% vs -37%).

Whereas activity levels have shown only a marginal improvement, expectations for activity are up strongly. New orders improved marginally but remained soft (-17% vs -25% net balance). Output remained stable at subdued levels (-15% vs -14%). Insufficient new orders were reported as the principal single constraint on increased production by 67% (vs 71%) of respondents. However, forward projections for both demand and production are strong, with a net balance of 19% (vs -11% previously) of respondents predicting an upturn in new orders and 6% (vs -6%) a rise in output.

Capacity utilisation stabilised in the June quarter (-38% vs -44% net balance). While 45% (vs 50%) of the manufacturers surveyed reported operating below and only 7% (vs 6% previously) above normal capacity, almost half (48% vs 44%) worked at their normal capacity levels.

Assisted by the competitive exchange rate and exceeding predictions, there was a strong upturn in export performance in the June quarter, following an unexpected decline three months ago. Almost a quarter of the respondents (24% vs 11%) reported higher and only 13% (vs 21%) lower export deliveries, resulting in a net balance of 11% (vs -10%). Forward projections for exports remain strong (23% vs 16%).

Plans for investment spending on plant and equipment in the next 12 months remained marginally positive in the June quarter. The proportion of respondents upgrading their capital expenditure again rose modestly (27% vs 24%) but those expecting to cut their spending also rose (25% vs 20%), resulting in a net balance of 2% (vs 4%). The outlook for capital spending on buildings and structures also slightly weakened (-11% vs -8% net balance), but is still a strong result in historical terms.

The labour market stabilised in June quarter 2001. There was no real change in the employment outcome, with a net balance of -22% (vs -23%), or in overtime worked (unchanged at -18%). Some improvement is predicted for the September quarter, with expectations for employment (-11% vs -22%) and overtime (-17% vs -21%) more promising.

Inflationary pressures persisted in the June quarter 2001. Contrary to predictions, the actual net outcome for average unit costs was higher than in the previous quarter (48% vs 42% net balance) and this underpinned continued steady rises in average selling prices (12% vs 13%). Respondents continue to expect an abatement in cost pressures (24% vs 21%) for the next three months. Conversely, expectations for price rises have rebounded sharply (22% vs -1%).

Profits have been under intense pressure but with predictions for demand strengthening, profit expectations have firmed in the June quarter (9% vs -1% net balance). Expected net outcomes, on wage enterprise agreements in the next 12 months were higher (16% vs 6% net balance) but still well below the levels of six months ago.

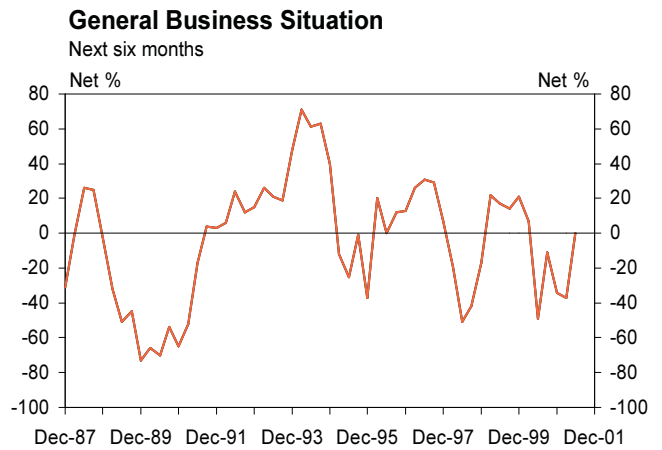
Net response or "balance" is calculated by the proportion of "ups" less "downs" on individual questions, thereby yielding the net balance. A positive balance indicates a net upward or improving trend and a minus balance a net downward or deteriorating trend. The 159th consecutive survey was conducted in the three weeks ending 1 June 2001. 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 September 2001.

General business situation: confidence rises

There was a marked upturn in business confidence in the June quarter 2001. More than a quarter of manufacturers surveyed (27% vs 6% three months ago) predicted an improvement in the general business situation in the next six months. The same proportion expected a deterioration (27% vs 43%), resulting in a net balance of 0% (vs -37%). Close to half the respondents (46% vs 51%) expected no change.

