

ACCI-Westpac Survey of Industrial Trends

170th report, March quarter 2004

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

Features:

- The Westpac-ACCI composite index reveals that the Australian economy continued to expand in the March quarter 2004, albeit at a slower pace than three months ago. The composite expectations index recovered from the seasonally weak December reading.
- The general business confidence indicator eased.
- The labour market indicator pointed to continuing strong growth, and there was other evidence of a tighter labour market.
- Business investment plans remained solid although there was a fall in the level of capacity utilisation.
- The external sector slowed sharply in the March quarter but exports were expected to recover in the next three months.
- Cost and price pressures abated.



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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 170th consecutive survey was conducted in the week ending 27 February 2004. A total of 210 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 2004.

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts. Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141. Information current as at date above. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. Westpac's financial services guide can be obtained by calling 132 032, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. If you wish to be removed from our e-mail, fax or mailing list please send an e-mail to economics@westpac.com.au or fax us on +61 2 9284 9363 or write to Westpac Economics at Level 5, 255 Elizabeth Street, Sydney NSW 2000. Please state your full name, telephone/fax number and company details on all correspondence. © 2004 Westpac Banking Corporation.

Key survey results

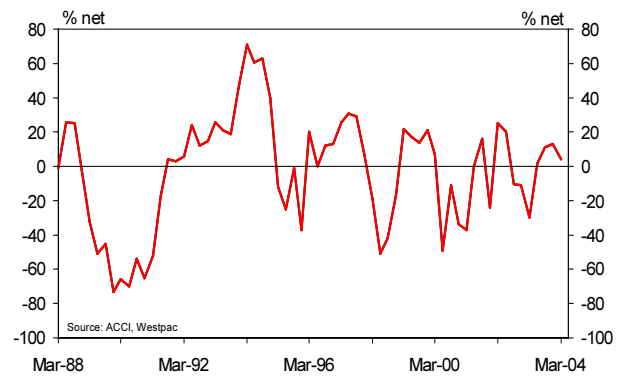
General business situation

	Q4 2003	Q1 2004
Net balance	13	4

- While remaining positive, business expectations were down in the March quarter 2004 – the first pullback in a year. The proportion of respondents expecting an improvement in the general business situation in the next six months fell (17% vs 27%). The proportion predicting a deterioration was little changed at 13%, resulting in a net balance of 4% (vs 13%). More than two-thirds of the respondents (70% vs 59%) expected no change.

General business situation

Next six months



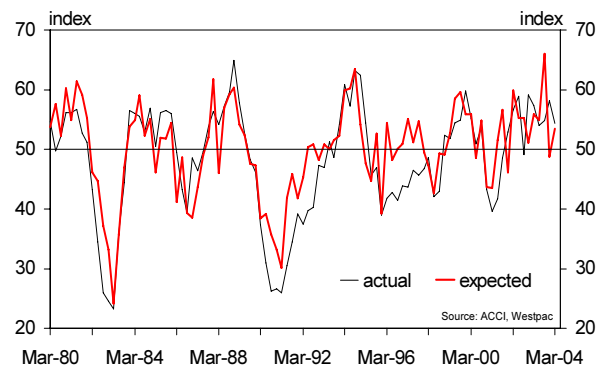
Westpac-ACCI composites

	Q4 2003	Q1 2004
Actual – net balance	58.2	54.3
Expected – net balance	48.8	53.5

- The Actual Composite index reversed all of the December quarter's gain (and a little more) in the current quarter, but remained at a reasonably robust level. However Expectations, which dived in late 2003 by more than 17 points from their September quarter record high of 66.0, recovered somewhat in the March quarter. This contrasts with the pull-back, noted above, in expectations regarding the "general business situation". Taken together, and given that the latest rise in the Expectations Composite corrects for a very steep fall in the previous quarter, the underlying message from the two indicators is one of guarded optimism about future business prospects.

