



AUSTRALIAN BUSINESS EXPECTATIONS



March Quarter 1994 / December Quarter 1994

ABS Catalogue No. 5250.0



EMBARGOED UNTIL 11.30 A.M. 31 JANUARY 1994

AUSTRALIAN BUSINESS EXPECTATIONS

March Quarter 1994 and December Quarter 1994

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INQUIRIES

- *for further information about statistics in this publication and the availability of related unpublished statistics, contact Brian McLinden on Canberra (06) 252 5607 or any ABS State office.*
 - *for information about other ABS statistics and services please refer to the back cover of this publication.*
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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 in November 1993.

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 quarterly by mail with the results, in due course, intended to be released prior to the start of the reference period for which expectations are reported. 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 1991-92* (8140.0).

Users of the results of this survey are advised to treat the results as experimental until at least five quarters of data are available.

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 late March or early April 1994.



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 business predicting 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 alternatives to the net balance approach, the ABS has produced both a *weighted net balance* indicator and a *weighted measure of expected (percentage) aggregated 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 as a result of this weighting is presented in the following table.

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

	<i>Simple Net Balance</i> %	<i>Weighted Net Balance</i> %
Sales	6.2	3.5
Wage Costs	32.6	29.0
Employment	-4.2	-12.8

That is, for the March quarter 1994 a positive simple net balance of 6.2 per cent of businesses expect an increase in sales but the lower positive weighted net balance of 3.5 per cent indicates that a decrease in sales is expected by larger businesses.

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 the first two quarters of the survey and Tables 2 and 4 include both the weighted net balance and the expected aggregate change. The 3.5 per cent positive net balance of businesses expecting sales to decrease in the March quarter translates to an expected aggregate decrease of 1.4 per cent.

The net balance is, therefore, more in the nature of an *indicator of business confidence* while the expected 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. The earliest indication of seasonal influences will not be available until at least five quarters expectations data are available.

KEY RESULTS

SHORT TERM OUTLOOK

Expected Change for the March Quarter 1994 compared with the December Quarter 1993

TABLE 1. AUSTRALIAN BUSINESS EXPECTATIONS — DECEMBER QUARTER 1993 AND MARCH QUARTER 1994, EXPECTED AGGREGATE CHANGE (%)

<i>Business Performance Indicators</i>	<i>Expected aggregate change</i>	
	<i>December quarter 1993</i>	<i>March quarter 1994</i>
Trading performance		
Sales	3.6	-1.4
Selling prices	0.0	0.4
Profit	5.0	-19.6
Investment		
Capital expenditure	1.1	-1.2
Stocks	-1.2	-0.7
Employment (Full time equivalent)	-0.8	-1.1
Operating Expenses		
Wages	0.8	0.5
Non-wage labour	0.5	0.5
Other	1.7	0.3
Total	1.5	0.3
International Trade		
Imports	-1.0	-1.7
Exports	1.3	1.1

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.

Typically the December and March quarters each year exhibit the largest seasonal variations in trading performance. Accordingly, expected changes in economic activity reported in this publication in and across these periods may be the result more of seasonal influences than of any underlying movement in trading performance.

Trading Performance

Sales

Sales are expected to decline (by 1.4%) in the March quarter following the healthy increase expected for the previous quarter. Compared with a positive net balance of 45 per cent of businesses expecting increased sales for the December quarter the net balance has fallen to only 3.5 per cent for the March quarter (see Table 2). Seasonal factors are likely to be the cause of the decline rather than any underlying deterioration in economic conditions expected by business leaders.

Selling prices

The proportion of businesses expecting no change in selling prices remained virtually unchanged between the December and March quarters but for the March quarter those businesses expecting to raise their prices outnumbered those expecting a fall by a ratio of more than 3 to 1. The positive net balance increased from 10.7 per cent to 25.7 per cent but this is reflected in an aggregate expected increase of only 0.4 per cent following the no change expected for the previous quarter.

Profit

Profit is expected to decrease by 19.6 per cent in the March quarter 1994 compared with an increase of 5.0 per cent for the December quarter 1993. This is despite a relatively strong positive net balance (45%) of business expecting an increase in profit for the March quarter. The decline in profit is in line with actual movement in profit for the March Quarter in previous years and is also likely to be heavily influenced by normal seasonal patterns.

SHORT TERM OUTLOOK

*(Continued)***Investment**

Compared with the modest increase in *Capital expenditure* of 1.1 per cent for the December quarter *Capital expenditure* is expected to decline by 1.2 per cent in the March quarter a fall much smaller than that recorded for actual *Capital expenditure* in the March quarter in recent years.

Employment*(Full-time equivalent)*

Full-time equivalent employment is still expected to decline in the March quarter (by 1.1%). Some of the fall is the result of normal seasonal reductions in some industries such as retail and construction. Similar to the December quarter, the weighted net balance is showing a negative outcome for the March quarter.