General Business Situation

	Mar Qtr 2001	Jun Qtr 2001
Up (%)	6	27
Down (%)	43	27
Balance (%)	-37	0

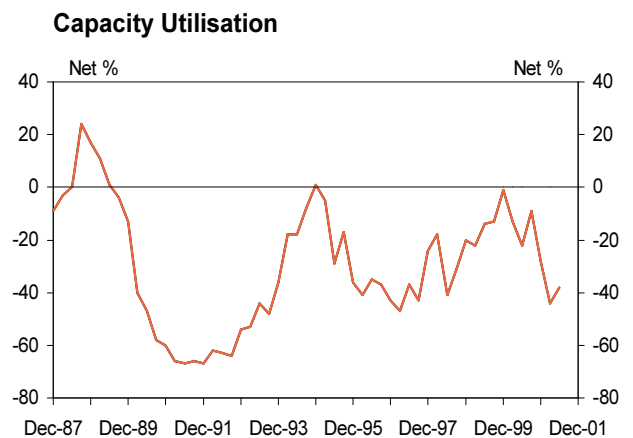


Capacity utilisation: stabilises

Firms continue to operate with abundant spare capacity. The proportion of respondents who reported working above their normal capacity was almost unchanged (7% vs 6%). The proportion working below normal capacity was lower (45% vs 50%), resulting in a net balance of -38% (vs -44%). A similar proportion as three months ago (48% vs 44%) reported working at normal capacity levels.

Capacity Utilisation

	Mar Qtr 2001	Jun Qtr 2001
Above (%)	6	7
Below (%)	50	45
Balance (%)	-44	-38



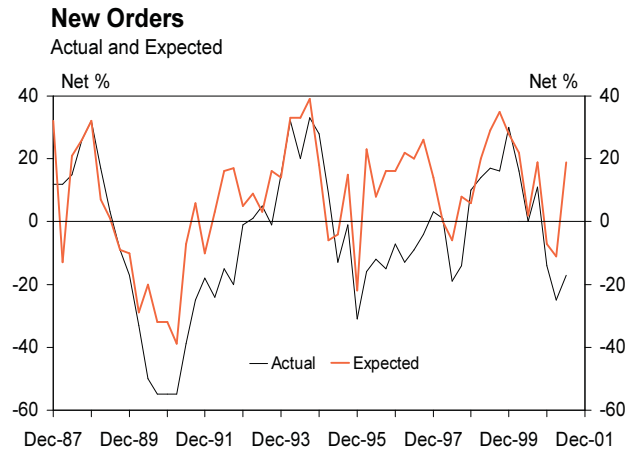
New orders received: subdued but a strong upturn predicted

In line with predictions, demand remained subdued in the June quarter. The proportion of respondents recording an increase in new orders edged higher (18% vs 16%). The proportion reporting a decline fell (35% vs 41%), resulting in a net balance of -17% (vs -25%). A very strong upturn is predicted for the next three months (19% vs -11%).

New orders

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	16	18	38
Down (%)	41	35	19
Balance (%)	-25	-17	19

* Expectation for the next quarter



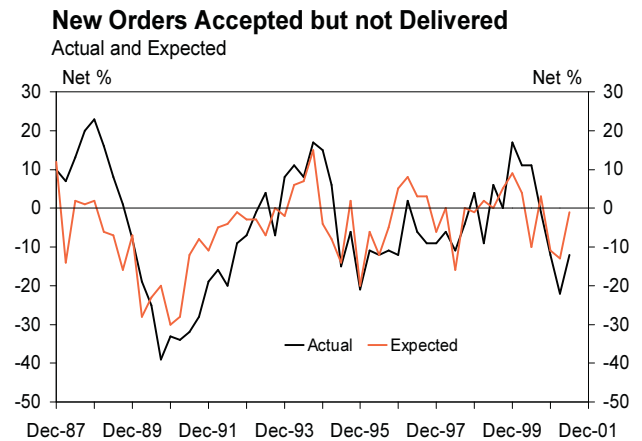
New orders outstanding: still soft

In line with predictions, the backlog of outstanding orders improved only marginally again in the June quarter 2001 (-12% vs -21%). Further improvement is expected in the next three months (-1% vs -14%).

