

# ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

## 192<sup>nd</sup> report September quarter 2009 (survey conducted 27 July – 11 September)

- The Westpac–ACCI Actual Composite Index rose 9.8pts to 48.2 in 2009Q3, building upon a 3.9pt rise previously to reach its highest since 2008Q3. The Index remained below its decade average (52.1) for the fifth consecutive quarter, although is approaching the 50 break–even level that signals an end to contracting activity.
- Expanding activity is predicted for the December quarter, with the Expected Composite Index rising a solid 7.1pts to 54.7, its highest since 2007Q4. This level is consistent with growth (above 50) at an above-par pace (decade average is 52.8).
- General business sentiment continued its rapid recovery, up 46pts after the previous Survey's 57pt leap to a net +42, the highest since 1994Q3, encouraged by further signs of global recovery, stronger Australian demand, and rising new orders.
- The Labour Market Composite net balance improved by 13pts to –12, but remains below its decade average (+5). It has reached a level historically consistent with annual jobs growth turning positive in 2010H1, although prior levels imply negative jobs growth through 2009H2. Also, the gain was led by improvements in expectations components, while actual employment continued to contract rapidly at a faster pace than prior predictions.
- Our measure of labour market conditions indicated a slight tightening with the net balance increasing from –33% to –29%. However, this measure still indicates the third easiest quarter in labour market conditions since the 1990/91 recession and is historically consistent with an unemployment rate of around 8%.
- Financial conditions tightened a little. The net balance of respondents reporting finance as 'harder to get' edged up to 16% from 11% but remains well below the record of 40% which registered in the March quarter 2009.
- With improving business expectations and confidence, investment plans have firmed further, although remain well below their decade average. The Actual Composite Index is back in the region consistent with rising investment on an annual basis.
- This relative weakness in investment plans is consistent with ongoing weakness in capacity utilisation. Despite solid improvements in most components of the Survey capacity utilisation only improved from a very weak –29 to –27.
- Export deliveries were below prior predictions, but firmed, recording their first positive net outcome since 2008Q3.
- Selling prices fell sharply and while a Q4 rise is expected, actuals continue to undershoot. Unit cost pressures are easing.

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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 192<sup>nd</sup> consecutive survey was closed in the week ending 11 September 2009. A total of 298 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 December 2009.

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](http://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](mailto:economics@westpac.com.au) or fax us on +61 2 8254 6934 or write to Westpac Economics at Level 2, 275 Kent Street, Sydney NSW 2000. Please state your full name, telephone/fax number and company details on all correspondence. © 2009 Westpac Banking Corporation.

# Key survey results

## Westpac-ACCI composites, seasonally adjusted

	Q2 2009	Q3 2009
Actual – composite index	38.3	48.2
Expected – composite index	47.6	54.7

- The Actual Composite Index rose 9.8pts to 48.2 (highest since 2008Q3) in the September quarter, building upon a 3.9pt rise previously, in line with respondents' prior predictions embodied in the June quarter survey's Expected Composite Index.
- The Index remained below its decade average (52.1) for the fifth consecutive quarter, although is approaching the 50 break-even level that signals an end to contracting activity. The main drivers of the improvement were a resumption of growth in new orders and the order backlog, and a far milder contraction in output. These were slightly reinforced by a marginally milder fall in employment and overtime.
- Expansion is expected in Q4 at an above-par pace (decade average 52.8) with the Expected Composite Index rising 7.1pts to 54.7 (highest since 2007Q4).

## Westpac-ACCI labour market composite

	Q2 2009	Q3 2009
Net balance	-25	-12

- Labour demand indicators improved in the September quarter with the net balance of the Labour Market Composite Index rising 13pts to -12, the highest since 2008Q3, although still well below its decade average (+5).
- This index provides a guide to future jobs growth across the aggregate economy. At -12, the net balance is now high enough to be historically consistent with annual jobs growth turning positive in 2010H1, although prior reads are consistent with further weakness in the interim through 2009H2. The improvement in the index was led by milder falls in actual overtime, growth in expected overtime and steady expected employment, with only marginal support from the slightly lesser fall in actual employment.
- The index remains below the lows of the 2000/01 (-7) and 1996/97 (-10) slowdowns.

