

VECCI - Bank of Melbourne

Survey of business trends
and prospects

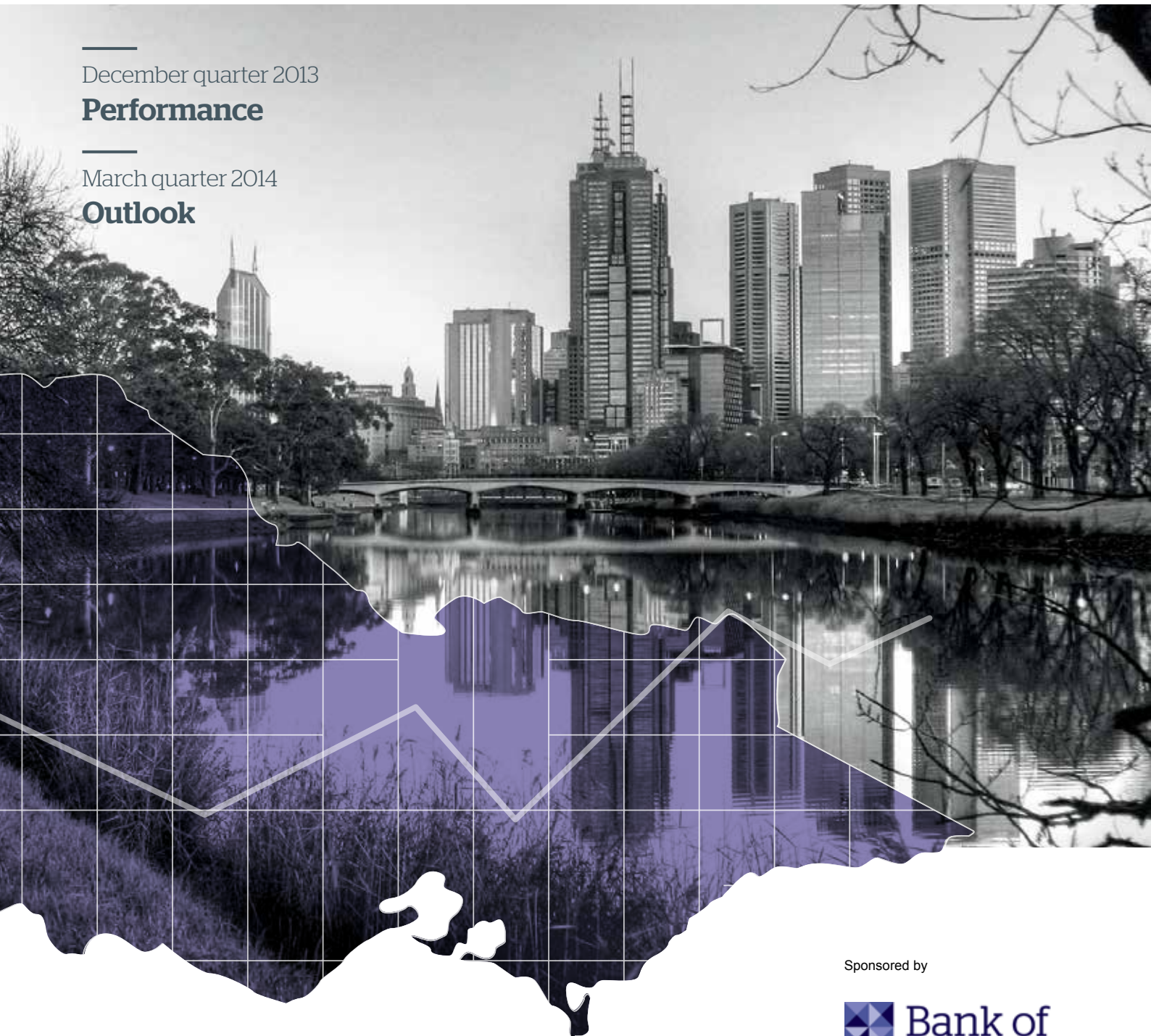


December quarter 2013

Performance

March quarter 2014

Outlook



Sponsored by



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Summary of results

VECCI's business sentiment index for the Australian economy remained stable in the December quarter 2013, maintaining the gains reported in the previous quarter. Forty per cent of respondents anticipate stronger national economic growth over the year ahead, which is similar to last quarter's results, and an improvement of 26 percentage points on the same time last year. Fifteen per cent expect weaker conditions in the year ahead.

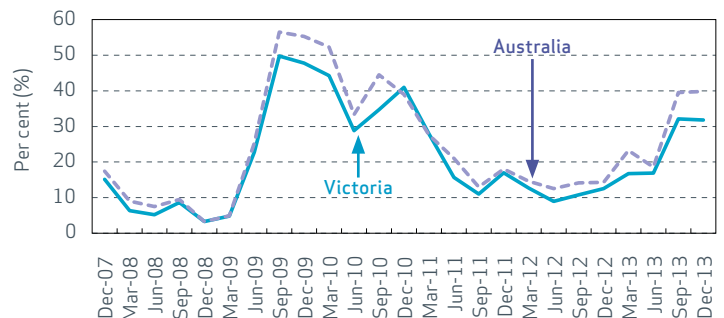
Expectations for the performance of the Victorian economy over the year ahead also remained stable, with 32 per cent of respondents again expecting stronger state economic conditions for the year ahead, an improvement of 19 percentage points on the same period last year. However, 22 per cent of respondents expect Victoria's economic performance to weaken over the next 12 months, compared to 17 per cent who held this view last quarter.

In the December quarter 2013, respondents reported an improvement in the state's business environment, with general business conditions in positive territory for the first time since December 2011, while sales, employment and investment in plant and equipment showing marked improvements as well. However, profitability remained under pressure with selling prices, exports and investment in buildings and structures down on a net balance basis and wages growth still widespread. Expectations for the March quarter 2014 are generally for conditions to improve.

Metropolitan respondents were slightly more likely to have experienced stronger general business conditions in the December quarter 2013, however, regional businesses reported a net balance increase in exports, and experienced slightly better sales and selling prices than their metropolitan counterparts. Looking forward, metropolitan respondents were more likely than their regional counterparts to expect stronger conditions over the year ahead for the national economy.

