



# **BUSINESS OPERATIONS AND INDUSTRY PERFORMANCE**

**AUSTRALIA  
PRELIMINARY**

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- For further information about these and related statistics, contact the National Information Service on 1300 135 070 or Joe Whelan on Canberra 02 6252 5288.

# NOTES

## ABOUT THIS ISSUE

This publication contains preliminary estimates from the Economic Activity Survey (EAS). Final estimates for 1999–2000 will be available in the next issue of Business Operations and Industry Performance, Australia (Cat. no. 8140.0) due for release in October 2001.

The data contained in this publication are early estimates based on a response rate of 79%.

Estimates for 1998–99 and previous years contain revisions that have resulted from the analysis of 1999–2000 data.

## CHANGES IN THIS ISSUE

The methodology to moderate data to account for extreme values has been changed. For more detailed information please see paragraph 10 of the Explanatory notes.

The majority of tables in this publication now include a five year time series, rather than two as in previous issues.

## FUTURE CHANGES

ABS statistical series are being impacted to varying degrees as a result of The New Tax System (TNTS), introduced in Australia from 1 July 2000. TNTS includes the removal of Wholesale Sales Tax and the introduction of a Goods and Services Tax (GST). From financial year 1999–2000, the series in this publication will be recorded exclusive of the Goods and Services Tax.

## COMMENTS

The ABS welcomes feedback from readers regarding the usefulness, range and quality of the data presented and explanations provided. Please send any comments to: The Director, Economy Wide Statistics Section, Australian Bureau of Statistics, PO Box 10, Belconnen ACT 2616. Alternatively, email <merry.branson@abs.gov.au>.



## ABBREVIATIONS

ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
b	Billions
EAS	Economic Activity Survey
EBIT	Earnings before interest and tax
IVA	Industry value added
m	Millions
no.	number
OPBT	Operating profit before tax
RSE	Relative standard error
SE	Standard error
SNA93	United Nations System of National Accounts 1993

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## SUMMARY OF FINDINGS

### OVERVIEW

There were 694,300 operating businesses in 1999–2000, a decrease of 1.3% from 1998–99. All other performance indicators increased during this period. Employment at the end of June 2000 was 4.4% greater than at the corresponding period in 1999.

Total income increased by \$65,801m or 5.4%. By comparison, total expenses increased at a slightly higher rate of 6.1% or \$67,719m. Operating profit before tax (OPBT) increased by 1.5% to \$116,469m.

Property and business services had the largest increase (in \$ millions) in OPBT of \$4,036m or a 36.4% increase from the previous year. OPBT for the Finance and insurance industry (\$25,536m) is the lowest in the five year series shown, with a decrease in 1999–2000 of 29.8%. This decrease is driven largely by the insurance sector.

In 1999–2000, the value of total assets was 43.6% higher than the value of total liabilities. However, between 1998–99 and 1999–2000 total liabilities increased by 14.8%, while total assets had an increase of only 10.6%. The annual increase in total liabilities in 1999–2000 is relatively high when compared across the five years of data shown in the publication.

The capital expenditure estimate of \$84,722m (an increase of 13.3%) is the highest in the five year series.

Of all industries, Communication services had the highest profit margin (20.9%), return on assets (15.1%), return on net worth (35.2%), interest coverage (9.6) and investment rate (44.2%).

It should be noted that the estimates for the 1999–2000 reference period have been influenced by the lead up to the Olympic games, expenditure associated with Y2K and the introduction of the new tax system.

### OPERATING BUSINESSES AND EMPLOYMENT

The total number of operating businesses in the public trading and private employing sectors of the Australian economy fell by 1.3% between 1998–99 and 1999–2000. In 1999–2000 there were approximately 694,300 businesses, 9,100 fewer than the 703,400 businesses in the previous year. The reduction in the number of operating businesses occurred across the majority of industries, with the exception of Transport and storage and Wholesale trade, where the number of businesses rose slightly (0.7% for Transport and storage and 0.5% for Wholesale trade).

The largest percentage decreases in the number of operating businesses were in Mining with a reduction of 11.8% and Manufacturing with a reduction of 5.5%.

EMPLOYMENT, All industries



## SUMMARY OF FINDINGS *continued*

### OPERATING BUSINESSES AND EMPLOYMENT *continued*

Despite the fall in operating business, employment across all industries increased by 4.4% or 283,000 people between 1998–99 and 1999–2000. Just over 50% of this total increase occurred in Property and business services which had an increase of 146,000 persons. Other industries to contribute substantially to the total increase in employment were; Retail trade (45,000 persons or 15.9% of the total increase), Private community services (32,000 persons or 11.3% of the total increase) and Personal and other services (30,000 persons or 10.6% of the total increase).

