



AUSTRALIAN BUSINESS EXPECTATIONS



June Quarter 1994 / March Quarter 1995

ABS Catalogue No. 5250.0

EMBARGOED UNTIL 11.30 A.M. 14 APRIL 1994

AUSTRALIAN BUSINESS EXPECTATIONS

June Quarter 1994 and March Quarter 1995

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CONTENTS

	<i>Page</i>
About this Survey	1
Introduction to Results	3
Key Results	4
Detailed Results — Size of Business	8
Detailed Results — Industries	10
Detailed Results — State	15
Explanatory Notes	17
Description of Terms	21
Unpublished Data	23

Table

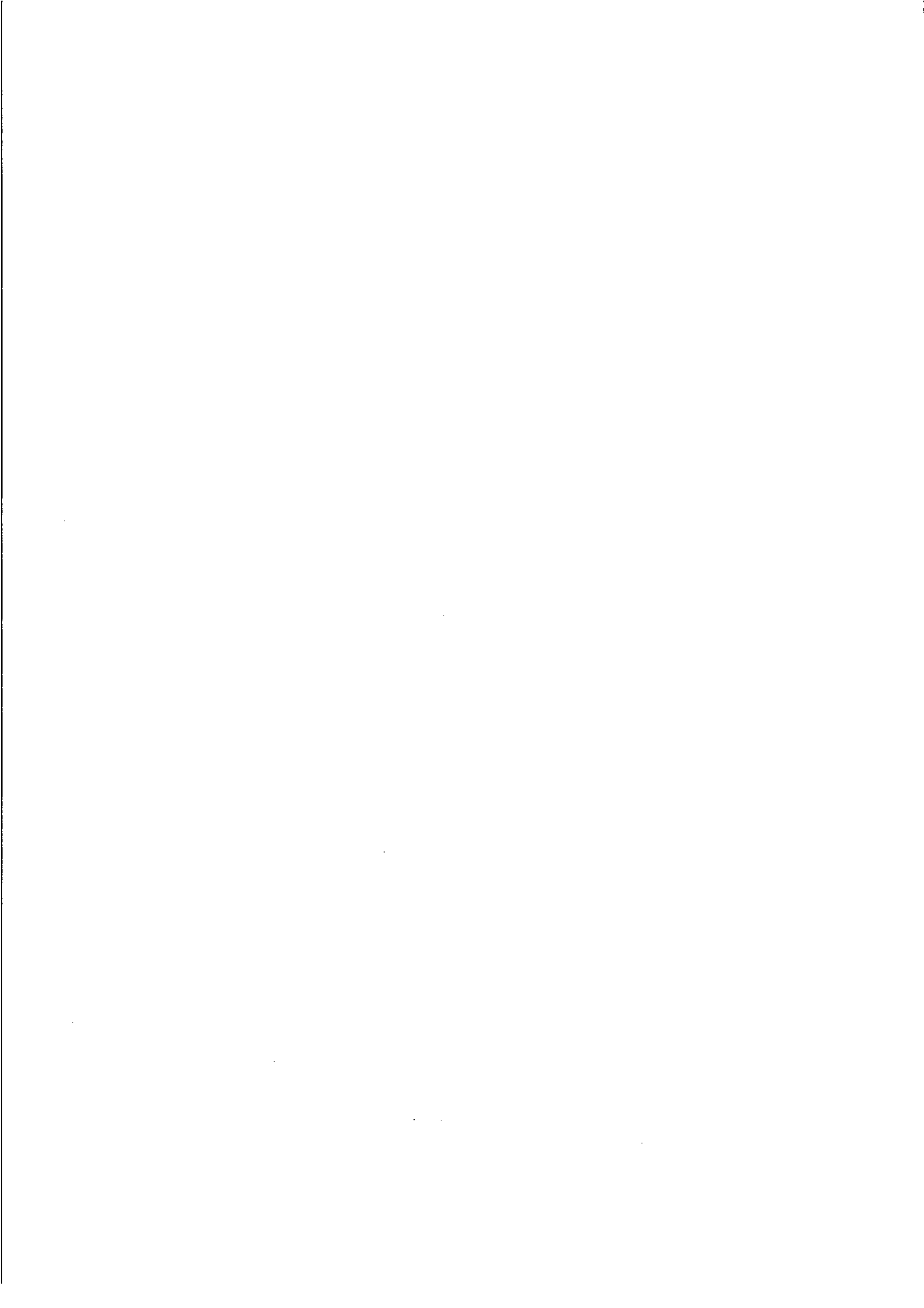
1	Australian Business Expectations — December Quarter 1993, March Quarter 1994, and June Quarter 1994 Expected Aggregate Change	4
2	Australian Business Expectations — June Quarter 1994 compared with March Quarter 1994, Weighted Net Balance and Expected Aggregate Change	5
3	Australian Business Expectations — September Quarter 1994, December Quarter 1994, and March Quarter 1995 Expected Aggregate Change	6
4	Australian Business Expectations — March Quarter 1995 compared with March Quarter 1994, Weighted Net Balance and Expected Aggregate Change	7
5	Australian Business Expectations — June Quarter 1994 compared with March Quarter 1994, Expected Aggregate Change by Size of Business	8
6	Australian Business Expectations — March Quarter 1995 compared with March Quarter 1994, Expected Aggregate Change by Size of Business	9

