

ACCI–Westpac

Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

178th report March quarter 2006

- The Westpac–ACCI composite index suggests activity conditions softened moderately in the March quarter, remaining well down on the strong conditions seen in 2004. The index is under the decade average, implying sub–trend growth.
- General business sentiment, after deteriorating since 2004, rebounded to its historical average in the March quarter.
- Weakness in all components of the actual composite index, particularly new orders and output, has tempered expectations for a seasonal improvement next quarter, driving a pullback in the composite expectations index.
- A bounce in the ‘labour harder to get’ indicator suggests the skilled labour market remains historically tight, but overall labour demand continues to soften, with the labour market composite falling further in its downtrend from the 2004 peak.
- Despite the increased difficulty of finding suitable labour in the quarter, manufacturing wage expectations continued to weaken as margins remain under pressure, pointing to decelerating wage inflation through 2006.
- Selling prices fell for the 3rd consecutive quarter, contrary to predictions of a rise. Pressure on unit costs has raised expectations for price increases next quarter, but outcomes have fallen short of predictions in 6 of the last 7 quarters.
- Investment intentions indicators softened in the quarter. While the composite index remains consistent with expanding business investment spending, it suggests the growth rate will slow from the strong pace of recent years.
- Export deliveries and expectations eased slightly in the March quarter, but remain relatively firm on an historical basis.



Contents

Key survey results	3
The business cycle & economic outlook	4
Activity & orders	5
Investment & profitability	6
The labour market	7
Prices & inflation	8
Other results	9
Summary of survey results	10

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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 178th consecutive survey was conducted in the week ending 3 March 2006. A total of 260 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 2006.

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

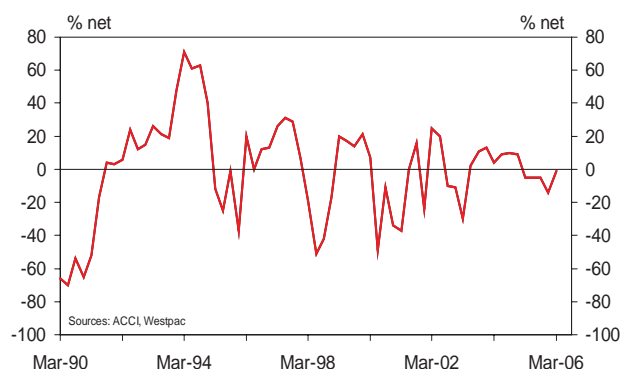
General business situation

	Q4 2005	Q1 2006
Net balance	-14	-1

- There was a strong recovery, on balance, in business expectations in the March quarter 2006. The proportion of respondents expecting an improvement in the general business situation in the next six months was well up (22% vs 13%). The proportion predicting a deterioration was lower (23% vs 27%), resulting in a net balance of -1% (versus -14% in the previous quarter). Well over half the respondents (55% vs 61%) expected no change.

General business situation

Next six months



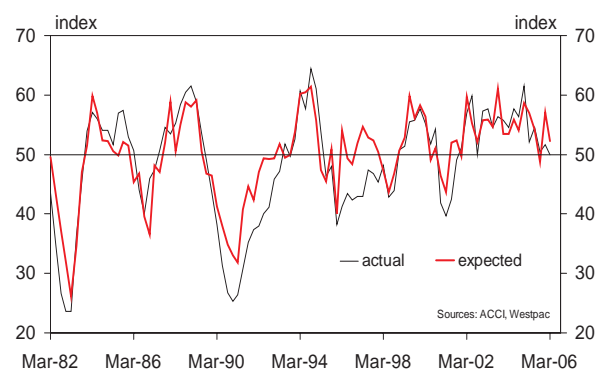
Westpac-ACCI composites, seasonally adjusted

	Q4 2005	Q1 2006
Actual – net balance	51.6	49.9
Expected – net balance	57.1	52.3

- The Actual Composite index deteriorated in the March quarter, with the index falling 1.7pts to 49.9 after a 1.2pt rise previously, back below the decade average of 51.0.
- It implies growth has continued to slow from the 2004 peak. The fall in the Actual Composite from last quarter was driven by softer than usual seasonal weakness in all components, particularly new orders and output.
- The Expected Composite index fell 4.8pts to 52.3, below the decade average of 52.9. Weakness in actuals have tempered expectations for some seasonal improvement in Q2 in most components, while new orders expectations are unseasonably weak.

