

AUSTRALIAN BUSINESS EXPECTATIONS



- December Quarter 1994 / September Quarter 1995

ABS Catalogue No. 5250.0

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AUSTRALIAN BUSINESS EXPECTATIONS

December Quarter 1994 and September Quarter 1995

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AUSTRALIAN BUREAU OF STATISTICS

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INQUIRIES

- *for further information about statistics in this publication and the availability of related unpublished statistics, contact Dick Sims on Canberra (06) 252 6094 or any ABS State office.*
- *for information about other ABS statistics and services please refer to the back cover of this publication*

ABOUT THIS SURVEY

This publication presents the results of the quarterly Australian Business Expectations survey which has been developed in response to a need for better information about future trading conditions in Australia. The latest survey was conducted during August 1994.

The Business Expectations Survey is the largest and most comprehensive survey of its type conducted in Australia and is the only survey which provides both a *qualitative* indicator of business confidence (a weighted net balance) and a *quantitative* measure of expected change (a weighted aggregate) for a range of business performance indicators.

The survey is conducted by mail each quarter. The results from this survey relate to expectations in respect of the December quarter 1994 and the September quarter 1995 compared with the September quarter 1994. In addition to producing a qualitative indicator and a quantitative measure, it has the following features:

- 3,000 representative Australian businesses sampled;
- businesses of all sizes are fully represented;
- all industries except Agriculture* and General Government are represented;
- all States and Territories are represented;
- responses are weighted with respect to the size of the reporting business;
- results are produced in respect of both a short term expectation (next quarter compared with current quarter) and a medium term expectation (equivalent quarter next year compared with current quarter).

This means that the results can be used *quantitatively* for forecasting future levels of economic activity and providing early warnings about turning points in the economy.

The statistical measure used in the Business Expectations Survey is the *expected (percentage) aggregate change* in comparison with the *actual* level of a previous equivalent period.

Benchmark (or base level) information is obtained from the ABS's annual Economic Activity Survey (EAS). It is used to weight individual business responses and to provide the means whereby percentage responses from different businesses can be aggregated. Results from the EAS are published in *Business Operations and Industry Performance 1992-93* (8140.0).

An information paper which provides an outline and methodology of the survey is available on request. The next survey results are expected to be published in early January 1995.

* see the explanatory note on page 17 regarding the agriculture sector

INTRODUCTION TO RESULTS

Surveys of business expectations have been a feature of the economic forecasting intelligence available to decision makers in Australia for many years. The main output from these surveys has been a qualitative indicator which provides the net proportion of businesses expecting a rise or fall in future business conditions.

The ABS recognises that the simple *net balance* indicator is a powerful indicator of business sentiment about future business conditions. However, it considers that such indicators suffer from the limitation of being based on responses which are *unweighted* with respect to the size of the business. This means that each reporting business is given an equal weight in the overall result.

As an alternative to the net balance approach, the ABS produces both a *weighted net balance* indicator and a *weighted measure of expected (percentage) aggregate change*. The weighted net balance is calculated by assigning a weight to each selected business according to its relative economic contribution based on level of sales, expenditure, employment, etc.

The impact on the net balance indicator and aggregate change as a result of this weighting is presented in the following table.

NET PROPORTION OF BUSINESSES EXPECTING AN INCREASE OR DECREASE, SEPTEMBER QUARTER 1994

	<i>Simple Net Balance</i> %	<i>Weighted Net Balance</i> %	<i>Weighted aggregate</i> %
Sales	46.8	42.8	2.3
Wage Costs	47.1	45.1	1.5
Employment	21.0	21.7	0.5

That is, for the December quarter 1994 a positive simple net balance of 46.8 per cent of businesses expect an increase in sales. The slightly lower weighted net balance of 42.8 per cent tends to indicate that large businesses are having a very small effect on the level of sales. In previous quarters the effect of large businesses on performance indicators has been more pronounced, however this quarters expectations have been similar for businesses of all sizes as can be seen by the closeness of the simple net balance and the weighted net balance.

The expected aggregate change measure is calculated by deriving the weighted averages of the responses provided by businesses. Tables 1 and 3 present data for the expected aggregate change for five quarters of the survey and Tables 2 and 4 include both the weighted net balance and the expected aggregate change. The 42.8 per cent positive weighted net balance of businesses expecting sales to increase in the December quarter 1994 translates to an expected aggregate increase of 2.3 per cent.

The net balance is, therefore, more in the nature of an *indicator of business confidence* while the expected aggregate change measure is a *measure of likely change in economic activity* resulting from that state of confidence.

Seasonal influences and price variations

The data presented in this publication cannot currently be adjusted for the impact of seasonal influences or for price variations which may occur between the current period and the expectations periods.

Caution should be exercised in comparing the results across quarters as seasonal influences may outweigh changes in economic conditions.

It will be at least five years until this survey will have sufficient data (five years of each quarter's data) to allow a reliable seasonally adjusted series to be estimated. However, with survey results now available for five quarters the opportunity is available to analyse, largely free of seasonal influences, the results from the latest survey with those for the comparable reference period of the previous year.

Users wanting to discern a trend in expectations are encouraged to study consecutive observations for the medium term outlook, where comparisons are made between the current quarter and the same calendar quarter of the next year.

Size of business

The size of a business has been determined by the amount of employment of each business, and the industry to which that business is classified.

PROPORTION OF BUSINESSES SELECTED BY SIZE WITHIN AUSTRALIA, SEPTEMBER QUARTER 1994

	<i>Small</i> %	<i>Medium</i> %	<i>Large</i> %	<i>All business</i> %
Australia	44.1	20.0	35.9	100

Benchmarks

The actual data used by BES to benchmark data items is historical and becomes increasingly out of date as the number of the surveys increase. In May of each year a new sample is selected and new benchmarks introduced.

KEY RESULTS

SHORT TERM OUTLOOK

Expected change for the December quarter 1994 compared with the September quarter 1994

Seasonality

Caution should be exercised when interpreting movements in business performance indicators within each survey and across successive surveys because the data are presented in original terms and any inherent seasonal influences in the data are not currently measurable.

Expected changes in economic activity reported in this publication in and across the September and December quarter periods may be the result of seasonal influences in addition to any underlying movement in trading performance.