Westpac-ACCI composite indexes

Actual & expected

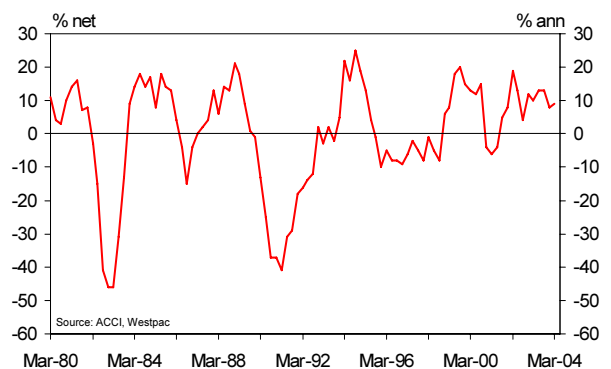


Westpac-ACCI labour market composite

	Q4 2003	Q1 2004
Net balance	8	9

- The labour demand indicator edged up a tick in the March quarter. Stronger actual and expected employment responses were partially offset by a sharp fall in overtime. As the chart shows, the labour indicator remains off recent highs. However it is still running at levels commensurate with solid employment growth over the next few months.

Westpac-ACCI labour market composite



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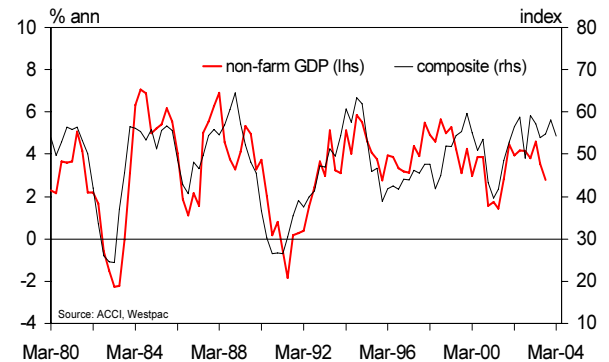
The business cycle & economic outlook

Westpac-ACCI survey & the business cycle

- The Westpac-ACCI composite index has had a solid track record of predicting near-term economic growth, including picking turning points in the economic cycle.
- The latest pull-back still leaves the index at a relatively high level, suggesting that the recent slowdown in non-farm GDP growth may be reversed somewhat in forthcoming national accounts data.

Manufacturing & the business cycle

Westpac-ACCI composite index & non-farm GDP

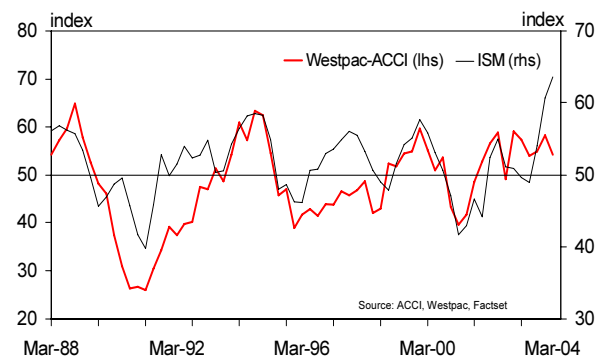


Australian & US manufacturing surveys

- The tendency of the US and Australian manufacturing cycles to move broadly in tandem has not been so apparent over the past quarter.
- Survey evidence suggests that the goods-producing sector is booming in the US, with the ISM composite at around 20-year highs. The Australian composite points to less impressive – though still positive – growth. This may reflect the US sector’s recovery bounce following the 2001 recession, whereas there is less scope for such as swing in Australia, where recession has been avoided.