Operating Expenses

Total operating expenses are expected to increase only marginally in the March quarter (0.3%) compared with the larger increase of 1.5 per cent expected for the December quarter. *Wage costs* (0.5%) and *other operating expenses* (0.3%) are expected to increase by smaller amounts than in the previous quarter.

This expectation is echoed by the smaller positive net balance of 26.3 per cent of businesses expecting *other operating expenses* to increase compared with a much higher net balance of 45.6 per cent for the December quarter.

International Trade**Imports**

The fall of 1.7 per cent expected in imports is less than the normal seasonal fall experienced in the March quarter each year and is a further decline over the smaller fall expected in the December quarter.

Exports

A small increase in exports (1.1%) is expected in the March quarter following the small rise expected in the previous quarter. An increase in exports is expected despite the pattern of export experience in recent years when there has been a seasonal fall in exports in the March quarter.

TABLE 2. AUSTRALIAN BUSINESS EXPECTATIONS — MARCH QUARTER 1994, WEIGHTED NET BALANCE AND EXPECTED AGGREGATE CHANGE

<i>Business Performance Indicators</i>	<i>Proportion of business expecting</i>			<i>Net balance %</i>	<i>Expected aggregate change %</i>
	<i>No Change</i>	<i>Increase</i>	<i>Decrease</i>		
Trading performance					
Sales	31.9	35.8	32.3	3.5	-1.4
Selling prices	53.7	36.0	10.3	25.7	0.4
Profit	16.3	64.7	19.0	45.7	-19.6
Investment					
Capital expenditure	29.7	44.9	25.4	19.5	-1.2
Stocks	25.3	23.2	51.5	-28.3	-0.7
Employment (Full time equivalent)	47.6	19.8	32.6	-12.8	-1.1
Operating Expenses					
Wages	30.8	49.1	20.1	29.0	0.5
Non-wage labour	42.4	39.6	18.0	21.6	0.5
Other	49.5	38.4	12.1	26.3	0.3
Total	n.a.	n.a.	n.a.	n.a.	0.3
International Trade					
Imports	58.8	17.8	23.4	-5.6	-1.7
Exports	70.9	19.0	10.1	8.9	1.1

MEDIUM TERM OUTLOOK

Expected Change for the December Quarter 1994 compared with the December Quarter 1993

TABLE 3. AUSTRALIAN BUSINESS EXPECTATIONS — SEPTEMBER QUARTER 1994 AND DECEMBER QUARTER 1994, EXPECTED AGGREGATE CHANGE (%)

<i>Business Performance Indicators</i>	<i>Expected aggregate change</i>	
	<i>September quarter 1994</i>	<i>December quarter 1994</i>
Trading performance		
Sales	2.9	3.1
Selling prices	0.6	1.3
Profit	6.8	17.8
Investment		
Capital expenditure	1.5	-0.2
Stocks	0.5	-0.2
Employment (full time equivalent)	-0.9	-0.5
Operating Expenses		
Wages	1.1	1.9
Non-wage labour	0.0	1.8
Other	2.5	1.6
Total	2.3	1.6
International Trade		
Imports	0.0	0.0
Exports	2.6	2.0

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.

Trading Performance

Sales

Sales are expected to increase by a strong 3.1 per cent between the December quarter 1994 and the December quarter 1993 similar to the 2.9 per cent increase expected for the corresponding September quarters in the previous survey. As for the September quarter a very strong positive net balance (60.4%) of businesses expect increased sales in the December quarter (see Table 4).

Selling prices

Although more than 50 per cent of businesses are expected to raise their selling prices and few expecting lower prices, actual selling prices are expected to increase by a modest 1.3 per cent, a slightly higher increase than that expected for the September quarter in the previous survey.

Profit

Following an expected moderate growth in profits of 6.8 per cent for the September quarter, profits are expected to grow by a significant 17.8 per cent between the December 1993 and December 1994 quarters, which is a reflection of a slight increase in sales, higher selling prices and a lower rate of increase expected in operating expenses (see below).

Investment

Capital expenditure

The small growth in capital expenditure expected for the September quarter has changed to a slight decrease (-0.2%) in the expected expenditure between December 1993 and 1994. This decline is also reflected in a smaller percentage of businesses expecting to increase expenditure (50.9%) compared with 57.3 per cent for the September quarter and a large fall in the net balance from 40.5 per cent (September quarter) to 25.2 per cent (December quarter).

MEDIUM TERM OUTLOOK

*(Continued)***Employment***(Full-time equivalent)*

Full-time equivalent employment is still expected to decline in the December quarter but by a smaller amount (-0.5%) than for the September quarter (-0.9%). However, on balance, businesses are more optimistic about employment growth with 34 per cent expecting increased employment compared with 22 per cent expecting decreases to produce a positive net balance of 11.7 per cent, a distinct improvement over the 0.4 per cent net balance recorded for the September quarter 1994.