In terms of the performance of key industries, conditions in most sectors improved in the December quarter, with the [education, health and community services](#) sector doing particularly well. However, the [manufacturing](#) and the [transport and storage](#) sectors still experienced challenging conditions in their respective industries, with declines in sales, export and profitability putting continued pressure on these sectors.

VECCI business sentiment index
Share of business forecasting stronger growth



Business sentiment

Australian economic outlook

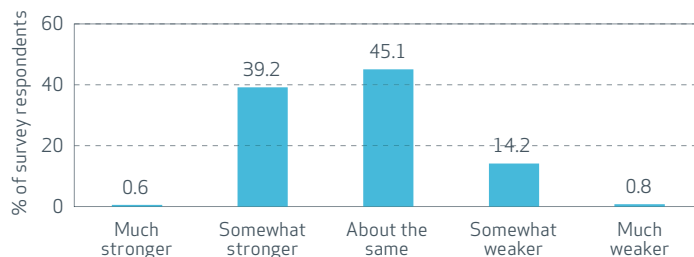
Business confidence in the 12-month outlook for the Australian economy remained relatively strong in the December quarter 2013. The proportion of respondents expecting stronger conditions over the year ahead held steady at 40 per cent, while respondents expecting weaker conditions decreased one percentage point to 15 per cent.

Just under half of the survey respondents (45 per cent) expect Australia's economic conditions to remain about the same for the year ahead, a similar result last quarter.

The [building and construction](#) sector was the industry most likely to expect stronger national economic conditions in the year ahead, with 52 per cent of respondents expecting the Australian economy to strengthen. Conversely, respondents in the [education, health and community services](#) industry were the most likely to expect the performance of the Australian economy to deteriorate, with 20 per cent expecting much weaker or somewhat weaker conditions.

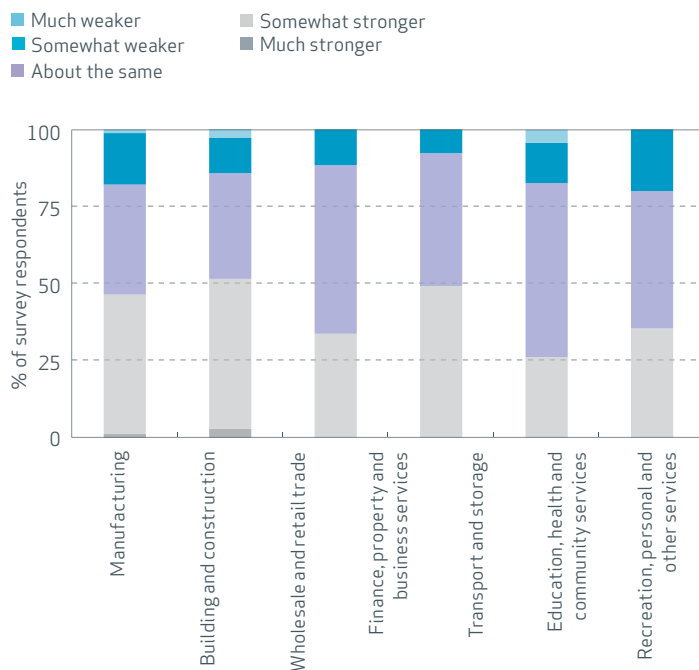
Australian economic outlook

Expected performance 12 months to December quarter 2014



Australian economic outlook by industry

Expected performance 12 months to December quarter 2014



Business sentiment

continued

Victorian economic outlook

Business confidence in the outlook for the Victorian economy also remained relatively strong during the December quarter. In total, 32 per cent of respondents expect the state's economy to strengthen over the next 12 months – similar as the last quarter, and an increase on the 13 per cent who held this view when surveyed 12 months ago.

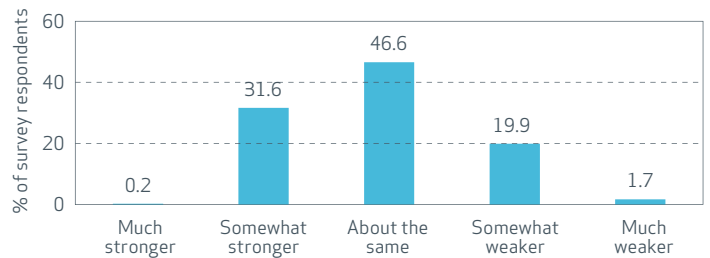
Weaker conditions for the state economy in the year ahead are expected by a total of 22 per cent of respondents, a deterioration on last the quarter when 17 per cent of respondents held this view. In all, close to half of the respondents expect the state's economic conditions to remain unchanged.

At 46 per cent, respondents in the building and construction industry were most likely to expect stronger conditions for the Victorian economy over the year ahead, closely followed by those in the finance, property and business services industry at 42 per cent. Similarly, as with the national economic outlook, respondents in the education, health and community services industry were the most likely to expect the performance of the Victorian economy to deteriorate, with 29 per cent expecting much weaker or somewhat weaker conditions.

Closely following the sentiment in this sector were the respondents in the wholesale and retail trade and manufacturing sectors, who, with 24 and 23 per cent respectively, were similarly cautious about the outlook for the Victorian economy.