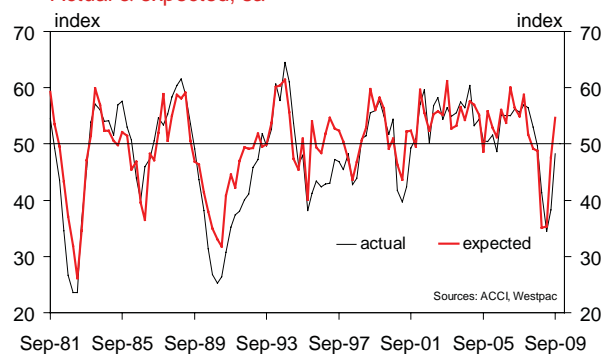
## General business situation

	Q2 2009	Q3 2009
Net balance	-4	42

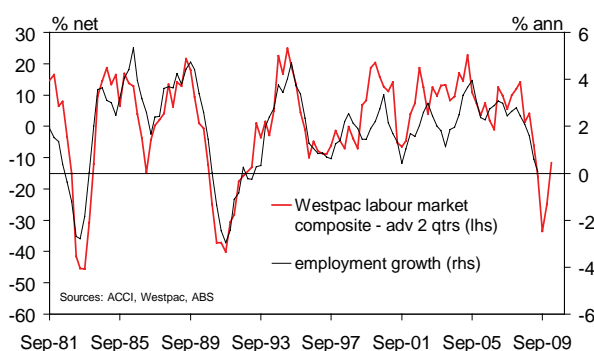
- Reflecting the continuing further strengthening of actual and projected outcomes, and the gradually improving albeit still uncertain global economic outlook, there has been a further dramatic upswing in general business expectations. However, as yet, this result has not been matched by the actual employment indicator. The proportion of respondents predicting an improvement in the general business situation in the next six months has more than doubled from 23% to 50%. Only 8% (vs 27% previously) predicted a deterioration while 42% (vs 50%) expected no change, resulting in a net balance of 42% (vs -4% three months ago), the highest since 1994Q3.

## Westpac-ACCI composite indexes

Actual & expected, sa

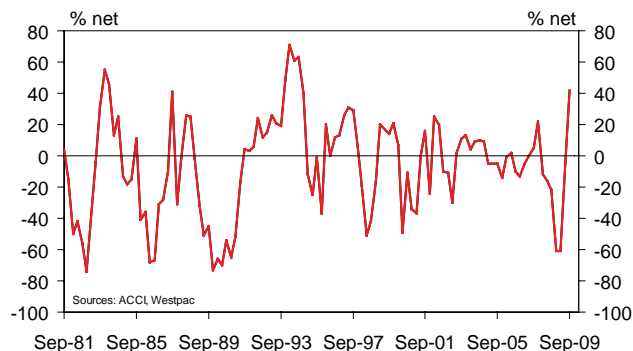


## Jobs growth to recover 1H10 after soft 2H09



## General business situation

Next six months



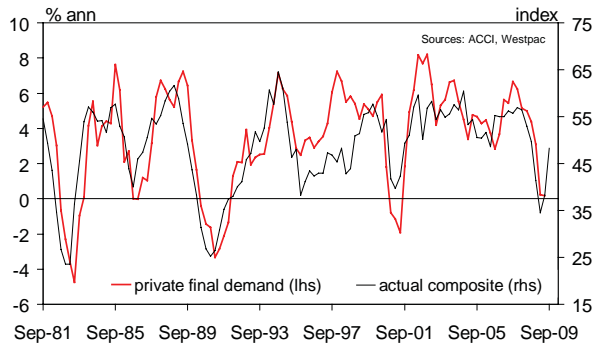
# The business cycle & economic outlook

## Westpac-ACCI survey & the business cycle

- The Westpac-ACCI Actual Composite Index has a solid track record of predicting near-term private final demand growth, including identifying cycle turning points.
- While the sub-50 read for the index remains consistent with contracting manufacturing activity, its strong September quarter rise has lifted it to levels consistent with an acceleration in annual growth in private final demand in Q3, after the Q2 National Accounts showed a solid 0.8%qtr rebound which held annual demand growth steady at 0.2%yr.
- At a level of 48.2, the Actual Composite Index remains below its decade average (52.1). However, in being well above 37, the Index is now clearly in the territory historically consistent with positive annual growth in private final demand.