Operating Expenses

Total operating expenses are expected to increase in the December quarter 1994 (1.6%) but at a lower rate than for the September quarter (2.3%). Although *wage and non-wage labour expenses* are expected to increase at a faster rate, these increases are more than balanced by a lower rate of increase in *other operating expenses*.

International Trade**Imports**

Despite a small positive net balance of businesses expecting increased imports for the December 1994 quarter, no change is expected in the aggregate level of imports between the December 1993 and 1994 quarters, a repeat of the expectation for the September quarter.

Exports

Further growth in exports is expected for the December 1994 quarter (2%) following the expected growth of 2.6 per cent for the September quarter. Reduced business confidence about the medium term export outlook is indicated by a lower net balance of businesses expecting increased exports (20.3% for the December quarter compared with 27.7% for the September quarter 1994).

TABLE 4. AUSTRALIAN BUSINESS EXPECTATIONS — DECEMBER QUARTER 1994, WEIGHTED NET BALANCE AND EXPECTED AGGREGATE CHANGE

<i>Business Performance Indicators</i>	<i>Proportion of business expecting</i>			<i>Expected Net aggregate change</i>	
	<i>No. Change</i>	<i>Increase</i>	<i>Decrease</i>	<i>balance %</i>	<i>change %</i>
Trading performance					
Sales	26.0	67.2	6.8	60.4	3.1
Selling prices	37.6	54.3	8.1	46.2	1.3
Profit	12.3	75.8	11.9	63.9	17.8
Investment					
Capital expenditure	23.4	50.9	25.7	25.2	-0.2
Stocks	33.6	41.3	25.1	16.2	-0.2
Employment (full time equivalent)	43.1	34.3	22.6	11.7	-0.5
Operating Expenses					
Wages	18.1	70.3	11.6	58.7	1.9
Non-wage labour	22.6	64.8	12.6	55.2	1.8
Other	33.5	60.9	5.6	55.3	1.6
Total	n.a.	n.a.	n.a.	n.a.	1.6
International Trade					
Imports	52.1	30.8	17.1	13.7	0.0
Exports	51.7	34.3	14.0	20.3	2.0

DETAILED RESULTS — SIZE OF BUSINESS

SHORT TERM OUTLOOK

Expected Change for the March Quarter 1994 compared with the December Quarter 1993

Trading Performance

Sales

Large and **small** businesses are expecting a fall in their sales of goods and services but this is consistent with normal seasonal patterns following strong growth in the December quarter. **Medium** sized businesses expect a further growth of 1.1 per cent.

Selling prices

All businesses are expecting to raise their selling prices slightly (less than 1.0%).

Profit

Small (-8.0%) and **Large** (-33.1%) businesses expect decreases in profit in the March quarter 1994 but this is in line with normal seasonal patterns. The expected increase for **medium** size business (12.5%) indicates a strong growth in profit taking into account the seasonal variations expected.

Investment

Businesses in **small** and **large** size groups are expecting to reduce slightly their capital expenditure and stocks but this is in accordance with a fall which is usually experienced at this time of the year.

Employment

(Full-time equivalent)

Businesses of all sizes are expecting a small decline in full-time equivalent employment but the fall is most pronounced in larger businesses. In some industries such as Manufacturing, Construction and Retail the fall can be the result of normal seasonal variations.

Operating Expenses

A negligible increase in *total operating expenses* is expected in the March quarter. **Small** sized businesses are expecting a 0.8 per cent increase.

International Trade

Consistent with normal seasonal patterns a fall in *imports* is expected in the March quarter by businesses of all size groups but most markedly by **medium** sized businesses which expect their imports to fall by 6.1 per cent. *Exports* are expected to increase by businesses of all sizes but most by **medium** (3.5%) and **small** business (2.8%).

TABLE 5. AUSTRALIAN BUSINESS EXPECTATIONS — MARCH QUARTER 1994, EXPECTED AGGREGATE CHANGE BY SIZE OF BUSINESS

<i>Business Performance Indicators</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>All business</i>
Trading performance				
Sales	-0.7	1.1	-2.7	-1.4
Selling prices	0.7	0.3	0.4	0.4
Profit	-8.0	12.5	-33.1	-19.6
Investment				
Capital expenditure	-1.5	0.7	-1.1	-1.2
Stocks	-1.2	-1.3	-0.2	-0.7
Employment (full time equivalent)	-0.7	-1.0	-1.4	-1.1
Operating Expenses				
Wages	0.5	0.5	0.5	0.5
Non-wage labour	1.5	0.6	-0.3	0.5
Other	0.8	-0.1	0.1	0.3
Total	0.8	0.0	0.2	0.3
International Trade				
Imports	-0.3	-6.1	-1.3	-1.7
Exports	2.8	3.5	0.9	1.1

MEDIUM TERM OUTLOOK

Expected Change for the December Quarter 1994 compared with the December Quarter 1993

Trading Performance

Sales

Businesses in all size groups are expecting further growth in sales of goods and services (3.1%) with **medium** sized businesses expecting the greatest increase of 4.9 per cent.