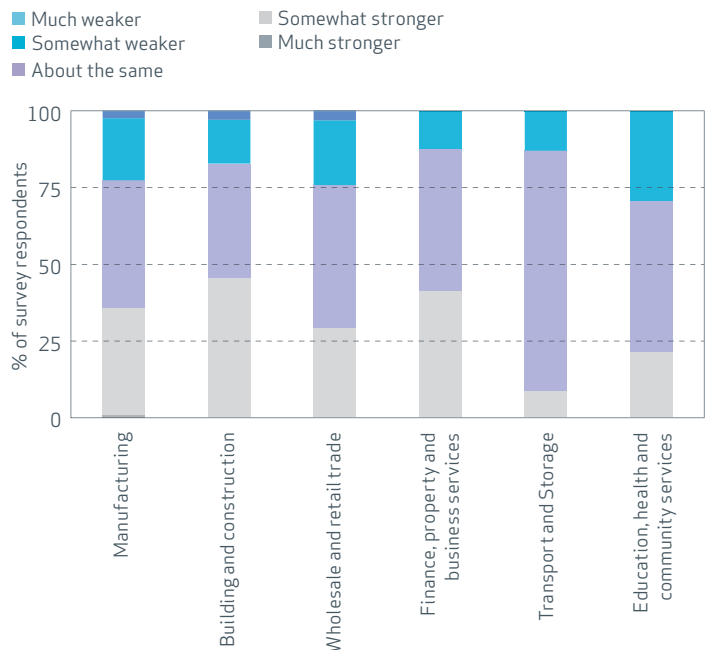
Victorian economic outlook

Expected performance 12 months to December quarter 2014



Victorian economic outlook by industry

Expected performance 12 months to December quarter 2014



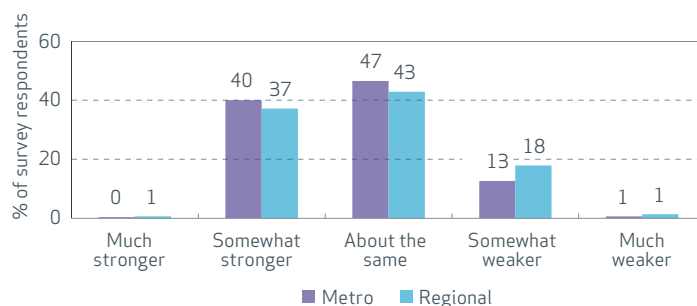
Australian economy: regional versus metropolitan outlook

On the outlook for the Australian economy, metropolitan businesses were more likely to expect stronger conditions for the year ahead (40 per cent) compared to their regional counterparts (38 per cent). The expectations of metropolitan respondents were up on the previous quarter (38 per cent expecting stronger economic conditions), while the proportion of regional respondents expecting stronger conditions remained unchanged.

In total, 19 per cent of regional and 14 per cent of metropolitan respondents expect a deterioration in trading conditions over the next 12 months.

Australian economic outlook

Expected performance 12 months to December quarter 2014



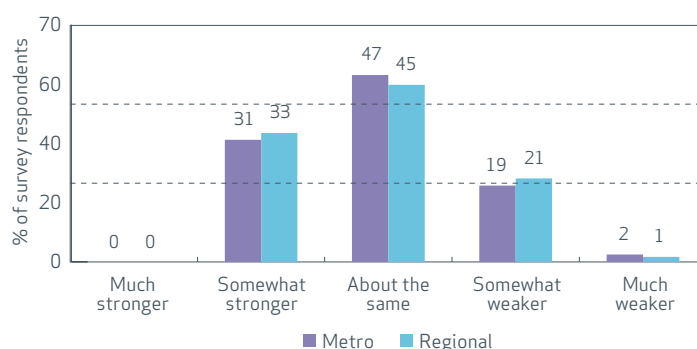
Victorian economy: regional versus metropolitan outlook

With regard to the outlook for the Victorian economy, regional respondents are slightly more likely to expect stronger conditions over the year ahead (33 per cent) compared to metropolitan respondents (31 per cent).

In total, 21 per cent of metropolitan respondents and 22 per cent of regional respondents expect weaker economic conditions in Victoria over the year ahead.

Victorian economic outlook

Expected performance 12 months to December quarter 2014

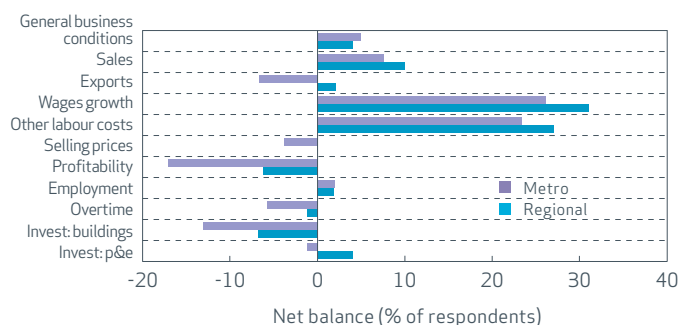


Regional versus metro business performance - at a glance

Metropolitan respondents were slightly more likely to have experienced stronger general business conditions than their regional counterparts, however, they reported weaker conditions than regional respondents in most other key indicators, including sales and selling prices, for the December quarter.

Both groups saw a deterioration in profitability, overtime and investment in building and structures, although weaknesses were more widespread among metropolitan respondents.

Regional and metro business performance indicators



Business performance:

Overall results

General business conditions

On a net balance basis, which measures the difference between the proportion of businesses reporting an improvement and those reporting a deterioration, a net four per cent of respondents reported stronger general business conditions over the December quarter 2013. This represents a significant turnaround from the previous quarter, when a net 15 per cent of respondents reported weaker conditions. This is also a stronger result than the same period last year, and the first time since December 2011 that general business conditions are in positive territory on a net balance basis.

Expectations for the March quarter 2014 are also positive, with 30 per cent of respondents expecting stronger general business conditions against only 15 per cent of respondents expecting weaker conditions, giving a positive net balance result of 15 per cent.

Sales

In the December quarter 2013, a net balance of eight per cent of respondents reported an increase in sales, comprising of 36 per cent who reported an increase and 28 per cent a decline. This is an improvement on a net balance basis on both the September quarter (when sales declined for a net balance seven per cent) as well as the same quarter of last year.

On a net balance basis, 21 per cent of respondents expect sales to increase in the March quarter 2014.

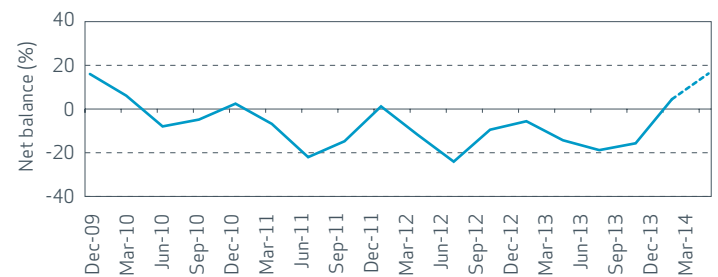
Exports

In the December quarter 2013, a net balance of four per cent of respondents reported a decline in exports, which is a slight deterioration on the previous quarter when a net two per cent of respondents reported a decline. This is also slightly down on the same period last year when a negative net balance of two per cent was reported.