## Manufacturing & the business cycle

Westpac-ACCI composite index & private demand

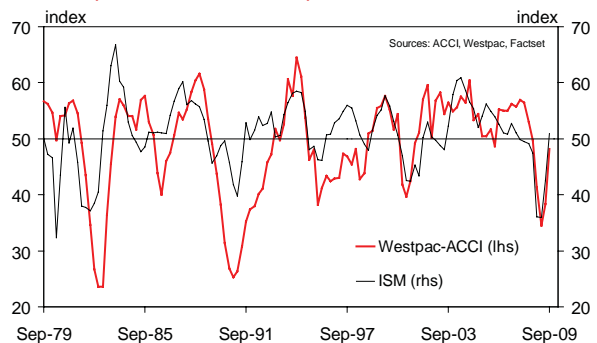


## Australian & US manufacturing surveys

- The US and Australian manufacturing cycles have an historical tendency to move broadly in synch. Through 2008, Australian manufacturing conditions deteriorated in a catch up to prior falls in US conditions. The June quarter 2009 saw Australian conditions improve along with the US, albeit by a lesser extent. The September quarter saw stronger improvements for both Australian and US manufacturing conditions, although Australian conditions remained in slight contractionary territory while US conditions are back in expansionary territory.
- The US manufacturing ISM survey printed in expansionary territory in August after seven consecutive quarters in contractionary territory (in comparison, the Australian index has been in contractionary territory for five straight quarters). The US index has averaged 50.90 so far in the September quarter, up from a June quarter average of 42.57, the highest since 2007Q3.

## Australian & US manufacturing surveys

Westpac-ACCI & ISM composite indexes

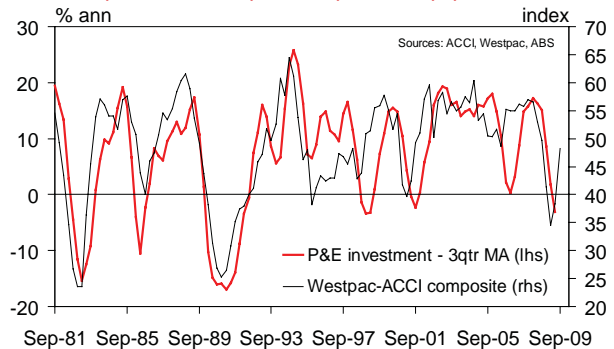


## Westpac-ACCI survey & business investment

- The Actual Composite Index also has a leading relationship with business investment spending across the aggregate economy, particularly on plant and equipment.
- The sharp September quarter improvement in the Actual Composite Index has now returned it to the territory consistent with resumed growth in manufacturing investment spending. Twelve month investment plans have also improved over the last two quarters.
- The level of the Index is back in the region associated with rising total plant and equipment investment on a through-year basis. The strong policy-augmented rebound in private final demand, improving orders, recovery in profit expectations, diminishing finance constraint and an increased proportion nominating capacity as an expansion constraint have boosted the investment outlook.

## Activity & capital investment

Westpac-ACCI composite & plant & equipment investment



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# Activity & orders

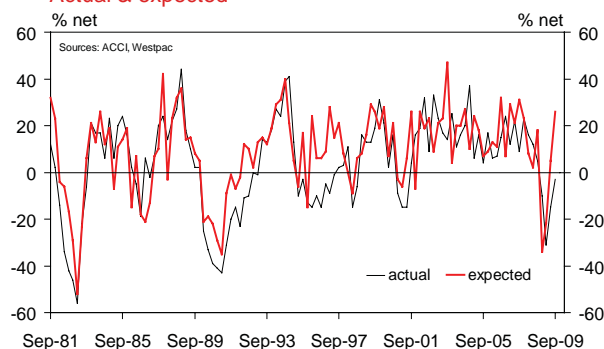
## Output

	Q2 2009	Q3 2009
Actual – net balance	-15	-3
Expected – net balance	5	26

- While still negative and short of predictions, the net balance of the actual output indicator improved markedly in the September quarter 2009, in line although not as strongly as general business expectations. The proportion of respondents reporting a rise in output remained virtually unchanged, edging up from 21% to 22%. However, those recording a decrease fell markedly (25% vs 36%), resulting in a relatively much firmer actual net balance of -3% (vs -15% actual and 5% predicted three months ago). This result was the highest since 2008Q3, but well below its decade average (11%). On balance, a strong rise in output is predicted for the next three months (26% vs 5%) at almost double its decade average pace (14%).