Selling prices

Selling prices are expected to increase by an average of 1.3 per cent with only a small variation by size of business.

Profit

Medium sized businesses are expecting the largest increase in profit in the medium term (56.8%). This is consistent with their short term outlook. Both **small** and **large** businesses expect strong profit growth in the medium term.

Investment

Medium sized businesses expects a large fall in their capital expenditure of 8.3 per cent but a modest increase of 1.5 per cent is expected by **large** businesses. Some minor stock building is expected in **medium** sized businesses.

Employment

(Full-time equivalent)

Large businesses continue to indicate that they expect a decline (of 1.1%) in full-time equivalent employment. However, some growth is expected in **small** business.

Operating Expenses

The modest increases expected in operating expenses are caused by the increases in *wage and non-wage labour expenses* in **small** and **medium** sized businesses. Only slight increases are expected by **large** businesses.

International Trade

Imports are expected to remain unchanged compared with the December 1993 quarter because of the 3.1 per cent decline expected by **medium** sized businesses and despite the increase of 1.8 per cent expected by **large** businesses.

A healthy increase of 2 per cent is expected in *exports* as a result of an almost 10 per cent increase expected by **small** and **medium** sized businesses.

TABLE 6. AUSTRALIAN BUSINESS EXPECTATIONS — DECEMBER QUARTER 1994, EXPECTED AGGREGATE CHANGE BY SIZE OF BUSINESS

<i>Business Performance Indicators</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>All business</i>
Trading performance				
Sales	2.5	4.9	2.8	3.1
Selling prices	1.6	1.2	1.2	1.3
Profit	10.2	56.8	17.6	17.8
Investment				
Capital expenditure	-0.7	-8.3	1.5	-0.2
Stocks	-0.4	0.2	-0.4	-0.2
Employment (full time equivalent)	0.2	-0.3	-1.1	-0.5
Operating Expenses				
Wages	2.3	2.9	1.3	1.9
Non-wage labour	2.7	3.9	0.5	1.8
Other	1.9	1.9	1.4	1.6
Total	2.0	2.0	1.3	1.6
International Trade				
Imports	-0.4	-3.1	1.8	0.0
Exports	9.9	9.9	1.0	2.0

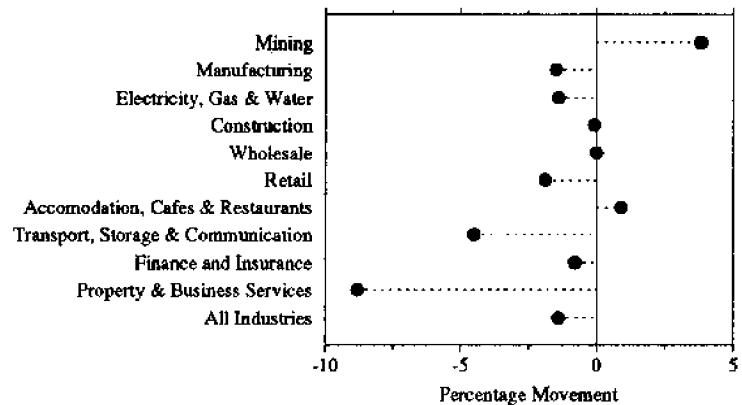
SHORT TERM OUTLOOK

Expected Change for the March Quarter 1994 compared with the December Quarter 1993

Sales of Goods and Services -1.4%

- Consistent with normal seasonal patterns most industries are expecting sales to decrease with the most significant being Manufacturing (-1.5%), Retail (-1.9%) Property and business services (-8.8%) and Transport, storage and communication (-4.5%).
- Sales increases are only expected from the Mining (3.8%) and Accommodation, cafes and restaurants (0.9%) industries.

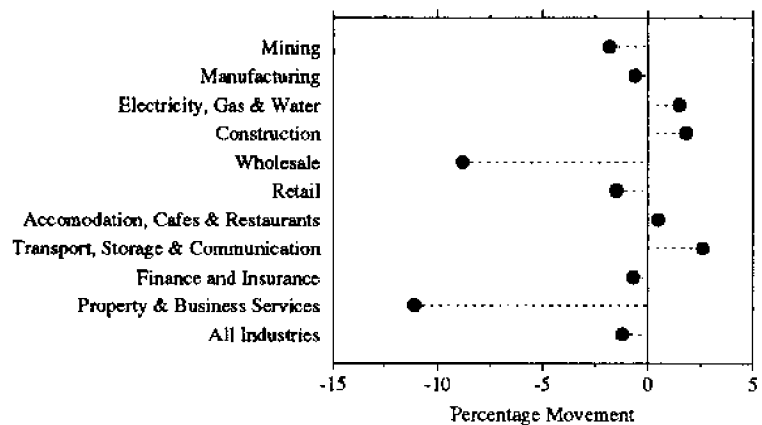
**CHART 1. MAIN INDUSTRY COMPARISONS
SALES OF GOODS AND SERVICES
SHORT TERM OUTLOOK
March Quarter 1994**



Capital expenditure -1.2%

- The expected decrease overall is the result of expected decreases in the Wholesale (-8.8%) and Property and business services (-11.1%) industries.
- Most other industries expect modest increases in capital expenditure with Transport, storage and communication expecting the largest (2.6%).

