

ACCI–Westpac

Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

173rd report December quarter 2004

- The Westpac-ACCI composite index suggests that the Australian economy accelerated sharply in the December quarter.
- That follows a growth deceleration in the September quarter.
- Expectations point to the economy maintaining that solid momentum in the first quarter of 2005.
- Tight capacity and strong profitability have generated very buoyant investment intentions.
- Exporters experienced much improved conditions but are sceptical regarding its sustainability.
- The labour market indicator points to an extremely favourable outlook for national employment growth.
- Strong demand and tightening labour markets are now feeding into rising price and wage pressures.



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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 173rd consecutive survey was conducted in the week ending 2 December 2004. A total of 213 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 March 2005.

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

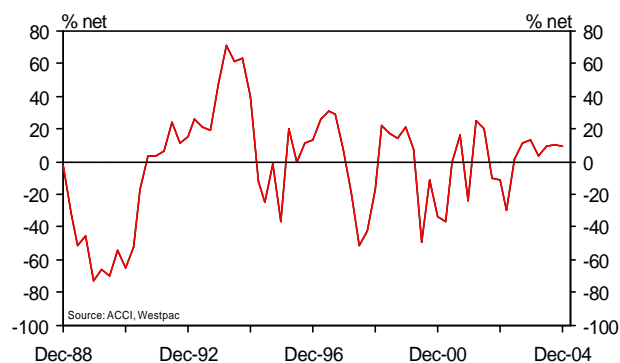
General business situation

	Q3 2004	Q4 2004
Net balance	10	9

- Business expectations remained firm in the December quarter 2004. The proportion of respondents expecting an improvement in the general business situation in the next six months rose (26% vs 21%). The proportion predicting a deterioration was higher (17% vs 11%), resulting in a net balance of 9% (vs 10%). Well over half the respondents (57% vs 68%) expected no change.

General business situation

Next six months



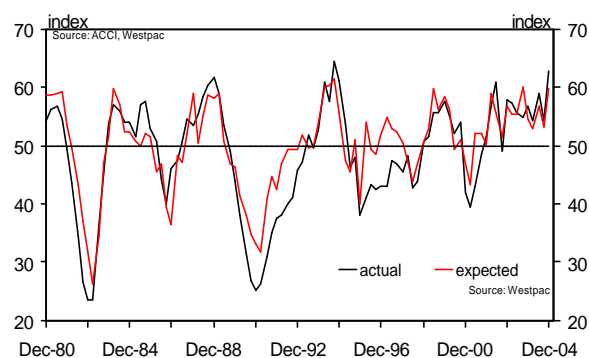
Westpac-ACCI composites, seasonally adjusted

	Q3 2004	Q4 2004
Actual – net balance	56.3	61.6
Expected – net balance	54.1	58.7

- The Actual Composite index accelerated sharply in the December quarter to be at its highest level in more than a decade. It suggests the economy regained substantial momentum in the final quarter of the year. The strong rise in the index reflects very robust outcomes for output, orders, employment and overtime.
- The expected composite climbed to 58.3, indicating that firms expect the solid momentum from the December quarter to carry through into the first quarter of 2005. Reflecting tight capacity, demand for labour is expected to be particularly strong. Firms are slightly more optimistic regarding the prospects for their own business than for the 'general business situation', noted above.

Westpac-ACCI composite indexes

Actual & expected, sa

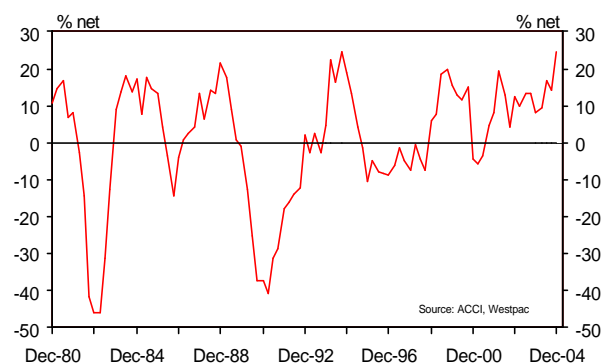


Westpac-ACCI labour market composite

	Q3 2004	Q4 2004
Net balance	14	22

- Labour demand in the manufacturing sector accelerated sharply, rising from a net balance of 14 to 22. There has been only one higher reading in the last thirty years. That was September 1994 and it was associated with subsequent national employment growth of 4%. While we believe a repeat of such strong employment growth is unlikely, it looks set to remain solid.