## Output growth

### Actual & expected



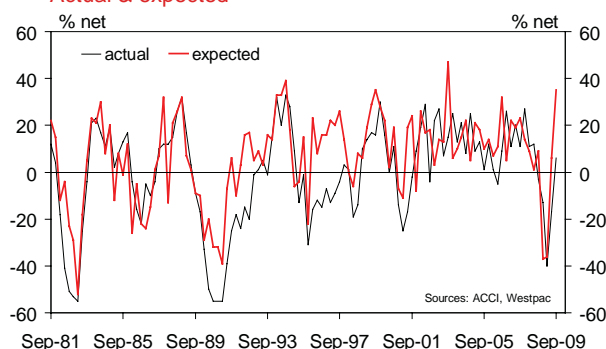
## New orders

	Q2 2009	Q3 2009
Actual – net balance	-17	6
Expected – net balance	6	35

- The markedly stronger and positive result for new orders was the strongest since 2008Q2, and exactly matched expectations, while forward predictions for the December quarter 2009 are very strong (35% vs 6%, strongest prediction since 2003Q3). The proportion of respondents reporting an increase in new orders rose strongly (31% vs 21%). Those reporting a decline was well down (25% vs 38%), resulting in a net balance of 6% (vs -17%).
- The net indicator for orders accepted but not yet delivered has soared from -32% to 4%, the strongest since 2007Q4 and well beyond prior predictions, with a more rapid rise (17% vs -13%) predicted for the December quarter 2009.

## New orders

### Actual & expected



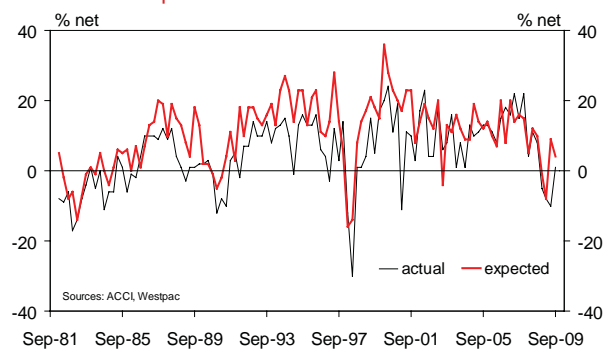
## Exports

	Q2 2009	Q3 2009
Actual – net balance	-10	1
Expected – net balance	9	4

- On balance, while well below expectations and reflecting persisting albeit abating negative trends in global trade and the stronger exchange rate of the Australian dollar, net export deliveries firmed in the September quarter 2009. The proportion of respondents reporting a rise in export deliveries rose from 7% to 10% while those recording a decline halved (9% vs 17%), resulting in a positive net outcome of 1% (vs -10%), the first positive since 2008Q3. A modest rise is predicted for the December quarter 2009 (4% vs 9%).

## Export deliveries

### Actual & expected



# Investment & profitability

## Investment intentions

	Q2 2009	Q3 2009
Plant & Equipment – net balance	-19	-5
Building – net balance	-24	-15

- While remaining subdued and well below the decade average (6%) but reflecting strong business expectations and firmer demand indicators, manufacturers' plans for investment spending on plant and equipment in the next 12 months have again relatively firmed in the September quarter 2009. The proportion of manufacturers reporting plans to increase their spending rose (22% vs 15%). Half the respondents (an unchanged 51%) again expected no change. Those expecting a decline was lower (27% vs 34%), resulting in a firmer net balance of -5% (vs -19%).
- Spending plans for buildings also firmed but have remained historically weak (decade average 0%). A virtually unchanged 11% (vs 10%) predicted an increase and 26% (vs 34%) a decline, resulting in a firmer but still negative net outcome of -15% (vs -24%). Almost two-thirds of the respondents (63% vs 56%) expected no change.

## Capacity utilisation

	Q2 2009	Q3 2009
Net balance	-29	-27

- On balance, while remaining negative and well below the decade average (-7%), the net capacity utilisation indicator in the September quarter 2009 firmed marginally, compared with the previous quarter to its highest since 2008Q4. Of the respondents, still only 12% (vs 13%) reported working above their normal capacity. The proportion working below their normal capacity levels was marginally lower (39% vs 42%), resulting in a similar negative net balance of -27% (vs -29%). However, half the manufacturers surveyed (49% vs 45%) reported working at their normal capacity levels.