**CHART 2. MAIN INDUSTRY COMPARISONS
CAPITAL EXPENDITURE
SHORT TERM OUTLOOK
March Quarter 1994**



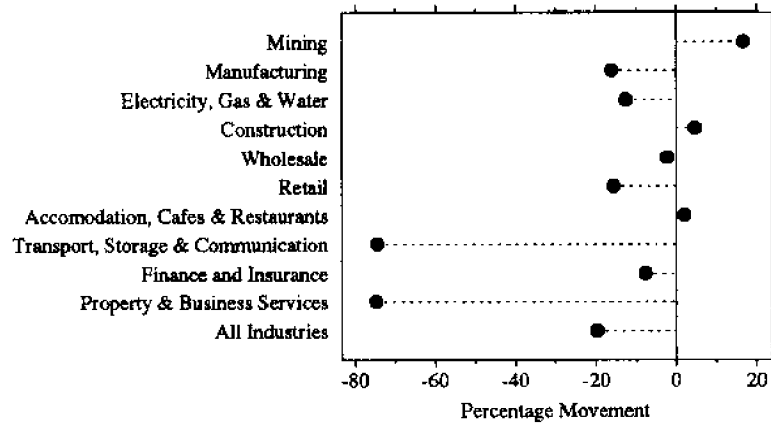
SHORT TERM OUTLOOK

(Continued)

Profit -19.6%

- Consistent with normal seasonal patterns, profit is expected to decrease in most industries with the largest decrease in Transport, storage and communication (-74.5%) and Property and business services (-74.8%).
- Only Mining (16.6%), Construction (4.6%) and Accommodation, cafes and restaurants (2.0%) expect an increase.

**CHART 3. MAIN INDUSTRY COMPARISONS
PROFIT
SHORT TERM OUTLOOK
March Quarter 1994**



Total Operating Expenses +0.3%

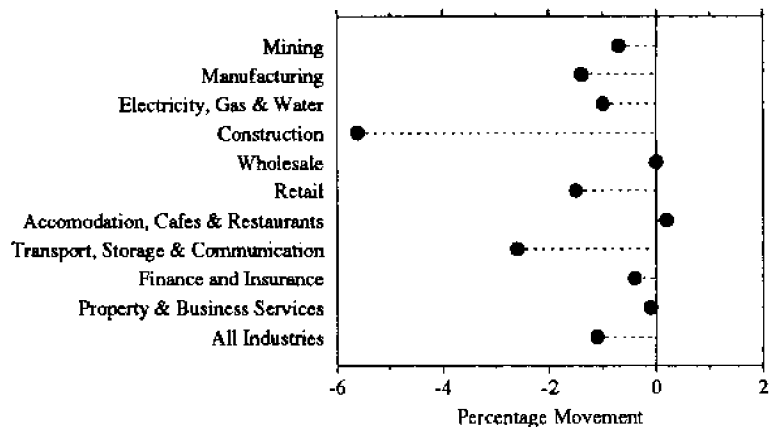
- Relatively small increases are expected in most industries for most components of total expenses, although Mining is an exception.

Employment

(Full-time equivalent) -1.1%

- Businesses in all industries except Wholesale (no change) and Accommodation, cafes and restaurants (0.2%) expect to reduce their full-time equivalent employment. For a number of industries the fall may be a reflection of normal seasonal patterns.
- Expected falls are greatest in Construction (-5.6%) and Transport, storage and communication (-2.6%).

**CHART 4. MAIN INDUSTRY COMPARISONS
EMPLOYMENT
SHORT TERM OUTLOOK
March Quarter 1994**



MEDIUM TERM OUTLOOK

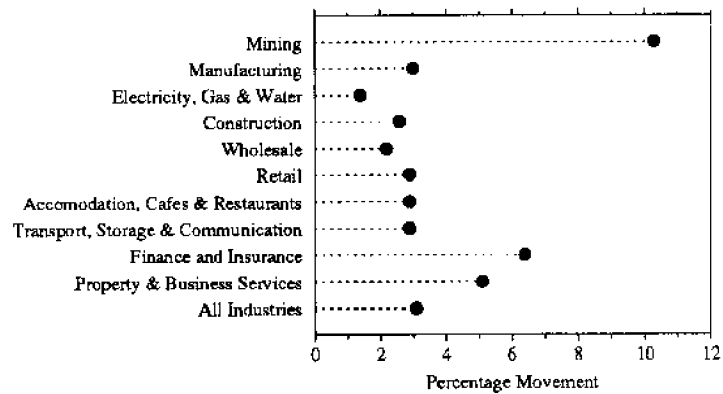
Expected Change for the December Quarter 1994 compared with the December Quarter 1993

Sales of Goods and Services +3.1%

- All industries are expecting growth in the medium term.
- Industries with the largest expected increase are Mining (10.3%), Finance and insurance (6.4%) and Property and business services (5.1%).