In contrast to the all industries movement, three industries experienced a decline in employment, these were; Mining (12.5%), Accommodation, cafes and restaurants (7.2%) and Electricity, gas and water supply (6.0%).

The Retail trade industry continued to be the largest employer of any industry in 1999–2000, employing 1,084,000 people, or 16.2% of total employment for all industries.

### OPERATING INCOME AND EXPENSES

Total operating income increased by \$65,801m or 5.4% from 1998–99 to 1999–2000. The largest percentage growth occurred in Construction and Property and business services. Total operating income in these two industries rose by 19.5% and 16.2% respectively. Mining was the only industry to have a fall in operating income (7.5%).

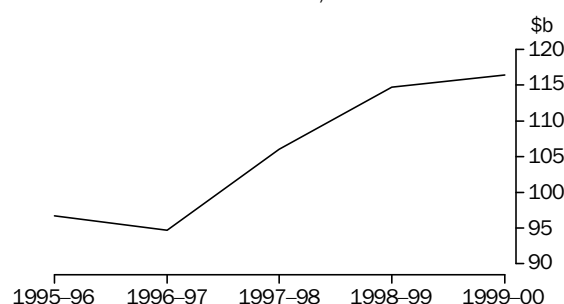
The Manufacturing industry recorded the highest total operating income in 1999–2000 with \$244,744m or 18.9% of total income.

Total operating expenses at the all industries level increased between 1998–99 and 1999–2000, by \$67,719m or 6.1%. The largest percentage increases occurred in Construction (21.2%) and Transport and storage (13.4%). Mining had the largest percentage decrease in operating expenses, with a reduction of 7.4%.

### OPERATING PROFIT BEFORE TAX (OPBT)

While the all industries OPBT figure has remained relatively stable between 1998–99 and 1999–2000, the same cannot be said at the industry level.

OPERATING PROFIT BEFORE TAX, All industries



The largest increases (in \$ millions) occurred in Property and business services with \$4,036m (or 36.4% from the previous year) and Manufacturing with an increase of \$2,234m (or 17.0% from the previous year). OPBT for the Finance and insurance industry (\$25,536m) is the lowest for the five year series shown. The 29.8% decrease in OPBT is largely driven by the insurance sector.

The industries contributing the highest proportion to the 1999–2000 OPBT figure of \$116,469m were; Finance and insurance (21.9%) and Manufacturing (13.2%). The

## SUMMARY OF FINDINGS *continued*

**OPERATING PROFIT  
BEFORE TAX (OPBT)**

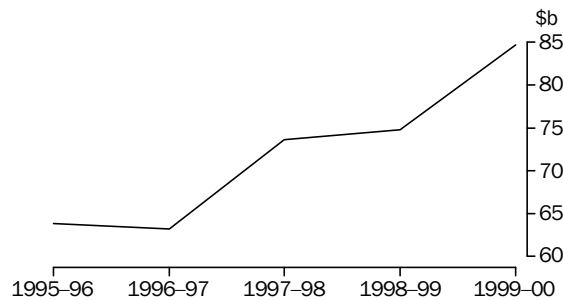
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industries contributing the least were; Personal and other services (1.2%) and Accommodation, cafes and restaurants (1.7%).

**CAPITAL EXPENDITURE  
AND INDUSTRY VALUE  
ADDED**

In 1999–2000, there was a substantial increase in the total expenditure on the acquisition of fixed assets (capital expenditure) of 13.3%. This increase varied considerably across industries. The industry to have the largest increase was Finance and insurance with an increase of \$5,599m or 163.2%. This can be attributed to the several large mergers and takeovers that have occurred in this industry during the reference period.

CAPITAL EXPENDITURE, All industries



The only industries to have a reduction in capital expenditure in 1999–2000 were; Mining (21.6%), Transport and storage (7.5%), Manufacturing (2.5%) and Wholesale trade (1.0%).

The increase in Industry Value Added (IVA) between 1998–99 and 1999–2000 was relatively consistent with 7.5%. The largest percentage increases were in Agriculture, forestry and fishing (17.3%), Construction (16.7%) and Communication services (16.4%).

## 1

## SUMMARY OF INDUSTRY PERFORMANCE, All industries

	1995-96	1996-97	1997-98	1998-99	1999-2000
<b>Selected indicators</b>					
Operating businesses ('000)	695	699	703	703	694
Employment ('000)	6 104	6 260	6 540	6 426	6 709
Total operating income (\$m)	1 071 401	1 121 024	1 175 245	1 230 036	1 295 837
Total operating expenses (\$m)	976 278	1 027 906	1 074 355	1 118 187	1 185 906
Operating profit before tax (\$m)	96 745	94 727	106 011	114 759	116 469
Total assets (\$m)	2 173 518	2 360 202	2 539 579	2 664 328	2 945 787
Total liabilities (\$m)	1 390 020	1 622 261	1 735 203	1 787 222	2 051 132
Capital expenditure (\$m)	63 858	63 217	73 656	74 808	84 722
Industry value added(a) (\$m)	na	na	326 719	340 465	365 882
<b>Business averages</b>					
Average employment (no.)	8.6	8.7	9.1	9.0	9.5
Average income (\$'000)	1 513	1 561	1 635	1 714	1 833
Average expenses (\$'000)	1 378	1 431	1 494	1 558	1 677
Average profit (\$'000)	137	132	147	160	165
Average assets (\$'000)	3 069	3 287	3 532	3 712	4 166
Average net worth (\$'000)	1 106	1 028	1 119	1 222	1 265