New orders accepted but not yet delivered

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	10	9	10
Down (%)	31	21	11
Balance (%)	-21	-12	-1

* Expectation for the next quarter



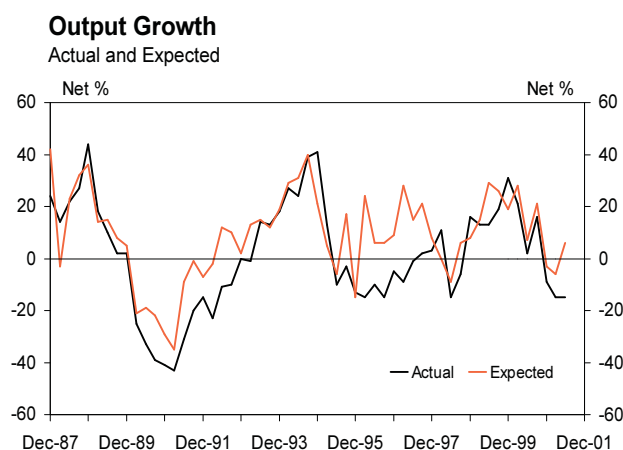
Output: still declining but a turnaround predicted

In line with subdued demand, output continued to contract in the June quarter 2001 (-15% vs -14%). The proportion of respondents reporting a rise was marginally lower (17% vs 19%). The proportion recording a decline was virtually unchanged (32% vs 33%), resulting in a net balance of -15% (vs -14%). However, reflecting the upturn in business expectations, a strong turnaround was predicted for the next three months (6% vs -6%).

Output

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	19	17	31
Down (%)	33	32	25
Balance (%)	-14	-15	6

* Expectation for the next quarter



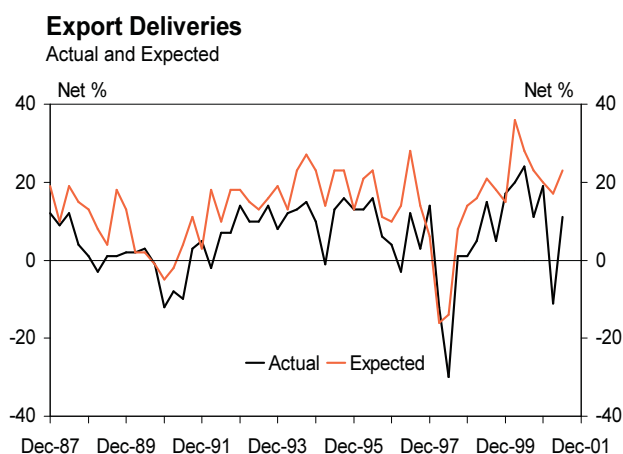
Export deliveries: positive turnaround, strong expectations

There was a strong turnaround in export deliveries in the June quarter, following an unexpected decline three months ago. The proportion of respondents reporting a rise in export deliveries more than doubled (24% vs 11%) while those recording a decline was much lower (13% vs 21%), resulting in a net balance of 11% (vs -10%). Reflecting the competitive exchange rate, forward predictions are for solid export growth in the next three months (23% vs 16%).

Export Deliveries

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	11	24	36
Down (%)	21	13	13
Balance (%)	-10	11	23

* Expectation for the next quarter



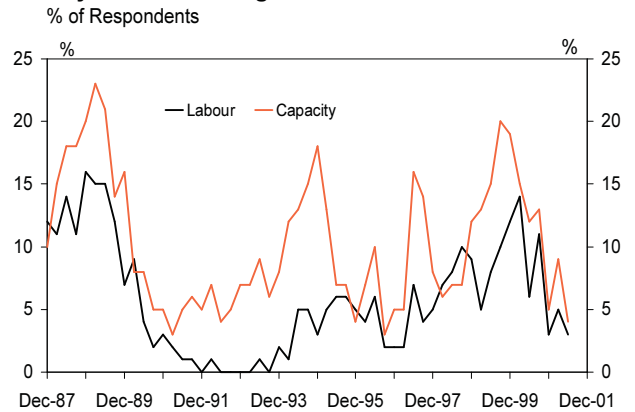
Factors limiting production: orders

While nominated by a lower proportion than three months ago (67% vs 71%), insufficient new orders remained the largest single constraint on increased production in the June quarter. Those nominating capacity (4% vs 9%) and labour (3% vs 5%) were also lower. However, the proportion nominating finance was marginally higher (4% vs 2%).