Westpac-ACCI composite indexes

Actual & expected, sa

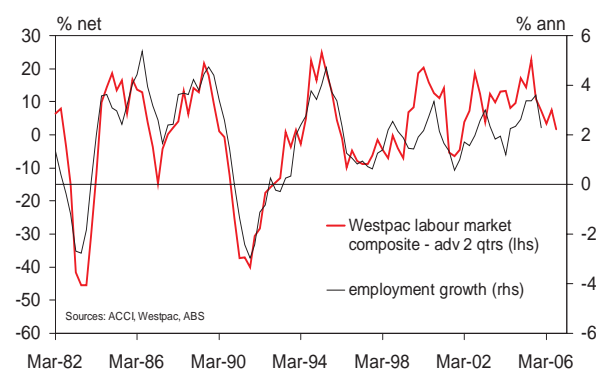


Westpac-ACCI labour market composite

	Q4 2005	Q1 2006
Net balance	7	2

- Labour demand in manufacturing deteriorated in the March quarter with the net balance of the Labour Market Composite index falling to 2 from 7, well below the 2004Q4 peak of 23 and the decade average of 6.
- The index has provided a reliable guide to future employment growth, and suggests the slowdown underway will continue into 2006H2, although the pace of deterioration should moderate from here.

Jobs growth to moderate further



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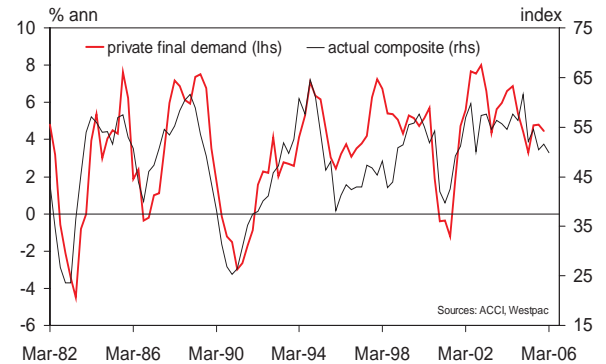
The business cycle & economic outlook

Westpac-ACCI survey & the business cycle

- The Westpac-ACCI Actual Composite has a solid track record of predicting near-term economic growth, including picking turning points in the economic cycle.
- The fall in the index is consistent with a further slight slowing in demand growth in the March quarter from a soft 2005H2.
- The Composite index is consistent with sub-trend demand growth with the index below its decade average. But, it remains above the levels associated historically with outright contractions in demand.

Manufacturing & the business cycle

Westpac-ACCI composite index & private demand

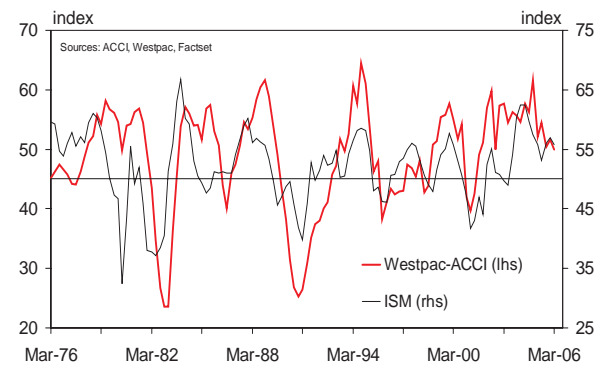


Australian & US manufacturing surveys

- The US and Australian manufacturing cycles have a tendency to move broadly in tandem. A moderation is evident in both economies since 2004, although the extent of this slowing has tempered most recently in the US with some improvement since mid-2005.
- The US manufacturing ISM survey readings are well below the highs seen in late 2003 and early 2004, but are above the recent lows seen in 2005Q2. The ISM index has averaged 55.75 so far for 2006Q1, down slightly from 2005Q4, although at a level well above 50, the index remains consistent with expanding US manufacturing activity.