Chart

1	Main Industry Comparisons, Sales of Goods and Services, Short Term Outlook, June Quarter 1994	10
2	Main Industry Comparisons, Capital Expenditure, Short Term Outlook, June Quarter 1994	10
3	Main Industry Comparisons, Profit, Short Term Outlook, June Quarter 1994	11
4	Main Industry Comparisons, Employment, Short Term Outlook, June Quarter 1994	11
5	Main Industry Comparisons, Sales of Goods and Services, Medium Term Outlook, March Quarter 1995	12
6	Main Industry Comparisons, Capital Expenditure, Medium Term Outlook, March Quarter 1995	12
7	Main Industry Comparisons, Profit, Medium Term Outlook, March Quarter 1995	13
8	Main Industry Comparisons, Employment, Medium Term Outlook, March Quarter 1995	13
9	State Estimates, Sales of Goods and Services, Short and Medium Term Outlook, June Quarter 1994 and March Quarter 1995	15

INQUIRIES

- *for further information about statistics in this publication and the availability of related unpublished statistics, contact Geoff McFarlane on Canberra (06) 252 5607 or any ABS State office.*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 during February 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 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 June 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) 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.

An example showing 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, JUNE QUARTER 1994

	<i>Simple Net Balance</i> %	<i>Weighted Net Balance</i> %
Sales	47.7	47.4
Wage Costs	44.1	40.1
Employment	3.1	-11.8

That is, for the June quarter 1994 a positive simple net balance of 3.1 per cent of businesses expect an increase in employment. However, the lower and negative weighted net balance of 11.8 per cent indicates that businesses expecting a decrease in employment tend on average to be larger than those expecting an increase.

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 three quarters of the survey and Tables 2 and 4 include both the weighted net balance and the expected aggregate change. The 47.4 per cent positive weighted net balance of businesses expecting sales to increase in the June quarter translates to an expected aggregate increase of 1.9 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 quarterly 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 sometimes outweigh changes in economic conditions. The earliest indication of seasonal influences will not be visible until at least five quarters expectations data are available.

It must be stressed that 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.

In the meantime 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.

KEY RESULTS

SHORT TERM OUTLOOK

Expected change for the June quarter 1994 compared with the March 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 March and June quarter periods may be the result of seasonal influences in addition to any underlying movement in trading performance.

TABLE 1. AUSTRALIAN BUSINESS EXPECTATIONS - DECEMBER QUARTER 1993, MARCH QUARTER 1994 AND JUNE QUARTER 1994, EXPECTED AGGREGATE CHANGE

(Not seasonally adjusted)

Business performance indicators	Expected aggregate change over the previous quarter		
	December quarter 1993 %	March quarter 1994 %	June quarter 1994 %
Trading performance			
Sales	3.6	-1.4	1.9
Selling prices	0.0	0.4	0.5
Profit	5.0	-19.6	4.4
Investment			
Capital expenditure	1.1	-1.2	4.2
Stocks	-1.2	-0.7	0.1
Employment (full time equivalent)	-0.8	-1.1	-0.2
Operating Expenses			
Wages	0.8	0.5	1.1
Non-wage labour	0.5	0.5	1.0
Other	1.7	0.3	1.3
Total	1.5	0.3	1.3
International Trade			
Imports	-1.0	-1.7	1.6
Exports	1.3	1.1	1.3

Trading Performance

Sales

A weighted net balance of 47.4 per cent of all businesses expect increased sales in the June quarter with the number of businesses expecting increased sales outnumbering those expecting a decline by almost 6 to 1. Sales are expected to increase by 1.9 per cent but follow the -1.4 per cent expected for the previous quarter and some of the increase may be a reflection of normal seasonal change.

Selling prices

Although the number of businesses expecting to raise their prices outnumber those expecting a fall by a ratio of 7:1, the weighted aggregate change increase of 0.5 per cent, similar to the 0.4 per cent increase expected for the March quarter 1994 suggests little impact on inflation. The decrease in commodity prices expected to prevail in the mining industry in the June quarter 1994 may be having a dampening effect on overall selling prices.

Profit

An increase in profit of 4.4 per cent is expected for the June quarter, a major turnaround from the large seasonal fall expected in the previous quarter. The proportion of businesses expecting an increase in profit is 50.5 per cent compared with 32.3 per cent expecting a decrease.

SHORT TERM OUTLOOK

*(Continued)***Investment**

Compared with the *Capital expenditure* expectations for the December (+1.1%) and March (-1.2%) quarters, an increase of 4.2 per cent is expected in the June quarter 1994. However, there tends to be a seasonal rise in capital expenditure in June quarters. 54.6 per cent of businesses expect to increase investment but only 8.2 per cent of businesses expect a decline, to give a positive net balance of 46.4 per cent. In contrast, a positive net balance of only 19.5 per cent was recorded for the March quarter.

The slight positive change of 0.1% expected in *Stocks* is not statistically significant.

Employment*(Full-time equivalent)*

For the third successive quarter the survey is showing an expected decline in full-time equivalent employment, but by a negligible -0.2 per cent. However a decrease of 0.2 per cent is not statistically significant.