Westpac-ACCI labour market composite



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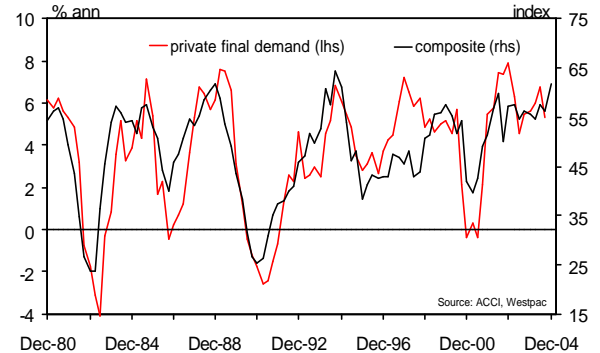
The business cycle & economic outlook

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 improvement in the index, which was already at high levels, suggests that private final demand will accelerate following the soft patch in the September quarter. Despite clear signs that the residential construction cycle is undergoing a mild downturn, the survey suggests both manufacturing and the broader economy will perform strongly.

Manufacturing & the business cycle

Westpac-ACCI composite index & private demand

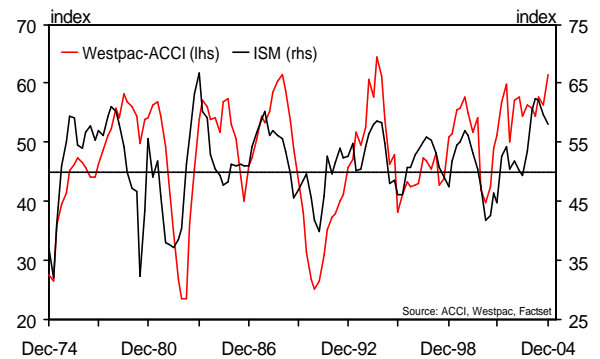


Australian & US manufacturing surveys

- The tendency of the US and Australian manufacturing cycles to move broadly in tandem has not been so apparent over the past few years. The Australian manufacturing sector held up well during the prolonged recession in US manufacturing.
- While Australian manufacturing has not participated in the sharp acceleration that the US has experienced, it has maintained its solid pace of growth. The US ISM survey, while below its recent 20yr high, suggests that the goods-producing sector remains in a strong cyclical upswing.

Australian & US manufacturing surveys

Westpac-ACCI & ISM composite indexes

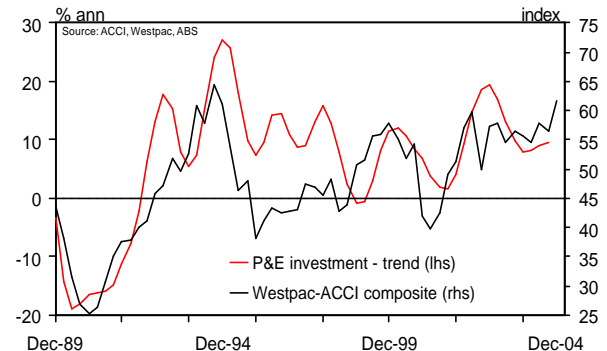


Westpac-ACCI survey & business investment

- The composite index also has a strong leading relationship with business investment, primarily plant and equipment. The upswing in the index from its trough in 2001 was an accurate predictor of the subsequent solid recovery in capital expenditure.
- The current level of the composite is consistent with strong business spending on plant & equipment. But corporates have placed significant importance on capital management, being cautious not to invest too heavily at what is perceived to be the top of the cycle. Spending on plant and equipment - in trend terms - should continue to post solid growth, reflecting strong profitability and high capacity utilisation levels.