Australian & US manufacturing surveys

Westpac-ACCI & ISM composite indexes

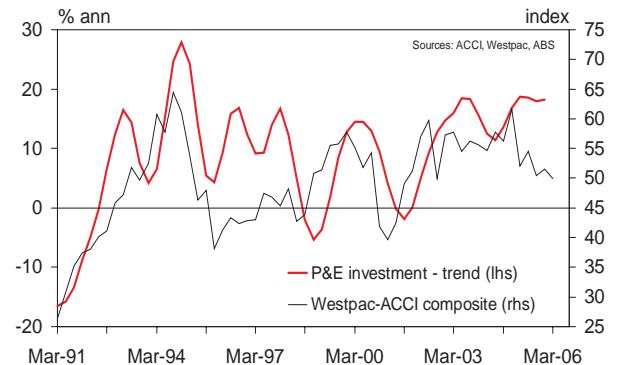


Westpac-ACCI survey & business investment

- The Actual Composite index also has a firm leading relationship with business investment spending, particularly on plant and equipment. The uptrend in the index from its trough in 2001 was an accurate predictor of the subsequent boom in business investment.
- The current level of the Composite remains consistent with business investment adding to economic growth in 2006, although the clear downtrend in the index from its 2004Q4 peak suggests the pace of investment growth will slow from the strong pace of recent years. The backdrop of healthy corporate balance sheets and firm world growth is supportive, although a softening in capacity utilisation and profit expectations is less so.

Activity & capital investment

Westpac-ACCI composite & plant & equipment investment



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Activity & orders

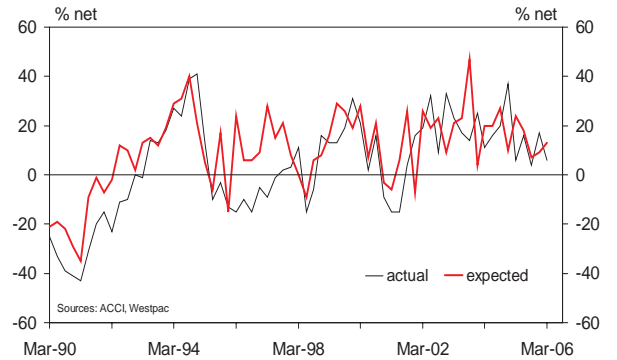
Output

	Q4 2005	Q1 2006
Actual – net balance	17	6
Expected – net balance	9	13

- In line with predictions of three months ago, the net output indicator declined in the March quarter 2006. The proportion of respondents reporting a rise was unchanged (28%), while those recording a decline doubled (22% vs 11%), resulting in a lower net balance of 6% (vs 17%). However, predictions for the next three months strengthened (13% vs 9%).

Output growth

Actual & expected



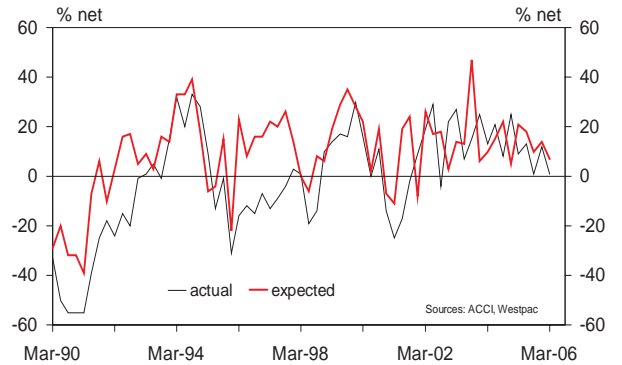
New orders

	Q4 2005	Q1 2006
Actual – net balance	12	1
Expected – net balance	14	7

- The actual outcome for new orders was well below predictions of three months ago. The proportion of respondents reporting an increase in new orders remained unchanged (27%). However, the proportion reporting a decline was well up (26% vs 15%), resulting in a much lower net balance of 1% (vs 12%). Net forward projections for the next three months halved (7% vs 14%).
- In line with predictions, the net indicator for the backlog of new orders declined in the March quarter 2006 (-6% vs -2%). A further decrease in the backlog is expected in the June quarter 2006 (-4% vs -7%).

