

ACCI-Westpac Survey of Industrial Trends

167th report, June quarter 2003

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

Features:

- The Westpac-ACCI composite indices indicate that the Australian economy slowed in the June quarter, although expectations are for a pick up over the next three months.
- The general business confidence indicator rebounded sharply following the geo-political induced slump in the March quarter survey.
- The labour market indicators suggest that the employment growth will remain firm.
- The survey suggests that business investment will continue to register solid growth over the coming year.
- The external sector is a source of concern with export growth slowing sharply and export orders contracting.





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The Survey of Industrial Trends produced by the Australian Chamber of Commerce and Industry & Westpac Banking Corporation is a quarterly publication.

Enquiries

Bill Evans, Global Head of Economics, Westpac Banking Corporation, Ph (61-2) 9284 8531
Eugene Bajkowski, Consulting Economist, Australian Chamber of Commerce and Industry, Ph (61-2) 6249 6128 or (61-2) 6273 2311

Editors

Eugene Bajkowski, Consulting Economist, Australian Chamber of Commerce and Industry,
Justin McCarthy, Economist, Westpac Banking Corporation
Email: economics@westpac.com.au

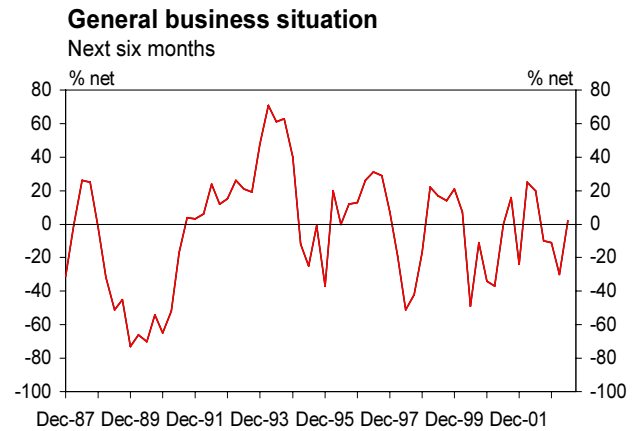
Net response or "balance" is calculated by the proportion of "ups" less "downs" on individual questions, thereby yielding the net balance. A positive balance indicates a net upward or improving trend and a minus balance a net downward or deteriorating trend. The 167th consecutive survey was conducted in the week ending 6 June 2003. A total of 211 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 2003.

Key survey results

General business situation

	Q1 2003	Q2 2003
Net balance	-30	2

- Business expectations rebounded strongly following the geo-political induced slump in the March quarter survey. The proportion expecting an improvement in the general business situation in the next six months rose from 7% to 19%. The proportion predicting a deterioration fell from 37% to 17%, resulting in a net balance of 2% (vs -30%). Almost two-thirds of the respondents (64% vs 56%) again expected no change.

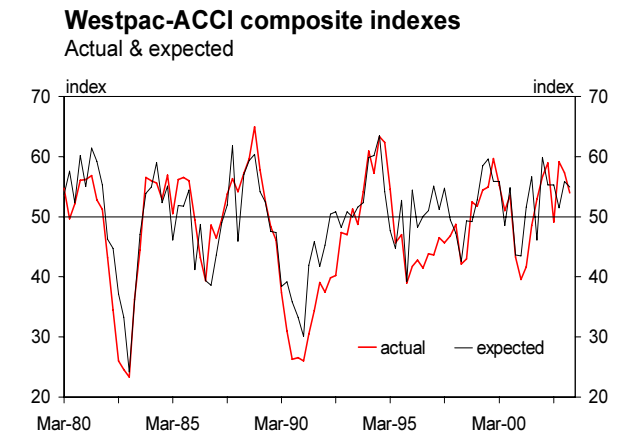


Westpac-ACCI composites*

	Q1 2003	Q2 2003
Actual – net balance	57.3	54.0
Expected – net balance	55.9	54.9

- The actual composite index eased from 57.3 to 54.0, suggesting that manufacturing activity slowed in the June quarter but remains at high levels. Expectations deteriorated slightly. Nonetheless, firms expect activity in the September quarter to accelerate marginally.

