

ACCI–Westpac

Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

175th report June quarter 2005

- The Westpac-ACCI composite index suggests activity conditions in the June quarter have moderated from those prevailing throughout 2004. Even so, the June reading remains above the historical average.
- General business sentiment, which deteriorated somewhat early in 2005, stabilised in the June quarter.
- The softening trend in actual conditions has flowed through to a scaling back of the composite expectations index.
- Capacity utilisation was well down in the quarter, albeit remaining relatively high in historical terms.
- Business investment intentions proved to be resilient at healthy levels.
- Export deliveries remained firm in the June quarter.
- Firms continue to report difficulty in attracting suitable labour. However, a noticeable moderating of employment is evident, consistent with softer activity.
- Some positive news on the inflation front – the pace of increase in selling prices and costs decelerated in the quarter.



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Enquiries

Andrew Hanlan, Senior Economist, Westpac Banking Corporation, Ph (61-2) 9284 9337
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,
Andrew Hanlan, Senior 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 175th consecutive survey was conducted in the week ending 27 May 2005. A total of 238 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 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

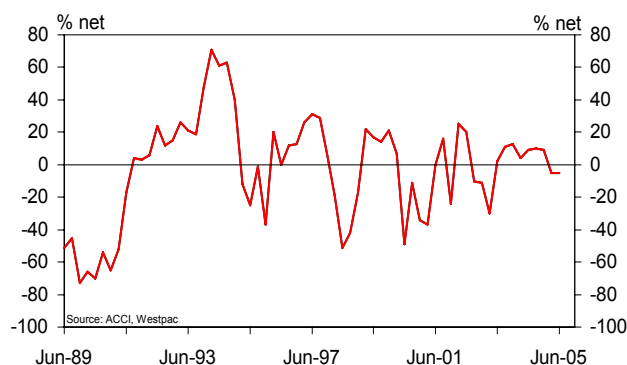
General business situation

	Q1 2005	Q2 2005
Net balance	-5	-5

- There was no change in business expectations in the June quarter 2005. The proportion of respondents expecting an improvement in the general business situation in the next six months rose marginally (20% vs 18%). However, the proportion predicting a deterioration also edged up (25% vs 23%), resulting in an unchanged net balance of -5%. Well over half the respondents (55% vs 59%) expected no change.
- This suggests general business confidence stabilised in the June quarter, at the lowest level since March 2003.

General business situation

Next six months



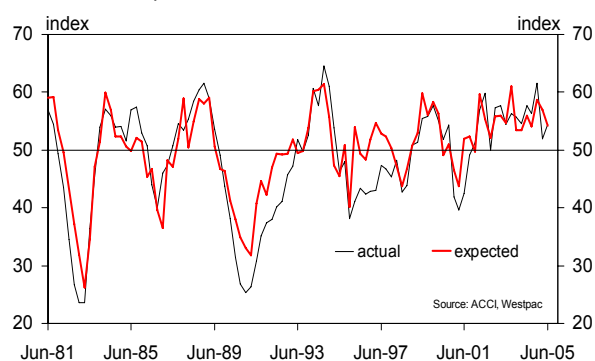
Westpac-ACCI composites, seasonally adjusted

	Q1 2005	Q2 2005
Actual – net balance	52.0	54.5
Expected – net balance	57.0	54.2

- The Actual Composite index managed only a partial recovery from the significant fall in the March quarter, with the index rising 2.5pts to 54.5 following a 9.6pt fall.
- It suggests that the pace of economic activity moderated in the first half of 2005, albeit from a high base. This downward trend over the last half year is evident across output, new orders, employment and overtime.
- The Expected Composite index fell 2.8pts in the June quarter, but remains in positive territory at 54.2. Expectations have been pared back in line with softening actual conditions.