New orders

Actual & expected



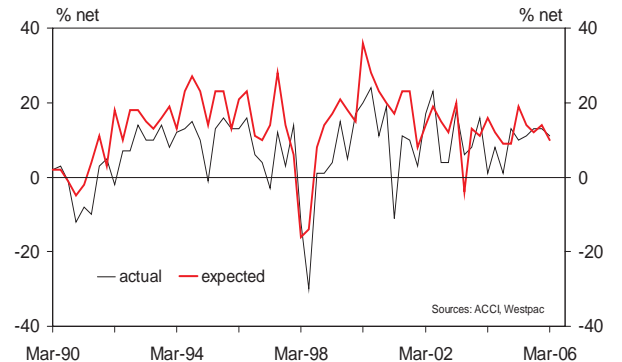
Exports

	Q4 2005	Q1 2006
Actual – net balance	13	11
Expected – net balance	14	10

- Export deliveries remained strong, albeit easing marginally in the March quarter 2006 (11% vs 13%). The proportion of respondents reporting a rise in export deliveries eased (16% vs 18%). Those recording a decline was unchanged (5%), resulting in a net outcome of 11% (vs 13%). While easing modestly, predictions for the next three months remained firm, albeit easing modestly (10% vs 14%).

Export deliveries

Actual & expected



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Investment & profitability

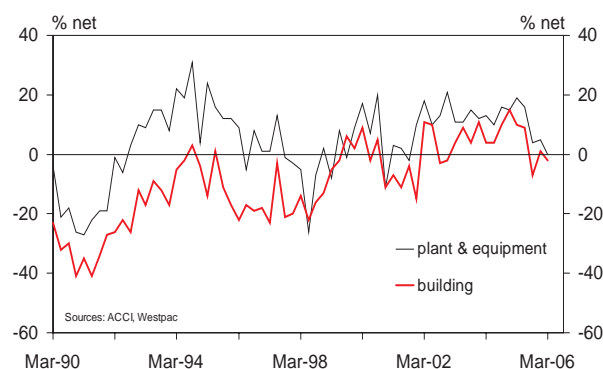
Investment intentions

	Q4 2005	Q1 2006
Plant & Equipment – net balance	5	0
Building – net balance	1	-2

- On balance, manufacturers' plans for investment spending on plant and equipment in the next 12 months eased in the March quarter 2006. Of the manufacturers surveyed, 19% (vs 21%) reported plans to increase their spending. The proportion expecting a decline rose (19% vs 16%), resulting in a net balance of 0% (vs 5%).
- Spending plans for buildings and structures also eased. Of the respondents, an unchanged 18% predicted an increase in their capital expenditure on buildings and structures. However, a higher 20% (vs 17%) expected a decline, resulting in a net balance of -2% (vs 1%). This remains a relatively high result in historical terms.

Investment intentions

Next twelve months

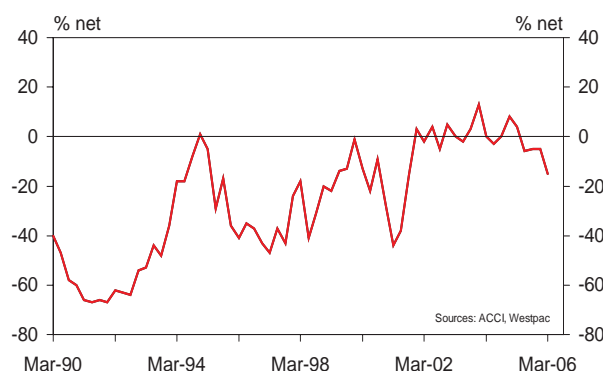


Capacity utilisation

	Q4 2005	Q1 2006
Net balance	-5	-15

- The reported level of capacity utilisation was well down in the March quarter 2006, albeit still relatively firm from an historical perspective, after holding steady for three quarters. The proportion of respondents who reported working above their normal capacity eased marginally (13% vs 14%). Those working below their normal capacity moved higher (28% vs 19%), resulting in a net balance of -15% (vs -5%). However, well over half the respondents (59% vs 67%) reported working at normal capacity levels.