Australian & US manufacturing surveys

Westpac-ACCI & ISM composite indexes

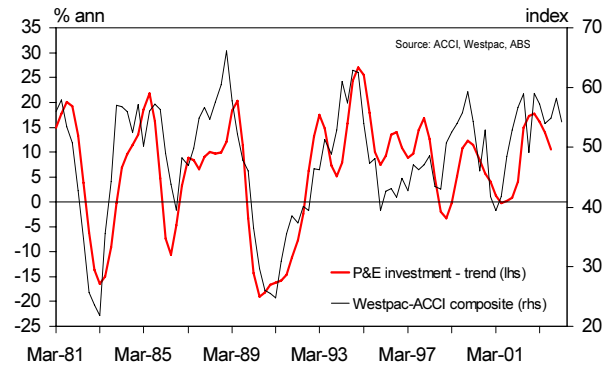


Westpac-ACCI survey & business investment

- The composite index also a strong leading relationship with business investment. The upswing in the index from its trough in 2001 was an accurate predictor of the subsequent solid recovery in capital expenditure.
- The index continued to seesaw in the March quarter, though the latest mild downswing suggests that any downturn in business spending on plant & equipment will only be minor. Indeed the latest capital spending data for Q4 (just released, but not yet published in the national accounts format used in the chart) confirmed another strong quarter for business investment.

Activity & capital investment

Westpac-ACCI composite & plant & equipment investment



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Activity & orders

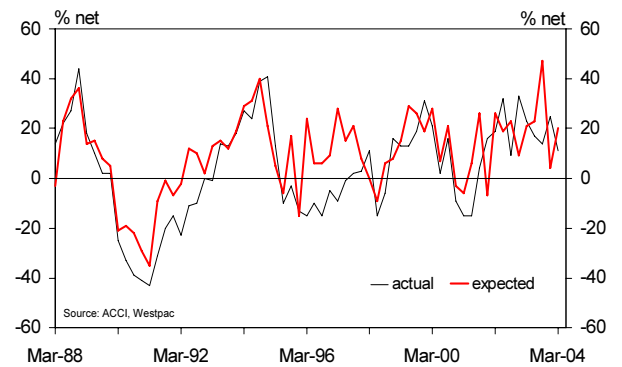
Output

	Q4 2003	Q1 2004
Actual – net balance	25	11
Expected – net balance	4	20

- While well above predictions of three months ago, the net output indicator halved in the March quarter 2004. The proportion of respondents reporting a rise was lower (32% vs 40%) while those recording a decline rose (21% vs 15%), resulting in a net balance of 11% (vs 25%). However, predictions for the next three months have picked up markedly (20% vs 4%).

Output growth

Actual & expected



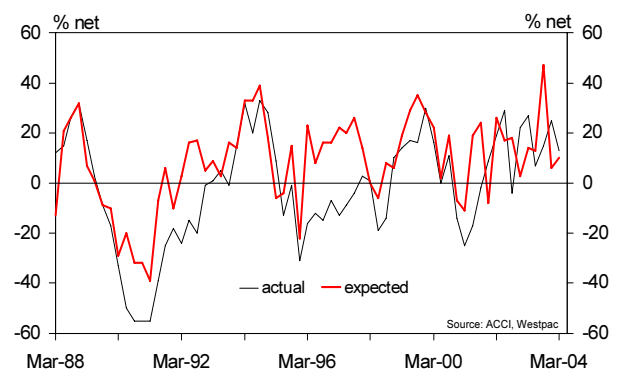
New orders

	Q4 2003	Q1 2004
Actual – net balance	25	13
Expected – net balance	6	10

- While well above predictions of three months ago, demand indicators weakened in the March quarter 2004, with new orders also halving. The proportion of respondents reporting an increase in new orders was down (33% vs 41%). The proportion reporting a decline was higher (20% vs 16%), resulting in a net balance of 13% (vs 25%). Forward projections for the next three months have remained positive (10% vs 6%).
- The backlog of new orders declined in the March quarter 2004 (3% vs 9%). The backlog is expected to remain at similar levels in the March quarter 2004 (1% vs -14%).