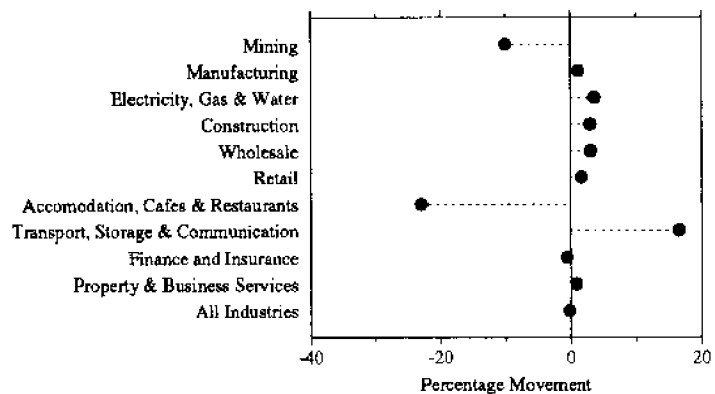
Capital expenditure -0.2%

**CHART 5. MAIN INDUSTRY COMPARISONS
SALES OF GOODS AND SERVICES
MEDIUM TERM OUTLOOK
December Quarter 1994**



- Most industries expect modest increases although Transport, storage and communication expects a significant 16.6 per cent increase.
- Mining (-10.0%) and Accommodation, cafes and restaurants (-22.9%) expect decreases.

**CHART 6. MAIN INDUSTRY COMPARISONS
CAPITAL EXPENDITURE
MEDIUM TERM OUTLOOK
December Quarter 1994**



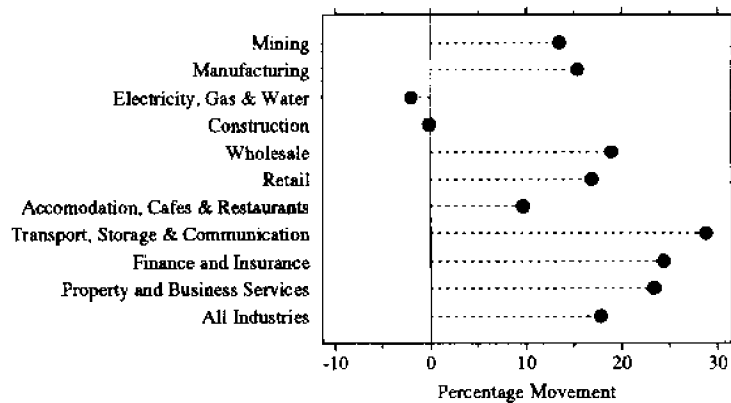
MEDIUM TERM OUTLOOK

(Continued)

Profit +17.8%

- Profit increases are expected in all industries except Electricity, gas and water (-2.0%).
- Transport, storage and communication (28.8%) expects the largest increase in profit.

CHART 7. MAIN INDUSTRY COMPARISONS
PROFIT
MEDIUM TERM OUTLOOK
December Quarter 1994



Wage Expenses +1.9%

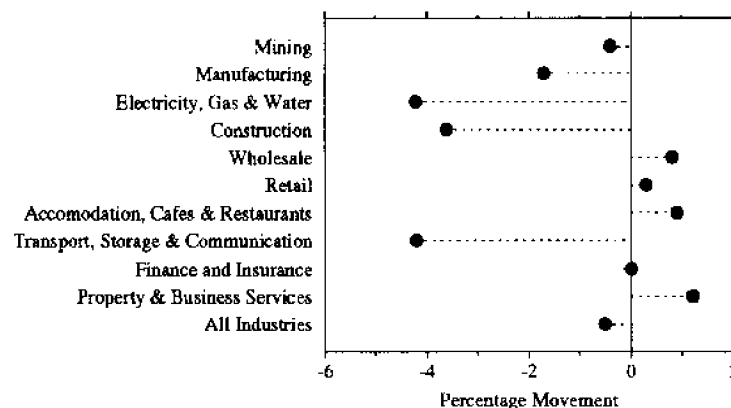
Total Operating Expenses +1.6%

Employment

(Full-time equivalent) -0.5%

- All industries expect increases with the largest increase expected in Mining (10.0%).
- Increases are expected in all industries with Mining increasing the most (8.0%).
- Industries expecting the greatest decrease in employment are Electricity, gas and water (-4.2%), Construction (-3.6%) and Transport, storage and communication (-4.2%).
- Only Wholesale (0.8%), Retail (0.3%) and Accommodation, cafes and restaurants (0.9%) are expecting employment growth.