Factors Limiting Production

	Dec Qtr 2000	Mar Qtr 2000	Jun Qtr 2001
Orders (%)	71	71	67
Capacity (%)	5	9	4
Labour (%)	3	5	3
Finance (%)	1	2	4
Material (%)	0	1	2

Key Factor Limiting Production



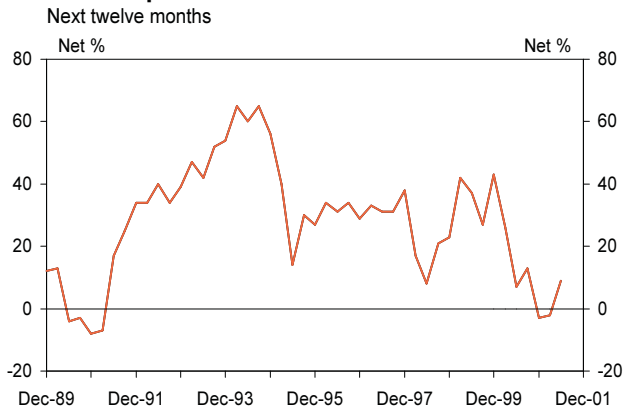
Profit expectations: positive again

Profit expectations firmed in the June quarter. While 35% of respondents (vs 31% previously) predicted higher profits in the next 12 months, the proportion expecting a decline fell from 32% to 26%, resulting in a much firmer net balance of 9% (vs -1%).

Profit Expectations

	Mar Qtr 2001	Jun Qtr 2001
Up (%)	31	35
Down (%)	32	26
Balance (%)	-1	9

Profit Expectations

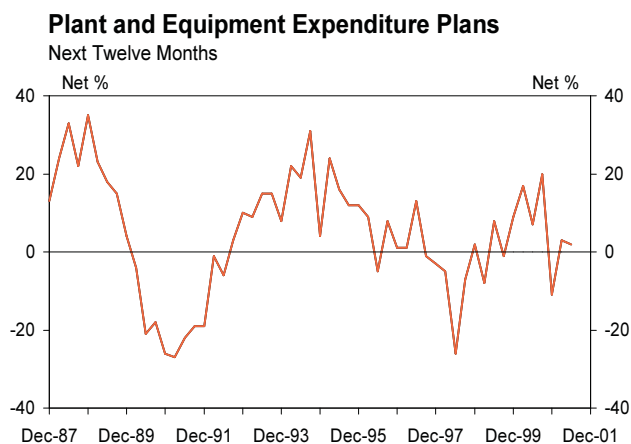


Plant and equipment expenditure plans: marginally positive

The outlook for investment spending on plant and equipment in the next 12 months remained marginally positive in the June quarter. The proportion of manufacturers reporting plans to increase spending on plant and equipment rose (27% vs 24%). However, the proportion expecting a decline was also higher (25% vs 20%), resulting in a net balance of 2% (vs 4%). Almost half the respondents (48% vs 56%) expected no change in their spending plans.

Plant & Equipment Expenditure

	Mar Qtr 2001	Jun Qtr 2001
Up (%)	24	27
Down (%)	20	25
Balance (%)	4	2

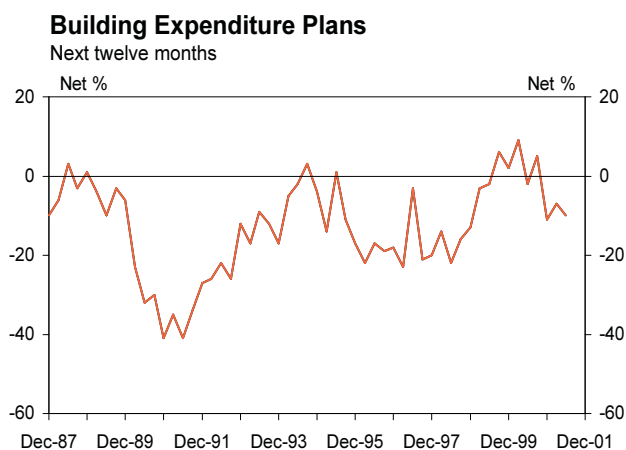


Building expenditure plans: slightly weaker

Spending plans for buildings and structures were marginally weaker than three months ago. The proportion of respondents predicting an increase in their capital expenditure was virtually unchanged (16% vs 15%) while those expecting a decline rose (27% vs 23%), resulting in a net balance of -11% (vs -8%). Well over half the respondents (57% vs 62%) expected no change in their spending plans. The latest outcome is still a strong result in historical terms.