New orders

Actual & expected



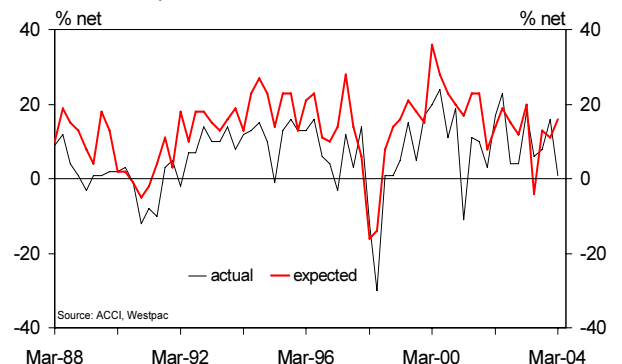
Exports

	Q4 2003	Q1 2004
Actual – net balance	16	1
Expected – net balance	11	16

- Contrary to expectations and reflecting appreciation of the exchange rate, export deliveries fell sharply in the March quarter 2004. The proportion of respondents reporting a rise in export deliveries was lower (18% vs 21%). Those recording a decline rose sharply (17% vs 5%), resulting in a net outcome of 1% (vs 16%). Forward predictions for export growth in the next three months have remained firm (16% vs 11%).

Export deliveries

Actual & expected



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Investment & profitability

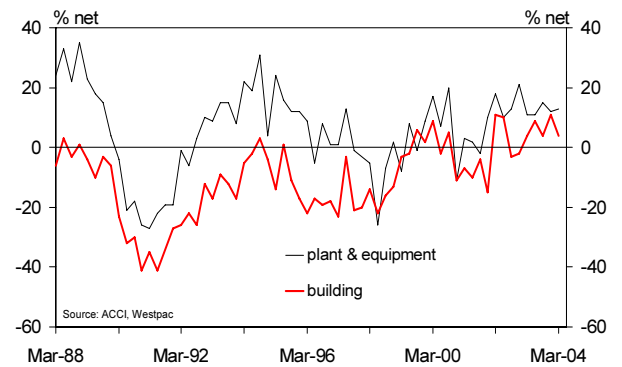
Investment intentions

	Q4 2003	Q1 2004
Plant & Equipment – net balance	12	13
Building – net balance	11	4

- Manufacturers' plans for investment spending on plant and equipment in the next 12 months have remained firm in the March quarter 2004. Of the manufacturers surveyed, 27% (vs 31%) reported plans to increase their spending. The proportion expecting a decline fell (14% vs 19%), resulting in a net balance of 13% (vs 12%).
- Spending plans for buildings and structures eased but remained high in historical terms in the March quarter 2004 (4% vs 11% net balance). Of the respondents, 19% (vs 28%) predicted an increase in their capital expenditure on buildings and structures, while 15% (vs 17%) expected a decline.

Investment intentions

Next twelve months

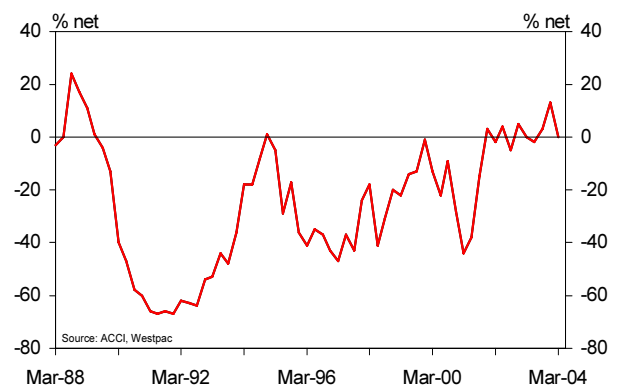


Capacity utilisation

	Q4 2003	Q1 2004
Net balance	13	0

- While well down from record levels of three months ago, capacity utilisation remained historically high in the March quarter 2004. The proportion of respondents who reported working above their normal capacity fell (18% vs 31%). Those working below their normal capacity remained unchanged at 18%, resulting in a net balance of 0% (vs 13%). Almost two thirds of the respondents (64% vs 51%) reported working at normal capacity levels.

