

Survey of Industrial Trends

162nd Report March Quarter 2002

Australian Chamber of Commerce and Industry & Westpac
Banking Corporation

The new year has begun on a confident note. The 162nd Survey of Industrial Trends shows that manufacturing activity has continued to strengthen in the March quarter 2002. All activity indicators continued to rise and business confidence rebounded. It now seems clear that the sharp fall in business expectations in the previous quarter was directly attributable to external shocks and concerns resulting from the 11 September 2001 terrorist attacks in the United States. This had created an unusual gap between the solid actual performance and sharply deteriorating business confidence measures in the December quarter. The situation has now reverted to normal patterns.

Demand and production continued to strengthen in the March quarter. Further solid growth is predicted. Capacity utilisation remains at historically high levels and capital expenditure plans have firmed markedly. Export performance has recovered strongly, exceeding predictions.

Particularly pleasing are indications of a continuing improvement in the labour market. There was a pause on job shedding, rising overtime worked and predictions of a rise in numbers employed in the next three months.

Inflationary pressures have remained at similar levels as in the previous quarter.

Profit expectations remain firm. Expected outcomes for net wage enterprise agreements are also similar to levels recorded three months ago.



Highlights

All activity measures continued to rise and business confidence rebounded strongly in the March quarter 2002, as the adverse impact of concerns resulting from 11 September receded and the world economic outlook improved. More than a third of the manufacturers surveyed (vs 15% three months ago) predicted an improvement in the general business situation in the next six months. Only 11% (vs 39%) expected a deterioration, resulting in a strong net balance of 25% (vs -24%).

Demand continued to strengthen in the March quarter, with the net outcome for new orders more than doubling to 19% (vs 9%). Output also firmed (19% vs 16%) with more firms nominating insufficient capacity as their main constraint (12% vs 10%). Capacity utilisation remained at historically high levels with three-quarters of the manufacturers surveyed reported working at or above their normal capacity levels. Reflecting the upsurge in business confidence, forward projections for new orders (26% vs -8%) and output (26% vs -7%) rose strongly.

Responding to the upturn in business expectations, both rising demand and output, emerging capacity pressures and strong profitability, capital expenditure plans firmed markedly. More than one third of the manufacturers surveyed (35% vs 29% previously) reported plans to upgrade their investment spending on plant and equipment. The proportion expecting a decline was marginally lower (17% vs 19%), resulting in a strong net balance of 18% (vs 10%). More than a quarter of the respondents (28% vs 15%) intended to increase their spending on buildings and structures while the proportion expecting a decline virtually halved (17% vs 30%). The resulting net outcome (11% vs -15%) is very strong in historical terms.

Export performance has recovered markedly (17% vs 3%), greatly exceeding predictions. Solid growth of export deliveries is predicted for the next quarter (14% vs 8%). Bear in mind that the recent deterioration in Australia's export performance has been greatest in the rural sector.

In line with predictions, there was a pause in job shedding as the labour market continued to improve in the March quarter (0% vs -5%). The strong outcome for numbers employed is reinforced by predictions of strong employment growth in the next quarter (11% vs -2%). Overtime worked also firmed markedly (16% vs -2% net balance). Further, albeit more modest, growth (9% vs -17%) is predicted for the June quarter. Historically, these labour market indicators are consistent with strengthening employment outcomes for the economy.

Inflationary pressures remained at similar levels as in the previous quarter. The actual and predicted net outcomes for average unit costs remained unchanged (31% and 15%, respectively). The net balance for average selling prices was lower than three months ago (8% vs 12%) but a higher outcome is predicted for the June quarter (21% vs 3%).

Profit expectations remained firm, with the same net outcome as three months ago (22%). Expected net outcomes for wage enterprise agreements were also similar (15% vs 13%).

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 162nd consecutive survey was conducted in the week ending 8th March 2002. A total of 203 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 2002.