* The Westpac-ACCI composite indices are a weighted average of the various activity measures in the Survey (refer page 11 for further details).

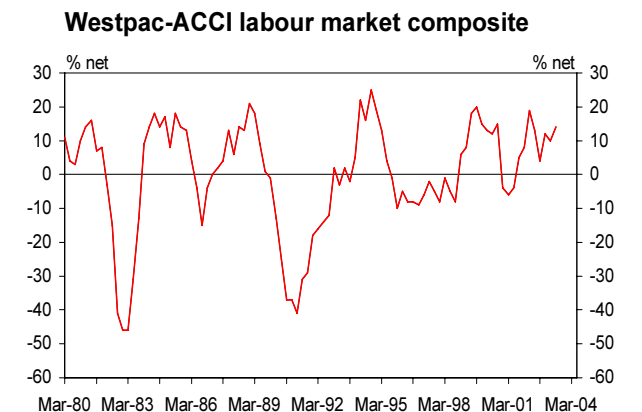


Westpac-ACCI labour market composite*

	Q1 2003	Q2 2003
Net balance	10	14

- The labour demand indicator accelerated from 10 to 13. Deteriorating numbers employed indicators were more than outweighed by much stronger actual and expected overtime. A net balance of 13 is a historically high level and suggests that manufacturing employment will remain solid over the coming quarter.

The labour demand indicator is a weighted average of current and expected labour indicators from the Westpac-ACCI survey. The indicator is expressed as a detrended net balance.

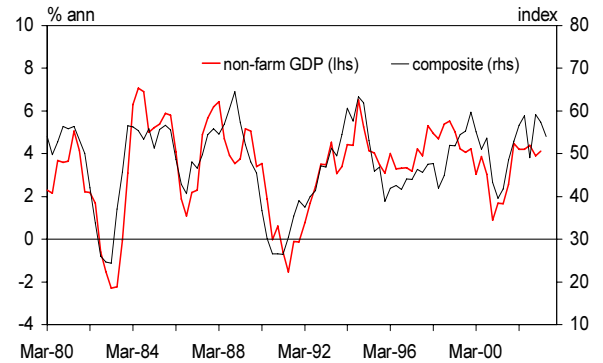


The business cycle & economic outlook

Westpac-ACCI survey & the business cycle

- The Westpac-ACCI actual composite index has had a solid track record of predicting near term economic growth, including picking turning points in the economic cycle.
- The current level of the index suggests that non-farm GDP will remain robust over coming quarters.

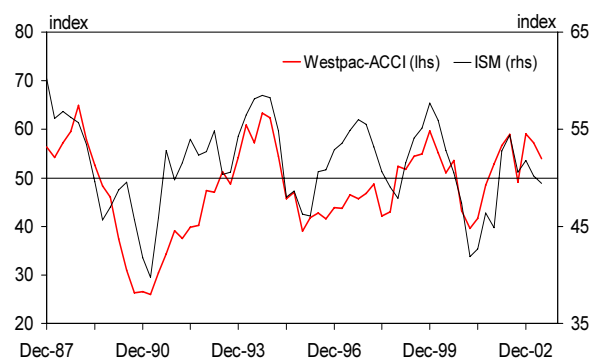
Manufacturing & the business cycle
Westpac-ACCI composite index & non-farm GDP



Australian & US manufacturing surveys

- While there are unique drivers of the Australian and US economies, their manufacturing cycles have historically moved together.
- The surveys of both countries reveal that manufacturing activity has slowed. However, Australian manufacturers are enjoying much stronger activity levels than their US counterparts.