Table 1. Australian Business Expectations - Short Term Outlook
(Not seasonally adjusted)

Business performance indicators	Expected percentage aggregate change between				
	Dec qtr 1993 and Sept qtr 1993	Mar qtr 1994 and Dec qtr 1993	June qtr 1994 and Mar qtr 1994	Sept qtr 1994 and June qtr 1994	Dec qtr 1994 and Sept qtr 1994
	%	%	%	%	%
Trading performance					
Sales	3.6	-1.4	1.9	1.9	2.3
Selling prices	0.0	0.4	0.5	0.4	0.6
Profit	5.0	-19.6	4.4	8.0	10.6
Investment					
Capital expenditure	1.1	-1.2	4.2	2.5	7.7
Stocks	-1.2	-0.7	0.1	1.0	0.0
Employment (Full time equivalent)	-0.8	-1.1	-0.2	-0.1	0.5
Operating Expenses					
Wages	0.8	0.5	1.1	1.2	1.5
Non-wage labour	0.5	0.5	1.0	0.9	1.1
Other	1.7	0.3	1.3	1.0	1.3
Total	1.5	0.3	1.3	1.0	1.3
International Trade					
Imports	-1.0	-1.7	1.6	2.4	0.9
Exports	1.3	1.1	1.3	-0.1	2.2

Trading Performance

Sales

Sales of goods and services are expected to increase by 2.3 per cent for the December quarter 1994 compared with the September quarter. This is an increase on the 1.9 per cent expected for the previous quarter, but is lower than the increase expected for the December quarter 1993.

Selling prices

Businesses are expecting to raise their *prices* by 0.6 per cent in the December quarter 1994, similar to the increases expected for the three previous quarters. This small increase in selling prices may be influenced by the decrease in prices expected in the Construction, Wholesale and Electricity, gas and water industries.

Profit

A further increase in *profit*, of 10.6 per cent, is expected for the December quarter 1994, more than double the increase expected for the same quarter of 1993.

SHORT TERM OUTLOOK

(Continued)

Investment

Capital expenditure

Businesses are expecting to increase their *Capital expenditure* by 7.7 per cent in the December quarter 1994. This is three times the increase expected for the previous quarter and reflects a major positive change in business expectations compared with those of 12 months ago.

Stocks

Businesses are not expecting to further increase their *Stock* levels in the December quarter 1994 following the strong build up of *stocks* expected in the September quarter.

Employment

(Full-time equivalent)

Full-time equivalent employment is expected to increase in the December quarter 1994 by 0.5 per cent. This increase compares with the negligible 0.1 per cent decrease expected for the previous quarter. Most of the increase in *employment* is expected in the Transport, storage and communication, Construction and Retail industries.

Operating Expenses

Wage and Non-wage labour expenses are expected to increase in the December quarter 1994 at a faster rate than for the December quarter 1993 but increases in *total operating expenses* are expected to be lower than those expected 12 months ago.

International Trade

The seasonality for *imports* and *exports* between the September and December quarters has been volatile over time. *Imports* have displayed a positive trend while *Exports* have been showing a negative change.

Imports

The 0.9 per cent increase in *Imports* for the December quarter 1994 compares with the 2.4 per cent increase expected in the September quarter 1994 and a decline of 1 per cent for the December quarter 1993.

Exports

Exports are expected to increase by a weighted aggregate change of 2.2 per cent in the December quarter 1994 compared with the decrease of 0.1 per cent expected in the September quarter 1994.

Table 2. Australian Business Expectations - December Quarter 1994, Weighted Net Balance And Expected Aggregate Change

(Not seasonally adjusted)

Business performance indicators	Proportion of businesses expecting			Net balance %	Expected aggregate change %
	No Change %	Increases %	Decreases %		
Trading performance					
Sales	38.0	52.4	9.6	42.8	2.3
Selling prices	59.5	34.0	6.5	27.5	0.6
Profit	13.1	54.8	32.1	22.7	10.6
Investment					
Capital expenditure	39.4	52.4	8.2	44.2	7.7
Stocks	46.4	31.3	22.3	9.0	0.0
Employment (Full-time equivalent)	51.9	34.9	13.2	21.7	0.5
Operating Expenses					
Wages	33.7	55.7	10.6	45.1	1.5
Non-wage labour	42.8	46.8	10.4	36.4	1.1
Other	31.2	59.0	9.8	49.2	1.3
Total	n.a.	n.a.	n.a.	n.a.	1.3
International Trade					
Imports	43.1	38.1	18.8	19.3	0.9
Exports	32.4	47.3	20.3	27.0	2.2

KEY RESULTS

MEDIUM TERM OUTLOOK

Expected change for the September quarter 1995 compared with the September quarter 1994

Seasonality

For the medium term, comparisons are made between the same calendar quarter twelve months apart and it is unlikely that business expectations will be affected by seasonal influences.

Table 3. Australian Business Expectations - Medium Term Outlook

(Not seasonally adjusted)

Business performance indicators	Expected percentage aggregate change between				
	Sept qtr 1994 and Sept qtr 1993	Dec qtr 1994 and Dec qtr 1993	Mar qtr 1995 and Mar qtr 1994	June qtr 1995 and June qtr 1994	Sept qtr 1995 and Sept qtr 1994
	%	%	%	%	%
Trading performance					
Sales	2.9	3.1	3.9	3.3	4.1
Selling prices	0.6	1.3	1.3	1.5	2.1
Profit	6.8	17.8	20.4	11.7	20.9
Investment					
Capital expenditure	1.5	-0.2	0.1	2.8	15.7
Stocks	0.5	-0.2	0.1	1.4	0.6
Employment (full-time equivalent)	-0.9	-0.5	-0.1	0.3	1.1
Operating Expenses					
Wages	1.1	1.9	1.8	2.2	3.1
Non-wage labour	0.0	1.8	1.3	1.8	2.3
Other	2.5	1.6	1.7	2.1	2.3
Total	2.3	1.6	1.7	2.1	2.4
International Trade					
Imports	0.0	0.0	0.6	2.8	4.1
Exports	2.6	2.0	1.8	2.6	5.2

Trading Performance

Sales

Sales of goods and services are expected to increase by 4.1 per cent in the September quarter 1995 after the increase of 3.3 per cent expected for the June quarter 1995.

Selling prices

An increase (2.1%) in *Selling prices* is expected for the September quarter 1995 which is higher than increases expected for the four previous quarters.

Profit

A particularly strong growth in *Profit* of 20.9 per cent is expected for the September quarter 1995, the main contribution coming from the Transport, storage and communication, Property and business services, Wholesale and Manufacturing industries.

Investment

Capital expenditure

For the September quarter 1995 businesses are expecting to lift their *Capital expenditure* by 15.7 per cent, mainly in Manufacturing, Retail and Accommodation, cafes and restaurants.

MEDIUM TERM OUTLOOK

(Continued)

Employment
(Full-time equivalent)

Full-time equivalent employment is expected to increase (1.1%) in the September quarter 1995, a much stronger expected growth than the 0.3 per cent expected for the June quarter 1995.