General business situation: a sharp upturn

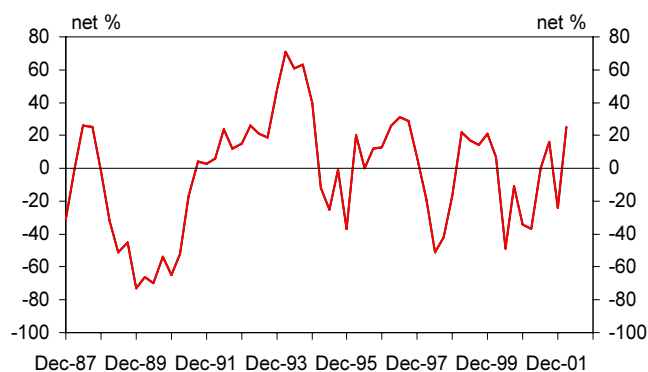
There was a marked rebound in business confidence in the March quarter as global shocks and concerns resulting from the 11 September 2001 terrorist attacks in the United States receded. The proportion of respondents expecting an improvement in the general business situation in the next six months more than doubled (36% vs 15%), while only 11% of the manufacturers surveyed (compared with 39% three months ago) predicted a deterioration, resulting in a net balance of 25% (vs -24%). Just over half the respondents (53% vs 46%) expected no change

General business situation

	Dec Qtr 2001	Mar Qtr 2002
Up (%)	15	36
Down (%)	39	11
Balance (%)	-24	25

General business situation

Next six months



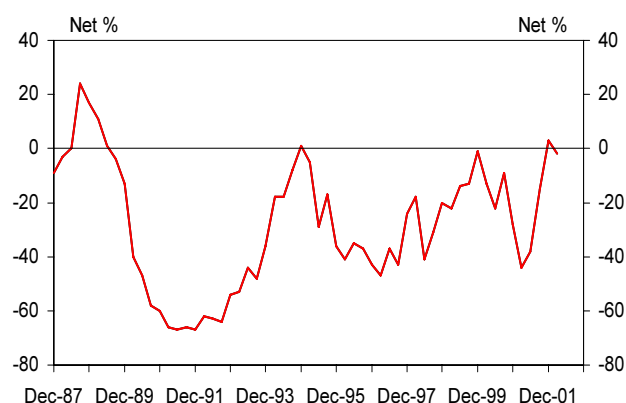
Capacity utilisation: high

While a little lower than three months ago, capacity utilisation in the March quarter 2002 remained high in historical terms. The proportion of respondents who reported working above their normal capacity declined (22% vs 26%), while those working below normal capacity edged up (24% vs 23%), resulting in a net balance of -2% (vs 3%). More than half the respondents (54% vs 51%) reported working at normal capacity levels.

Capacity utilisation

	Dec Qtr 2001	Mar Qtr 2002
Above (%)	26	22
Below (%)	23	24
Balance (%)	3	-2

Capacity utilisation



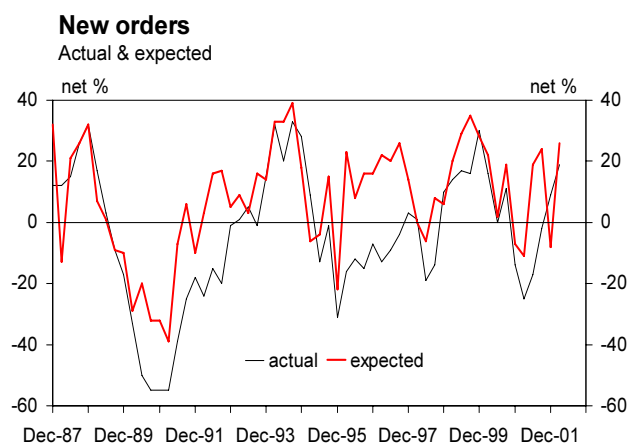
New orders received: up, very strong predictions

Demand continued to strengthen in the March quarter 2002, reaching levels well above the subdued expectations recorded in the previous quarter. The proportion of respondents recording an increase in new orders rose (37% vs 29%). The proportion reporting a decline was marginally down (18% vs 20%), resulting in net balance of 19% (vs 9%). Recovering from the adverse impact of global concerns after the 11 September 2001 terrorist attacks, forward projections for the next three months rose sharply 26% (vs -8%).

New orders

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	29	37	35
Down (%)	20	18	9
Balance (%)	9	19	26

* Expectation for the next quarter



New orders outstanding: rising

Contrary to expectations, the backlog of outstanding orders rose again in the March quarter 2002 (8% vs 4%). Reflecting stronger demand and output expectations for the next three months, an increase in the backlog is predicted for the June quarter 2002.