Expectations for the next quarter are positive, with a net balance of four per cent of respondents expecting an increase in exports.

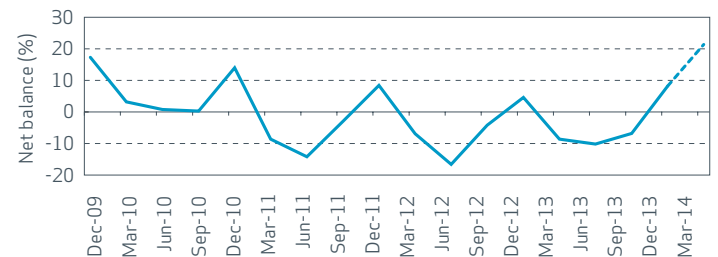
General business conditions

December 2009 - March 2014 (forecast)



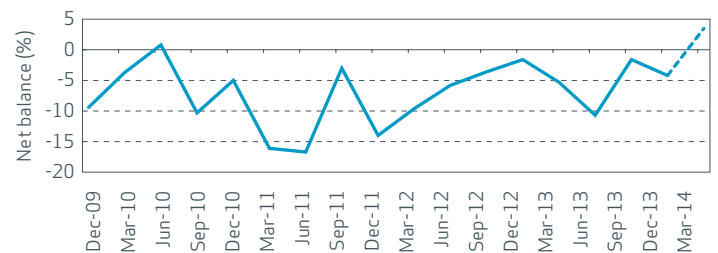
Sales

December 2009 - March 2014 (forecast)



Exports

December 2009 - March 2014 (forecast)



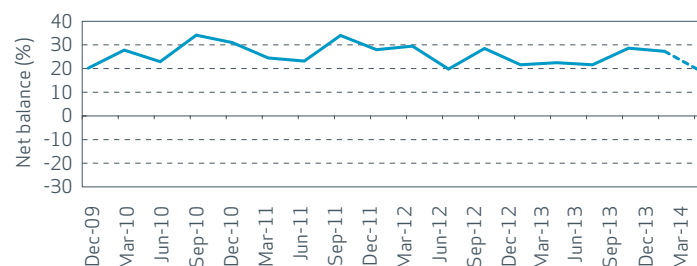
Wages growth

Wages growth was again widespread in the December quarter 2013, with a net balance of 27 per cent of respondents reporting an increase, a similar result to the September quarter.

Wage increases are again expected in the March quarter 2014, although this view is less widespread, with a net balance of 19 per cent of respondents expecting increases.

Wages growth

December 2009 - March 2014 (forecast)



Other labour costs

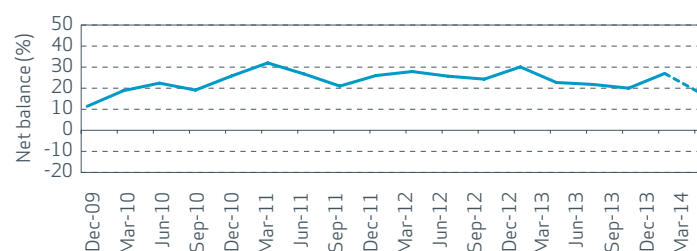
Other non-wage labour costs relate to all of the on-costs associated with employing labour, as well as various benefits provided by employers, such as superannuation and WorkCover payments.

In the December quarter 2013, a net balance of 25 per cent of respondents reported an increase in other labour costs. This was marginally lower than the previous quarter, when a net 27 per cent reported an increase.

Looking ahead, a net balance of 17 per cent of respondents expect other labour costs to rise in the March quarter 2014.

Other labour costs

December 2009 - March 2014 (forecast)



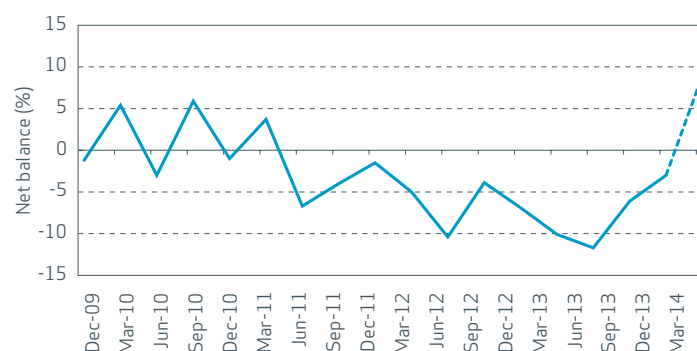
Selling prices

In the December quarter 2013, a net three per cent of respondents reported a decline in selling prices, comprising of 13 per cent who reported an increase and 16 per cent who reported a decline. The decline was less widespread than last quarter, when a net six per cent reported a decrease.

For the March quarter, views are more positive, with a net balance of nine per cent of respondents expecting selling prices to rise.

Selling prices

December 2009 - March 2014 (forecast)



Business performance

Overall results continued

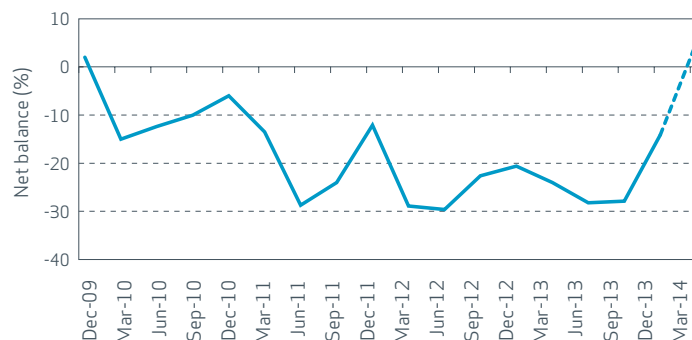
Profits

Falls in business profitability were less widespread in the December quarter, with a net 14 per cent of respondents reporting a decline, up from a net 23 per cent reporting a decline in the previous quarter. This is also a more positive result than the same period last year, when a net balance of 21 per cent reported a decline.