Activity & capital investment

Westpac-ACCI composite & plant & equipment investment



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Activity & orders

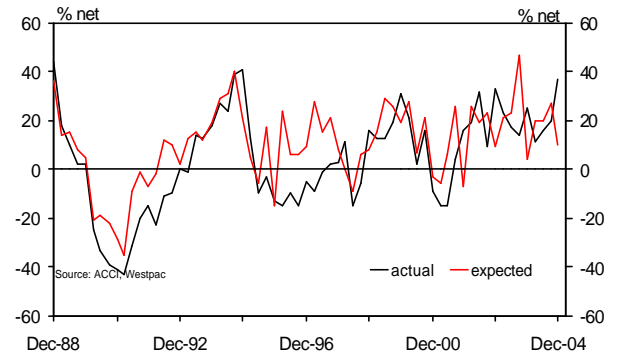
Output

	Q3 2004	Q4 2004
Actual – net balance	20	37
Expected – net balance	27	10

- Well exceeding predictions of three months ago, the net output indicator virtually doubled in the December quarter 2004. The proportion of respondents reporting a rise was well up (45% vs 31%), while those recording a decline eased (8% vs 11%), which more than doubled the net balance from 20% to 37%. While remaining robust, predictions for the next three months are more modest (10% vs 27%).

Output growth

Actual & expected



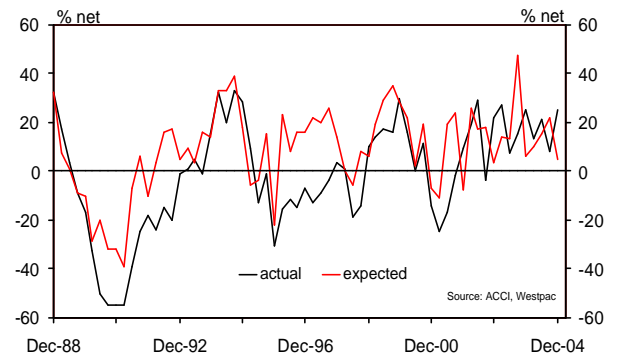
New orders

	Q3 2004	Q4 2004
Actual – net balance	8	25
Expected – net balance	22	5

- Exceeding predictions of three months ago, demand indicators rose to very robust levels in the December quarter 2004. The proportion of respondents reporting an increase in new orders rose sharply (36% vs 26%). The proportion reporting a decline was well down (11% vs 18%), resulting in a net balance of 25% (vs 8%). While remaining solid, forward projections for the next three months are more subdued (5% vs 22%).
- The backlog of new orders was much higher in the December quarter 2004 (19% vs -1%). However, on balance, the backlog is expected to decline sharply in the March quarter 2005 (-2% vs 4%).

New orders

Actual & expected



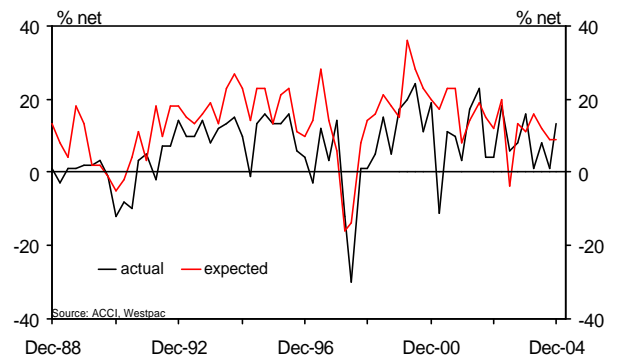
Exports

	Q3 2004	Q4 2004
Actual – net balance	1	13
Expected – net balance	9	9

- In line with predictions, and despite the appreciating exchange rate, export deliveries rose in the December quarter 2004 (13% vs 1%). The proportion of respondents reporting a rise in export deliveries doubled (18% vs 9%) while those recording a decline eased (5% vs 8%), resulting in a net outcome of 13% (vs 1%). Forward predictions for export growth in the next three months have remained firm (an unchanged 9%).