CHART 8. MAIN INDUSTRY COMPARISONS
EMPLOYMENT
MEDIUM TERM OUTLOOK
December Quarter 1994





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.

To determine these State results, the ABS has apportioned the national expectation of business activity to each State in which the businesses operate.

For all businesses which only operate in a single State the responses are directly attributed to that State.

Because of the greater degree of estimation, the State estimates should be interpreted with care.

SHORT TERM OUTLOOK

Expected Change for the March Quarter 1994 compared with the December Quarter 1993

Businesses in all States, except Western Australia (with no change), expect a decrease in sales of goods and services.

Businesses in New South Wales expect the largest decrease in sales (-2.6%), and the result is influenced by a large expected decline by large business in the Property and business services industry.

The Western Australian result may be due to the Mining industry which has a continuing expectation of growth.

MEDIUM TERM OUTLOOK

Expected Change for the December Quarter 1994 compared with the December Quarter 1993

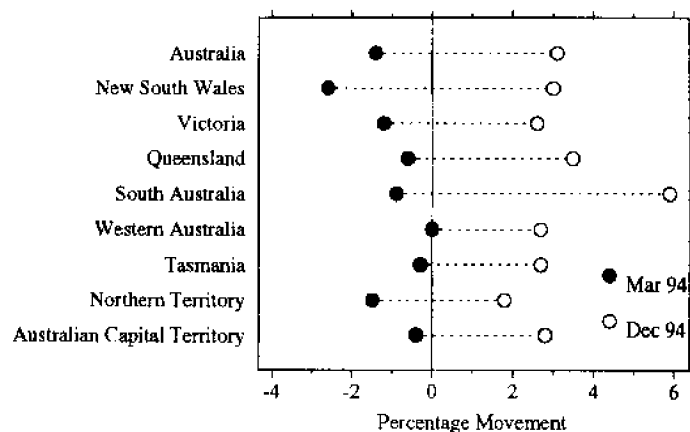
Businesses in all States expect growth in the sales of goods and services.

South Australian businesses expect the greatest sales growth (5.9%), and the result is due to the strong expected growth in sales in the Mining industry.

Businesses in Victoria (2.6%) continue to expect growth in sales below the Australian average of 3.1 per cent.

Northern Territory businesses expect the lowest growth in sales (1.8%).

**CHART 9. STATE ESTIMATES
SALES OF GOODS AND SERVICES
SHORT AND MEDIUM TERM OUTLOOK
March Quarter 1994 and December Quarter 1994**





Introduction	<p>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.</p> <p>This is the second 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 March quarter 1994 and the second seeks expected change between the December quarter 1993 and the December quarter 1994.</p>
Survey methodology	<p>The survey is conducted by mail each quarter.</p> <p>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.</p> <p>The sample is stratified by industry, sector (private and government business) and size of business (measured by number of employees).</p> <p>The sample is supplemented by a further sample of businesses which have been created since the original sample was selected.</p>
Scope of the survey	<p>The statistics in this publication relate to employing businesses in all industries and sectors of the Australian economy except:</p> <ul style="list-style-type: none"> • agriculture • general government
Classification	<p>Each statistical unit selected in the survey is classified to an industry, according to the Australian and New Zealand Standard Industrial Classification (ANZSIC).</p>
Business size	<p>Data presented in this publication is classified by three business sizes :</p> <ul style="list-style-type: none"> • 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	<p>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.</p> <p>In nearly all cases the management unit coincides with the legal entity owning the business (i.e. company, partnership, trust, sole proprietor, etc.).</p> <p>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".</p>
Business performance indicators	<p>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.</p>

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 -1.4 per cent with a standard error of 0.35, there would be two chances in three that the true value would be within the range -1.75 per cent and -1.05 per cent.

**STANDARD ERRORS OF KEY ESTIMATES, SHORT TERM
EXPECTATION, AUSTRALIA**

<i>Business performance indicator</i>	<i>Survey estimate</i>	<i>Standard error</i>
Sales	-1.4	0.35
Selling prices	0.4	0.10
Capital expenditure	-1.2	0.14
Stocks	-0.7	0.25
Employment	-1.1	0.08
Wage costs	0.5	0.09
Imports	-1.7	0.17
Exports	1.1	0.10

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.



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 directly imported 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 directly exported 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>

DESCRIPTION OF TERMS

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.

Capital expenditure

The expected change in the value of capital expenditure in new tangible assets.

Capital expenditure is generally classed in two categories, *Plant machinery and equipment* and *Buildings*.

The proportion of total capital expenditure on *Plant, machinery and equipment* is collected and the amount to be expended on *Buildings* is derived.

Profit

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.

The difference between the new benchmarks for the *sales of goods and services* and the sum of all expenses items (the sum of *Total wage expense, Non-wage labour expense* and *All other operating expenses*) 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.