Capacity utilisation



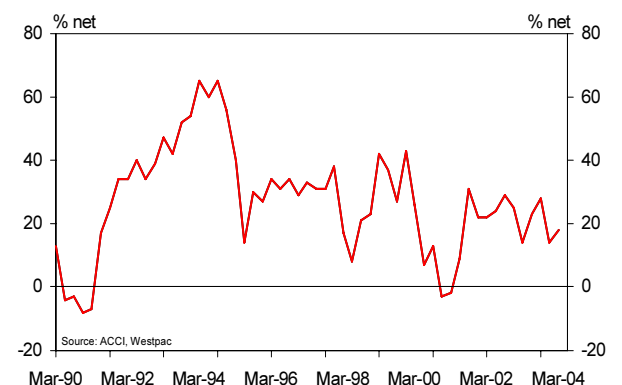
Profit expectations

	Q4 2003	Q1 2004
Net balance	14	18

- Profit expectations firmed in the March quarter 2004. The proportion expecting higher profits in the next 12 months was lower (34% vs 39%), but those predicting a decline also fell (16% vs 25%), resulting in a net balance of 18% (vs 14%).

Profit expectations

Next twelve months



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The labour market

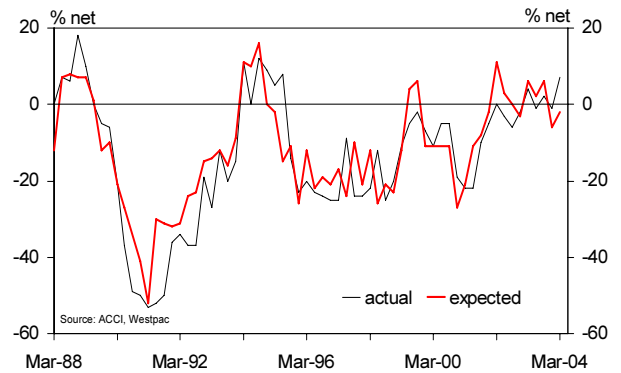
Numbers employed

	Q4 2003	Q1 2004
Actual – net balance	-1	7
Expected – net balance	-6	-2

- Contrary to expectations, the labour market firmed in the March quarter 2004. The proportion recording an increase in numbers employed rose (22% vs 17%). Those reporting a fall declined (15% vs 18%), resulting in a net balance of 7% (vs -1%). On balance, the outlook for the next three months is softer but consistent with sustained longer term growth in numbers employed (-2% vs -6%).

Numbers employed

Actual & expected



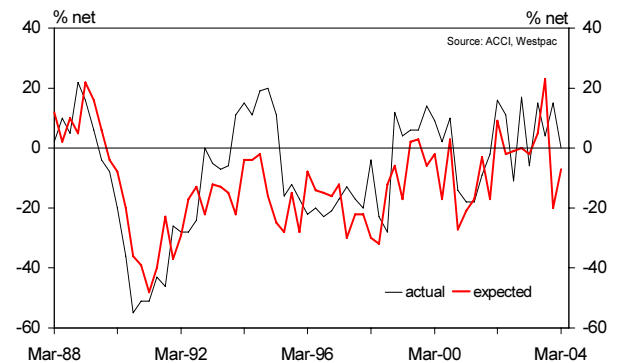
Overtime worked

	Q4 2003	Q1 2004
Actual – net balance	15	0
Expected – net balance	-20	-7

- Overtime worked declined markedly in the March quarter 2004, albeit less than predicted. One quarter of respondents (23% vs 33%) reported higher levels of overtime worked. The proportion reporting a decline rose (23% vs 18%), resulting in a net outcome of 0% (vs 15%). While more optimistic than three months ago, the general outlook for overtime worked remains subdued (-7% vs -20%).