Capacity utilisation



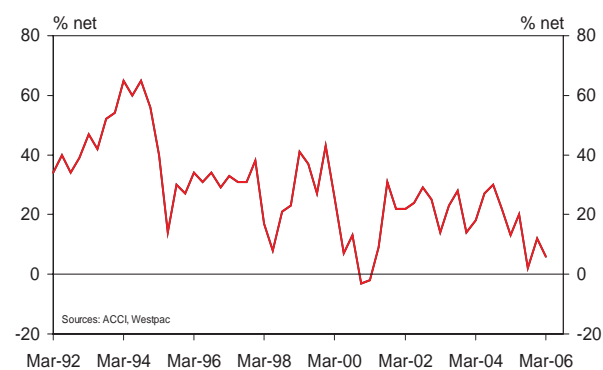
Profit expectations

	Q4 2005	Q1 2006
Net balance	12	6

- While remaining positive, profit expectations declined in the March quarter 2006. The proportion expecting higher profits in the next 12 months rose marginally (31% vs 30%) but those predicting a decline was also higher (25% vs 18%), resulting in a halved net balance of 6% (vs 12%).

Profit expectations

Next twelve months



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The labour market

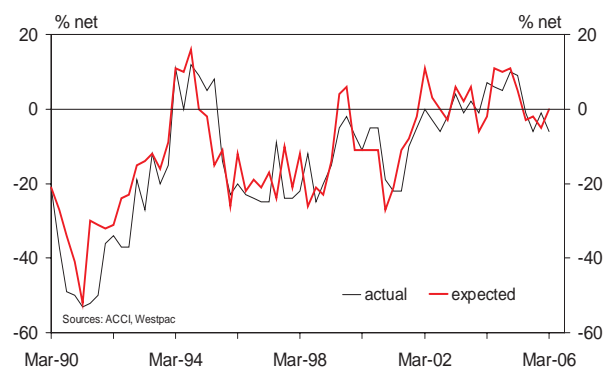
Numbers employed

	Q4 2005	Q1 2006
Actual – net balance	-1	-6
Expected – net balance	-5	0

- In line with predictions, the labour market softened in the March quarter 2006. The proportion of respondents reporting an increase in numbers employed continued to ease (12% vs 13%). Those reporting a decrease was higher (18% vs 14%), resulting in a net balance of -6% (vs -1%). However, the net outlook for the next three months has firmed (0% vs -5%).

Numbers employed

Actual & expected



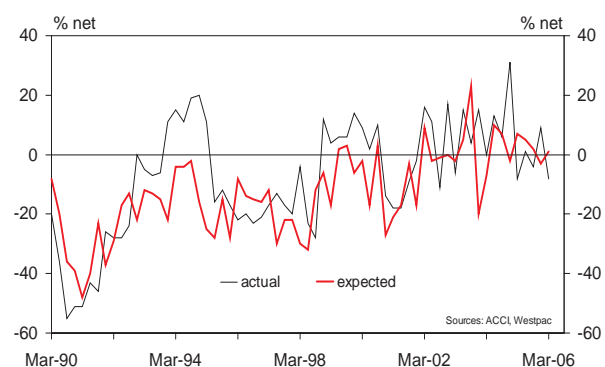
Overtime worked

	Q4 2005	Q1 2006
Actual – net balance	9	-8
Expected – net balance	-3	1

- Reflecting the softer employment outcome the overtime worked indicator was much weaker, declining more than predicted three months ago. Of the respondents, a virtually unchanged 24% (vs 23%) reported higher levels of overtime worked. However, the proportion reporting a decline more than doubled (32% vs 14%), resulting in a negative net outcome of -8% (vs 9%). On balance, a slight firming of overtime worked was predicted for the next three months (1% vs -3%).