na not available

(a) IVA replaces IGP from 1997-98 onwards, and excludes businesses in the Finance and Insurance industries.

## 2

## INDUSTRY PERFORMANCE RATIOS, 1999-2000

	Profit margin	Return on assets	Return on net worth	Interest coverage	Investment rate
	%	%	%	times	%
<b>All industries</b>	9.0	4.0	13.0	2.6	(a)21.0
Agriculture, forestry and fishing	18.1	4.0	4.9	4.3	39.0
Mining	17.6	7.4	18.2	5.0	39.7
Manufacturing	6.3	7.1	18.3	4.6	16.9
Electricity, gas and water supply	15.2	3.9	8.0	2.4	41.9
Construction	5.7	11.7	33.3	9.1	10.9
Wholesale trade	4.4	9.8	29.2	7.5	12.5
Retail trade	3.6	12.7	33.3	3.8	12.3
Accommodation, cafes and restaurants	6.0	6.1	13.5	3.7	19.1
Transport and storage	6.3	5.5	15.7	3.0	22.6
Communication services	20.9	15.1	35.2	9.6	44.2
Finance and insurance	18.3	1.5	8.7	1.5	..
Property and business services	13.4	7.7	14.7	7.6	14.4
Private community services	8.8	7.8	13.0	7.5	14.3
Cultural and recreational services	13.6	9.0	17.6	7.6	38.3
Personal and other services	9.8	9.4	14.8	7.9	16.7

.. not applicable

(a) Investment rate for All industries excludes Finance and Insurance industries.

## 3

## OPERATING BUSINESSES

	1995-96	1996-97	1997-98	1998-99	1999-2000
	No.	No.	No.	No.	No.
<b>All industries</b>	695 000	698 900	703 300	703 400	694 300
Agriculture, forestry and fishing	118 500	117 500	115 200	112 300	112 000
Mining	2 200	2 000	1 800	1 700	1 500
Manufacturing	52 700	54 600	51 800	47 700	45 100
Electricity, gas and water supply	200	200	200	200	200
Construction	79 500	79 000	78 400	78 100	77 000
Wholesale trade	41 900	39 700	40 500	42 300	42 500
Retail trade	108 700	105 900	106 300	105 900	104 200
Accommodation, cafes and restaurants	31 100	31 000	31 400	31 400	31 100
Transport and storage	27 300	26 500	26 800	27 700	27 900
Communication services	2 400	3 000	3 500	3 900	3 900
Finance and insurance	18 900	18 500	18 800	18 700	18 200
Property and business services	111 300	117 100	123 800	129 100	128 300
Private community services	50 000	53 900	54 600	54 600	53 400
Cultural and recreational services	15 800	15 600	15 700	15 600	15 400
Personal and other services	34 400	34 200	34 500	34 100	33 500

## 4

## EMPLOYMENT

	1995-96	1996-97	1997-98	1998-99	1999-2000
	'000	'000	'000	'000	'000
<b>All industries</b>	6 104	6 260	6 540	6 426	6 709
Agriculture, forestry and fishing	340	349	346	346	361
Mining	85	86	78	72	63
Manufacturing	1 000	1 006	998	977	981
Electricity, gas and water supply	60	55	50	50	47
Construction	326	356	393	368	381
Wholesale trade	410	389	431	457	461
Retail trade	998	1 023	1 083	1 039	1 084
Accommodation, cafes and restaurants	394	426	474	460	427
Transport and storage	302	320	319	313	332
Communication services	137	125	118	120	121
Finance and insurance	309	299	301	306	310
Property and business services	762	822	909	908	1 054
Private community services	642	656	699	670	702
Cultural and recreational services	165	169	156	166	180
Personal and other services	175	180	184	175	205