Westpac-ACCI composite indexes

Actual & expected, sa

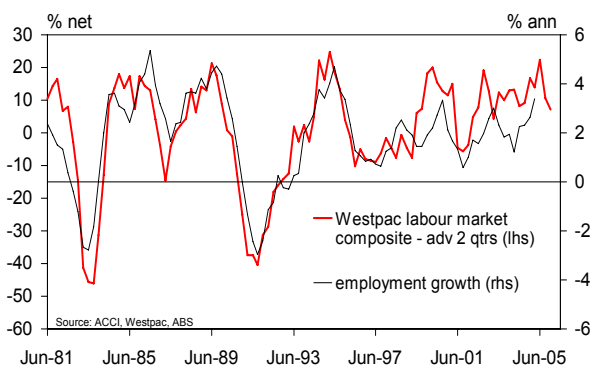


Westpac-ACCI labour market composite

	Q1 2005	Q2 2005
Net balance	11	7

- Labour demand in the manufacturing sector moderated in the June quarter, with the net balance of the Labour Market Composite index declining to 7 from 11 last quarter, well down from the highs of 2004.
- The index has provided a reliable guide to future broader labour market trends. It points to the prospect of moderating jobs growth over the second half of this year.

Jobs growth to moderate



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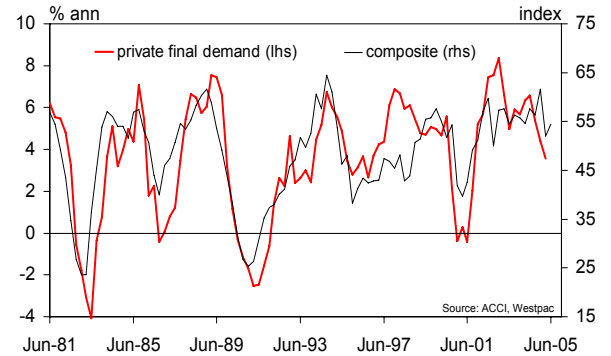
The business cycle & economic outlook

Westpac-ACCI survey & the business cycle

- The Westpac-ACCI Composite has a solid track record of predicting near-term economic growth, including picking turning points in the economic cycle.
- The decline in the index confirms that private domestic demand growth has shifted to a more moderate pace from what was an unsustainable rate.
- The Composite index suggests that this more moderate trend continued in the June quarter. It is also significant that the index remains well in positive territory.

Manufacturing & the business cycle

Westpac-ACCI composite index & private demand

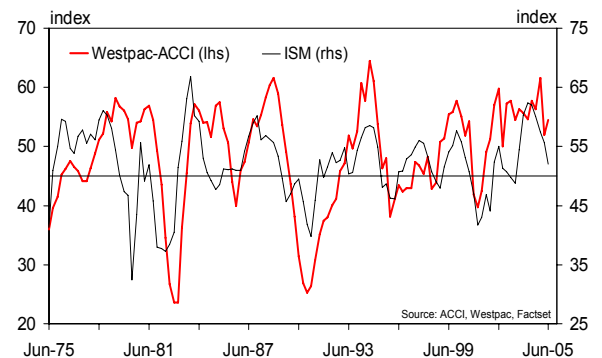


Australian & US manufacturing surveys

- The US and Australian manufacturing cycles have a tendency to move broadly in tandem. A moderation is currently evident in both countries, although the swing appears to be more pronounced in the US.
- The US manufacturing ISM survey has eased back from the cyclical highs recorded late in 2003 and early 2004. Indeed, the ISM fell back to 51.4 in May, raising concerns of a patchy year for US manufacturing.

Australian & US manufacturing surveys

Westpac-ACCI & ISM composite indexes

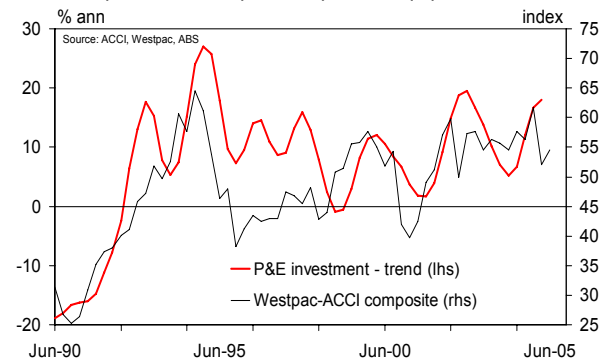


Westpac-ACCI survey & business investment

- The Composite index also has a strong leading relationship with business investment, primarily plant and equipment spending. The upswing in the index from its trough in 2001 was an accurate predictor of the subsequent strong recovery in capital expenditure.
- The current level of the index suggests that business investment will contribute to economic growth in 2005. However, the pace of business investment growth may be at its peak in this cycle. Rising profits, healthy balance sheets, high capacity utilisation and favourable world growth are all conducive to a further upward trend in investment.