Operating Expenses

Wage and non-wage labour expenses for the September quarter 1995 are expected to grow by 3.1 per cent and 2.3 per cent respectively. These expenses are displaying a steady growth and are the main influence on the upward trend in total operating expenses.

Wages (5.9%) and Other operating expenses (6.2%) in the Transport, storage and communications industry are having a significant impact on the overall rate of increase.

International Trade**Imports**

An increase of 4.1 per cent is expected in Imports for the September quarter 1995 with the number of businesses expecting to increase Imports outnumbering those expecting falls by almost 17 to 1.

The Manufacturing industry is expecting 5.3 per cent and Transport, storage and communication is expecting 5.0 per cent.

Exports

The increase of 5.2 per cent expected for Exports in the September quarter 1995 is double the 2.6 per cent increase expected for the June quarter 1995. The main increases are in the Mining (6.5%) and Transport, storage and communication (6.6%) industries.

Table 4. Australian Business Expectations - September Quarter 1995, Weighted Net Balance And Expected Aggregate Change

(Not seasonally adjusted)

Business performance indicators	Proportion of businesses expecting -			Net balance %	Expected aggregate change %
	No Change %	Increases %	Decreases %		
Trading performance					
Sales	14.5	80.4	5.1	75.3	4.1
Selling prices	21.9	72.3	5.8	66.5	2.1
Profit	70.6	15.1	14.3	0.8	20.9
Investment					
Capital expenditure	28.0	57.9	14.1	43.8	15.7
Stocks	49.1	34.2	16.7	17.5	0.6
Employment (Full-time equivalent)	47.2	42.3	10.5	31.8	1.1
Operating Expenses					
Wages	16.5	76.6	6.9	69.7	3.1
Non-wage labour	23.6	67.2	9.2	58.0	2.3
Other	13.5	79.2	7.3	71.9	2.3
Total	n.a.	n.a.	n.a.	n.a.	2.4
International Trade					
Imports	30.2	64.8	5.0	59.8	4.1
Exports	25.3	66.5	8.2	58.3	5.2

DETAILED RESULTS - SIZE OF BUSINESS

SHORT TERM OUTLOOK

Expected change for the December quarter 1994 compared with the September quarter 1994

Trading Performance

Sales

The increases in the *Sales of goods and services* expected by **small** businesses (1.5%), **medium** (1.0%) businesses and **large** (3.0%) businesses are affected by the low sales expectations of the Manufacturing industry (1.5%).

Selling prices

Medium (0.7%) and **large** (0.4%) businesses are expecting little change for the December quarter 1994, while **small** businesses is expecting a larger increase of 1.3 per cent.

Profit

Profit is expected to increase for **small** businesses (8.5%) but a greater increase of 16.0 per cent is expected in **large** businesses.

Investment

Medium (9.1%) businesses expect to increase *Capital expenditure* in the December quarter 1994. **Large** businesses expect to maintain expenditure at September quarter levels while **small** businesses are expecting to increase expenditure by 23.5 per cent.

Stock levels are expected to increase in **medium** businesses (0.3%) but decline in both **small** and **large** businesses (-0.1%).

Employment

(Full-time equivalent)

Medium and **large** size businesses are expecting an increase of 0.5 and 0.6 per cent in *full-time equivalent employment* during the December quarter 1994. **Small** (0.2%) businesses expects a smaller increase in *full-time equivalent employment*.

Operating Expenses

Total operating expenses are expected to increase in the December quarter 1994 for all businesses by 1.5 per cent.

Large and **medium** size businesses are expecting the greatest rise in *wage expense* (1.6%) and **medium** size businesses in *non-wage expenses* (2.4%).

International Trade

Much of the expected activity in *Imports* appears to be dampened by the **medium** sized businesses which expect a 0.2 per cent decrease against an increase for **large** business of 1.2 per cent.

Large businesses are expecting an increase in *Exports* of 2.8 per cent while **medium** size businesses expect to decrease exports by 0.6 per cent.

Table 5. Australian Business Expectations - December Quarter 1994 compared with September Quarter 1994, Expected Aggregate Change, by Size of Business

(Not seasonally adjusted)

<i>Business performance indicators</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>All business</i>
	%	%	%	%
Trading performance				
Sales	1.5	1.0	3.0	2.3
Selling prices	1.3	0.7	0.4	0.6
Profit	8.5	1.8	16.0	10.6
Investment				
Capital expenditure	23.5	9.1	0.0	7.7
Stocks	-0.1	0.3	-0.1	0.0
Employment (Full-time equivalent)	0.2	0.5	0.6	0.5
Operating Expenses				
Wages	1.1	1.6	1.6	1.5
Non-wage labour	1.1	2.4	0.6	1.1
Other	0.7	0.6	1.6	1.3
Total	0.8	0.7	1.6	1.3
International Trade				
Imports	0.7	-0.2	1.2	0.9
Exports	1.9	-0.6	2.8	2.2

MEDIUM TERM OUTLOOK

Expected change for the September quarter 1995 compared with the September quarter 1994

Trading Performance

Sales

Sales are expected to increase by 4.3 per cent for **large** businesses and 4.2 per cent for **small** businesses. **Medium** businesses expecting an increase of 3.7 per cent are not having a great effect on the overall increase expected for **all** businesses of 4.1 per cent.

Profit

Medium (12.1%) businesses expect *Profit* to increase, however the performance of the **small** businesses (26.7%) and **large** businesses (21.8%) are the main contributors to the expected increase for **all** businesses.

Investment

Both **small** (19.3%) businesses and **medium** (36.5%) businesses are expecting to increase *Capital expenditure*, however **large** businesses (4.0%) are expecting to only moderately increase expenditure.

Businesses of all sizes are expecting to build up their level of *stocks* by the September quarter 1995 relative to the September quarter 1994.

Employment

(Full-time equivalent)

Most of the expected increase in *full-time equivalent employment* is expected in the **small** (1.5%) and **medium** sized businesses (1.3%), however **large** businesses are also expected to increase employment for the September quarter 1995 by 0.8 per cent.

Operating Expenses

Medium businesses expect the largest increase in *Wages* of 3.9 per cent and *Other labour costs* of 3.4 per cent while **small** size businesses expect smaller increases of 2.4 and 1.6 per cent respectively.

International Trade

The 4.8 per cent increase in *Imports* expected by **medium** businesses reflects expected activity by **medium** size businesses in the Manufacturing (5.3%) and Transport, storage and communication (5.0%) industries which in turn are influencing the expected increase for **all** businesses.

Small (5.8%) and **large** (5.3%) businesses expect to increase *Exports* however **medium** size businesses in the Transport, storage and communication (6.6%) and Mining (6.5%) industries are large contributors to the overall result.