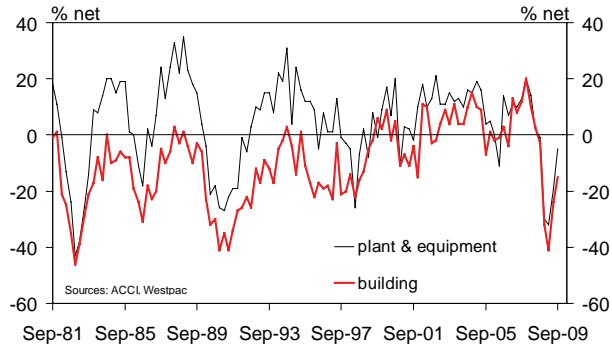
## Profit expectations

	Q2 2009	Q3 2009
Net balance	-8	13

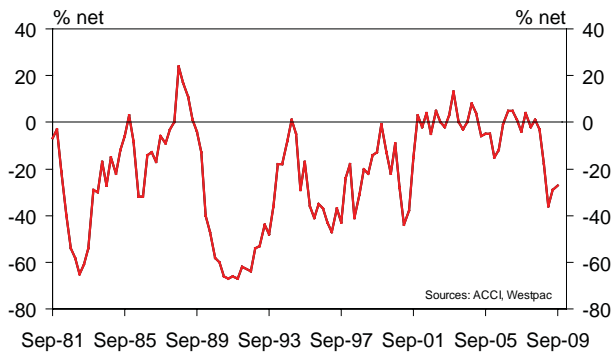
- On balance, profit expectations rose markedly, returning to their decade average (13%) in the September quarter 2009. The proportion of manufacturers surveyed expecting to achieve higher profitability in the next 12 months rose strongly from 22% to 34%. Those predicting a decline fell (21% vs 30%), resulting in a net balance of 13% (vs -8%), the strongest since 2008Q2. Close to half the respondents (45% vs 48% in the previous quarter) expected no change in their profitability levels. The recovery in profit expectations has coincided with better actual conditions, significantly stronger activity expectations, easing unit cost pressures, and has largely mirrored the rebound in general business confidence.

## Investment intentions

Next twelve months

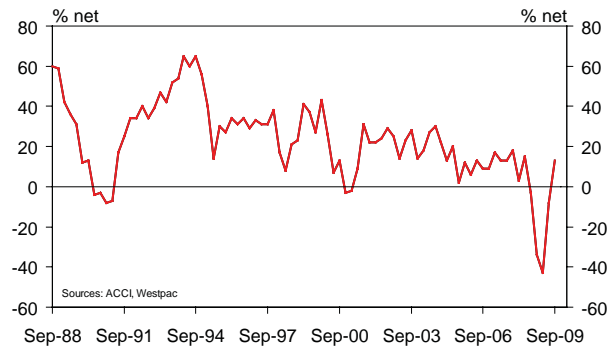


## Capacity utilisation



## Profit expectations

Next twelve months



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# The labour market

## Numbers employed

	Q2 2009	Q3 2009
Actual – net balance	-30	-26
Expected – net balance	-15	0

- Considerably weaker than predictions and contrasting with outcomes for most other results, labour market indicators remained soft, firming only marginally in the September quarter 2009. The net employment indicator has remained near its lowest level in 18 years. The proportion recording an increase in numbers employed almost halved (4% vs 7%). However, the proportion reporting a decrease was also lower (30% vs 37%), resulting in a modestly less negative net balance of -26% (vs -30%). A higher proportion than three months ago (66% vs 56%) reported no change in their employment levels. The net outlook for the next three months has firmed (0% vs -15%, with 82% expecting no change), but note that outcomes fell well short of prediction in the September quarter.

## Overtime worked

	Q2 2009	Q3 2009
Actual – net balance	-33	-16
Expected – net balance	-25	11

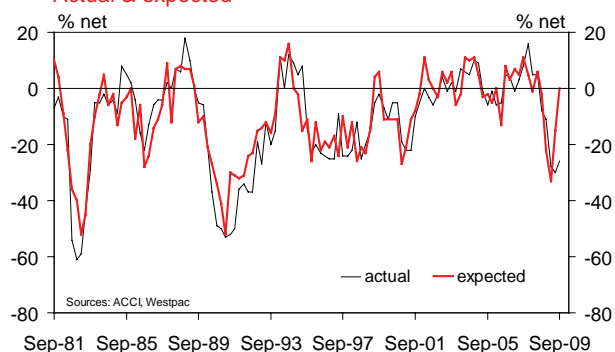
- However, overtime worked indicators are improving from their lows. On balance, while still negative but above expectations, the net outcome in the September quarter 2009 firmed and forward predictions rose markedly. The proportion of respondents reporting an increase in overtime worked rose (17% vs 13%). The proportion recording a decline was lower (33% vs 46%), resulting in a net outcome of -16% (vs -33%). The proportion reporting no change rose from 41% to 50%. With stronger activity expected for the December quarter but zero net change in employment, a much stronger net result for overtime worked is predicted for the December quarter 2009 (11% vs -25%), the strongest since 2007Q3.