Building Expenditure

	Mar Qtr 2001	Jun Qtr 2001
Up (%)	15	16
Down (%)	23	27
Balance (%)	-8	-11



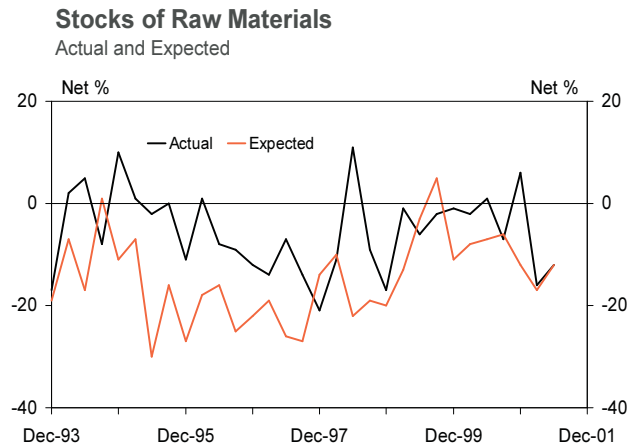
Stocks of raw materials: remain low

Stocks of raw material continued to decline in the June quarter (-12% vs -15%). On balance, a similar rundown of inventories is predicted for the next three months (a net balance of -12% vs -17% previously).

Stocks of raw materials

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	9	12	9
Down (%)	24	24	21
Balance (%)	-15	-12	-12

* Expectation for the next quarter



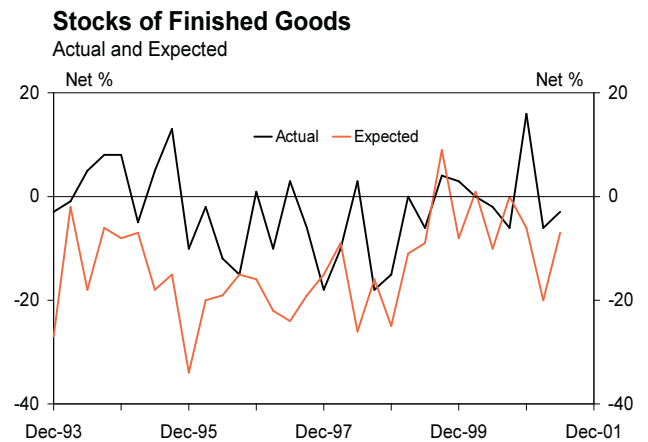
Stocks of finished goods: marginally down

Contrary to predictions, stocks of finished goods were only marginally down in the June quarter with a net balance of -3% (vs -7% previously). On balance, a more modest pace of inventory rundown is expected in the next three months (-7% vs -19%).

Stocks of finished goods

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	16	20	16
Down (%)	23	23	23
Balance (%)	-7	-3	-7

* Expectation for the next quarter



Employment: subdued outlook

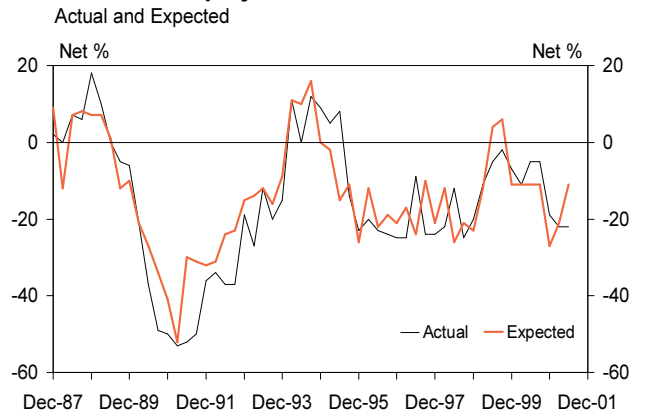
In line with past expectations, there was no change in numbers employed, but the outlook for employment has improved. The proportion of respondents recording a rise was unchanged for the third successive quarter (11%). The proportion reporting a fall was almost the same as three months ago (33% vs 34%), resulting in a net balance of -22% (vs -23%). However reduced labour-shedding is predicted for the next three months (-11% vs -22%).