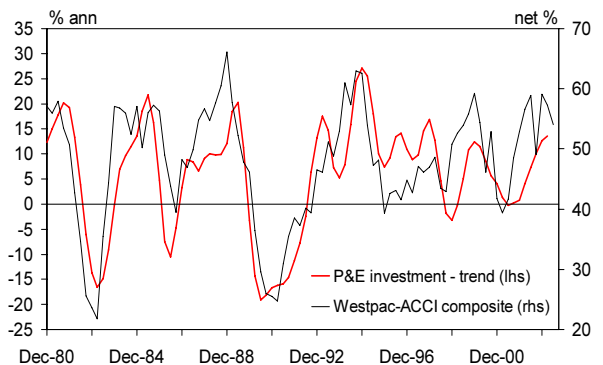
Australian & US manufacturing surveys
Westpac-ACCI & ISM composite indexes



Westpac-ACCI survey & business investment

- The actual composite index has a strong leading relationship with business investment. The strength of the composite index over the last 18 months was a precursor to the very strong recovery in business investment.
- The maintenance of the index at high levels suggests that business investment will continue to underpin economic growth over the coming year. This is consistent with the recent ABS capital expenditure survey which revealed solid investment intentions for 2003/04.

Activity & capital investment
Westpac-ACCI composite & plant & equipment investment



Activity & orders

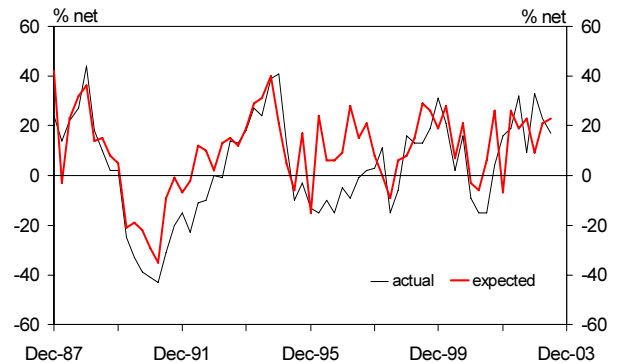
Output

	Q1 2003	Q2 2003
Actual – net balance	23	17
Expected – net balance	21	23

- While down from the high levels of the previous quarter, output in the June quarter 2003 remained strong, albeit below predictions of three months ago. The proportion of respondents reporting a rise was marginally lower (35% vs 38%) and those recording a decline higher (18% vs 15%), resulting in a net balance of 17% (vs 23%). Predictions for the next three months remain strong (23% vs 21%).

Output growth

Actual & expected



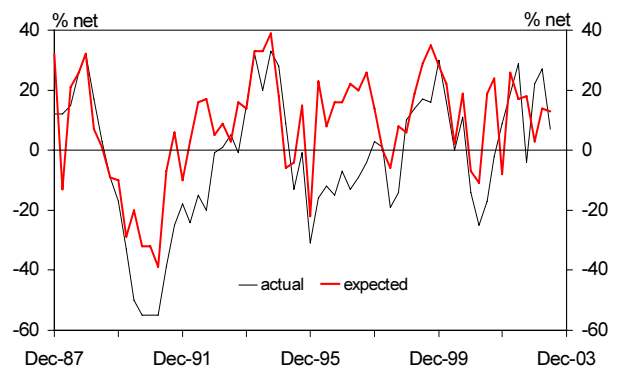
New orders

	Q1 2003	Q2 2003
Actual – net balance	27	7
Expected – net balance	14	13

- Demand slowed dramatically in the June quarter 2003. The proportion of respondents reporting an increase in new orders was well down (27% vs 40%). The proportion reporting a decrease was higher (20% vs 13%), resulting in a net balance of 7% (vs 27%). However, firms are optimistic that orders will rebound over the coming three months.
- The backlog of orders eased from a net balance of 4% to 2% in the June quarter. Consistent with the rapid slowing in new orders, the backlog of orders is expected to decline over the coming three months.