## 5

## TOTAL OPERATING INCOME

	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m
<b>All industries</b>	1 071 401	1 121 024	1 175 245	1 230 036	1 295 837
Agriculture, forestry and fishing	30 431	31 939	32 286	31 920	35 254
Mining	39 093	42 307	44 329	43 946	40 643
Manufacturing	210 343	216 080	223 696	233 004	244 744
Electricity, gas and water supply	29 715	30 250	31 879	35 480	35 636
Construction	55 332	61 597	70 454	74 050	88 510
Wholesale trade	188 196	186 810	189 324	207 774	213 716
Retail trade	164 419	176 757	185 416	181 867	183 497
Accommodation, cafes and restaurants	26 431	27 643	31 938	30 659	32 858
Transport and storage	48 111	54 129	55 890	55 813	62 882
Communication services	22 435	23 941	24 855	29 948	32 923
Finance and insurance	120 354	124 030	129 415	139 290	139 908
Property and business services	80 807	82 443	88 791	97 521	113 292
Private community services	28 184	32 554	34 874	34 811	36 384
Cultural and recreational services	16 311	18 694	19 753	21 659	21 661
Personal and other services	11 240	11 851	12 345	12 294	13 930

## 6

## TOTAL OPERATING EXPENSES

	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m
<b>All industries</b>	976 278	1 027 906	1 074 355	1 118 187	1 185 906
Agriculture, forestry and fishing	25 465	27 577	27 935	28 385	30 997
Mining	32 510	35 308	37 732	36 275	33 577
Manufacturing	197 888	203 419	211 637	220 405	230 301
Electricity, gas and water supply	26 159	25 894	27 069	30 481	30 310
Construction	53 061	58 552	66 887	69 352	84 021
Wholesale trade	181 923	181 397	184 781	200 451	206 422
Retail trade	160 719	172 813	181 212	176 227	177 192
Accommodation, cafes and restaurants	24 884	25 796	29 820	28 911	30 877
Transport and storage	45 199	50 585	52 337	51 923	58 894
Communication services	19 192	21 954	20 486	23 845	26 253
Finance and insurance	87 449	94 293	95 877	102 934	114 354
Property and business services	70 492	72 509	78 690	87 474	98 228
Private community services	25 646	29 163	31 038	31 111	33 196
Cultural and recreational services	15 362	17 777	17 919	19 006	18 711
Personal and other services	10 327	10 867	10 935	11 406	12 573



## 7

## OPERATING PROFIT BEFORE TAX

	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m
<b>All industries</b>	96 745	94 727	106 011	114 759	116 469
Agriculture, forestry and fishing	4 388	3 754	4 565	4 229	6 396
Mining	6 866	7 563	6 784	7 431	7 149
Manufacturing	13 693	13 072	13 601	13 146	15 380
Electricity, gas and water supply	3 465	4 212	4 800	5 051	5 414
Construction	2 316	3 152	3 144	4 305	5 068
Wholesale trade	6 826	5 889	5 522	7 680	9 371
Retail trade	4 134	4 535	5 753	6 295	6 693
Accommodation, cafes and restaurants	1 582	1 880	2 158	1 834	1 981
Transport and storage	2 905	3 564	3 671	3 965	3 951
Communication services	3 234	1 989	4 603	6 130	6 889
Finance and insurance	32 681	29 709	33 390	36 380	25 536
Property and business services	10 354	10 108	10 911	11 091	15 127
Private community services	2 444	3 406	3 845	3 700	3 197
Cultural and recreational services	948	927	1 845	2 623	2 955
Personal and other services	911	968	1 421	899	1 363

## 8

## NET WORTH

	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m
<b>All industries</b>	783 498	737 941	804 376	877 105	894 655
Agriculture, forestry and fishing	115 456	121 640	121 684	120 070	130 770
Mining	30 638	36 100	35 218	35 323	39 379
Manufacturing	85 756	82 710	83 423	79 195	84 090
Electricity, gas and water supply	64 320	67 921	67 855	76 777	67 516
Construction	7 043	8 412	10 024	10 503	15 200
Wholesale trade	24 529	24 603	25 642	28 712	32 104
Retail trade	13 649	12 547	15 857	18 173	20 114
Accommodation, cafes and restaurants	13 720	15 445	14 797	14 401	14 646
Transport and storage	29 391	27 382	26 527	26 981	25 137
Communication services	16 643	14 251	15 162	18 175	19 556
Finance and insurance	254 366	204 979	244 882	304 715	293 014
Property and business services	91 239	84 717	99 080	97 283	102 608
Private community services	16 664	15 358	16 716	19 975	24 520
Cultural and recreational services	9 130	9 907	15 295	14 408	16 774
Personal and other services	10 953	11 968	12 214	12 416	9 228