New orders accepted but not yet delivered

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	18	17	17
Down (%)	14	9	7
Balance (%)	4	8	10

* Expectation for the next quarter



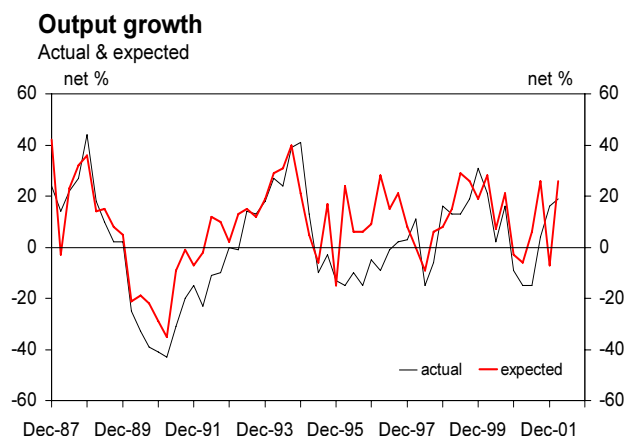
Output: firm, robust predictions

In line with predictions and firming demand, output continued to strengthen in the March quarter 2002. The proportion of respondents reporting a rise was marginally higher but those recording a decline lower (15% vs 17%), resulting in a net balance of 19% (vs 16%). Reflecting the major upturn in business confidence and strong demand expectations, predictions for the next three months rebounded (26% vs -7%).

Output

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	33	34	36
Down (%)	17	15	10
Balance (%)	16	19	26

* Expectation for the next quarter



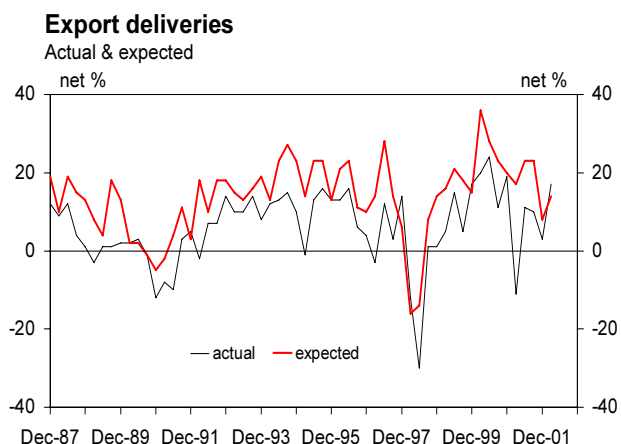
Export deliveries: well up, firm expectations

Exceeding cautious predictions of three months ago, export deliveries rose strongly in the March quarter 2002. The proportion of respondents reporting an increase in export deliveries rose (28% vs 23%). Those recording a decline almost halved (11% vs 20%), resulting in a much stronger net balance of 17% (vs 3%). Adjusting to the post-September 2001 global situation and reflecting an improving world economic outlook, forward predictions for export growth in the next three months were also firm.

Export deliveries

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	23	28	26
Down (%)	20	11	12
Balance (%)	3	17	14

* Expectation for the next quarter



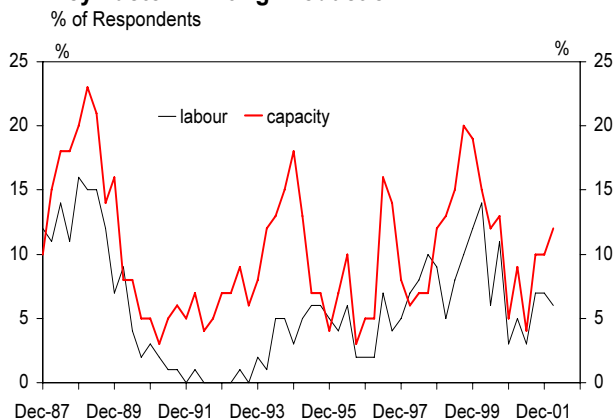
Factors limiting production: new orders and capacity

While again nominated by a declining proportion of respondents compared with three months ago (57% vs 63%), insufficient new orders remained the largest single constraint on increased production in the March quarter. However, 12% (vs 10% previously) nominated capacity and 6% (vs 7%) labour as their principal impediment. Only 1% (vs 2%) nominated finance as their main constraint.