Overtime worked

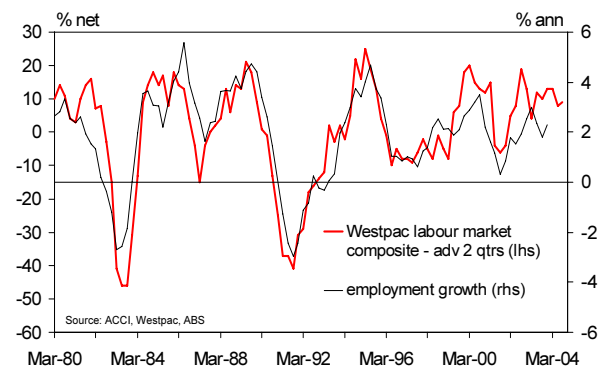
Actual & expected



Manufacturing labour demand remains solid

- Total employment growth was running an annual growth rate over 2% in late 2003, driven by especially strong full-time jobs growth.
- Although only covering firms with a predominantly manufacturing focus, the Westpac-ACCI labour demand composite has been a reliable leading indicator of broader labour market trends. The March quarter up-tick suggests that recent healthy employment growth will persist in the current quarter.

Healthy job gains to persist



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Prices & inflation

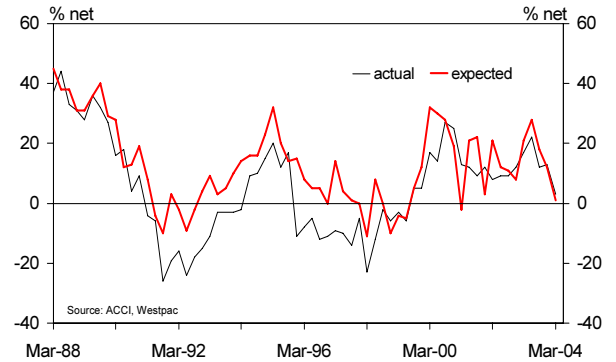
Average selling prices

	Q4 2003	Q1 2004
Actual – net Balance	13	3
Expected – net Balance	12	1

- On balance, the pace of price increases was much slower than predicted in the December quarter 2003 and was expected to ease further in the next three months. The proportion of respondents reporting price increases declined (14% vs 20%). However, those recording a decline rose marginally (11% vs 7%), resulting in a much lower net balance of 3% (vs 13%). Expectations for the next three months are similar, with 13% (vs 21%) predicting increases and 12% (vs 9%) decreases, resulting in a net balance of 1% (vs 12%).

Average selling prices

Actual & expected



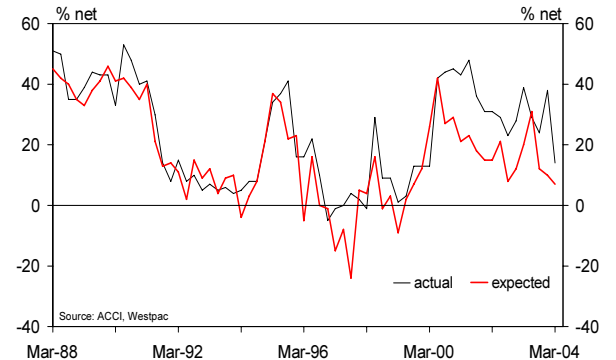
Average unit costs

	Q4 2003	Q1 2004
Actual – net balance	38	14
Expected – net balance	10	7

- The net outcome for average unit costs was also well down in the March quarter 2004, compared with three months ago. The proportion of manufacturers reporting rising costs fell (22% vs 46%). Those recording decreases remained unchanged (8%), resulting in a net balance of 14% (vs 38%). Cost increases are expected to abate further in the next three months (7% vs 10%).