Operating Expenses

Total operating expenses are expected to rise in the June quarter by 1.3 per cent compared with 0.3 per cent expected for the March quarter. *Wage expenses* (1.1%) and *Other operating expenses* (1.3%) are also expected to increase by larger amounts than in the previous quarter. More than 50% of businesses expect increased wage costs and other operating expenses in the June quarter.

International Trade

For the June quarter, increases are expected in both imports (+1.6) and exports (+1.3%) but the difference in the two movements is not statistically significant.

Imports

The 1.6 per cent increase in *Imports* compares with the -1.7 per cent decrease expected for the March quarter, while the net balance of businesses expecting an increase is 27.3 per cent.

Exports

An increase of 1.3 per cent is expected for *Exports*. This follows the increase of 1.1 per cent expected for the March quarter. Businesses expecting increases outnumber those expecting falls by more than 2 to 1.

TABLE 2. AUSTRALIAN BUSINESS EXPECTATIONS - JUNE QUARTER 1994 COMPARED WITH MARCH QUARTER 1994, WEIGHTED NET BALANCE AND EXPECTED AGGREGATE CHANGE

(Not seasonally adjusted)

<i>Business performance indicators</i>	<i>Proportion of businesses expecting</i>			<i>Net balance %</i>	<i>Expected aggregate change %</i>
	<i>No Change %</i>	<i>Increases %</i>	<i>Decreases %</i>		
Trading performance					
Sales	33.0	57.2	9.8	47.4	1.9
Selling prices	47.3	45.0	7.7	37.3	0.5
Profit	17.2	50.5	32.3	18.2	4.4
Investment					
Capital expenditure	37.2	54.6	8.2	46.4	4.2
Stocks	33.7	26.1	40.2	-14.1	0.1
Employment <i>(Full-time equivalent)</i>	51.4	18.4	30.2	-11.8	-0.2
Operating Expenses					
Wages	37.1	51.5	11.4	40.1	1.1
Non-wage labour	41.4	47.8	10.8	37.0	1.0
Other	41.5	52.0	6.5	45.5	1.3
Total	n.a.	n.a.	n.a.	n.a.	1.3
International Trade					
Imports	40.7	43.3	16.0	27.3	1.6
Exports	66.7	23.3	10.0	13.3	1.3

KEY RESULTS

MEDIUM TERM OUTLOOK

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

Seasonality

For the medium term, comparisons are made between the current quarter and the same calendar quarter of the next year and it is unlikely that business expectations will be affected by seasonal influences.

TABLE 3. AUSTRALIAN BUSINESS EXPECTATIONS - SEPTEMBER QUARTER 1994, DECEMBER QUARTER 1994 AND MARCH QUARTER 1995, EXPECTED AGGREGATE CHANGE
(Not seasonally adjusted)

Business performance indicators	Expected aggregate change over the corresponding quarter of the previous year		
	September quarter 1994 %	December quarter 1994 %	March quarter 1995 %
Trading performance			
Sales	2.9	3.1	3.9
Selling prices	0.6	1.3	1.3
Profit	6.8	17.8	20.4
Investment			
Capital expenditure	1.5	-0.2	0.1
Stocks	0.5	-0.2	0.1
Employment (Full-time equivalent)	-0.9	-0.5	-0.1
Operating Expenses			
Wages	1.1	1.9	1.8
Non-wage labour	0.0	1.8	1.3
Other	2.5	1.6	1.7
Total	2.3	1.6	1.7
International Trade			
Imports	0.0	0.0	0.6
Exports	2.6	2.0	1.8

Trading Performance

Sales

Sales of goods and services are expected to be 3.9 per cent higher for the March quarter 1995 than for the March quarter 1994. This continues the trend in this series. The number of businesses expecting increases in sales outnumber those expecting a decline by 17 to 1 with a net balance of 69.9 per cent of all businesses expecting sales to increase.

Selling prices

An increase of 1.3% in *Selling prices* is expected for the March quarter 1995 reflecting a continuation of the low inflationary pressure evident in the expectations in the previous survey. 57.7 per cent of all businesses expect *Selling prices* to increase for the March quarter 1995.

Profit

The increase in *Profit* of 20.4 per cent expected for the March quarter 1995 indicates continuing strong growth. Almost 70 per cent of businesses expect an increase.

Investment

Whilst there is a net balance of 35.2 per cent of businesses expecting an increase in *Capital expenditure* for the March quarter 1995, the negligible weighted expected aggregate change of +0.1% indicates there is not yet any sign of a significant upturn in this series.

Stocks are not expected to change significantly (0.1%) for the March quarter 1995 and a net balance of only 4.9 per cent of all businesses expect *Stocks* to increase.

MEDIUM TERM OUTLOOK

(Continued)

Employment*(Full-time equivalent)*

Full-time equivalent employment is expected to register negligible change for the March quarter 1995. This follows small falls in employment expected in the two previous surveys.

Operating Expenses

Total operating expenses for the March quarter 1995 are expected to increase by 1.7 per cent, a similar result to the past two surveys.

Wages are expected to increase by 1.8 per cent for the March quarter 1995 with a net balance of 59.4 per cent of all businesses expecting wages to increase.

Non-wage labour expenses are expected to increase by a lesser amount (1.3%), but 64.2 per cent of all businesses expect *Non-wage labour expenses* to increase.