For the March quarter 2014, further improvement is expected, with a net balance of five per cent of respondents expecting profitability to increase.

Profits

December 2009 - March 2014 (forecast)



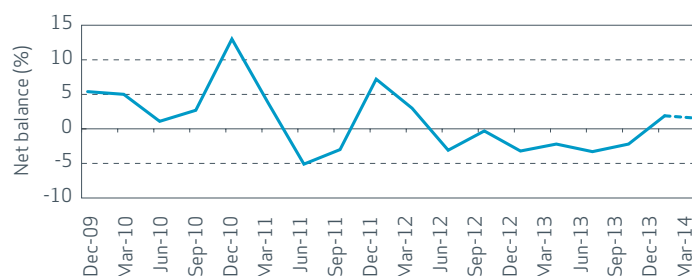
Employment

Respondents reported slightly positive employment results for the December quarter 2013, with a net two per cent of respondents reporting an increase in their level of employment. This is a small improvement on last quarter's results (negative two per cent), as well as a slightly more positive result when compared with the same period last year when employment levels declined three per cent on a net balance basis.

Over the March quarter 2014, employment levels are expected to improve slightly, with a net balance of two per cent of respondents expecting an increase.

Employment

December 2009 - March 2014 (forecast)



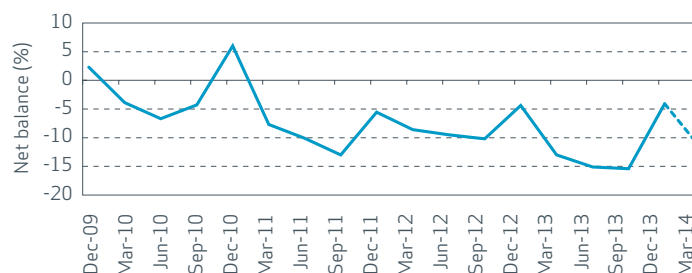
Overtime

In the December quarter 2013, a net balance of four per cent of respondents reported a fall in the level of overtime worked. This is an improvement on the previous quarter, and a similar result as the same period last year, when overtime fell for a net balance of 15 per cent.

However, for the March quarter 2014, a net balance of 12 per cent of respondents expect to reduce the level of overtime offered to employees.

Overtime

December 2009 - March 2014 (forecast)



Buildings and structures investment

In the December quarter 2013, buildings and structures investment declined for a net balance of 11 per cent of respondents (which was made up of 12.8 per cent who reported an increase and 23.4 per cent who reported a decline). This decline was slightly more widespread than last quarter (eight per cent), but less than the same period last year, when a net balance of 16 per cent reported a decline.

For the March quarter 2014, a net balance of 11 per cent of respondents expect to reduce their level of investment in buildings and structures.

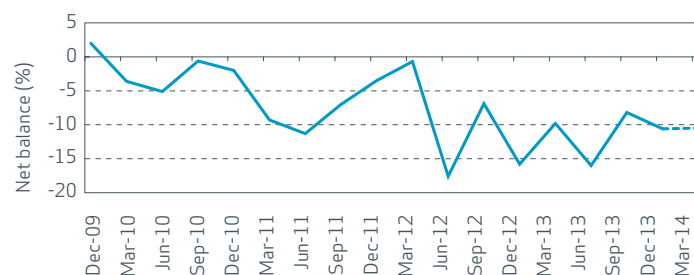
Plant and equipment investment

A net balance of two per cent of respondents reported an increase in plant and equipment investment in the December quarter 2013, which is an improvement on the previous quarter when a net balance of five per cent reported a decline. In comparison, the result for the same period last year was a net decrease of five per cent.

For the March quarter 2014, a deterioration in the level of investment in plant and equipment is expected by a net balance of two per cent of respondents.

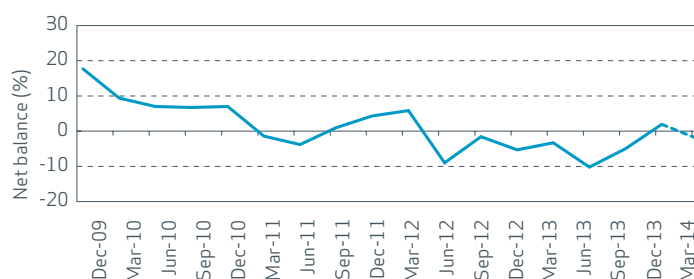
Buildings and structures investment

December 2009 - March 2014 (forecast)



Plant and equipment investment

December 2009 - March 2014 (forecast)



Business performance

Overall results continued

Capacity utilisation

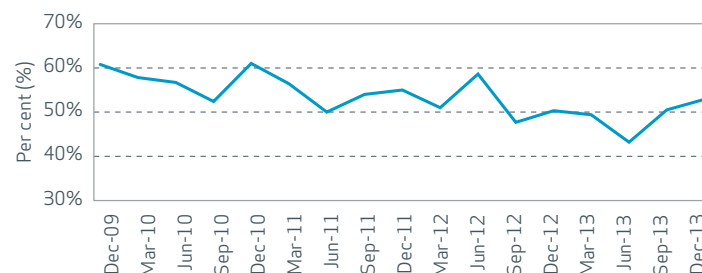
In the December quarter 2013, 52.9 per cent of respondents indicated that they were operating at a satisfactory level of capacity, up from both the 50.5 per cent reported in the previous quarter and the corresponding period last year (50.3 per cent).

In total, 53 per cent of respondents reported that they are currently operating in excess of 80 per cent of capacity (up from 46 per cent in the last quarter), while 11 per cent of respondents reported a low rate of capacity utilisation (less than 60 per cent). The remaining 37 per cent are operating at between 60 and 80 per cent of capacity.

Levels of capacity utilisation among industries shifted from the previous quarter, with the [education, health and community services](#) sector reporting the highest level of capacity utilisation (75 per cent of respondents in this sector operating at over 80 per cent of capacity), followed by the [finance, property and business services](#) sector (61 per cent).