## CAPITAL EXPENDITURE

	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m
<b>All industries</b>	63 858	63 217	73 656	74 808	84 722
Agriculture, forestry and fishing	5 138	4 837	5 506	5 173	5 715
Mining	6 763	7 824	11 134	11 565	9 072
Manufacturing	11 664	10 513	13 007	12 404	12 098
Electricity, gas and water supply	5 312	3 568	4 952	5 142	6 071
Construction	1 749	1 828	2 624	2 207	2 615
Wholesale trade	2 701	2 362	2 793	4 012	3 971
Retail trade	3 463	3 297	3 364	3 320	3 631
Accommodation, cafes and restaurants	2 391	3 060	2 851	2 192	2 714
Transport and storage	5 062	5 004	5 246	5 840	5 401
Communication services	6 217	5 365	5 304	6 179	8 614
Finance and insurance	4 079	3 046	4 909	3 431	9 030
Property and business services	4 647	5 911	5 448	6 316	7 774
Private community services	1 761	2 694	2 593	2 814	3 114
Cultural and recreational services	2 002	3 180	3 139	3 252	3 906
Personal and other services	908	728	786	961	997

## INDUSTRY VALUE ADDED (a)

	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m
<b>All industries(b)</b>	na	na	326 719	340 465	365 882
Agriculture, forestry and fishing	na	na	12 407	12 488	14 648
Mining	na	na	23 773	23 356	22 873
Manufacturing	na	na	67 655	68 694	71 531
Electricity, gas and water supply	na	na	14 130	14 133	14 504
Construction	na	na	19 225	20 566	24 007
Wholesale trade	na	na	26 205	29 906	31 702
Retail trade	na	na	31 385	31 054	29 628
Accommodation, cafes and restaurants	na	na	12 888	14 044	14 230
Transport and storage	na	na	21 549	22 260	23 896
Communication services	na	na	16 205	16 729	19 480
Finance and insurance	..	..	..	..	..
Property and business services	na	na	42 186	46 961	53 943
Private community services	na	na	20 818	19 756	21 713
Cultural and recreational services	na	na	8 859	9 683	10 204
Personal and other services	na	na	4 595	4 910	5 974

na not available

.. not applicable

(a) IVA replaces IGP from 1997-98 onwards. IGP is available for previous years on request.

(b) Excludes the Finance and Insurance Industries.

<i>INDUSTRY</i>	<i>Total</i>	<i>Total</i>	<i>Operating</i>
	<i>operating</i>	<i>operating</i>	<i>profit</i>
	<i>income</i>	<i>expenses</i>	<i>before</i>
	%	%	<i>tax</i>
			%
<b>All industries</b>	<b>1</b>	<b>1</b>	<b>2</b>
Agriculture, forestry and fishing	2	2	7
Mining	3	2	4
Manufacturing	—	1	7
Electricity, gas and water supply	1	1	5
Construction	5	5	14
Wholesale trade	4	4	10
Retail trade	3	3	9
Accommodation, cafes and restaurants	8	8	19
Transport and storage	3	3	6
Communication services	1	1	1
Finance and insurance	2	1	5
Property and business services	4	4	8
Private community services	5	5	19
Cultural and recreational services	4	4	9
Personal and other services	5	5	15

— nil or rounded to zero (including null cells)

## EXPLANATORY NOTES

### INTRODUCTION

**1** The statistical results presented in this publication have been derived from the annual Economic Activity Survey (EAS) for the financial year ending June 2000.

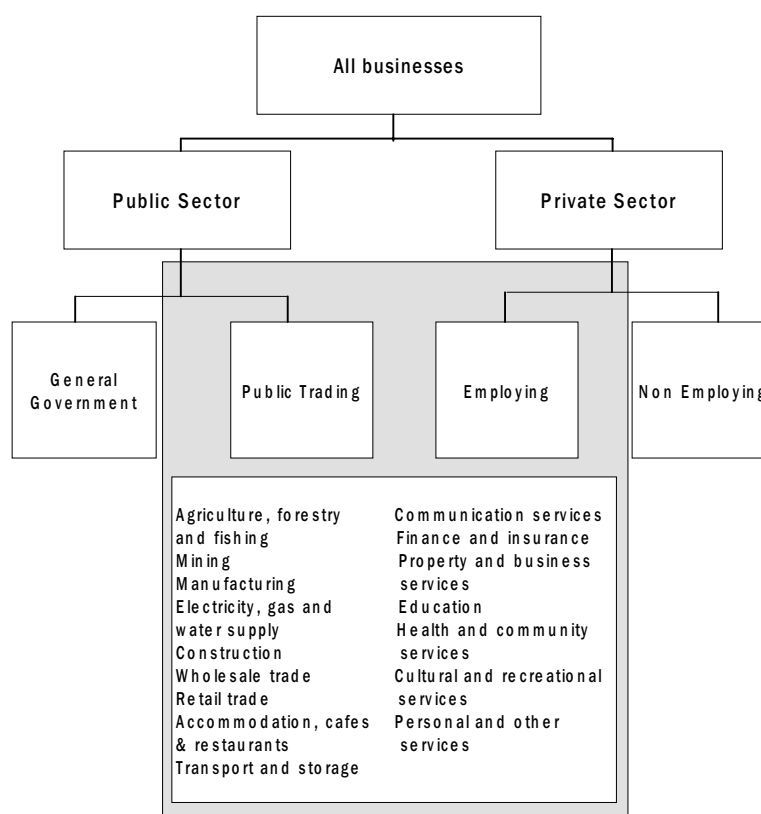
### REFERENCE PERIOD

**2** The EAS results are from details of profit and loss statements and balance sheets collected from selected businesses, mainly by mail out questionnaires. For 1999–2000, businesses were asked to provide data in respect of the financial year ending June 2000. In a minority of cases, where businesses did not account on a June-year basis, details were reported in respect of the accounting year which ended between October 1999 and September 2000.