Factors limiting production

	Sept Qtr 2001	Dec Qtr 2001	Mar Qtr 2002
Orders (%)	65	63	57
Capacity (%)	10	10	12
Labour (%)	7	7	6
Finance (%)	4	2	1
Material (%)	0	0	3

Key Factor Limiting Production



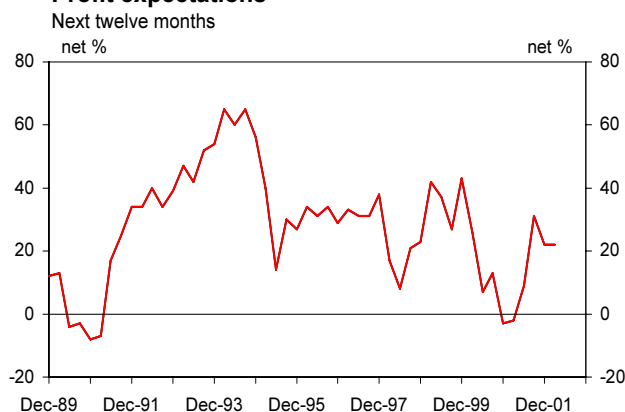
Profit expectations: firm

Profit expectations remained firm in the March quarter 2002. The proportion expecting higher profits in the next 12 months was lower (37% vs 43%). However, only 15% of respondents (vs 21%) predicted a decline, resulting in an unchanged net balance of 22%.

Profit expectations

	Dec Qtr 2001	Mar Qtr 2002
Up (%)	43	37
Down (%)	21	15
Balance (%)	22	22

Profit expectations

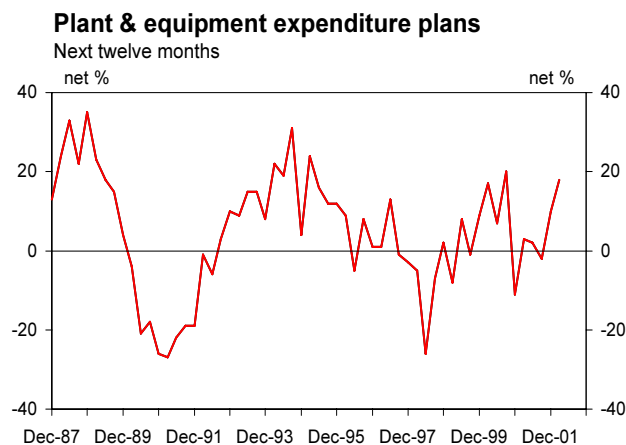


Plant & equipment expenditure plans: a firm outlook

The outlook for investment spending on plant and equipment in the next 12 months was much firmer in the March quarter 2002. More than one third of the manufacturers surveyed (35% vs 29%) reported plans to increase spending on plant and equipment. The proportion expecting a decline was marginally lower (17% vs 19%), resulting in a net balance of 18% (vs 10%). Close to half the respondents (48% vs 52%) expected no change in their spending plans.

Plant & equipment expenditure

	Dec Qtr 2001	Mar Qtr 2002
Up (%)	29	35
Down (%)	19	17
Balance (%)	10	18

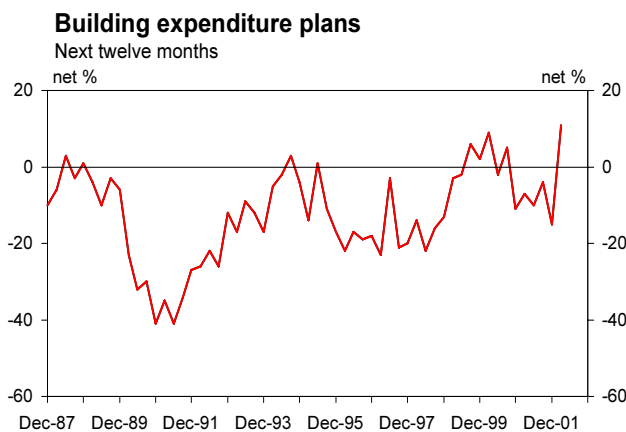


Building expenditure plans: strong

Spending plans for buildings and structures were also strong. More than a quarter of respondents (28% vs 15%), predicted an increase in their capital expenditure while those expecting a decline virtually halved (17% vs 30%). The resulting net balance of 11% (vs -15%) this is a very strong outcome in historical terms.