Table 6. Australian Business Expectations - September Quarter 1995 compared with September Quarter 1994, Expected Aggregate Change, by Size of Business

(Not seasonally adjusted)

<i>Business performance indicators</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>All business</i>
Trading performance				
Sales	4.2	3.7	4.3	4.1
Selling prices	3.4	1.7	1.8	2.1
Profit	26.7	12.1	21.8	20.9
Investment				
Capital expenditure	19.3	36.5	4.0	15.7
Stocks	0.5	1.4	0.6	0.6
Employment (Full-time equivalent)	1.5	1.3	0.8	1.1
Operating Expenses				
Wages	2.4	3.9	3.1	3.1
Non-wage labour	1.6	3.4	2.3	2.3
Other	1.9	1.9	2.5	2.3
Total	2.0	2.2	2.6	2.4
International Trade				
Imports	3.0	4.8	4.2	4.1
Exports	5.8	4.4	5.3	5.2

DETAILED RESULTS - INDUSTRIES

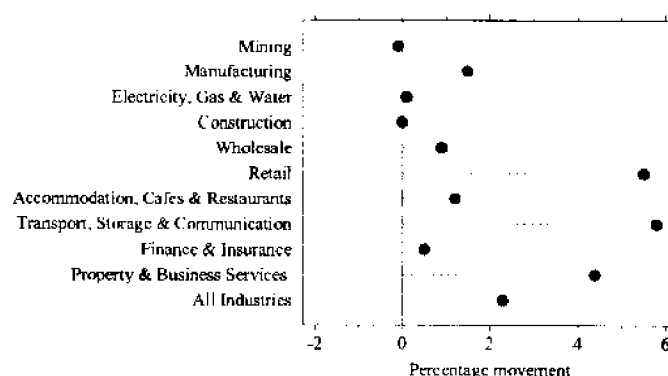
SHORT TERM OUTLOOK

Expected change for the December quarter 1994 compared with the September quarter 1994

Sales of goods and services +2.3%

- There appears to be a large seasonal effect associated with sales between the September and December quarters.
- The Transport, storage and communication industry is expecting a large increase in sales of 5.8 per cent, and the December quarter Retail sales are expected to be 5.5 per cent higher than for the September quarter.

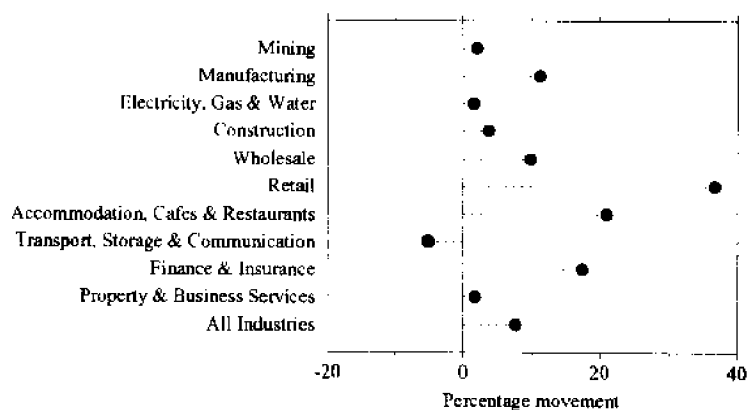
CHART 1. MAIN INDUSTRY COMPARISONS
SALES OF GOODS AND SERVICES
SHORT TERM OUTLOOK
December quarter 1994



Capital expenditure +7.7%

- Capital expenditure is showing strong expectation of growth relative to previous quarter to quarter movements.
- *Capital expenditure* is expected to increase in the short term for Retail (36.8%), Accommodation, cafes and restaurants (21.0%), and Finance and insurance (18.2%). However a 5.1 per cent decrease is expected in Transport, storage and communication.

CHART 2. MAIN INDUSTRY COMPARISONS
CAPITAL EXPENDITURE
SHORT TERM OUTLOOK
December quarter 1994



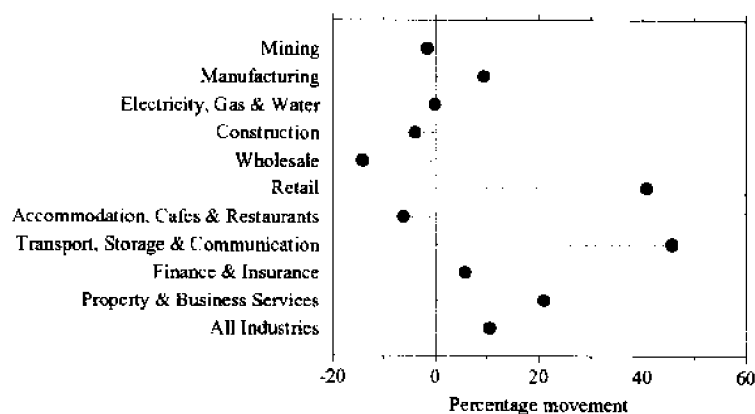
SHORT TERM OUTLOOK

(Continued)

Profit +10.6%

- Profit expectations are very volatile between different industries with Transport, storage and communication expecting a 45.7 per cent increase in contrast to Wholesale (-14.1%) and Accommodation, cafes and restaurants (-6.1%).

CHART 3. MAIN INDUSTRY COMPARISONS
PROFIT
SHORT TERM OUTLOOK
December quarter 1994

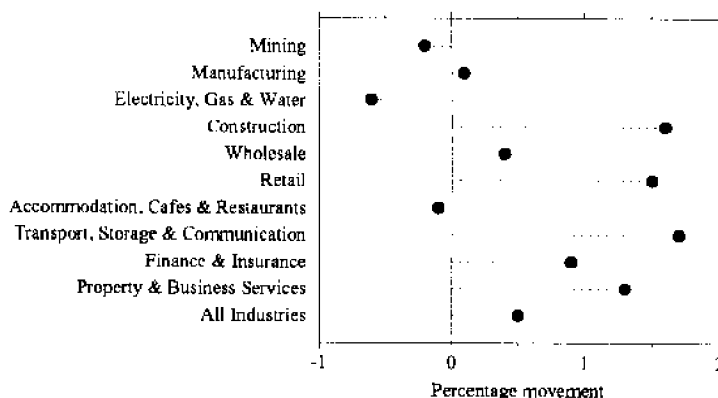


Employment +0.5%

(Full-time equivalent)

- Full-time equivalent employment is expected to increase in the short term but this may be the result of seasonal factors in different industries. Overall there is considerable variation in employment expectations between different industries.
- Increased employment is expected in Transport, storage and communication (1.7%), Construction (1.6%), Retail (1.5%) and Property and business services (1.3%) whilst decreases are expected in the short term for Electricity, gas and water (-0.6%), Mining (-0.2%) and Accommodation, cafes and restaurants (-0.1%).