Employment

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	11	11	13
Down (%)	34	33	24
Balance (%)	-23	-22	-11

* Expectation for the next quarter

Numbers Employed



Overtime: remains low

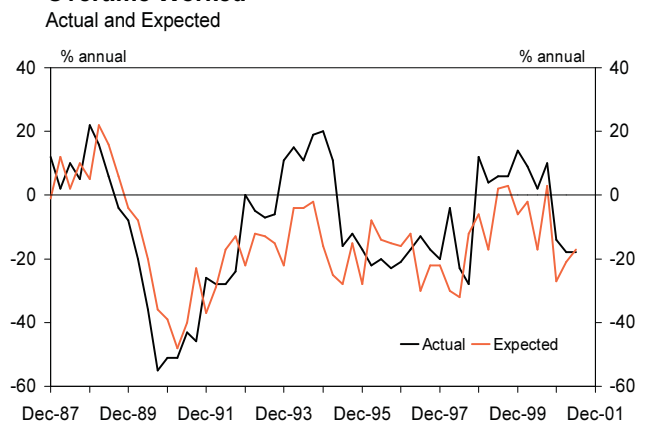
Both the actual and expected outcomes for overtime worked remained weak in the June quarter 2001. The proportion of respondents reporting higher levels of overtime worked was marginally higher (16% vs 14%) but the proportion recording a decline also edged up (34% vs 32%), resulting in an unchanged net balance of -18%. A similar outcome is predicted for the next quarter (-17% vs -21%).

Overtime

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	14	16	11
Down (%)	32	34	28
Balance (%)	-18	-18	-17

* Expectation for the next quarter

Overtime Worked



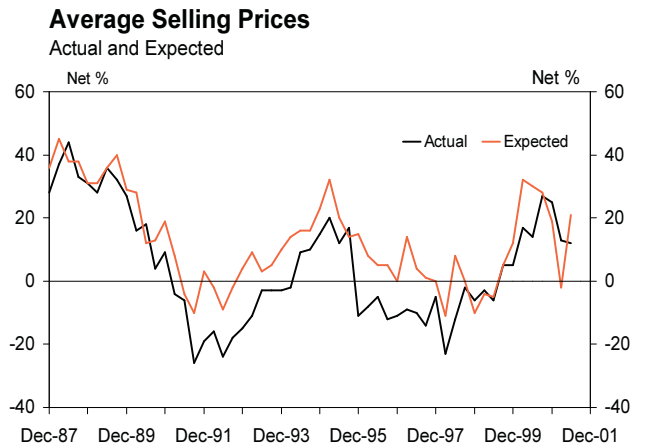
Average selling prices: expectations jump

Average selling prices continued to rise in the June quarter at about the same pace as three months ago. The proportion of respondents reporting price increases rose from 25% to 28%. The proportion recording a decline was also higher (16% vs 12%) resulting in a virtually unchanged net balance of 12% (vs 13%). Expectations for price increases for the next three months jumped sharply, with 29% (vs 18% previously) expecting price increases and only 7% (vs 19%) decreases in the next three months, giving a net balance of 22% (vs -1%).

Average selling prices

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	25	28	29
Down (%)	12	16	7
Balance (%)	13	12	22

* Expectation for the next quarter



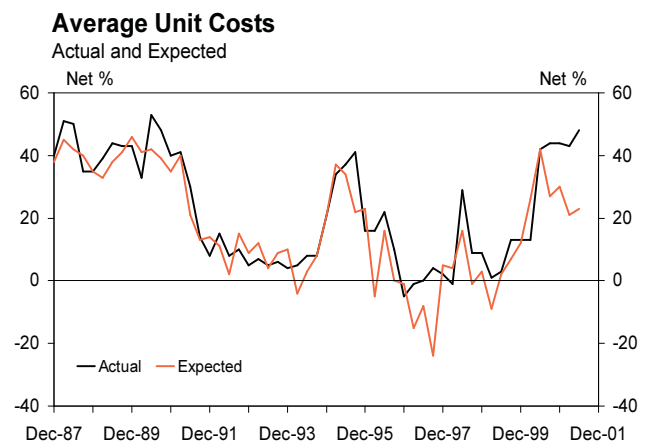
Average unit costs: rising but increases expected to abate

Increases in average unit costs accelerated in the June quarter 2001 but are (again) expected to abate in the next three months. While 54% (vs 47% previously) of the manufacturers surveyed reported rising costs, only 6% (vs 5%) recorded decreases, resulting in a net balance of 48% (vs 42%). Costs are again predicted to rise at a slower, though still strong pace, in the next three months (24% vs 21%).