Building expenditure

	Dec Qtr 2001	Mar Qtr 2002
Up (%)	15	28
Down (%)	30	17
Balance (%)	-15	11



Stocks of raw materials: rising

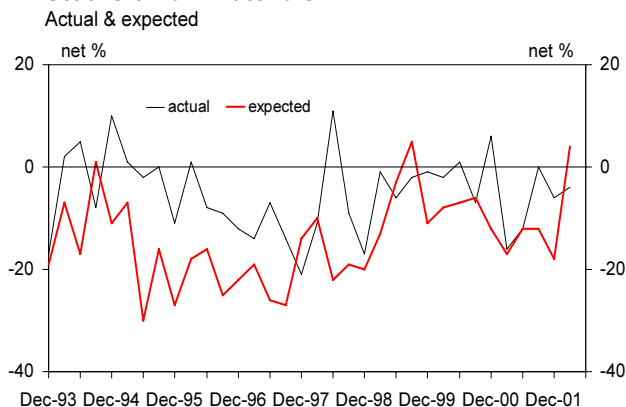
Responding to stronger demand and rising output, manufacturers are beginning to restock. Stock levels increased in the March quarter 2002 (4% vs -6%). A further rise in inventories is predicted for next three months (4% vs -18%).

Stocks of raw materials

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	11	18	17
Down (%)	17	22	13
Balance (%)	-6	4	4

* Expectation for the next quarter

Stocks of raw materials



Stocks of finished goods: lower

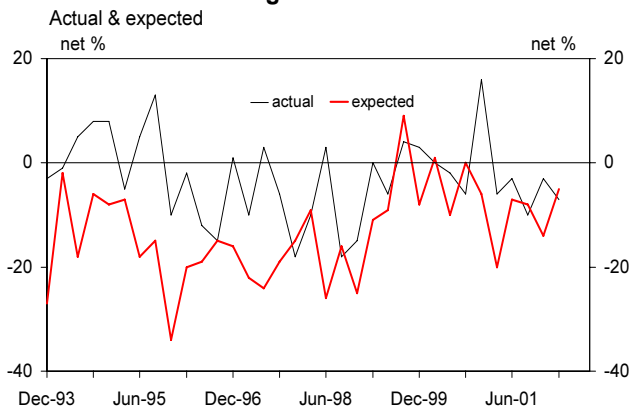
With demand well above predictions, stocks of finished goods declined again in the March quarter 2002, with a net balance of -7% (vs -3% previously). On balance, a further modest rundown of inventories is predicted for the next three months (-5% vs -14%).

Stocks of finished goods

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	18	16	15
Down (%)	21	23	20
Balance (%)	-3	-7	-5

* Expectation for the next quarter

Stocks of finished goods



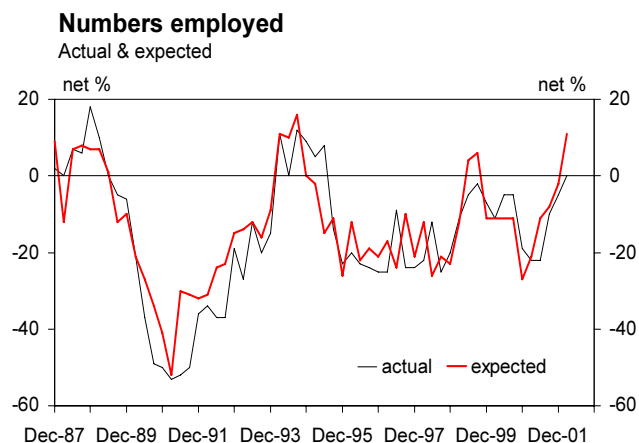
Employment: outlook continues to improve, strong predictions

Almost spot on predictions, the labour market continued to improve in the March quarter 2002. The proportion recording a rise in numbers employed was again higher (19% vs 16%). The proportion reporting a fall eased again (19% vs 21%), resulting in net balance of 0% (vs -5%). In historical terms, this result is relatively strong and consistent with a continuing recovery in employment. Expected employment recorded its first solidly positive net outcome in two years (11% vs -2%).