Overtime worked

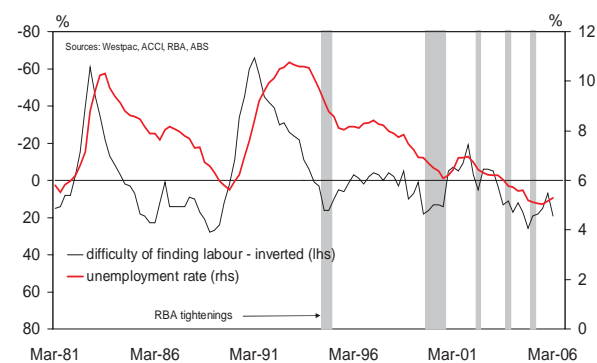
Actual & expected



Labour market tightness

- Despite the weaker Labour Market Composite index, Westpac-ACCI survey respondents continue to report difficulty in finding appropriately skilled labour. A net balance of 19% reported that labour was 'harder to get', up from 7% last quarter and back in line with readings in the first three quarters of 2005. However, it remains below the 2004Q4 peak of 26%.
- With the Labour Market Composite implying a further slowing in employment growth, we do not expect this latest rise in the 'harder to get' net balance to halt the gradual uptrend underway in the unemployment rate, which has already risen to 5.3% from a low of 5.0%.

Difficulty of finding labour



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Prices & inflation

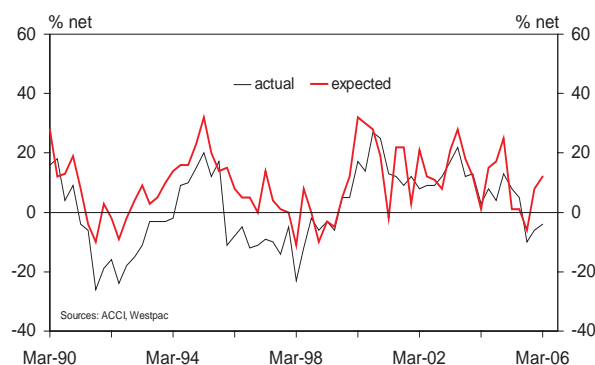
Average selling prices

	Q4 2005	Q1 2006
Actual – net balance	-6	-4
Expected – net balance	8	12

- Well below predictions of three months ago, the net average selling prices indicator remained negative in the March quarter 2006. The proportion of respondents reporting price increases rose (14% vs 10%). Those reporting a decline was also higher (18% vs 16%), resulting in net outcome of -4%. On balance, prices were again predicted to rise in the next three months (12% vs 8%).

Average selling prices

Actual & expected



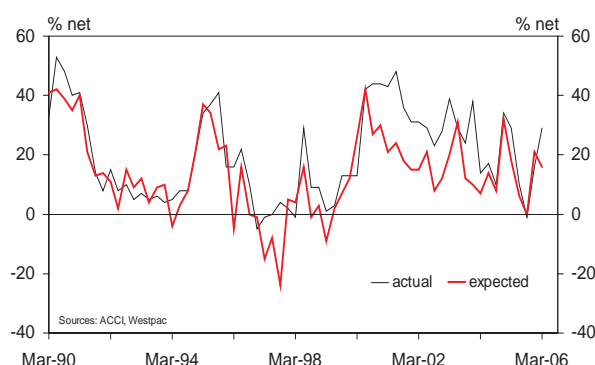
Average unit costs

	Q4 2005	Q1 2006
Actual – net balance	16	29
Expected – net balance	21	16

- Cost rises again exceeded predictions. Reflecting in part higher petroleum prices, the net average unit costs indicator almost doubled in the March quarter 2006. The proportion of manufacturers surveyed reporting rising costs was well up (35% vs 24%). Those recording decreases eased (6% vs 8%), resulting in a much higher net balance of 29% (vs 16%). However, the pace of cost increases is expected to abate in the next three months (16% vs 21%).