## Labour market tightness

- With improved (albeit marginal for actual employment) labour demand indicators in the September quarter survey, respondents have reported a slightly 'less easy' difficulty of finding labour. The net balance reporting labour as "harder to get" rose slightly to -29% from -33%. However, this net level is not far above its low of -37%, well below its decade average (+7%) and still the third weakest result since the 1990/91 recession.
- While the Labour Market Composite is now in the territory associated with positive annual jobs growth in 2010H1, it implies a growth pace still below labour force growth, and with further jobs weakness in store in the interim, we expect the unemployment rate to continue rising through 2010H1. The current labour market tightness net balance remains consistent with a rise in the unemployment rate to around 8% from the current 5.8% (August) level.

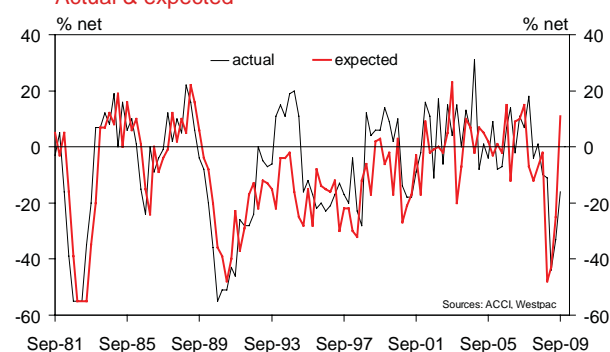
## Numbers employed

### Actual & expected

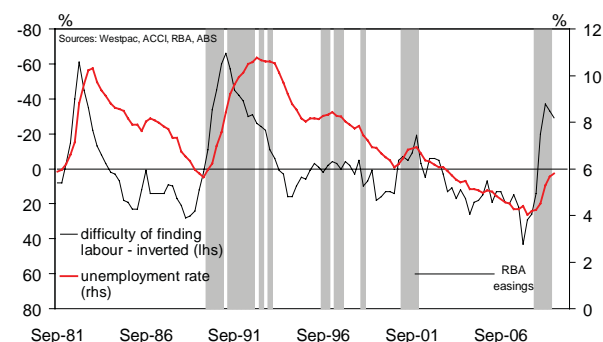


## Overtime worked

### Actual & expected



## Difficulty of finding labour



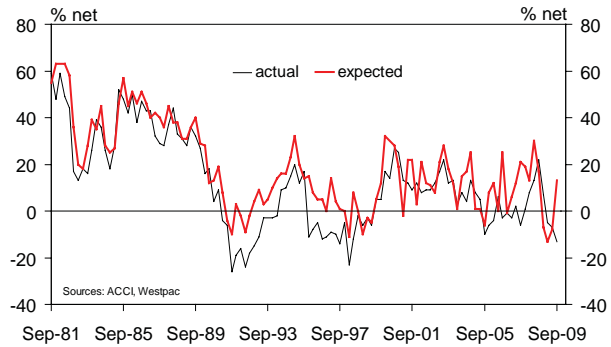
# Prices & inflation

## Average selling prices

	Q2 2009	Q3 2009
Actual – net balance	-7	-13
Expected – net balance	-8	13

- On balance, the net average selling prices declined at a faster pace than expected in the September quarter 2009. The proportion of respondents reporting price increases eased (11% vs 13%). Those recording a decline was higher (24% vs 20%), resulting in a larger negative net balance of -13% (vs -7%), the weakest since 1998Q1.
- With improved demand indicators, forward projections predict a marked reversal of this trend in the September quarter 2009 (13% vs -8%), the strongest expectation since 2008Q3. However, historically, on relatively many occasions (in 13 of the last 17 quarters) price rises achieved have fallen short of prior predictions.

## Average selling prices Actual & expected

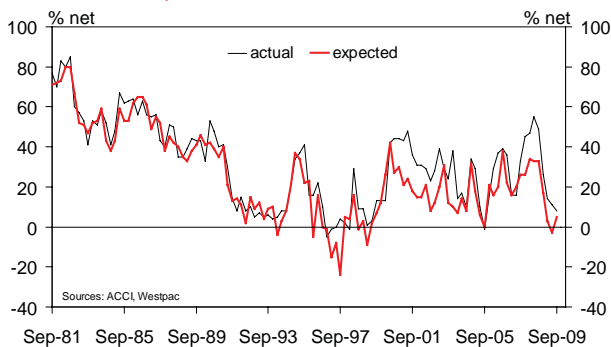


## Average unit costs

	Q2 2009	Q3 2009
Actual – net balance	11	8
Expected – net balance	-3	5

- While still above predictions, on balance, the pace of average unit cost increases eased again in the September quarter 2009 and is expected to slow down further in the next three months. The proportion of respondents reporting cost increases fell (19% vs 26%). Those reporting cost decreases also declined (11% vs 15%), resulting in a net balance of 8% (vs 11%), the weakest degree of cost pressure since 2005Q3. More than two-thirds of the respondents (70% vs 59%) reported no change. A further, albeit modest, slowing in the pace of cost increases is predicted for the December quarter 2009 (5% vs -3%).