Employment

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	16	19	22
Down (%)	21	19	11
Balance (%)	-5	0	11

* Expectation for the next quarter



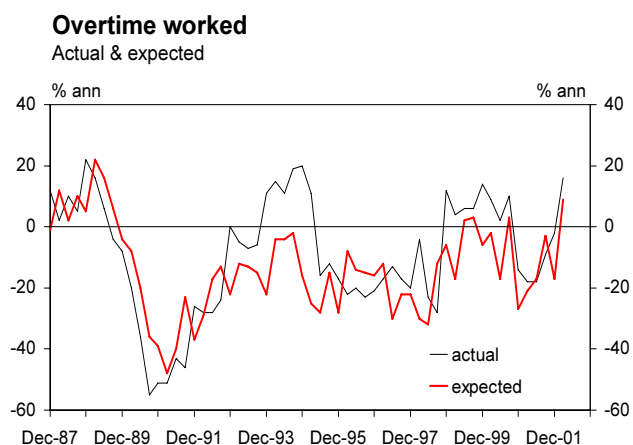
Overtime: well up, firm expectations

Overtime worked firmed markedly in the March quarter 2002. Predictions for the next three months were also well up. Almost one third of the respondents reported higher levels of overtime worked (32% vs 23%). The proportion reporting a decline was well down (16% vs 25%), resulting in a much stronger net balance of 16% (vs -2%). While more modest than actual outcomes recorded in the March quarter, predictions for overtime worked in the next three months rebound to 9% (vs -17%).

Overtime

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	23	32	23
Down (%)	25	16	14
Balance (%)	-2	16	9

* Expectation for the next quarter



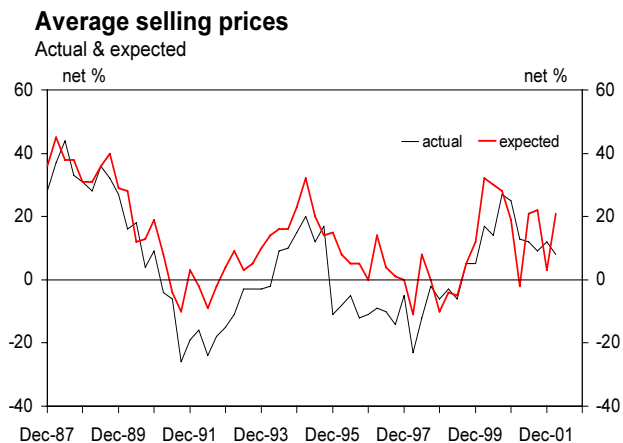
Average selling prices: still rising

Price increases decelerated modestly in the March quarter 2002, compared with three months ago. The proportion of respondents reporting price increases was marginally lower (19% vs 22%). The proportion recording a decline was marginally higher (11% vs 10%), resulting in a net balance of 8% (vs 12%). However, expectations for price increases in the next three months were well up, with 27% (vs 12% previously) expecting price rises and only 6% (vs 9%) decreases, resulting in a much higher net balance of 21% (vs 3%).

Average selling prices

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	22	19	27
Down (%)	10	11	6
Balance (%)	12	8	21

* Expectation for the next quarter



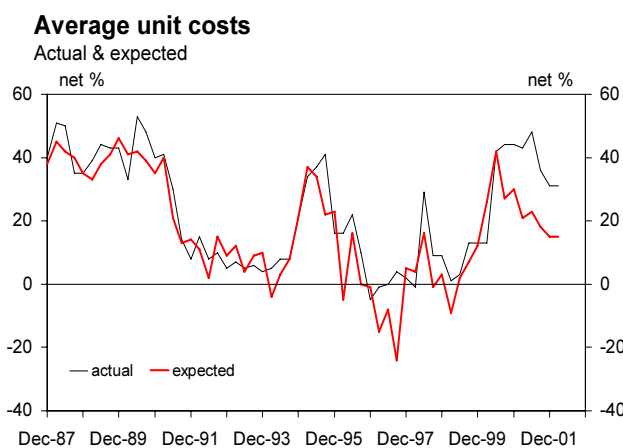
Average unit costs: also rising

Average unit costs continued to rise in the March quarter 2002, at the same pace as three months ago. The proportions of manufacturers surveyed reporting rising costs (40%) and recording decreases (9%) were the same as three months ago. The net outcome (31%) was also unchanged. Further cost increases are predicted for the next three months (an unchanged 15% net balance).