New orders

Actual & expected



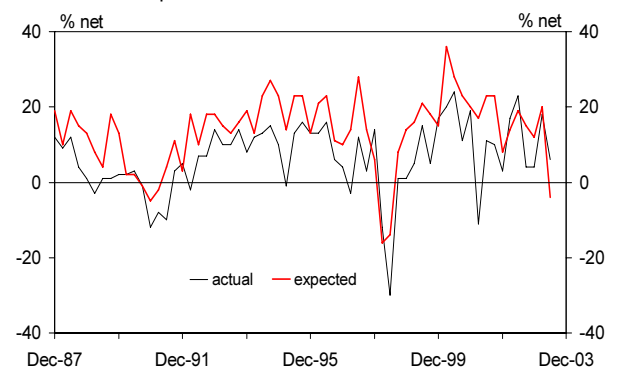
Exports

	Q1 2003	Q2 2003
Actual – net balance	18	6
Expected – net balance	20	-4

- While still positive, export deliveries were well below expectations in the June quarter 2003, reflecting the rising exchange rate and sluggish demand. The proportion of respondents reporting a rise in export deliveries was lower (18% vs 25%). Those recording a decline rose sharply (12% vs 7%), resulting in a much lower net balance of 6% (vs 18%). Forward predictions for export growth in the next three months have turned negative (-4% vs 20%).

Export deliveries

Actual & expected



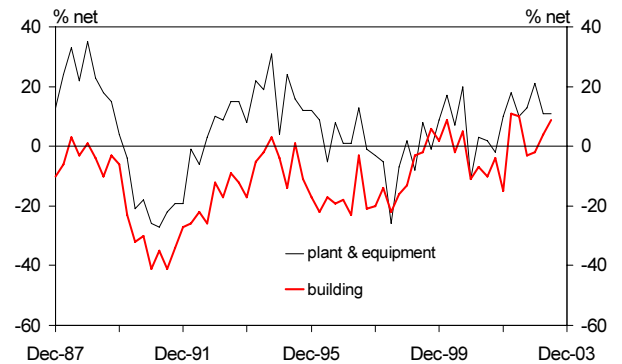
Investment & profitability

Investment intentions

	Q1 2003	Q2 2003
Plant & Equipment – net balance	11	11
Building – net balance	4	9

- Manufacturers' plans for investment spending on plant and equipment in the next 12 months remained firm at the previous quarter's levels. Of the manufacturers surveyed, 26% (vs 29%) reported plans to increase their spending. The proportion expecting a decline eased (15% vs 18%), resulting in an unchanged net balance of 11%.
- Spending plans for buildings and structures firmed again in the June quarter 2003. The net balance is only just below the historical record level of 11 reached in early 2002. One quarter of the respondents (24% vs 21%) predicted an increase in their capital expenditure, while 15% (vs 17%) expected a decline.

Investment intentions Next twelve months

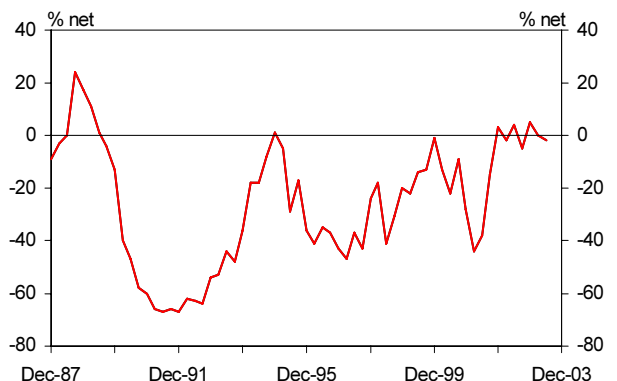


Capacity utilisation

	Q1 2003	Q2 2003
Net balance	0	-2

- While easing slightly, capacity utilisation in the June quarter 2003 remained high in historical terms. The proportion of respondents who reported working above their normal capacity was marginally higher (20% vs 19%) but those working below normal capacity also rose (22% vs 19%), resulting in a net balance of -2%. Well over half the respondents (58% vs 62%) reported working at normal capacity levels.