Activity & capital investment

Westpac-ACCI composite & plant & equipment investment



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Activity & orders

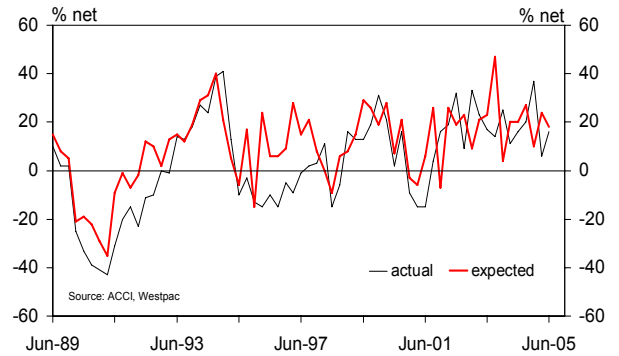
Output

	Q1 2005	Q2 2005
Actual – net balance	6	16
Expected – net balance	24	18

- While still below predictions of three months ago, the net output indicator rose strongly in the June quarter 2005. The proportion of respondents reporting a rise was higher (33% vs 24%) while those recording a decline eased marginally (17% vs 18%), resulting in a much higher net balance of 16% vs 6%. Predictions for the next three months remain strong (18% vs 24%).

Output growth

Actual & expected



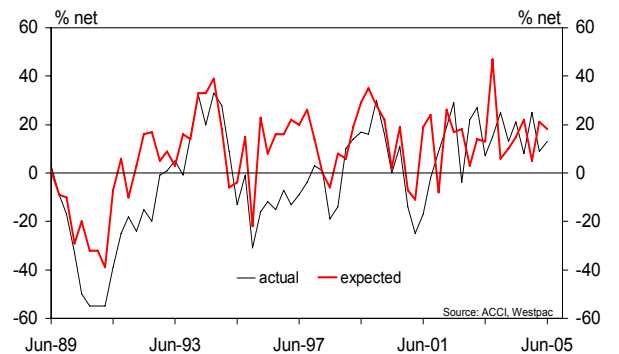
New orders

	Q1 2005	Q1 2005
Actual – net balance	9	13
Expected – net balance	21	18

- While also still well short of predictions of three months ago, the actual outcome for new orders firmed in the June quarter 2005. The proportion of respondents reporting an increase in new orders rose (34% vs 30%). The proportion reporting a decline remained unchanged at 21%, resulting in a net balance of 13% (vs 9%). Net forward projections for the next three months remain strong (18% vs 21%).
- The backlog of new orders rose sharply in the June quarter 2005 (3% vs -13%). On balance, a decline in the backlog is expected in the September quarter 2005 (-4% vs 2%).

New orders

Actual & expected



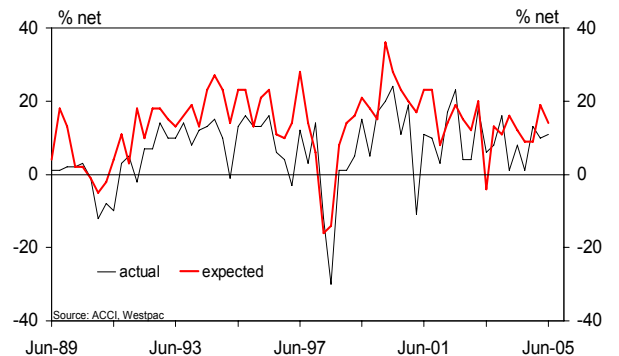
Exports

	Q1 2005	Q2 2005
Actual – net balance	10	11
Expected – net balance	19	14

- Despite the high exchange rate, export deliveries remained firm in the June quarter 2005 (11% vs 10%). The proportion of respondents reporting a rise in export deliveries remained unchanged at 19%. Those recording a decline was virtually unchanged (8% vs 9%). Predictions for the next three months have eased but remain strong (14% vs 19%).