**3** The estimates relate to businesses in the public trading and private employing sectors of the economy only.

### SCOPE AND COVERAGE

**4** The diagram below illustrates the dissection of business in the Australian economy.



**5** The population frame for the EAS statistics consisted of all business units in the Australian economy except for:

- Agricultural businesses with an estimated value of agricultural operations less than \$22,500;
- non-employing businesses in all other industries i.e. businesses which have not registered as group employers with the ATO; and
- businesses classified to the General Government sector (note: government-owned Public Trading Enterprises were included).

### STATISTICAL UNIT

**6** The business unit about which information is collected and published for the EAS is termed the *management unit*. This is the highest level unit within a business, for which a set of management accounts are maintained. In most cases it coincides with the legal entity owning the business (i.e. company, partnership,

## EXPLANATORY NOTES *continued*

### STATISTICAL UNIT *continued*

trust, sole operator, etc.). However, in the case of large diversified businesses there are often a number of management units, each coinciding with a 'division' or 'line of business'. A division or line of business is recognised where separate and comprehensive accounts are compiled for it.

**7** The ABS Business Register provided the population frame from which management units were selected for inclusion in the EAS.

**8** Approximately 20,000 management units were selected for the EAS-based collection using stratified random sampling techniques. All management units with employment of 200 or more persons were automatically selected in the sample.

**9** Data in this publication have been adjusted to allow for lags in processing new businesses to the ABS business register, and the omission of some businesses from the register.

**10** Since the beginning of the survey, 'surprise outliering' has been used as the methodology to identify and reduce the impact on the estimates of businesses whose response to the survey was significantly different to those of its peers. Where the extreme values have been confirmed as correct, the sample weight that had originally been applied to the business is reduced to 1. That is, the business represents itself and not others. In the vast majority of cases surprise outliering has the effect of reducing the estimates by more than they should. To compensate for this, the methodology has been changed for the 1999-2000 reference period by the introduction of 'winsorised outliering'.

**11** Winsorising reduces the harsh impact of surprise outliering by moderating the impact of businesses who perform differently to their peers. The improved methodology, which does not rely on a subjective judgement, will provide for more stable time series estimates.

**12** An analysis of the 1998-99 estimates was undertaken to identify the impact on the estimates of the change in methodology. At the all industries level the impact of the change is minimal. However for some data items in some industries there is an impact on the estimates. A detailed table showing the impact of the changed methodology is available by contacting the inquiries officer listed on the front page of this publication.

### IMPROVEMENTS TO COVERAGE

**13** Revision to the Standard Economic Sector Classification of Australia in 1998, has meant the reclassification of state government borrowing authorities from the general government sector to the financial corporations sector. Note that some local government entities (i.e. those that provide the water and sewerage undertakings) classified as Public Trading Enterprises, should have been classified to the general government sector. In analysing the impact of the change in treatment, it was discovered that for the four year period from 1994-95 to 1997-98 data for some general government entities were also included in the estimates. The estimates have now been revised and are incorporated in this publication.

**14** Central borrowing authorities are institutions established by each State and Territory Government primarily to provide finance for public corporations and quasi-corporations and other units owned or controlled by those governments, and to arrange investment of the units' surplus funds. To decrease the impact these businesses would have on estimates in the Finance and insurance sector, they have been phased in over several years commencing with 1994-95.

### CLASSIFICATION BY INDUSTRY

**15** This publication presents statistics classified according to the *Australian and New Zealand Standard Industrial Classification, 1993* (Cat. no. 1292.0).

## EXPLANATORY NOTES *continued*

### CLASSIFICATION BY INDUSTRY *continued*

Each business unit is classified to a single industry. The industry allocated is based on an estimate of the primary activity of the management unit irrespective of whether a range of activities or a single activity is undertaken by the unit. For example, a management unit which derives most of its income from construction activities would have all operations included in the aggregates and ratios for the Construction industry division, even if significant secondary activities (e.g. quarrying) were undertaken. This is different from the approach that might be taken to the collection of statistics on an activity basis.