Because of reporting difficulties experienced with the cost/sales ratios, caution should be exercised in interpreting profit expectations data.

State Information

State information has been derived for businesses in the survey which operate in more than one State.

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.

Reference Periods

There are two reference periods surveyed each quarter:

- Short term (if the current quarter is December 1993 then the quarter being surveyed is March 1994)
- Medium term (if the current quarter is December 1993, then the quarter being surveyed is December 1994)

Symbols and other usages

0 nil or rounded to zero
n.a. not available for publication.

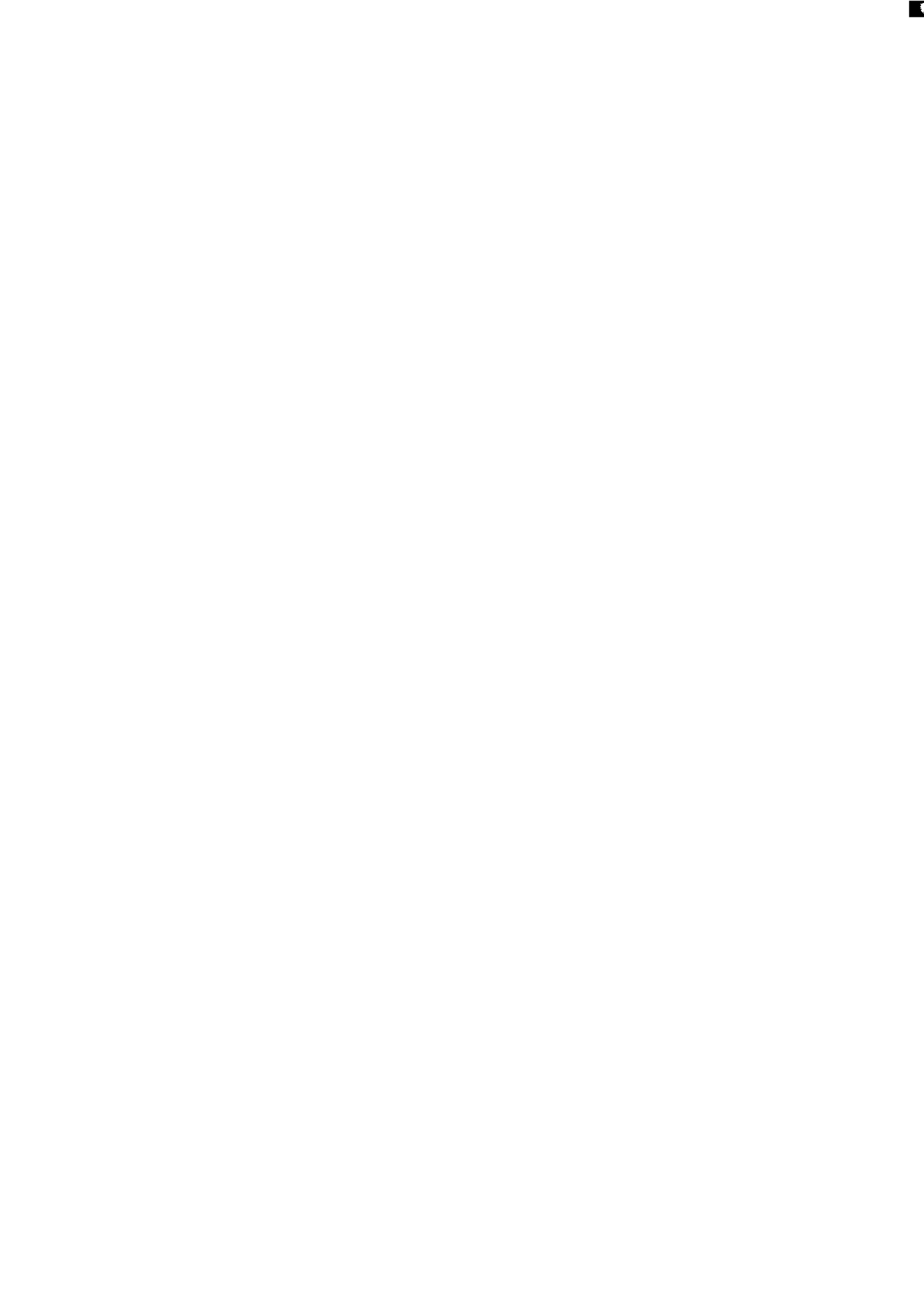
In addition to the data contained in this publication, more detailed industry and size of business information may be made available on request.

Subject to the ABS provisions for maintaining the confidentiality of respondents and their information, some of the categories of information that may be made available are:

- Size of business (based on employment)
- Industry (2 digit ANZSIC)
- State information
- Net balance

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 2612.





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2525000003946
ISSN 1320-811X

Recommended retail price: \$25.00

• Information Services, ABS, PO Box 10, Belconnen ACT 2616