Export deliveries

Actual & expected



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Investment & profitability

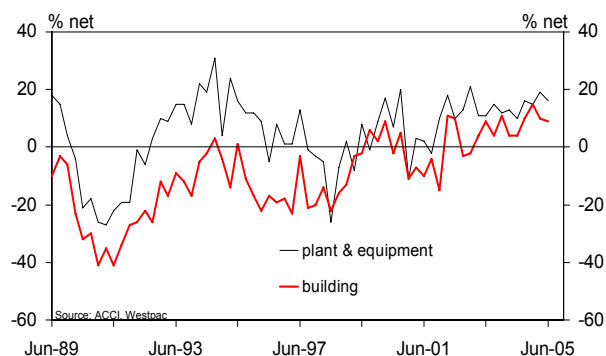
Investment intentions

	Q1 2005	Q2 2005
Plant & Equipment – net balance	19	16
Building – net balance	10	9

- Manufacturers' plans for investment spending on plant and equipment in the next 12 months remained firm in the June quarter 2005. Of the manufacturers surveyed, 31% (vs 29%) reported plans to increase their spending. The proportion expecting a decline rose (15% vs 10%) resulting in a net balance of 16% (vs 19%).
- Spending plans for buildings and structures were virtually unchanged, remaining at a very high level in historical terms. Of the respondents, 25% (vs 22%) predicted an increase in their capital expenditure on buildings and structures, while 16% (vs 12%) expected a decline.

Investment intentions

Next twelve months

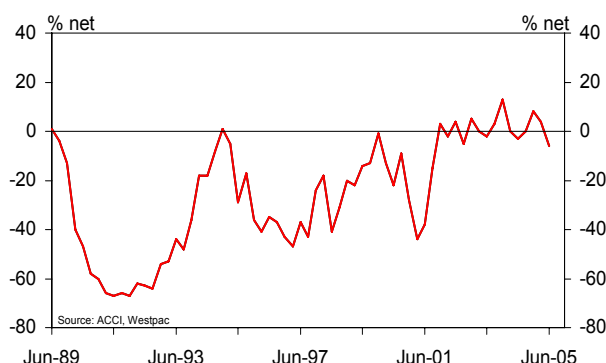


Capacity utilisation

	Q1 2005	Q2 2005
Net balance	4	-6

- Capacity utilisation was well down in the June quarter 2005, albeit remaining relatively high in historical terms. The proportion of respondents who reported working above their normal capacity fell (16% vs 23%), while those working below their normal capacity rose (22% vs 19%), resulting in a net balance of -6% (vs 4%). Well over half the respondents (62% vs 58%) reported working at normal capacity levels.

Capacity utilisation



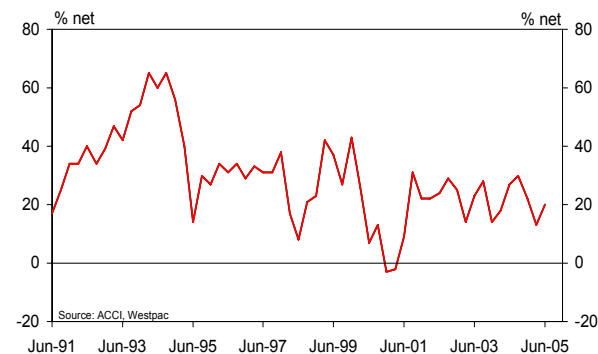
Profit expectations

	Q1 2005	Q2 2005
Net balance	13	20

- Profit expectations were well up in the June quarter 2005. The proportion expecting higher profits in the next 12 months was higher (37% vs 32%), while those predicting a decline eased (17% vs 19%), resulting in a net balance of 20% (vs 13%).

Profit expectations

Next twelve months



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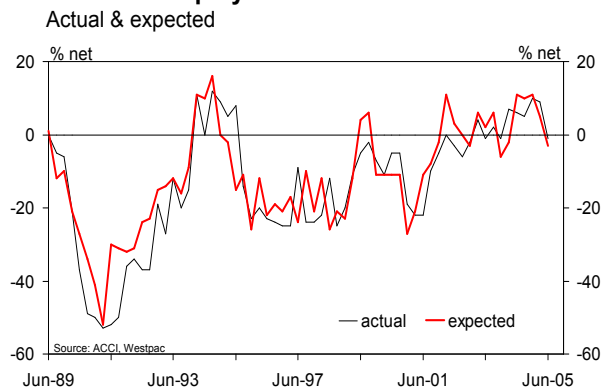
The labour market

Numbers employed

	Q1 2005	Q2 2005
Actual – net balance	9	-1
Expected – net balance	5	-3

- Softening of the labour market in the June quarter 2005 was much greater than expected. The proportion of respondents recording an increase in numbers employed was marginally lower (17% vs 19%). Those reporting a decline almost doubled (18% vs 10%), resulting in a net balance of -1% (vs 9%). The net outlook for the next three months has similarly softened (-3% vs 5%).