### CLASSIFICATION BY SIZE

**16** Size dissections can be made available on request.

### ROUNDING

**17** Where figures have been rounded, discrepancies may occur between the sums of the component items and totals. Published percentages are calculated prior to rounding of figures and therefore some discrepancy may occur between those percentages and those that could be calculated from rounded figures.

### LIMITATIONS OF FINANCIAL DATA ANALYSIS

**18** This publication presents a wide range of data that can be used to analyse business and industry performance. It is important that any analysis be based upon a range of data presented rather than focusing on one variable.

**19** Differences in accounting policy and practices across businesses and industries also lead to some inconsistencies in the data input to the statistics. While much of the accounting process is subject to standards, there is still a great deal of flexibility left to managers and accountants in the accounting policy and practices they adopt. For example, acceptable methods of asset valuation include historical cost, replacement cost and current market value. The timing of asset revaluations also varies considerably across businesses. The way profit is measured is affected by management policy on such things as depreciation rates, bad debt provisions and write off and goodwill write off. The varying degree to which businesses consolidate their accounts may also affect the ratios calculated.

**20** Those ratios compiled from a combination of flow and level items need to be treated with additional caution. The information contained in balance sheets indicates the level of assets and liabilities at a point in time. Information contained in profit and loss statements summarises the flows (or transactions) which have taken place during the past financial year. Ratios which include both level and flow items in their derivation may be volatile due to the timing differences involved.

**21** The above limitations are not meant to imply that analysis based on this data should be avoided, only that they should be borne in mind when interpreting the data presented in this publication.

**22** The counts of operating businesses included in this publication should be used with some caution. Over and above the sampling error associated with these estimates, they are more affected than are other estimates presented by such things as internal restructuring of businesses (e.g. changes in divisional structure), mergers, takeovers and changes in the quality of the ABS Business Register. Because of these influences, estimates of the number of businesses have been smoothed, using a three-year moving average. This technique reduces the effect the above influences have on movements in the number of operating businesses across the years. Having applied this technique, the estimates are then considered suitable for use in analysing changes in the relative composition of industries and the generation of business averages. (NB a two-year average is applied to the most recent year's estimate, incorporating the current year's estimate with that of the previous year). These management unit counts exclude

## EXPLANATORY NOTES *continued*

### LIMITATIONS OF FINANCIAL DATA ANALYSIS *continued*

management units which were part year operators i.e. operating at the beginning of the reference period but not at the end.

### RELIABILITY OF ESTIMATES

**23** Since the estimates in this publication are based on information obtained from a sample drawn from units in the surveyed population, the estimates are subject to sampling variability; that is, they may differ from the figures that would have been produced if all the units had been included in the survey. One measure of the likely difference is given by the standard error (SE), which indicates the extent to which an estimate might have varied by chance because only a sample of units was included. The relative standard error (RSE) is a useful measure in that it provides an immediate indication of the percentage errors likely to have occurred due to sampling, and this avoids the need to refer also to the size of the estimate. Table 11 provides the relative standard errors for a selection of estimates presented in this publication.

**24** The size of the RSE may be a misleading indicator of the reliability of some of the estimates for operating profit before tax and industry value added. This situation may occur where an estimate may legitimately include positive and negative values reflecting the financial positions of different businesses. In these cases the aggregate estimate can be small relative to the contribution of individual businesses resulting in a SE which is large relative to the estimate.

### ACKNOWLEDGMENT

**25** ABS publications draw extensively on information provided freely by individuals, businesses, governments and other organisations. Their continued cooperation is very much appreciated: without it, the wide range of statistics published by the ABS would not be available. Information received by the ABS is treated in strict confidence as required by the *Census and Statistics Act 1905*.

### RELATED PUBLICATIONS

**26** A number of ABS products provide a range of related data to that presented in this publication. These include:

- *Business Operations and Industry Performance, Australia, 1998–99* (Cat. no. 8140.0)
- *Australian Industry, 1998–99* (Cat. no. 8155.0)
- *Agriculture, Australia, 1998–99* (Cat. no. 7113.0)
- *Electricity, Gas, Water and Sewerage Industries, Australia, 1997–98* (Cat. no. 8208.0)
- *Manufacturing Industry, Australia, 1998–99* (Cat. no. 8221.0)
- *Mining Operations, Australia, 1997–98* (Cat. no. 8415.0)

**27** The ABS product, *Summary of Industry Performance*, (Cat. no. 8140.0.40.002) provides a summary of each industry's structure, income statement, balance sheet, economic values, business averages and performance ratios to the ANZSIC subdivision (two digit) level. For most ANZSIC subdivisions, separate tables are also available by size of business.

**28** Another source of industry performance data is the ABS product *Industry Concentration Statistics*, (Cat. no. 8140.0.40.001). This product shows the proportions of sales, persons employed and industry value added that are concentrated among the 20 largest enterprise groups operating in each industry. The 'largest 20' are further subdivided by groups of four, grouping the first four enterprise groups, the second four and so on.