Other operating expenses are expected to rise by 1.7 per cent for the March quarter 1995 with a net balance of 66.1 per cent of businesses expecting an increase.

International Trade**Imports**

A small increase in *Imports* of 0.6 per cent is expected for the March quarter 1995. However, the number of businesses expecting to increase *Imports* outnumber those expecting falls by over 4 to 1.

Exports

The increase of 1.8 per cent expected for *Exports* for the March quarter 1995 is about the same as the increase expected for the December quarter 1994 (2.0%). The number of businesses expecting an increase is 27.2 per cent with 67.9 per cent of businesses expecting no change.

TABLE 4. AUSTRALIAN BUSINESS EXPECTATIONS - MARCH QUARTER 1995 COMPARED WITH MARCH QUARTER 1994, WEIGHTED NET BALANCE AND EXPECTED AGGREGATE CHANGE

(Not seasonally adjusted)

<i>Business performance indicators</i>	<i>Proportion of businesses expecting -</i>			<i>Net balance %</i>	<i>Expected aggregate change %</i>
	<i>No Change %</i>	<i>Increases %</i>	<i>Decreases %</i>		
Trading performance					
Sales	21.5	74.2	4.3	69.9	3.9
Selling prices	35.4	57.7	6.9	50.8	1.3
Profit	8.3	69.4	22.3	47.1	20.4
Investment					
Capital expenditure	24.6	55.3	20.1	35.2	0.1
Stocks	31.1	36.9	32.0	4.9	0.1
Employment <i>(Full time equivalent)</i>	38.7	36.7	24.6	12.1	-0.1
Operating Expenses					
Wages	17.2	71.1	11.7	59.4	1.8
Non-wage labour	24.6	64.2	11.2	53.0	1.3
Other	24.3	70.9	4.8	66.1	1.7
Total	n.a.	n.a.	n.a.	n.a.	1.7
International Trade					
Imports	43.5	46.5	10.0	36.5	0.6
Exports	67.9	27.2	4.9	22.3	1.8

DETAILED RESULTS - SIZE OF BUSINESS

SHORT TERM OUTLOOK

Expected change for the June quarter 1994 compared with the March quarter 1994

Trading Performance

Sales

Medium (2.9%) and **large** (2.5%) businesses are expecting *Sales of goods and services* to increase. The decrease in sales expected by **small** businesses (-0.1%) is having only a marginal effect on total sales.

Selling prices

The expected increase in *Selling prices* (0.5%) is similar for **small** (0.4), **medium** (0.6%) and **large** (0.5%) businesses for the June quarter 1994.

Profit

The increase expected by **medium** business of 19.9 and **large** business of 4.5 per cent indicates that **small** (-4.0%) size businesses are not significantly affecting the result of 4.4 per cent expected for **all** business.

Investment

Capital expenditure is volatile and "lumpy" for **small** and **medium** businesses and the small increases can only be taken as broadly indicative. **Large** businesses expect to increase *Capital expenditure* by 5.3 per cent for the June quarter 1994 although this may be largely a reflection of seasonal patterns.

Employment

(Full-time equivalent)

Only **medium** size businesses (0.6%) expect to increase employment during the June quarter 1994, while **large** businesses (-0.6%) continues to expect to reduce employment.

Operating Expenses

Total operating expenses are expected to increase for the June quarter 1994 with **large** businesses expecting the greatest increase of 1.7 per cent.

Medium businesses are expecting the greatest rise in wage (1.5%) and non-wage (0.9%) expenses while **large** business is expecting the greatest increase in all other expenses (1.8%).

International Trade

Small (4.1%) and **large** (2.6%) businesses are expecting *Imports* to increase a little more strongly than *Exports*. **Medium** size businesses expect *Imports* to fall by 4.1 per cent and *Exports* to be up by 3.8 per cent.

TABLE 5. AUSTRALIAN BUSINESS EXPECTATIONS - JUNE QUARTER 1994 COMPARED WITH MARCH QUARTER 1994, EXPECTED AGGREGATE CHANGE, BY SIZE OF BUSINESS

(Not seasonally adjusted)

Business performance indicators	Small %	Medium %	Large %	All business %
Trading performance				
Sales	-0.1	2.9	2.5	1.9
Selling prices	0.4	0.6	0.5	0.5
Profit	-4.0	19.9	4.5	4.4
Investment				
Capital expenditure	1.7	0.7	5.3	4.2
Stocks	0.7	-0.2	0.0	0.1
Employment (Full-time equivalent)	-0.2	0.6	-0.6	-0.2
Operating Expenses				
Wages	0.6	1.5	1.2	1.1
Non-wage labour	0.9	1.3	0.9	1.0
Other	0.6	0.9	1.8	1.3
Total	0.6	0.9	1.7	1.3
International Trade				
Imports	4.1	-4.1	2.6	1.6
Exports	3.6	3.8	1.0	1.3

MEDIUM TERM OUTLOOK

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

Trading Performance

Sales *Sales of goods and services* are expected to increase by 5.7 per cent for **medium** businesses and 4.2 per cent for **large** businesses, but by only 1.9 per cent for **small** business. This modest result for **small** business has held the overall increase for **all** size businesses to 3.9 per cent.

Selling prices The increase expected in Selling prices is uniform for all size businesses at 1.3 per cent.