Average unit costs

	Mar Qtr 2001	Jun Qtr 2001	Sep Qtr 2001E*
Up (%)	47	54	40
Down (%)	5	6	16
Balance (%)	42	48	24

* Expectation for the next quarter



Availability of labour and finance: no change

There was virtually no change in the availability of labour and finance in the June quarter 2001. Of the respondents, 8% (vs 9% previously) reported that labour was easier to get and 13% (vs 15%) harder, resulting in a net balance of -5% (vs -6%). While 82% (vs 80% previously) reported no change in the availability of finance, 6% (vs 7%) said it was harder to get and 12% (vs 13%) easier. The net outcome was unchanged (-6%).

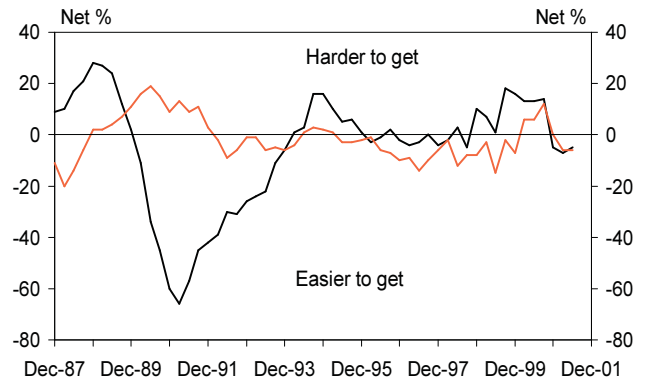
Labour

	Mar Qtr 2001	Jun Qtr 2001
Harder to get (%)	9	8
Easier to get (%)	15	13
Balance (%)	-6	-5

Finance

	Mar Qtr 2001	Jun Qtr 2001
Harder to get (%)	7	6
Easier to get (%)	13	12
Balance (%)	-6	-6

Availability of Labour & Finance



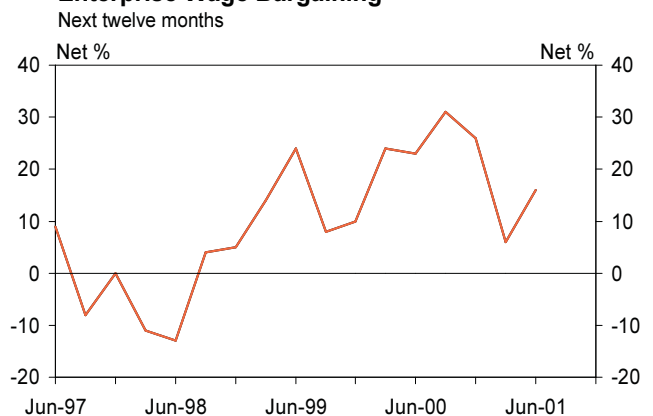
Enterprise wage agreements: higher outcomes predicted

Given the importance of enterprising bargaining, this additional question continues to be included as a supplement. The outlook in the June quarter 2001 was for higher outcomes (16% vs 6% previously), but expectations were still well below the 26% in the December quarter 2000.

Enterprise wage agreements

	Mar Qtr 2001	Jun Qtr 2001
Up (%)	16	20
Down (%)	10	4
Balance (%)	6	16

Enterprise Wage Bargaining



Summary of Results – Key to Industry Classification

A	(% of Respondents)
Food, beverages, tobacco	9
Textiles, fabrics, floor coverings, felt, canvas, rope	4
Clothing, footwear	3
Wood, wood products, furniture	4
Paper, paper products, printing	11
Chemicals, paints, pharmaceutical's, soaps, cosmetics petroleum & coal products	7
Non-metallic mineral products: glass, pottery, cement bricks	8
Basic metal products: processing, smelting, refining, pipes & tubes	6
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	6
Other machinery & equipment: electrical, industrial scientific, photographic	11
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	17

B	1-100	101-200	201-1000	Over 1000
How many employees are covered by this return?	51%	15%	23%	11%

C	WA	SA	VIC	NSW	QLD	TAS
In which state is the main production to which this return relates?	7%	15%	25%	32%	17%	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 27%	Same 46%	Deteriorate 27%
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2. At what level of capacity utilisation are you working?	Above Normal 7%	Normal 48%	Below normal 45%
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3. What single factor is most limiting your ability to increase production?	None	6%	Finance	4%
	Orders	67%	Labour	3%
	Material	2%	Capacity	4%
	Other	14%		