**29** Both *Summary of Industry Performance* and *Industry Concentration Statistics* can either be purchased separately as a product, or accessed through the ABS web based information service, AusStats. AusStats is a subscription service, providing access to a comprehensive range of ABS material. It is

## EXPLANATORY NOTES *continued*

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RELATED PUBLICATIONS  
*continued*

available on-line, via the World Wide Web, and is a part of the ABS web site where both free and charged data are integrated.

UNPUBLISHED STATISTICS

**30** Additionally, a considerable amount of data exists in unpublished form and requests specifically tailored to meet the needs of clients can be generated from this source. A charge is made for providing unpublished information. Please contact the National Information Service on 1300 135 070 or Joe Whelan on Canberra 02 6252 5288



## GLOSSARY

<b>Business averages</b>	These are derived by dividing the estimate of the financial variable in question by the number of operating businesses for that year.
<b>Capital expenditure</b>	Acquisition of fixed tangible assets (e.g. plant and machinery, property) and intangible assets (e.g. computer software, patents and licences) including those assets acquired under a finance lease. Also includes capital work done by employees or proprietors of the business for its own use or for rental or lease purposes.
<b>Economic Activity Survey</b>	An annual business survey which is one of the sources of the statistics presented in this publication.
<b>Employment</b>	Includes working proprietors, working partners, permanent, part-time, temporary and casual employees, and managerial and executive employees working for a business during the last pay period in June each year. Employees absent on paid or prepaid leave are included.
<b>Income from services</b>	Includes repair, maintenance and service income and fees, income from work done or sales made on a commission basis, delivery or installation charges which are invoiced separately to customers, advertising income and management fees/charges from related or unrelated businesses. As a result of revised international standards, income from royalties from intellectual property are also a component of estimates of income from services commencing with estimates for 1997–98. Excluded are rent, leasing and hiring income, government bounties and subsidies, income from natural resource royalties, interest income and dividends.
<b>Industry Value Added</b>	Represents the value added by an industry to the intermediate inputs used by that industry. From 1997–98, IVA has replaced IGP as the official measure of the contribution by industries to GDP. While IVA and IGP both represent gross output less intermediate inputs (or alternatively, the value added to intermediate inputs), introduction of new international standards for measuring economic variables has meant changes to the way in which gross output and intermediate inputs are defined, as follows.  Trading profit <i>plus</i> Operational funding from Government <i>plus</i> Own account capital work <i>equals</i> Capitalised wages and salaries <i>plus</i> Capitalised purchases  <i>less</i> Capitalised purchases  <i>equals</i> IGP <i>plus</i> Computer software (non capitalised) expense <i>plus</i> Indirect taxes (fringe benefits tax, payroll tax, land rates and taxes) <i>plus</i> Exploration expenditure written off <i>less</i> Intellectual property royalty expense <i>equals</i> IVA
<b>Interest coverage</b>	The number of times over that businesses can meet their interest expenses from their earnings before interest and taxation, i.e. $\frac{\text{EBIT}}{\text{interest expenses}}$
<b>Investment rate</b>	The proportion of industry value added used to acquire capital, i.e. $\frac{\text{capital expenditure} \times 100}{\text{IVA}}$

## GLOSSARY *continued*

<b>Net worth</b>	Total assets minus total liabilities. This is equal to the interests of shareholders or other owners in the assets of the business.
<b>Operating expenses</b>	The total expenses of a business, excluding extraordinary items.
<b>Operating income</b>	The total income of a business, excluding extraordinary items.
<b>Operating profit before tax (OPBT)</b>	A measure of profit before extraordinary items are brought into account and prior to the deduction of income tax and appropriations to owners (e.g. dividends paid).
<b>Other expenses</b>	Includes insurance premiums, natural resources royalties expenses, as well as bad and doubtful debts and/or provision for bad and doubtful debts.
<b>Other income</b>	Includes government subsidies, royalty income, dividends received, net profit (or loss) on the sale of fixed tangible assets and net profit (or loss) on foreign exchange transactions. It excludes extraordinary profits or losses.
<b>Profit margin</b>	The percentage of operating income available as operating profit, i.e. $\frac{\text{OPBT} \times 100}{\text{operating income}}$
<b>Return on assets</b>	Operating profit before tax as a percentage of the total book value of assets, i.e. $\frac{\text{OPBT} \times 100}{\text{total assets}}$
<b>Return on net worth</b>	Operating profit before tax as a percentage of shareholders' funds, i.e. $\frac{\text{OPBT} \times 100}{\text{net worth}}$
<b>Sales of goods and services</b>	Includes sales of goods whether or not manufactured by the business and sales or transfers to related businesses.



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