Numbers employed

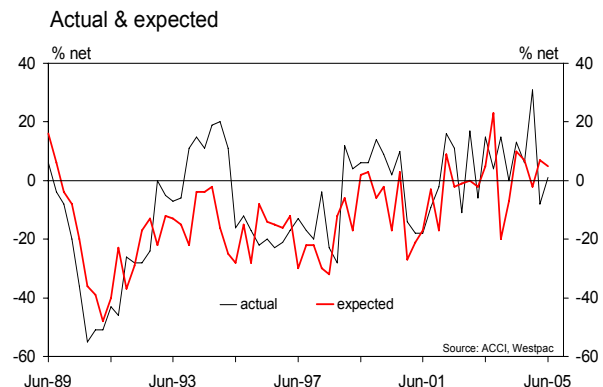


Overtime worked

	Q1 2005	Q2 2005
Actual – net balance	-8	1
Expected – net balance	7	5

- The overtime worked indicator recovered, albeit less than predicted three months ago. Of the respondents, 25% (vs 20%) reported higher levels of overtime worked. The proportion reporting a decline eased (24% vs 28%), resulting in a net outcome of 1% (vs -8%). On balance, a modest increase in overtime worked is predicted for the next three months (5% vs 7%).

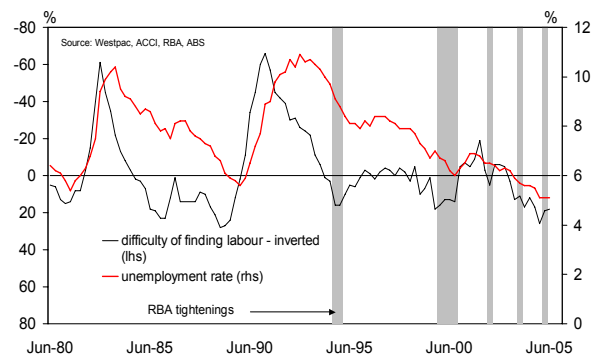
Overtime worked



Labour market tightness

- The Westpac-ACCI survey respondents continued to report a degree of difficulty in attracting suitable labour in the June quarter. A net balance of 18% reported that labour was 'harder to get', little changed from the 19% in the March quarter.
- This suggests that the unemployment rate is likely to hover around the current 28 year low for a little longer.
- Although, with the more moderate employment outlook implied by the Labour Market Composite index, some easing of labour market capacity constraints may begin to emerge during the second half of 2005.

Difficulty of finding labour



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Prices & inflation

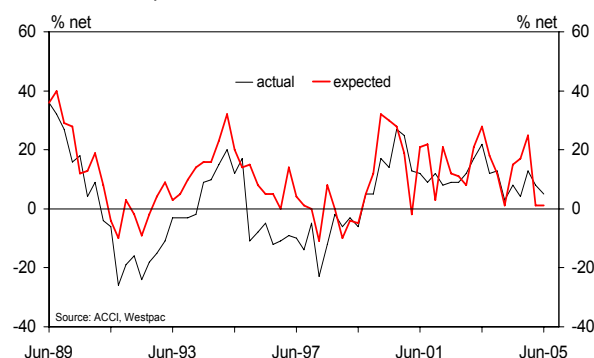
Average selling prices

	Q1 2005	Q2 2005
Actual – net balance	8	5
Expected – net balance	1	1

- The pace of price increases continued to decelerate in the June quarter 2005, albeit more slowly than predicted three months ago. The proportion of respondents reporting price increases eased (18% vs 21%). Those recording a decline remained unchanged at 13%, resulting in a lower net balance of 5% (vs 8%). On balance, no change is expected in the next three months (an unchanged 1%).