Business operating at a satisfactory rate of capacity

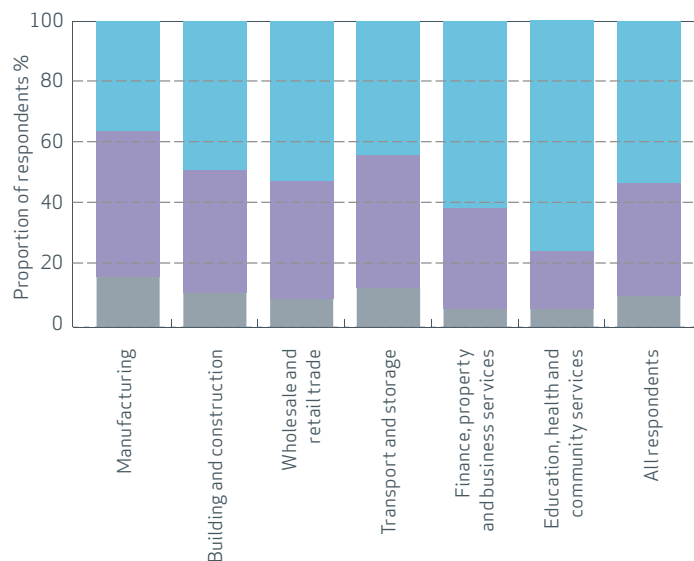
December 2009 - December 2013



Rate of capacity utilisation

December quarter 2013

- Operating at over 80% capacity
- Operating between 60% and 80% capacity
- Operating at less than 60% capacity



Business performance

Industry-specific results

Manufacturing

Respondents in the [manufacturing](#) sector reported relatively tough trading conditions in the December quarter 2013, with a net balance of five per cent of respondents reporting a decline in general business conditions. Furthermore, declines in profitability were widespread, along with reduced sales, exports, selling prices and investment in buildings and structures.

For the March quarter 2014, respondents in the manufacturing sector are noticeably more optimistic, with turnarounds expected for most indicators, with the exception of investments and overtime.

Building and construction

Respondents in the [building and construction industry](#) reported improved conditions over the December quarter. General business conditions, sales and employment all saw turnarounds from the previous quarter. However, selling prices and profitability were still under considerable pressure.

Over the next quarter, respondents in the [building and construction industry](#) generally expect most key indicators to improve. However, increases in wages and other labour costs are expected to be widespread.

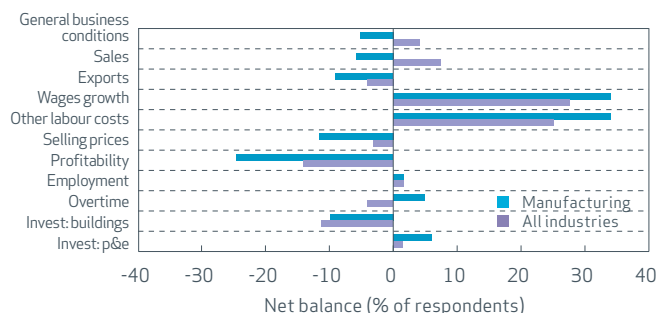
Wholesale and retail trade

The [wholesale and retail trade](#) sector also experienced mixed conditions in the December quarter 2013. While general business conditions, sales and selling prices were in positive territory and exports, profitability, employment and investments experienced broad declines, and increases in wages and other labour costs were widespread.

With the exception of employment levels, respondents in this industry expect significant improvements in most key indicators in the March quarter 2014.

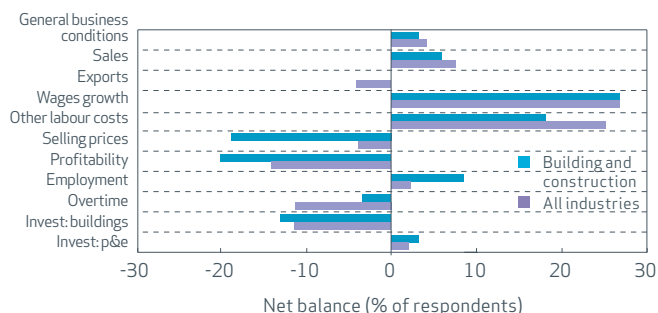
Business performance indicators

December quarter 2013



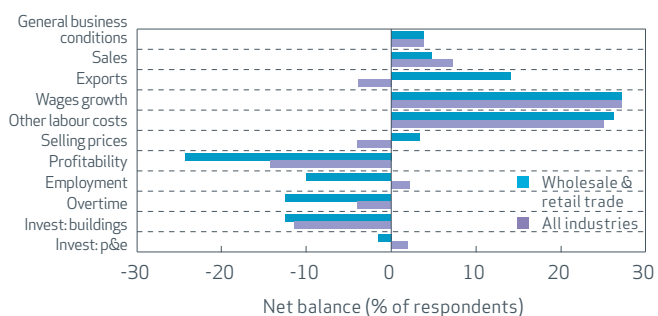
Business performance indicators

December quarter 2013



Business performance indicators

December quarter 2013



Net balance measures the difference between the proportion of business reporting an improvement (up) and those reporting a deterioration (down).

Business performance

Industry-specific results continued

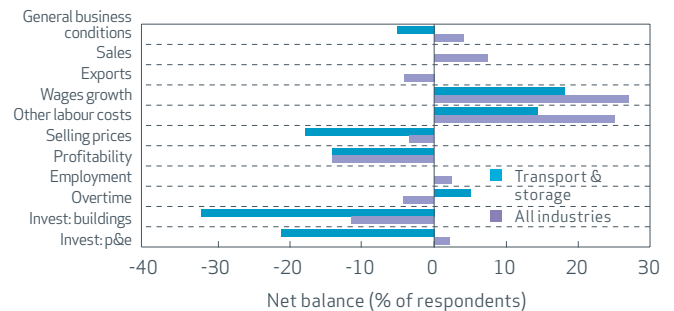
Transport and storage

In the December quarter 2013, the [transport and storage](#) sector reported weak conditions, although slightly better than in the previous quarter. General business conditions were still in negative territory, but sales stabilised. Nevertheless, selling prices, profitability and investments reported widespread declines.