Capacity utilisation

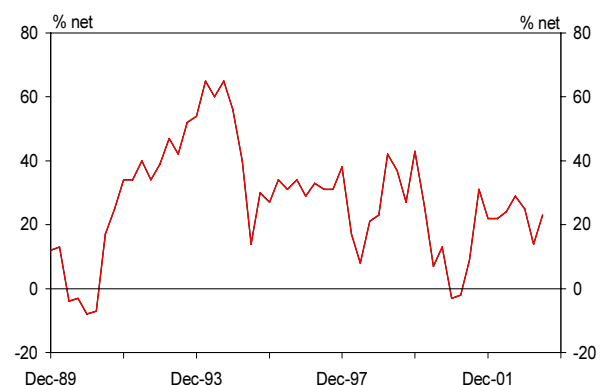


Profit expectations

	Q1 2003	Q2 2003
Net balance	14	23

- Profit expectations were well up in the June quarter 2003. The proportion expecting higher profits in the next 12 months was higher (41% vs 39%), while those predicting a decline fell (18% vs 25%), resulting in a net balance of 23% (vs 14%).

Profit expectations Next twelve months



The labour market

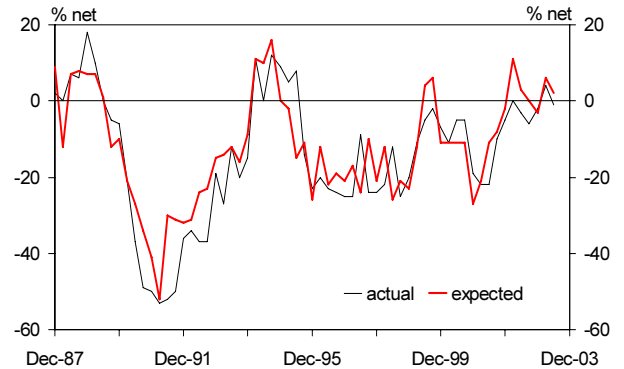
Numbers employed

	Q1 2003	Q2 2003
Actual – net balance	4	-1
Expected – net balance	6	2

- The labour market remained stable in the June quarter 2003 but the net outcome was below expectations. The proportion recording a rise in numbers employed eased (16% vs 19%). Those reporting a fall increased marginally (17% vs 15%), resulting in a net balance of -1% (vs 4%). The outlook for the next three months remains positive (2% vs 6%).

Numbers employed

Actual & expected



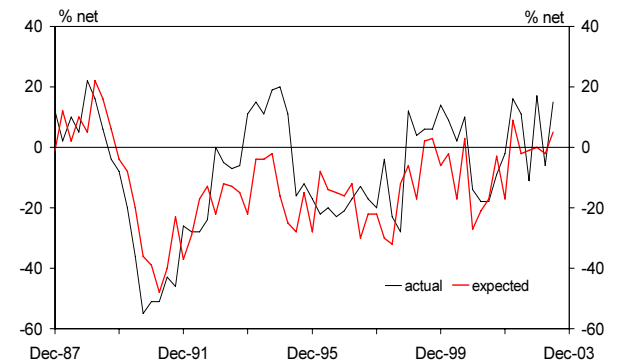
Overtime worked

	Q1 2003	Q2 2003
Actual – net balance	-6	15
Expected – net balance	-2	5

- Contrary to predictions, overtime worked rose sharply in the June quarter 2003. One third of respondents (34% vs 24%) reported higher levels of overtime worked. The proportion reporting a decline fell (19% vs 30%) resulting in a net outcome of 15% (vs -6%). Predictions for the next three months are more modest but still solid (5% vs -2% net balance).

Overtime worked

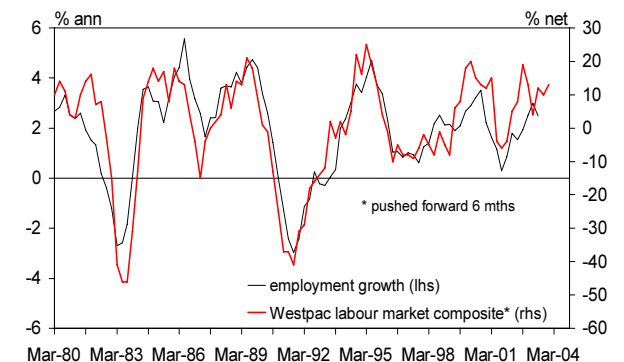
Actual & expected



The labour market is looking healthy in 2003

- The labour market has surprised many with its resilience in the first half of 2003. A further 29k rise in total employment saw the unemployment rate fall to a 12 year low of 6% in May.
- The slowdown in domestic demand will lead to a softening in the labour market in 2003. However, the Westpac-ACCI indicator suggests we should not get too pessimistic. At 13, it is suggesting the annual pace of employment growth should remain around 2% for some time to come. And labour is still modestly hard to find (see below), hardly a sign of a softening labour market.