Average unit costs

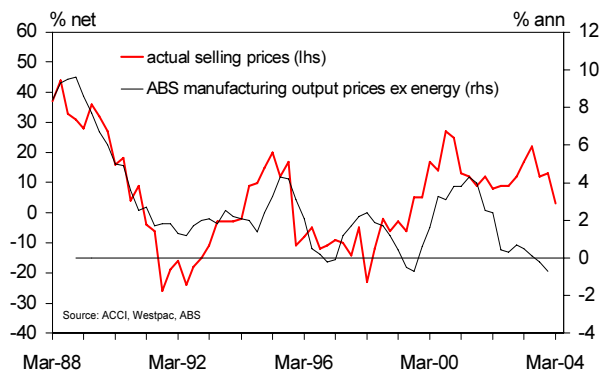
Actual & expected



Manufacturers' prices: mixed signals

- Prices are one area where the Westpac-ACCI survey results appear to diverge from trends recorded in official national data. Although in recent quarters the net balance of firms reporting higher selling prices has moderated, ABS data are now recording falling producer prices.
- This divergence probably relates in part to the ABS data being dragged down by falling import prices, reflecting the appreciation of the Australian dollar. Nevertheless there clearly are price pressures in some sectors, most notably for building construction materials.

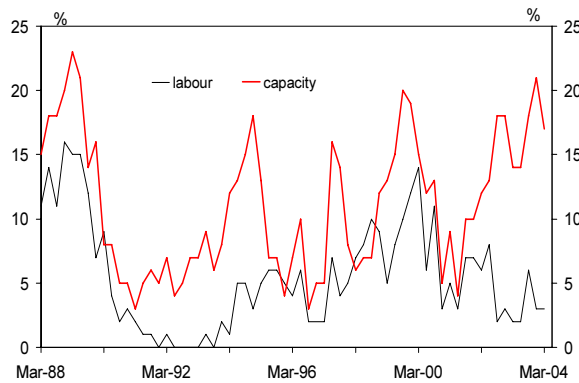
Price increases not appearing in the ABS data



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Other results

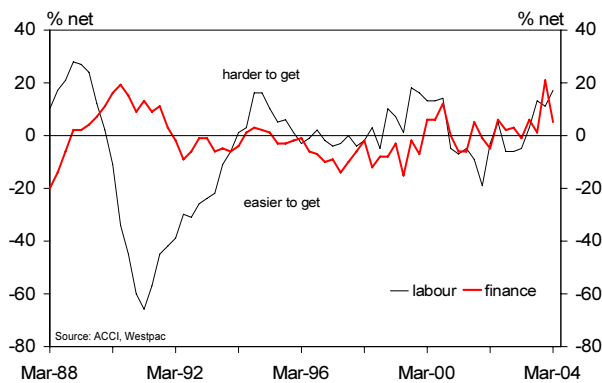
Key factor limiting production
% of respondents



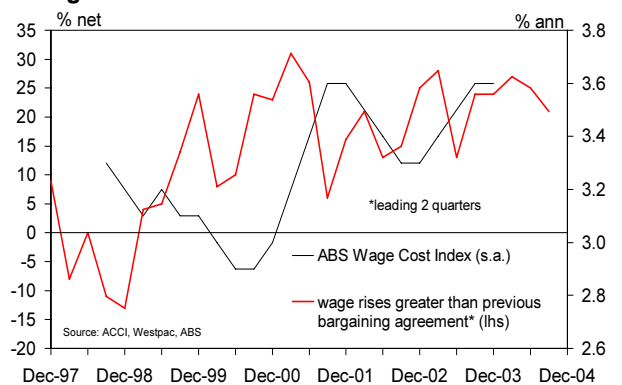
Factors limiting production

	Q3 2003	Q4 2003	Q1 2004
Orders (%)	56	53	42
Capacity (%)	18	21	17
Labour (%)	6	3	3
Finance (%)	6	5	6
Materials (%)	3	1	2
None (%)	3	7	9
Other (%)	8	10	21