For the upcoming March quarter 2014, respondents in this industry expect some improvements, with general business conditions and profitability expected to stabilise, while sales, exports and selling prices are expected to improve.

Business performance indicators

December quarter 2013



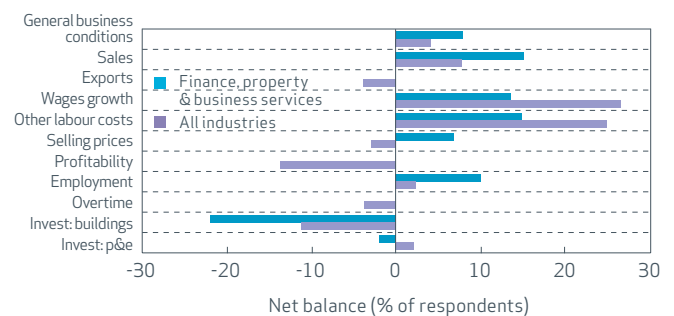
Finance, property and business services

The [finance, property and business services](#) sector reported relatively positive conditions during the December quarter 2013. General business conditions, sales, selling prices and employment all performed better than the all industries average. However, investment in buildings and structures deteriorated considerably.

For the March quarter 2014, expectations for respondents in this sector are positive, with all key indicators, except exports and investments, forecast to improve.

Business performance indicators

December quarter 2013



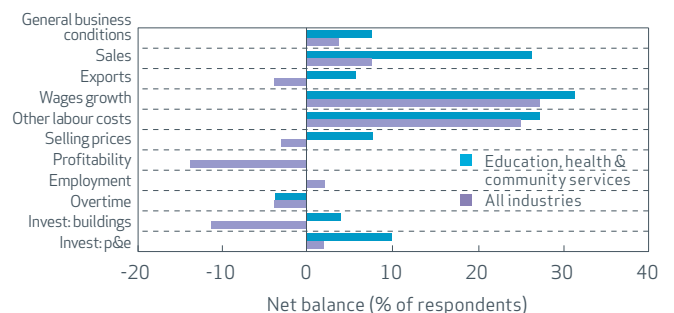
Education, health and community services

Over the December quarter, respondents in the [education, health and community services](#) sector reported generally positive conditions, with increases in all key areas, except profitability and employment. Sales saw a significant improvement, however, increases in wages and other labour costs were also widespread.

Respondents in this sector expect conditions to further improve in the March quarter 2014.

Business performance indicators

December quarter 2013



*Note: The low number of responses received from the transport and storage industry means the data and accompanying analysis should be treated with caution.

Special questions

Business continuation

In the December quarter 2013 survey, respondents were asked three extra questions with regard to business continuation. The first question asked respondents how long their business would be able to function if the business owner was unable to work in it. The second question asked whether the business in question has a succession plan, and, if so, what the key feature of that succession plan is.

Business continuation

In the first question, respondents were asked how long their business would be able to function if the business owner was unable to work in it.

To get a better sense of how this issue affects businesses in Victoria, we have divided respondents into three categories based on their size; small (<20 employees), medium (20-99 employees) and large (>100 employees).

Large businesses

Within larger sized businesses, most respondents indicated that the inability of the business owner to work in it is not applicable or that the business would not be affected by it (39 and 38 per cent respectively). About 14 per cent of the larger businesses indicated that the business would be able to function up to a year. Only two per cent indicated that the business would function up to three months, while five per cent would cease to function within a month. Finally, two per cent indicated that the business would not be able to function at all if the business owner was not able to work in it.

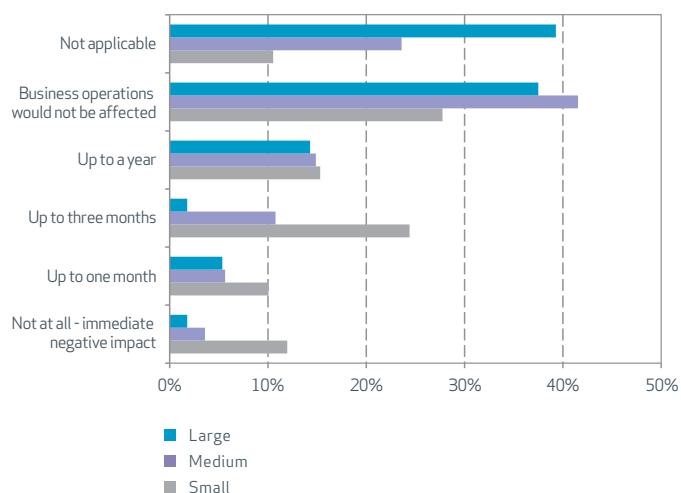
Medium businesses

Of the medium-sized businesses, most respondents again indicated that the inability of the business owner to work would not affect the business (42 per cent). Fifteen per cent of the medium-sized businesses indicated that the business would be able to function up to a year, while 11 per cent indicated that the business would function up to three months. Six per cent would cease to function within a month, while four per cent indicated that the business would not be able to function at all if the business owner would not be able to work in it.

Small businesses

Of the small businesses, a considerable portion of the respondents indicated that the inability of the business owner to work in it would not affect it (28 per cent). However, almost a quarter of the respondents said that they would only be able to function up to three months. Furthermore, a number of respondents indicated that their business would cease to function within a month or would not be able to function at all if the business owner were not able to work in it (10 and 12 per cent respectively).

How long would your business be able to function if the business owner were unable to work in it?



Special questions

Business continuation continued

Succession planning

Respondents were asked whether their business has a succession plan, and if so, to identify the key feature of that succession plan.

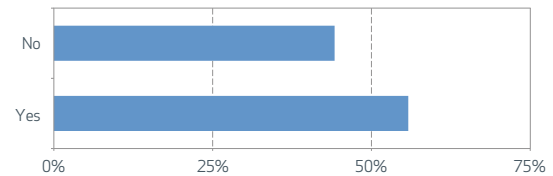
Succession plan

Of the respondents to this question, 56 per cent replied that their business has a succession plan in place, while 44 per cent indicated they have no succession plan at the moment.