Profit *Profit* is not expected to increase very much for **small** businesses. However the 42.5 per cent increase in **medium** businesses and 22.6 per cent for **large** business results in *Profit* for all size businesses being expected to rise by 20.4 per cent.

Investment

Medium (2.4%) and **small** (1.8%) businesses are expecting to increase *Capital expenditure*. However, with **large** businesses expecting to decrease expenditure by -0.6 per cent there is an expected increase of only 0.1 per cent for **all** size businesses. There is little movement (0.1%) expected in the level of *Stocks* for each size category.

Employment
(Full-time equivalent)

Large businesses expect full-time equivalent employment to decrease by 1.0 per cent while both **small** (0.4%) and **medium** (0.7%) expect full-time equivalent employment to increase.

Operating Expenses

Medium businesses expect the largest increase in wages of 2.5 per cent against 1.8 per cent for all businesses.. Similar increases in non-wage labour and other operating expenses are expected by **all** businesses.

International Trade

The 3.1 per cent increase in *Imports* expected by **large** businesses is offset by the decreases expected by **medium** (-3.4%) and **small** (-0.3%). Exports are expected to increase for **all** businesses by 1.8 per cent. **Large** businesses expect to increase by 1.5 per cent with small and medium size businesses expecting stronger growth of 6.6 per cent and 4.3 per cent respectively.

TABLE 6. AUSTRALIAN BUSINESS EXPECTATIONS - MARCH QUARTER 1995 COMPARED WITH MARCH 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	1.9	5.7	4.2	3.9
Selling prices	1.3	1.4	1.4	1.3
Profit	5.3	42.5	22.6	20.4
Investment				
Capital expenditure	1.8	2.4	-0.6	0.1
Stocks	0.1	0.1	0.1	0.1
Employment <i>(Full-time equivalent)</i>	0.4	0.7	-1.0	-0.1
Operating Expenses				
Wages	1.9	2.5	1.5	1.8
Non-wage labour	1.6	1.8	0.9	1.3
Other	1.3	1.5	1.9	1.7
Total	1.4	1.6	1.8	1.7
International Trade				
Imports	-0.3	-3.4	3.1	0.6
Exports	6.6	4.3	1.5	1.8

DETAILED RESULTS - INDUSTRIES

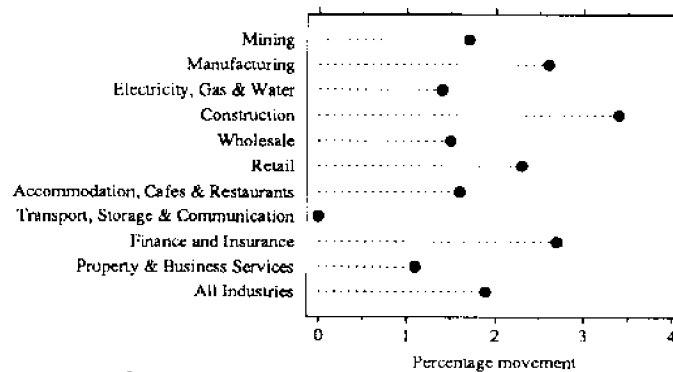
SHORT TERM OUTLOOK

Sales of goods and services +1.9%

Expected change for the June quarter 1994 compared with the March quarter 1994

- Consistent with normal seasonal patterns, most industries are expecting sales to increase with the most significant being Construction (3.4%), Finance and insurance (2.7%) and Manufacturing (2.6%).
- It is only in the Transport, storage and communication industry that no increase in sales is expected.

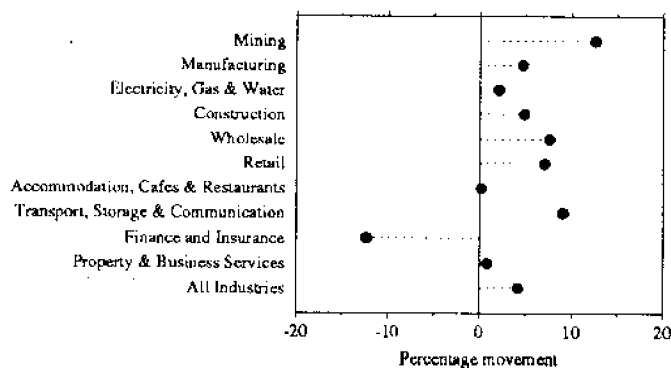
CHART 1. MAIN INDUSTRY COMPARISONS
SALES OF GOODS AND SERVICES
SHORT TERM OUTLOOK
June quarter 1994



Capital expenditure +4.2%

- June is the peak seasonal quarter for capital expenditure and that is reflected in expected increases in the short term for many industries. Mining (12.6%) and Transport, storage and communication (9.0%) lead the way.
- Finance and insurance (-12.3%) is the only industry expecting a fall and Accommodation, cafes and restaurants (0.2%) and Property and business services (0.9%) expect only marginal increases.