Availability of labour & finance

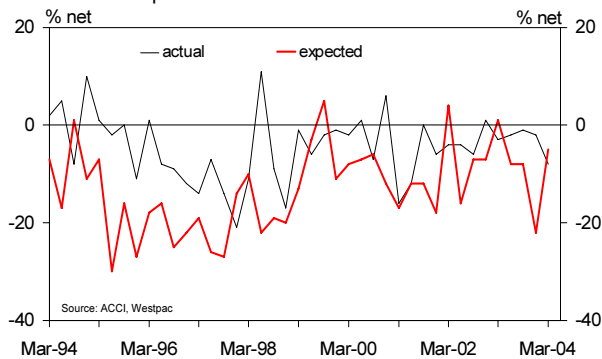


Limited upward pressure from wage agreements?



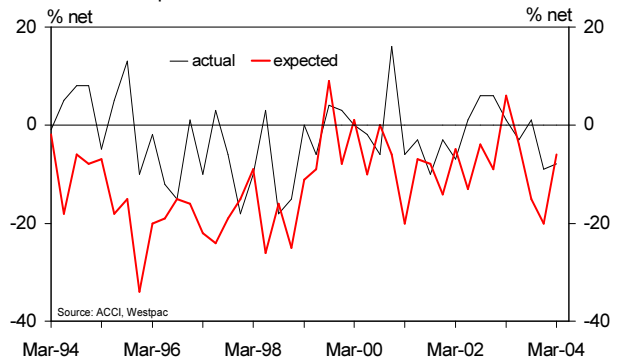
Stocks of raw materials

Actual & expected



Stocks of finished goods

Actual & expected



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Summary of results

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

Net balance	Improve	Same	Deteriorate
4%	17%	70%	13%

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

Net balance	Above normal	Normal	Below normal
0%	18%	64%	18%

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

None	9%	Finance	6%
Orders	42%	Labour	3%
Material	2%	Capacity	17%
Other	21%		

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?	17%	20%	77%	3%
(b) finance?	5%	10%	85%	5%

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?	4%	19%	66%	15%
(b) on plant & machinery?	13%	27%	59%	14%

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	7%	22%	63%	15%	-2%	15%	68%	17%
7. Overtime worked	0%	23%	54%	23%	-7%	14%	65%	21%
8. All new orders received	13%	33%	47%	20%	10%	25%	60%	15%
9. Orders accepted but not yet delivered	3%	23%	57%	20%	1%	19%	63%	18%
10. Output	11%	32%	47%	21%	20%	31%	58%	11%
11. Average costs per unit of output	14%	22%	70%	8%	7%	20%	67%	13%
12. Average selling prices	3%	14%	75%	11%	1%	13%	75%	12%
13. Export deliveries	1%	18%	65%	17%	16%	22%	72%	6%
14. Stock of raw materials	-8%	13%	66%	21%	-5%	12%	71%	17%
15. Stocks of finished goods	-8%	13%	66%	21%	-6%	12%	70%	18%

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Summary of results

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

(a) Improve?	34%
(b) Remain unchanged?	50%
(c) Decline?	16%
Net balance	18%

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?	26%
(b) Same?	69%
(c) Less?	5%
Net balance	21%

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	8
Textiles, fabrics, floor coverings, felt, canvas, rope	2
Clothing, footwear	6
Wood, wood products, furniture	3
Paper, paper products, printing	10
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	5
Non-metallic mineral products: glass, pottery, cement bricks	9
Basic metal products: processing, smelting, refining, pipes & tubes	4
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	8
Other machinery & equipment: electrical, industrial scientific, photographic	18
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	13

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
52%	16%	19%	13%

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

WA	SA	VIC	NSW	QLD	TAS
8%	13%	26%	36%	14%	3%

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%.

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. Approximate weights are as follows: employment 40%; expected employment 20%; overtime 30%; and expected overtime 10%.

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