CHART 4. MAIN INDUSTRY COMPARISONS
EMPLOYMENT
SHORT TERM OUTLOOK
December quarter 1994



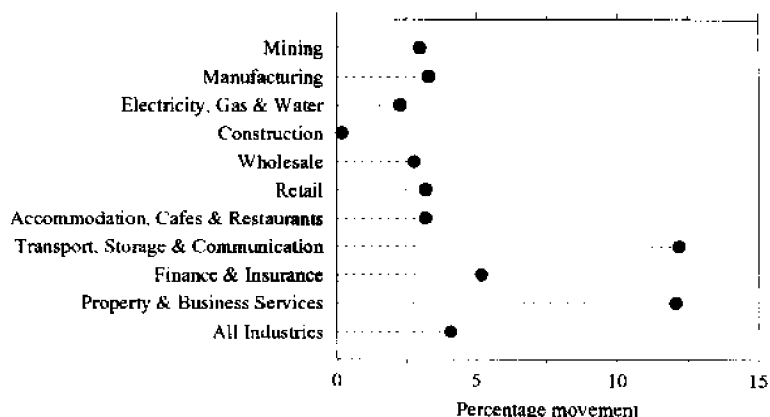
MEDIUM TERM OUTLOOK

Expected change for the September quarter 1995 compared with the September quarter 1994

Sales of Goods and Services +4.1%

- The medium term expectation for an increase in sales for Transport, storage and communication is 12.2 per cent and Property and business services of 12.1 per cent. The Construction industry is expecting the least increase at 0.2 per cent

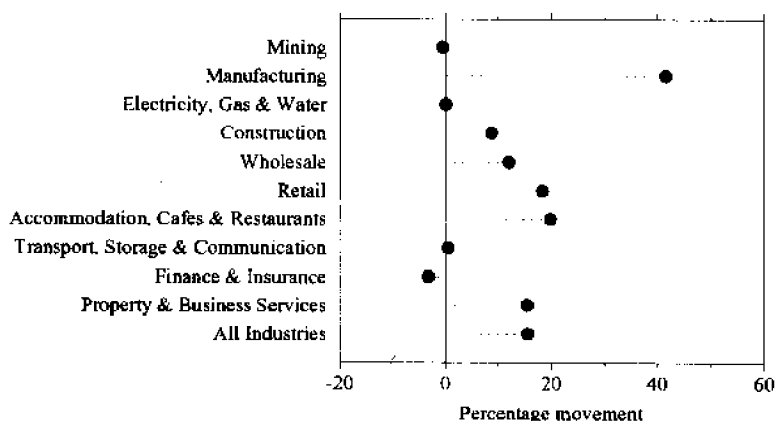
**CHART 5. MAIN INDUSTRY COMPARISONS
SALES OF GOODS AND SERVICES
MEDIUM TERM OUTLOOK
September quarter 1995**



Capital Expenditure +15.7%

- Capital expenditure* in Manufacturing (41.6%), Accommodation, cafes and restaurants (19.9%) together with Retail (18.4%) industries are expecting the greatest increases while the Mining (-0.4%) and Finance and insurance industries are the only industries having an expectation of a decrease.

**CHART 6. MAIN INDUSTRY COMPARISONS
CAPITAL EXPENDITURE
MEDIUM TERM OUTLOOK
September quarter 1995**



MEDIUM TERM OUTLOOK

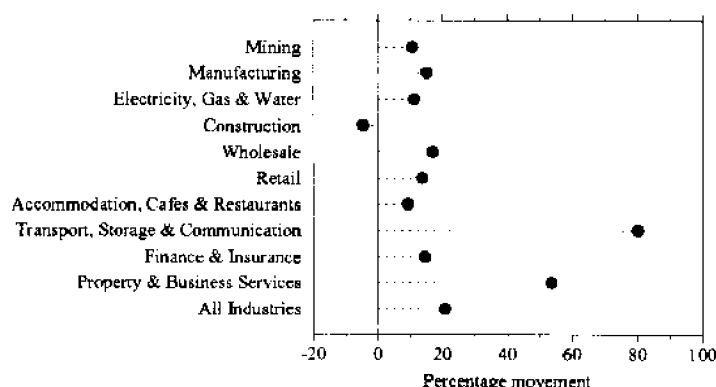
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Profit +20.9%

- There is a wide range of expectations for *Profit* in the September quarter 1995 compared with September quarter 1994, with all industries expecting to increase Profit.
- The Transport, storage and communication industry is expecting to increase *Profit* by 80.3 per cent. Only the Property and business services industry is closer with an expectation of 53.8 per cent.

CHART 7. MAIN INDUSTRY COMPARISONS

PROFIT
MEDIUM TERM OUTLOOK
September quarter 1995



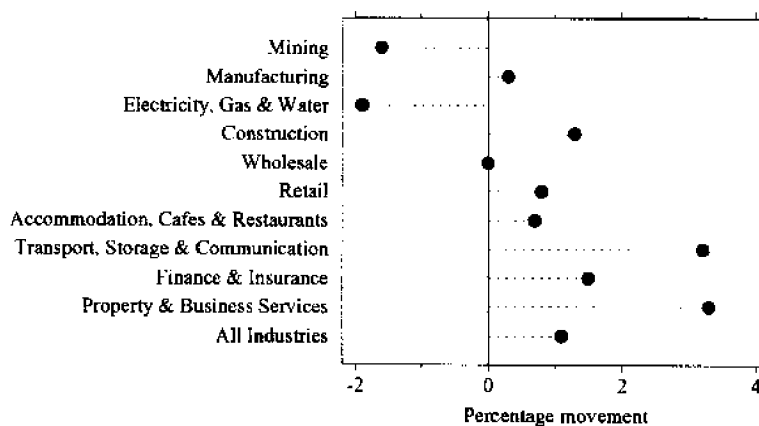
Employment +1.1%

(Full-time equivalent)

- Large increases in full-time equivalent employment are expected in Transport, storage and communication (3.2%) and Property and business services (3.3%)
- The Electricity, gas and water industry is expecting to reduce full-time equivalent employment by 1.9 per cent and the Mining industry by 1.6 per cent.

CHART 8. MAIN INDUSTRY COMPARISONS

EMPLOYMENT
MEDIUM TERM OUTLOOK
September quarter 1995



STATE PERSPECTIVE

Short and medium term expected change in business performance indicators by State are both difficult to compile and subject to a greater degree of estimation than the Australian estimates. This is because of the difficulties which multi-State businesses face in providing separate expectations responses for each State segment of the business.