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



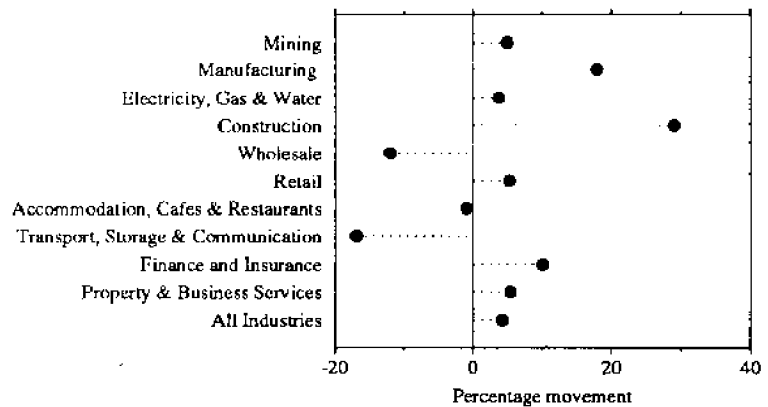
SHORT TERM OUTLOOK

(Continued)

Profit +4.4%

- Profit increases are expected for most industries, ranging up to 29.0 per cent for Construction and 17.8 per cent for Manufacturing
- Transport, storage and communication (-16.9%) and Wholesale (-11.9%) are the only industries expecting falls.

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

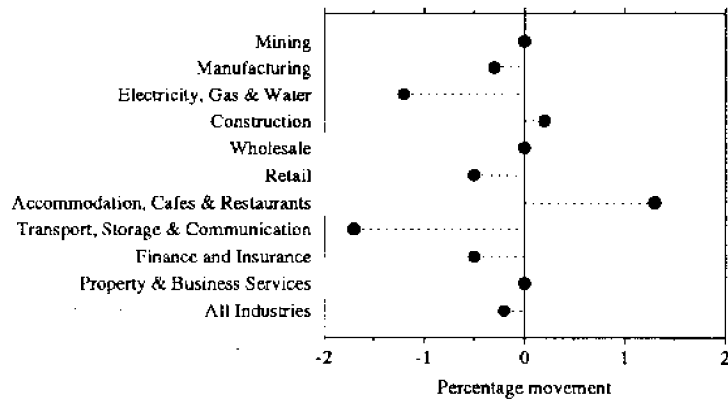


Employment

(full-time equivalent) -0.2%

- There is a minor decrease in employment expected in the short term among existing businesses in most industries with Transport, storage and communication (-1.7%) and Electricity, gas and water (-1.2%) looking to make the biggest cuts.
- Only the Accommodation, cafes and restaurants industry (1.3%) is expecting significant growth.

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



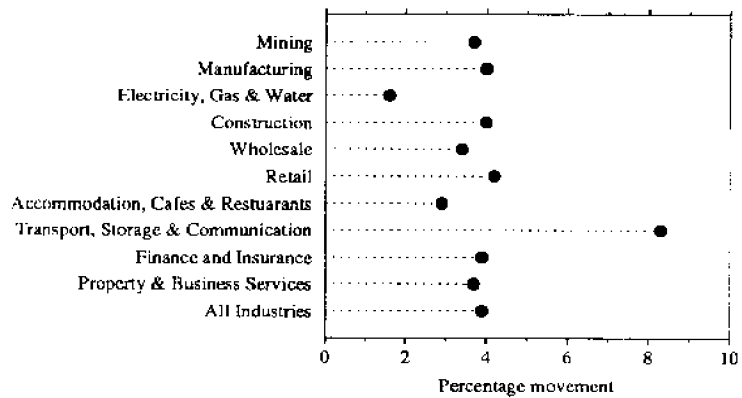
MEDIUM TERM OUTLOOK

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

Sales of goods and services +3.9%

- Most industries expect sales to increase by about the average for all industries.
- The only significant exceptions are Transport, storage and communications (8.3%) and Electricity, gas and water (1.6%).

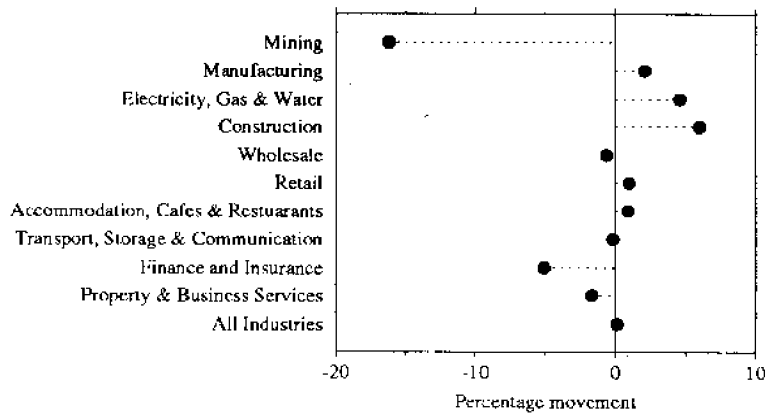
CHART 5. MAIN INDUSTRY COMPARISONS
SALES OF GOODS AND SERVICES
MEDIUM TERM OUTLOOK
March quarter 1995



Capital expenditure +0.1%

- The Mining industry (-16.2%) is expecting by far the largest medium term change.
- Construction (6.0%) expects the largest increase, followed by Electricity, gas and water (4.6%).