Average selling prices

Actual & expected



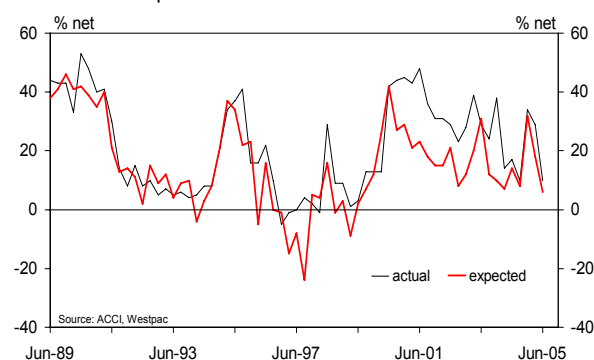
Average unit costs

	Q1 2005	Q2 2005
Actual – net balance	29	10
Expected – net balance	18	6

- Compared with three months ago, the net outcome for average unit costs was much lower in the June quarter 2005. The proportion of manufacturers surveyed reporting rising costs fell sharply (21% vs 34%). Those recording decreases doubled (11% vs 5%), resulting in a net balance of 10% (vs 29%). A further slowing of cost increases is predicted for the next three months (6% vs 18%).

Average unit costs

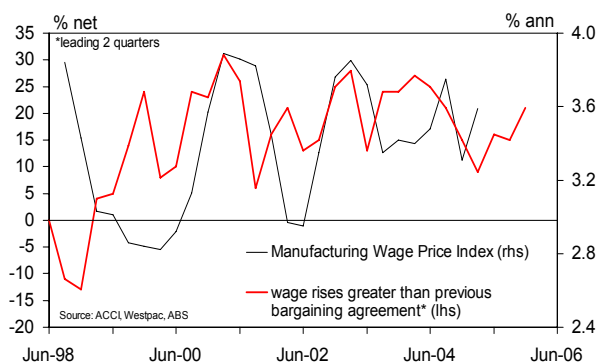
Actual & expected



Manufacturing wages

- The Westpac-ACCI survey points to some acceleration in wages growth. A 21% (vs 15%) net balance of respondents expect wage rises in the firm's next round of enterprise agreements to be greater than the previous deal.
- Such an acceleration is consistent with current tight labour market conditions. Although, should employment growth moderate, this will tend to temper wage inflation risks.
- Indeed, official DEWR figures for Q1 showed an economy wide lift in the pace of wages growth agreed to under new enterprise agreements.

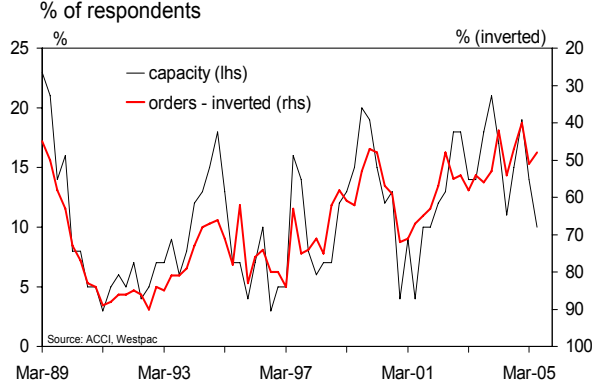
Manufacturing wages accelerate



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Other results

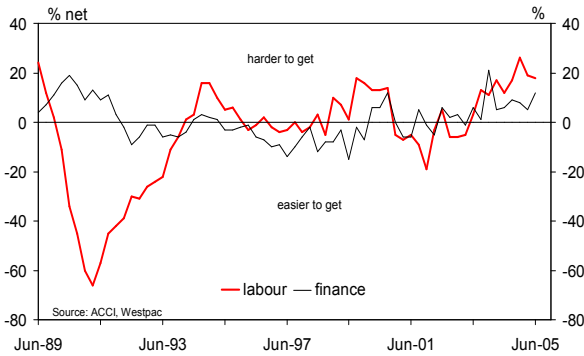
Key factor limiting production



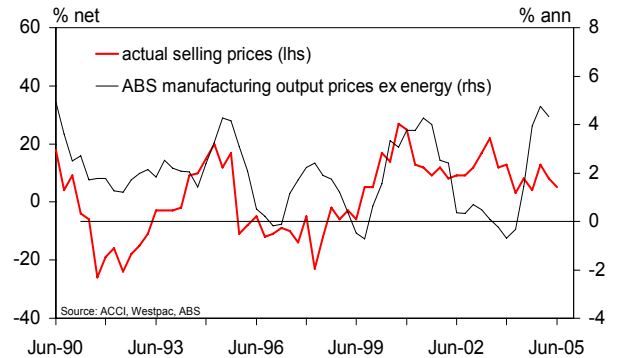
Factors limiting production

	Q4 2004	Q1 2005	Q2 2005
Orders (%)	40	51	48
Capacity (%)	19	14	10
Labour (%)	4	5	3
Finance (%)	1	1	5
Materials (%)	4	2	8
None (%)	17	17	8
Other (%)	15	10	18