Average unit costs

	Dec Qtr 2001	Mar Qtr 2002	Jun Qtr 2002E*
Up (%)	40	40	25
Down (%)	9	9	10
Balance (%)	31	31	15

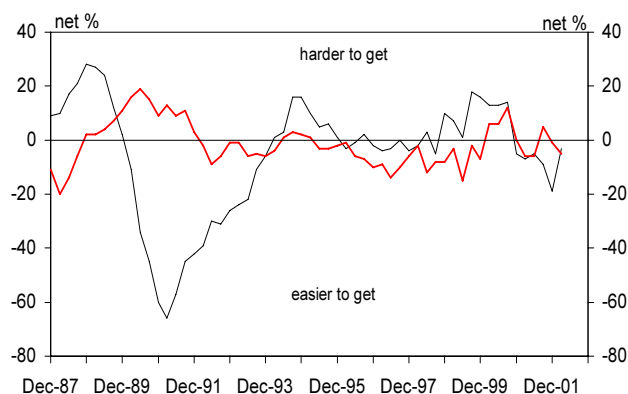
* Expectation for the next quarter



Availability of labour and finance: little change

There was a decline in the availability of labour in the March quarter 2002. Of the respondents, an unchanged 6% reported that labour was harder to get while 9% (vs 25% previously) reported that finding labour was easier. This resulted in a net balance of -3% (vs -19%). The remaining 85% (vs 69%) reported no change. While 79% (vs 83% previously) reported no change in the availability of finance, an unchanged 8% said it was harder to get and 13% (vs 9%) easier. The net outcome of -5% (vs -1%) indicates that, on balance, finance was easier to get than in the previous quarter.

Availability of labour & finance



Labour

	Dec Qtr 2001	Mar Qtr 2002
Harder to get (%)	6	6
Easier to get (%)	25	9
Balance (%)	-19	-3

Finance

	Dec Qtr 2001	Mar Qtr 2002
Harder to get (%)	8	8
Easier to get (%)	9	13
Balance (%)	-1	-5

Enterprise wage agreements: marginally higher outcome predicted

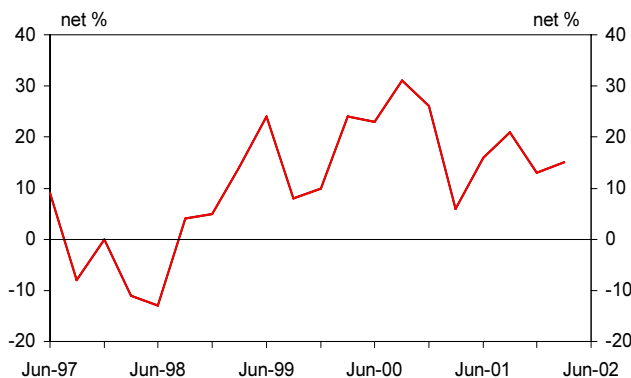
Given the importance of enterprise bargaining, this additional question continues to be included as a supplement. The outlook in the March quarter 2002 was similar to the net outcome in the previous quarter (15% vs 13%). These predictions are well below the 21% recorded in the September quarter 2001.

Enterprise wage agreements

	Dec Qtr 2001	Mar Qtr 2002
Harder to get (%)	23	22
Easier to get (%)	10	7
Balance (%)	13	15

Enterprise wage bargaining

Next twelve months



Summary of results – key to industry classification

A	(% of Respondents)
Food, beverages, tobacco	8
Textiles, fabrics, floor coverings, felt, canvas, rope	4
Clothing, footwear	2
Wood, wood products, furniture	6
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	3
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	18
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	6
Other machinery & equipment: electrical, industrial scientific, photographic	16
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	11

B	1–100	101–200	201–1000	Over 1000
How many employees are covered by this return?	51%	18%	20%	11%

C	WA	SA	VIC	NSW	QLD	TAS
In which state is the main production to which this return relates?	5%	15%	26%	36%	14%	4%