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



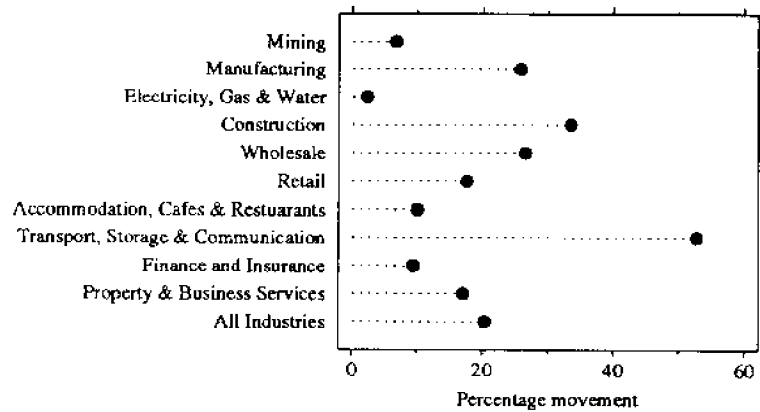
MEDIUM TERM OUTLOOK

(continued)

Profit +20.4%

- Transport, storage and communication expects a large 52.8 per cent increase in profit with most other industries also expecting strong growth.
- Electricity, gas and water (2.3%) and Mining (6.7%) are expecting the smallest increases.

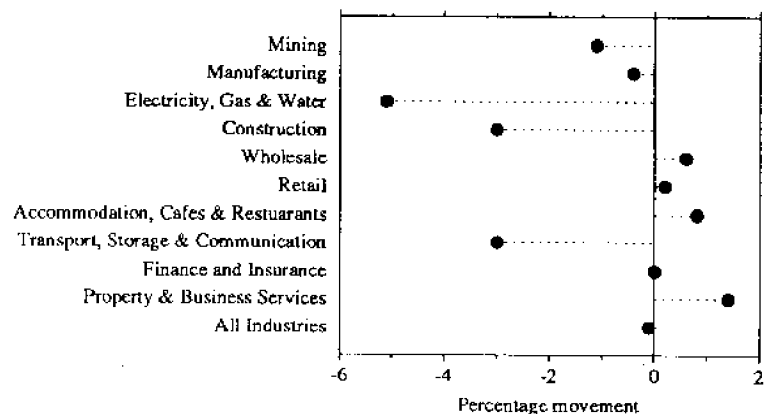
CHART 7. MAIN INDUSTRY COMPARISONS
PROFIT
MEDIUM TERM OUTLOOK
March quarter 1995