Average unit costs

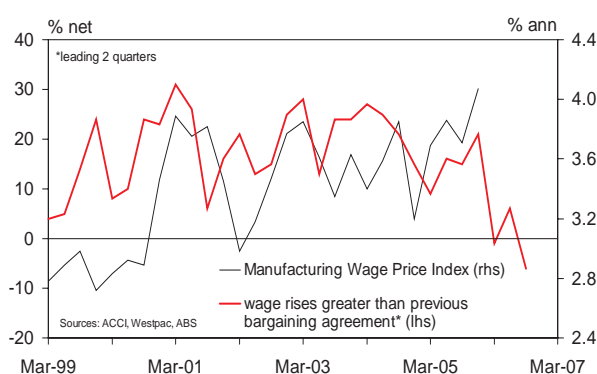
Actual & expected



Manufacturing wages

- Despite the higher reported difficulty of finding labour, the survey is clearly pointing to a slowing in manufacturing wage growth this year. A 6% net balance of respondents expect wage rises in their firm's next round of enterprise agreements to be lower than the previous agreement (vs 6% net balance expecting a higher outcome last survey). This is the weakest reading on this indicator since 1998Q2.
- This is consistent with the Labour Market Composite that implies a further slowing in employment growth and a gradually rising unemployment rate. Firms may still report difficulty finding labour, but they are not prepared to pay higher wages with weakening margins.

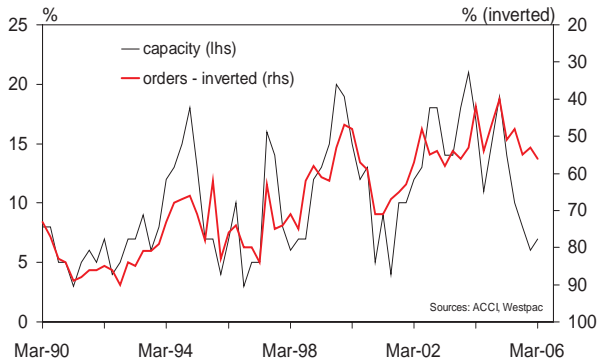
Manufacturing wages set to decelerate



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Other results

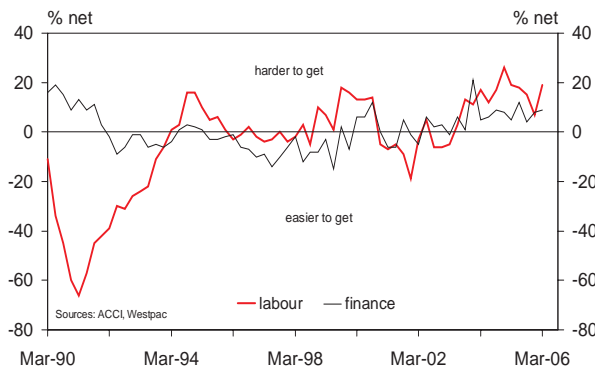
Key factor limiting production
% of respondents



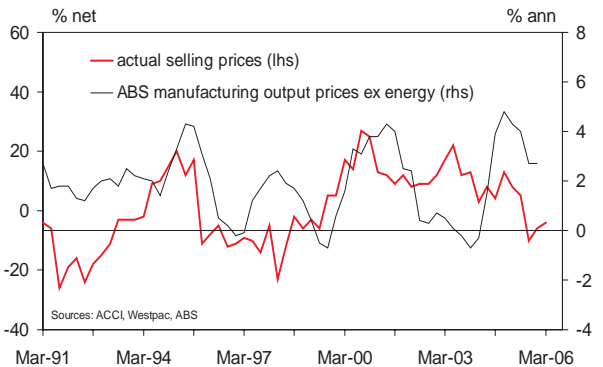
Factors limiting production

	Q3 2005	Q4 2005	Q1 2006
Orders (%)	55	53	56
Capacity (%)	8	6	7
Labour (%)	2	2	6
Finance (%)	2	3	3
Materials (%)	4	4	6
None (%)	9	13	8
Other (%)	20	19	14