Export deliveries

Actual & expected



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Investment & profitability

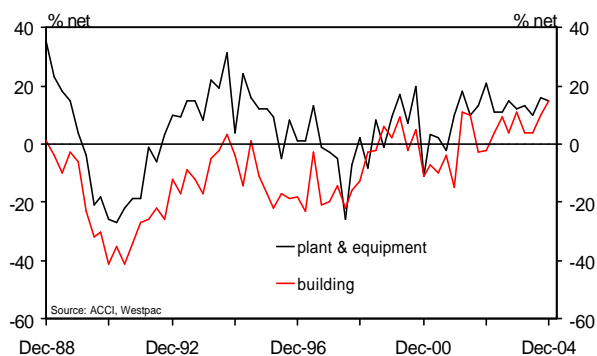
Investment intentions

	Q3 2004	Q4 2004
Plant & Equipment – net balance	16	15
Building – net balance	10	15

- Manufacturers' plans for investment spending on plant and equipment in the next 12 months, although easing marginally, remain strong. Of the manufacturers surveyed, 29% (vs 28%) reported plans to increase their spending. The proportion expecting a decline rose (14% vs 12%), resulting in a virtually unchanged net balance of 15% (vs 16%).
- Spending plans for buildings and structures firmed further to a very high level in historical terms. Of the respondents, 26% (vs 22%) predicted an increase in their capital expenditure on buildings and structures, while 11% (vs 12%) expected a decline.

Investment intentions

Next twelve months

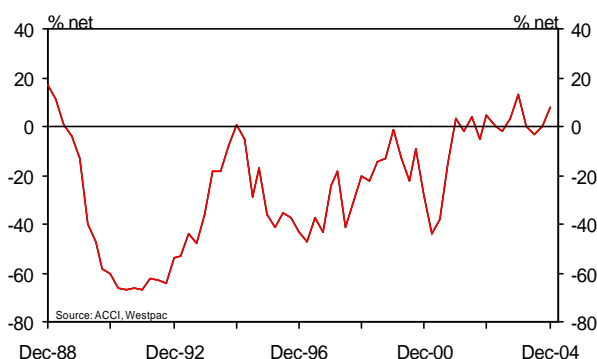


Capacity utilisation

	Q3 2004	Q4 2004
Net balance	0	8

- Capacity utilisation remained high in historical terms, firming in the December quarter 2004. The proportion of respondents who reported working above their normal capacity was higher (23% vs 20%), while those working below their normal capacity declined (15% vs 20%), resulting in a net balance of 8% (vs 0%). Well over half the respondents (62% vs 60%) reported working at normal capacity levels.

Capacity utilisation



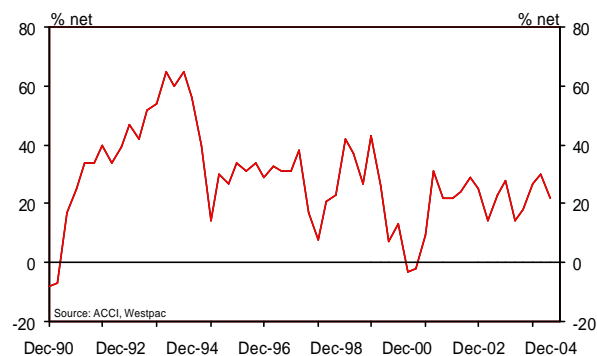
Profit expectations

	Q3 2004	Q4 2004
Net balance	30	22

- On balance, profit expectations eased in the December quarter 2004. The proportion expecting higher profits in the next 12 months was lower (36% vs 41%), while those predicting a decline rose (14% vs 11%), resulting in a net balance of 22% (vs 30%).

Profit expectations

Next twelve months



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The labour market

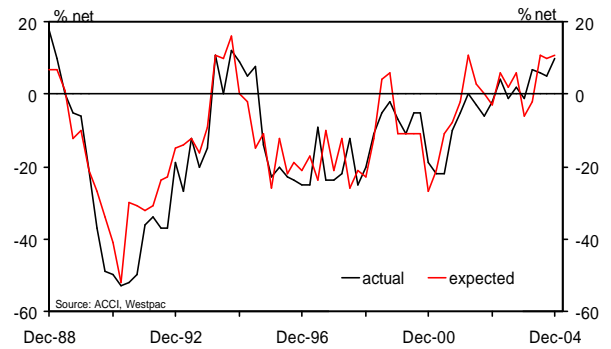
Numbers employed

	Q3 2004	Q4 2004
Actual – net balance	5	10
Expected – net balance	10	11

- In line with predictions of three months ago, the labour market continued to firm in the December quarter 2004. The proportion of respondents recording an increase in numbers employed remained virtually unchanged at 17%. Those reporting a fall declined (7% vs 13%), resulting in a net balance of 10% (vs 5%). The outlook for the next three months remains robust (11% vs 10%).