1. Do you consider that the general business situation in Australia will improve,	Improve 36%	Same 53%	Deteriorate 11%
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2. At what level of capacity utilisation are you working?	Above Normal 22%	Normal 54%	Below normal 24%
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3. What single factor is most limiting your ability to increase production?	None Orders Material Other	5% 57% 3% 16%	Finance Labour Capacity	1% 6% 12%
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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?	6%	85%	9%
(b) finance?	8%	79%	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?	28%	55%	17%
(b) on plant & machinery?	35%	48%	17%

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	19%	62%	19%	22%	67%	11%
7. Overtime worked	32%	52%	16%	23%	63%	14%
8. All new orders received	37%	45%	18%	35%	56%	9%
9. Orders accepted but not yet delivered	17%	74%	9%	17%	76%	7%
10. Output	34%	51%	15%	36%	54%	10%
11. Average costs per unit of output	40%	51%	9%	25%	65%	10%
12. Average selling prices	19%	70%	11%	27%	67%	6%
13. Export deliveries	28%	61%	11%	26%	62%	12%
14. Stock of raw materials	18%	60%	22%	17%	70%	13%
15. Stocks of finished goods	16%	61%	23%	15%	65%	20%

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

- | | |
|-----------------------|-----|
| (a) Improve? | 37% |
| (b) Remain unchanged? | 48% |
| (c) Decline? | 15% |

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? | 22% |
| (b) Same? | 71% |
| (c) Less? | 7% |

Net balance of response by industry group

	1	2	3	4	5	6	7	8	9	10	11	12	All Groups
General Business Situation	38	38	40	50	27	40	-6	-7	14	-17	62	17	25
Capital Spending: buildings	44	12	0	8	-14	7	25	0	7	-9	19	17	11
Capital Spending: equipment	50	25	-60	17	18	-13	19	43	31	-25	22	22	18
Numbers employed:													
current	25	-50	-20	0	5	-20	-12	14	0	-8	19	0	0
expected	12	-38	-40	8	14	20	29	-14	-3	0	38	17	11
Overtime													
current	50	-12	-20	-8	18	0	-25	14	19	-9	41	35	16
expected	25	-38	-60	8	23	-7	7	-29	-7	0	44	17	9
New Orders													
current	75	12	20	17	-23	-33	6	-14	19	0	53	35	19
expected	38	38	0	33	14	8	60	-29	3	9	56	32	26
Output													
current	62	12	-20	0	-14	-7	0	-14	22	-8	53	48	19
expected	25	25	-20	42	19	7	47	0	24	-9	50	35	26
Exports													
current	0	-50	0	0	8	18	22	0	12	18	29	75	17
expected	25	-75	0	-67	25	0	11	20	21	0	17	88	14
Unit costs													
current	44	0	0	50	45	20	31	43	3	25	34	61	31
expected	44	-12	20	33	14	0	53	14	17	27	-22	18	15
Average prices													
current	38	12	-40	17	5	13	25	14	-3	-17	3	17	6
expected	50	0	20	33	-5	40	60	0	21	18	9	4	20

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
(Net Balance %)											
General Business Situation	21	31	26	17	40	25	25	22	41	8	35
Difficulty in obtaining labour	-12	4	4	3	-10	0	-3	-3	-11	2	-9
Difficulty in obtaining finance	8	0	-11	0	0	-12	-5	-1	0	-15	-13
Expenditure forecast											
buildings	5	12	15	20	10	12	11	-3	30	2	52
plant & machinery	12	24	26	13	30	12	18	13	15	5	61
Employment											
current quarter	4	-12	14	0	-20	25	0	5	3	-2	-17
expected	6	14	11	7	20	38	11	16	19	-3	-5
Output											
current	19	12	32	17	10	50	19	16	43	5	13
expected	20	25	41	21	30	62	26	28	41	11	17
Cost increase											
current	41	21	36	25	20	38	31	38	51	10	9
expected	24	4	8	11	30	25	15	24	0	-11	39
Selling price increases											
current	5	6	18	10	-10	25	8	9	3	-5	35
expected	19	25	26	14	10	25	21	13	24	0	83
Exports											
current	21	17	26	-14	25	67	17	16	25	3	50
expected	29	11	30	-14	-50	0	14	12	6	10	40

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.

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