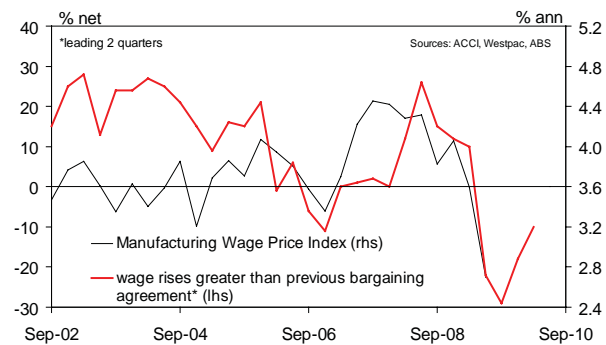
## Average unit costs Actual & expected



## Manufacturing wages

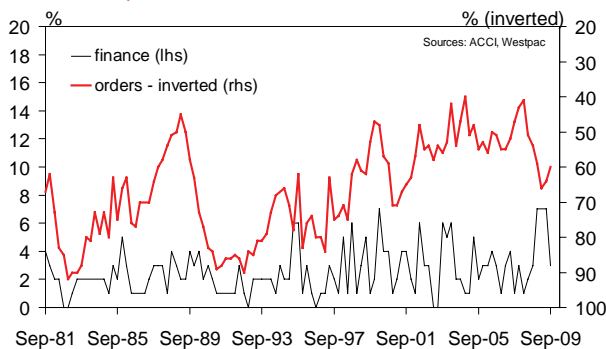
- With improved labour demand indicators and a slightly less easy "difficulty of finding labour", wage growth expectations rose moderately in the September quarter.
- A net balance of -10% (vs -18% previously) of respondents expect wage rises in their firm's next round of enterprise wage agreements bargaining to be higher than the previous outcome. While higher than in the previous projection, this net result is still historically low, well below the decade average expectation (+11%).
- The result implies a slight pick up in manufacturing wage growth in 2010H1 from (using the manufacturing wage price index) 2009Q2's 2.7%yr pace towards 3.2%yr, but well below the peak of 4.5%yr in 2007Q3.

## Manufacturing wage growth pressures



# Other results

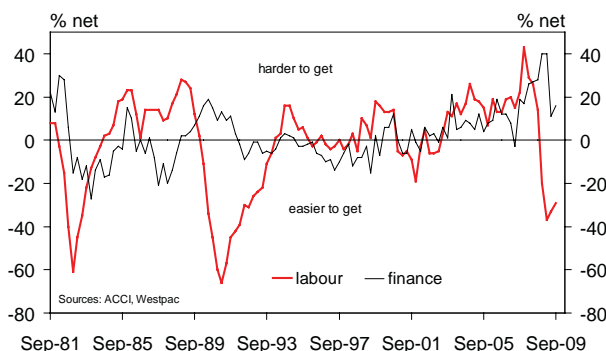
**Key factor limiting production**  
% of respondents



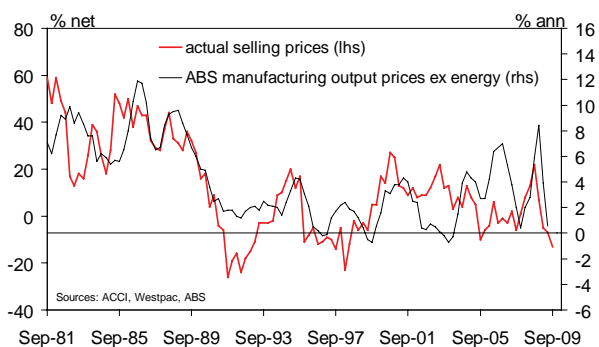
**Factors limiting production**

	Q1 2009	Q2 2009	Q3 2009
Orders (%)	66	64	60
Capacity (%)	5	4	12
Labour (%)	1	1	2
Finance (%)	7	7	3
Materials (%)	3	1	3
None (%)	6	12	9
Other (%)	12	11	11