Numbers employed

Actual & expected



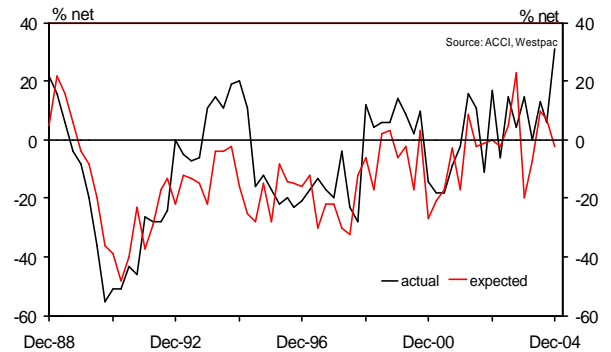
Overtime worked

	Q3 2004	Q4 2004
Actual – net balance	6	31
Expected – net balance	7	-2

- Well above expectations of three months ago and in line with robust demand and production outcomes in the lead up to the festive season, the overtime worked indicator rose sharply in the December quarter 2004. Of the respondents, 40% (vs 22%) reported higher levels of overtime worked. The proportion reporting a decline eased (9% vs 16%), resulting in a net outcome of 31% (vs 6%). However, the general outlook for overtime worked for the next three months is well down (-2% vs 7%).

Overtime worked

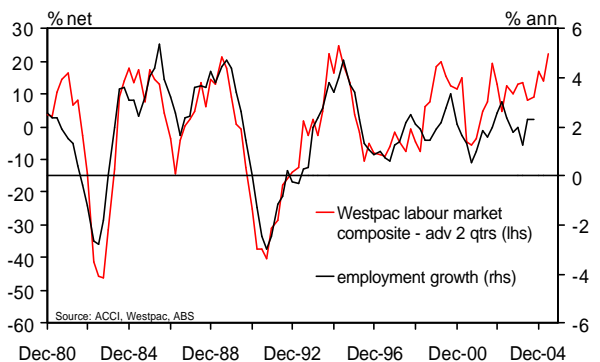
Actual & expected



Manufacturing labour demand remains solid

- The Westpac-ACCI labour demand indicator surged to a decade high in the December quarter. The only higher reading in the past thirty years was the September quarter 1994.
- While the Westpac-ACCI survey covers firms with predominantly a manufacturing focus, the labour market composite indicator has provided a reliable leading indicator of broader labour market trends. It suggests that labour demand will be extremely robust over the coming year.

Healthy job gains to persist



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Prices & inflation

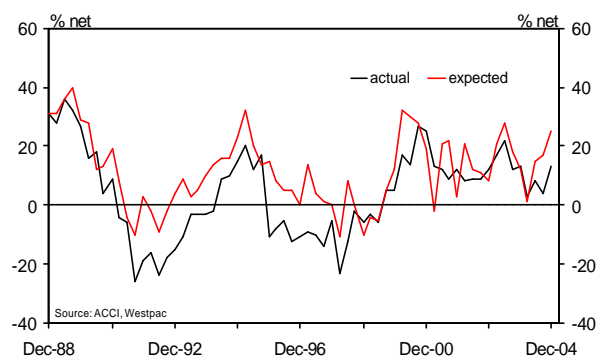
Average selling prices

	Q3 2004	Q4 2004
Actual – net Balance	4	13
Expected – net Balance	17	25

- Well above predictions, the pace of price increases accelerated strongly in the December quarter 2004. The proportion of respondents reporting price increases was marginally higher (18% vs 16%). Those recording a decline more than halved (5% vs 12%), resulting in a higher net balance of 13% (vs 4%). Price rises are expected to accelerate in the next three months (25% vs 17%).