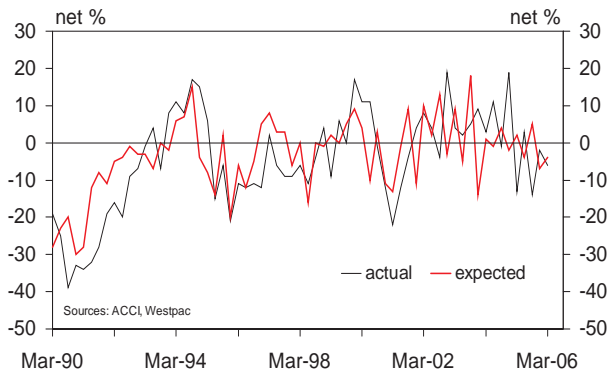
Availability of labour & finance



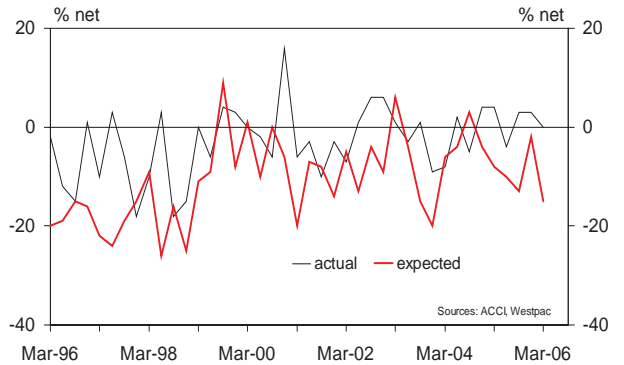
Upstream price pressures have peaked



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
-1%	22%	55%	23%

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

Net balance	Above normal	Normal	Below normal
-15%	13%	59%	28%

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

Orders	56%	Finance	3%
Capacity	7%	Labour	6%
Materials	6%	None	8%
Other	14%		

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?	+19%	22%	75%	3%
(b) finance?	+9%	13%	83%	4%

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?	-2%	18%	62%	20%
(b) on plant & machinery?	0%	19%	62%	19%

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	-6%	12%	70%	18%	0%	13%	74%	13%
7. Overtime worked	-8%	24%	44%	32%	+1%	19%	63%	18%
8. All new orders received	+1%	27%	47%	26%	+7%	26%	55%	19%
9. Orders accepted but not yet delivered	-6%	15%	64%	21%	-4%	12%	72%	16%
10. Output	+6%	28%	50%	22%	+13%	28%	57%	15%
11. Average costs per unit of output	+29%	35%	59%	6%	+16%	22%	72%	6%
12. Average selling prices	-4%	14%	68%	18%	+12%	24%	64%	12%
13. Export deliveries	+11%	16%	79%	5%	+10%	15%	80%	5%
14. Stock of raw materials	+1%	14%	73%	13%	-6%	9%	76%	15%
15. Stocks of finished goods	0%	14%	72%	14%	-15%	5%	75%	20%

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Summary of results

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

(a) Improve?	31%
(b) Remain unchanged?	44%
(c) Decline?	25%
Net balance	+6%

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?	10%
(b) Same?	74%
(c) Less?	16%
Net balance	-6%

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	10
Textiles, fabrics, floor coverings, felt, canvas, rope	2
Clothing, footwear	5
Wood, wood products, furniture	5
Paper, paper products, printing	5
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	10
Non-metallic mineral products: glass, pottery, cement bricks	8
Basic metal products: processing, smelting, refining, pipes & tubes	4
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	8
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	10
Other machinery & equipment: electrical, industrial scientific, photographic	20
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
48%	13%	20%	19%

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

WA	SA	VIC	NSW	QLD	TAS
6%	11%	27%	37%	14%	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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