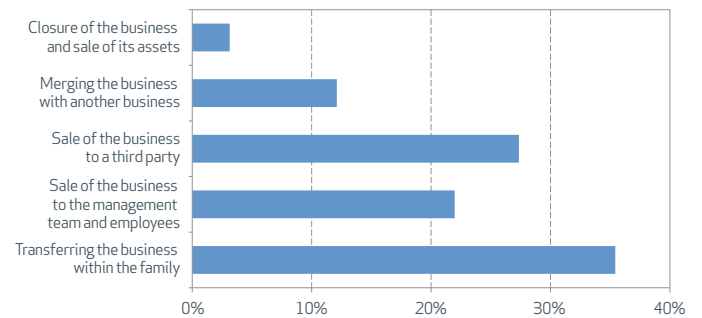
Key features of the succession plans

The most common feature of succession plans involve transferring the business within the family (35 per cent of respondents). The next most common feature is the sale of the business to a third party (27 per cent), while the sale of the business to the management team and employees was the key feature for 22 per cent of respondents with a succession plan.

Does your business have a succession plan?



If yes, what is the key feature of the succession plan?



About the survey

The VECCI – Bank of Melbourne survey of business trends and prospects is designed to monitor business performance and expectations with respect to current and expected trends in national and state economic conditions; and the recent performance of individual Victorian businesses and their expectations for the next three months.

Conducted quarterly during March, June, September and December each year, the survey identifies key factors influencing business trends and prospects. From time-to-time, special questions are included to ascertain the experience and attitudes of business on key issues. Each quarter, over 400 businesses respond, representing the diverse spectrum of Victorian industry. It covers small, medium and large businesses and includes enterprises located in both regional and metropolitan Victoria.

Profile of surveyed businesses for the December quarter 2013

Of the respondents to the December quarter 2013 survey, 66.6 per cent were located in metropolitan Melbourne, with the remaining 33.4 per cent were located in regional Victoria.

Overall, 45.3 per cent were small businesses (employing less than 20 staff), a further 41.4 per cent were medium-sized businesses (employing between 20 and 99 staff), and the remaining 13.3 per cent were large businesses (employing 100 or more staff).

Furthermore, 33.8 per cent of the businesses in this survey were involved in trade related activities (i.e. exporting/importing).

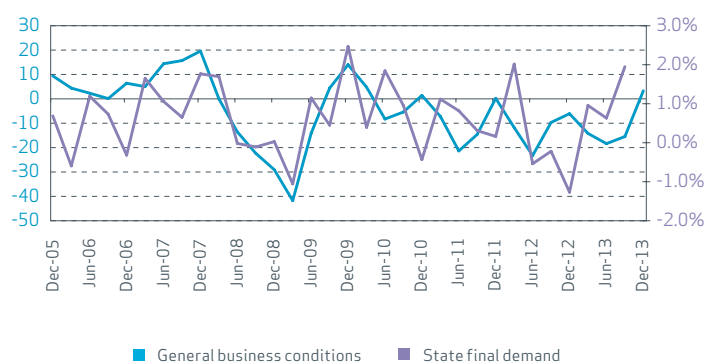
Industry sector (ANZSIC division)	(%)
Agriculture, forestry and fishing	2.7
Manufacturing	20.3
Building and construction	8.5
Wholesale and retail trade	22.9
Transport and storage	5.6
Finance, property and business services	15.7
Education, health and community services	15.7
Recreation, personal and other services	4.6
Other	4.0
TOTAL	100

Accuracy of the VECCI – Bank of Melbourne survey of business trends and prospects as a forecasting tool

In the graph below, the left-hand vertical axis represents business expectations in relation to the anticipated direction of general business conditions over the forthcoming quarter (net balance). The right-hand axis represents the quarterly percentage change in State Final Demand (seasonally adjusted). The graph gauges the accuracy of respondents' estimation of future general business conditions against actual demand conditions in the Victorian economy at any point in time.

State Final Demand, recorded in the Australian Bureau of Statistics catalogue 5206.0 National Income, Expenditure and Product, is an expenditure-based approach to measuring the value of final purchases of assets and consumption, excluding inventories. It is comprised of the addition of final consumption expenditure for households and general government, plus public and private gross fixed capital formation. It does not include exports or changes in inventories. However, State Final Demand does include net expenditure by Victorians interstate.

Survey of business trends and prospects – predictive accuracy



Key industry definitions

Manufacturing

Surveyed businesses in this ANZSIC category include those engaged in the manufacture of food beverages and tobacco; textiles, clothing and footwear; wood and paper products; printing, publishing and recorded media; petroleum, coal and chemical products; non-metallic mineral products; and machinery and equipment products.

Building and construction

Surveyed businesses in this ANZSIC division include those engaged in residential and non-residential building construction, non-building construction, and construction trade services, such as concreting, roofing, plumbing, carpentry, painting and landscaping services.

Wholesale and retail trade

Surveyed businesses in this ANZSIC group include those engaged in the wholesaling of farm produce, mineral, metal and builders supplies; and businesses providing retail trade services in areas such as food, personal and household goods, furniture and appliances, and motor vehicle retailing and related services.

Transport and storage

Surveyed businesses in this ANZSIC division include those engaged in road, rail and water transport; air transport; service to the transport industry, such as parking services, port services, freight forwarding, travel agency services and customs services; and storage.

Finance, property and business services

Surveyed businesses in this ANZSIC group include those engaged in finance and insurance services, such as banking, money market dealers and life insurance and superannuation funds; and property and business services including property developers and real estate agents. Hiring and leasing services, computing, accounting, legal, marketing, and employment placement services; and communication services.

Education, health and community services

Surveyed businesses in this ANZSIC group include those engaged in education; health; such as hospitals and nursing homes, medical and veterinary services; and community services.

Recreational, personal and other services

Surveyed businesses in this ANZSIC group include those engaged in accommodation, cafes and restaurants; cultural and recreational services, such as libraries, performing arts and sports grounds; and personal and other services, including video hire outlets, dry-cleaners, photographic studios, hairdressers and interest groups.

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