The following table shows the distribution by State and Territory of the head office of businesses selected in the survey sample. Some businesses operate in more than one State

Proportion of Businesses Selected by State and Territory, Australia
December Quarter 1994

	<i>All business %</i>
New South Wales	38.5
Victoria	28.0
Queensland	12.9
South Australia	6.9
Western Australia	9.4
Tasmania	1.9
Northern Territory	0.9
Australian Capital Territory	1.4
Australia	100

To derive results for each State and Territory, the ABS has apportioned the national expectation of business activity to each State in which the businesses operate. This means that the overall performance in percentage terms, of the *business activity* for a reporting business, is used for each State within which the reporting business operates.

For all businesses which only operate in a single State the responses are directly attributed to that State. For those businesses which do not indicate State business activity the responses are attributed to the State within which the business resides.

The following results relate to the Sales of goods and services. Other performance indicators for individual States and Territories may be made available as unpublished data or as a special data service.

Because of the greater degree of estimation and the associated larger variances, the State estimates should be interpreted with care.

The State dissection of expectations data is derived from information supplied by respondents about their current business activity. Business activity, as defined for BES, is the State of production for manufacturers, State of sales for retailers where they maintain a retail presence and Finance and Service businesses report on their business activity for each State in which they are based.

In some cases this may not reflect the changing nature of a business' future activity, and in a few cases the geographical reporting arrangements for a particular business may not correspond to State boundaries.

Caution should be exercised by users of expectations data for State activity because it is derived from information about the reporting unit's current rather than expected State activity.

SHORT TERM OUTLOOK

Expected change for the December quarter 1994 compared with the September quarter 1994

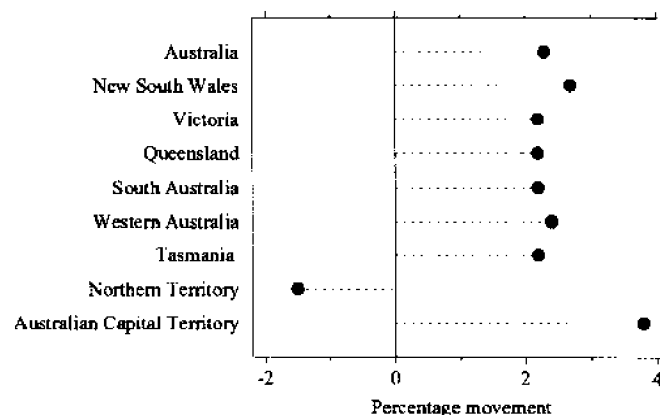
Table 7. Australian Business Expectations - States and Territories, Sales of Goods and Services, Short Term Outlook

(Not seasonally adjusted)

States and Territories	Expected percentage aggregate change between				
	Dec qtr 1993 and Sept qtr 1993	Mar qtr 1994 and Dec qtr 1993	June qtr 1994 and Mar qtr 1994	Sept qtr 1994 and June qtr 1994	Dec qtr 1994 and Sept qtr 1994
	%	%	%	%	%
Australia	3.6	-1.4	1.9	1.9	2.3
New South Wales	2.8	-2.6	1.7	1.8	2.7
Victoria	2.7	-1.2	1.7	2.3	2.2
Queensland	3.6	-0.7	2.4	2.5	2.2
South Australia	4.5	-0.9	2.0	2.0	2.2
Western Australia	6.8	0.0	2.4	1.5	2.4
Tasmania	3.1	-0.2	1.1	1.3	2.2
Northern Territory	1.5	-1.4	2.3	0.4	-1.5
Australian Capital Territory	1.1	0.1	1.6	1.3	3.8

- Businesses in New South Wales (2.7%) and the Australian Capital Territory (3.8%) show the strongest expected increase in sales compared with the Australia figure of 2.3 per cent.
- The Northern Territory is expecting a decrease of 1.5 per cent but is affected by seasonal factors occurring in the December quarter.

**CHART 9. STATE ESTIMATES
SALES OF GOODS AND SERVICES
SHORT TERM OUTLOOK
December quarter 1994**



MEDIUM TERM OUTLOOK

Expected change for the September quarter 1995 compared with the September quarter 1994

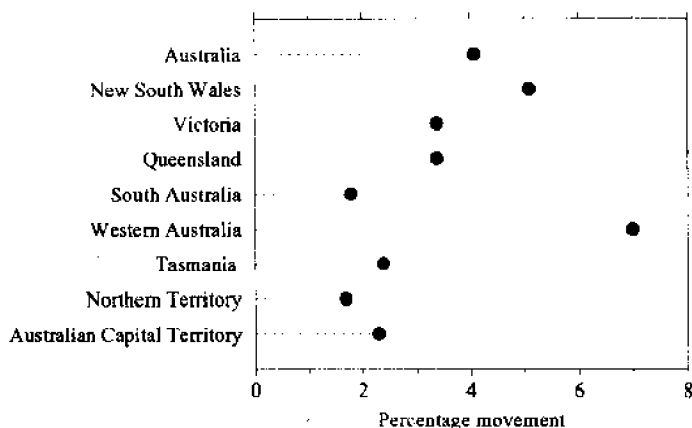
Table 8. Australian Business Expectations - States and Territories, Sales of Goods and Services, Medium Term Outlook

(Not seasonally adjusted)

States and Territories	Expected percentage aggregate change between				
	Sept qtr 1994 and Sept qtr 1993	Dec qtr 1994 and Dec qtr 1993	Mar qtr 1995 and March qtr 1994	June qtr 1995 and June qtr 1994	Sept qtr 1995 and Sept qtr 1994
	%	%	%	%	%
Australia	2.9	3.1	3.9	3.3	4.1
New South Wales	2.8	1.9	3.8	3.5	5.1
Victoria	2.3	2.6	4.4	3.0	3.4
Queensland	3.6	3.5	4.1	3.6	3.4
South Australia	3.2	5.9	3.1	4.1	1.8
Western Australia	4.3	2.7	3.0	2.4	7.0
Tasmania	3.1	2.7	2.7	3.3	2.4
Northern Territory	2.9	1.8	2.5	2.6	1.7
Australian Capital Territory	1.5	2.7	3.8	6.2	2.3

- Businesses in the Western Australia (7.0%) and New South Wales (5.1%) expect to do much better than the Australian average of 4.1 per cent in the medium term.
- The Northern Territory (1.7%) and South Australia (1.8%) expect the least increases in the *Sales of goods and services*.