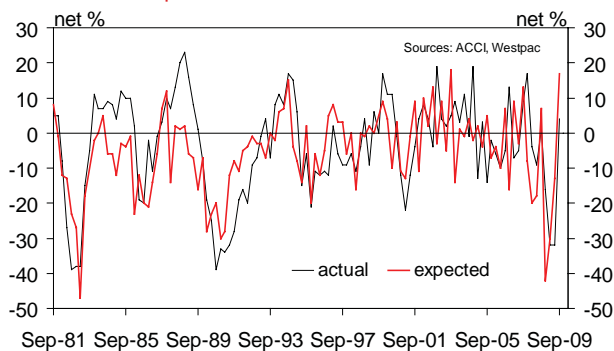
**Availability of labour & finance**



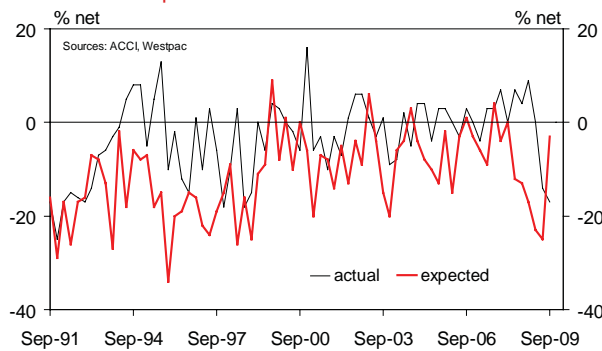
**Mfg upstream price pressures dissipate**



**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, remain the same, or deteriorate in the next six months?

<b>Net balance</b>	Improve	Same	Deteriorate
<b>42%</b>	50%	42%	8%

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

<b>Net balance</b>	Above normal	Normal	Below normal
<b>-27%</b>	12%	49%	39%

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

Orders	60%	Finance	3%
Capacity	12%	Labour	2%
Materials	3%	None	9%
Other	11%		

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

	<b>Net balance</b>	Harder	Same	Easier
(a) labour?	<b>-29%</b>	2%	67%	31%
(b) finance?	<b>+16%</b>	23%	70%	7%

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:

	<b>Net balance</b>	Greater	Same	Less
(a) on buildings?	<b>-15%</b>	11%	63%	26%
(b) on plant & machinery?	<b>-5%</b>	22%	51%	27%

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>				
	<b>Net balance</b>	Up	Same	Down	<b>Net balance</b>	Up	Same	Down
6. Numbers employed	<b>-26%</b>	4%	66%	30%	<b>0%</b>	9%	82%	9%
7. Overtime worked	<b>-16%</b>	17%	50%	33%	<b>+11%</b>	24%	63%	13%
8. All new orders received	<b>+6%</b>	31%	44%	25%	<b>+35%</b>	42%	51%	7%
9. Orders accepted but not yet delivered	<b>+4%</b>	20%	64%	16%	<b>+17%</b>	25%	67%	8%
10. Output	<b>-3%</b>	22%	53%	25%	<b>+26%</b>	35%	56%	9%
11. Average costs per unit of output	<b>+8%</b>	19%	70%	11%	<b>+5%</b>	18%	69%	13%
12. Average selling prices	<b>-13%</b>	11%	65%	24%	<b>+13%</b>	22%	69%	9%
13. Export deliveries	<b>+1%</b>	10%	81%	9%	<b>+4%</b>	12%	80%	8%
14. Stock of raw materials	<b>-17%</b>	6%	71%	23%	<b>-7%</b>	7%	79%	14%
15. Stocks of finished goods	<b>-17%</b>	9%	65%	26%	<b>-3%</b>	13%	71%	16%

## Summary of results

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

(a) Improve?	34%
(b) Remain unchanged?	45%
(c) Decline?	21%
<b>Net balance</b>	<b>+13%</b>

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?	12%
(b) Same?	66%
(c) Less?	22%
<b>Net balance</b>	<b>-10%</b>

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	14
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	5
Wood, wood products, furniture	4
Paper, paper products, printing	7
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	8
Non-metallic mineral products: glass, pottery, cement bricks	13
Basic metal products: processing, smelting, refining, pipes & tubes	4
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	11
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	8
Other machinery & equipment: electrical, industrial scientific, photographic	16
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	7

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
47%	15%	17%	21%

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

WA	SA	VIC	NSW	QLD	TAS
11%	11%	23%	35%	14%	6%

### The Westpac-ACCI Composite Indices

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

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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