Labour demand - employment growth to remain healthy



Prices & inflation

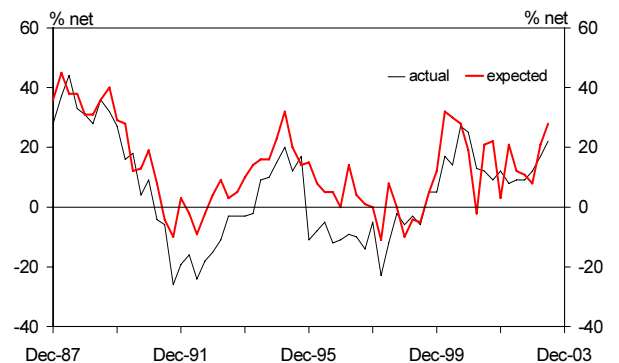
Average selling prices

	Q1 2003	Q2 2003
Actual – net Balance	17	22
Expected – net Balance	21	28

- On balance, the pace of price increases accelerated again in the June 2003. The proportion of respondents reporting price increases was higher (30% vs 22%). The proportion recording a decline was only slightly higher (8% vs 5%), resulting in a net balance of 22% (vs 17%). Expectations for the next three months were also higher, with 32% (vs 24%) predicting increases and only 4% (vs 3%) decreases, resulting in a net balance of 28% (vs 21%).

Average selling prices

Actual & expected



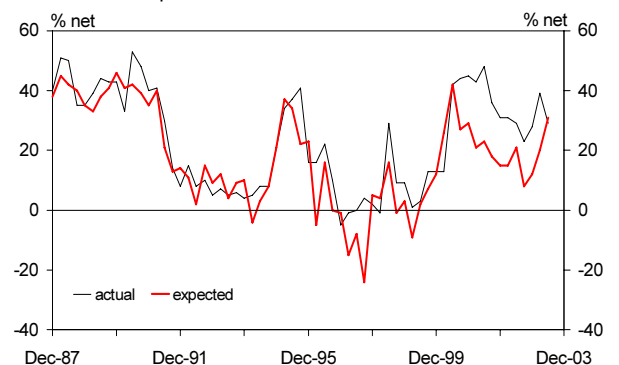
Average unit costs

	Q1 2003	Q2 2003
Actual – net balance	39	29
Expected – net balance	20	31

- The net outcome for average unit costs was lower in the June quarter 2003 than three months ago. The proportion of manufacturers surveyed reporting rising costs was lower (41% vs 42%). Those recording decreases was higher (12% vs 3%), resulting in a net balance of 29% (vs 39%). Cost increases are expected to accelerate in the next three months (31% vs 20%).