**CHART 10. STATE ESTIMATES
SALES OF GOODS AND SERVICES
MEDIUM TERM OUTLOOK
September quarter 1995**



Introduction

This publication contains estimates of future economic activity based on the business expectations of senior executives, managers and proprietors of businesses operating in Australia. The estimates have been compiled from data collected by the Australian Bureau of Statistics (ABS) in its quarterly survey of business expectations.

This is the fourth issue of this series and it contains estimates of the expected change in a range of business indicators for two time periods. The first seeks expected change between the December quarter 1994 and the September quarter 1994 and the second seeks expected change between the September quarter 1995 and the September quarter 1994.

Survey methodology

The survey is conducted by mail each quarter.

It is based on a stratified random sample of approximately 3,000 businesses selected from the ABS's annual Economic Activity Survey (EAS). EAS in turn derives its survey population from the ABS central register of business units.

The sample is stratified by industry, sector (private and government business) and size of business (measured by number of employees).

The sample is supplemented by a further sample of businesses which have been added to the ABS business register since the original EAS sample was selected.

Scope of the survey

The statistics in this publication relate to employing businesses in all industries and sectors of the Australian economy except:

- agriculture*
- general government

*** Agriculture**

Data related to intended crop plantings and sheep matings are collected by the ABS and published in catalogue 7221.0 and 7330.0 (final) publications from the Agriculture Census.

The Australian Bureau of Agriculture and Resource Economics (ABARE) publishes its forecasts for specific commodities and for the Agriculture industry generally, as part of the annual Outlook conference in February each year. ABARE updates these forecasts in its quarterly publication "Australian Commodities - Forecasts and Issues".

Classification

Each statistical unit selected in the survey is classified to an industry, according to the Australian and New Zealand Standard Industrial Classification (ANZSIC).

Business size

Data presented in this publication is classified by three business sizes :

- small (generally less than 20 employees, except for manufacturers where it is less than 100)
- medium (generally between 20 and 100 employees, except for manufacturers where it is 100 to 599 employees)
- large (over 100 employees, except for manufacturers where it is 600 or more employees).

Statistical unit

The statistical unit used in the survey of business expectations is the management unit. The management unit is the highest level accounting unit within a business for which sub-annual accounts are maintained, having regard for industry homogeneity.

In nearly all cases the management unit coincides with the legal entity owning the business (i.e. company, partnership, trust, sole proprietor, etc.).

In the case of large diversified businesses, however, there may be more than one management unit, each coinciding with a "division" or "line of business".

Business performance indicators

The survey uses a set of well recognised economic trading indicators in measuring future trading activity. These indicators are: Sales of goods and services, selling prices, expenses, employment*, etc. See Description of terms below for details.

*Employment (Full-time equivalent)

The survey asks for paid persons working. Full-time equivalent employment is not a usual definition of employment as used by the ABS. It would be incorrect to assume a direct comparison with labour force statistics for instance.

Simple and Weighted Net Balance

The simple net balance for a selected indicator is estimated by subtracting the percentage of respondents predicting a 'fall' from the percentage of respondents expecting a 'rise'.

The net balance is a *qualitative* statistic best suited to indicating the sentiment of businesses about future business conditions, and measures the net proportion of businesses predicting a rise or fall in future business conditions.

The weighted net balance is estimated by weighting the surveyed direction of change for each unit by its benchmark level response for the equivalent variable in the Economic Activity Survey.

Weighting the responses enables larger businesses to have an influence upon the net balance proportional to the level of their expenditure, employment size, etc. Movements in the weighted net balance indicate the net proportion of business activity predicting a rise or fall in future business conditions.

Expected aggregate change

The expected aggregate change measures the forecasted percentage change in the level of a particular indicator. It is estimated by weighting the expected percentage change reported by respondents to the survey by their proportion of aggregate sales, expenditure, employment, etc. in the economy as measured from the benchmark estimate in the Economy Wide Survey.

The weighted aggregate estimate of a particular indicator, combined with an estimated level, can be used to quantify its future movement.

Comparison of results

The weighted net balance and expected aggregate change are complementary measures which, in combination, give a broad indication of future business conditions. It is possible to obtain estimates in opposite directions for the net balance and weighted aggregate change estimates.

The weighted net balance provide a *qualitative* measure of the proportion of businesses predicting the direction of change in future business conditions. The expected aggregate change, however, provides a *quantitative* measure predicting the magnitude of change in a selected variable.

Reliability of estimates

The expected aggregate change estimates are designed to measure the change to each business performance indicator, according to businesses' expectations. Naturally, the predictive power of the weighted aggregate estimates depends on the predictive ability of individual businesses.

All of the estimates in this publication are subject to:

- sampling error
- non-sampling error
- benchmark bias

Sampling error

Sampling error is due to the use of a sample rather than a complete enumeration; that is, the estimates differ from the values that would have been obtained if all units were surveyed. A measure of the likely difference is given by the *standard error*, which indicates the extent to which an estimate might have varied by chance because only a sample of units was included. There are about two chances in three that the difference will be within one standard error, and about nineteen chances in twenty that the difference will be within two standard errors.

Reliability of estimates (continued)

The table below provides standard errors for some of the main estimates of this publication. As an example of how the standard errors can be interpreted, given that the short term expectation for *Sales of goods and services* for Australia is 2.3 per cent with a standard error of 0.17 there would be two chances in three that the true value would be within the range 2.47 per cent and 2.13 per cent.

Standard Errors of Key Estimates

December Quarter 1994, Short Term Expectation, Australia

<i>Business performance indicator</i>	<i>Survey estimate</i>	<i>Standard error</i>
Sales	2.3	0.17
Selling prices	0.6	0.15
Profit	10.6	0.04
Capital expenditure	7.7	0.71
Stocks	0.0	0.10
Employment	0.5	0.13
Wage costs	1.5	0.11
Imports	0.9	0.10
Exports	2.2	0.07

Non-sampling error

All other inaccuracies are referred to collectively as non-sampling error. The major areas of concern are:

- non-response
- mis-reporting of data by respondents
- deficiency in the central register of economic units particularly in respect of small units

Every effort is made to reduce the non-sampling error to a minimum by careful design of questionnaires and efficient editing and operating procedures.

The expected aggregate change is designed to reflect business expectations for each business performance indicator, as accurately as possible. However, while the estimates should be appropriate measures of business climate, the expectations may not predict actual movements accurately. Businesses may be too optimistic or pessimistic in their predictions at different times.

In addition, actual movements would be partly comprised of activity of newly formed businesses and businesses which are formed during the expectations reference period which are not immediately represented in BES because they would not have been included on the ABS's central register of economic units. Allowance is made in other ABS series for coverage deficiencies relating to newly formed businesses but no allowance is made in BES.