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? 8%	79%	13%
(b) finance?	6%	82%	12%

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? 16%	57%	27%
	(b) on plant & machinery? 27%	48%	25%

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%	56%	33%	13%	63%	24%
7. Overtime worked	16%	50%	34%	11%	61%	28%
8. All new orders received	18%	47%	35%	38%	43%	19%
9. Orders accepted but not yet delivered	9%	70%	21%	10%	79%	11%
10. Output	17%	51%	32%	31%	44%	25%
11. Average costs per unit of output	54%	40%	6%	40%	44%	16%
12. Average selling prices	28%	56%	16%	29%	64%	7%
13. Export deliveries	24%	63%	13%	36%	51%	13%
14. Stock of raw materials	12%	64%	24%	9%	70%	21%
15. Stocks of finished goods	20%	57%	23%	16%	61%	23%

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

- | | |
|-----------------------|-----|
| (a) Improve? | 35% |
| (b) Remain unchanged? | 39% |
| (c) Decline? | 26% |

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? | 20% |
| (b) Same? | 76% |
| (c) Less? | 4% |

Net Balance of Response by Industry Group

	1	2	3	4	5	6	7	8	9	10	11	12	All Groups
General Business Situation	0	0	14	44	45	-79	0	-50	15	-33	-35	29	0
Capital Spending: buildings	16	-50	-29	-25	14	-71	-31	-33	-19	42	-9	-24	-11
Capital Spending: equipment	37	-62	-14	0	-5	7	-38	-33	-8	75	26	0	2
Numbers employed:													
current	5	-67	-29	-11	-5	29	-31	25	-35	67	-43	-34	-22
expected	5	-33	-14	22	14	-14	-44	-8	-12	-42	-39	6	-11
Overtime													
current	0	-75	-43	-12	55	-43	-25	-8	-8	-42	-52	-26	-18
expected	5	-38	-14	25	5	-64	-19	-17	-23	-17	-52	-3	-17
New Orders													
current	6	-50	-14	0	33	-57	-25	-33	-25	-50	9	-23	-17
expected	44	-12	14	33	52	-50	19	-17	-4	-17	52	37	19
Output													
current	17	-38	0	-11	27	-57	-31	8	-23	-18	-22	-31	-15
expected	47	-12	29	22	32	-71	6	-8	-4	-18	-9	28	6
Exports													
current	0	0	-33	33	20	-64	0	17	50	-12	62	4	11
expected	22	0	-33	33	13	-82	36	17	38	25	57	48	23
Unit costs													
current	56	50	57	56	41	79	44	8	31	58	43	63	48
expected	26	50	0	11	9	79	-31	50	-12	33	4	63	24
Average prices													
current	17	-50	-14	11	55	0	19	-33	19	17	17	9	12
expected	16	-25	14	22	55	7	6	8	8	8	26	43	22

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	12	-14	21	-7	-27	-22	0	6	50	-36	-18
Difficulty in obtaining labour	-8	0	-15	10	-13	-22	-5	-7	-17	0	5
Difficulty in obtaining finance	-11	4	-3	-11	-13	-11	-6	-6	-7	-9	0
Expenditure forecast											
buildings	-9	-10	-9	-7	-14	-33	-11	-6	-3	-40	23
plant & machinery	2	-2	-3	10	27	-22	2	7	-3	-28	50
Employment											
current quarter	-18	-28	-24	-31	0	-12	-22	-13	-47	-18	-36
expected	-6	-16	-9	-24	-7	12	-11	-2	7	-24	-50
Output											
current	2	-24	-6	-30	-33	-33	-15	-5	-38	-26	-9
expected	11	6	28	-3	-27	-11	6	14	20	-19	9
Cost increase											
current	55	44	58	33	53	33	48	53	41	45	45
expected	22	30	18	17	27	44	24	33	33	9	0
Selling price increases											
current	15	2	15	13	27	0	12	13	17	-6	36
expected	23	14	18	27	20	44	22	19	27	11	45
Exports											
current	26	20	10	-22	0	0	11	23	21	-15	16
expected	31	33	14	16	20	-20	23	29	29	-6	58

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.