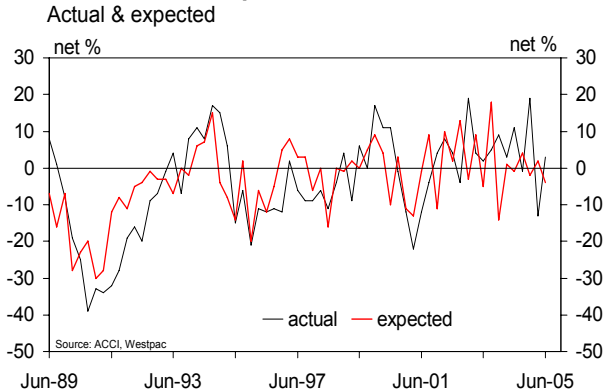
Availability of labour & finance



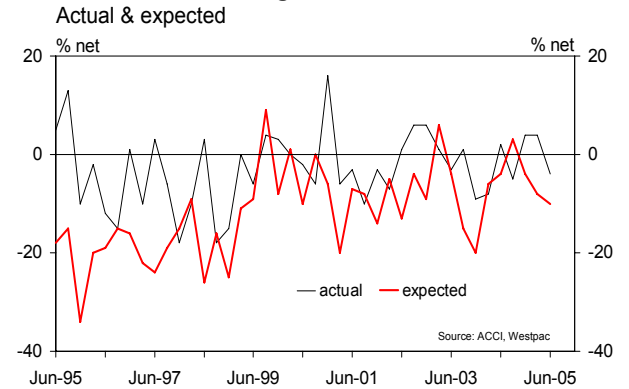
Upstream price pressures have peaked



New orders accepted but not delivered



Stocks of finished goods



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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
-5%	20%	55%	25%

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

Net balance	Above normal	Normal	Below normal
-6%	16%	62%	22%

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

Orders	48%	Finance	5%
Capacity	10%	Labour	3%
Material	8%	None	8%
Other	18%		

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?	+18%	23%	72%	5%
(b) finance?	+12%	15%	82%	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?	+9%	25%	59%	16%
(b) on plant & machinery?	+16%	31%	54%	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%	17%	65%	18%	-3%	19%	59%	22%
7. Overtime worked	+1%	25%	51%	24%	+5%	26%	53%	21%
8. All new orders received	+13%	34%	45%	21%	+18%	31%	56%	13%
9. Orders accepted but not yet delivered	+3%	24%	55%	21%	-4%	19%	58%	23%
10. Output	+16%	33%	50%	17%	+18%	32%	54%	14%
11. Average costs per unit of output	+10%	21%	68%	11%	+6%	25%	56%	19%
12. Average selling prices	+5%	18%	69%	13%	+1%	22%	57%	21%
13. Export deliveries	+11%	19%	73%	8%	+14%	19%	76%	5%
14. Stock of raw materials	-2%	10%	78%	12%	-5%	8%	79%	13%
15. Stocks of finished goods	-4%	14%	68%	18%	-10%	10%	70%	20%

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Summary of results

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

(a) Improve?	37%
(b) Remain unchanged?	46%
(c) Decline?	17%
Net balance	+20%

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?	61%
(c) Less?	9%
Net balance	+21%

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	15
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	5
Wood, wood products, furniture	5
Paper, paper products, printing	8
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	8
Non-metallic mineral products: glass, pottery, cement bricks	6
Basic metal products: processing, smelting, refining, pipes & tubes	3
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	8
Other machinery & equipment: electrical, industrial scientific, photographic	18
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	12

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
50%	12%	24%	14%

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

WA	SA	VIC	NSW	QLD	TAS
6%	11%	27%	38%	13%	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%; expected employment 20%; overtime 30%; and expected overtime 10%.

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Publication enquiries, Briana Wooldridge, Telephone (61-2) 9284 8372, economics@westpac.com.au