Average selling prices

Actual & expected



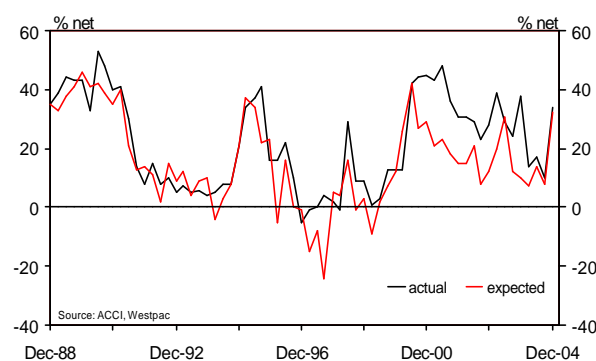
Average unit costs

	Q3 2004	Q4 2004
Actual – net balance	10	34
Expected – net balance	8	32

- The net outcome for average unit costs was also up sharply in the December quarter 2004, compared with three months ago. The proportion of manufacturers surveyed reporting rising costs doubled (36% vs 18%). Those recording decreases declined (2% vs 8%), resulting in a net balance of 34% (vs 10%). A similar level of cost increases is predicted for the next three months (32% vs 8%).

Average unit costs

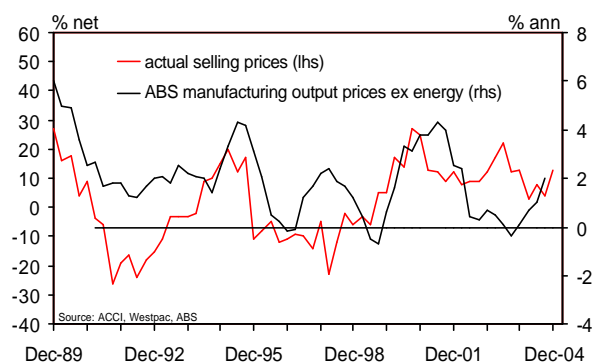
Actual & expected



Manufacturers' prices: upward pressure

- The Westpac-ACCI survey suggests that up until mid 2003, manufactures were achieving significant price rises. However, until 2004 Q1 the ABS manufacturing output price series had been held down by the strong Australian dollar and thus falling import and export prices.
- The two series appear to be converging again. Selling prices of firms in the survey are accelerating at a modest pace while ABS manufacturing output prices ex energy jumped 2% in Q3. Renewed strength in the Australian dollar will cap output price pressures in the short term but the trend is certainly up.

Price pressures on the rise

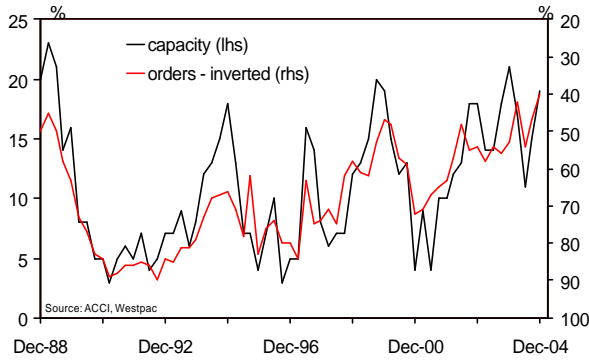


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Other results

Key factor limiting production

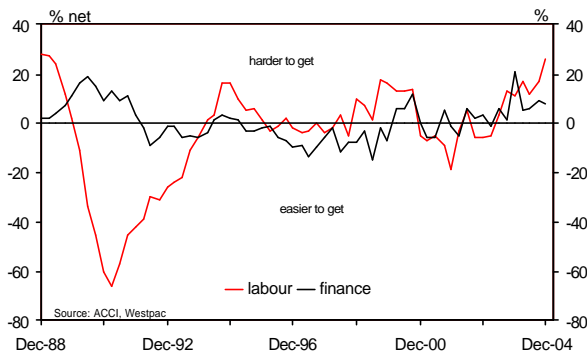
% of respondents



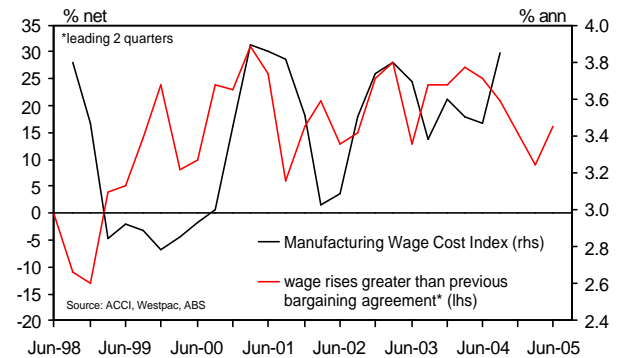
Factors limiting production

	Q2 2004	Q3 2004	Q4 2004
Orders (%)	54	47	40
Capacity (%)	11	15	19
Labour (%)	4	3	4
Finance (%)	2	2	1
Materials (%)	3	3	4
None (%)	10	12	17
Other (%)	16	18	15