Average unit costs

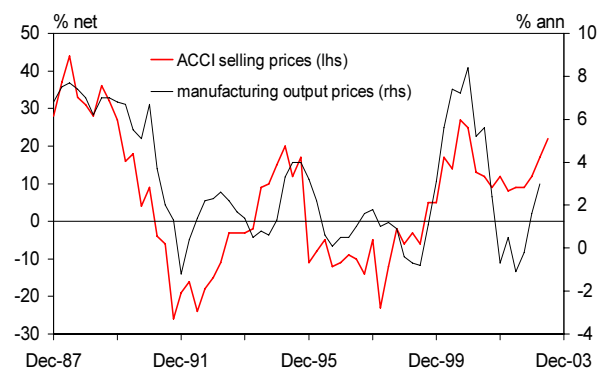
Actual & expected



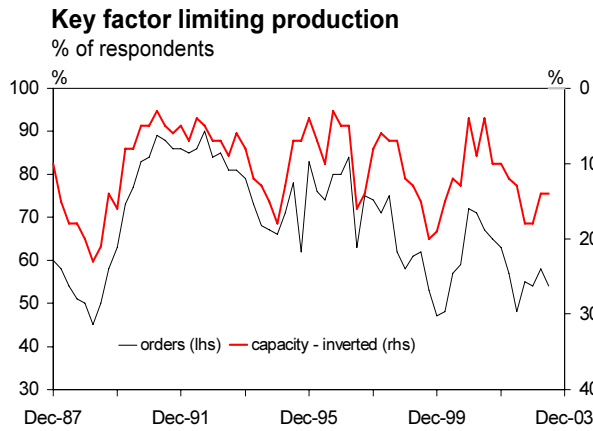
Manufacturing margins are being rebuilt

- Manufacturing output prices suggest Australian firms are working at rebuilding margins, a factor that should underpin modest inflation pressure in goods prices. Sure domestic firms face competition from cheaper imports as the AUD continues to rise, but at this stage it has not dampened their enthusiasm to increase prices.
- Rising oil prices underpinned stronger prices in Q1 but this is being corrected with a 11% fall in petrol prices to date in Q2. This suggests there are other fundamental factors, such as margin rebuilding, that are driving the current rise in manufacturing prices.

Manufacturers are rebuilding margins

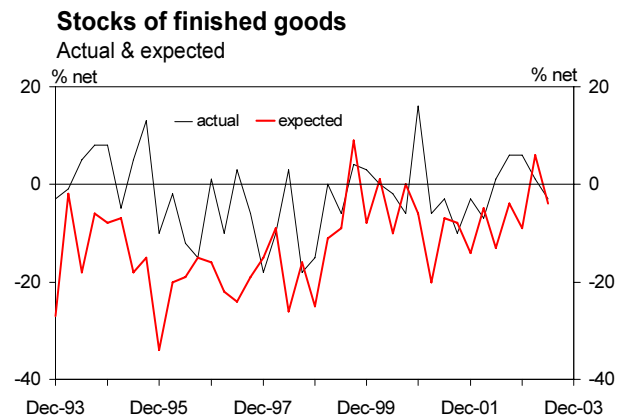
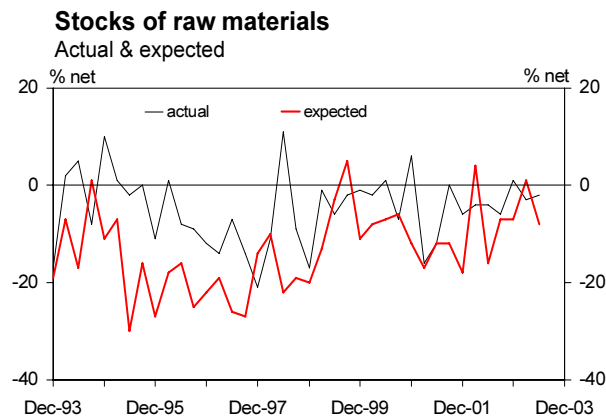
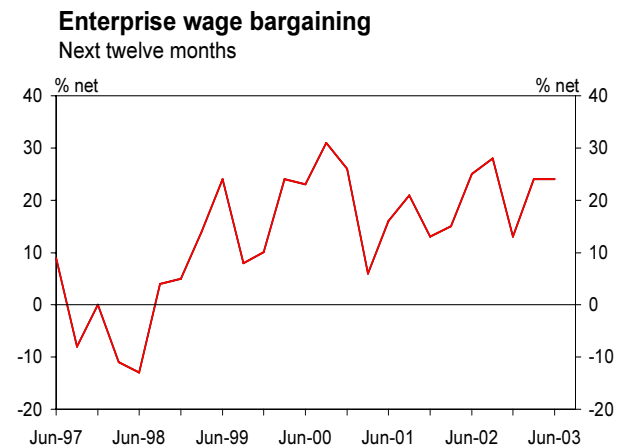
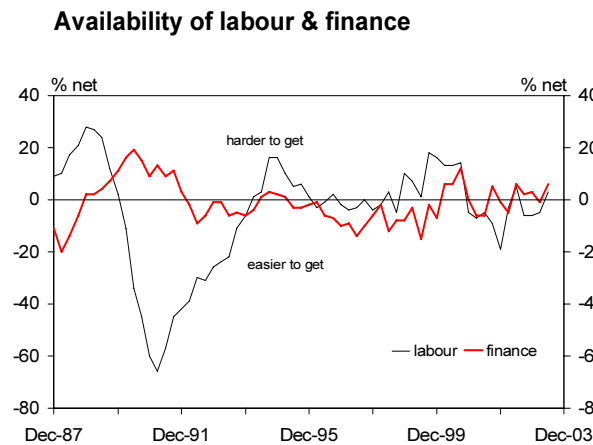