Benchmark bias

Estimating changes to the aggregate economic indicators requires businesses to be weighted, or benchmarked, by their relative contribution to each business performance indicator. ABS historical data for individual businesses is used for this purpose, where possible. This process introduces a benchmark bias because the historical data may be inaccurate for the current quarter. Benchmark bias cannot be measured from the data, however, the likely extent of bias has been estimated using other ABS data. Every effort has been made to minimise this bias, including the use of modelling techniques to improve benchmarks.

DESCRIPTION OF TERMS

Sales of goods and services	<p>The expected change in the sale of goods or the provision of services by a business in terms of value.</p> <p>Financial institutions report on the expected change in gross interest income plus fees and commissions.</p> <p>Non-profit or charitable organisations report on the expected change in fees received for services, donations from the public and government grants and subsidies.</p>
Selling prices	<p>The expected change in the unit price of goods sold or services provided by the business. Where a business sells a range of products or services a representative product or service is used.</p> <p>Financial institutions report on interest rates, services and commissions charged.</p> <p>The benchmark for weighting the selling prices response is derived from associating selling prices with total expenses.</p>
Total wage expenses	<p>The expected change in the total amount of direct wage and salaries paid to employees.</p>
Non-wage labour expenses	<p>The expected change in the total amount of employment related expenses not paid directly to employees.</p> <p>Some of these expenses are payroll tax, worker's compensation and superannuation.</p>
All other operating expenses	<p>The expected change in the total amount of all expenses which are not classified as labour expenses.</p> <p>Some of these expenses are overheads, advertising, raw materials and packaging and handling.</p>
Total operating expenses	<p>This is a derived estimate from the weighted response for the total of wage, non-wage labour and all other expenses.</p>
Closing stocks	<p>The expected change in the book value of closing stocks between the end of the collection quarter and the end of the reference periods.</p>
Paid persons working	<p>The expected change in the number of paid persons working. Where part time or casual employees are involved employers are requested to convert to a full-time equivalent. It should be noted that other ABS series which provide data on paid persons working do not use a full-time equivalent measure.</p>
Imports	<p>The expected change in the value of all goods and services imported directly by a business.</p> <p>The benchmark for weighting the import response is derived from associating the current percentage of imports to <i>All other expenses</i>, and using that proportion of the <i>All other expenses</i> benchmark as the imports benchmark.</p>
Exports	<p>The expected change in the value of all goods and services exported directly by a business.</p> <p>The benchmark for weighting the export response is derived from associating the current percentage of exports to the <i>Sales of goods and services</i>, and using that proportion of the <i>Sales of goods and services</i> benchmark as the exports benchmark.</p> <p>It should be noted that BES has been designed to provide high quality estimates of business expectations covering a wide range of business performance indicators. Businesses selected in the survey can generally provide expectations on the majority of the business performance indicators, however, this is not the case for imports and exports where only a subset of selected businesses are involved in importing or exporting. Accordingly, caution should be exercised when interpreting expectations in respect of imports and exports.</p>
Capital expenditure	<p>The expected change in the value of capital expenditure on new tangible assets.</p> <p>Capital expenditure is generally classed in two categories, <i>Plant machinery and equipment</i> and <i>Buildings</i>.</p> <p>The proportion of total capital expenditure on <i>Plant, machinery and equipment</i> is collected and the amount to be expended on <i>Buildings</i> is derived.</p>

Profit	<p>Profit is a derived item based on the present trading performance of a business and the expected changes to the level of Sales of goods and services and the sum of all expense items.</p> <p>The difference between the new benchmarks for the <i>sales of goods and services</i> and the sum of all <i>expenses</i> items (the sum of <i>Total wage expense</i>, <i>Non-wage labour expense</i> and <i>All other operating expenses</i>) as determined by the responses received, the Economic Activity Survey benchmarks for those items and an indicator of present trading performance (cost/sales ratio) are used to determine the expected change for profit for the reference periods.</p> <p>Because of reporting difficulties experienced with the cost/sales ratios, caution should be exercised in interpreting profit expectations data.</p>				
State Information	<p>State information has been derived for businesses in the survey which operate in more than one State.</p> <p>This has been achieved by 1) applying a weight (the proportion of a business's economic activity undertaken in each State) to the benchmarks for that business to arrive at potentially eight different benchmarks for each business performance indicator. 2) applying the overall percentage change in the business performance indicators obtained from the survey to each of the State benchmarks for each business performance indicator.</p>				
Reference Periods	<p>There are two reference periods surveyed each quarter:</p> <p>Short term (if the current quarter is June 1994 then the quarter being surveyed is September 1994)</p> <p>Medium term (if the current quarter is June 1994, then the quarter being surveyed is June 1995)</p>				
Symbols and other usages	<table> <tr> <td data-bbox="550 1077 592 1099">0.0</td><td data-bbox="671 1077 911 1099">nil or rounded to zero</td></tr> <tr> <td data-bbox="550 1106 592 1128">n.a.</td><td data-bbox="671 1106 986 1128">not available for publication.</td></tr> </table>	0.0	nil or rounded to zero	n.a.	not available for publication.
0.0	nil or rounded to zero				
n.a.	not available for publication.				

UNPUBLISHED DATA

Available Data

The amount of data collected from the survey of Australian Business Expectations is much greater than the data contained in this publication.

Subject to the ABS provisions for maintaining the confidentiality of respondents and their information more detailed information by industry and size of business may be made available on request.

Size of business

The size of business is based on employment. Additional data can be estimated for the following size ranges:

- less than 5 employees
- less than 20 employees
- 20 and less than 100 employees
- less than 100 employees
- 100 and less than 600 employees
- 100 and greater employees
- 600 and greater employees
- small (generally less than 20 employees except for manufacturing which is less than 100)
- medium (generally 20 to less than 100 employees except for manufacturing which is 100 to less than 600)
- large (generally 100 and greater employees except for manufacturing which is 600 and greater)

Industry

Industry is classified according to ANZSIC and is detailed at the 1 and 2 digit level.

- 15 industries categorised at the 1 digit ANZSIC level.
- 47 industries categorised at the 2 digit ANZSIC level
- user defined industry groups such as "service industries"

State information

State information has been derived from the business activity conducted by business in each State. Where sufficient information is available to provide satisfactory estimates, data may be made available at the same level of detail as that for Australia. State information is subject to a greater degree of variance than the Australia data.

Net balance

A weighted net balance for industries and size of business can be produced as a special data service.

More Information

For more information please contact the officer named at the front of this publication or write to:

The Assistant Director
Business Expectations Survey
Australian Bureau of Statistics
PO Box 10
Belconnen ACT 2616.



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