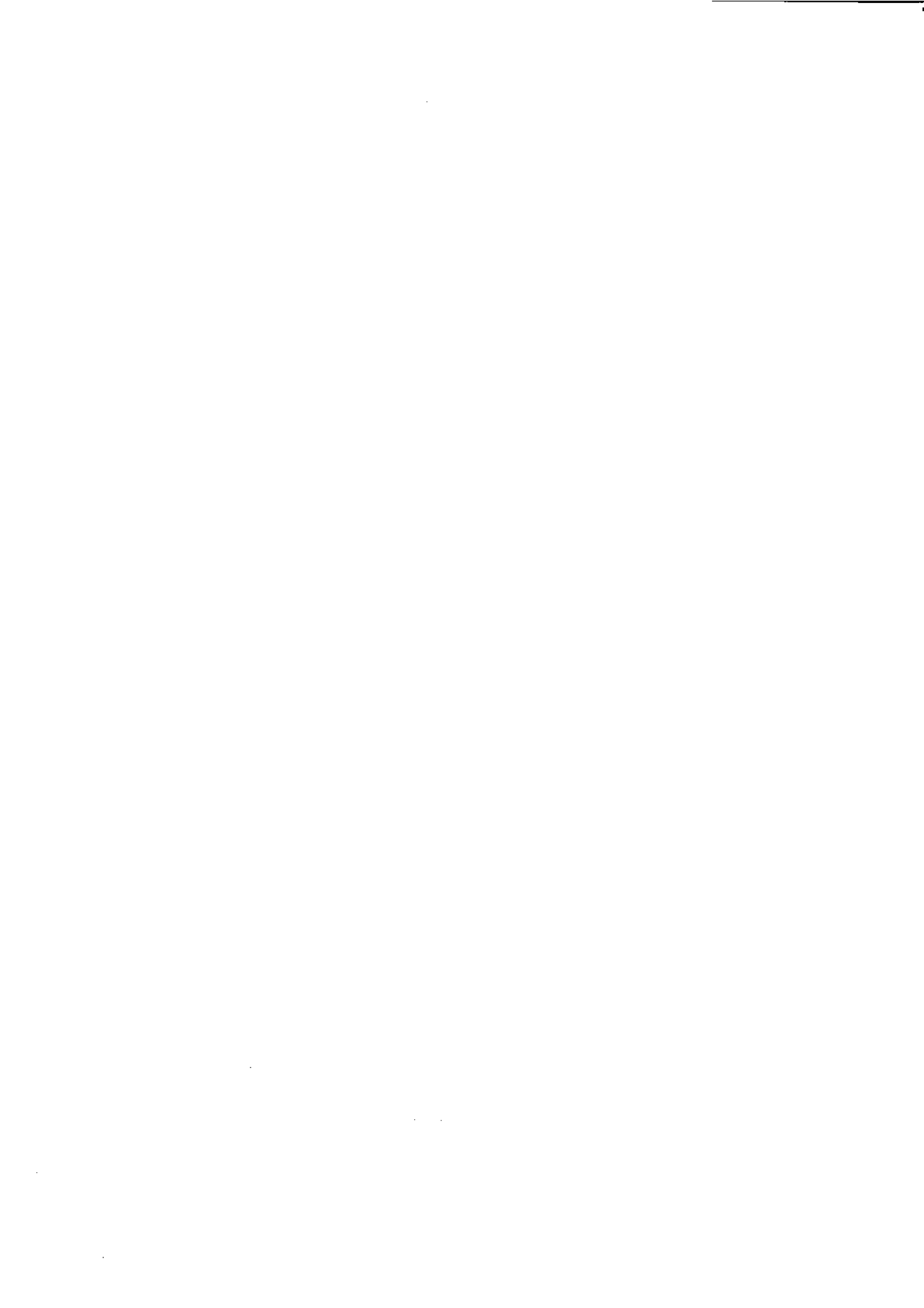


Employment -0.1%

- Full-time equivalent employment is still expected to decline in the medium term for a number of industries.
- The largest increase is expected in Property and business services (1.4%) but Electricity, gas and water (-5.0%), Construction (-3.0%) and Transport, storage and communication (-3.0%) are all recording greater expected decreases.

CHART 8. MAIN INDUSTRY COMPARISONS
EMPLOYMENT
MEDIUM TERM OUTLOOK
March 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.

To determine these State results, 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 may be made available as unpublished data or as a special data service.

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

SHORT TERM OUTLOOK

Expected change for the June quarter 1994 compared with the March quarter 1994

Businesses in Queensland (2.4%), Western Australia (2.4%), the Northern Territory (2.3%) and South Australia (2.0%) show the strongest increase in sales compared with the Australia figure of 1.9 per cent.

Smaller increases are expected in New South Wales (1.7%), Victoria (1.7%), the Australian Capital Territory (1.6%) and Tasmania (1.1%).

MEDIUM TERM OUTLOOK

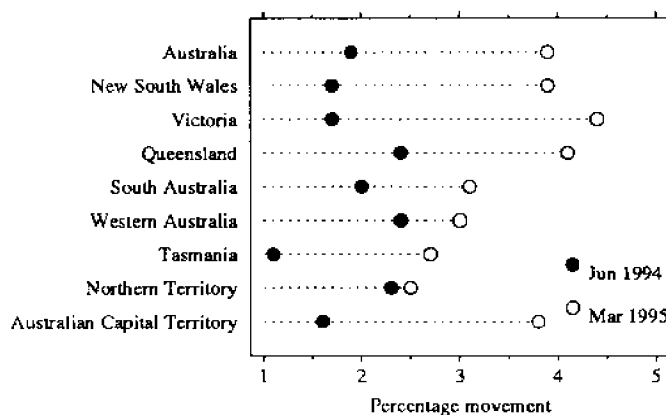
Expected change for the March quarter 1995 compared with the March quarter 1994

All States are expecting increases within the range 2.5 to 4.4 per cent.

Businesses in Victoria (4.4%) and Queensland (4.1%) expect to do better than the Australian average of 3.9 per cent in the medium term.

Tasmania (2.7%) and the Northern Territory (2.5%) expect the smallest increases in the *Sales of goods and services*.

CHART 9. STATE ESTIMATES
SALES OF GOODS AND SERVICES
SHORT AND MEDIUM TERM OUTLOOK
June quarter 1994 and March quarter 1995



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 third 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 March quarter 1994 and the June quarter 1994 and the second seeks expected change between the March quarter 1994 and the March quarter 1995.</p>
Survey methodology	<p>The survey is conducted by mail each quarter.</p> <p>It is based on a stratified random sub-sample of approximately 3,000 businesses selected from the ABS's annual Economic Activity Survey (EAS) sample. 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 added to the ABS business register since the original EAS 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 (less than 20 employees, except for manufacturers where it is less than 100) • medium (between 20 and less than 100 employees, except for manufacturers where it is 100 to 599 employees) • large (100 and greater 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 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 described in <i>Description of Terms</i> on pages 21 and 22 of this publication.</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 Economic Activity 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 provides 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 1.9 per cent with a standard error of 0.41 there would be two chances in three that the true value would be within the range 1.49 per cent and 2.31 per cent.

**STANDARD ERRORS OF KEY ESTIMATES, JUNE QUARTER 1994,
SHORT TERM EXPECTATION, AUSTRALIA**

(Not seasonally adjusted)

<i>Business performance indicator</i>	<i>Survey estimate %</i>	<i>Standard error %</i>
Sales	1.9	0.41
Selling prices	0.5	0.05
Profit	4.4	0.08
Capital expenditure	4.2	0.16
Stocks	0.1	0.20
Employment	-0.2	0.43
Wage costs	1.1	0.25
Imports	1.6	0.34
Exports	1.3	0.14

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 and 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 may introduce benchmark bias. This 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>
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>
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>
Employment	<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 the reporting 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 the reporting business.</p> <p>The benchmark for weighting the export response is derived from applying 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>(N.B. 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>

DESCRIPTION OF TERMS

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 expenses 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 State 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 March 1994 then the quarter being surveyed is June 1994)</p> <p>Medium term (if the current quarter is March 1994, then the quarter being surveyed is March 1995)</p>
Symbols and other usages	<p>0 nil or rounded to zero</p> <p>n.a. not available for publication.</p>

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