Availability of labour & finance

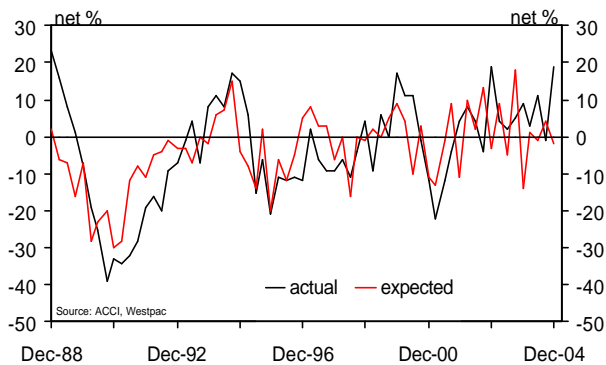


Manufacturing wage pressures are building



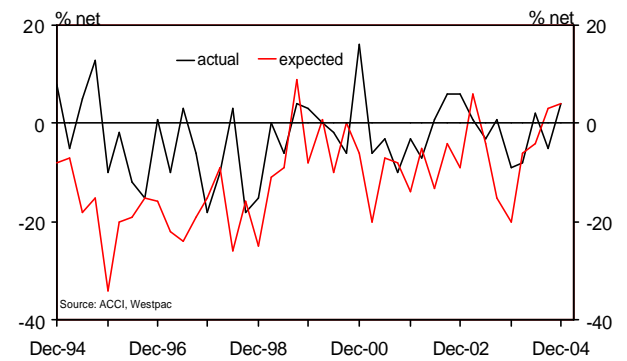
New orders accepted but not delivered

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
+9%	26%	57%	17%

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

Net balance	Above normal	Normal	Below normal
+8%	23%	62%	15%

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

Orders	40%	Finance	1%
Capacity	19%	Labour	4%
Material	4%	None	17%
Other	15%		

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?	+26%	28%	70%	2%
(b) finance?	+8%	11%	86%	3%

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?	+15%	26%	63%	11%
(b) on plant & machinery?	+15%	29%	57%	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	+10%	17%	76%	7%	+11%	23%	65%	12%
7. Overtime worked	+31%	40%	51%	9%	-2%	21%	56%	23%
8. All new orders received	+25%	36%	53%	11%	+5%	23%	59%	18%
9. Orders accepted but not yet delivered	+19%	27%	65%	8%	-2%	16%	66%	18%
10. Output	+37%	45%	47%	8%	+10%	24%	62%	14%
11. Average costs per unit of output	+34%	36%	62%	2%	+32%	36%	60%	4%
12. Average selling prices	+13%	18%	77%	5%	+25%	32%	61%	7%
13. Export deliveries	+13%	18%	77%	5%	+9%	16%	77%	7%
14. Stock of raw materials	+6%	18%	70%	12%	+1%	14%	73%	13%
15. Stocks of finished goods	+4%	17%	70%	13%	-4%	9%	78%	13%

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Summary of results

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

(a) Improve?	36%
(b) Remain unchanged?	50%
(c) Decline?	14%
Net balance	+22%

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?	25%
(b) Same?	66%
(c) Less?	9%
Net balance	+16%

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	13
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	5
Wood, wood products, furniture	3
Paper, paper products, printing	8
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	8
Non-metallic mineral products: glass, pottery, cement bricks	12
Basic metal products: processing, smelting, refining, pipes & tubes	3
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	6
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	12
Other machinery & equipment: electrical, industrial scientific, photographic	17
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	10

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
50%	15%	18%	17%

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

WA	SA	VIC	NSW	QLD	TAS
8%	13%	24%	39%	11%	5%

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%;

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