Other results



Factors limiting production

	Q4 2002	Q1 2003	Q2 2003
Orders (%)	54	58	54
Capacity (%)	18	14	14
Labour (%)	3	2	2
Finance (%)	3	0	0
Materials (%)	2	6	0
None (%)	8	6	3
Other (%)	12	14	27



Summary of results

1. Do you consider that the general business situation in Australia will improve?

Net balance	Improve	Same	Deteriorate
2%	19%	64%	17%

2. At what level of capacity utilisation are you working?

Net balance	Above normal	Normal	Below normal
-2%	20%	58%	22%

3. What single factor is most limiting your ability to increase production?

None	3%	Finance	0%
Orders	54%	Labour	2%
Material	0%	Capacity	14%
Other	27%		

4. Do you find it is now harder, easier, or the same as it was three months ago to get:

	Net balance	Harder	Same	Easier
(a) labour?	3%	13%	77%	10%
(b) finance?	6%	12%	82%	6%

5. Do you expect your company's capital expenditure during the next twelve months to be greater, the same, or less than the past year:

	Net balance	Greater	Same	Less
(a) on buildings?	9%	24%	61%	15%
(b) on plant & machinery?	11%	26%	59%	15%

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

	<i>Change in position in the last 3 months</i>			<i>Expected change during the next 3 months</i>				
	Net balance	Up	Same	Down	Net balance	Up	Same	Down
6. Numbers employed	-1%	16%	67%	17%	2%	11%	80%	9%
7. Overtime worked	15%	34%	47%	19%	5%	22%	61%	17%
8. All new orders received	7%	27%	53%	20%	13%	28%	57%	15%
9. Orders accepted but not yet delivered	2%	20%	62%	18%	-5%	14%	67%	19%
10. Output	17%	35%	47%	18%	23%	35%	53%	12%
11. Average costs per unit of output	29%	41%	47%	12%	31%	39%	53%	8%
12. Average selling prices	22%	30%	62%	8%	28%	32%	64%	4%
13. Export deliveries	6%	18%	70%	12%	-4%	11%	74%	15%
14. Stock of raw materials	-2%	13%	72%	15%	-8%	6%	80%	14%
15. Stocks of finished goods	-3%	9%	79%	12%	-4%	10%	76%	14%

Summary of results

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

(a) Improve?	41%
(b) Remain unchanged?	41%
(c) Decline?	18%
Net balance	23%

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?	30%
(b) Same?	64%
(c) Less?	6%
Net balance	24%

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	12
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	4
Wood, wood products, furniture	5
Paper, paper products, printing	10
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	6
Non-metallic mineral products: glass, pottery, cement bricks	9
Basic metal products: processing, smelting, refining, pipes & tubes	2
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	9
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	4
Other machinery & equipment: electrical, industrial scientific, photographic	21
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	15

B. How many employees are covered by this return?

1–100	101–200	201–1000	Over 1000
52%	17%	18%	13%

C. In which state is the main production to which this return relates?

WA	SA	VIC	NSW	QLD	TAS
6%	14%	27%	33%	14%	6%

The Westpac-ACCI Composite Indices

The Westpac-ACCI actual and expected composite indices are weighted averages of the various activity measures in the survey. The weights are as follows: employment 20%; new orders 30%; output 25%; orders accepted but not delivered 15%; overtime 10%.